DEVELOPMENT BANK OF SOUTHERN AFRICA

GROUP CORPORATE PLAN

2010/11

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Table of contents

EXECUTIVE SUMMARY

I. EXECUTIVE SUMMARY

Background

During 2009, a number of strategic initiatives were undertaken and discussions held between the Board of Directors of the DBSA Group and Management with the objective to both review the Bank's strategic and operating environment, and to update the Bank's strategic plan in relation to a set of scenarios that takes cognisance of the revised development priorities of Government. This was done in the context of the DBSA Group's Development Agenda and Long Term Strategic Framework.

A point of departure in the corporate planning process was reflection on the sheer magnitude of backlogs and unrelenting unemployment, compounded by institutional failure in the public sector, notably at local level, and lately the financial crisis. The Bank considered the challenge of national and sub-national coordination, which is often aggravated by the autonomous nature of departments and public entities, often resulting in fragmented approaches. There were continuing concerns raised with the large interdependencies within the public sector, which often cause delays in implementation.

It was clarified that this seemed to be an important contributor to the lack of bankable projects, notwithstanding the significant demand for various socio-economic services. Complex bureaucracy compounded by lack of skills has led to fewer projects being delivered to the market – and herein lies the DBSA's challenge towards accelerated delivery. Unless the custodians and operators of infrastructure and development mandates can present viable projects for funding, the current demand for bankable projects will remain a challenge.

This brought into focus the importance of improved planning at national and sub-national level. It was observed that greater coordination and more integrated approaches would go a long way in ensuring that Government bodies and public entities work towards common goals and within common timelines. There was much anticipation of the new efforts in Government to address the institutional delays and issues which constrain the DBSA from deploying its available funding for infrastructure development.

In-depth analyses of these conditions and developments have led to a significant evolution in the DBSA's plans and interventions. This planned evolution is therefore deliberate and entails the Bank paying more attention to inertia and path dependency, in addition to the more traditional problems of market failure and institutional weaknesses.

Accordingly, the key themes in the DBSA Group's 2010/11 Corporate Plan are *scaling-up, proactivity and innovation, as well as the deepening of partnerships*, which reflect the essence and character of the Bank's direction.

In terms of *scaling-up*, the DBSA Group has increased its planning targets across the scope of its development activities. This includes capacity building, sector and integrated development planning and financing.

Our renewed emphasis on *proactivity and innovation* will see the Bank play a more vigorous role in catalysing infrastructure and socio-economic development projects. In the process, also leverage the strengths and resources of various *partners*, ranging from Government departments and municipalities, to parastatals and utilities, and will include international and financial institutions. This will involve new efforts to pioneer innovative, more effective and faster ways of developing infrastructure and economic development, especially in under-developed and high potential areas with evident resource constraints.

Thus, the DBSA strategic approach to infrastructure funding will look to go further beyond simply addressing funding gaps and responding to market conditions. It will embrace a more proactive, innovative and research-led approach to project identification and development, in the context of a more integrated and multi-sector approach to development planning and programming. The

DBSA's Infrastructure Barometer, which is produced bi-annually, will continue to be a key knowledge-base, and source of intelligence to guide infrastructure solutions.

Going forward, while the Bank will consider the guiding principle of additionality as reflected in its mandate, in the spirit of leveraging the resources and capacities of other significant role players, it will intensify its catalyst role to spearhead and champion further interventions in areas with promising potential for sustainable development.

DBSA strategic direction

Observation and analysis of the above trends, conditions and developments have had a significant impact on in the DBSA's plans and interventions.

In broad and aspirational terms, the DBSA holds the shared vision of "*a prosperous and integrated region, progressively free of poverty and dependency".* More specific to its particular role, comparative advantage and value-added, is its renewed mission of *"Driving development impact in the region through expanding access to development finance and effectively integrating and implementing sustainable development solutions."*

In strategic terms, it led to the following five strategic goals:

i. To co-deliver social and economic infrastructure, with a public sector focus.

ii. To build human and institutional capacity, with a focus on key infrastructure intermediaries, such as municipalities.

iii. To promote broad-based economic growth, job creation, cooperation, integration and prosperity, focused identified sectors, geographical areas and projects.

iv. To serve as a centre of excellence for development financing and effectiveness.

v. To engender sustainability, internally and externally, in financial, environmental, institutional and social terms.

The following core strategies guide the efforts and focus of the DBSA Group:

- Proactively generate investments in infrastructural and productive assets, with an emphasis on areas with high and latent potential, concentrations of poverty and opportunities for broad-based wealth creation;
- Mobilise, develop and deploy human capital as a key measure to build institutional capacity for accelerated and sustainable service delivery;
- Apply, mobilise and manage knowledge in support of greater effectiveness, innovation and an enabling environment for shared socio-economic development.

The DBSA's strategic goal of 'promoting broad-based growth, job creation, cooperation, integration and prosperity, has given the Bank direction in the differentiated roles across the various market segments. This takes into account accelerated growth, industrial development and national spatial considerations, leading to a more proactive, creative and visionary role for the organisation in promoting regional economic integration, growth and empowerment. Knowledge management remains an important strategic thrust, cutting across the different parts of the organisation in ensuring the transfer of knowledge, supporting the necessary creativity, problem solving, advisory services, risk management and good governance.

The DBSA will continue to play a central role in supporting Government's public infrastructure investment programmes and focused improvement of service delivery. The 2010/11 Corporate Plan carries forward an expanded development drive and growth expectation, with a sharp focus on accelerated, integrated and innovative infrastructure development. This will be possible through continued shareholder support of planned initiatives, ensuring that the DBSA plays an even greater role in enabling accelerated development into the future.

Capacity building

Development Fund

The lack of public sector institutional capacity continues to be a hindrance to service delivery. The skills of those who serve in the public service must be aligned with increased development and service needs. Through its Vulindlela Academy, the DBSA's Development Fund is committed to increasing its capacity building efforts, with the objective of reaching a greater number of under-capacitated municipalities. As a result, much needed technical skills and other capacity will be provided, whilst ensuring municipal training in the identified priority skill requirements.

Furthermore, the national demand for new infrastructure to address backlogs remains substantial, but likewise the need for the necessary maintenance of current municipal infrastructure seems to be growing. Considering the relatively large overall investment required, a new strategy would be needed to address these challenges. For this reason, the DBSA is currently working on a concept that if approved and appropriately funded will aim at addressing the operations and maintenance shortcomings identified in the municipal market.

Key initiatives in the Development Fund, such as the Siyenza Manje Programme, have now matured and are proven to be productive. National Treasury and local government are aiming to extend and realign capacity building initiatives around the success of the Siyenza Manje model.

In context of the Government's mandate to "do things differently", a number of considerations have been taken into consideration by the DBSA, such as:

- Guidance from the Minister of Finance.
- Context of Department of Cooperative Governance and Traditional Affairs (COGTA) mandate and its requirements.
- The mandate of Siyenza Manje, including an emphasis on:
  - Support to government entities to improve financial performance (Operation "Clean Audit".
  - Improving the delivery of infrastructure.

As a result, it is recognised that the Siyenza Manje programme mandate may need to be realigned, depending on continued discussions between the DBSA and COGTA, as directed by the Minister of Finance. The 2010/11 Corporate Plan is therefore based on the current Siyenza Manje mandate and by extension may be subject to review following finalisation of this matter.

Through the Siyenza Manje Programme, the DBSA will aim to increase the deployment of professionals to support 190 municipalities, assist 2 500 technical projects and complete 1 000 projects during the 2010/11 financial year. This will not only support municipalities in the development and implementation of infrastructure projects, but also aid in the maintenance of existing infrastructure projects. Siyenza Manje will also support the development of future expertise and knowledge specialists within municipalities.

Other key capacity building targets for 2010/11 include:

- Total value of MIG and capital expenditure into projects as a result of DBSA Group interventions of R7 billion.
- An increase in the number of external learners trained in priority skills, from a forecast of 9 500 in 2009/10 to 10 000 in 2010/11.

Development Planning Division

As an equally mature division, the Development Planning Division (DPD) focuses on policy formulation and research, and provides support to a variety of stakeholders, both internal and external to the organisation.

DPD produces much needed knowledge to support the Bank's various stakeholders and clients, however the success of the Division will in future be measured against the stakeholders' ability in successfully disseminating such supplied knowledge.

As its main thrust, the DPD will continue to supply relevant research and support for the development of policy frameworks on development impact, economic growth, development sustainability, institutional and human capacity and development finance. It plans to integrate development knowledge across the continent through facilitating dialogues on topical issues, providing best practice guidelines and technical expertise across a range of sectors. By analysing information and providing an information repository to its stakeholders, the DPD will enable the sharing of this much needed knowledge across the region.

Another key area of focus for DPD, will be the implementation of the Research Agenda in key areas, such as development impact studies, spatial development, poverty and inequality. This will involve operational research and scenario planning within the identified priority areas of attention such as energy, water, health, education and transport.

Accelerated infrastructure funding

To support Government's aforementioned infrastructure development initiatives and debt funding challenges, the DBSA identified an opportunity to further leverage the strong balance sheet of the Bank and as a result accelerate development funding. To this end, the DBSA successfully (refer Annexure 6.4 for the Memorandum of Understanding between the parties) approached the shareholder and Governor of the DBSA to request a revision of the capital structure of the Bank. This will enable the organisation to substantially increase its levels of debt capacity to R130 billion and support the funding requirements in various priority areas.

Although internationally, finance has begun to flow, credit conditions have by no means normalised. The availability of credit is still limited for most borrowers and risk premiums are substantial for emerging markets with real or perceived economic vulnerabilities impacting on developing countries and institutions such as the DBSA. Therefore, the raising of large amounts of funding for emerging markets and developing countries is still relatively difficult and expensive. The DBSA continuously reviews its approach to infrastructure funding based on market conditions and available research, an example being DBSA Infrastructure Barometer publication. This ensures a more focussed approach to the activities of the Bank and the projects funded.

The 2010/11 infrastructure funding plan is based on the prevailing business and operating environment factors. Total targeted disbursements for the 2010/11 financial year amount to R13.58 billion, an increase of 36% on the 2009/10 forecast of R10 billion. The increase is however reliant on the ability of the DBSA to access adequate and cost effective liquidity within the prevailing economic conditions and pass this onto its clients at appropriate margins.

The financial plan (refer section 4) has also been prepared on the basis that the DBSA is able to access more borrowed funds at appropriate rates through various funding initiatives under review and the target market continue to fund their infrastructure programmes through debt financing.

Key development focus areas for the client-interfacing Divisions of the DBSA for the 2010/11 financial year, are detailed below:

South Africa Operations Division

The South Africa Operations Division will continue to focus on diversifying its client base and broadening its sectoral focus to address the under-serviced parts of the public sector markets; delivering financial and technical support in the municipal market, and more effective co-operation and consultation between the various public and private role players involved in the provision of infrastructure funding.

The Division has set a target of R14.5 billion for new approvals for the 20010/11 financial year. Of this, 86% (R12.4 billion) of total approvals are expected to be within the social and enabling infrastructure sub-segments.

The total disbursement target for 2010/11 has been increased by 72% from the 2009/10 target of R6.4 billion (2009/10 forecast: R8.8 billion) to R10.98 billion. To address social and economic challenges, the Division will specifically target 44% (R4.8 billion) for municipalities and based on this target, R2.5 billion is earmarked for secondary and poorly resourced municipalities.

International Operations Division

The International Division will continue to focus on providing funding and related products and services to commercially viable and sustainable development projects with significant contribution to regional economic development and regional integration. The total disbursement target for 2010/11 is projected to reach a planned target of R2.6. This may be a eclipsed given the expected rapid recovery of investment and infrastructure development activity in the region, following the economic recession and global financial crisis which dramatically slowed down fixed capital formation and direct foreign investment in the region.

The International Division’s transactional and project financing focus will be complemented by a strategic role of upstream strategic planning and project development, with emphasis on select strategic projects that integrate South Africa with key neighbours such as Zimbabwe, Lesotho and Mozambique, and other high potential SADC countries such as Angola and the DRC. At a strategic level, the International Division will also undertake functional and targeted international relations, in support of regional advocacy and resource mobilisation.

The Division will further seek to consolidate the strategic and selective extension of DBSA’s geographic scope to countries in regional economic communities around SADC, in support of South Africa’s bi-national commissions and commitments to inter-regional integration. This will support cooperation between SADC and the adjoining and related regional economic communities, such as the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), which together with SADC, form the new tripartite alliance across the North South Corridor. The DBSA, on behalf of SADC, COMESA and the EAC has been given grant funding of R1.2 billion as an agent to support inter-regional integration.

Support Divisions

During 2010/11 the various functional support Divisions will continue to focus on improving systems, processes and strengthening capacity in support of the client-facing divisions. Key focus areas for 2010/11 financial year include:

- Human resources
  - Assist in building specialised skills enabling delivery on organisational objectives.
- Risk management
  - Continuously building on and maintaining the DBSA's risk management capability.
  - Hands on management of existing identified and emerging risks.
  - Major enhancements on overall risk management under consideration.
- Finance and Treasury
  - Fundraising initiatives to finance the Bank's infrastructure funding and development support growth.

Maintaining financial sustainability

The financial plan for 2010/11 and the projections for 2011/12 and 2012/13 are detailed under section 4 of the Corporate Plan and includes the income statement, balance sheet and cash flow statements.

Over the past three years, the Bank's disbursements have reached record highs, in line with its shareholder requirements. The Bank will continue to implement the strategy of increasing investment in its mandated development impact interventions, despite the current economic conditions.

Plans on the revised capital structure, through increasing the callable capital of the Bank have been finalised and the financial projections below takes into account the requirements of the MOU with National Treasury. It should be noted that previously the annual internally generated surpluses were sufficient to maintain the gearing ratio when funding the growth in disbursements. With the current exponential growth in disbursement projected, a greater proportion of the growth will have to be funded out of borrowed funds rather than internally generated surpluses than in the past, as the growth rate that can be sustained with the internally generated surpluses has been surpassed. The successful implementation of the financial plan is therefore dependent on the following:

- Timely implementation of delivery of the revised capital structure by National Treasury.
- Availability of liquidity in the market at affordable rates.

Financial plan

The salient features of the finance plan for the financial year 2010/11 to 2012/13 include:

- Net interest income of R1,8 billion (2010/11) is expected to grow by approximately 8.5% per annum toward 2012/13, based on projected loan book and disbursements, and taking additional liquidity requirements into account. The result is an expected drop in the net interest margin from 41.6% (2010/11) to 37.7% (2011/12) and to 33.8% (2012/13), due to a number of factors, including:
  - The effect of the higher gearing: Projected growth in disbursements as a result of an increased demand for infrastructure funding, which results in increased gearing.
  - Equity investments which does not yield interest income, but rather capital gains and dividends.
  - Interest margin squeeze as a result of the current economic environment as well as lower lending rates to municipal clients.

- High cost of funding due to the general decrease in the availability of liquidity in the market.

  However, pricing strategies and divisional management policies are being adopted to manage the margins within acceptable levels. Furthermore, various initiatives for lowering of the Bank's cost of funding in support of the projected disbursements growth are being pursued. These include *inter alia* the issuing of preference shares and further diversification of the Bank's funding sources through offshore private placements, syndicated borrowing, and public issuance when deemed opportune.

- The expense budget of R803 million (2010/11) is based on activities and initiatives necessary to increase development impact. Staff costs, which include remuneration, recruitment and training, are based on the assumption that all outstanding vacancies and new headcount are filled during 2010/11, and no new headcount is created. Expenses are projected to grow by 9 % per annum between 2010/11 and 2012/13 based on inflationary adjustments.
- The cost-to-income ratio is projected to remain around 41% to 42%, below the maximum ceiling of 45%.
- Before taking into account the impact of the revised capital structure of the DBSA, the debt to equity ratio (excluding callable capital) is projected to reach 268 % by 2012/13, surpassing the maximum of 250% in terms of the Regulations to DBSA Act. This is mainly as a result of the requirement to source funds from the market to meet disbursement demand, as indicated in the graph above. The current implementation of the revised capital structure of the Bank (increase in callable capital and including callable capital in the gearing ratio calculation) as agreed with the Governor of the DBSA, will enable the Bank to remain below the statutory limit of 250%.
- Developmental assets (development loans and equity investments) are projected at R48.8 billion in 2010/11 with a further growth of 19.9% per annum by 2012/13. Total assets of R57.3 billion (2010/11) are expected to grow by approximately 9.1% per annum over the next two years.
- Financial market liabilities are projected to reach R37.7 billion in 2010/11 with a further growth of 22.7% per annum by 2012/13.
- Return on average equity is projected to remain managed at approximately 8.3% by 2012/13. This is largely affected by the higher gearing, lower net interest margins, conservative estimates of equity income, and increases required in operating and developmental expenses.

The financial projections are reflective of the combined effect of increased development spending and investment, as well as the preservation of the Bank's long term financial sustainability. This balance remains a priority, and the continuous challenge will be to maintain the financial ratios in order to provide scope for meaningful spending on desired development impact initiatives. Proactive and regular forecasting and scenario planning will play a vital role in the financial plan.

Expanding the DBSA's development reach

Following scenario planning, the DBSA identified several initiatives aimed at enhancing the DBSA's support to Government and to improve the overall Bank's performance. Key initiatives under investigation include:

- Municipal operations and maintenance support.
- Front-loading of Municipal Infrastructure Grants.
- Rural development support through the local economic development initiative.
- Support for the energy sector.
- Involvement of the DBSA in the Governments public-private-partnership (PPP's) for the health sector.
- Proposed restructuring of the DBSA International Division.

These initiatives are briefly outlined below:

Municipal operations and maintenance support

Siyenza Manje is the current DBSA flagship intervention programme that seeks to improve the capacity of municipalities to unblock performance constraints that hamper sustained service delivery. The programme provides assistance mainly to low capacity municipalities through the deployment of technical experts in the fields of planning and engineering and professional experts in finance.

The national demand for new infrastructure to address backlogs is still substantial, but likewise the need for operations and maintenance of municipal infrastructure is growing. Considering the relatively large investments required a new strategy is needed to address these challenges.

As a result, the DBSA is conceptualising a pilot program during the 2010/11 financial year to specifically address the operations and maintenance issues identified. The programme is envisaged to support the maintenance of municipal infrastructure through using small contractors and to contribute to the development of the local maintenance industry for the preservation of national infrastructure and the fast tracking of the achievement of national service delivery goals.

Front loading of Municipal Infrastructure Grants (MIG's)

To accelerate the implementation of municipal multi-year infrastructure projects in especially under resourced municipalities, the DBSA proposes the front loading of existing MIG's to raise long term concessional loan finance. Through such front loading, the DBSA would facilitate the disbursement of upfront catalytic and concessionary funding to implement multi-year infrastructure projects that can be delivered in a shorter cycle, whilst the annual MIG allocation to the respective municipalities would be used to service the DBSA debt and interest.

During the 2010/11 financial year the DBSA will implement a pilot programme to test the concept. As part of the pilot programme, the following would need to be resolved:

- Constraints in the current regulatory environment.

  MIG is a national grant given to municipalities for funding basic infrastructure for the poor.

  The Department of Cooperative Governance and Traditional Affairs (COGTA), is in the process of reviewing the policy for applying MIG and are considering a number of changes. The DBSA will continue to engage with COGTA in this regard.

- Ability of the DBSA to raise alternative sources of concession funding from local and international investors to disburse to these identified municipalities.

Rural development support through the local economic development initiative

In line with Governments rural development plans, the DBSA envisages to offer the poor rural and urban local economies within 26 identified priority regions, integrative and facilitative solutions to move local economic development plans into execution. Interventions are aimed at reducing critical capacity gaps in areas of development information, institutional development, strategy formulation and finance for example through the front loading of MIG's as detailed previously.

The targeted sectors include roads, railways, electricity networks, communication networks, water, sanitation and tourism. The Bank will foster strong relations with existing and potential partners in both the public and private sectors, to tap on resources required to implement the rural development programmes.

Support for the energy sector

Economic growth and development in the country has led to significant increases in the demand for electricity. The country's energy challenge is centred on the task of meeting this demand and options are being investigated, such as an expansionary capital expenditure programme to support the main supplier of electricity in the region. This will require a diversified funding mix comprised of funding raised from internal and local debt capital markets, commercial lenders, development finance institutions, Government loans and guarantees. DBSA is currently sourcing additional funding and considering funding support, subject to finance being obtained and certain conditions being met.

Public-Private-Partnership (PPP's) for the health sector

In November 2008, the DBSA concluded its work on the Roadmaps for the transformation of the South African health system. The hospital level of care was identified as one of the most critical components for an effective health system during the Roadmap process.

The DBSA has been asked to articulate the support that it could provide to facilitating planning, financing, delivery and management of PPP's within the health sector. To this end, the Bank has engaged with the PPP Unit of National Treasury and the Ministry of Health, on possible cooperation and collaboration relating to health sector PPP's. To this end, a draft Memorandum of Understanding has been developed between the parties.

Proposed restructuring of the International Division

Due to local infrastructure demand and its challenges, it is acknowledged that current DBSA resources and any resources obtained from Government need to be sufficiently allocated to the South African economy to address these unique challenges.

As indicated earlier, the DBSA would be required to increase its leveraging of the DBSA balance sheet into the future. By continuing to leverage the balance sheet, the main thrust of the DBSA may be consorted. Even more importantly, it is believed that the current organisational structure may contain significant risk elements, as analysed through scenario planning outcomes.

It is the intention to house the International Division's business (including its assets), in a separate legal entity remaining within the DBSA Group structure. This would allow for outside participation by current partners and future local and international partners in development across the region. The proposal to establish DBSA International (DBI) as a stand-alone subsidiary of the DBSA Group is in response to a set of particular institutional imperatives, challenges and risks emerging within the Bank's strategic environment.

Way forward

The Shareholder and DBSA Board will be continuously updated on progress made relating to the various initiatives.

DBSA CORPORATE PLAN

1. DBSA as an organisation

1.1. DBSA Vision and Mission

The Development Bank of Southern Africa (DBSA) was established in 1983 to perform a broad economic development function within the homeland constitutional dispensation that prevailed at the time. In 1994, the new constitutional and economic dispensation of South Africa resulted in the transformation of the role and function of the DBSA.

Thus in 1997, the DBSA was reconstituted in terms of the Development Bank of Southern Africa Act (No. 13 of 1997), as a Development Finance Institution (DFI). Its primary purpose is to promote economic development and growth, human resource development and institutional capacity building by mobilising financial and other resources from the national and international private and public sectors for sustainable development projects and programmes in South Africa and the wider Southern Africa region.

The constitution and conduct of the DBSA Board of Directors are primarily governed by the DBSA Act (No 13 of 1997) and further regulated by the Public Finance and Management Act (PFMA), Companies Act, 61 of 1973 and the principles of the King II Report on Corporate Governance. DBSA is currently reviewing the potential impact of King III on the Bank.

The DBSA Group includes the Development Fund, incorporated under Section 21 of the Companies Act, 61 of 1973, and houses most of the institutional capacity building activities of the DBSA. The operations of the DBSA and the Development Fund are currently being reviewed in accordance with the provisions of the Companies Act 2008.

The DBSA's future direction departs from its shared, developmental vision of:

"A prosperous and integrated region, progressively free of poverty and dependency."

This is supported by the Bank's mission:

"The DBSA shall drive development impact in the region through expanding access to development finance and effectively integrating and implementing sustainable development solutions."

The challenges facing the region are multi-dimensional. While poverty is the central feature of these challenges, inequality and dependency are major structural factors.

1.2. DBSA mandate

DBSA Regulations define the Bank's mandate in Section 3 of the DBSA Act

DBSA Act: Section 3

"*The main objects of the Bank shall be the promotion of economic development and growth, human resources development, institutional capacity building, and the support of development projects and programmes in the region by:*

(a) Mobilising financial and other resources from the private and public sectors, national or international, on a wholesale basis, as determined in the regulations;

(b) Appraising, planning and monitoring the implementation of development projects and programmes;

(c) Facilitating the participation of the private sector and community organisations in development projects and programmes:

(d) Providing technical assistance, particularly in respect of human resource development and training with regard to the identification, preparation, evaluation, financing, implementation and management of development projects and programmes;

(e) Funding or mobilising wholesale funding, as determined in the regulations, for initiatives to minimise or mitigate the environmental impact of development projects or programmes.

(2) Ancillary objects of the Bank shall be:

(a) to assist other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development; and

(b) to assist other institutions in the national or international, public and private sectors with the management of specific funds;

in order that the developmental requirements of the region may be met."

Source: DBSA Act (No. 13 of 1997)

Through this mandate, the DBSA seeks to address market and institutional failure. Market failure exists when the production or use of goods and services by the market is not efficient, for example inadequate road infrastructure to transport goods. Institutional failure exists when an organisation is unable to deliver its mandatory services due to a lack of, for example, organisational capacity, skills constraints and/or financial resources. DBSA's response to institutional failure and market failure is twofold:

- Provision of capacity building through skills development, skills training, capacity building funding, such as grants, and
- Support for infrastructure funding.

The Bank's mandate is informed by the policies and decisions of the DBSA Board of Directors that interprets the mandate and shapes the Bank's strategy.

1.3. DBSA Corporate Strategy

Corporate strategic direction

Given the scope of the development challenges and limited financial, institutional and human capital in the region, the Bank's corporate strategy adopts an aggressive and proactive stance to broadening and deepening development impact, in order to accelerate service delivery, job creation, integrated spatial development and regional integration.

DBSA roles – value proposition

To effectively broaden and deepen its development impact, DBSA has over the years expanded its roles as illustrated below, from advisor, financier and partner to include the roles of implementer and integrator.

The roles may be further detailed as follows:

- **Financier:** to contribute to the delivery of basic services and promote economic growth through infrastructure funding.
- **Partner:** to leverage private, public and community players in the development process.
- **Advisor:** to build institutional, financial, technical and knowledge capacity for development.
- **Integrator:** to originate, facilitate and participate in key initiatives for building capacity and providing development solutions.
- **Implementor:** to mobilise and link stakeholders, initiatives and resources for sustainable development solutions.

The DBSA endeavours to act as a catalyst, drawing in and complementing the involvement of as many development partners as possible. In this light, the achievement of long term sustainable development in the region calls for concerted efforts and synergistic partnerships. Accordingly, the Bank will:

- Continue to direct its investments beyond traditional hard infrastructure assets, to include softer, smaller assets such as human and institutional capital, as these represent a major binding constraint to infrastructure and economic development, both in South Africa and the wider region.
- Finance and facilitate public and private investment in infrastructure and broad-based economic growth, as a means of accelerating the reduction of backlogs in basic services and assisting in achieving the goal of halving the number of poor people living in poverty.

The DBSA strategy entails a strong focus on public sector investment and continued emphasis on crowding-in the private sector.

The strategy departs from the understanding that higher investment levels are necessary if South Africa and the region are to get closer to achieving the desired minimum sustained 6%[1] economic growth rate, which is necessary for sustainable job creation, especially in the current global economic uncertainty.

[1] *Source: The Presidency Republic of South Africa: Development indicators 2009.*

DBSA's strategic thrusts

To support the implementation of the strategy, the following eight strategic thrusts assist the DBSA in executing its strategy:

- *Broadening and deepening development impact* - the Bank will strive to increase its development impact and intensify its development activist role.
- *Broad based black economic empowerment* – the overall aim of the Bank is to position itself as a provider of infrastructural development finance for Black Economic Empowerment.
- *Knowledge management* – a concerted effort is being made to recognise and characterise the knowledge that the Bank possesses and to put structures and processes in place, to enable its widespread exploitation. The Bank will continue to invest in knowledge networks.
- *Smart partnerships* – the DBSA will seek to forge partnerships with both public institutions and private sector organisations by bringing to bear the relative strengths of different partners and by leveraging the participation of previously disadvantaged people in the economy in line with public policy.
- *Innovation and entrepreneurship* – the DBSA has to be more innovative and encourage entrepreneurship, adapt to new conditions and adopt cutting edge practices in order to be effective in resolving development investment problems.
- *Responsible risk taking and management* – the DBSA is well-placed to share, help allocate and mitigate risks, and it has a role to provide leadership in expanding risk appetites and opening up new horizons and windows of opportunity for investment
- *Performance recognition and reward* – the Bank recognises that people need to be rewarded in a more flexible and creative manner that does not lead to the creation of unsustainable complex vertical hierarchical structures. The instituting of recognition and reward needs to simultaneously appeal to intrinsic and extrinsic motivation and unleash both productivity and creativity.
- *Alignment of strategy, culture and processes* – this refers to the alignment of the Bank's business processes with its strategic objectives. This is necessary to enhance the organisational environment to encourage behaviour and decision-making that is aligned with organisational values, vision and strategic intent.

To ensure a focused approach towards achieving the ultimate vision, DBSA has adopted a five-pronged strategy as detailed below:

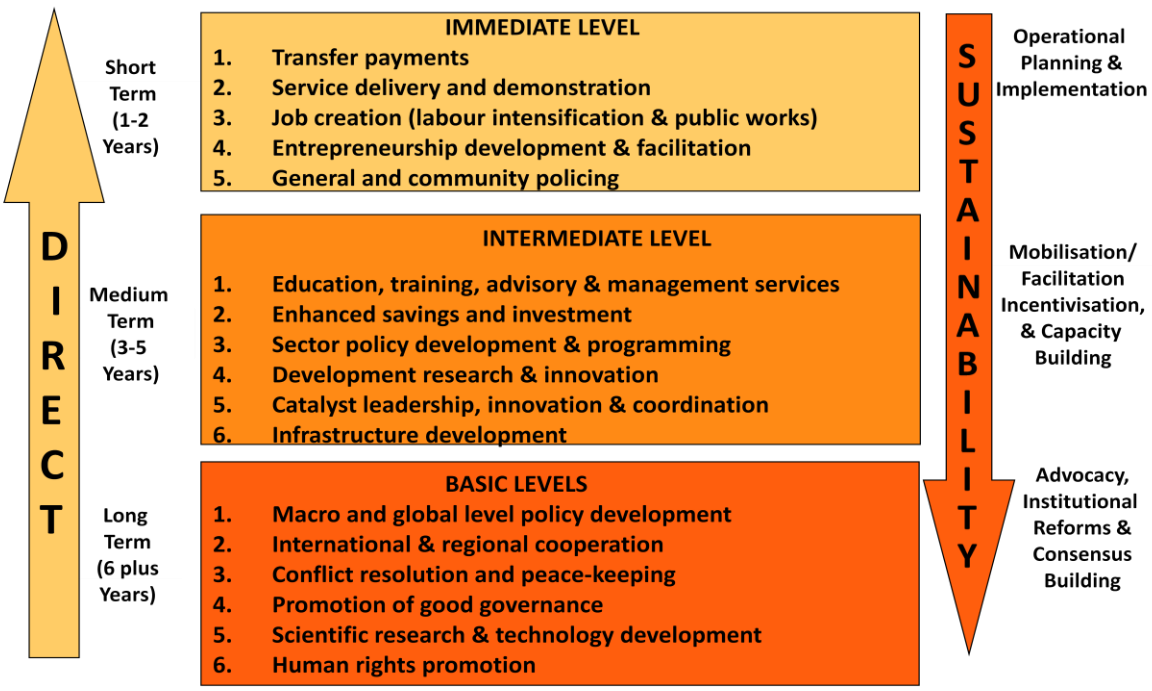
Five-pronged strategy

- Co-deliver social and economic infrastructure, with a public sector focus;
- Build human and institutional capacity, with a focus on key infrastructure intermediaries such as municipalities;
- Promote broad-based economic growth, job creation, cooperation, integration and prosperity, with a focus on identified sectors, geographical areas and projects;
- Serve as a centre of excellence for development financing and effectiveness;
- Engender sustainability, internally and externally, in financial, environmental, institutional and social terms.

The Bank's strategy continues to emphasise the importance of achieving development impact while maintaining the organisation's financial sustainability. The main strategic implementation and reporting methodology used is the Balanced Scorecard (BSC). Here, corporate strategic objectives and targets are developed and approved by the Board of Directors for a rolling three-year period, updated annually, seamlessly integrated with the business and submitted to National Treasury as part of the Corporate Plan. The corporate strategic objectives and targets reported on annually (through the annual report) are approved and submitted during the first quarter of each financial year.

1.4. DBSA Vision 2014 and Development Agenda

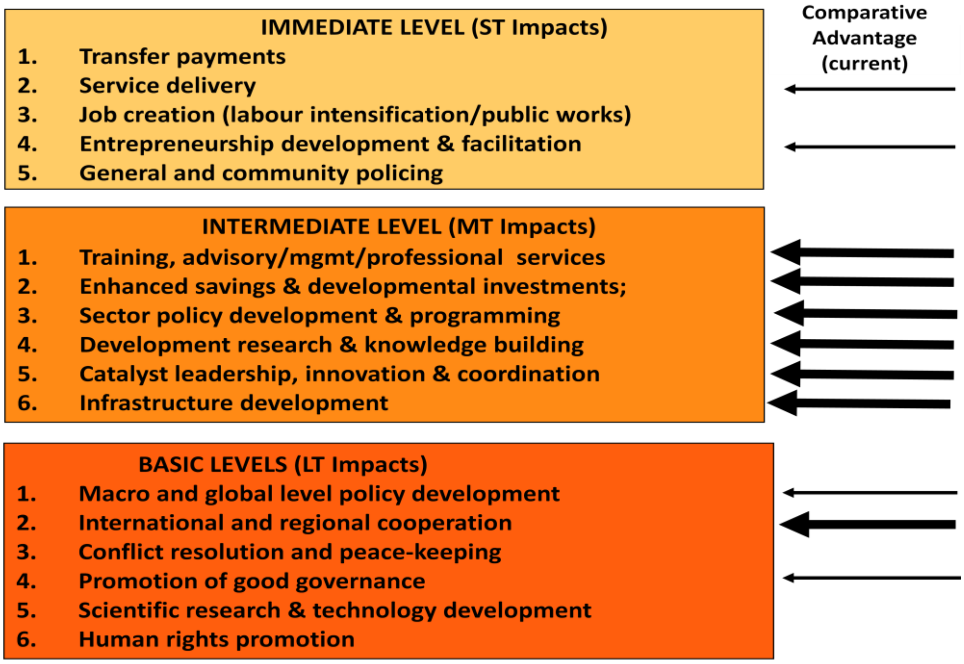
Vision 2014 and the DBSA Development Agenda are informed by the state and challenges of poverty, inequality and dependency in South Africa and the wider region, by a perspective on the causalities of under-development and a conceptual framework on structured classes of interventions that address the different levels of causality.



Central to the Development Agenda, is the question of social, economic and environmental sustainability. The Development Agenda strongly emphasises long-term interventions in pursuit of enduring development solutions, especially where the causes of under-development are structural and basic in nature.

The Development Agenda recognises that the Bank is not the only role-player in the development process and that different role-players have their own comparative advantages and strengths in making interventions at different levels of problem causality. Accordingly, it notes that, generally, the Bank's interventions are large and complex and are often implemented and realised over the medium and longer term and yield impacts in a similar timeframe. This is reflected in the nature of infrastructure and economic development projects, which take several years to build and operate. It is also reflected in the human resource development projects, as human resource development interventions are also medium to long-term undertakings, whether one is developing a young, relatively inexperienced engineer, financial specialist or artisan.

The Bank's short-term interventions, which are input and output intensive, are designed as part of a wider and structured set of interventions. These short to medium term interventions are intended as a build up in producing substantive development outcomes and impacts in the longer term. The Bank's challenge in strategic planning is to sequence and calibrate the implementation of its initiatives and interventions in concert with those of other key role-players at the regional, national and sub-national levels.



Development Agenda - impediments to development

The Development Agenda identified six impediments or constraints, to development in South Africa.

- *Weak institutions and shortage of skills*

  In the past two decades, development has hinged on the strength of institutions and the level of skills in an economy that would allow it to grow, develop and expand opportunities for its citizens. This is evident in the shortening development timeframes witnessed in history. The number of countries demonstrating that, everything being equal, the presence of strong institutions and abundance of skills has the ability to enable faster economic growth and development.

- *Small markets/non-viable states*

  Lack of economic integration at regional level and lack of integrated planning at national level have invariably also limited the extent to which regions and countries have grown and developed.

- *Inadequate and unaffordable infrastructure*

  The high cost of infrastructure such as energy, telecommunications, communications and technology has a great impact on raising the cost of doing business and thereby limiting entrepreneurship. It furthermore impacts on the livelihoods of people, especially in a developing country. The absence, for example, of and/or inadequate road infrastructure can limit productivity between regions within a country, thereby increasing costs of production and influencing the price that consumers ultimately have to pay. Infrastructure such as ports also influences Gross Domestic Product (GDP), by enhancing and or impacting on import and export capability.

- *Lack of investment opportunities*

  The inability of local authorities to identify, originate and market development projects were identified as a key constraint to unlocking economic potential in local economies. This effectively impacts on job creation and the quality of service delivery.

- *Apartheid geography/ disjoined spatial patterns*

  In South Africa, a number of communities are located away from direct access to work/opportunity, recreation and household livelihoods. This situation increases the cost of transport to and from work, thereby limiting disposable income and exacerbating poverty.

- *Massive inequality*

  Over the years, inequalities for opportunities to participate and benefit from economic growth have been skewed away from a majority of the population.

In dealing with the above challenges, the DBSA identified a number of interventions that needed to be undertaken, as means of addressing the obstacles to development. These interventions cut across South Africa and the rest of SADC. In addition, the DBSA identified five priority sectors as a means of executing the Development Agenda. These five priority sectors are food, water, education, health and energy. It also spelt out key strategic shifts for the Bank in its role as a DFI, in which the Bank (having identified the five priority sectors), sought to broaden and deepen its development impact.

As reflected in the table below, the DBSA has developed various interventions to address these impediments.

Impediments and key DBSA interventions

<table>
<tr><th colspan="30">DEVELOPMENT AGENDA – SIX IMPEDIMENTS</th></tr>
<tr><td colspan="5">Weak institutions and shortage of skills</td><td colspan="5">Small markets / non-viable states</td><td colspan="5">Inadequate and unaffordable infrastructure</td><td colspan="5">Lack of investment opportunities</td><td colspan="5">Apartheid geography/disjoined spatial patterns</td><td colspan="5">Massive inequality</td></tr>
<tr><th colspan="30">INTERVENTIONS</th></tr>
<tr><td colspan="5">• Siyenza Manje programme
• DF Capacity Building Grants
• Agency Services
• Skills Partnership
• DBSA Human Capital Framework
• Targeted Training Programmes and Partnerships
• Advisory Services
• Policy and Sector Research Agenda</td><td colspan="5">• Regional integration initiative
• Financial markets development and support
• NEPAD/RISDP Support
• Innovation and entrepreneurship
• Enterprise development BEE</td><td colspan="5">• Market segmentation
• LED initiative
• TA and TIP Facilities
• Loan financing
• Infrastructure Development Fund Contribution</td><td colspan="5">• Market segmentation
• LED initiative
• Sustainable Communities Programme
• NEPAD/RISDP Support initiative
• BBBEE
• Private equity funds</td><td colspan="5">• Sustainable communities
• Local Investment Agency initiative
• LED Initiative
• IDP support
• Market segmentation
• CSI/CE Fund</td><td colspan="5">• BBBEE finance and advisory
• Preferential procurement
• Employment equity
• LED Initiative
• Market segmentation
• Pro-poor infrastructure development and financing
• Pro-poor policy development and advocacy</td></tr>
<tr><th colspan="30">PRIORITY SECTORS</th></tr>
<tr><th colspan="6">FOOD</th><th colspan="6">WATER</th><th colspan="6">EDUCATION</th><th colspan="6">HEALTH</th><th colspan="6">ENERGY</th></tr>
</table>

Market segmentation

The DBSA's Vision 2014 and the Development Agenda have led to a defined market segmentation model. This model applies criteria that cut across the entire development space in which the Bank operates, encompassing a wider range of intermediaries, such as utilities, further education and training institutions, state owned enterprises, as well as municipalities.

Based on the defined criteria, investments in infrastructure assets are to be made in accordance with the following three broad segments, namely:

- *Social transformation segment*: Support the creation of sustainable living environment and alleviate basic services backlogs.
- *Economic potential and growth segment*: Support the growth of the economic base and employment opportunities.
- *Capacity development segment*: Support the upliftment of human capital in the areas where growth and development are constrained by lack of education and skills.

Each of the three market segmentation categories have been broken down further into targeted, focused sectors and intermediaries in South Africa and SADC countries, namely:

Focus areas

Segment	**Social Transformation** (people and needs – service delivery)	**Economic Stimulation** (place and potential – diversified economy)	**Institutional Capacity Building** (intermediaries capacitation)
Sector	• Education • Housing • Roads and Drainage • Sanitation • Social Infrastructure • Water • Health	• Commercial (mining, tourism) • ICT • Energy • Transport	• Training support • Agency support • Advisory services
Intermediaries	• Education institutions, colleges, universities, schools, vocational institutions, Public utilities, Regional//local utilities, Housing authorities • Municipalities, other infrastructure providers	• Trusts • Private corporations • BBBEE (mining houses) • Tourism authorities • Private equity funds	• National and provisional departments • Municipalities • Utilities
SADC countries	**Established** • Tanzania • Zambia • Mozambique • Mauritius • Namibia • Botswana • Lesotho	**Emerging** • Angola • DRC • Madagascar	**Weak** • Zimbabwe

In South Africa, the segments were categorised on the following basis:

- Economic base and potential (opportunities and key initiatives).
- Structure of economic activities (pattern, diversity, specific drivers of economic activity, gross value added).
- Human settlement patterns.
- Levels of economic activity, socio–economic indicators (historically disadvantaged individuals, income levels, access to basic services).
- Skills base, institutional capacity (to plan, manage, innovate, create networks to stimulate, grow and sustain local economic activity).

By applying the above criteria in segmenting the market in South Africa, the Bank sought to enhance the impact of resource allocation as well as direct investment in a coordinated, strategic and targeted way.

In the rest of SADC, a broader understanding of strategic and economic imperatives to achieve regional economic integration for growth and poverty alleviation formed the foundation of the criteria for segmentation. Alongside the above, were fundamentals such as economic potential premised on natural endowments and opportunities, diversification, specialisation and linkages between primary, secondary and tertiary sectors. Levels of economic activity are evidenced in growth rates, institutional commitment and support characterised by a conducive investment climate as well as capacity to plan and execute programs.

As such, the two focused segments in the rest of SADC are:

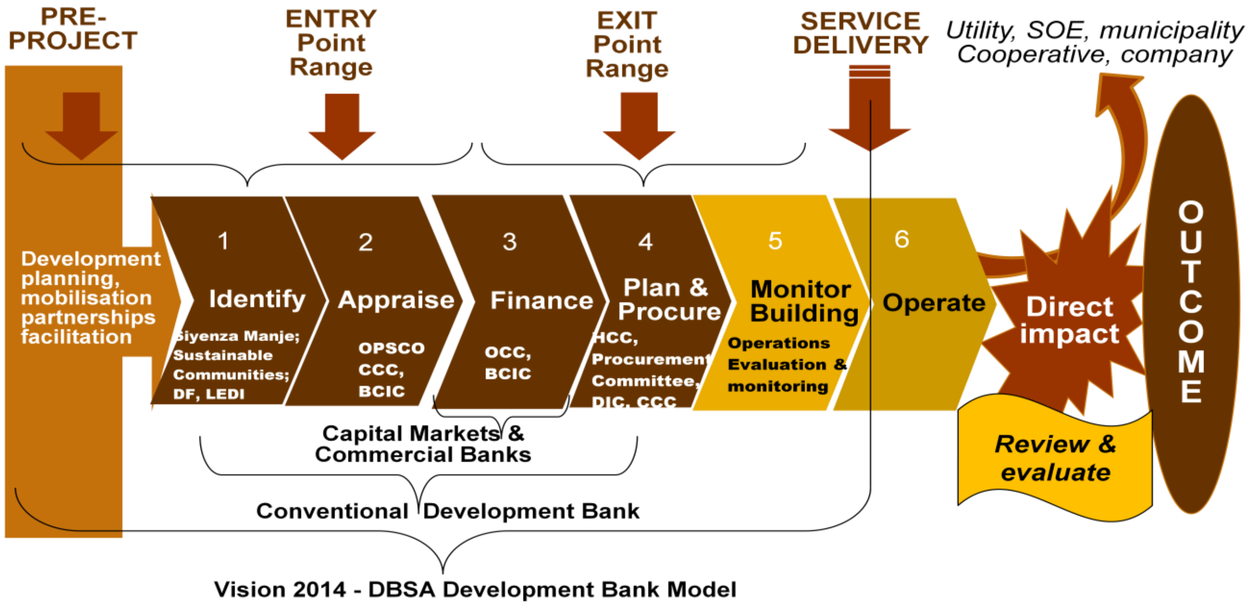
1. *Sector based*: mining, power and energy, transport, tourism, health and agro processing. These sectors are key drivers of economic activity in a majority of countries in SADC.
2. The other segment focused on *multi-regional projects* that form the cornerstone for regional integration in areas such as information and communication and technology, transport corridors (roads, rail and air). The International Division adopted the sector and multinational based segmentation model to categorise countries into *established* (those countries in which the DBSA has built a presence over the number of years), *emerging* (countries in which DBSA presence is beginning to take hold) and finally, the *weak* ones (countries emerging out conflict and require specific approaches in infrastructure investment).

Focus depicted in the DBSA market segmentation furthermore seeks to strengthen the alleviation of constraints to development such as those highlighted in the Development Agenda.

DBSA's differentiation

To differentiate itself from a traditional financial lending institution, the DBSA engagement model stretches beyond identifying, appraising and financing, as is the case with commercial banks. It includes development planning, mobilisation of partnerships at pre–entry and monitor building to support municipalities, state owned enterprises (SOE's) and utilities in reviewing and evaluating direct impact.

The figure below illustrates the DBSA value-chain engagement model:

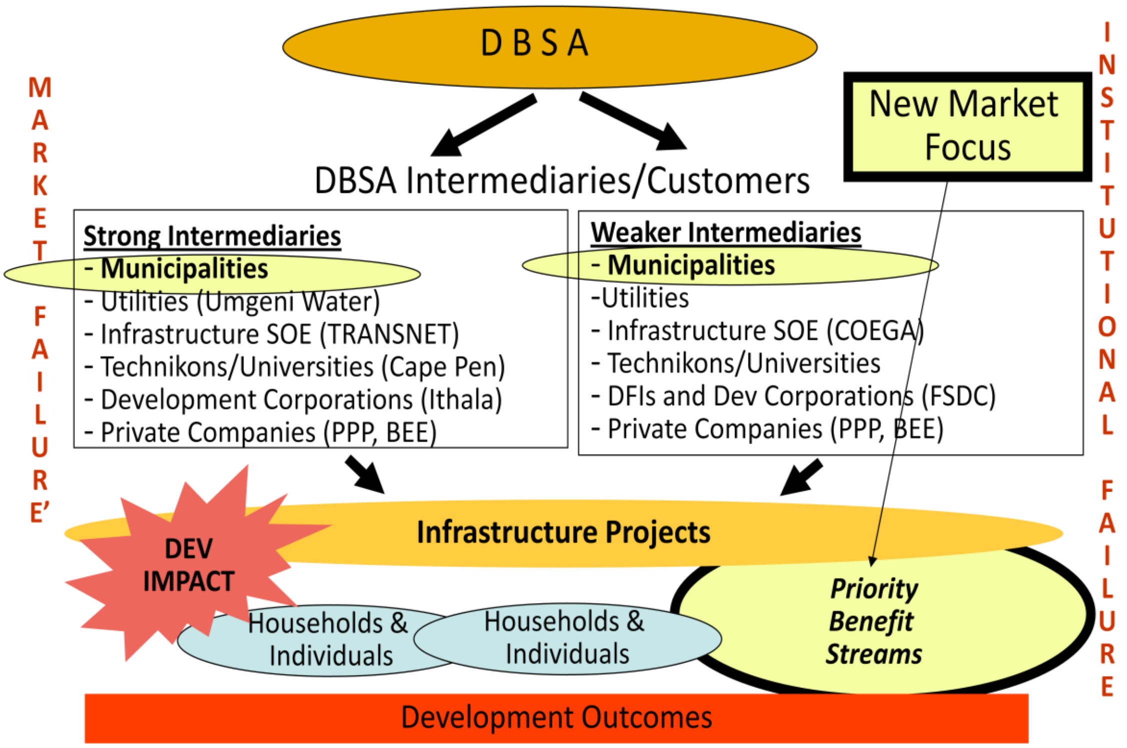


All the activities in the value chain ensure that inputs, outputs and outcomes occur here

DBSA intermediaries' delivery model

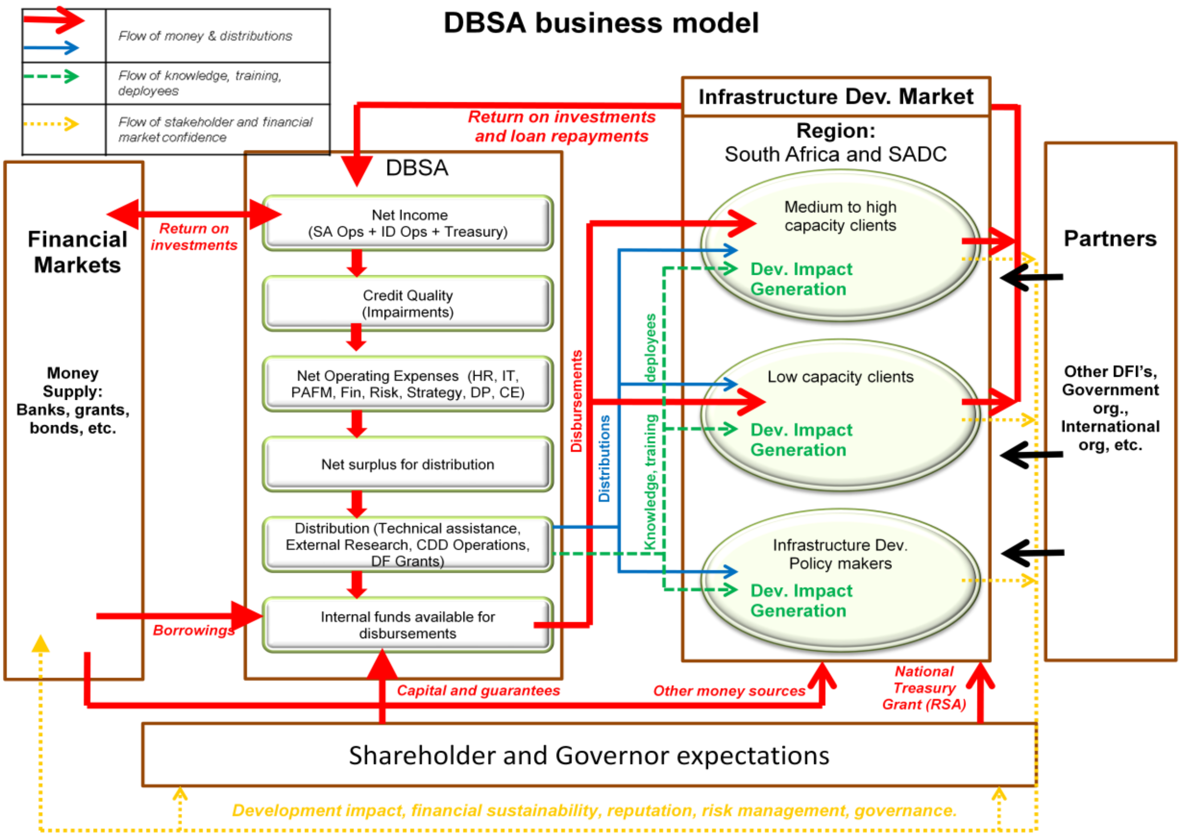
The delivery model (as detailed in the figure below) in implementing the Development Agenda and market segmentation is based on two sets of intermediaries - strong and weak intermediaries. The delivery model compliments the DBSA strategic approaches of addressing market failure and institutional weakness.

Among the key intermediaries are: municipalities, utilities (both national and local), infrastructure SOE's, universities, universities of technology, DFI's and development corporations, local regional development agencies such as Ithala, and private companies that are involved in the provision of infrastructure.



1.5. DBSA Business model

The DBSA business model is based on the requirement[2] that the DBSA should be a financially stable enterprise, whilst delivering its development mandate. As illustrated, below the Business model shows the flow of money to and from the various sections relating to the Bank's operations.



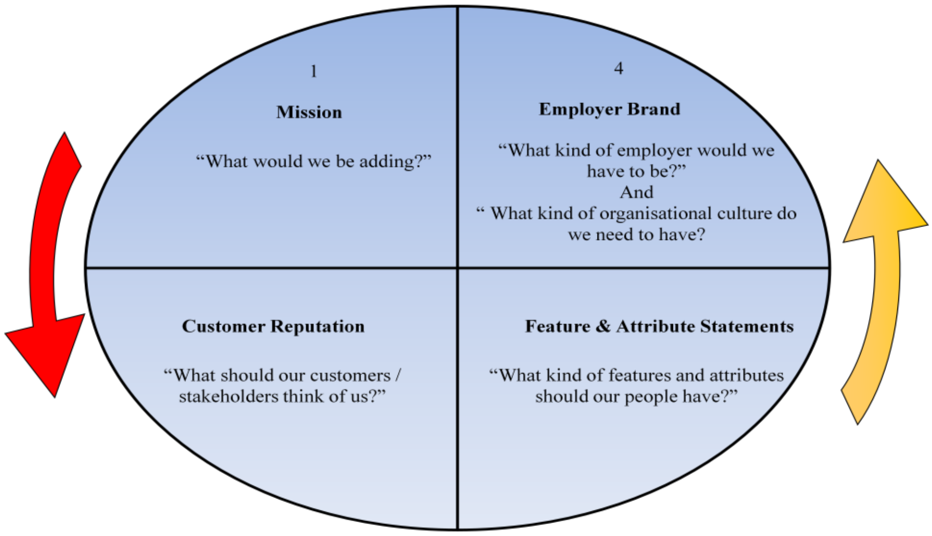
[2] *Source: 2009 Medium Term Budget Policy Statement, page 42.*

1.6. Organisational values and culture

The DBSA vision is underpinned by its core values. The values are enshrined in the code of ethics and define the way in which the DBSA staff interact both externally and internally to the organisation:

- *Ubuntu* – integrity, caring for people, trust and transparency.
- *Passion for development* – can-do attitude, beneficiary customer focused and delivery orientation.
- *Professionalism* – innovation, accountability and commitment.
- *Knowledge sharing* – teamwork, collaboration and communication.

DBSA Culture Wheel



The DBSA culture wheel, as illustrated above, is based on the premise that the Bank can drive development impact in the region through expanding access to development finance and effectively integrating and implementing sustainable development solutions, if the following principles are adhered to:

- *Pioneering*: visionary, risk-taking for development, going where others won't.
- *Responsive*: caring, partnering, proactive, hearing and empowering.
- *Effective*: having the desired impact, getting it done, making a difference.
- *Capable*: having what it takes, being impressive.
- *Committed:* going the extra mile, taking a long-term view, passionate.
- *Ethical:* free from corruption, trustworthy.

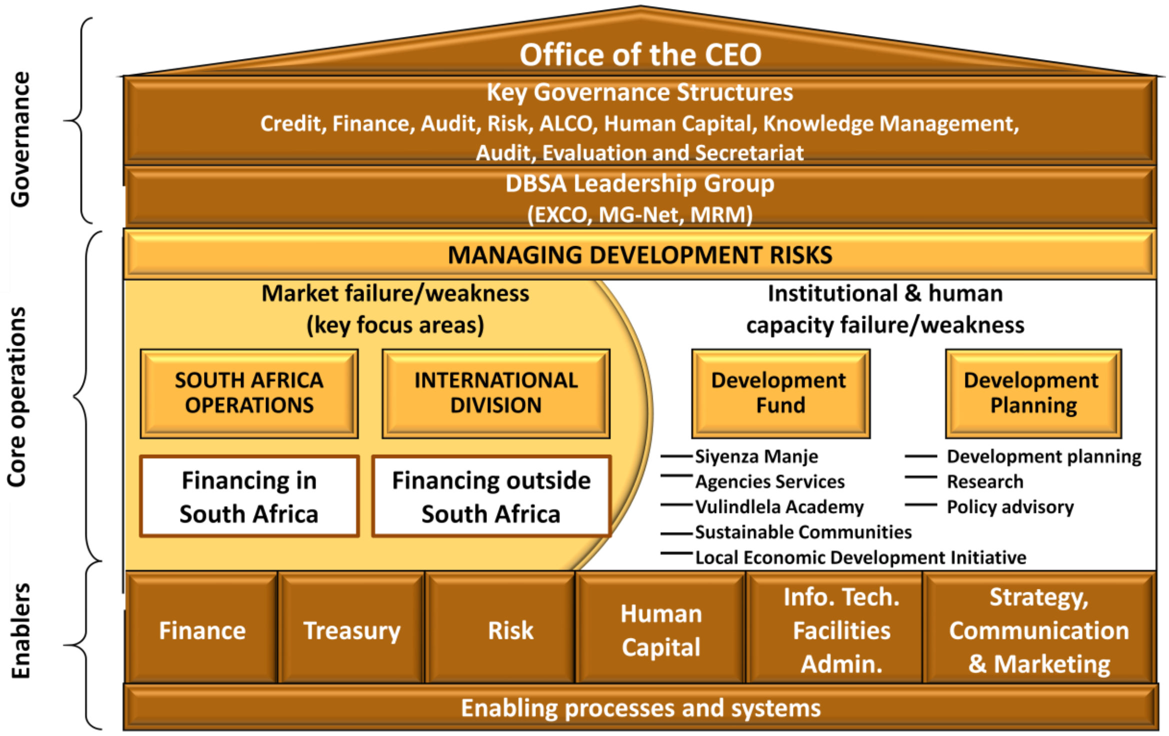
The success of the above would enable the DBSA to:

- Create space for employees to excel, encourage innovation and recognise employee contribution at all levels.
- Minimise red tape, yet retain good corporate governance.
- Be results rather than output driven.
- Have a principle (rather than procedure) driven process and culture.
- Be performance driven.
- Be a learning organisation that rewards collaboration and knowledge sharing.

The DBSA, through its Human Capital Division, monitors organisational behaviour continuously in terms of adherence to the culture, by conducting an annual survey. The survey results are well communicated within the organisation, with corrective measures taken relating to areas of concern.

1.7. DBSA Delivery structure

The figure below illustrates the delivery framework of the DBSA, including the governance oversight layers, core operations and enabling of support Divisions.



The DBSA is a fast growing organisation that incorporates change within its external and internal environment by structuring itself in line with its strategic goals. To sharpen its delivery focus, the DBSA structured its organisational framework into four "client-facing" operational areas, each with a specific focus on development impact, good corporate governance and development risk management.

Two of the four business Divisions, namely the Development Fund and Development Planning Division, seek to specifically address the *institutional and human capacity* weaknesses in the development arena.

1.7.1. South Africa Operations Division

The Division is the main investment arm of the DBSA in South Africa. Its primarily focus is on infrastructure asset funding to clients in both the public and private sectors, to support the building of sustainable living environments and service delivery. The Division also provides technical assistance, advice and other value added services (e.g. support for 2010 Soccer World Cup infrastructure) to clients.

Strategic focus

The Division's strategic approach has been informed by trends in the macro socio-economic business environment. Increased demands for investment and infrastructure service delivery are to be considered within a general more unstable delivery and financial environment. Various signals are cautioning towards a more conservative approach to the markets in general. The slowdown in the economic activities has challenged many organisations to review their strategies, operations and planned expansion programmes. The economic slowdown has impacted the Division's core clients by negatively affecting the financial health of many of the countries municipalities. This is primarily due to the combined effects of increasing household costs, coupled with rising unemployment levels which have resulted in an increase in more financial distress at household level and resultant municipal level. This in turn directly affects the financial health of the Divisions' municipal clients. In addition, various clients are delaying their economic infrastructure investment programmes due to prevailing market conditions. This poses a specific challenge to the Division, in maintaining development momentum in a sustainable manner, considering current and projected market conditions.

Given the aforementioned, with pressure rising for rapid progress to negate the knock-on effects of the global economic crises and to retain the momentum in infrastructure service delivery, key focal areas targeted (strategic objectives) for investment in the 2010/11 financial year, will remain similar to 2009/10 in terms of:

- Social infrastructure to create sustainable living conditions and promotion of the quality of life. This is mainly driven by public sector institutions.
- Infrastructure to provide bulk and enabling services, on which sustainable communities as well as economic opportunities may be built. This is driven by Government and state owned enterprises (SOE's).
- Infrastructure to deliver on growth in the economy, employment creation and poverty alleviation. The bulk of these are driven by Private Sector institutions and SOE's.

In this, the underlying principle will be to deliver financial and technical support in an institutional and financially sustainable manner to both clients and the DBSA.

Through its investment products, loans and equity instruments, the Division will aim its efforts in three focus areas. Given the specific investment support requirements in respect of communities, both in the creation of sustainable living conditions and in employment creation, the Division's primary focus will be on investments in the social and economic segments. Secondly, the focus will be directed towards capacity development, through the use of technical assistance grants and advisory services in support of service delivery intermediaries. This support will continue to assist clients with preparing and implementing infrastructure programmes.

The Division is structured to allow for both geographical specialisation, based on public sector client's specific needs and conditions, as well as on functional specialisation in especially the private sector intermediary arenas. The delivery structure may be further explained as follows:

- Three **Public Sector Clusters** which work with public institutions that deliver services or promote local economic development at municipal level in all nine provinces. These Clusters have an understanding of their clients' development and funding needs and address these needs by means of various DBSA products and services.

- A **Project Finance Cluster** which focuses on private sector and state-owned enterprises and utilities that deliver infrastructure on national programmes where high levels of specialisation are required.
- A **Private Equity and Investment Banking Cluster** which deals with specialised needs associated with direct equity and private equity fund transactions, corporate lending and broad-based BEE projects. As these services are also required outside South Africa, this Cluster has been placed with the Treasury Division, and serves both the South Africa Operations and International Divisions.
- The **Portfolio Management Cluster** ensures tighter monitoring and management of the total divisional portfolio. It works closely with the Group Risk Assurance Division on maintaining the risk health of the portfolio, as well as with the Group Strategy, Treasury and Finance Divisions on strategic planning, the financial health and management of the portfolio.

The Division's activities are guided by an executive team, namely a Group Executive and Divisional Executives, a Divisional Projects Committee that provides quality assurance on development interventions and a Divisional Strategy Committee that debates and provides guidance in relation to issues of strategy and policy.

Planned initiatives

The Division has set a target of R14.5 billion for new approvals for the 2010/11 financial year - 86% (R12.4 billion) of total approvals are targeted to be within the social and enabling infrastructure sub-segments.

The total disbursement target for 2010/11financial year has been increased by 72% from R6.4 billion in 2009/10 to R10.9 billion, with an allocation to secondary and poorly resourced municipalities of R2.5 billion.

The Division's approach to capacity development will be to focus on building and strengthening infrastructure delivery, especially in relation to marginalised communities and under-resourced municipalities. With the assistance of the other Divisions, (e.g. Development Fund) the Division will target the building of delivery capacity by supporting planning and execution capacity initiatives, especially at municipal level. Provision will be made to provide this support in the form of grant funding and R30 million has been budgeted for this purpose. This will result in these communities/municipalities eventually being able to take up and manage investment funding more effectively.

More emphasis will be placed in achieving closer and a more integrated cooperation and support delivery between the different Divisions. This will ensure the DBSA's private and public clients, and their needs, are addressed effectively and efficiently.

Intended outcomes

The key intended outcome of the 2010/11 South Africa Operations Division's strategic approach, is sustainable infrastructure service delivery through municipalities, job creation, backlog eradication and local economic development. The successful execution of the strategic approach could result in 57 500 employment opportunities being created over the life span of funded projects and an additional 448 000 households being connected to one or more basic municipal service.

Further priority focus areas for 2010/11

The delivery of infrastructure, to especially under-resourced communities in rural areas remains a key challenge. Together with the DBSA Development Fund, sustainable delivery options for investment funding will be a priority in the year.

The further refinement of measurements to determine development impact, and to guide future application of funding so as to ensure the optimisation of resources, jointly with the Project Evaluation Unit and the Development Planning Division will continue.

Asset management and enhanced portfolio management to protect the current investments and to ensure long term sustainability will be further developed.

1.7.2. International Division

The International Division is responsible for the DBSA's operations in the region outside of South Africa and is the custodian of the Bank's regional development strategy. The Division provides a mix of financial and non-financial products and services to a range of public and private sector clients and partners in the region. As part of its advocacy and thought leadership function, the Division also actively promotes regional integration and regional priorities in key regional and international development dialogue. The Division's financing and investment operations are focused on the Southern African region, but extend selectively to multi-country infrastructure projects, initiatives and selected Pan African Private Equity Funds that cut across the continent.

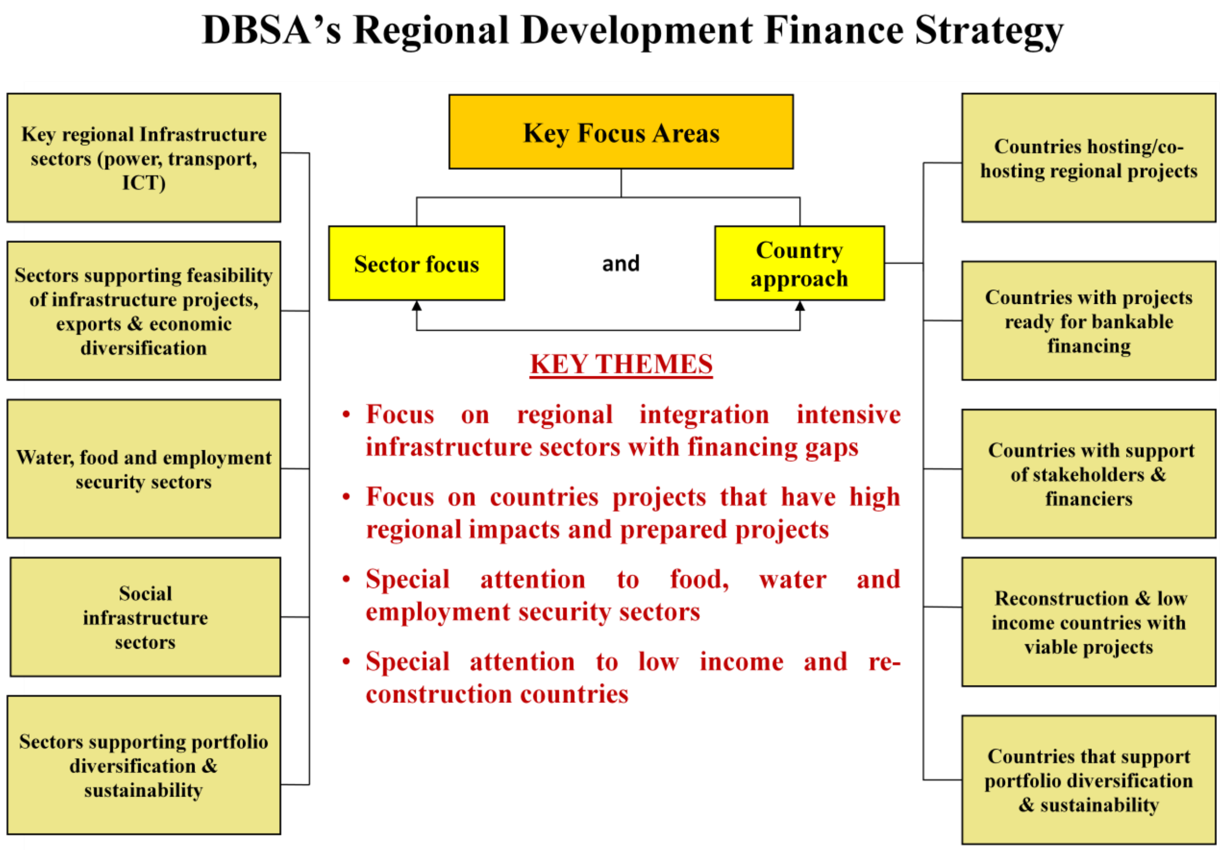
Operating structure of the International Division

The International Division executes its mandate via two international finance units and a portfolio management unit. In implementing projects and especially equity investments, the Division is supported by various other units within the DBSA, particularly the Investment Banking and Private Equity Unit, as well as Group Risk Assurance. The following streams of activities define the operational thrusts of the Division:

- ***Project development*:** this stream facilitates project development by supporting pre-feasibility and feasibility interventions in order to take projects from concept to bankability stage. This involves co-financing with in partnership with SADC and international development partners of the region, notably AFD, EIB and DFID. In its role as promoter and implementer of NEPAD ideals, the Division helps advance investments in large cross-border projects that specifically advance regional integration on the continent.
- ***International finance*:** this stream provides financing for SADC-based projects in sectors such as energy, transport, health, tourism, agri-business, mining and infrastructure related manufacturing. This involves the identification of projects through business development initiatives, as well as through the project development interventions described above. For direct equity and Pan African Private Equity Fund investments, the Division works closely with the Investment Banking and Private Equity unit of the Bank.
- ***Portfolio Management*:** this stream facilitates asset management once the legal agreements have been concluded. This function is responsible for the regular review of assets in the International Division portfolio, so that any warning signals in the portfolio can be identified at an early stage and addressed proactively. This function is supported by specialists in the field of energy, ICT, engineering and environmental affairs.

Regional development finance strategy

The International Division is guided by a sector and country based engagement strategy (further detailed in the diagram below) in support of sustainable infrastructure development. The Division's strategy draws on the guiding principles of the New Partnership for Africa's Development (NEPAD) and the Regional Indicative Sustainable Development Plan (RISDP) in identifying priority infrastructure and development finance sectors for the region. The same priorities are reflected in the Government of South Africa's Medium Term Strategic Plan for its International Relations and Cooperation in the region.



The Division focuses on regional integration, particularly in relation to economic infrastructure sectors with high financing gaps, such as power, transport and ICT. It is also concerned with social infrastructure such as health, nutrition and education, while considering other sectors that either support infrastructure development, such as mining and tourism, or promote exports and economic diversification.

On this basis, the Division's sector based engagement plan can be segmented into the following categories:

Sector based engagement	
Priority regional infrastructure	Power; Transport; Water; ICT
Priority economic development	Food, Energy and Water Security; Agribusiness; Forestry & Fishing
Priority social infrastructure	Health; Housing
Other regional & domestic infrastructure	Tourism; Construction; Mining

While the Division gives due consideration to projects ready for bankable financing and countries providing strong support to key national stakeholders and financiers, the Division places strong emphasis on reconstruction and low-income countries with viable projects. To this effect, the International Division will continue to exert focused attention on countries such as Zimbabwe, Angola and the DRC, where development impact is perceived to be high. The International Division, however, recognises the need for its operations to remain sustainable and it will therefore continue to support sectors and countries that provide its portfolio with diversification benefits and sustainable returns. The Division's country engagement is segmented as follows:

Country based engagement	
Low-income and emerging out of conflict (maximising strategic development)	Including DRC, Angola, Zimbabwe, Madagascar
Countries with strong bilateral & multi-country projects (maximising regional integration & trade)	Including Botswana, Lesotho, Mozambique, Namibia, Swaziland, Tanzania, Zambia, Zimbabwe
Countries with acceleration opportunities (minimize opportunity costs)	Including Namibia, Lesotho, Zambia, Botswana

The Division will also continue to selectively invest in multi-country infrastructure projects physically located outside southern Africa in support of the significant development impact of such projects in the region and to advance the integration of southern Africa with adjacent sub-regions in respect of infrastructure and the expansion of related markets and regional trade flows.

Further, the Division will look to focus on Rand or Rand-equivalent currency financing for projects in Namibia and regional institutions such as Shelter Afrique. At the same time, the Division will consider special requests to step in and provide bridging development finance for strategic high impact projects in vulnerable SADC countries that have been subjected to systemic capital withdrawal by international commercial banks.

Intermediary engagement

It reflects the reality that most national governments in the region are not well positioned to champion public infrastructure directly. Unlike South Africa, public infrastructure development in most of the countries of the region is an unfunded public mandate, with a high degree of reliance on the retained earnings and independent borrowings of state owned corporate infrastructure enterprises (SOE's) and the private sector, either through public private partnerships (PPP's) or directly. The International Division will therefore continue to target SOE's, PPP's and private infrastructure service providers. Examples include current clients such as EDM, ZESCO, ESKOM Malawi, Lesotho Highlands Water Authority, Regional Water Boards and MCEL.

While the Division will make use of classical project finance structures for projects where risks and cash flows can be clearly ring-fenced, the Division will also invest through such SOE's that have special dispensation to borrow foreign currency on commercial terms. DBSA financing to such clients will be on the strength of their own Balance Sheets and cash generating capabilities.

In most of the region, municipalities are legally unable to borrow market-related or commercial foreign currency, such as DBSA funding. This is partly due to the constraints and complexities of being Highly Indebted Poor Country (HIPC) status, which subjects them to certain rules around commercial and international borrowing and the issuance of sovereign guarantees. Nevertheless, the International Division is looking to build up new clients in support of public infrastructure development and the Division is therefore continuing to explore municipal funding. Selectively the Division will also consider see-through sovereign lending.

The Division will also be seeking to support medium term trade financing through the support of regional entities such as AFREXIM Bank, among others, as a response to the near collapse of trade finance in the region.

Smart partnerships

The DBSA has a history of successfully selecting strong strategic partners to jointly address the immense infrastructure, growth and poverty gaps in the region.

Smart partnerships will therefore continue to define the Division's engagement in the region and internationally.

The Division's partnerships are generally defined by the nature of the engagement, as shown in the table below:

Nature of engagement	Partnerships / Intermediaries
Strategic	SADC; COMESA; AfDB; AFD; KfW
Upstream support (project preparation)	AfDB; AFD; KfW; JICA; DFID; EIB; Finland
Advisory support	DFI's: Fonds de Promotion et de l'exportation – FPI (DRC); Lesotho National Development Cooperation Advisory: Technical; legal and financial advisors
Downstream support co-financing)	Tanzania Investment Bank; Afrexim Bank; Shelter Afrique; Namibia Development Bank; Zambian Development Bank; African Financing Partnership

The DBSA recognises that the vast infrastructure gaps in the region can only be addressed through multi-institutional and multi-role-player responses. Partnerships are key for leverage in a region with low levels of domestic investment and savings, and as the only sizable DFI in the sub-region with a streamlined corporate governance structure, the DBSA is well positioned to coordinate such partnerships.

1.7.3. Development Fund

As indicated in the 2009/10 DBSA Corporate Plan, the Bank created a Capacity Development and Deployment Division which merged with other capacity building initiatives in the Bank, such as the DBSA Development Fund; strategic projects such as Siyenza Manje, Sustainable Communities and LED initiatives; the Vulindlela Academy and the Agencies Unit. Structurally, all of these initiatives and units are now housed under the DBSA Development Fund.

Refer to Annexure 6.10 for the detailed Development Fund 2010/11 plan.

Strategic objectives

- *Deliver sustainable development solutions.*
- *Strengthen external collaboration with development partners in the public and private sector.*
- *Strengthen the Development Fund delivery model through a more integrated approach.*
- *Strengthen stakeholder management.*
- *Build a performance and accountability driven culture*

Capacity Development and Deployment

- **Siyenza Manje**

  Siyenza Manje is a capacity building initiative with three main clusters under its wings, namely; the Siyenza Manje Programme (capacity building in municipalities); Vulindlela Academy (training) and Agencies (managing third party funding for development programmes).

  Siyenza Manje is a flagship intervention programme that seeks to improve the capacity of municipalities to unblock performance constraints that hamper sustained service delivery. These constraints impact on the ability of municipalities to plan and implement capital projects financed through municipal infrastructure grants (MIG) from National Treasury, other Government departments and CAPEX budgets of municipalities. Siyenza Manje focuses on three main intervention areas: unlocking Government grants and mainly municipal infrastructure grants (MIG); assisting municipalities to improve their financial management; and helping with preparation of various sector plans as part of integrated development planning in low capacity and poorly resourced municipalities.

  Siyenza Manje provides assistance to low capacity municipalities through deployment of technical experts in the fields of planning, engineering and finance. These experts assist low capacity municipalities to fast-track the release and expenditure of infrastructure grant funding. In addition to providing hands-on support to enhance project management capability, the experts provide financial management support, including addressing audit queries from the Auditor General. Deployees also provide on-the-job training to municipal officials as part of the sustainability plan of the Siyenza Manje intervention.

- **Vulindlela Academy**

  Vulindlela Academy is a human capacity building intervention, knowledge sharing platform and a skills transfer academy. It is accredited with the Local Government Sector Training Authority (LGSETA). The Academy offers relevant, customised capacity building and training to DBSA intermediaries. These intermediaries include local municipalities in South Africa, SADC development finance institutions (DFI's), government departments, parastatals and public utilities, non-government organisations and some private sector companies involved in development and finance.

  Its strategic purpose and focus of Vulindlela, is to address human and institutional capacity failure with a greater focus on the variety of core skills required, including finance, management and planning that are critical for the improvement of service delivery in South Africa and the region. Some of the training programmes on offer are: municipal and public finance management including budgeting, strategic planning and integrated development planning (IDP), project management, municipal governance, project finance, risk management, community leadership development, sustainable development, local government resource centre as well as the local government network, local economic development, supply chain management and procurement.

- **Agencies**

  The unit was established to assist and act on behalf of local and international development and funding agencies with the planning, programming and implementation of development initiatives. The main purpose of the Agencies Unit is to contribute to the achievement of the DBSA's vision by identifying, attracting and managing agencies that enhance the public sector's capacity to deliver and sustain development; and developing and testing innovative approaches which include best practices.

  The services rendered by the unit range from project management and advisory/research support to financial, treasury, logistical and other related assistance. Support is uniquely tailored to suit the specific requirements of a particular agency.

Sustainable Communities

The purpose of Sustainable Communities is to promote sustainable development. Sustainable development, is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. As such it requires the promotion of values that encourage consumption standards that are within the bounds of the ecologically possible and to which all could reasonably aspire. This programme focuses resources directly to communities to empower and capacitate them to engage in equal partnerships with government at all spheres, civil society structures and business to formulate their own development agenda and consequently access resources to ensure its implementation.

The initial programme was conceived through a process of consultation both internally and externally with the relevant stakeholders. A broader integrated approach for the Development Fund as part of the integrated strategy development, is currently being developed and the Sustainable Communities' preliminary approach has served as input into this process. The programme is not expected to grow substantially as the plan is to focus on the present sites and as one site is exited a new one is engaged.

Local Economic Development Initiative

The objective of the Division is to offer the poor rural and urban local economies within identified 26 priority regions integrative and facilitative solutions, to move local economic development plans into execution. The interventions are aimed at reducing critical capacity gaps in areas of development information, institutional development, strategy formulation and finance.

The Division will focus on leveraging infrastructure to drive economic development and develop turnaround strategies in line with Governments policies. It is envisaged that the highest development impact in rural communities will be achieved through integration with South Africa Operations, Siyenza Manje and Sustainable Communities and active engagement with development partners and stakeholders using existing financial and non-financial resources.

In addition to the current interventions in the poor urban and rural areas, the Division furthermore seeks to facilitate and execute programmes which can translate into sustained economic activity for rural communities. The targeted sectors include roads, railways, electricity networks, communication networks, water, sanitation and tourism. The Division will foster strong relations with existing and potential partners in both the public and private sectors, to tap on resources required to implement the rural development programmes.

1.7.4. Development Planning Division

The Development Planning Division plays a pivotal role in integrating and managing knowledge and expertise that enhances investment decisions, deepens the DBSA's development impact, supports national development planning and decision-making, and contributes to the public policy discourse on development.

The Division's purpose is embodied in the DBSA's vision (a *prosperous and integrated region, progressively free of poverty and dependency)*, and its work is aligned to the DBSA's Development Agenda and the broader development imperatives of National Government. The central premise of the Division's strategic direction is the pursuance of enhanced development impact in South Africa and the broader region.

While the core of the Division's work remains supporting and reinforcing the Bank's investment and capacity deployment operations, as a front-line (client-facing) Division it also has a critical role to play in furthering the Bank's development impact. For progress to be made in key areas of the DBSA's Development Agenda, it is necessary that the DBSA assist where challenges exist in Government's policy, planning and performance. The Division occupies a unique position, using its knowledge, in-depth understanding of state implementation and convening power as comparative advantages.

In the year ahead, the work of the Development Planning Division will pivot around three centres of excellence (Development Planning; Infrastructure Planning & Local Government). These strategic focus areas will have a number of sub-elements, constantly developing and evolving as priorities and imperatives emerge. The Development Planning Division is structurally organised within the following five functions:

Research

The vision of the research function is to be recognised as a leading institution for applied research within South Africa and the region. The unit focuses on devising quality research and development solutions for internal and external decision-makers. The strategic focus of the research function is embodied in its Research Agenda. This Research Agenda is collaboratively developed with internal and external stakeholders and focuses on work in the Division's centre's of excellence as well as an additional focus on issues of regional integration. The unit has at least thirty research projects running at any given time and relies on a research approach that ensures maximum input from clients and stakeholders to ensure relevance of outputs to clients' needs and existing discourse. The year's emerging research agenda is informed by engagements with stakeholders, including relevant Divisions of the Bank and multi-year projects that will require sustained focus in the new year.

In addition to its regular publication of the Development Planning series of publications and the academic journal *Development Southern Africa* the Division will publish two publications in the 2010/11 financial year (the Development Report and the Infrastructure Barometer). These DBSA flagship publications are intended to further position the Bank as a major knowledge-based development finance institution that contributes significantly to development solutions.

Policy

The Policy Unit undertakes the following functions:

- Policy analysis on issues that affect development in general and the Bank's mandate in particular.
- Design of policy development solutions, generally on request.
- Policy advocacy and advice to clients and stakeholders, as well as capacity building where required.
- Publication of knowledge products.

The strategic focus of the policy function in the year ahead will be to continue to providing critical support to Government and other stakeholders. Ongoing attention will be given to the "roadmap" process (similar to those undertaken in the health and education sectors in 2008) to develop roadmaps and turnaround strategy support for Local Government, Public Transport and Higher Education sectors. In addition to a range of smaller projects, the DBSA policy function will also direct more intense efforts to the coordination of the DFI Forum, in order to further strengthen this sector.

Information

The fundamental purpose of the Information component of the Division is to provide reliable and timeous information to firstly, support the Bank's ongoing business planning and decision-making processes and, secondly, to reinforce knowledge in the development community in support of socio-economic and infrastructure related interventions. The Division provides information support to national, provincial and local government and NGOs, as well as institutions in other countries in southern Africa for the purposes of policy-making and development planning.

The Division has adopted the following objectives for the Information unit's coming financial year:

- Develop new and strengthen existing information databases, models and systems to provide a full range of quantitative and qualitative information products and services that could facilitate scenario planning initiatives and development planning processes;
- Strengthen smart partnerships with other centres of excellence, primary data collecting institutions and clients in order to build human and institutional capacities required to analyse and interpret data and information for the planning and implementation processes of municipalities and other stakeholders.

The major challenge in the information environment remains the availability of up-to-date and quality data at municipal and sub-municipal levels. The scattered sets of data across Government departments and institutions remain a major impediment to effective scenario planning and consequently to policy alignment, development planning and implementation.

Advisory Services

The purpose of the Advisory Unit is to offer internal consultancy business support by promoting, developing and providing value-adding knowledge products and services. These include sector investment strategies that identify optimal targets and approaches for DBSA investment; best practice guides that inform operational execution within infrastructure sector projects; and advisory support in priority operational areas to build capacity internally and externally.

The Advisory Unit's strategic focus is the provision and ongoing development of internal specialist competencies and skills, in line with the DBSA's human capital development strategy, to enable the Bank to remain at the forefront of knowledge for infrastructure, Local Government and socio-economic development.

The Advisory Unit will embark on the following activities in the new financial year:

- Strategy formulation focusing on human settlements and climate change
- Specialist advice: Provide specialised advisory support in key infrastructure sector areas to internal Bank units and initiatives, as well as to associated external stakeholders and clients.
- Best practice: develop and promote best practice in priority operational areas, to build capacity internally and externally.
- Annual Knowledge Week that brings together critical stakeholders around a pertinent issue in the developmental space.

Planning

The DBSA, as a development organisation focused primarily on infrastructure, is by definition focused on long-term development. Hence, a perspective on South Africa's and the region's long-term development needs and prospects is a routine DBSA activity. In this way, the dedicated focus on Development Planning enables the DBSA to better target its activities and strengthen its own development impact. In an environment where DFI's need to sharpen their development impact, this internal knowledge and advisory role is of great importance.

Moreover, as an important DFI financing many State initiatives, the development planning knowledge and expertise of the DBSA aims to assist the State to become more effective, thus extending the DBSA development impact beyond the scope of its direct lending activities.

Major projects to be undertaken under this function include:

- Long term planning approaches (external support) - planning tools/methodologies.
- Approaches to improving government performance – systems, tools and methodologies.
- Support to the Planning and Performance Management and Evaluation Ministries.
- Implementation stock takes of government priority areas.

1.7.5. Group Risk Assurance (GRA)

In line with the Enterprise Risk Management (ERM) Governance Framework (refer Annexure 6.5), the GRA Division has capacity in three broad risk management areas, viz. credit risk, operations risk and market risk.

- **Credit Risk Management**

  Focused functions: credit analytics, pre-investment credit assessment and work-out and recovery. Responsible for:

  - Setting credit policy, procedures and standards.
  - Monitoring and reporting on the credit quality of the portfolio.
  - Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting and advising on all decisions.
  - Monitoring concentrations of exposure to counterparties, countries and sectors, formulating strategies to mitigate intolerable exposures and reporting to the corporate credit and investment committees on a regular basis regarding these exposures.
  - Reviewing compliance of business units with agreed exposure limits, including those for selected sectors and country risk. Providing regular reports to the Corporate Credit Committee, the Risk and Compliance Committee, the Audit Committee of the Board and the Board Credit and Investment Committee on the credit quality of the loan book as well as the corrective action taken.
  - Portfolio analysis, monitoring and reporting.

- Assessment of non-performing exposures, as well as formulating and implementing appropriate strategies and plans to maximise recovery of these exposures.

- **Operational Risk Management**

  Focused functions: operations risk management, regulatory compliance, legal risk management and Business Continuity Management and Disaster Recovery. Responsible for:

  - Formulating and implementing overall operations risk strategies, policies, systems and tools.
  - Embedding the systemic identification, measurement and management of Operational Risk exposure in the day-to-day operations of the DBSA.
  - Providing ongoing training in Operational Risk Management, as well as on the tools and software developed for this purpose.
  - Monitoring of and reporting on the DBSA Group's key Operational Risk exposures, noted in the Annexure 6.5.

  Regulatory Compliance

  Responsible for:

  - Facilitation of the identification of all relevant legislation, regulatory and statutory requirements and the implementation of appropriate controls and measures, to ensure compliance with the stipulations thereof, through the dedicated group compliance function.
  - Monitoring and reporting on overall levels of compliance with regulatory requirements.

  Business Continuity Management and Disaster Recovery

  Responsible for:

  - Coordination of a Business Continuity Programme to provide ongoing management, coordination and governance to ensure that all Business Continuity Management (BCM) activities are conducted and implemented in an agreed manner, and which achieves the DBSA's BCM and Crisis Management objectives set out in the BCM Strategy and Policy, as well as the business requirements defined through the Business Impact Assessment (BIA) process.

  The outcome of the Business Continuity Programme is to ensure that all clusters, divisions and business units within the DBSA Group have a current and exercised Business Continuity Plan in place, that will ensure that the operations of those areas, and ultimately the DBSA, will be able to adequately return to normal business operations within the given recovery time objectives, in the event of a disaster.

  Legal Risk Management

  Responsible for:

  - Maintaining adequately skilled internal resources centralised within a dedicated Group Legal Services function.
  - The use of standardised finance and security agreements for all of the DBSA's investment activities.
  - Centralising, with Group Legal Services, the drafting and/or review and/or vetting of all legal agreements and documents for and on behalf of the DBSA, as well as litigation disputes, irrespective of where and how they arise.
  - Formulating and implementing appropriate policy and procedures to ensure disciplined documents and records management.

- **Market Risk Management**

  Responsible for:

  - Developing and reviewing market risk policies in consultation and conjunction with the Treasury Division.
  - Regular interaction with the Treasury Division to monitor compliance with market risk policies and limits.
  - Providing independent analysis and commentary on new limits and market risk measurement methodologies proposed by the Treasury Division.
  - Formulating and developing market risk quantification methods and future capital allocations for market risk.

1.7.6. Human Capital and Technology

The Human Capital and Technology (HC&T) Division comprises of the Human Capital (HC) Group and the Infrastructure Group (IG).

The Division will be driving the following themes for the 2010/11 financial year, which is informed by the strategic work concluded during 2007 and the organisational changes during the past three years. These changes included amongst other, the increase in headcount of approximately 70% since 2007 to date, the increase in the attrition rate of around 12% and increase in corporate targets.

The themes therefore include:

- *Maintain and implement* the initiatives completed during the past three years.
- To *deepen the complexity* of current skills base through the outcomes of the skills audit determining our focus on skills development requirements.
- Continue to *build efficiency* in our infrastructure through systems and the physical environment.

Human Capital (HC) Group

The purpose of the HC Group is to build the capacity of the institution, in order to enable the DBSA to deliver on its vision, mandate and strategic goals.

Key projects

To achieve the above, the HC Group will focus on the following:

- Building specialised skills enabling delivery on organisational objectives: the current review of the work responsibilities will focus on building individual capability, which will align the assessment of future skills and competency requirements.
- Reward and recognition: the 20010/11 financial year will focus on the development and refinement of an integrated reward and recognition system, which include a continuous recognition scheme. Implementation of this system will commence in 2010/11.

Infrastructure Group

The purpose of the Infrastructure Group (consisting of Information Technology &Services and the Procurement Administration & Facilities Management) is the gradual achievement of corporate efficiency through the optimisation of technology, systems, the physical working environment and sustainability.

Key projects

To achieve the above, the Infrastructure Group will focus on the following:

- SAP implementation: continue with the implementation of the financial, loans, business partner, procurement and Human Resource modules.

- Effective automated processes: increase the efficiency of business processes through SAP.
- The extension of the Vulindlela Campus to accommodate additional capacity.
- Upgrade and securing of energy supply infrastructure. The implementation of the energy architecture will include the following:
  - Solar energy generation and battery storage system.
  - Increased diesel generator backup power capacity.

In summary, the Human Capital and Technology Division takes cognisance of the number of challenges faced with regard to the management of human capital and the provisioning of enabling processes and systems, and therefore is of the opinion that the above key focus areas for 2010/11 will continue to reengineer the human capital and infrastructure required to deliver on the DBSA's mandate and strategic objectives.

1.7.7. Group Strategy, Governance and Communication

The Group Strategy, Governance and Communication Division (GSGC) comprises of four clusters - Corporate Strategy; Corporate Secretariat; Communication and Marketing; and Knowledge Management & Entrepreneurship.

The Division is responsible for:

- Providing strategic guidance to the organisation through the formulation and revision of the corporate strategy;
- Providing strategic and governance support to the Board;
- Marketing and communicating the DBSA as a strategic player, contributor and agent for socio-economic development in the region; and
- Facilitating the integration of innovative and development knowledge across the organisation, region and continent.

The key strategic focus areas for this Division in 2010/11 are:

Corporate Strategy

The Corporate Strategy function is responsible for guiding and influencing strategic processes in line with the DBSA vision, mission and mandate. During 2010/11, focus will be placed on:

- Strategic guidance to the organisation through the formulation and revision of the corporate strategy and by disseminating, advising, supporting and facilitating strategic planning processes within the DBSA divisions.
- External environmental scanning to inform strategic organisational choices and allocation of resources, corporate performance monitoring, reviewing and quarterly reporting to the National Treasury and Board of Directors, amongst others.

Corporate Secretariat

The Corporate Secretariat function ensures that there is an interface between Board decisions and execution of the approved strategy by management. Accordingly, in 2010/11 the function will continue to be responsible for:

- Providing corporate governance support to the Board of Directors and executive management and ensuring that Board decisions and policies are effectively executed, monitored and reported.
- Assisting in the development and execution of the annual Board work programme through the coordination of meetings of the Board of Directors and that of its sub-committees.

Focus will be placed on conducting a comprehensive evaluation of the Board effectiveness, including its procedures and processes, to ensure effective decision-making and continual value add to the organisation. This will include developing a quality assurance framework for all Board submissions and corporate reports to be cascaded to the rest of the organisation. As part of ethics management, the Bank will pay particular attention to enhancing its capacity to monitor compliance with the Bank's conflict of interest management policies including the disclosure of outside business interests.

Communication and Marketing

The strategic focus of the Communication and Marketing cluster is to provide creative, competitive and innovative marketing and communication business solutions to the DBSA, through profiling (public relations and media liaison) and brand awareness.

In the 2010/11 financial year, the cluster will concentrate on positioning and maintenance of the DBSA brand as a leading infrastructure development and knowledge bank. This will be achieved through consistent print and electronic adverts relating to the Bank's priority themes and projects in South Africa and in SADC, to ensure systematic tracking of the effectiveness of campaigns and conduct a client perception survey on the Bank's image and implement recommendations based on the survey findings.

Special attention will be paid to corporate social investment funds, including sponsorships and donations, in line with its development mandate. Accordingly, support will be provided to well-deserving communities such as identified disadvantaged schools and providing basic infrastructure support such as toilets, classrooms, desks, books, libraries.

Knowledge Management and Innovation

The Knowledge Management and Innovation cluster is responsible for facilitating the integration of innovative and development knowledge across the organisation, region and content.

In 2010/11, the function will continue to ensure knowledge integration in the organisation through case studies, thematic groups and dialogues focus groups on Agriculture and Rural Development, Urban Development and Transportation, to deal with the growing complexity of issues around poverty, and real integration of the poor into the social and economic fabric of life. The Bank will continue its involved knowledge sharing in the continent through initiatives such as Knowledge Management Africa, in partnership with NEPAD and African Development Bank for example.

The Innovation and Entrepreneurship function will assist with innovation capacity creation within the DBSA as well as the provision of advisory services to relevant stakeholders. Attention will be given to the Enterprise Development strategy and the implementation thereof.

1.7.8. Treasury

Given the dynamic markets within which corporate and bank treasuries typically operate, high level treasury strategy is typically defined through a suite of policies within which specific shorter term strategies are carved out, based on forecasted business requirements and prevailing market conditions. Treasury is by its nature primarily inwardly focused due its business support role and as such, its business strategy is largely influenced and driven by the core business strategy and objectives. Although it is acknowledged that lending business is driven by external client needs and hence also exerts external influence on Treasury strategy. At the same time, due to the broad development mandate and objectives of the Bank and particularly as it relates to support of the Government's goals with respect to redressing municipal service delivery backlogs in particularly under-resourced municipalities. It is envisaged that Treasury will be required to play a major role in procuring cost effective funding and developing the products and services necessary to fulfilling this role, as well as in mitigating and managing the risks emanating from such.

Core business

The Treasury's core business role and objectives are captured in brief below:

- *Debt issuance/borrowing* – funding the operations of the Bank primarily through debt issuance in the domestic and international capital markets, as well as through private placements and credit lines with bilateral and multilateral development finance institutions.
- *Liquidity management* – managing the Bank's liquidity requirements in each of the two main lending currencies, South African Rand (ZAR) and United Stated Dollar (USD). ZAR liquidity in terms of current policy is split between two primary portfolios, viz. operational liquidity, which is aimed at ensuring sufficient cash to meet the Bank's near term requirements, and strategic liquidity, which in a normal yield curve environment is aimed at reducing the carry cost of liquidity through investment in longer duration liquid assets. USD liquidity is managed through maintenance of a sufficient reserve (currently South African Reserve Bank restricts this to a customer foreign currency account), balanced against the negative carry arising from USD liquidity. Global market liquidity constraints and associated funding costs, although much improved from the preceding twelve months, have nevertheless substantially impeded the Bank's ability to procure offshore funding on a cost effective basis, resulting in increased use of domestic funding for funding the Bank's primarily USD denominated lending in the rest of the SADC region. This requires increased use of cross currency swaps, to manage the resultant currency risk and hence increased focus on the potential counterparty credit risk inherent therein.
- *Trading and investment* – managing the balance of the Bank's net assets, i.e. liquid assets not invested in loans and equity investments. Currently this consists primarily of a portfolio of cash and near cash instruments, liquid government bonds, and to a lesser extent municipal and corporate bonds.
- *Market risk management* – measuring, monitoring and managing the bank-wide market risk exposures, particularly with respect to interest rate- and currency risk. Centralisation of market risk management divorces the complexities thereof from the Bank's lending operations and allows them to concentrate on their primary mandates, viz. development finance and the associated credit risk.
- *Capital adequacy* – monitoring and managing the Bank's capital adequacy in line with the Board approved capital adequacy framework and within regulatory constraints.
- *Funds Transfer Pricing and Capital Management* – managing the implementation of the funds transfer pricing framework in order to facilitate more accurate margin attribution and profit and loss reporting at Divisional and business unit level. Associated with this function, is the management of the Bank's capital with regards to the allocation of capital in support of credit risk assumed by the different lending Divisions and units.
- *Counterparty credit risk management* – managing the credit risk arising from Treasury investments, cash management and risk management (credit risk arising from 'in-the-money' derivative exposures).
- *Project finance advisory services* – providing support to the lending Divisions in structuring and risk mitigation.
- *Product development* – developing investment products to meet client requirements and managing the risks arising from such.
- *Supporting municipal debt market development* – developing products and services in support of the Government's objectives to develop a vibrant and liquid municipal bond market, in line with a strategic proposal approved by the Board.
- *Investor and Bank relations management* – managing relations with the Bank's capital market investors and lenders, as well as with banks providing services and products with respect to corporate banking, risk management, debt issuance and investment, among others.

Details on the 2010/11 financial year borrowing requirements are provided in the Borrowing Programme, included as Annexure 6.6. of this Corporate Plan.

1.7.9. Operations Evaluation and Monitoring

The DBSA is committed to instilling a culture of rigorous bank-wide monitoring and evaluation in order to maximise the developmental return on its project, programme and policy initiatives. Accordingly, the Operations Evaluation Unit (OEU) has an independent and impartial role reporting to the Board of Directors via the Board Credit and Investment Committee (BCIC). Independent evaluation is required to objectively assess development effectiveness and the long term sustainable impact of the DBSA's interventions distinct and apart from the projects, programmes and policies supporting such interventions. The BCIC's mandate will be extended in future to report on the development effectiveness of the organisation and strengthen the institutional focus on evaluation. In addition, the BCIC will also support the full DBSA Board in ensuring the organisation's activities and interventions achieve their desired development impact and effectively apply the financial and other resources of the Bank. The vision of the OEU is to execute its functions in accordance with internationally accepted principles of evaluation of development assistance, including impartiality, independence, credibility, usefulness and partnership.

The scope of evaluation of the OEU would encompass all aspects of client facing interventions. The OEU will execute its activities based on a two-tier approach in terms of evaluating implementation performance and assessing developmental effectiveness; emphasising the following in terms of operational evaluation:

- Instil a culture of Bank-wide monitoring and evaluation through intensifying engagement of OEU with project, programme and policy specialists
- Prioritise the developmental mandate of the DBSA within the operations
- Ensure ownership through effective feedback on performance (developmental return)
- Accelerate the application of lessons learnt in the ongoing DBSA operations
- Establish an accountability framework throughout the entire project life cycle
- Build a database of institutional memory (Project Performance Management System (PPMS)) that enables easy access
- Manage and establish key partnerships with other development institutions and countries to enable a knowledge transfer and technology sharing

The nature of reporting from the OEU will include, among others, an independent evaluation of the DBSA and Development Fund interventions, inter alia:

- Technical assistance and other grants
- Lending
- Knowledge transfer
- Policy intervention
- Agency functions

Since the 2009 financial year, the DBSA has assigned significant additional resources to portfolio management which is embedded within the lending activities of the Bank. The self evaluation function of the portfolio management units will be enhanced to include the monitoring of development impact indicators and application of lessons learnt as part of all project submissions. While the portfolio management function fulfils a self evaluation role; independent verification by the OEU is required in order to establish the effectiveness of the DBSA's developmental impact.

The accountability framework of the DBSA will be established and supported through the self evaluation function within the divisions of the Bank and the independent role of the OEU. The accountability framework and focus on monitoring and evaluation will be transmuted into the Divisional scorecards. The OEU will continue to review and align the effectiveness of its evaluation policies and procedures based on internationally accepted guidelines as applicable to a leading African DFI.

1.7.10. Finance

The Financial Division maintains effective financial management, forecasting capabilities and financial analysis of the Bank and its business divisions. It aims to leverage the Bank's financial strength innovatively, as it seeks to broaden and deepen its development impact, without compromising its long term financial sustainability.

As part of its strategy, the Bank has targeted an accelerated investment plan for the next three to five years, supported by a further capitalisation by its shareholders. In support of the Bank's accelerated objectives, the Finance Division focuses on the following key objectives:

- Proactive and regular forecasting and scenario planning.
- Value added, accurate and timely financial reporting.
- Interpreting and analysing key financial information current and forecasted, and ratios to assist in financial decision-making. Financial performance and financial sustainability targets include key ratios, which are reflected in the projected Balance Sheet and Income Statement and attached in section 4 of this document.
- Planned implementation of a new Financial, Loans and Procurement system (SAP).
- Implementation of an expense-management strategy, as a tool for further financial analysis, decision-making and financial discipline.

2. Operating environment

Context and Outlook

The global financial crisis impacted the world at a time when South Africa and other African countries were consolidating a period of much improved economic growth and, were both well positioned and poised to steepen their long-term development trajectory.

Prior to the global financial crisis, Africa's economic performance was improving with many countries drawing benefit from better governance, better economic management and strong international demand for commodities. Many of the resource rich economies in Africa attracted international and trade interest to the region. Economic and social development prospects were brighter than ever before.

Although South Africa experienced a record period of economic expansion over the 2000's, the country's effective shorter-term growth rate ceiling was breached and skills and infrastructural bottlenecks began to assert themselves and hamper growth. Price pressures and negative cyclical developments in the household and export sector began to take the momentum off the economy. Into this situation, the global financial crisis and ensuing global recession intruded. The South African and regional economy were driven into a sharp, deep recession characterised by weaker exports, a collapse in domestic consumer spending, slowing capital expenditure, rising unemployment and, income pressures on the fiscus at a time when the need for contra-cyclical public spending was rising.

Despite growing global optimism that the recession has bottomed-out and a general recovery has begun, there is concern among many forecasters that excessive confidence may be misplaced. In many countries, structural economic problems remain and any excessively strong economic rebound could well prove unsustainable in the medium term. Furthermore, persistent vulnerabilities in the global financial sector continue to have implications for financial markets and thus the real sector of the economies of the world. However, some resource rich countries in Africa - including South Africa, are enjoying the benefits of growing economic linkages with the rapidly growing commodity hungry economies of the East. It is these economies which are leading the global economic recovery. It is realistic to expect the South African and regional economy to benefit from improved commodity exports, improved inwards investment, hosting of the 2010 FIFA World Cup, and, some easing in availability of finance globally.

In South Africa, although the prospect of significant increases in electricity prices and security of utility supply is a major medium term challenge to growth, the year ahead should see improvement in exports, some recovery in consumer demand, continued high levels of public sector capital expenditure, continued growth in government social expenditure, and a stabilisation and beginnings of recovery in private sector investment. Despite probable challenges on the inflation front, the likely vulnerability of the nascent economic recovery to setbacks means an upturn in the interest rate cycle is unlikely in the year ahead.

Taking a longer term view sustaining development momentum in South Africa and more widely in the region, is critical from a social, political and economic perspective. Of pertinence to the DBSA is the fact that building momentum in economic and social infrastructure investment is the key to sustaining developmental progress. This requires major investment in utilities and other infrastructure of both national and multi-country regional character.

Infrastructure spending needs in South Africa are in both absolute and relative terms large. Decades of underinvestment in public investment on economic infrastructure in the latter stages of the apartheid era and the early years of the new democracy, set the scene for renewed emergence of infrastructure bottlenecks as the economy begins growing again. The historical legacy of poverty and inadequacies in social infrastructure in South Africa - despite significant progress in expansion of municipal service provision to poor households, means there are still major shortfalls to address.

Among the operating challenges likely to be experienced by the DBSA in the year ahead are:

- Continued pressure to deliver greater developmental impact and effectiveness to meet rising stakeholder expectations in a changing local political and economic environment.

- Accessing adequate capital and lines of credit in financial markets still affected by the global financial crisis.
- Minimising costs of funding in, local and international financial markets where risk aversion and market tightness are still issues.
- Managing potential volatility and other effects of uncertainty in local and international currency and capital markets.
- Managing exposure to higher borrower risk in the local economic downturn.

Pinpointing challenges in funding infrastructure needs in South Africa

Current social, economic and political dynamics in South Africa lend urgency to the need to quicken the pace of infrastructure investment. In the case of economic infrastructure, it is imperative that infrastructure constraints on growth are relieved as rapidly as possible. Higher growth is needed to create more jobs and higher incomes so that poverty and inequality can be reduced at a faster pace.

The ability of Government to fund public expenditure programmes depends on such factors as the size of the national economic base for revenue collection, the level of tax rates and economic footprint of the tax system and its capacity to borrow capital in the financial markets. In South Africa, the economic slowdown has impacted on the revenue base of the public sector and Government revenue is coming in below budget. The deficit to be funded by borrowing is larger than originally estimated. This outcome erodes fiscal headroom and impairs the capacity to accelerate the pace of service delivery and increase the frontloading of spending on economic growth-enabling infrastructure.

Given anticipated conditions, Government revenue is likely to remain under pressure. However public spending on social assistance and on infrastructure investment will need to be sustained on both structural and contra-cyclical grounds. Although conservative fiscal policy of past years created capacity for more public debt, this headroom can be quickly absorbed. Macro-economically, a sustained rising trend in public debt relative to GDP, is not sustainable in the medium to longer term. In these circumstances the need to sustain the financing of new social infrastructure and public and private sector growth-enabling assets, places particular financing challenges before financial institutions more broadly and, development finance institutions in particular.

The DBSA has developed two proposals to engage with the financing and other challenges posed by current conditions. One proposal focuses on a new capital structure for the Bank and the other with innovative approaches to supporting Government in addressing South Africa’s developmental needs.

An additional challenge in the DBSA operating space is the lack of institutional capacity in key public sector institutions at the infrastructure service delivery interface. The problem is especially acute on lower tiers of Government. Through existing initiatives such as the Siyenza Manje Programme and Vulindlela Academy, the Bank is increasing its efforts to assist more under-capacitated municipalities by providing technical assistance and training in priority skills. Furthermore the Bank is exploring ways to address infrastructure maintenance challenges, as detailed in this Corporate Plan.

3. DBSA 2010/11 Group Balanced Scorecard

3.1. Balanced Scorecard key performance indicators

The 2010/11 Balanced Scorecard (BSC) builds on the 2009/10 Scorecard that resulted from a process of analysis, strategy refocusing and institutional regeneration, designed to ensure the organisation is strategically aligned and well positioned to execute its strategy and related initiatives. In addition, the BSC takes into account the effect of the revised capital structure as agreed with the Minister.

The BSC is only one of a number of strategic management tools that the Bank uses to direct its efforts and manage performance. The discipline of the BSC system is being complemented by the activity-based framework and culture framework, which outlines the imperative for the DBSA to be a pioneering, responsive, effective, capable, committed and ethical institution.

It has also identified a set of desirable cultural traits for the organisation, a set of desirable employee attributes, and the type of working environment required for DBSA staff to live and manifest the mission and new culture of the organisation.

The DBSA has developed three strategic perspectives that inform the organisation's KPI's and these will guide delivery in 2010/11. These three strategic perspectives are:

- Development Impact (weighted at 56 percent).
- Sustainability, both developmental and financial (weighted at 24 percent).
- Organisational capability (weighted at 20 percent).

DBSA 2010/11 Group Balanced Scorecard

In setting the BSC targets, the DBSA considered the themes of the DBSA Development Agenda and priorities based on the environment, internal resources and government's priority areas. Also:

- These priorities are informed by DBSA research (Infrastructure Barometer).
- The Long-term Development Path guides how the DBSA needs to execute these.
- Continued proactiveness of the DBSA to be able to deal with these challenges.

The 2010/11 Group Balanced Scorecard for the 2010/11 through 2012/13 financial years are:

DBSA 2010/11 Corporate Balanced Scorecard targets

DEVELOPMENT IMPACT PERSPECTIVE (56%)							
Refer note	**Key performance measure**	**Weight**	**Actual 2008/09**	**Projected 2009/10**	**Target 2010/11**	**Target 2011/12**	**Target 2012/13**
1	Siyenza Manje Programme						
	- MIG/CAPEX expenditure	2%	R4.8 billion	R7 billion	R7 billion	R7.7 billion	R8.5 billion
	- Number of projects completed	3%	769	900	1 000	1 000	1 000
2	Vulindlela Academy						
	- External learners trained through Vulindlela	4%	5 259	9 800	10 000	10 000	10 000

Notes to the BSC

1) Programme under review (NT/COGTA). Structure and size may change.
   - Key focus - improve quality of progress – key evidence will be the number of projects completed.
   - No new projects to be added.
   - No increase in deployees.
   - No increase in number of municipalities under management.

2) Focus on quality
   - Targeted training – focus on Siyenza Manje covered municipalities.
   - Improve quality of both choice of training programmes and deployment of skills learned.
   - Target limited to 10 000. Quality measure to be developed for 2010/11 financial year and to be added by 30 June 2010.

DEVELOPMENT IMPACT PERSPECTIVE (56%) (continued)							
Refer note	**Key performance measure**	**Weight**	**Actual 2008/09**	**Projected 2009/10**	**Target 2010/11**	**Target 2011/12**	**Target 2012/13**
3	Agencies						
	- Effective compliance with Agency Programme life cycle	2%	Not a measure	Not a measure	90%	90%	90%
	- Value of infrastructure delivered	2%	Not a measure	Not a measure	R115 million	R130 million	R150 million
4	Sustainable Communities						
	- Value of projects referred for funding	3%	Not a measure	Not a measure	R900 million	R1 billion	R1.1 billion
5	Operations and maintenance (Pilots)						
	- O&M Plans developed and implemented	2%	Not a measure	Not a measure	12	24	36
	- Number of SMME's benefiting through O&M	2%	Not a measure	Not a measure	15	30	45

Notes to the BSC

3) Key focus on outputs and outcomes:
   - Effective compliance with Agency life cycle:
     - Contracting.
     - Monitoring and implementation.
     - Portfolio management.
     - Close-out and completion.
   - Infrastructure delivered through donor funds.

4) Focus on outputs and project completion. Need for crowding in donor funding and private/public funding to poor communities outside local authority structured regime

5) New intervention in pilot phase as presented and agreed at Board strategy session and DF Board. Outputs - new industry in maintenance, job creation and SMME creation. There are dependencies (COGTA/NT agreement to enhance adoption in local authorities) and subject to change in relevent legislation and budget allocation.

DEVELOPMENT IMPACT PERSPECTIVE (56%) (continued)							
Refer note	**Key performance measure**	**Weight**	**Actual 2008/09**	**Projected 2009/10**	**Target 2010/11**	**Target 2011/12**	**Target 2012/13**
6	Total Rand value of disbursements	13%	R9.3 billion	R10.0 billion	R13.6 billion	R15.1 billion	R17.00 billion
7	Share of Rand **value** disbursements in South Africa to identified public sector intermediaries (SA OPS)						
	- Municipal: High capacity	2%	24.5%	19%	21%	31%	29%
	- Municipal: Medium capacity	2%	12.8%	23%	19%	11%	10%
	- Municipal: Low capacity	2%	1.9%	3%	4%	8%	9%
	- Non-municipal	2%	34.7%	37%	38%	35%	38%
8	Leveraging MIG in favour of low capacity municipalities (SA OPS)						
	- Rand value of MIG leveraged in favour of low capacity municipalities	N/A	Not a measure	Not a measure	To be determined	To be determined	To be determined
	- Ratio of DBSA funding to MIG funds leveraged	N/A	Not a measure	Not a measure	To be determined	To be determined	To be determined
9	**Number** of projects in favour of low capacity municipalities (SA OPS)	2%	Not a measure	Not a measure	20% of the total number of projects committed	20% of the total number of projects committed	20% of the total number of projects committed

Notes to the BSC

6) Significant increase compared to yearly average. Key dependency on cost effective liquidity. May increase exponentially if origination agenda is successfully finished.

7) Focus on widening distribution per revised market segment and sector based strategy. The South Africa Operations Division's current portfolio mix and pipeline forecast anticipates a lower disbursement split for 2010/11 consequently the disbursements mix will gradually increase over the period as defined in the MOU with National Treasury.

8) New interaction as approved at board strategy session. Entails DBSA segmenting MIG's as form of bridge financing over the Medium Term Budget period (generally three years).

9) No comments

Refer note	Key performance measure	Weight	Actual 2008/09	Projected 2009/10	Target 2010/11	Target 2011/12	Target 2012/13
	DEVELOPMENT IMPACT PERSPECTIVE (56%) (continued)						
10	Rand value of municipal budgeted operating and maintenance expenditure funded (SA OPS)	N/A	Not a measure	Not a measure	Not a target	To be determined	To be determined
11	Total Rand value of grants disbursed	3%	R117 million	R90 million	R165 million	R188 million	R207 million
12	Projects originated in South Africa						
	- Number of projects originated approved	2%	Not a measure	Not a measure	6	To be determined	To be determined
	- Number of projects originated launched	2%	Not a measure	Not a measure	3	To be determined	To be determined
13	Number of jobs created, both temporary and permanent	2%					
	South Africa						
	South Africa Operations		37 700	53 600	57 000	63 000	71 000
	Development Fund		18 800	42 000	45 000	50 000	55 000
	Rest of SADC		Not a measure	Not a measure	21 000	23 000	25 000
14	Number of households benefiting from access to basic services	2%					
	South Africa						
	South Africa Operations		253 000	364 000	442 000	547 000	576 000
	Development Fund		415 358	211 000	225 000	248 000	270 000
15	Customer and partner satisfaction	2%	Rating of 4	Rating of 4	Rating of 4	Rating of 4	Rating of 4

Notes to the BSC

10) Subject to relevent MFMA legislation changes and budget allocation.

11) Includes grants disbursed by DBSA and Development Fund.

12) Project origination criteria: minimum project value of R100 million and project approved by relevent Board Committee.

13) No comment.

14) International Division does not currently fund basic services infrastructure projects.

15) No comment.

SUSTAINABILITY PERSPECTIVE (24%)							
Refer note	**Key performance measure**	**Weight**	**Actual 2008/09**	**Projected 2009/10**	**Target 2010/11**	**Target 2011/12**	**Target 2012/13**
16	Maintain corporate credit rating	3%	Corporate credit rating maintained in line with sovereign rating (Rating of 4)	Corporate credit rating adjusted in line with sovereign rating (Rating of 4)	Maintain corporate credit rating in line with sovereign rating (Rating of 4)	Maintain corporate credit rating in line with sovereign rating (Rating of 4)	Maintain corporate credit rating in line with sovereign rating (Rating of 4)
17	Sustainable earnings	5%	R871 million	R820 million	R918 billion	R987 billion	R1 102 billion
18	Cost-to-income ratio	5%	37.6%	41.8%	41.0% (45% max)	41.6% (45% max)	41.7% (45% max)
19	Non-performing book debt as % of total book debt	5%	5.4%	5.4%	6% (max)	6% (max)	6% (max)
20	Quality of policy engagement and research						
	Research						
	Quality of research	2%	Rating of 4.4	Rating of 4	Rating of 4	Rating of 4	Rating of 4
	Policy						
	Dissemination of recommendations to key stakeholders	2%	Not a measure	Not a measure	Rating of 4	Rating of 4	Rating of 4
	Adoption of recommendations	2%	Not a measure	Not a measure	Rating of 4	Rating of 4	Rating of 4

Notes to the BSC

(16) to (19) – No comments

20) Value judgement based on criteria set by KSC and recommended to Board.

ORGANISATIONAL CAPABILITY PERSPECTIVE (20%)							
Refer note	**Key performance measure**	**Weight**	**Actual 2008/09**	**Projected 2009/10**	**Target 2010/11**	**Target 2011/12**	**Target 2012/13**
21	Value of spend on staff training	5%	Not a measure	Not a measure	R14.8 million	R16 million	R17.3 million
22	Level of staff engagement (staff survey)	5%	Not a measure	Not a measure	Rating of 3.6	To be reviewed based on 2010/11 results	To be reviewed based on 2010/11 results
23	% of unfilled vacancies at year-end as a % of total staff (Corporate wide)	3%	12%	9%	10%	10%	10%
24	Staff satisfaction with internal knowledge management	2%	Rating of 3.9	Rating of 3.9	Rating of 4	Rating of 4	Rating of 4
25	Market perception of the Bank's image in the development finance scene	5%	Rating of 4.3	Rating of 4	Rating of 4	Rating of 4	Rating of 4

Notes to the BSC

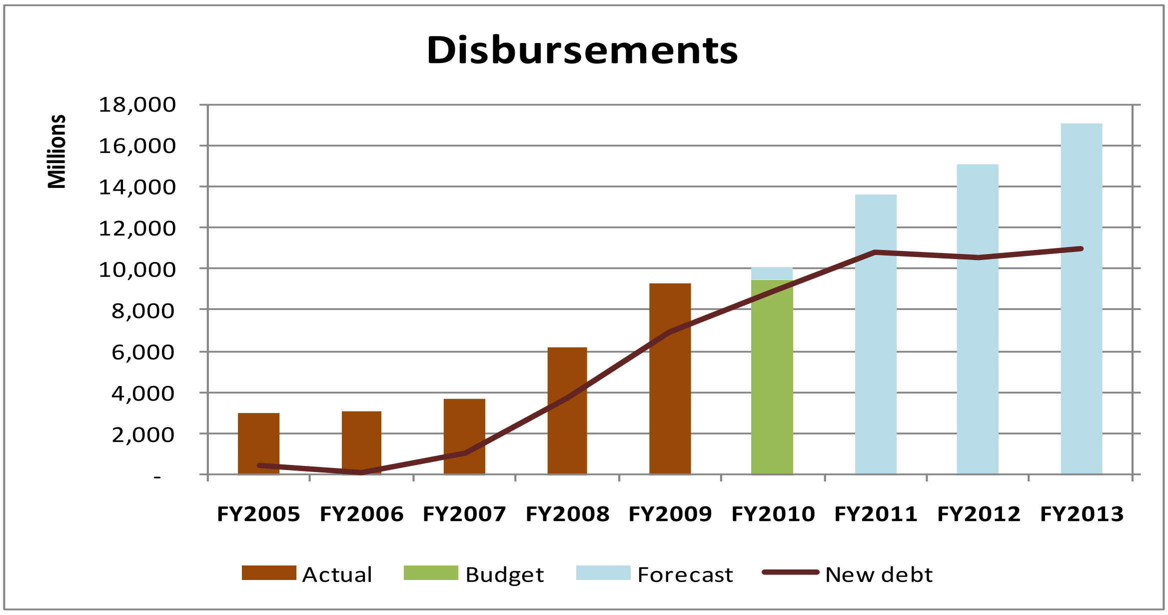
21) Targeted training of staff based on needs identified by management. The value is calculated at 3% of the total cost-to-bank.

(22) to (25) – No comments

4. DBSA finance plan

4.1 Financial overview

Over the past three years, the Bank's disbursements have reached record highs, in line with its shareholder requirements, as illustrated in the graph below.



The Bank will continue to implement the strategy of increasing investment in its mandated development impact interventions, despite the current economic conditions. Plans on the revised capital structure, through increasing the callable capital of the Bank have been finalised and the financial projections below takes into account the requirements of the MOU with National Treasury.

It should be noted that previously the annual internally generated surpluses were sufficient to maintain the gearing ratio when funding the growth in disbursements. With the current exponential growth in disbursement projected, a greater proportion of the growth will have to be funded out of borrowed funds rather than internally generated surpluses than in the past, as the growth rate that can be sustained with the internally generated surpluses has been surpassed. The successful implementation of the financial plan is therefore dependent on the following:

- Timely implementation of delivery of the revised capital structure by National Treasury.
- Availability of liquidity in the market at affordable rates.

In preparing the three-year financial plan of the DBSA, the main economic conditions impacting the budget include:

- Volatility, depth and pace of the interest rate and foreign exchange rate movement.
- The market anomalies in the medium and long term swap and government bonds.
- Increase in impairments in line with growth in loan book and potential defaulting of large clients of the Bank.

Financial plan

The salient features of the finance plan for the financial year 2010/11 to 2012/13 include:

- Net interest income of R1,8 billion (2010/11) is expected to grow by approximately 8.5% per annum toward 2012/13, based on projected loan book and disbursements, and taking additional liquidity requirements into account. The result is an expected drop in the net interest margin from 41.6% (2010/11) to 37.7% (2011/12) and to 33.8% (2012/13), due to a number of factors, including:
  - The effect of the higher gearing: projected growth in disbursements as a result of an increased demand for infrastructure funding, which results in increased gearing.
  - Equity investments which does not yield interest income, but rather capital gains and dividends.
  - Interest margin squeeze as a result of the current economic environment as well as lower lending rates to municipal clients.
  - High cost of funding due to the general decrease in the availability of liquidity in the market.

  However, pricing strategies and Divisional management policies are being adopted to manage the margins within acceptable levels. Furthermore, various initiatives for lowering of the Bank's cost of funding in support of the projected disbursements growth are being pursued. These include the issuing of preference shares and further diversification of the Bank's funding sources.

- The expense budget of R803 million (2010/11) is based on activities and initiatives necessary to increase development impact. Staff costs, which include remuneration, recruitment and training, are based on the assumption that all outstanding vacancies and new headcount are filled during 2010/11, and no new headcount is created. Expenses are projected to grow by 9 % per annum between 2010/11 and 2012/13 based on inflationary adjustments.
- The cost-to-income ratio is projected to remain around 41% to 42%, below the maximum ceiling of 45%.
- Before taking into account the impact of the revised capital structure of the DBSA, the debt to equity ratio (excluding callable capital) is projected to reach 268 % by 2012/13, surpassing the maximum of 250% in terms of the Regulations to DBSA Act. This is mainly as a result of the requirement to source funds from the market to meet disbursement demand, as indicated in the graph above. The current implementation of the revised capital structure of the Bank (increase in callable capital and including callable capital in the gearing ratio calculation) as agreed with the Governor of the DBSA, will enable the Bank to remain below the statutory limit of 250%.
- Developmental assets (development loans and equity investments) are projected at R48.8 billion in 2010/11, with a further growth of 19.9% per annum by 2012/13. Total assets of R57.3 billion (2010/11) are expected to grow by approximately 9.1% per annum over the next two years.
- Financial market liabilities are projected to reach R37.7 billion in 2010/11 with a further growth of 22.7% per annum by 2012/13.
- Return on average equity is projected to remain managed at approximately 8.3% by 2012/13. This is largely affected by the higher gearing, lower net interest margins, conservative estimates of equity income, and increases required in operating and developmental expenses.

The financial projections are reflective of the combined effect of increased development spending and investment, as well as the preservation of the Bank's long term financial sustainability. This balance remains a priority, and the continuous challenge will be to maintain the financial ratios in order to provide scope for meaningful spending on desired development impact initiatives. Proactive and regular forecasting and scenario planning will play a vital role in the financial plan.

Borrowing plan

The fundamental basis for the Bank's borrowing strategy is no different from that of any other financial institution, viz. to:

- Ensure the timely provision of sufficient funds in the appropriate currency and at optimal cost.
- Fund the Bank's development finance operations.

Borrowing needs are determined from cash flow forecasting, a large element of which is subject to much uncertainty, if not in size, then certainly with respect to timing. Further, given the dynamic nature of capital markets both with respect to the prevailing interest rate environment from time to time, and the constant flux in debt securities demand-supply imbalances, it follows that any borrowing strategy, whilst driven by a long term high level policy framework, would always be relatively short-term in focus. The Bank's borrowing strategy is therefore underpinned by an evolving short term (typically 12 months) strategy taking into account prevailing and expected market conditions as well as the Bank's Balance Sheet structure from time to time.

With the Bank's expanding role in the lower end of the municipal market, borrowing costs require careful management to ensure that the Bank is able to finance development at affordable cost, and without an unsustainable reduction in margins. At the same time the exponential growth in demand for development finance envisaged by the Bank, requires a commensurate growth in its borrowing needs and hence proactive efforts to ensure continued access to sufficient and cost effective funding in order for the Bank to honour its growing commitments and avoid the liquidity pitfalls that threatened the survival of the investment banking sector during the recent global market meltdown.

To this effect, a number of initiatives are considered key to securing the DBSA as a non deposit taking institution and to ensure access to sufficient liquidity at optimal cost. These include:

- Forging greater and closer cooperation with the multilateral development finance institutions and pension funds – with a view to raise debt funding on a structured bilateral basis beyond the admittedly keen support already enjoyed through the PIC.
- Consideration of redeemable preference shares and structured notes aimed at accessing investors beyond those already actively investing in the Bank's debt securities.
- Further diversifying the Bank's funding sources through offshore private placements, syndicated borrowing, and public issuance when deemed opportune.
- Replacing a portion of current disbursements over the next two years with higher risk vs. return investments.

At the same time, both in response to increasing demand from bond investors in the face of the DBSA's increasing debt issuance and with a view to reducing funding cost over the medium term, a viable market making solution is currently being pursued. Given both investor and state owned enterprise's feedback on the ineffectiveness of the banking panel model for non-government issuance, the most viable solution is likely to involve at least a defined and limited market making role for the Bank as issuer. These issues are under review and the National Treasury will be consulted once more definitive alternatives have been developed.

The detailed borrowing plan for the 2010/11 financial year, together with the projected borrowing requirements for the subsequent two financial years are provided in Annexure 6.6 to this Corporate Plan.

Key funding risks

The following points capture some of the key risks faced by the Bank in the current environment. Potential mitigating measures will continue to be explored in an effort to ensure the Bank's longer term sustainability and success in its rapidly deepening development role at the same time.

- Funding cost – remains high, placing pressure on margins.
- Increased demand for long term floating rate loans against subdued investor demand for similar debt securities – creates asset-liability mismatches.
- Increased liquidity cost – placing pressure on margins and earnings.
- Foreign currency risk – currency volatility with respect to net open equity positions poses revaluation risk.
- High inventory cost of borrowing relative to current market rates.

Dividend policy

As agreed with the Shareholder no dividends are declared by the DBSA.

Procurement policy

In line with the requirements of the Public Finance Management Act (1999), the Bank has developed and implemented a procurement policy that also addresses the BEE requirements set out in the government policy and relevant legislation. The existing policy was submitted to National Treasury as part of the 2007/08 Corporate Plan.

4.2 Financial forecast

DEVELOPMENT BANK OF SOUTHERN AFRICA
PROJECTED BALANCE SHEETS (R'million)

	2009 Actual	2010 Forecast	2011 Budget	2012 Projection	2013 Projection
Cash & cash equivalents	2,475	3,357	3,076	3,369	3,467
Investment securities	2,555	2,395	2,395	2,395	2,395
Resale agreements	1,362	1,062	1,062	1,062	1,062
Derivatives	1,404	1,143	1,028	925	833
Equity investments	2,548	3,116	4,008	5,223	6,717
Development loans	29,449	35,454	44,824	54,333	63,439
PPE	389	455	608	631	654
Other assets	200	313	328	345	362
Total Assets	**40,382**	**47,293**	**57,329**	**68,284**	**78,928**
Medium- to Long-term debt	20,825	27,417	36,519	46,342	55,594
Repurchase agreements	1,160	1,160	1,160	1,160	1,160
Derivatives	420	66	63	60	57
Other liabilities	741	778	817	858	900
Liabilities	23,146	29,421	38,559	48,420	57,712
Equity	3,992	3,992	3,992	3,992	3,992
Reval - land & buildings	198	198	198	198	198
Loan risk	935	1,092	1,381	1,674	1,954
Fair value & hedging reserves	(8)	11	11	11	11
Retained earnings	12,117	12,579	13,189	13,990	15,061
Equity	17,236	17,873	18,771	19,865	21,217
Total Equity & liabilities	**40,382**	**47,293**	**57,329**	**68,284**	**78,928**
Balance sheet ratios:					
Debt / equity (excl callable capital)	130.0%	160.3%	201.1%	239.4%	267.8%
Debt / equity (incl callable capital)	101.7%	102.8%	111.8%	119.3%	137.8%
Return on average assets	4.3%	2.1%	2.3%	2.3%	2.3%
Return on average equity	9.6%	5.2%	6.5%	7.3%	8.3%

DEVELOPMENT BANK OF SOUTHERN AFRICA
PROJECTED INCOME STATEMENTS (R'million)

	2009 Actual	2010 Forecast	2011 Budget	2012 Projection	2013 Projection
Interest income	3,374	3,626	4,377	5,250	6,329
Interest expense	(1,696)	(2,019)	(2,558)	(3,273)	(4,188)
Net interest income	**1,677**	**1,607**	**1,819**	**1,977**	**2,141**
Net fee income	84	113	102	103	118
Other income	17	40	40	45	48
Operating income	1,779	1,760	1,960	2,125	2,307
Impairment	(238)	(205)	(239)	(254)	(243)
Operating expenses	(669)	(735)	(803)	(884)	(962)
Personnel cost (% increase)	(425)	(479)	(521)	(567)	(619)
Other expenses (% increase)	(238)	(239)	(266)	(290)	(316)
Depreciation (% on book value)	(7)	(17)	(17)	(26)	(27)
Sustainable earnings	**871**	**820**	**918**	**987**	**1,102**
TA grants	(82)	(50)	(90)	(98)	(107)
DF grant	(160)	(300)	(300)	(322)	(360)
Net "cash" surplus	629	470	527	567	635
Revaluations	573	389	370	528	717
Forex *	224	(239)	-	-	-
Net profit	**1,426**	**619**	**898**	**1,094**	**1,352**

** Assumed a constant exchange rate to eliminate foreign exchange differences for projection purposes*

Income statement ratios

Net interest margin	49.7%	44.3%	41.6%	37.7%	33.8%
Cost to income (cash)	37.6%	41.8%	41.0%	41.6%	41.7%
Cost to income (incl revals & impairments)	31.7%	37.8%	38.4%	36.8%	34.6%

DEVELOPMENT BANK OF SOUTHERN AFRICA
PROJECTED CASH FLOW STATEMENTS (R'million)

	2009	2010	2011	2012	2013
	Actual	**Forecast**	**Budget**	**Projection**	**Projection**
Profit for the year	1,426	619	898	1,094	1,352
Adjusted for:	(1,997)	(1,217)	(1,583)	(1,849)	(2,169)
Depreciation	7	17	17	26	27
Grants	242	350	390	421	467
Dividends	(10)	(32)	(40)	(45)	(48)
Forex (gains) / losses	(573)	(389)	(370)	(528)	(717)
Reval (gains) / losses	(224)	239	-	-	-
Impairments	238	205	239	254	243
Net interest income	(1,677)	(1,607)	(1,819)	(1,977)	(2,141)
	(571)	(598)	(685)	(754)	(817)
Change in other assets	(228)	(112)	(16)	(16)	(17)
Change in other payables	55	37	39	41	43
	(744)	(673)	(662)	(730)	(791)
Interest & dividends received	3,384	3,658	4,417	5,295	6,377
Interest paid	(1,696)	(2,019)	(2,558)	(3,273)	(4,188)
Net cash from operating activities	**943**	**966**	**1,197**	**1,292**	**1,398**
Cash flows from development activities	**(6,275)**	**(7,560)**	**(10,411)**	**(10,772)**	**(10,502)**
Development loan disbursements	(8,792)	(9,659)	(13,164)	(14,517)	(16,356)
Development loan principal repayments	3,068	2,863	3,554	4,754	7,007
Equity investment disbursements	(309)	(414)	(411)	(588)	(687)
Equity investment disposals	-	-	-	-	-
Grants paid	(242)	(350)	(390)	(421)	(467)
Cash flows from investing activities	**423**	**251**	**(169)**	**(50)**	**(50)**
Purchase of PPE & intangibles	(76)	(83)	(169)	(50)	(50)
Movement in financial market assets	499	334	-	-	-
Cash flows from financing activities	**4,907**	**7,224**	**9,102**	**9,823**	**9,252**
Financial market liabilities repaid	(1,992)	(1,649)	(1,698)	(677)	(1,748)
Financial market liabilities raised	6,898	8,873	10,800	10,500	11,000
Movement in cash & cash equivalents	**(2)**	**882**	**(281)**	**293**	**98**
Opening cash & cash equivalents	2,477	2,475	3,357	3,076	3,369
Closing cash & cash equivalents	**2,475**	**3,357**	**3,076**	**3,369**	**3,467**

5. DBSA new initiatives

Following scenario planning, the DBSA identified several initiatives aimed at enhancing the DBSA's support to Government and improve the overall Bank's performance. Key initiatives under investigation include:

- Municipal operations and maintenance support.
- Front-loading of Municipal Infrastructure Grants.
- Rural development support through local economic development initiative.
- Support for the energy sector.
- Support for the health sector.
- Proposed restructuring of the DBSA International Division.

These initiatives are further detailed below:

Municipal operations and maintenance support

Siyenza Manje is the current the DBSA flagship intervention programme that seeks to improve the capacity of municipalities to unblock performance constraints that hamper sustained service delivery. The programme provides assistance mainly to low capacity municipalities through the deployment of technical experts in the fields of planning and engineering and professional experts in finance.

The findings of the Siyenza Manje programme indicated that:

- There is a huge operations and maintenance (O&M) backlog of municipal infrastructure.
- Emphasis in recent years has been on the roll out of new infrastructure to municipalities, with little regard for O&M capacity.
- Budgeting and funding for O&M in municipalities is inadequate.
- High vacancy rates of up to 90% exist in municipalities in technical areas such as artisans, skilled operators and process controllers.
- Powers, functions and responsibility for O&M of municipal infrastructure are unclear.
- There is a significant loss of municipal revenue and unrealised income due to poor O&M of municipal infrastructure.
- Poor or absence of cost recovery on municipal infrastructure investments compounds the O&M problem.

The national demand for new infrastructure to address backlogs is still substantial, but likewise the need for operations and maintenance of municipal infrastructure is growing. Considering the relatively large investments required, a new strategy is needed to address these challenges.

As a result, the DBSA is conceptualising a pilot program during the 2010/11 financial year to specifically address the operations and maintenance issues identified. The programme is envisaged to support the maintenance of municipal infrastructure through using small contractors and to contribute to the development of the local maintenance industry for the preservation of national infrastructure and the fast tracking of the achievement of national service delivery goals.

Front loading of Municipal Infrastructure Grants (MIG's)

The current state of municipal service delivery in South Africa is characterised by service infrastructure backlogs and low revenue generation, exacerbated by the recent economic crisis that has resulted in job losses and business failures.

Many district and other local municipalities are characterised by poor credit and institutional ratings resulting in substantial reliance on government grants to finance infrastructure. In this regard, the development of innovative financial instruments is critical to fast tracking service delivery. The instruments should address revenue enhancement and financial management strategies, leveraging of existing and attracting external funding.

To accelerate the implementation of municipal multi-year infrastructure projects in especially under resourced municipalities, the DBSA proposes the front loading of existing MIG's to raise long term concessional loan finance. Through such front loading, the DBSA would facilitate the disbursement of upfront catalytic and concessionary funding to implement multi-year infrastructure projects that can be delivered in a shorter cycle, whilst the annual MIG allocation to the respective municipalities would be used to service the DBSA debt and interest.

During the 2010/11 financial year the DBSA aims to implement a pilot programme to test the concept. As part of the pilot programme, the following would need to be resolved:

- Constraints in the current regulatory environment.

  MIG is a national grant given to municipalities for funding basic infrastructure for the poor. Some of the challenges experienced in the last five years include:

  - Inappropriate MIG allocation formula.
  - Quantum of MIG allocation.
  - Inability to leverage and pledge MIG.
  - Use of MIG for other purposes than envisaged, including operating expenditure.

  The Department of Cooperative Governance and Traditional Affairs (COGTA), is in the process of reviewing the policy for applying MIG and are considering a number of changes. The DBSA will continue to engage with COGTA in this regard.

- Ability of the DBSA to raise alternative sources of concession funding from local and international investors to disburse to these identified municipalities.

Rural development support through the local economic development initiative

In line with Governments rural development plans, the DBSA envisages to offer the poor rural and urban local economies within 26 identified priority regions, integrative and facilitative solutions to move local economic development plans into execution. Interventions are aimed at reducing critical capacity gaps in areas of development information, institutional development, strategy formulation and finance for example through the front loading of MIG's as detailed previously.

In addition to the current DBSA interventions in the poor urban and rural areas, the Bank seeks to facilitate and execute programmes which can translate into sustained economic activity for rural communities. The targeted sectors include roads, railways, electricity networks, communication networks, water, sanitation and tourism. The Bank will foster strong relations with existing and potential partners in both the public and private sectors, to tap on resources required to implement the rural development programmes.

Support for the energy sector

Economic growth and development in the country has led to significant increases in the demand for electricity. The country's energy challenge is centred on the task of rapidly meeting this demand and options are being investigated, such as an expansionary capital expenditure programme to support the main supplier of electricity in the region. This will require a diversified funding mix comprised of funding raised from internal and local debt capital markets, commercial lenders, development finance institutions, Government loans and guarantees. DBSA is currently sourcing additional funding and considering funding support, subject to finance being obtained and certain conditions being met.

Support for the health sector

In November 2008, the DBSA concluded its work on the Roadmaps for the transformation of the South African health system. From the outset, the DBSA was committed to facilitating the implementation of the Roadmap recommendations. The hospital level of care was identified as one of the most critical components for an effective health system during the Roadmap process.

Stakeholders reflected on the key (intertwined) challenges facing this level of care, including poor health infrastructure planning and delivery, significant financial and human resource constraints for capital works and maintenance, limited hospital management capacity – a prerequisite for improvements in health care services.

The Roadmap process, Government's health strategy plan and the National Health Insurance underscored the importance of overhauling the hospital level of care and the urgent need for private sector participation to fast-track timely delivery of quality health care, for improved health outcomes.

The DBSA has been asked to articulate the support that it could provide to facilitating planning, financing, delivery and management of Public Private Partnerships (PPP's) within the health sector. The Bank has engaged with the Ministry of Health and PPP Unit of National Treasury, on possible projects relating to improved hospital management and health sector PPP's. To this end, a draft Memorandum of Understanding has been developed with National Treasury

Proposed restructuring of the International Division

Due to local infrastructure demand and its challenges, it is acknowledged that current DBSA resources and any resources obtained from Government need to be sufficiently allocated to the South African economy to address these unique challenges.

Over the years, the DBSA has gradually evolved its organisational structure to enhance its internal coherence and positioning vis-à-vis the differentiated development spaces where it engages. The DBSA's International Division is one particular area where there is a strong rationale for further organisational development and re-structuring. Currently, the International Division comprises approximately one third of DBSA's Balance Sheet.

As indicated earlier, the DBSA would be required to increase its leveraging of the DBSA Balance Sheet into the future. By continuing to leverage the Balance Sheet, the main thrust of the DBSA may be consorted. Even more importantly, it is believed that the current organisational structure may contain significant risk elements, as analysed through scenario planning outcomes. Therefore, new initiatives will be needed for the International Division, to resolve this pending hurdle and transform the International Division into greater effectiveness, whilst simultaneously leveraging outside investors to make a significant contribution. The International Division in its current format, will therefore need to be restructured.

It is the intention to house the International Division's business (including its assets), in a separate legal entity remaining within the DBSA Group structure. This would allow for outside participation by current partners and future local and international partners in development across the region. The proposal to establish DBSA International (DBI) as a stand-alone subsidiary of the DBSA Group, is in response to a set of particular institutional imperatives, challenges and risks emerging within the Bank's strategic environment. More information is detailed in section 7.2 of this document.

Way forward

The Shareholder and DBSA Board will be continuously updated on progress made relating to the various initiatives.

ANNEXURES

6. Annexures index

6.1 Corporate governance

6.2 Corporate structure

6.3 Composition of the Board of Directors and Executive Management team

6.4 Revised capital structure Memorandum of Understanding

6.5 Risk Management Assessment Strategy

6.6 2010/11 Funding Plan and Borrowing Program

6.7 Material and Significant Framework

6.8 DBSA Employment Equity Plan

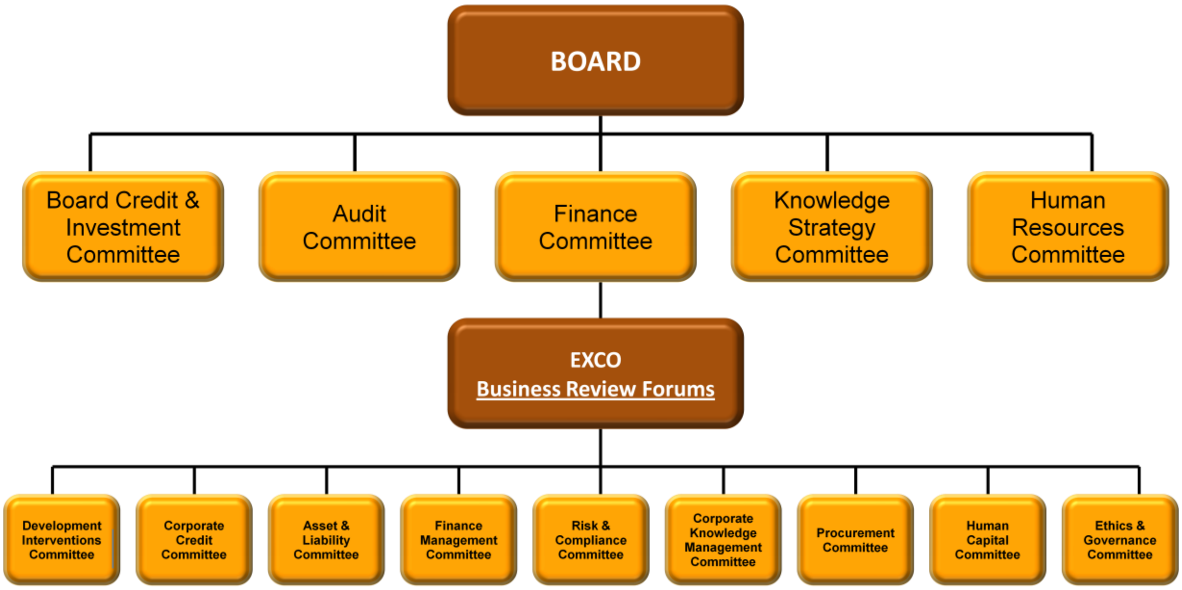
6.9 DBSA Environmental Plan

6.10 DBSA Development Fund Plan

Annexure 6.1: Corporate governance

Governance framework

The Directors of the DBSA are committed to full compliance with the principles embodied in appropriate international corporate governance codes and strive to align the Bank's corporate governance with national and international best practices. The figure below illustrates the governance framework of the DBSA:



Board of Directors

The constitution and business of the Board of Directors is governed by the DBSA Act and its Regulations as well as the relevant provisions in the PFMA and the Companies Act. The constitution of the DBSA Board has not changed during the year under review.

The Board currently consists of 15 directors, 14 of whom are non-executive and 12 are independent. The Chief Executive is the sole executive director. Representatives from the Department of Provincial and Local Government (DPLG), National Treasury and the Office of the Presidency serve on the Board as shareholder representatives. In terms of the Board Charter, no distinction is made with respect to the fiduciary responsibility of shareholder representatives and non-executive directors.

Directors' appointment and induction

Appointment of directors to the DBSA Board is regulated by the DBSA Act in terms of which the shareholder is charged with appointing the directors based on their abilities in relation to socio-economic development, finance, business, banking or administration. The Human Resources Committee of the Board invites nominations for appointments, produces shortlists and makes recommendations to the Minister for approval. Directors are appointed on a performance contract of three years and are eligible for reappointment depending on satisfactory performance. The Act further allows the Board to co-opt persons with special knowledge to its committees.

Board Charter

The DBSA Board is governed by a Board Charter which outlines the principal provisions of the DBSA Act, the fiduciary responsibilities of directors, the relationship with executive management, and matters of policy that the shareholder and the Board ought to follow in order to ensure good corporate governance. The role of the Board, as defined by the Board Charter, can be summarised as follows:

- Shall ensure that the Bank achieves the mandate of the organisation as defined by the Shareholder through the Bank's founding statute (the DBSA Act).

- Has a responsibility to the broader stakeholders, which includes the present and potential beneficiaries of DBSA products and services, clients, lenders and employees, to achieve continuing prosperity for the Bank.
- Exercise leadership, enterprise, integrity and judgement in directing the Board to achieve continuing prosperity and to act in the best interests of the Bank while respecting the principles of transparency and accountability.
- Provide strategic guidance to management in the formulation and review of corporate strategy and shall approve, major plans of action, governance policies, appropriate procurement and provisioning systems, annual budgets and business plans.
- Ensure that the technology and systems used in the Bank are adequate to run the business properly for it to compete through the efficient use of its assets, processes and human resources.
- Ensure that the shareholder’s performance objectives are achieved and that same can be measured in terms of performance of the DBSA Board. In this regard, the Board shall annually conclude a Shareholder Compact as required in terms of the Public Finance Management Act (PFMA) to document key performance areas.
- Serve the legitimate interests of the shareholder and account to the shareholder fully.
- Establish formal and transparent arrangements for maintaining a relationship with external and internal auditors and ensure that timely and accurate disclosure to the Shareholder of any information that would be of material importance.
- Develop a clear definition of the levels of materiality or sensitivity in order to determine the scope and delegation of authority and ensure that it reserves specific powers and authority for itself. Delegated authority must be in writing and be evaluated regularly.
- Manage potential conflicts of interest of management, Board members and the shareholder.
- Is the guardian of the values and ethics of the DBSA, and shall proactively promote the Code of Ethics by signing the Code.
- Shall assume responsibility and accountability to stakeholders for DBSA compliance with ethics.
- Shall on an annual basis undertake performance/effectiveness assessments of the individual directors, the Chairman, the CEO and the Board and the Board Committees and its members.
- The Board shall be responsible for ensuring that succession plans are in place for the:
  - Board as a whole.
  - Chairman.
  - CEO.
  - Non-executive directors.
  - Board Committee members.
- Directors, both executives and non-executives, carry full fiduciary responsibility and owe a duty of care and skill to DBSA in terms of Common Law and Directors’ Code of Ethics.
- The Board shall retain full and effective control over the Bank and shall direct and supervise the business and affairs of the Bank, including:
  - Ensuring that goals are established and that strategies to achieve the goals are in place.
  - Establishing policies to strengthen the performance of the Bank.
  - Monitoring management's performance and implementation of board plans and strategies.
  - Protecting the Bank's financial position.

- Ensuring that the financial statements are true and fair and contain proper disclosures and conform with the law and applicable accounting standard.
- Ensuring that the Bank adheres to high standards of ethics and corporate behaviour and that a corporate Code of Conduct is in place which satisfies in substance and form the requirements of King II.
- Ensuring that the Bank has appropriate risk management, internal controls and regulatory compliance policies and processes in place.
- Ensuring that the Bank complies with all relevant laws, regulations and codes of business practice.
- Ensuring that the Bank has a communication policy and communicates with its shareholder and all relevant stakeholders openly and promptly, with substance prevailing over form.
- Ensuring that non-financial aspects relevant to the business of the Bank are identified and monitored.
- Reviewing and recording the facts and assumptions on which the Board relies to conclude that the Bank will continue as a going concern in the financial year ahead or why it will not and what steps are being taken to remedy the situation.
- Ensuring that director selection, orientation and evaluation processes are in place and carried out.

- The responsibility for execution of the Bank's mandate and board approved strategy shall vest with the executive management under the leadership of the CEO. The Board shall afford the executive management strategic direction and support in the execution of its duty including approving key governance policies and prudential guidelines.
- The Board and its members shall have unrestricted access to all Bank information, records, documents and property. The Bank Secretary shall assist the Board or any member thereof in providing any information or document that may be required.
- A director may not vote nor be counted in the quorum on any matter in which he/she has an interest. Additionally, he/she may be recused from any meeting at the discretion of the Chairman when such matters are discussed. The DBSA Act and its Regulations provides for certain exceptions in this regard (Regulation 104).
- A register of declarations of interest shall be kept and updated regularly.
- The Board members shall develop and put in place a Code of Ethics outlining the values, ethics, and beliefs that guide the behaviour of DBSA Board and define the ethical standards applicable to it and to all who deal with it.
- Board members shall monitor the social responsibilities of the DBSA Board and promulgate policies consistent with the Bank's legitimate interests and good business practices.

The DBSA Board Charter was extensively reviewed during the financial year under review and the revised Charter re-addressed issues such as the procedure for appointment of board members, succession planning at Board level and retirement of board members and performance assessment of the Board. The Board regards the Charter as a living document which will be periodically updated to align with changes brought forward by the draft King III Report on Corporate Governance and the Companies Act, No 71 of 2008.

Board Committees

The DBSA Act gives the Board a mandate to appoint subcommittees necessary for carrying out its fiduciary responsibilities. In line with principles of the King II Report, all committees of the Board have formal terms of reference to ensure effective decision-making, monitoring and reporting. The terms of reference are reviewed periodically, along with the overall effectiveness and performance of the committees.

The DBSA Board has five committees: The Audit Committee, Finance Committee, Board Credit and Investment Committee, Human Resources Committee and the Knowledge Strategy Committee.

Audit Committee

The functions of the Audit Committee are regulated by the PFMA and codified in the King II Report. The terms of reference of the Committee will be amended accordingly to accommodate any new roles to be introduced by the new Companies Act and the King III Report. Currently the Audit Committee oversees the Bank’s internal control framework, and reviews and evaluates the integrity of financial and other statutory reporting, risk management processes, compliance with laws and regulations and ethics management. It oversees the internal and external audit functions, and reviews the Internal Audit Plan and the annual assessments of significant risk exposures.

Finance Committee

The Finance Committee oversees and advises the Board on income, expenditure and capital budget requirements; tax management; treasury arrangements and funds mobilisation strategies; transfer pricing policies; development loan impairments; management of assets and liabilities; and the Bank’s overall financial health and sustainability. The Committee is also supported by the Asset and Liability Management and Financial Management Committees.

Board Credit and Investment Committee

The Committee reviews the Bank’s credit strategy, credit risk management programme, trends in portfolio quality, the adequacy of provision for credit losses and the credit risk management policies approved by the Board. The Committee approves all credit and investment proposals.

Human Resources Committee

The Committee’s mandate has remained the same and it continued to carry out its three main responsibilities related to oversight of the implementation of the Bank’s human capital strategy, remuneration practices and the vetting of key appointments and nominations, including those of directors.

Knowledge Strategy Committee

This Committee oversees the implementation of the knowledge management strategy approved in 2001 to ensure the integration of knowledge management products within the Bank. The Committee serves as a sounding board for key corporate knowledge publications and research products. To assist it in this function, the Committee has appointed a review Board comprised of specialists in the different sectors to review and provide guidance on key and DBSA flagship publications.

Composition of DBSA Board and Board Committees

The table below presents the composition of the DBSA Board and Board Committees. The current position, academic qualifications, other directorships, etc are detailed under Annexure 6.3.

DBSA Board	Audit Committee	Finance Committee	Board Corporate Investments Committee	Human Resources Committee	Knowledge Strategy committee
Mr. Jay Naidoo (Chair)	Mr. Omar Latiff (Chair)	Mr. Omar Latiff (Chair)	Ms. Wendy Lucas-Bull (Chair)	Mr. Ivan Mzimela (Chair)	Dr. Lulu Gwagwa (Chair)
Mr. Jabu Moleketi (Deputy Chair)	Mr. Paul Baloyi (MD)	Mr. Paul Baloyi (MD)	Mr. Paul Baloyi (MD)	Mr. Paul Baloyi (MD)	Mr. Paul Baloyi (MD)
Mr. Paul Baloyi (MD)	Ms. Thembisa Dingaan	Ms. Thembisa Dingaan	Dr. Claudia Manning	Mr. Jay Naidoo	Mr. Andrew Boraine
Mr. Omar Latiff	Ms. Tryphosa Ramano	Ms. Tryphosa Ramano	Ms. Tryphosa Ramano	Dr. Claudia Manning	Dr R Kfir (Co-opted)
Mr. Ivan Mzimela			Ms. Thembisa Dingaan	Ms. Thembisa Dingaan	
Dr. Lulu Gwagwa					
Ms. Thembisa Dingaan					
Ms. Wendy Lucas-Bull					
Dr. Claudia Manning					
Mr. Andrew Boraine					
Prof. Edward Webster					
Mrs. Malijeng Ngqaleni					
Ms. Tryphosa Ramano					
Mr. Frans Baleni					
Mr. Kenneth Brown					

Development Fund governance

The DBSA Development Fund is incorporated under section 21 of the Companies Act, 61 of 1973. The operations of the Development Fund are reviewed in accordance with the provisions of the Companies Act 2008.

In accordance with the provisions of the Public Finance Management Act (PFMA), a subsidiary or entity under the ownership or control of a public entity listed under Schedule 2 of the Act is also subject to the provisions of the Act. The PFMA allows for the establishment of a shared audit committee between a public entity and its subsidiary and accordingly the Fund shares Audit, Finance, Credit and Investment Committee and other Board committees with the DBSA.

The Board of Directors of the Fund is composed of twelve members, ten of whom are non-executive directors. The Bank will review the composition of the Development Fund Board during 2010/2011, conduct effectiveness evaluations to assess the performance of the Board and its Committees and appraise the terms of reference of the Development Fund Risk Committee to ascertain the appropriateness of the work of the committee and its integration with other committees of the DBSA.

The DBSA ethics programme will incorporate ethics training of Development Fund employees and Siyenza Manje deployees and the Bank will continue monitoring adherence with the policy on declaration of outside interests.

The Bank through its Corporate Secretariat function will continue facilitating the development and execution of the annual Board programme through the coordination of meetings of the Board of Directors and its sub-committees.

Internal control and the Internal Audit function

The Board has delegated its oversight responsibility for systems of internal financial and operational control to the Audit Committee. The Bank is cognisant of the enhanced role of the Audit Committee as restated by the King III Report on Corporate Governance and the Companies Act 2008 in entrenching governance principles, which incorporate and emphasize ethical behaviour, legislative compliance, sound accounting practice and strict adherence to delegations of authority.

The Bank plans therefore to review the terms of reference of the Audit Committee and align them with the precepts of the legislative and regulatory instruments.

The Risk Assurance Unit has been decentralised and risk managers will continue playing a quality assurance role through the dual signing powers between the Unit and line management. The fully operational compliance unit has been capacitated to advise the Board through the Audit Committee of all legislative and regulatory compliance risks.

The Internal Audit function conducts periodic reviews across all functional areas to provide independent assurance to the Board of Directors on the effectiveness of the Bank’s internal control system. The Audit Committee will continue to monitor Internal Audit’s performance against plans in 2010/2011. The Internal Audit Unit of the DBSA was established in line with the requirements of the Public Finance Management Act to assist the Board in discharging its duties of effective risk management, governance and control.

The unit uses a systematic and structured approach in line with best practice standards and frameworks to provide reasonable assurance to the Board and Management that adequate controls exist to mitigate risks affecting the achievement of key objectives of the Bank.

To enable the unit to function in accordance with its mandate, Internal Audit follows a “Risk Based Audit Approach” derived from the Commission of Sponsoring Organisations (COSO) Framework which is the most widely accepted risk framework globally.

For the upcoming year, Internal Audit will direct its attention to the following areas:

- Playing a more strategic role in embedding the principles of good governance in the Bank and ensuring that the standards of ethical behaviour are upheld.

- Shifting the balance of focus from the traditional compliance reviews to more value added consulting activities that provide proactive assurance rather than detective.
- Streamlining audit processes to enable continuous monitoring of core processes to enable timely mitigation of risk events.
- Partnering more closely with key internal and external stakeholders to ensure optimal combined assurance to the Board and Management.
- Enhance the audit coverage to ensure that key risks of the Bank are appropriately addressed.

An independent external Quality Assurance (QA) review will be scheduled in the 2010/11 financial year to provide assurance to the Bank on the effectiveness of the Internal Audit function. The results of the QA will be used to enhance the operations and direction of the unit to obtain optimal benefit to the Bank.

In summary, the DBSA's management of risk has become increasingly robust over the last year. This augers well for the Bank as it broadens and deepens its development impact during towards 2014. (The Risk Management Plan and Strategy and a detailed Enterprise Risk Management framework is included in Annexure 6.5).

Ethics management and fraud prevention

The Development Bank of Southern Africa has adopted a Code of Ethics articulating the values and acceptable ethical standards to which all persons associated with the Bank are required to adhere. This notwithstanding, the Bank acknowledges that in today's business environment, fraud is prevalent and all business organisations are susceptible to the risk of fraud. In this regard a Fraud Prevention Plan was drafted in 2006 which sets out and reinforces the Bank's policy of zero tolerance towards fraud and management's commitment to combating all forms of fraud inherent in the Bank's operations.

The Plan outlines the DBSA framework and strategy for the prevention, deterrence, detection, reporting, investigation and handling of fraud and corporate crime. The Plan establishes a process for oversight of fraud risk by the Board Audit Committee and spells out responsibilities and ownership with respect to assisting the Bank to minimise its fraud risk exposure.

The King II Report on Corporate Governance recommends that an organisation assesses risks on an on-going basis and design effective internal controls to manage risks throughout the organisation. Fraud is part of organisational operational risk. The recommendations of the King III Report will also be reviewed and where appropriate incorporated into the Plan during the 2010/11 financial year.

Prevention and detection

The Bank is committed to adopting proactive measures towards preventing and detecting the incidence of fraud and corporate crime. The measures are aimed at creating an environment that promotes honest conduct, transparent corporate behaviour that publicly denounces any illegal activity. The following provides a brief overview of some of these measures as well as key activities outcomes progress made during the 2009/10 financial year:

- Corporate governance

  The following corporate governance initiatives are in place at the DBSA:

  - The DBSA Board of Directors is charged with the statutory responsibility of ensuring that the Bank's system of internal control is effective and adequately mitigates its fraud risk exposure. The responsibility has been delegated to the Audit Committee.
  - An independent Internal Audit function conducts reviews and tests the effectiveness of internal controls providing assurance through periodic reports to the Audit Committee.

- Operational Risk Unit conducts risk identification workshops to identify risks and advises line management on the relevant controls to be implemented. This exercise also covers fraud risks.
- Ad-hoc forensic audits/investigations are an integral part of the work of Internal Audit function.

  The Bank has employed a permanent forensic auditor in the DBSA Internal Audit Department. Fraud detection reviews were conducted on high risk transaction e.g. subsistence and travel claims (S&T). The entire Development Fund staff were subjected to such a review which lead to the dismissal of one staff member.

  During the financial year, all DBSA staff were subjected to a declaration of outside interest audit and one staff member was reprimanded during this process. It is envisaged that similar reviews will be conducted annually. The Bank will continue to monitor declarations of interests through active updating of the declarations of interest register. The Bank embarked on an electronic system for staff to declare or make changes in real time to their existing declaration profiles. The system once completed will on a quarterly basis run an electronic search against CIPRO and track and record any conflict of interest not declared by staff members.
- Written delegations of authority and documented financial control system.

- Whistle blowing policy

  Employees of the Bank are encouraged to speak out and report all concerns relating to impropriety and unethical conduct. In this regard, the Audit Committee approved a whistle blowing policy and has adopted an Ethics and Fraud Hotline where employees can anonymously report suspected fraud and corruption. In terms of the policy, it is a disciplinary offence for a manager or fellow employee to victimise an employee on account of having blown the whistle.

- Employee fraud awareness training

  Employee fraud awareness training will be regularly conducted by the Bank in order to sensitise employees and management on the identification and prevention of fraud in their operational areas and the procedures to be followed upon unravelling fraud.

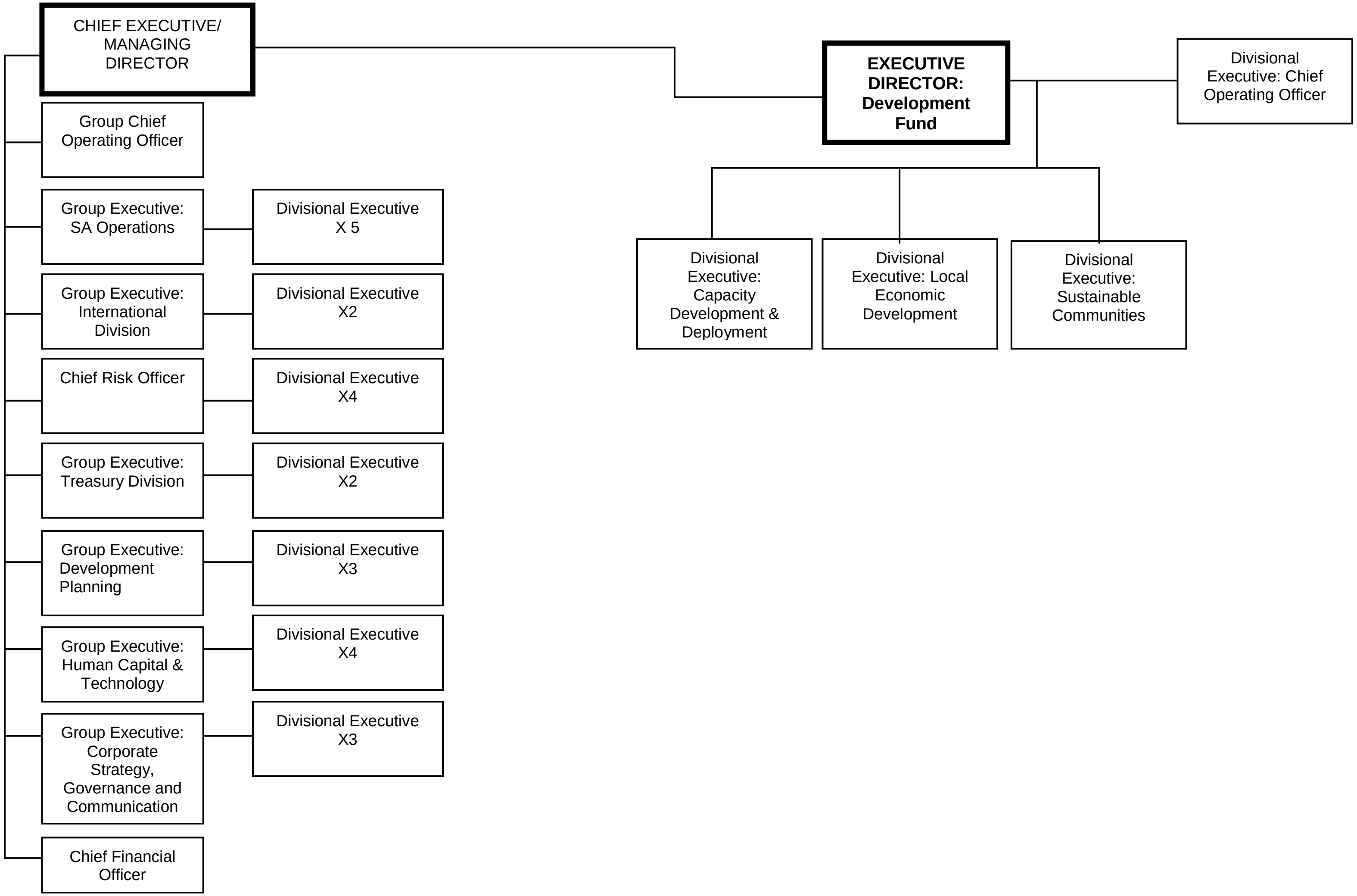
  To date the forensic auditor to date has trained 459 staff members on ethics related topic covering fraud, theft and corruption. The Bank printed and distributed 5 000 cards printed with the Bank's fraud hotline number to staff and members of the public that visit the Bank. As a result of the training sessions a number of calls via the fraud hotline were received that after a full audit and an internal disciplinary process lead to the dismissal of staff member for fraud, theft and corruption related misconducts.

- Ethics management

  The Bank has recently employed an Ethics Officer who will draft and implement an ethics programme. The ethics programme will be monitored through the Ethics and Governance Committee which is to be operational in 2010/11. The dedicated ethics officer will render advisory services to the organisation through a dedicated helpline as a mechanism to assist employees with resolving ethical dilemmas.

  Periodic ethics training and surveys will be key to ensure compliance with the Bank's code of ethics, whistle-blowing policy and declarations of outside interest policy.

Annexure 6.2: DBSA structure



Annexure 6.3: Composition of the Board of Directors and Executive Management Team

Board of Directors

As at 28 February 2010

Mr Jayaseelan Naidoo (54)

Director: J&J Group

DBSA Non-Executive and Independent Director as from:
1 May 2000

Chairman of the DBSA Board as from:
1 August 2000

Other directorships:

Bill and Melinda Gates Foundation: Global Health Advisory Panel Member.

Clinton Global Initiative: Health Advisory Panel Member.

Dr Reddy's Laboratories: Chairman of the Board (non-executive).

First South Financial Services (Pty) Ltd: Non-executive Director.

Global Alliance for Improved Nutrition: Chairman of the Board (non-executive).

International Telecommunication Union: Advisory Board Member (non-executive Director).

J&J Group Development Trust: Founder Member (non-executive).

loveLife Trust: Trustee and Deputy Chairperson Macquarie First South (Pty) Ltd: Non-executive Director.

Old Mutual Life Assurance Company.

(SA) Ltd: Non-executive Director.

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

Mr Jabu Moleketi (52)

Director of companies

DBSA Non-Executive and Independent Director as from:
1 January 2010

Deputy-Chairman of the DBSA Board as from:
1 January 2010

Academic qualifications:

Advanced Management Program, Harvard Business School (2003).

Master of Science degree in Financial Economics, University of London (2001). Post Graduate diploma in Economic Principles, University of London (1996). Senior Military management course, USSR (1983)

Other directorships:

Nedbank Group and Nedbank (Pty) Limited: Non-executive Director.

Harith Fund Managers: Non-executive Director.

FIFA World Cup Organising Committee SA: Non-executive Director.

Brait: Non-executive Chairman.

Vodacom: Non-executive Director.

Remgro (Pty) Ltd: Non-executive Director.

Mr Paul Cambo Baloyi (53)

Chief Executive Officer and Managing Director: DBSA

DBSA Executive Director and staff member as from:
1 July 2006

Academic qualifications:

Advanced Management Programme, INSEAD (2006).

MBA, University of Manchester (2004).

Senior Executive Programme, Harvard Business School (2001).

Management Development Programme, University of Stellenbosch (1996).

Commercial Banking Diploma, Institute of Bankers, Licentiate (1989).

Other directorships:

Block II Waterford (Pty) Ltd: Executive Director and Shareholder (property owning).

Business Ventures: Non-executive Director.

Chrometco Ltd: Non-executive Director.

DBSA Development Fund: Chief Executive Officer and Managing Director (Bank nominee).

Harith Fund Managers: Non-executive Director; DBSA Nominee.

Nulane Investment Holdings (Pty) Ltd: Non-executive Director (non trading).

Pan African Investment Fund: Non-executive Director; DBSA Nominee.

Platinum Hi Tech Park Development (Pty) Ltd: Non-executive Director (property owning).

TCX Investment Management Company: Non-executive Director; DBSA Nominee

Mr Frans Msokoli Baleni (50)

General Secretary: National union of Mine Workers

DBSA Non-Executive and Independent Director as from:
1 January 2010

Other directorships:

Rand Mutual Assurance (Non-Executive Director).

Executive Member of International Federation Chemical, Energy, Mine and General Worker's Unions.

JB Marks Bursary Trust Fund (Chairman).

Elijah Barayi Memorial Training Centre (Non-Executive Director).

Mineworkers Investment Trust (Chairperson).

University of Johannesburg Council member.

Board of Directors (continued)

Mr Andrew Boraine (50)

Chief Executive Officer: Cape Town Partnership

DBSA Non-Executive and Independent Director as from:

1 August 2005

Academic qualifications:

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

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

Other directorships:

Accelerate Cape Town: Non-executive Director.

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

Cape Town International Convention Centre Company (Pty) Ltd (Convenco): Chairman of the Board (non-executive).

DBSA Development Fund: Non-executive Director.

SA Cities Network: Non-executive Director.

St Patrick's Trust: Trustee.

Mr Kenneth Brown

Deputy Director-General: Intergovernmental Relations

DBSA Non-Executive Director as from:

1 January 2010

Academic qualifications:

MSc in Economics, University of Illinois (2000).

BA Honours (Economics), University of Western Cape (1997).

Bachelor of Arts, University of Western Cape (1995).

Primary Teacher's Diploma, Perseverance Training College (1982).

Mrs Thembisa Dingaan (36)

Consultant and Director of Companies

DBSA Non-Executive and Independent Director as from:

1 August 2007

Academic qualifications:

H Dip Tax, University of the Witwatersrand (2000).

LLM, Harvard University (1997).

LLB, University of KwaZulu-Natal (1995).

BProc, University of KwaZulu-Natal (1994).

Other directorships:

Export Credit Insurance Corporation of South Africa: Non-executive Director.

Identity Corporate Advisors (Pty) Ltd: Executive Director. Mustek Ltd: Non-executive Director.

Skweyiya Investment Holdings (Pty) Ltd: Executive Director.

Dr Lulu Gwagwa (50)

Chief Operating Officer: Lereko Investment Holdings (Pty) Ltd

DBSA Non-Executive and Independent Director as from:

1 August 2004

Academic qualifications:

PhD (Development Planning), University College London (2003).

MSc (Social Policy), London School of Economics and Political Science (cum laude) (1990).

Certificate in Gender Planning, University College London (1989).

Masters in Town and Regional Planning, University of Natal (1980).

BA (Geography), University of Fort Hare (1978).

Other directorships:

FirstRand Ltd: Non-executive Director.

Massmart: Non-executive Director.

Sun International Ltd: Non-executive Director.

Vox Telecom (Pty) Ltd: Non-executive Director.

Board of Directors (continued)

Mr. Omar Aboobaker Latiff (55)

Director: PricewaterhouseCoopers

DBSA Non-Executive and Independent Director as from:

1 August 2007

Academic qualifications:

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

H Dip Tax, University of Natal (1992).

CA (SA) (1981).

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

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

Other directorships:

373 Loop Street, Pietermaritzburg cc: Member.

Bellewan (Pty) Ltd: Non-executive Director.

Flamingo Trust: Trustee.

HASMA Investments (Pty) Ltd: Non-executive Director.

Jacaranda Trust: Trustee.

Jodya cc: Member.

LMD Africa Chartered Accountants Inc: Non-executive Director.

LMD Africa Forensics (Pty) Ltd: Non-executive Director.

Mariam BB Noorgat Family Trust: Trustee.

Mlando Investments (Pty) Ltd: Non-executive Director.

Moosa Noorgat Family Trust: Trustee.

Omar Aboobaker Latiff Family Trust: Trustee.

Styleprops 104 (Pty) Ltd: Non-executive Director.

Mrs Wendy Lucas-Bull (56)

Executive Director: Peotona Group Holdings (Pty) Ltd

DBSA Non-Executive and Independent Director as from:

1 August 2005

Academic qualifications:

BSc, University of the Witwatersrand (1976).

Other directorships:

Anglo-Platinum (Pty) Ltd: Non-executive Director.

Business Venture Investments (Pty) Ltd: Non-executive Director.

CIDA City Campus: Non-executive Director.

Dimension Data Holdings Plc: Non-executive Director.

Eskom Holdings Ltd: Non-executive Director.

IQ Group (Pty) Ltd: Non-executive Director.

Lafarge Industries and Mining South Africa (Pty) Ltd: Non-executive Director.

Le-Sel (Pty) Ltd: Non-executive Director.

Partners for Housing: Non-executive Director.

Dr Claudia Manning (42)

Executive Director: Sangena Investments

DBSA Non-Executive and Independent Director as from:

11 August 2005

Academic qualifications:

DPhil, University of Sussex (1996).

MPhil, University of Sussex (1992).

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

Other directorships:

DBSA Development Fund: Non-executive Director.

Roadcrete Africa (Pty) Ltd: Non-executive Director.

Stewart Scott International (Pty) Ltd: Non-executive Direct.

Mr Ivan Mzimela (47)

Executive Chairman: Hollard Risk Capital

DBSA Non-Executive and Independent Director as from:

1 August 2007

Academic qualifications:

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

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

Project Management Certificate, IBM (1998).

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

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

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

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

Other directorships:

DBSA Development Fund: Non-executive Director.

Hollard Life Insurance Company: Non-executive Director.

Insurance Institute of South Africa: Non-executive Director.

Insurance Sector Education and Training Authority: Non-executive Deputy Chairperson.

South African Insurance Association: Chairman of the Board (non-executive), Human Resources Committee member.

Board of Directors (continued)

Mrs Malijeng Theresa Ngqaleni (50)

Chief Director: Provincial and Local Government Infrastructure, Intergovernmental Relations Division, National Treasury

DBSA Non-Executive Director as from:

3 February 2009

Academic qualifications:

MSc (Ag. Econ), University of Saskatchewan, Canada (1989).

BA (Economics), National University of Lesotho (1983).

Other directorships:

DBSA Development Fund: Non-executive Director.

Ms Tryphosa Ramano (37)

Chief Financial Officer: WIPHOLD Group

DBSA Non-Executive and Independent Director as from:

1 August 2007

Academic qualifications:

Executive Leadership Development Programme, Harvard and NABA Business School (2002).

CA (SA) (1994).

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

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

Other directorships:

Adcorp Holdings: Non-executive Director.

Afrisun Leisure (Pty) Ltd: Non-executive Director (Alternate).

Emfuleni Casino Resort Manco

(Pty) Ltd: Non-executive Director (Alternate).

Emfuleni Resorts (Pty) Ltd: Non-executive Director (Alternate).

Financial Services Board of South Africa: Non-executive Director (Alternate).

Legae Securities (Pty) Ltd: Non-executive Director.

Legae Securities Trust: Trustee National Credit Regulator: Chairperson, Audit Committee (non-executive).

Old Mutual Investment Group Property Investments (Pty) Ltd:

Non-executive Director.

Sasria Ltd: Non-executive Director.

South African Institute of Chartered Accountants: Audit and Risk Committee Member (non-executive).

USB Executive Development Ltd: Non-executive Director

Women Investment Portfolio

Holdings Ltd: Executive Director.

Prof. Edward Charles Webster (66)

Professor of Sociology: University of the Witwatersrand

DBSA Non-Executive and Independent Director as from:

1 August 2007

Academic qualifications:

PhD, University of the Witwatersrand (1983).

BPhil, University of York (1972)

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

University Education Diploma, Rhodes University (1964).

BA Hons (History), Rhodes University (1964).

Other directorships:

Chris Hani Institute: Non-executive Board Member.

DBSA Development Fund: Non-executive Director.

Human Sciences Research Council: Member of Council

Labour Job Creation Trust: Trustee.

Executive Management

Mr Pieter de la Rey (45)

Group Chief Financial Officer

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

Academic qualifications:

MCom (Business Management), University of Johannesburg (2004).

CA (SA) (1993).

BCompt (Hons), University of South Africa (1989).

BCompt, University of South Africa (1987).

Mr Ernest Dietrich (46)

Group Executive: Treasury

DBSA staff member as from:

2 January 2001

Group Executive as from:

1 April 2006

Academic qualifications:

CFA Charter (2002)

MBA, University of Cape Town (1996).

MSc (Mathematics), University of the Western Cape (1992).

HDE, University of the Western Cape (1985).

Dr Snowy Joyce Khoza (51)

Group Executive: Strategy, Governance and Communication

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

Academic qualifications:

Executive MBA, Graduate School of Business, University of Cape Town (2008).

Finance for Executives Programme, INSEAD, France (2005).

Utility Regulation and Strategy, University of Florida, USA (2001).

Global Programme for Management Development, University of Navarra, Spain (2000).

Economics and Public Finance Certificate, University of South Africa (1999).

PhD (Social Policy), Brandeis University, USA (1996).

MA (Social Science), University of South Africa (1990)

BA Hons (Social Work), University of Fort Hare (1986).

BA (Social Work), University of the North (1981).

Other directorships:

Ka-Manowi Manor cc: Non-executive member.

National Housing Finance Corporation: Non-executive Director.

Trans-Caledon Tunnel Authority: Chairman of Board (non-executive).

Dr Paul Kiyingi Kibuuka (48)

Group Executive: Development Fund

DBSA staff member as from:

1 August 1994

Group Executive as from:

1 July 2009

Academic qualifications:

DPhil (Demography), University of Pretoria (1999).

MA (Demography) (cum laude), University of Pretoria (1996).

BA Hons (Demography), University of Pretoria (1994)

BStat, Makerere University, Uganda (1984)

Other directorships:

Mphato Investments : Non-executive Director

Lincholn Consultants Ltd.: Non-executive Director

Executive Management (continued)

Mr Magare Luther Mashaba (57)

Group Executive: South Africa Operations

DBSA staff member as from:
14 January 1985
Group Executive as from:
1 September 2001

Academic qualifications:

Advanced Management Programme, INSEAD Executive Education (2004).

Treasury Management Training, New York Institute of Finance (2002).

Financial Markets and Instruments, University of Pretoria (2000).

Capital Markets Explained, International Faculty of Finance (1999).

Diploma in Economics, Economics Institute, University of Colorado (1993).

MSc (Ag. Econ), Michigan State University (1993).

BSc Hons (Ag. Econ), University of Pretoria (1986).

BSc (Ag. Econ), University of Fort Hare (1981).

Other directorships:

Hluma Local Investment Agency: Non-executive Director Mafikeng Industrial Development Zone (Pty) Ltd: Non-executive Director.

Rural Housing Loan Fund:Non-executive Director.

uShaka Marine World: non-executive Director

Mr Ravindra Naidoo (38)

Group Executive: Development Planning

DBSA staff member and Group Executive as from:
1 May 2008

Academic qualifications:

MPA, Harvard University (2004).

Certificate in Policy Management, Harvard University (2003).

Certificate in Policy Management, University of Manchester (1998)

Diploma in Project Management, Damelin (1998).

BCom, University of Durban-Westville (1991).

Mrs Loyiso Ndlovu (38)

Group Executive: Human Capital and Technology

DBSA staff member as from:
1 October 2002
Group Executive as from:
1 October 2006

Academic qualifications:

MBA, University of South Africa (2006).

Management Development Programme, University of South Africa (2003).

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

Other directorships:

Conservation International: Advisory Council Member Fair Cape Holdings: Non-executive Director

Mr Admassu Yilma Tadesse (40)

Group Executive: International

DBSA staff member as from:
1 June 2002
Group Executive as from:
1 September 2006

Academic qualifications:

Senior Executive Programme, Harvard Business School, USA (2003).

MBA, (Strategy & Finance) Wits Business School, South Africa (2002)

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

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

Other directorships:

SADC Development Finance Resource Centre: Chairman of the Board of Trustees

SADC Project Preparation Development Fund: Trustee

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

Investment and Support Fund for Businesses in Africa (FISEA): Non-executive Independent Director

ECF Children's Fund: Non-executive Director

Development Bank of Zambia: Non-executive Alternate Director

Energy Poverty Action (*World Economic Forum Led*): Non-Executive Alternate Director

Executive Management (continued)

Mrs Leonie van Lelyveld (38)

Group Chief Risk Officer

DBSA staff member as from:
1 April 1998
Group Executive as from:
1 January 2006

Academic qualifications:

CA (SA) (1997).

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

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

BCom (Accounting), University of Pretoria (1992).

Mr Heinz Maria Weilert (45)

Group Chief Operating Officer

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

Academic qualifications:

Fellow of Insurance Institute of South Africa (2002).

MCom (Accounting), University of the Witwatersrand (1990)

CA (SA) (1990).

BCom Hons (Accounting), University of the Witwatersrand (1986).

BCom, University of the Witwatersrand (1985).

Other directorships:

Nedbank Namibia Ltd: Non-executive Director.

NedNamibia Holdings Ltd: Non-executive Director.

Southern African Association for Learning and Educational Differences: Treasurer.

Annexure 6.4: Revised capital structure Memorandum of Understanding

DBSA
Development Bank of Southern Africa

Mr. Pravin Gordhan, MP
Minister of Finance
Private Bag X115
Pretoria 0001

Dear Pravin

RE: DEVELOPMENT BANK OF SOUTHERN AFRICA'S REQUEST FOR INCREASED CALLABLE CAPITAL

Your letter [Ref. M3/4/2/2 (3308/09))] in respect of the above has reference.

On behalf of the Board of Directors and Management, I would like to express our sincere appreciations for your support of the Development Bank of Southern Africa's (DBSA) request for an increase of its callable capital, which will enable the Bank to support more vigorously the development challenges facing our country and region. We similarly appreciate your approval of the proposed interim guarantee, as per your Letter of Undertaking. With respect to our proposed increase in the Bank's maximum leverage ratio, we understand your concerns, and accept your direction.

We will be tabling the Memorandum of Understanding (MoU) for formal adoption by the Bank's Board at the next meeting scheduled for February 2010. We will then set out, in the 2010 Annual Corporate Plan, measurable performance targets consistent with the indicative commitments in the MoU.

Early in the new-year, we look forward to continuing our exchange of views, including the matter of liquidity support that has been raised and highlighted by the Chief Executive. Enhancing the Bank's liquidity will be very important as we raise the bar and facilitate greater investments in transformative socio-economic infrastructure.

Minister, please find attached a copy of the signed MoU and Letter of Undertaking as requested.

Kind regards.

Jay

Jay Naidoo
Chairman: Board of Directors
Development Bank of Southern Africa
DATE: 04/12/2009

MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA
Private Bag X115, Pretoria, 0001 • Tel: +27 12 323 8911 • Fax: +27 12 323 3262
PO Box 29, Cape Town 8000 • Tel: +27 21 464 6100 • Fax: +27 21 461 2934

Ref. M3/4/2/2 (3308/09)

Mr. Jay Naidoo
The Chairperson
Development Bank of Southern Africa
PO Box 1234
Halfway House
MIDRAND
1685

Dear Jay,

THE DEVELOPMENT BANK OF SOUTHERN AFRICA's (DBSA) REQUEST FOR INCREASED CALLABLE CAPITAL

The Development Bank of Southern Africa's (DBSA) request for capital structure enhancement to increase its funding capacity in particular to poor municipalities has reference.

I would like to indicate my support for the increased commitment by the DBSA to address the volume of infrastructure backlogs and the initiative to fund Operational and Maintenance (O&M) programmes especially to the poor municipalities. Government requires the DBSA to improve its client outreach regarding financing, advisory and integrator services to the municipalities. The DBSA also needs to take a lead in identification, origination, implementation and management of municipal infrastructure projects. These initiatives should be aimed at deepening the DBSA's development impact, addressing rural development and infrastructure collapse due to the lack of adequate maintenance and providing essential services to the poor.

Given this background I support the increase in the DBSA callable capital to R20billion. As you are aware, the increase in the DBSA's callable capital will require the DBSA Act to be amended. Taking cognisance of the Parliamentary legislative process I approve an interim Letter of Undertaking amounting to R15.2billion for the DBSA. This Letter of Undertaking will lapse upon the approval of the DBSA Amendment Act which I will submit to Cabinet for consideration.

In order to ensure that the DBSA rises to the challenge of service delivery to the poor and to enable government to monitor the prudent utilisation of the enhanced lending capacity, I have approved and signed the enclosed Memorandum of Understanding (MoU) between government and the DBSA which includes:

- The DBSA funding disbursement mix;
- Key Performance Indicators;
- The reporting framework by the DBSA; and
- Rights and obligations of both parties.

I have been informed that the National Treasury and the DBSA substantively reached consensus on the content of the Memorandum of Understanding (MoU) and that only the increase in the DBSA's gearing limit from 250% to 350% and the exclusion of the right to decelerate the vesting of the tranches, remains outstanding.

During the MoU negotiations, DBSA requested for acceleration of the vesting of the tranches. The National Treasury took a position that the MoU should include both acceleration and deceleration since this will allow the government to review the vesting of the tranches if the DBSA does not meet the targets as contained in the MoU, as well as in subsequent corporate plans and shareholder compacts. The DBSA did not support the idea of deceleration, citing that it will create a negative perception in the market. However, in my view this will not impact on market perceptions, since this clause will only be contained in the MoU, which is an agreement between government and the DBSA. I have therefore included both the acceleration and deceleration of the vesting of the tranches in the MoU.

The increase in the DBSA's callable capital and the amendment to DBSA Regulation 44 to include the use of authorised share capital in the determination of DBSA's leverage ratio will allow the DBSA to continue meeting its loan disbursements estimates up to 2016 without breaching the current gearing limit of 250%. As the aforementioned actions will substantively increase the DBSA's capacity, I do not accede to DBSA's request to increase the gearing ratio to 350%. A provision has been included in the MoU for further negotiations to review DBSA's capital structure, within the state's fiscal framework capacity, should circumstances warrant it.

The MoU contains a reporting template of additional KPIs which has not been populated. The DBSA must incorporate these KPIs as well as the Funding Disbursement Mix reflected in the MOU in future corporate plans and the shareholder compacts. In addition, the DBSA must engage with the National Treasury to ensure that consensus is reached on these KPI targets, prior to the finalisation of these documents.

Please find enclosed two copies of the Letter of Undertaking and the MoU which I have signed. You are requested to append your signature to these documents and to return a copy of each respective document for government's records.

Kind regards

Pravin

PRAVIN J GORDHAN
MINISTER OF FINANCE
DATE: 23-11-2009

MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA
Private Bag X115, Pretoria, 0001, Tel: +27 12 321 8675, Fax: +27 12 323 3262
PO BOX 29, Cape Town, 8000, Tel: +27 21 465 5586, Fax: +27 21 465 5076

LETTER OF UNDERTAKING: THE GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA AND THE DEVELOPMENT BANK OF SOUTHERN AFRICA

1. **WHEREAS** the Government of the Republic of South Africa ("the Government") recognizes the pivotal role of the Development Bank of Southern Africa ("DBSA") in mitigating the effects of diminished access to finance, including, amongst others, infrastructure funding for Municipalities.

2. **AND WHEREAS** the Government is desirous to support the financial sustainability of the DBSA.

3. The Government, duly represented by its Minister of Finance, will make good the debt obligations of DBSA as and when they become due and payable up to and limited to an amount of R15.2 billion.

4. The Letter of Undertaking will be valid until the Development Bank of Southern Africa Act, 13 of 1997 ("the Act") is amended to increase DBSA's callable capital from R4.8 billion to R20 billion.

5. The DBSA undertakes to comply with the directives set out below:-
   - 5.1 The DBSA provides National Treasury with Bi-annual Reports on performance and achievement of the agreed KPIs; and
   - 5.2 The DBSA will be charged a once off administration fee of R75 000 per annum or on pro rata and an annual guarantee fee of 30bps per annum on the nominal value of the guarantee.

6. Non compliance, by DBSA, with the directives set out in paragraph 5 above will be dealt with by the Government in accordance with the provisions of the PFMA, and/ or will be reported by Government to the Standing Committee on Public Accounts ("SCOPA").

7. Save for the directives set out in paragraph 5 above, whose continuance will be reviewed by Government on termination of the Letter of Undertaking, this undertaking will be valid from date of signature until Section 13(1) of the DBSA Act 13 of 1997 DBSA Act has been amended.

8. The Letter of Undertaking is governed in accordance with the laws of the Republic of South Africa and issued in terms Section 70 read in conjunction with Section 66 of the Public Finance Management Act (Act 1 of 1999 as amended by Act 29 of 1999).

....

PRAVIN J. GORDHAN
MINISTER OF FINANCE
DATE: 23-4-2009

And accepted by:

....

MR J NAIDOO
CHAIRPERSON: THE DEVELOPMENT BANK OF SOUTH AFRICA
DATE:

national treasury
Department
National Treasury
REPUBLIC OF SOUTH AFRICA

DBSA
Development Bank of Southern Africa

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE GOVERNMENT OF SOUTH AFRICA REPRESENTED BY THE MINISTER OF FINANCE

AND

THE DEVELOPMENT BANK OF SOUTHERN AFRICA REPRESENTED BY THE CHAIRPERSON OF THE BOARD

OCTOBER 2009

national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

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1 INTRODUCTION

In the advent of the global economic meltdown, government and the Development Finance Institutions (DFIs) are challenged to mitigate the effects of diminished access to development finance. The current economic meltdown limits access to finance for both the DFIs and their clients.

Recognising that there is a general growing demand for infrastructure funding emanating from municipal and other key infrastructure backlogs, refurbishment as well as Operations and Maintenance (O&M), enhancement of the Development Bank of Southern Africa (DBSA)'s funding capacity will assist in meeting the funding requirements in these priority areas.

The DBSA is challenged to deepen their development impact and in particular to increase support to poorer municipalities[1] which is also supported by the DFI Review Report recommendations. The DBSA also needs to take the initiative in funding O&M programmes in municipalities to address infrastructure collapse due to it reaching the end of its useful lifespan. In addition, the DBSA should take a lead in identification, origination, implementation and management of municipal infrastructure projects.

It is furthermore recognised that delivery on the initiatives identified in this Memorandum of Understanding (MoU) will contribute to the following priority strategic objectives identified in the Government's Medium Term Strategic Framework:

- More inclusive economic growth, decent work and sustainable livelihood;
- Economic and social infrastructure;
- Rural development, food security and land reform; and
- Cohesive sustainable communities.

Recognising the above-mentioned challenges as it in particular relates to poorer municipalities this MoU defines the **Framework of Reporting**, **Key Performance Indicators (KPIs)** and the projected **Loans Disbursement Mix** towards achieving the deepening of the DBSA's development impact.

[1] **Poor Municipalities:** These are group 2 and group 3 municipalities.
Group 2 municipalities (medium capacity): These municipalities have large towns as core (B2) and small towns (B3). The group is the second largest with respect to the size of backlogs for access to services. This group includes municipalities that do not have adequate financial resources to extend services in their areas. The potential to grow their capacity by increasing DBSA lending and crowding in of private sector lenders will be critical.
Group 3 Municipalities (low capacity): This group (B4) comprises of municipalities that are classified as mainly rural. There are 70 municipalities in this group which account for 53 per cent of historical backlogs in water, sanitation (69% backlogs) and electricity (34% backlogs). These municipalities require technical assistance and access to loan finance to create the necessary capacity to deliver new infrastructure, infrastructure refurbishment and managerial and institutional capacity.

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It is furthermore acknowledged that the requirements of this report supplement the existing strategic commitments and KPIs as reflected in the DBSA's 2009 Corporate Plan and should be incorporated in future Corporate Plans.

2 PARTIES RESPONSIBILITIES

2.1 The Minister of Finance agrees to:

2.1.1 Recommend to Parliament an amendment to the DBSA Act No 13 of 1997 to increase DBSA's callable capital to R20 billion;

2.1.2 Accommodate the increase of the callable capital in tranches in the DBSA Regulations as follows: R5.2 billion with immediate effect on promulgation of the DBSA Amendment Act, R5 billion in 2010/11 and R5 billion in 2011/12;

2.1.3 Consider acceleration in the vesting of the callable capital as and when prevailing circumstances warrant;

2.1.4 The Minister of Finance after consultation with the DBSA Board, reserves the right to decelerate the vesting of the callable capital should the intent of this MoU to deepen the development impact not be met.

2.1.5 Approve that the DBSA Regulation No. 44 be amended to include the use of authorised capital in the determination of the leverage ratio; and

2.1.6 Issue an interim Letter of Undertaking amounting to R15.2 billion in favour of the DBSA of which R10 billion may be accessed with immediate effect and the remaining R5.2 billion in financial year 2010/11. The Letter of Undertaking will lapse on promulgation of the DBSA Amendment Act.

2.2 The DBSA agrees to:

2.2.1 Deepen its development lending and other non financial support to municipalities (in particular to poor municipalities);

2.2.2 Expand its development lending to non municipal institutions (key national, provincial and municipal PPPs) for new infrastructure, refurbishment and operation and maintenance (O&M);

2.2.3 Undertakes to play a leading role in municipal infrastructure projects identification, origination, implementation and management;

2.2.4 Commit to provide the Minister of Finance with bi-annual Reports regarding its performance on developmental impact to poor municipalities;

2.2.5 Commit to a funding disbursement mix over the next five years as follows: R20 billion to high capacity municipalities, R8 billion to medium capacity municipalities and R7 billon to low capacity municipalities as illustrated in a disbursement mix structure in section 3 below;

2.2.6 Access the callable capital in tranches as follows: R5.2 billion with immediate effect on promulgation of the DBSA Amendment Act (this will effectively bring the total cumulative callable capital to R10 billion); R5 billion in 2010/11 (cumulative capital R15 billion) and R5 billion in 2011/12 (cumulative capital R20 billion);

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2.2.7 Should the need arise, provide the Minister of Finance with written submissions motivating for any deviation from the tranched release of the callable capital outlined above;

2.2.8 As part of its Corporate Plan submitted to the Minister of Finance on an annual basis, establish annual targets toward achievement of the cumulative projections presented in the diagram under section 3 below;

2.2.9 Report annually, as part of the DBSA's existing reporting to the Minister of Finance, on performance against the key performance indicators as defined in section 4 below.

2.3 General Conditions

2.3.1 The MoU shall remain in place for the duration of five years and will be reviewed annually when the need arises.

2.3.2 All the activities and operations of the DBSA should align with the mandate and objectives of the DBSA as stipulated in the DBSA Act 13 of 1997.

2.3.3 Given the country and the region's substantial infrastructure backlogs it is acknowledged that future growth may well exceed the projections upon which the Bank's request for capital enhancement is based, and it is therefore agreed that the DBSA's capital structure may be reviewed for further enhancement within the state's fiscal framework capacity.

2.3.4 The first R10 billion of the Guarantee to be utilized in the 2009/10 financial year and the remaining R5.2 billion to be utilized in 2010/11 subject to successful progress with the implementation of this MoU.

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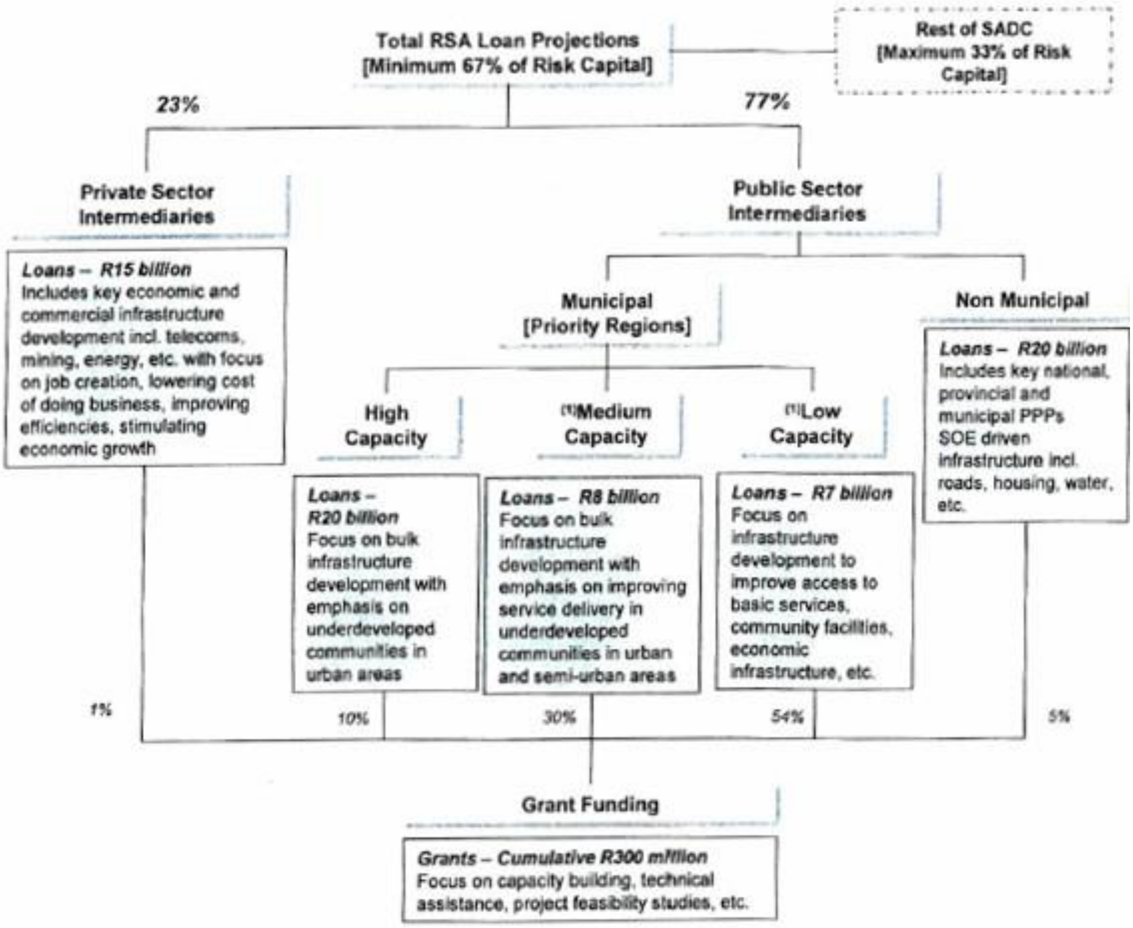
3. DISBURSEMENT MIX

The commitment for disbursement over the next 5 years shall be as illustrated in the diagram below:



3.1 Given the DBSA's primary role as financial intermediary it is recognized that success in delivering on the cumulative disbursement commitment as reflected above is predicated on two key factors:

- The local governments' and utilities' ability to execute their respective programmes diligently within the timeframes envisaged, to ensure uptake of the facilities available from the DBSA, notwithstanding demonstrable efforts by the DBSA as outlined in 3.2 below; and
- The Bank's continued access to sufficient and cost effective liquidity to ensure its continued ability to provide affordable infrastructure

PAGE 5 OF 8

development finance and provide for sufficient spending on key capacity building and institution building interventions.

3.2 In seeking to mitigate the potential impediments to successful delivery on the commitments outlined in the diagram above, the DBSA commits to:

- Taking the lead in identification, origination, implementation and management of municipal infrastructure projects;
- The continuation and expansion to the maximum extent possible, of its capacity building and other development interventions, specifically aimed at improving the institutional and financial capacity of weaker municipalities and ultimately enhance their ability to accelerate infrastructure development and improve service delivery through debt funding;
- Putting in place structures aimed at ensuring sufficient and diversified sources of market and bilateral funding, both through private and public funding vehicles; and
- Early identification and reporting on potential constraints beyond the influence of the DBSA that may impact on the Bank's funding commitments, with a view to engaging the National Treasury and other key stakeholders in pursuit of developing interventions to redress such constraints.

4. KEY PERFORMANCE INDICATORS

Table 1 below captures the additional KPIs linked to the deepening of development impact for which the DBSA Board in concurrence with the Minister of Finance will establish annual targets against which performance will be measured and reported on an annual basis. Table 2 captures development impact measures which will be measured ex post and reported on an annual basis.

Table 1: KPIs with ex ante annual targets set by the DBSA Board

Key Performance Indicator[2]	Annual Target	Actual per Annum	Cumulative Actual
Loan Approvals as per disbursement mix a) New infrastructure b) Operations and maintenance	Annual targets as established by the DBSA Board in concurrence with the Minister of Finance	Reporting ex post on performance against annual targets	Reporting ex post on cumulative performance against targets
Loan and Equity Disbursements as per disbursement mix a) New infrastructure b)Operations and			

[2] These KPIs should be classified in different categories of municipalities as indicated in the Disbursement Mix as illustrated in section 3 above.

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maintenance Technical Assistance Grants as per disbursement mix			
Grants to Development Fund deployed to poor municipalities per category of municipality	Annual targets as established by the DBSA Board in concurrence with the Minister of Finance	Reporting ex post on performance against annual targets	Reporting ex post on cumulative performance against targets
Private Sector Funds Crowded in per category of municipality			
Number of municipal employees trained on-the-job and through the Vulindlela Academy per category of municipality			

Table 2: KPIs for ex post measuring of- and reporting on development impact

Key Performance Indicator	Annual Impact	Cumulative Impact
Number of projects financed a) New Infrastructure b) O&M	Ex post measuring and reporting on impact achieved from operations on an annual basis	Ex post measuring and reporting on cumulative impact
Number of projects originated/prepared		
Number of households connected to basic services, viz 1. water 2. sanitation 3. electricity		
Number of direct jobs (both temporary[3] and permanent[4]) created through the programmes		
Length of roads refurbished/developed		
Number of households standing to benefit from bulk infrastructure provision		
Number of projects originated/prepared.		
Number of projects financed and completed.		
Number of municipal based employees equipped with accredited skills and able to apply it independently from the DBSA deployees.		
Number of SME's produced		
Effective utilization of O&M spending per category of municipality		
Reduction in number of breakdowns in		

[3] **Temporary Jobs:** Jobs within the projects or as a result of the project lasting for the duration of the project.

[4] **Permanent Jobs:** Jobs created as a result of the project with the prospect of them being ongoing, for an indefinite period. This need to be defined as full time or part time.

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the municipal infrastructure per category of municipality		
Increase in number of households with access to basic services per category of municipality		

6. COMMENCEMENT OF THE MEMORANDUM OF UNDERSTANDING

This MOU will be effective from the date of signature by the Minister of Finance and the Chairperson of the DBSA Board.

....
PRAVIN J. GORDHAN
MINISTER OF FINANCE
DATE: 23-11-2009

And accepted by:

....
MR JAYASEELAN NAIDOO
CHAIRPERSON: THE DEVELOPMENT BANK OF SOUTHERN AFRICA
DATE:

Annexure 6.5: Risk Management Assessment Strategy

Group risk management strategy

Given the immense challenges within the current environment and the role of the DBSA as a DFI, the overall strategic objective of risk management in the DBSA is to:

- *Ensure the sustainability* of the DBSA and its continued ability to play the role that it is mandated to play;
- *Ensure the sustainability* of the DBSA's interventions and the achievement of the desired development objectives and outcomes thereof.

These objectives are achieved through:

- Continuously building on and maintaining the DBSA's risk management capability.
- Hands on management of existing and emerging risks.

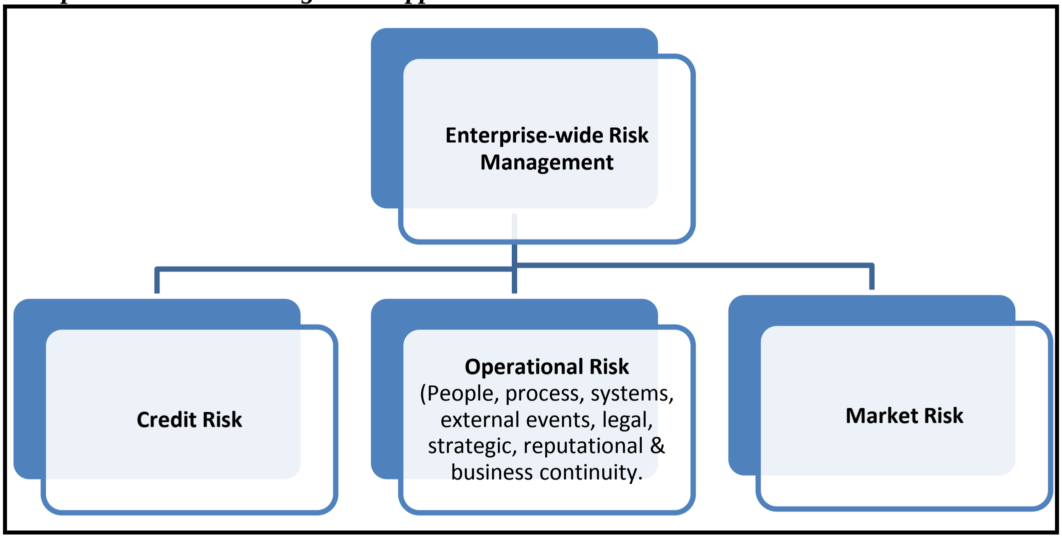
Risk management approach

The DBSA has adopted the Enterprise-wide Risk Management (ERM) methodology and approach to enable it to achieve its long-term risk management objectives. The process of risk management is reviewed on a continuous basis.

- Enterprise-wide Risk Management

  The Enterprise-wide Risk Management (ERM) approach (see figure below) enables an integrated platform for appropriate Risk Management processes, accountabilities and assurance, covering all of the DBSA's risk exposures. The DBSA broadly categorises its risk exposures into credit, market and operational risk, which also includes strategic, legal and reputational risk.

Enterprise-wide Risk Management Approach



Enterprise-wide Risk Management Governance Framework

The purpose of the ERM Governance Framework is to ensure that appropriate governance structures are in place to facilitate the efficient and effective management of all the key elements of risk management across the DBSA. The objectives of the ERM Governance Framework are to firstly clarify accountability for ERM and the respective ERM roles at all levels in the DBSA; and secondly, to ensure that adequate independence is maintained between the business operations, risk management, and internal and external audit for the effective and robust governance of risk. The ERM Framework as detailed in the figure below also provides a balanced and integrated view of risk and the management thereof.

ENTERPRISE WIDE RISK MANAGEMENT GOVERNANCE FRAMEWORK

RISK GOVERNANCE

BOARD OF DIRECTORS

The Board of Directors is accountable for the management of risk in the DBSA

BOARD SUB COMMITTEES

The Board's Audit Committee is mandated to oversee the implementation of the Bank's enterprise-wide risk management framework. The Board and its sub committees are assisted by the Group Risk Assurance Division in the execution of this mandate.

- Board Credit Investment
- Finance
- Audit
- Knowledge Strategy
- Human Capital

CHIEF EXECUTIVE OFFICER

RISK ASSURANCE

RISK and COMPLIANCE COMMITTEE/ RISK EXCO/ ASSET and LIABILITY COMMITTEE/ CORPORATE CREDIT COMMITTEE

GROUP RISK ASSURANCE

CHIEF RISK OFFICER

Divisional Executive

Credit Risk and Analytics

- Addresses the Bank's credit risk exposure
- Formulates the Bank's credit policy, develops models for the assessment and monitoring of credit risk
- Monitors the overall risk profile of the Bank's investment portfolio and operational risk within the credit process
- Assists the Bank to obtain and maintain credit ratings and minimize the cost of funding

Workout and Recovery

- Reporting on defaulting borrowers in the DBSA's client base
- Assists with the rehabilitation of defaulters
- In seeking to turnaround the non-performing loan book, it puts in place mechanisms to assist client's in rejuvenating their business so that they are able to honour their repayment commitments to the Bank

Legal Services

- Provides value-adding and professional legal advisory services to all of the Bank's processes, functions and operations
- This is to ensure that business decisions are informed by sound legal principals and that all legal risk concerns are addressed

Divisional Executive

Operational Risk

- Develops and implements tools to ensure the effective management of operational risks
- Minimises the Bank's exposure to operational risk by identifying assessing, mitigating, monitoring and reporting all operational risk exposures
- Business Continuity Planning
- Oversight of the overall risk profile of the Bank's operational risk exposure

Group Compliance

- Ensures that the Bank's operational activities comply with legislative requirements and regulations to which the Bank is subjected to
- Responsible for setting up systems of internal control to monitor and report the level of compliance with regulatory or legal requirements.
- It also sets compliance standards and ensures that these are adopted within the Bank

Internal/ External Audit

Divisional Executive

Internal Audit

Responsible for assisting management in making improvements to the system of internal controls which contributes towards achieving the overall business objectives. Provides reasonable assurance as to whether or not risks within the DBSA are being managed

External Audit

Provides an independent opinion on the Bank's Financial Statements and whether they conform to generally accepted accounting principals and fairly represent the financial position of the Bank

RISK CONTROL

BUSINESS REVIEW MEETINGS AND MANAGEMENT COMMITTEES

BUSINESS OPERATIONS MANAGEMENT AND STAFF

Executive Management

The executive management has the duty to plan, organise and monitor the implementation of risk management, enterprise wide and at divisional levels, including communicating expectations and setting standards for risk management.

Business Management

Management has the duty, as a standing arrangement at unit level and on an ad hoc basis at a project level, to identify, assess and respond to risk within their areas of responsibility and competence and within the scope of changes under their management, including supervising staff and incentivising ethical behaviour and monitoring and reporting on risk management performance and results.

DEDICATED DIVISONALISED RISK MANAGEMENT CAPACITY

The Divisional Head of Risk will execute risk policy set by the GRA cluster

Facilitation of risk management duties:

- Provide support to management in the maintenance of risk registers by way of facilitating the identification, assessment and treatment of risks
- Recommend and communicate risk policies to enforce uniformity in the treatment of significant risks across units
- Review and provide independent opinions on the quality of risk assessments
- Provide specialist services for the turnaround of distressed assets and recovery of outstanding debt
- Measure and report on the aggregated risk exposures across each business unit

Coordination of risk management capability enhancement:

- Encourage a risk aware culture and establish a common risk language
- Benchmark and recommend the systematic enhancement of risk management practices
- Drive the building of risk management competencies and skills and enabling infrastructure

Roles and Responsibilities for ERM

The ERM Framework is built around three key risk management capabilities, viz. risk governance, risk assurance and risk control. Different management levels are accountable for each of the capabilities, as outlined below.

- **Risk Governance**

  The Board of Directors and the CEO are accountable for the overall management of risk in the DBSA. They are supported in executing this responsibility by a number of Board subcommittees, *inter alia* by the Audit Committee which is mandated to oversee the implementation of the DBSA's ERM Framework.

- **Risk Assurance**

  The Board, its Committees and the CEO are assisted in this endeavour by the Chief Risk Officer and the Group Risk Assurance (GRA) Division, which provide the assurance of good risk management practices and governance. The GRA Division is responsible for building and maintaining the enterprise-wide ERM capability at all levels. It achieves this through the implementation and monitoring of ERM information, reporting, systems, processes, policies and competency building programmes, which collectively provide the Board with the assurance of the status of risks and the effective management thereof.

- **Risk Control**

  Executive Management are responsible for planning, organising and monitoring the implementation of ERM Governance Framework. Business units and divisional management are responsible for identifying, assessing, responding and reporting on risk management performance and results, at business and project levels. The GRA Division is responsible for guiding and facilitating the effective management of risk at the business and project levels.

Key risks

Within the current context, the DBSA Group's key risk exposures have been assessed and mitigation plans have been identified and implemented as detailed below:

DBSA Group Top Risk Profile					
Risk	***Mitigation***	***Likelihood***	***Potential Impact***	***Reporting responsibility***	***Target date***
Financial sustainability	Scenario planning, stress testing and shareholder engagement will anticipate risk impact as well as business opportunities. Liquidity management, tighter credit control and monitoring and prudent financial management will help to strengthen the DBSA Group's financial sustainability within the current climate.	Rare	>R300 million	Chief Financial Officer and group Executive: Treasury	Controls in place. Reviewed on a continuous basis
Ineffective and/or inefficient execution and delivery on mandate and strategy	Externally, ongoing engagement with the shareholder and other stakeholders, coupled with ongoing review of national strategies will enable the DBSA to anticipate national trends and changes. It will all assist the DBSA to manage unrealistic changes in the DBSA's mandate as a result of political changes. Internally, a consultative and aligned approach to strategy development, appropriate allocation of resource to achieve strategy, as well as continuous monitoring of strategy execution will improve delivery on mandate and strategy.	Rare	R100 million to R300 million	Group Executive: Group Strategy and Communications	Controls in place. Reviewed on a continuous basis
Decrease in asset quality ("sub-standard" credit portfolio)	Tightening credit control, monitoring the portfolio management processes, as well as monitoring of individual and portfolio exposures, will help to reduce failed business cases and management at client level. This will also help to reduce fraud and misrepresentation at client level. Strengthening the DBSA's Workout and Recovery functions will minimise losses and maximise recoveries.	Rare	R10 million to R100 million	Chief Risk Officer, Group Executives for SA Operations and International Divisions	Controls in place. Reviewed on a continuous basis
Business disruptions	Plans for business continuity, succession and talent management and systems back-up and disaster recovery will reduce the potential negative effect of business disruptions.	Unlikely	>R300 million	Chief Risk Officer and Group Executive: Human Capital and Technologies	Controls in place. Reviewed on a continuous basis
Systems failures	Disaster recovery on mission-critical systems and regular back-up of critical data will reduce the loss or unavailability of data.	Moderate	R10 million to R100 million	Group Executive: Human Capital and Technologies	Controls in place. Reviewed on a continuous basis

DBSA Group Top Risk Profile					
Risk	***Mitigation***	***Likelihood***	***Potential Impact***	***Reporting responsibility***	***Target date***
Inappropriate management information for decision-making	Clarifying allocation and ownership of data, coupled with data input validation controls, reconciliations and exception reports, as well as the automation of data extraction and analysis, will improve data quality and integrity.	Non-financial: Moderate Financial: Unlikely	Non-financial: R100 million to R300 million Financial: R1 million to R10 million	Executive Committee	Implementation of new operating system (SAP). Planned go-live date July 2010.
Increased fraud and corruption	Putting into place and continually reviewing policies, procedures and internal control systems will eliminate a breakdown in the control processes. Fraud awareness and forensic review capacity, coupled with internal audit reviews, will be enforced consistently to help reduce fraud.	Likely	R1 million to R10 million	Chief Risk Officer and Head of Internal Audit	Controls in place. Reviewed on a continuous basis
Decrease in organisational capability	The implementation and monitoring of a targeted and focused Human Capital Strategy, as well as a staff engagement process, will improve the DBSA's ability to attract, develop and retain the skills it requires. Effective performance management and utilisation of resources and skills will improve the ability of management to deal effectively with human capital issues.	Moderate	R10 million to R100 million	Group Executive: Human Capital and Technologies	Review of Human Capital Strategy: Target date Sep 2010 Implementation of revised reward and recognition system: March 2011
Non-compliance with all applicable legislation, regulation and statutory/ supervisory requirements	Implementing and embedding an established compliance risk management capacity, which develops policy, processes and systems, tracks new legislation, and monitors and reports on non-compliance, will reduce possible fines and penalties resulting from non-compliance as well as prevent reputational damage, as a result thereof.	Unlikely	R1 million to R10 million	Chief Risk Officer	Controls in place. Reviewed on a continuous basis
Unsatisfactory brand management and damage to reputation	A Media Engagement Policy and the appointment of a spokesperson to deal with media issues, as well as proactive media monitoring and environmental scanning, will help to reduce adverse media publicity. Confidentiality clauses in employment contracts will help to reduce confidential information leaks.	Unlikely	R100 million to R300 million	Group Executive: Group Strategy and Communications	Controls in place. Reviewed on a continuous basis.

Group Risk Management Strategy for 2010/11

The Group Risk Management strategy for 2010/2011 is to further strengthen the DBSA's risk management capability as well as the effectiveness of risk management, informed by the current volatile environment. Particular focus will be on:

- Strengthening the management and control of risk at the business and project levels.
- Reinforcing the risk governance capability at Board level.
- Integrating the ERM Governance Framework into the business planning and operations of the DBSA Group.

Given the Risk Management Strategy for the forthcoming business period, the effective management of risk will receive a much stronger emphasis in the operations business plans than in previous years. Additionally, the role of the Group Risk Assurance Division will expand from that of a group technical specialist function to the provider of specialist services to facilitate the strengthening and integration of risk management and control at operational levels; and improved decision-making at risk governance levels.

Annexure 6.6: DBSA funding plan and borrowing programme for 2010/11

The purpose of this document is to obtain the approval of the Committee for recommendation to the Board of the Bank's proposed Borrowing Programme for FY2011.

KEY POINTS

- Total borrowings for FY2010 of R7.6 billion well within the Board-approved maximum of R10 billion.
- Continuation of strategy to diversify and optimise funding sources.
- Recommended borrowing requirement for FY2011 of R12 billion.

FUNDING IN THE YEAR TO DATE

The Bank's funding activities so far in FY2010 are summarised below:

Funding: April 2009 to January 2010

Description	Amount (R mil)
Borrowings*	5 268
Repayments**	-438
Net borrowings	**4 830**

** Excludes carries*
*** Excludes money market issuance refinanced*

Borrowings for the year to date comprised of bond and money market issuance (including issuance of the new floating-rate note, the DVF12 maturing in 2012), drawings on credit lines, and private placements (both domestic and offshore). The Rand equivalent of total borrowings including net new money market issuance of R111 million for the financial year to date amounts to R5.3 billion[3] (R4.8 billion, net of capital repayments). Based on loan disbursements projected for the remainder of the current financial year, further borrowings of R2.3 billion will still be required during Q4 FY2010. This would bring total borrowings for the financial year to R7.6 billion, well within the Board-approved maximum of R10.0 billion. Borrowings are substantially lower than originally envisaged, primarily due to the substantial increase in liquidity cost leading to a review of the original intention to increase liquidity levels by circa R2.0 billion.

PROPOSED BORROWING PROGRAMME FOR FY2011

Derivation of borrowing requirements

The size of the annual borrowing requirements is driven by the following considerations:

- Loan disbursements;
- Loan interest and capital repayments;
- Debt service and repayments, operational expenses; and
- Liquidity requirements.

Estimates of the following variables are made:

- Interest income and expense, with floating-rate interest receipts and payments projected based on expected market interest rate changes and yield curve movements;
- Loan capital repayments received;

[3] *This excludes funds raised to refinance the DV07 maturing in September 2010*

- Debt capital repayments made;
- Operational expenses;
- Available liquidity at the start of the new financial year; and
- The average prudential liquidity level required for the duration of the financial year.

Given the nature of the Bank's business, the difficulties in predicting the timing of projected loan disbursements remains the single largest risk factor in as far as liquidity risk management is concerned, especially as it relates to beyond 12-months.

The projections below assume a rising disbursements trend from FY2011 to FY2013. Total loan disbursements are projected to be around ZAR45 billion over the entire period. Based on this, the total borrowing requirement for the period amounts to circa ZAR32 billion.

Borrowing projections

R mil	FY2010	FY2011	FY2012	FY2013
Beginning liquidity	**2 677**	**5 432**	**5 222**	**5 502**
Loan interest income	3 220	3 934	4 815	5 883
Loan capital repayments	2 863	3 554	4 754	7 007
Investment interest income	406	443	435	447
Other income	153	141	148	166
Cash inflows	**6 641**	**8 072**	**10 152**	**13 502**
Debt capital repayments	-1 649	-1 698	-677	-1 748
Debt interest payments	-2 019	-2 558	-3 273	-4 188
Operational expenses	-735	-803	-884	-962
Disbursements	-10 072	-13 575	-15 105	-17 043
Cash outflows	**-14 475**	**-18 634**	**-19 939**	**-23 941**
Grant to Dev. Fund & TA	-350	-390	-421	-467
Projected liquidity*	**5 432**	**5 222**	**5 502**	**5 540**
Borrowing requirement	**8 873**	**10 800**	**10 500**	**11 000**

**Liquidity levels projected is complemented by committed funding lines. This remains subject to Board approval of the revised policy, however.*

Provisional funding plan

The provisional funding plan includes drawing on lines of credit, bond market taps, money market issuance, and private placements. Actual funding will to a large extent be driven by expected disbursement outcomes, market demand for DBSA paper and pricing considerations. Whilst capital markets have stabilised and liquidity conditions have improved, the cost of funding for the Bank has not returned to levels seen prior to the height of the financial crisis during 2H 2008 to 1H 2009.

The Bank’s internal pricing is continuously adapted, however, to take into consideration both expected and realised spreads when allocating funding costs in the loan pricing process. Nevertheless, market realities and the Bank’s development ideals mean that the increase in funding cost is not in all instances fully recoverable from loans extended, in particular to structurally weak municipalities.

The specific tenures and interest rate bases (fixed vs. floating) of new debt issuance will largely be driven by client demand, as well as market conditions and in particular demand/supply imbalances and their associated cost impact at the time of issuance. Given muted investor demand for long term floating rate notes, borrower demand for floating rate funding is met primarily through swapping fixed coupon DV bond issues to floating in the derivatives market.

Given the volatile nature of public capital markets and the growing size of the Bank's funding requirements, the diversification of funding sources and the expansion of 'off-market' funding sources form a key component of medium- to long-term funding strategy. With respect to the latter, a total of R6.8 billion was available from currently available facilities, as depicted in the table below. It should nevertheless be noted that credit lines (with the exception of the PIC facility, which is a private placement facility) are typically geared towards very particular sectors, and therefore have restricted availability. During FY2010 the Bank issued a short-term Brazilian Real-denominated offshore note which post issuance stimulated substantial demand for further issuance. Whilst increasing the issue size was not considered optimal at the time, opportunities like these will continue to be explored in order to market the DBSA credit to international investors.

Funding facilities available – as at 31 December 2009

Facilities	**Loan currency**	**Amount (orig. currency mil)**	***Amount (ZAR mil)***	**Available (orig. currency mil)**	***Available (R mil)***
EIB Affordable Housing	EUR	30	*317*	22	*233*
EIB Muni Infrastructure	EUR	60	*635*	50	*529*
KfW Energy Infrastructure	EUR	50	*529*	50	*529*
JBIC Infrastructure	USD	200	*1 478*	181	*1 335*
KEXIM Korea Related Co.'s	USD	50	*369*	50	*369*
AFD Muni TIP	EUR	100	*1 058*	100	*1 058*
PIC	ZAR	3 000	*3 000*	2,700	*2 700*
Total			***7 386***		***6 753***

Domestic capital markets

Helped by massive monetary policy easing by central banks worldwide, the intense liquidity pressures in the capital markets eased substantially since 2Q 2009. Spreads on new bond issues and subsequent taps have narrowed as investor risk appetite picked up. That said, the liquidity premium embedded in bond spreads – in part reflecting a mismatch between issuers' and investors' pricing expectations – has not returned to pre-crisis levels.

In the bond market, the Bank has issued a total nominal amount of R4.9 billion worth of bonds in the financial year to date. As in the previous financial year, the Bank made the most use of tapping the DV22 (maturing 07-Feb-2020). The DV22 was tapped eight times via the regular monthly auctions, raising a nominal amount of R2.1 billion. The taps were done at increasingly lower spreads, moving from 168bps above the government benchmark in May to 140bps in January 2010 (this compares to a peak of 170bps in February/March 2009).

In addition to the DV22, the Bank also resumed issuance of the DV23 (27-Feb-2023) in May 2009. A nominal amount of R1.6 billion was issued via the regular monthly auctions so far in FY2010. In September, R300 million was privately placed via the DV13 (25-Aug-2013). Lastly, the Bank issued a new floating-rate note (FRN) in October, the DVF12 (13-Oct-2012). To date, this has raised a nominal amount of R910 million.

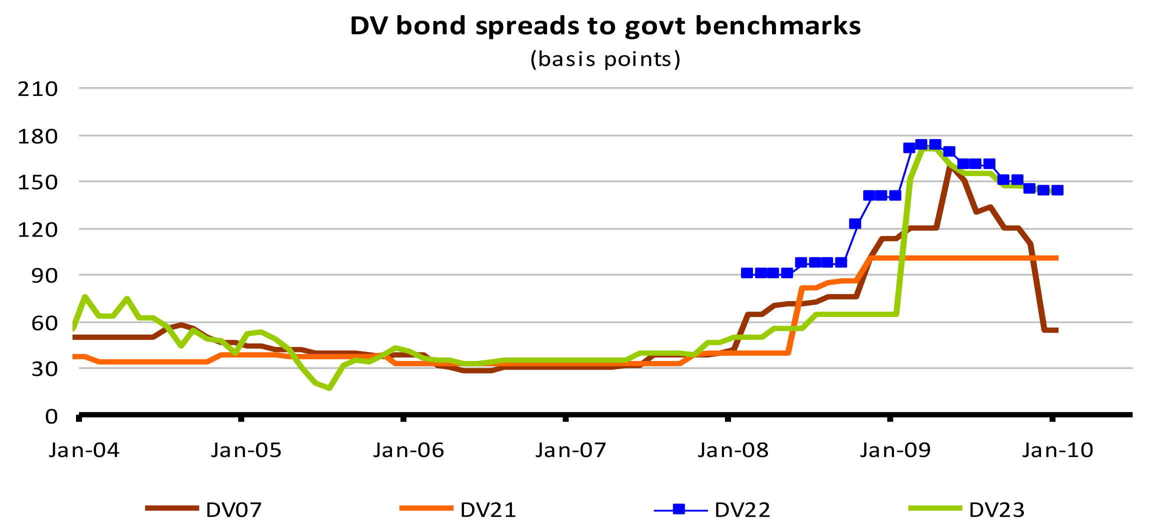
Given the upcoming maturity of the DV07 (30-Sep-2010), and following Board approval for refinancing through a switch into longer-dated DV bonds, a switch auction was undertaken in early December with the issuance of a total nominal amount of R1.4 billion worth of DV22, DV23 and DVF12 bonds to refinance a total face value of R1.2 billion of the DV07. This leaves a balance of R685 million of the DV07 to be redeemed in September 2010. Total borrowings incorporating the bonds issued toward the partial refinancing of the DV07 amounts to R6.6 billion (net R4.9 billion) for the financial year to date.

The pace of sourcing funding from the domestic money market was reduced in the financial year to date in order to contain the refinancing risk inherent in excessive short-term funding. Total net money market issuance was limited to R111 million, which compares to R2.3 billion for the entire previous financial year.

The size of the Bank's domestic medium-term note (DMTN) programme registered with the JSE (previously the Bond Exchange of South Africa) was increased to R35 billion from R15 billion in September. As evidenced in funding activities since the start of the financial year, the Bank makes full use of the flexibility of its DMTN facility. As an established issuer, it has ready access to the domestic capital markets with the relatively quick issuance of a range of exchange-listed instruments, both in short-to-medium and longer-term maturities. In addition to the facility offered by the DMTN, the Bank's funding sources are supplemented by its access to money market paper of up to 12-months maturity, as well as private placements in a diverse range of maturities and structures with minimal delay.

The chart below depicts the historical spreads of the Bank's outstanding bond issues above their respective government benchmarks. The spreads reflect where the Bank would be expected to fund in the domestic market. Given the Bank's regular issuance of the DV22 and DV23 versus the relative illiquidity of the other outstanding issues, the spreads of the former two represent the actual funding spreads attainable in the current environment. In both instances, the Bank's funding spread has receded from its heights of 175bps to around 140bps currently.

Chart 1: DV bonds spreads



Source: I-Net Bridge, DBSA

International markets

The bulk of the Bank's international debt issuance has thus far been limited to two long-term Euro/Rand bond issues maturing in 2027 and 2028, respectively. In September 2009, the Bank issued a BRL57 million note (USD30 million equivalent) through a private placement with a Brazilian financial institution. The placement was short term in nature (maturing 22-Dec-2010), and was issued at 6-month LIBOR+150bps (at the time, yielding 2.2%). Proceeds from the issue were swapped to USD to fund USD denominated lending in the broader SADC region.

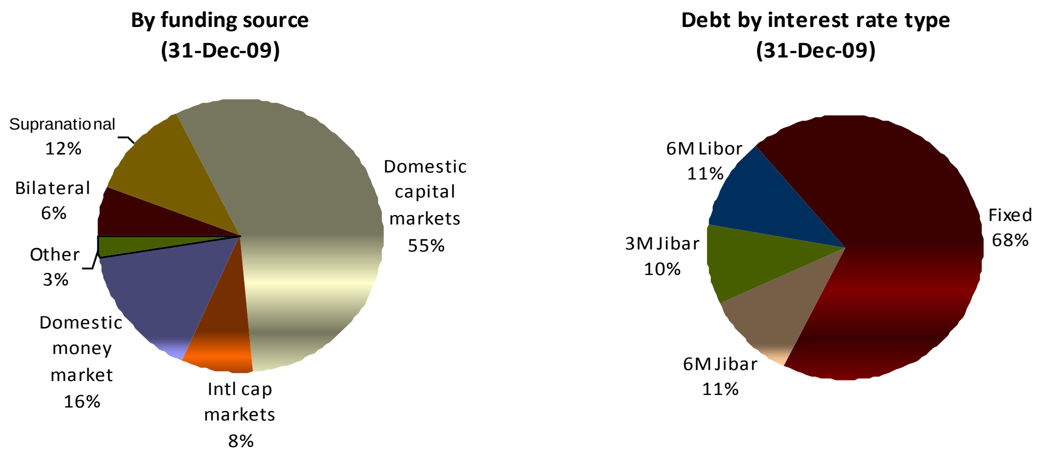
Selective private placements aside, conditions for public issuance in the international markets remain somewhat challenging. Investor risk appetite for emerging market debt indeed picked up throughout 2009, as evidenced by the 400bps narrowing of the South African sovereign credit default swap spread. Capitalising on this, the SA government made two Eurobond issues in 2009, achieving a spread of 375bps and 240bps above *U.S. treasuries* (at the time, yielding 6.88% and

5.85%, respectively). Considering that the DBSA would still pay a premium above where the sovereign issued at, such funding levels relative to the Bank's lending spread to clients makes this option currently not feasible. International issuance will nevertheless continue to be assessed in order for the Bank to take at advantage of any opportunities that may arise as investor risk appetite increases.

EXISTING DEBT PROFILE

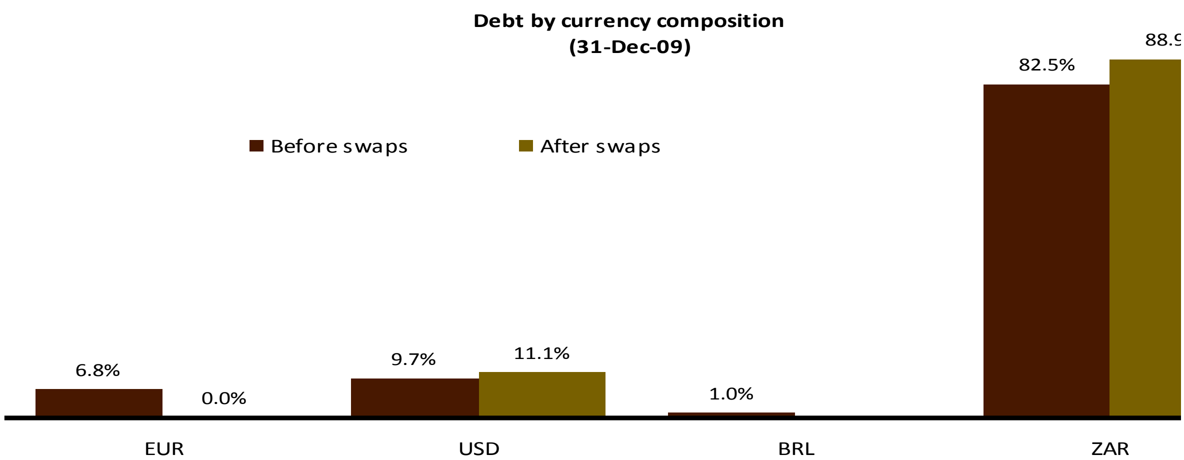
The charts below illustrate the split of total liabilities, amounting to R23.1 billion, by source and interest basis:

Chart 2: Distribution of outstanding debt by source & interest type



71% of total outstanding debt is sourced from the domestic money and bond markets. 68% of total outstanding debt is on a fixed-rate basis and 32% on a floating basis. The Bank's foreign currency exposures are hedged either through cross-currency swaps with approved counterparties, or naturally through offsetting loan investments. The chart below depicts the composition of the Bank's liabilities by currency, both before and after hedging.

Chart 3: Currency composition of liabilities



ASSET-LIABILITY MANAGEMENT

All borrowings are made with due consideration of the Bank's asset-liability profile and inherent interest rate and currency risk exposure from time to time. In recognition of the importance to strike a balance between maintaining interest rate risk exposure within acceptable risk parameters and achieving an acceptable return, the Board-approved interest rate risk structure as laid out below will continue to be followed:

- The Bank's 12-month cumulative re-pricing gap should at all times be contained to within 22.5% of total interest earning assets;

- The weighted average duration of the Bank's net assets (i.e. duration gap limit) should be contained to a maximum of five years;
- To contain longer-term net interest income volatility, the desired interest rate risk profile (net asset profile) should over time approach a uniform ladder structure. The latter is a risk reduction strategy in which a bond portfolio is constructed to have approximately equal amounts invested in each maturity within a given range in order to reduce interest rate risk.

Although funding options and flexibility remain limited relative to the Bank's product offerings to its clients, the depth and liquidity of the ZAR spot and derivatives markets, both with respect to interest rates and currency exchange afford the Bank a plethora of options through which to ensure that the overall risk exposure remains within the Board-defined interest rate and currency risk parameters governing the Bank's market risk management. It should be noted however, that the prevailing market anomaly where swaps are trading well below the government yield curve, substantially increases the basis risk inherent in hedging bond issues through interest rate swaps. At the same time the cross currency swap basis spreads remain significant and volatile, hence adding both substantially to the funding cost for USD-denominated lending, and uncertainty with respect to the all-in funding cost likely at any given time.

Risk management strategy is governed by the Board-approved hedging policy which limits the use of derivative instruments solely for risk management purposes and with respect to transactions aimed at achieving the desired risk and net income profile.

CREDIT RATINGS

Moody's revised the Bank's credit rating to A3 from A2 in September 2009, citing an alignment of its rating methodology and ceiling for state-owned financial institutions to that of the sovereign rating. The outlook remains stable. Fitch affirmed its rating and outlook in November 2009, while S&P is currently in the process of compiling its report (its ratings and outlook for the Bank were last affirmed in July 2009). All ratings are summarised in the table below.

Credit ratings

Agency	Type	Short term	Long term	Outlook
Fitch	National	F1+(zaf)	AAA(zaf)	Stable
Moody's	Foreign-currency issuer rating	Not rated	A3	Stable
Standard & Poor's	Foreign currency Local currency	A-2 A-1	BBB+ A+	Negative Negative

PROJECTED FUNDING REQUIREMENT

In support of the Bank's goals of accelerated development in South Africa and the broader SADC region, it is recommended that the Committee approve for recommendation to the Board total new borrowings for FY2011 amounting to R12.0 billion.

Whereas the funding maximum requested builds in some flexibility to allow for contingencies, the increasing demands placed on the Bank may well result in an increase in the current projections. Given the Bank's development finance role and shareholder expectations for the Bank to play an ever more prominent role during the current economic downturn and limited risk appetite from commercial financiers, such a scenario remains a distinct possibility. The approval of the Board will however be sought, should actual funding requirements exceed the proposed borrowing level.

Annexure 6.7: Materiality and significance framework

For the purpose of the interpretation of and compliance with the Public Finance Management Act, No 1 of 1999

	Proposed Framework	**Resulting figures for 2010/11[4]**	**Underlying principles**
Material for Section 55 – Disclosure, in the Annual Report, of: • Losses due to criminal conduct • Irregular expenditure • Fruitless and wasteful expenditure	**<u>Quantitative</u>:** 0.3% of Revenue Revenue is represented by 'Interest Income" per the DBSA annual financial statements	R10.1 million	• Each loss due to criminal conduct, irregular expenditure or fruitless and wasteful expenditure, as identified, will be evaluated in context of the expense category to which it relates to determine whether it qualifies for disclosure in the Annual Report, as required by Section 54. • In line with good business practice, as well as the requirements of the Act, the Bank is committed to the prevention, detection of and taking appropriate action on all irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct and expenditure not complying with the operational policies of the Bank (Section 51(1)(b)(ii)). To this end the Bank's systems and processes are designed and continually reviewed to ensure the prevention and detection of all such expenditure, irrespective the size thereof.

[4] Based on the latest audited financial statements

	Proposed Framework	Resulting figures for 2010/11[4]	Underlying principles
Significant for Section 54 – Information and approval by the Minister of "qualifying transactions", i.e.: • participation in a significant partnership, trust, unincorporated joint venture or similar arrangement; • acquisition or disposal of a significant shareholding in a company; • acquisition or disposal of a significant asset; • commencement or cessation of a significant business activity; and • a significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.	**<u>Quantitative</u>:** Approval from the Executive Authority is required for the following equity transactions: • Direct equity investments resulting in a shareholding of at least 20% in a company. • Regardless of the percentage holding, a direct equity investment exceeding 7.5% of total assets (as at the previous financial year) of the Bank.	R3.028 billion	• The PFMA is not intended to affect the autonomy of the organisation, but its stated objectives are to ensure transparency, accountability and sound management of revenue, expenditure, assets and liabilities of the institutions to which the Act applies. Therefore, the legislature could not have intended for the public entities to report and seek approval on matters of a daily basis. • The business of the DBSA is conducted within the framework of the mandate, objects and powers contained in the DBSA Act, as well as the business and financial direction set out in the corporate plan. • The DBSA also has defined accountability and approval structures from the Board, asthe shareholder representative, to the CEO and management. • The responsibility for the day-to-day management of the DBSA vests in line management through a clearly defined organisational structure and through formally delegated authorities.

Annexure 6.8: DBSA Employment Equity Plan

The purpose of this annexure is to provide National Treasury with the approved DBSA Employment Equity (EE) Plan[5] as required per Practise Note 4 of 2009/10.

DBSA's employment equity vision

In support of the overall DBSA Vision 2014, the EE vision is to build a team of the highest quality of employees that represents the demographics of the country.

The EE Plan has been developed and will be implemented to enhance the achievement of the EE vision. This vision is in line with the DBSA's strategic objective of continuing transformation by employing staff in line with employment equity requirements. The vision will be realised by implementing the non-numerical goals contained in the Bank's EE Policy and the EE numeral goals and measures contained in this document.

Lessons learnt from the implementation of DBSA's first EE plan

The implementation of first EE Plan has resulted in the following lessons learnt:

Classification of staff into various job categories and levels

The practice of the Bank is to classify its staff into three main categories, namely management, professionals and support. However, for the purposes of Employment Equity Act (EEA), the DBSA in its first EE Plan has further classified its staff as follows:

- Top management (comprising executive management);
- Senior management (comprising business unit managers);
- Professionals;
- Skilled technical (comprising all coordinators and administrators);
- Semi- skilled (comprising all the secretaries and messengers); and
- Unskilled (comprising general assistants).

As a result of this classification, the DBSA realised in its first workforce profile analysis which set the base for setting its first five-year EE numerical targets that both the professionals and skilled technical job levels were not EE compliant. They were skewed towards the non-designated groups.

The lessons learnt on the classification of employees, according to the requirements of EEA, are that job grading of employees should take the lead during the classification process. This has been implemented in re-setting EE numerical targets in this second phase and has resulted on certain staff members being moved to different job levels. The senior management job group is categorised as employees within a certain job grade and not necessarily business unit managers only (also includes professional staff that are within Paterson D1 upwards or Hay Range of 735 – 1 800).

The result of this classification resulted in an under-representation of designated groups in the senior management job group.

[5] Source: Employment Equity Plan, approved 28 March 2007

Methodology of setting EE numerical targets.

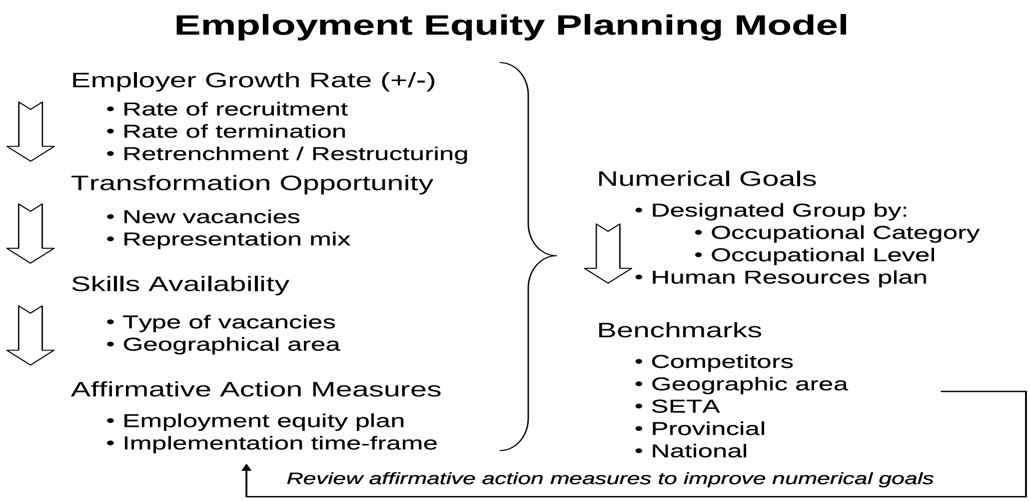
The methodology was developed to redress employment equity in terms of designated groups. The approach followed was the setting up of numerical targets separately for each job family since each job family draws on different skills/disciplines, which in turn is subjected to different trends pertaining to supply and demand. The total Bank numerical targets were taken as the aggregate of all the goals for different job categories.

The lesson learnt was that the implementation of this methodology has resulted in the setting of unattainable targets and that it did not cater for setting of yearly Bank-wide targets. As a result, it was difficult to achieve the set targets and to monitor progress made. In this second phase of target setting, this methodology has been refined to address these problems as set out in section 6 below.

Numerical goals (2008 to 2012)

The purpose of these goals are to redress employment equity in terms of designated groups where they are under-represented and to maintain the demographic representation where a balanced staff profile has been achieved within job families. The numerical targets are spread over a five-year period commencing from 2007/2008 to 2011/2012 financial years.

Factors covered by the methodology



- **Growth rate**

  The first factor to consider in setting numerical targets was to determine the yearly growth rate of the DBSA over a five-year period. The business plan and strategy of the organisation was the determining factor, however, the rate of recruitment and termination[6] during the past year(s) also provided a clue as to what rate will be appropriate. This rate is expressed as a percentage of the current headcount. An average of 3% growth in employee numbers was assumed for the duration of the goals.

- **Transformation opportunity**

  The next factor to be considered was the transformation opportunity of the Bank. The transformation opportunity is determined mostly by the growth rate of the organisation. An organisation with a positive growth rate will have new vacancies which may be utilised to address areas of under-representation in the workforce profile by appointing people from designated groups (African, Coloured, Indian, women and people with disabilities).

[6] Includes retirement and resignations as well as death.

The transformation opportunity was further determined, not only by the number of positions available, but also by the Bank's practices7. An analysis of the DBSA recruitment profile in terms of designated groups provided some insight into the possible transformation opportunity, given that the past statistics reflect the current status quo of recruitment practices. The normal practice is that unless the affirmative action measures of the organisation include changes to recruitment and promotion policy or procedures, this status quo can be expected to continue and the numerical targets should account for the practice to ensure realistic goals.

The transformation opportunity was finally determined by the termination profile of designated groups. The rate of retention of designated employees has a direct impact on the organisation's ability to transform. If there is a high rate of resignations by employees from the designated groups, the organisation will only be replacing designated employees with other designated employees, instead of making inroads to alleviate under-representation.

- **Skills availability**

  The third factor considered in determining numerical targets is the skills required to fill vacancies which are expected. In certain skills or job categories, there is a scarcity of skills amongst employees from designated groups. These include Engineers, CA's and other Specialists.

  The skills availability factor for the type of vacancies which are expected in future should be taken into account when setting numerical targets.

  Skills availability can also be a factor of the geographic area where the vacancies are available. Having workplaces with available vacancies in remote geographic locations could herald problems in attracting designated employees to apply for these vacancies.

- **Affirmative action measures**

  The final factor to be considered was the impact of affirmative action measures which will be included in the employment equity plan to remove employment equity barriers. These measures should be quantified and applied to the workforce profile for inclusion in the numerical targets.

  The above steps were applied in deriving the yearly DBSA EE numerical targets. The numerical targets were then evaluated against available benchmarks, as well as determining if these goals represent sufficient progress in terms of removing the current under-representation in the workforce profile and were included in the employment equity plan as is.

  These numerical targets will be supported by the human capital strategy and are in the process of being cascaded down into business unit's EE targets so that these targets can be achieved.

DBSA five-year EE numerical goals

The following table outlines the numerical targets for improving the demographic profile of designated groups across occupational categories.

[7] Norms and trends which are not entrenched by the policies.

Table 1: Summary of the 5-year EE Numerical Goals

	Black						Black Female					
Occupational Categories	**Base**	**2007**	**2008**	**2009**	**2010**	**2011**	**Base**	**2007**	**2008**	**2009**	**2010**	**2011**
Top Management	85.7% (7)	85.7% (7)	85.7% (7)	85.7% (7)	85.7% (7)	85.7% (7)	42.9% (4)	42.9% (4)	42.9% (4)	42.9% (4)	42.9% (4)	42.9% (4)
Senior Management	37.4% (52)	40.4% (57)	43.4 (61)	46.2% (67)	49.0% (72)	51.7% (77)	15.8% (19)	17.0% (21)	18.2% (23)	19.3% (25)	20.4% (27)	21.5% (29)
Professionally qualified	70.0% (156)	74.1% (172)	78.0% (188)	81.6% (198)	84.9% (220)	88.1% (236)	32.7% (61)	34.5% (65)	36.1% (69)	37.6% (73)	39.0% (77)	40.3% (81)
Skilled technical	59.0% (59)	60.6% (63)	62.0% (67)	63.4% (71)	64.7% (75)	65.8% (79)	44.0% (39)	42.3% (39)	40.7% (39)	39.3% (39)	37.9% (39)	36.7% (39)
Semi skilled	91.8% (56)	92.1% (58)	92.3% (60)	92.5% (62)	92.8% (64)	93.0% (66)	62.3% (35)	60.3% (34)	58.5% (33)	56.7% (32)	55.1% (31)	53.5% (30)
Unskilled	100.0% (13)	100.0% (13)	100% (13)	100.0% (13)	100.0% (13)	100.0% (13)	92.3% (12)	92.3% (12)	92.3% (12)	92.3% (12)	92.3% (12)	92.3% (12)
TOTAL Permanent	63.0%	65.9%	68.6%	71.2%	73.6%	76.0%	35.4%	35.9%	36.4%	36.9%	37.3%	37.7%

Table 1 above illustrates the DBSA five-year numerical targets from year 2007 to 2011. In summar,y this table indicates that:

- The Bank will maintain the demographic representation achieved in the top management job family by race and gender.
- The under-representation of Blacks in the senior management will be significantly improved from 37.4% to 51.7% by 2011.
- The DBSA will have exceeded the numerical targets of Blacks as legislated (43%) in the employment equity scorecard by 8.7%.
- The under-representation of Black female in the senior management is expected to increase 5.7% from 15.8% to 21.5%.
- It is expected that the professional job family will be employment equity complaint as the representation of Blacks will be at 88.1%, which is exceeding their representation in the Economically Active Population.

It is expected that by the end of the five year period, the Bank will have been able to make significant progress in addressing the representation of Blacks in both the senior management and professional job families and would maintain the demographic representation achieved in the top management job category.

The projected figures for recruitment of people with disabilities are reflected in the various tables. The representation of employees with disabilities is expected to comprise of 2% of the total workforce.

In order to achieve this representation it is critical for the Bank to achieve the minimum yearly targets set for the recruitment of people with disabilities.

Strategies to achieve numerical targets

The Department of Trade and Industry gazetted final BEE Codes of Good Practice. The basis for the BEE Codes is a scorecard which measures seven areas of business performance. The basis for the BEE Codes is a scorecard which measures seven areas of business performance. These include:

- Ownership.
- Management and control.
- Employment equity.
- Skills development.
- Procurement.
- Enterprise development.
- Socio-Economic development.

The employment equity scorecard accounts for 15 of the total 100 points contained in the scorecard. Table 2 reflects measurement criteria that apply to employment equity:

Table 2: EE Scorecard measurement criteria

Measurement Category & Criteria	Weighting points	Compliance targets	
		Years 0 - 5	Years 6 -10
Black Disabled Employees as a percentage of all employees	2	2%	3%
Black employees in Senior Management as a percentage of all such employees using the adjusted recognition for gender	5	43%	60%
Black employees in Middle Management as a percentage of all such employees using the adjusted recognition for gender	4	63%	75%
Black employees in Junior Management as a percentage of all such employees using the adjusted recognition for gender	4	68%	80%

For each target a threshold value of 40% of the total target apply. If an organisation has a lower representation than the threshold value, no points are awarded in that measurement category. The targets refer to adjusted recognition for gender, which is calculated by the following formula:

(Black representation/2) + Minimum (Black female representation OR 50% of the target).

If an organisation achieves the maximum points in all of the measurement categories, an additional 3 bonus points are awarded.

The BEE scorecard provides organisations with definitive employment equity targets, aligned to the Economically Active Population of South Africa for the next ten years.

These changes resulted in a need to review the DBSA numerical goals in order to produce goals in the format required by the new employment equity regulations and to evaluate the numerical goals in terms of the BEE scorecard.

Table 3: How DBSA Score in relation to scorecard

Indicators	Weighting points	Compliance targets	DBSA: Recognition	DBSA Score 0-5 Years	DBSA SCORE 6-10 Years
Black people with disabilities	2	2%, 3%	0%	0	0
Black employees at Senior Management	5	43%, 60%	38.15%	4.44	3.18
Black people at Middle Management	4	63%, 75%	67.58%	4	3.85
Black people at Junior Management level	4	68%, 80%	64.68%	3.80	3.53
Employment Equity Score	15			12.24	10.56

Table 3 reflect that DBSA scores very well on most of the indicators for the 0 – 5 year targets, except for Black people with disabilities. In this category the Bank does not even achieve the threshold value of 0.8% in order to receive any weighting points.

In terms of strategies to achieve the numerical goals of the DBSA, the following three areas of priority have been identified:

- Appointment of Black people with disabilities.
- Appointment of Black senior managers and professionals.
- More detailed human resources planning to ensure that all department contribute to the achievement of DBSA's numerical goals.

Appointment of Black employees with disabilities

The representation of Black people with disability and their targets as per the employment equity scorecard are as follows:

- Current situation: 2 employees (1 White, 1 Black)
- Threshold (0.8% representation): 4 Black people with disabilities
- 5 Year compliance target (2%): 10 Black people with disabilities
- 110 Year compliance target (3%): 15 Black people with disabilities

From the above statistics, the targets that DBSA should strive for is very clear. The first priority will be to achieve at least the threshold value by appointing three more Black people with disabilities in the short term. During the next five years we need to employ six more Black employees with disabilities.

The DBSA have done sensitisation workshops to encourage the employment of people with disabilities in the past (blindfolded participants, wheelchair usage, etc.), However, the Bank has had very little success in terms of the appointment and retention of employees with disabilities to show as a result of these workshops.

In addition to sensitisation workshops, the DBSA have partnered with recruitment organisations, specialising in the placement of people with disabilities, to assist with the sourcing and appointment of people with disabilities. The main problem is the persistent stereotypes towards people regardless of the merit of individual candidates. There are many examples of people with disabilities who applied with very impressive CV's, but in the end were not appointed by the DBSA.

What can the DBSA do to increase our success rate with the appointment of people with disabilities? The following initiatives are proposed:

- Research (to identify role models) of where people with disabilities are employed in our industry and the availability of employees with disabilities who have the required skills and experience.
- Communicate the BEE scorecard to all managers and build the employment of people with disabilities into the management performance contracts, then allocate additional bonus points for employing people with disabilities.
- Identify the divisions/clusters wherein people with disabilities can be easily accommodated such as but not limited to:
    - Human Capital and technology.
    - Research and Information.
    - Risk.
- Conduct an analysis of approved new vacancies to identify opportunities for the appointment of people with disabilities (target of 3 vacancies out of the 77 approved vacancies for 2007).
- Adopt a personalized approach reasonable accommodation for appointment of people with disabilities, depending on the needs of each job applicant.
- Target the Young Professionals programme to include at least 2 people with disabilities for the next intake.
- Consider bursaries for people with disabilities –the DBSA currently finance colleges and universities and this may present us with opportunities to develop people with disabilities.

The main barrier to the employment of people with disabilities has been identified as the mindset of business unit managers who make the final recruitment decisions. To address this problem, a compulsory management workshop will be hosted by the human capital management unit to achieve the following objectives:

- Demonstrate the Bank's commitment to employment equity, BEE and the appointment of people with disabilities.
- Provide a clear definition of people with disabilities.
- Invite role models from companies who employ people with disabilities who have similar skills to those required by the DBSA, to address managers.
- Explain the BEE scorecard and how this will be incorporated into the performance contracts of all managers in the DBSA.
- Present the DBSA's numerical goals for employment equity.
- Present opportunities (areas where we can accommodate people with disabilities, approved vacancies that will be targeted, etc.).
- Invite organisations who provide recruitment and other services related to the employment of people with disabilities to share their experiences and expertise.

This workshop may be incorporated in one of the existing management forums to ensure 100% participation by all DBSA decision makers.

Appointment Blacks senior management and professionals job levels

The workforce profile analysis reflected identified historical factors as the main reason why there are still some business units with very low or no representation of Black employees.

These reasons include:

- Restructuring, which resulted in existing employees from non-designated groups being lumped together in one unit.
- Reluctance to engage in skills transfer to Black people due to lack of implementation of mentorship and succession plan interventions.

In addition to these factors, the DBSA's recruitment efforts were hampered by:

- The recruitment process are taking too long – the best candidates invariably end up not being available for appointment by the time an offer is made.
- The specified skills set in our job advertisements are very rare to find.
- The DBSA is not currently branded as an employer of choice.
- The DBSA's remuneration not being competitive in certain job categories, such as in level D professionals where many candidates decline the Bank's employment.
- The DBSA's benefits are not good enough for prospective employees.
- The DBSA's performance related pay is not competitive.

For existing employees the DBSA's flat organisational structure result in a lack of opportunity for career progression, with the result that the Bank is not able to retain Black employees with potential. Some specialist positions in the DBSA present additional challenges for example:

- It is difficult and takes a very long time to develop employees up to 'guru' level of specialisation.
- The DBSA cannot attract specialists who meet job requirements.

Historically, the DBSA have shown a preference for outside recruitment, rather than giving existing employees the opportunity to develop. The result is that people leave the DBSA for promotional opportunities in other organisations, but would not have been considered for those same positions in the DBSA.

In the past, DBSA offered early retirement to non-designated people who could not be replaced, with the result that they had to be contracted again to continue in their previous positions. Although some of these experienced employees are prepared to do mentoring, many refuse to develop others. The excuses include:

- being very busy.
- the person who needs to be developed is not suitable.
- the performance criteria for bonuses do not allow time for mentoring or developing others.

The DBSA do have current projects to address some of the problems identified above, including:

- The reward and recognition project.
- Organisational leadership and talent search project.
- Regular capability assessments.
- Targeted development programmes, which resulted in the successful appointment of people

In addition to these initiatives, the following strategies must be considered to improve the representation of Black employees in the senior management and Profession job categories:

- Approved new level D headcount positions that could be earmarked for the appointment of Black employees.
- Educate management about the definitions for employment equity and BEE reporting (Occupational Levels vs DBSA's grades).
- A renewed and integrated implementation of succession planning:
    - To target those business unit/clusters that are not doing well with specific focus on:
    - The effective implementation of succession planning in the DBSA.
    - Ensuring skills transfer to employees, in line with the numerical goals.
    - Supported by a formalised mentoring programme.
    - Linked to the current skills and competency projects.
- Creating career growth opportunities through:
    - The development and implementation of a comprehensive retention strategy for Black Senior Managers and Professionals
    - The implementation of a revised reward framework
    - Implementation of coaching and mentoring, with due consideration for the reasons why the current initiatives does not work
    - Implementation of succession planning, taking into consideration the weaknesses of the current attempts at succession planning
    - Implement policies and procedures to ensure that the focus of the organisation is more on the promotion of existing staff, rather than external recruitment
- Identify employees with potential now, and then develop them with a long term objective to appoint senior managers from within the DBSA, by introducing formalised human resources planning in all departments. Include the identification of imminent retirements, and:
    - Implement a transfer of skills strategy, aligned to performance management objectives
    - Identify flagship projects to pair high potential employees up with experienced managers
    - Identify and fast track employees with potential to become senior managers in next 5 years in line with our numerical goals
    - Implement a programme of planned job experiences with actual deliverables to fast track employees with potential.

Human resources planning

The introduction of proper human resources planning will help the DBSA to achieve its long term business objectives, while also transforming the employee profile to better reflect the Economically Active Population of South Africa. The Bank as a State Owned Enterprise has the duty to implement the laws of the country and to be seen as a role model for other organisations.

To achieve this ideal, the DBSA need to:

- Introduce detailed human planning for all departments with more than 10 employees, with specific reference to those with less than 50% Black representation.
- Identify more positions in CFO and CRO where most of our recruitment activity happens and it may be easier to transform the employee profile.
- Produce regular statistics to provide detailed recruitment targets based on the BEE Scorecard.
- Monitor and evaluate our progress against numerical goals on a regular basis and incorporate the measures into the performance contracts of all managers.

Affirmative action measures:

Of the total appointments, 90% will be assigned to the designated groups. DBSA will concentrate on individual designated groups (Africans, Coloureds, Indians and people with disabilities) through targeted recruitment practices to address their under- representation. To this end, the DBSA workplace skills plan will have to be aligned with the numerical goals and employment equity objectives to ensure effective affirmative action.

To create an enabling environment where all stakeholders are empowered to implement affirmative action measures to achieve the numerical goals, the current employment equity policy should be communicated to all stakeholders. This policy holds all managers in the DBSA accountable for the implementation of affirmative action measures and achievement of the numerical goals. The progress made towards achieving the Bank's numerical goals will be included in regular executive reports and the balanced scorecard (learning and growth area) of every manager.

To achieve these numerical goals the DBSA we have to address budgetary constraints by ensuring that all affirmative action measures are properly budgeted for in our business plans. This is only possible if the EE Plan and the EE Policy are effectively communicated to Executive Management so that they can ensure that Unit managers implement these interventions in their respective units.

Procedure and implementation mechanisms

The responsibility and accountability for the ultimate implementation of these employment equity numerical goals rests with the Chief Executive and Managing Director. Executive Management has also been identified as key players necessary for the achievement of these goals.

The manager of Organisational Leadership and Talent Search Unit is assigned as the person responsible for driving the process of constructing employment equity numerical goals and for monitoring the implementation and continuous revision of these goals.

Organisational Leadership and Talent Search Unit shall monitor the DBSA workforce profile with regard to representation, the Employment Equity process and Human Capital needs. It shall further conduct regular communication on the process and strategies to achieve employment equity, as well as monitoring of progress in terms of both numbers and affirmative action and ensure that employment equity is sustainable as an ongoing part of the DBSA's operations.

Management shall meet with the Union through the Union/Management consultative forum on a quarterly basis on an agreed date, for the purposes of discussing the quarterly management report and any other issues relating to employment equity.

Any disputes about the interpretation or implementation of this plan will be dealt with in terms of an existing Bank grievance procedure.

Conclusion

The DBSA can be proud of its achievements in transforming the organisation to date. We have, however identified certain areas where the organisation failed to live up to its own high standards. These include:

- The appointment and development of people with disabilities.
- The representation of Black employees in Senior Management and Professional levels.
- Certain departments were left behind in the transformation process and have not transformed at all.

In this document we have identified most of the reasons for these failings and they have one underlying common denominator: lack of effective implementation. The DBSA as an organisation have the means, the best practice human resources policies and procedures as well as the top management and stakeholder commitment to transform.

Our main weakness as an organisation in this instance is that we have not adopted a formal approach to long term human resources planning, which involve all managers, in order to support our organisation's mandate, objectives and strategies. This report highlighted certain strategies, which if we adopt them and ensure effective implementation, will position the DBSA as an employer of choice in South Africa and help us to achieve our numerical goals for employment equity.

Annexure 6.9: DBSA Environmental Plan

The DBSA's environmental policy aims to ensure that its programmes and projects are socially responsible, environmentally sound and in line with government requirements. In addition, the Bank also monitors the environmental impact of its internal activities to ensure that they are environmentally sound. The detailed "DBSA Environmental Sustainability Strategy" is available on request.

Environmental management

The DBSA's environmental management processes for internal operations are based on ISO 14001, the International Organisation for Standardisation's key standard in this area. During the 2008/09 financial year, the Bank for example focused on energy consumption in terms of its environmental policy for facility management. It commissioned an energy audit to establish its carbon footprint and guide its efforts to improve energy efficiency by using appropriate equipment and promoting appropriate behaviour on the part of its employees. In response to the recommendations of the audit, the Bank refitted its office building with energy-efficient lights and installed solar water-heating systems. The Bank is also formalising its reporting process by implementing the IsoMetrix Management System, which in future will provide data on all key environmental factors, namely water and energy consumption, paper use, waste management, carbon footprint (including business travel emissions), land and biodiversity management, occupational health and safety, and environmental accounting. This reporting will be guided by the Financial Sector Supplement to the Global Reporting Initiative (GRI) for environmental management in the financial sector.

Environmentally sustainable operations

The DBSA remains a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI), a global partnership between UNEP and the financial sector aimed at fostering environmental and social awareness in this sphere. The initiative has over 170 signatories among development finance institutions, commercial banks, fund managers and insurance companies worldwide. In line with its commitments under UNEP FI, the Bank reviewed its environmental appraisal procedures during the previous financial year to reflect international good practice and aligned the related policy requirements with the legislative and regulatory requirements for environmental impact assessments in South Africa and the southern African region. The review considered the views of key local and international stakeholders. One of the main changes flowing from the review is the strengthening of the environmental requirements on financial intermediaries to ensure that on-lending activities are done in a socially responsible and environmentally sound manner.

The DBSA's policy requires all programmes and projects to undergo a rigorous environmental appraisal as part of the broader investment appraisal process. The Bank adhered to this requirement during the year under review, underscoring its commitment to sustainable development in terms of the Millennium Development Goals.

The Bank continues to broaden its support for the development of environmentally friendly infrastructure, mainly in the energy sector. The examples below highlight some of the sustainable energy initiatives funded by the Bank, several of which have been or are being registered under the Clean Development Mechanism (CDM). The CDM is one of three flexible mechanisms established under article 12 of the Kyoto Protocol to enable the trading of carbon credits or credits for carbon emission reductions. The CDM benefits developing countries through the transfer of clean(er) technology, foreign direct investment, income streams for the sale of emission reductions or certified emission reductions, and the overall improvement of environmental quality or performance.

Sustainable energy portfolio

MethCap Project: The project involves the use of biogas to generate electricity for on-site use by PetroSA, the South African national oil company. The project is expected to have an annual emission reduction of 29 933 tCO2e. The total project cost was R23 million and the DBSA provided R16 million in loan financing.

Hernic Ferrochrome Cogeneration Project: The project involves the use of the flue-gas (carbon monoxide) to generate electricity. Currently, the flue-gas is flared, resulting in greenhouse gas emission. The projected certified emission reductions and tCO2e emission reductions are yet to be calculated and confirmed. This will be the first CDM project in the North West.

Bio 2 Watt (Pty) Ltd*:* The project involves the use of biogas generated from manure and other organic waste products of intensive livestock farming. The Bank provided a technical assistance grant of R380 000 towards the development of a detailed business plan.

NOVA*:* The DBSA provided a technical assistance grant of R130 000 to the NOVA Institute for a Highveld air quality project. The estimated emission reduction is 16 285 tCO2e through the reduction of coal usage.

Kouga Wind Energy Project, Jeffreys Bay*:* The DBSA contributed R400 000 to the project to fund the feasibility and environmental impact assessment studies. Environmental authorisation was granted by the Eastern Cape provincial government in March 2009.

Annexure 6.10:
DBSA Development Fund

DBSA Development Fund

Corporate Plan
2010/11

February 2010

1. EXECUTIVE SUMMARY

The Development Fund (DF) is a project based entity within the DBSA, comprising of programmes or units aimed at addressing human and institutional capacity failure within municipalities, communities and local economies. Each of these units is mandated to maximise the development impact of their interventions, whilst there is a continuous effort to harness synergies and cross-unit coordination. Siyenza Manje (SM) remains the most important and most heavily resourced initiative. Other units include Vulindlela Academy, Agency Unit, Sustainable Communities, Local Economic Development Initiative and Project Management Unit.

2. STRATEGIC OVERVIEW

2.1. The DF as an organisation

The DBSA Development Fund is a section 21 company established by the Development Bank of Southern Africa (DBSA) in 2001. Initially the fund provided funding to municipalities to address institutional, financial and human resource capacity constraints. In 2006 the strategy of the fund was reviewed to focus on providing hands-on support and non-recoverable grant funding for project implementation, human and institutional capacity building, primarily to local government, to accelerate Municipal Infrastructure Grant (MIG) and CAPEX funded projects and to empower the recipients with the skills and systems to perform their functions more efficiently and effectively. In line with the requirements of the five year local government strategic agenda, the DF Board approved the review of the Fund strategy to include the deployment of experts to provide hands-on technical, financial and planning support to municipalities in order to fast track service delivery. The strategy included on-the-job training of municipal officials to build critical skills necessary for the sustainability of the interventions.

To date, the DF has achieved a fair degree of success with respect to its mandate and strategic objectives:

- Nationwide support and demand for SM resulting in the up-scaling of programme and conceptualisation of the Sustainable Municipal Infrastructure Operations and Maintenance programme.
- Unlocking MIG funding - contributing to reduction of infrastructure backlogs in low capacity municipalities.
- Increased leveraging of development partners including significant grant funding committed by DFID to support investment in infrastructure projects and technical assistance towards the removal of trade barriers in the Southern Africa region and increasing market access.
- Strengthened partnerships with National Treasury, SALGA, DWEA, CoGTA, and an increase in the number of agencies supported by the Agencies Unit.
- Greater development impact through the success of the first six pilot projects under the Sustainable Communities initiative, which are now being replicated across the country.
- Significant grant disbursements by the Development Fund for human and institutional capacity development in municipalities.
- The building of the Vulindlela Academy into a centre of excellence for practical public sector training in partnership with prominent universities across Africa through the Pan African Capacity Building programme.

There have been a number of operational lessons learnt in addition to shifts and developments in the external environment that need to be incorporated into the DF business model. Likewise, the DBSA has refined elements of its strategy going forward creating the basis for the refinement of the DF strategy.

2.2. Vision

The DBSA Development Fund Vision is to be a leading catalyst in capacity building, to maximise the impact of development finance in South Africa. The Achievement of this vision will be measured by the following indicators on initiatives supported by the Fund:

- A contribution by the Fund to reduction of human capacity constraints, mainly at local level.
- Building institutional capacity in municipalities.
- A contribution by the Fund to reduction of local financial capacity constraints.

2.3. Mission

The mission of the DBSA Development Fund is to capacitate municipalities and communities for effective service delivery and economic development, to improve the quality of life.

This mission will have been accomplished when the following outputs are achieved within the initiatives supported by the DBSA Development Fund:

- All municipalities are in a position to provide effective service delivery.
- Communities are mobilised and resourced to articulate and influence their own development agenda.

2.4. Guiding values

The DBSA Development Fund will be guided by the following values, which are also embraced by the DBSA:

- **Openness -** Maintaining transparency.
- **Communication -** Achieving a common understanding.
- **Collaboration -** Acting in support of mutual goals and providing support in partnership with other stakeholders with the necessary resources and common interests with the Fund.
- **Service excellence -** Exceeding customer expectations and ensuring that all programmes and projects supported, improve the quality of life of communities.

2.5. Corporate governance

The DBSA Development Fund is a subsidiary of the DBSA. The Fund was incorporated under section 21 of the Companies Act, 61 of 1973. The articles and memorandum of association of the Fund deal with the appointment of directors and their involvement at meetings, including attendance and conflict of interest.

The Board of Directors of the Fund is composed of twelve members, ten of whom are non-executive directors. In accordance with the provisions of the PFMA, a subsidiary or entity under the ownership control of a public entity listed under Schedule 2 of the Act is also subject to the provisions of the Act. The Board of Directors of the Fund are also required to discharge their fiduciary duties and responsibilities as espoused in the PFMA and the regulations thereof, in addition to the requirements of the Companies Act and the tenets of the King III Report on Corporate Governance.

The PFMA allows for the establishment of a shared audit committee for a public entity and any subsidiary under its control. Accordingly the Fund shares Audit, Finance and other board committees with the DBSA. In addition, members of the Board of Directors of the Fund have access to the advice and services of the DBSA's Corporate Secretary and Group Compliance Officer. The Development Fund therefore falls under the same corporate governance framework as the DBSA, which is covered in Annexure 6.1 of the DBSA Corporate Plan.

In order to ensure effective oversight, the DF Board has constituted a dedicated Board Sub-Committee to provide guidance on the risk management and approval of projects relating to economic development. As part of the annual programme, a Board oversight visit is planned to projects to interact with the beneficiaries of the DF products and services. The Board continues to revise and monitor compliance with the code of ethics which includes all DF employees, including Siyenza Manje deployees.

2.6. Changes in the external environment

Over the last three to four years the South African socio-political landscape has experienced significant shifts underpinned by views on building a developmental state and more recently the global economic climate. A new cabinet was appointed on the back of the country's fourth democratic elections in May 2009 with a strong commitment to deliver against its election manifesto.

The Government has committed over R800 billion in funds towards infrastructure development and the eradication of infrastructure backlogs; operating and maintaining of existing and the delivery of new infrastructure. The Government has reiterated its focus on improving service delivery, supporting rural development and creating decent jobs within a spatial and human settlements development framework. In addition the Government has committed to strengthening long-term strategic planning, improving inter-departmental collaboration as well as ensuring more effective monitoring and evaluation of its delivery and that of state-owned agencies and enterprises. State owned entities including the DBSA, IDC, and Land Bank are expected to play a major role in supporting the achievement of Government priorities.

In light of these developments, the Fund has identified the need to refine its business model in order to position itself to provide support to meet the requirements of increasing infrastructure delivery and sustainability. The refinement provides the Fund opportunity to strengthen its capacity to support the achievement of Shareholder priorities such as job creation, improving service delivery, rural development and economic stimulation. The refinement will also ensure better integration and collaboration with other Government departments and development finance institutions to enhance performance.

Government also approved the Local Government Turnaround Strategy with an aim to accelerate service delivery to communities and the National Infrastructure Management Strategy. These present an opportunity for the Development Fund to reposition itself and contribute towards national government priorities.

The Development Fund has had to contend with a number of local government capacity challenges with respect to service delivery. These constraints have been exhibited in a number of inherent weaknesses in the municipal capacity to absorb the assistance provided by a number of development players. Some of the constraints can be summarised as follows:

- Weaknesses in Local and Provincial Government Oversight: According to a report entitled the State of Local Government in South Africa published by COGTA in October 2009, various provincial governments have over the past ten years found the need to intervene in the supervision and management of 30 municipalities in terms of Section 139 of the Constitution. This revealed a level of inadequacy in the kind of support given municipalities, and glaring shortcomings in state oversight for example the NCOP.

  In addition there has been a slow pace of service delivery that has resulted in service delivery protests : Gauteng 30%, North West 17%, Free State 15%, Western Cape 12%, Mpumalanga 8%; KZN 8%, Eastern Cape 5%, Northern Cape 2%.

  This was further compounded by negative perceptions about local councillors, the lack of complaints management system and a lack of a coherent system between the three spheres of government.

- The current state of local government has been plagued with governance and financial problems. As stated in the Local Government assessment report by the Minister of Cooperative Government and Traditional Affairs, the governance issues had been mainly due to Political infighting, conflict between senior management and ward councillors and HR related issues. On the other hand the financial challenges had been mainly due to inadequate revenue collection, inefficient financial systems and fraud and misuse of municipal assets and funds

The Fund has to deliver its mandate in a sphere where there is generalised lack of skilled management, high staff turnover, high vacancy rate, service delivery protests and serious service delivery backlogs. These challenges impact on the absorption capacity of the recipient municipalities.

2.7. Internal challenges

The DBSA corporate strategy has not shifted fundamentally, however a number of developments have emerged that will significantly impact the DBSA delivery against its mandate:

- The DBSA revised capital structure programme by increasing the DBSA callable capital to allow the Bank to leverage more funding.
- Access to adequate and cost effective funding to reduce the cost of funding to enable accelerated implementation of development initiatives.
- The DBSA is restructuring the disbursement mix of its portfolio accordingly.

These initiatives will enable the Bank to support municipalities, DFIs and SOEs towards contributing to national priorities through fast tracking infrastructure delivery.

In supporting the DBSA strategy the Fund will need to work towards ensuring that internal synergies within the Division and the rest of the DBSA are leveraged; that areas of duplication are removed; and that delivery gaps are closed where possible. Opportunities for restructuring delivery have been identified in respect of supporting rural development through funding infrastructure for economic stimulation; project development; integration of planning and delivery processes; strengthening of divisional support services; alignment of divisional processes and structures; and strengthening of internal monitoring. In addition, stakeholder management for national, provincial and local spheres of government will be managed at executive and management levels respectively.

2.8. Funding constraints

While the Development Fund is committed to contributing to the acceleration of service delivery, the global economic downturn has affected the sustainable earning of the DBSA severely limiting the funding available to pursue development activities. To this end, only 85% of the Fund's activities are fully provided for financially leaving the balance unfunded. This has necessitated the Fund to aggressively pursue fund mobilisation to enable it to fully deliver on its commitments. The Fund will form partnerships at programme level and approach the international donor community for funds.

2.9. The DF's strategy

The DBSA Development Fund has adapted its strategy and delivery mechanism to provide support in unblocking some of the recurring institutional constraints that negatively impact on municipal service delivery and to stimulate economic development. This has been prompted by requests made by national government stakeholder observations, situations, institutional and gap analysis and the lessons of experience over the past few years. Thus, interventions are based on partnerships with agreed criteria, between national, provincial and local government and other key stakeholders in the development arena.

A substantial portion of the recapitalisation of the Development Fund is dedicated to the activities of Siyenza Manje, with the remaining portion allocated to the funding of the other existing Development Fund capacity building and economic regeneration activities.

2.9.1. The Development Fund's Balanced Scorecard

The DBSA Development Fund has retained the Balanced Scorecard (BSC) methodology used in the past few years as its performance management methodology, with three perspectives: development impact, sustainability (including development and financial sustainability) and organisational capability. The BSC has objectives, measures, activities and targets.

The Fund anticipates to achieve most of its targets for the 2009/10 financial year and had an impact in the households and municipalities alike. Some of the key achievements include deploying in 195 municipalities, the MIG expenditure of R7 billion, training of 9 800 learners, connecting 102 000 households to sanitation, increasing its agency portfolio to R768 million and creating 42 000 jobs.

As detailed in Annexure A, the three year BSC has been developed and will be presented to the Board of Directors of the Development Fund in February 2010. It will be implemented and reviewed annually.

3. DEVELOPMENT FUND KEY PLANS

The Development Fund implements its key plans through the following programmes and initiatives:

3.1. Capacity Development and Deployment

The Capacity Development and Deployment is a capacity building initiative with three main clusters under its wings, namely; the Siyenza Manje Programme (capacity building in municipalities); Vulindlela Academy (training) and Agencies (managing third party funding for development programmes supported).

Siyenza Manje is a flagship intervention programme that seeks to improve the capacity of municipalities to unblock performance constraints that hamper sustained service delivery. These constraints impact the ability of municipalities to plan and implement capital projects financed through municipal infrastructure grants (MIG) from National Treasury, other government departments and CAPEX budgets of municipalities. Siyenza Manje focuses on three main intervention areas: unlocking and implementing government grants, mainly municipal infrastructure grants (MIG); assisting municipalities to improve their financial management; and help with preparation of various sector plans as part of integrated development planning in low capacity and poorly resourced municipalities.

Siyenza Manje provides assistance to low capacity municipalities through deployment of technical experts in the fields of planning and engineering and professional experts in finance. These experts assist low capacity municipalities to fast track the release and expenditure of infrastructure grant funding. In addition to providing hands-on support to enhance project management capability, the experts provide financial management support including addressing audit queries from the Auditor General. Deployees also provide on-job training to municipal officials as part of the sustainability plan of the Siyenza Manje intervention.

The key focus areas for 2010/11 will be to increase the number of deployees from 553 to 679 inclusive of artisans.

3.1.1. Key projects

- **Pre-deployment Municipal assessment**

  The pre-deployment assessment intends to inform the Siyenza Manje deployment strategy, in terms of critical intervention areas.

- **Artisans' programme**

  Siyenza Manje piloted an artisan development programme in partnership with the North West provincial government in ten municipalities during the last financial year. The programme has subsequently been expanded to six provinces increasing the total number of artisans to 96. The main objectives of the artisans' project are: creation of a pool of qualified artisans for deployment in municipalities with critical infrastructure and O&M skills shortages; and building O&M skills in low capacity municipalities towards sustainable infrastructure maintenance.

- **Young Professionals Programme (YP)**

  The Programme involves the recruitment and deployment of graduates to municipalities to be mentored by experts. It is a three-year structured training programme preparing engineering YPs for registration as professional engineers with ECSA, finance YPs with a municipal finance qualification (NQF6) and planners with the South African Council of Planners (SACPLAN). The YPs will be absorbed by the municipalities at the end of the programme.

3.2. Vulindlela Academy

Vulindlela is a human capacity building, knowledge sharing platform and a skills transfer academy of the Bank which is accredited with the Local Government Sector Training Authority (LGSETA). The Academy offers practical, customised capacity building and training to DBSA intermediaries. These intermediaries include Local Municipalities in South Africa, SADC development finance institutions (DFI's), Government departments, parastatals and public utilities, non-Government organisations and some private sector companies involved in development and finance.

Its strategic purpose and focus is to address human and institutional capacity failure with a greater focus on a variety of core skills including finance, management and planning that are critical for the improvement of service delivery in South Africa and the region. Some of the training programmes on offer are: municipal and public finance management including budgeting, strategic planning and integrated development planning (IDP), project management, municipal governance, project finance, risk management, community leadership development, sustainable development, local government resource centre and local government network, local economic development, supply chain management and procurement.

3.2.1. Key projects

Vulindlela is currently involved in rolling out the following projects:

- The Pan African Capacity Building Programme is a partnership between DBSA, AFD and IDC and focuses on development of a virtual academy to develop core skills in the region to address critical shortages. The programme concentrates on three aspects of training namely, Masters Degree Programmes, short courses and mid-career professionals for continuous development.
- Local Government Network (LGNET) training which is a local government knowledge sharing platform for all municipalities in South Africa
- JICA training which targets all development finance institutions (DFI's) in the region
- Broad range of courses (stated above) targeting at least 6 000 delegates
- Introduction of e-learning platform in order to increase Vulindlela outreach of its training courses
- Strengthening collaboration and partnership with key stakeholders like South African Local Government Association (SALGA), Local Government Sector Training Authority (LGSETA), Public Administration, Leadership and Management Academy (PALAMA), Local Government Leadership Academy (LOGOLA) and others.

3.3. Agencies

The Unit was established to assist and act on behalf of local and international development and funding agencies with the planning, programming and implementation of development initiatives. The main purpose of the Agencies Unit is to contribute to the achievement of the DBSA's Vision by identifying, attracting and managing agencies that enhance the public sector's capacity to deliver and sustain development; and developing and testing innovative approaches and best practices.

The services rendered by the Unit range from project management and advisory / research support to financial, treasury, logistical and other related assistance. Support is uniquely tailored to suit the specific requirements of a particular agency.

3.3.1. Key projects

The Unit has concluded MOU's with the Swedish International Development Agency (SIDA) for the execution of the Water Demand Management (WDM) capacity building project aimed at assisting water utilities in SADC; the Irish Aid for the support of Infrastructure Delivery Improvement Programme (IDIP); the SADC Fund to support SADC countries in executing project preparation and feasibilities studies; a renegotiated Municipal Finance Management Technical Advisory Programme (MFMTAP) in the Eastern Cape and KwaZulu Natal and the Renewable Energy Market Transformation Programme aimed at removing market barriers and reducing implementation costs of renewable energy technologies in South Africa.

3.4. Operations and Maintenance Programme

The division was established to address the operations and maintenance of new and existing infrastructure in the hands of both low and high capacity municipalities in the country, using small contractors. The DF believes that such a programme will contribute to the development of the local maintenance industry for the preservation of national infrastructure and the fast tracking of the achievement of national service delivery goals, including job creation and poverty eradication. Although the scale of the problem varies among municipalities, there is consensus that if municipal infrastructure challenges are not timely addressed, a large portion of it will be lost and the goal of achieving full access to basic services by all communities will be costly and largely un-achievable. This initiative focuses on preserving and rehabilitating municipal infrastructure to improve asset life with an aim to maximise utilisation and service delivery.

3.4.1. Key projects

The Unit will pilot the intervention using existing O&M funds in three types of municipalities namely high capacity, medium capacity and low capacity. The lessons from this pilot will then inform the rollout to cover more municipalities dependant on availability of funding at municipal level.

3.5. Community Development and Facilitation Division

The Division focuses on community mobilisation and empowerment, project development and dedicated project management capacity. This division comprises the Sustainable Communities Unit, the Project Development Unit and the Project Management Unit.

5.5.1 Sustainable Communities Unit

The purpose of Sustainable Communities Unit is to promote sustainable development. Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. As such it requires the promotion of values that encourage consumption standards that are within the bounds of the ecologically possible and to which all could reasonably aspire. This a programme that focuses resources directly to communities to empower and capacitate them to engage in equal partnerships with government at all spheres, civil society structures and business to formulate their own development agenda and consequently access resources to ensure its implementation.

The initial programme was conceived through a process of consultation both internally and externally with the relevant stakeholders. A broader integrated approach for the Development Fund, as part of the integrated strategy development, is currently being developed and the sustainable communities' preliminary approach has served as an input into this process. The programme is not expected to grow substantially as the plan is to focus on the present sites and as one site is exited a new one is engaged.

The Sustainable Communities Unit has been expanded to include the Project Development Unit which was formerly known as Hluma Local Investment Agency. The Unit will be located within the Community Development and Facilitation Division and will focus on project development and packaging for onward transfer to either South Africa Operations Division, LEDI or other financial institutions with an appetite to invest in development.

3.5.1. Key projects

A number of projects scoped and planned in the past financial year focus on the following areas:

- Agriculture (Partnership with Unilever in Keiskammahoek). Focuses on developing opportunities for community farmers to supply ingredients to Unilever.
- Land Restitution projects. (Property development projects in excess of R2 billion currently being assessed for funding by the SAOPS division). Initial loan funding has been provided by SAOPS. In both cases beneficiaries are communities whose land has been restored to them and they now need development assistance and funding.
- Integrated housing projects in Grabouw, Phalaborwa, Mthatha and Elliotdale. Plans have been finalised and land identified.
- Skills development and training. Increase intake and reach of Midrand Training Centre and construction of the Grabouw Sustainability Campus. In both cases land has been donated to the project. Fort Hare University to provide additional trainees to be deployed in the agricultural projects. Training for communities in implementation of all the land restitution cases in Tramway and Richmond.
- Implementation of various sustainable technologies projects to deal with water, energy and waste. These include a 100 mega watt wind project in Cape Town, waste buy-back centres at various sites and water management and sanitation technologies in pilot areas.
- Increase skills development and employment through the training centres run with Group 5.
- Implementation of Tramway and Richmond land restitution projects to the value of R2 billion.

3.5.2 Project Management Unit

The Project Management Unit is an internal project management resource centre that provides capacity to other units within the Development Fund or the broader DBSA. At present the bulk of the unit’s activities are in support of the sustainable communities programme.

3.6. Rural development (Local Economic Development Initiative)

The objective of the Division is to offer the poor rural and urban local economies within the identified 26 priority regions integrative and facilitative solutions to move local economic development plans into execution. Interventions are aimed at reducing critical capacity gaps in areas of development information, institutional development, strategy formulation and finance.

The division will focus on leveraging infrastructure to drive economic development and develop turn around strategies in line with Governments policies. It is envisaged that the highest development impact in rural communities will be achieved through integration with SA OPS, Siyenza Manje and Sustainable Communities and active engagement with development partners and stakeholders using existing financial and non-financial resources.

In line with Governments Rural Development Strategy, the Division seeks to facilitate and execute programmes which can translate into sustained socio economic activity for rural communities. The targeted sectors include roads, railways, electricity networks, communication networks, water, sanitation, tourism and social infrastructure. The division will foster strong relations with existing and potential partners in both the public and private sectors, to tap on resources required to implement the rural development programmes.

3.6.1. Key projects

The key projects and programmes include:

- Roll-out of the Regional Economic Model.
- Jozini Hydro Electric Power Plant.
- The Amathole Berry Corridor.
- Assessment of Edendale Urban Renewal Project.
- Theewaterskloof Growth and Development Strategy and High-Impact Implementation Plan.
- Ugu District Growth and Development Strategy and High-Impact Implementation Plan.
- Cacadu District Growth and Development Strategy and High-Impact Implementation Plan.

Three of the pilot projects are at implementation stage and are expected to be completed in the new financial year.

Annexure A: DBSA Development Fund 2010/11 Balanced Scorecard targets

Table below provides a summary of the DBSA Development Fund Balanced Scorecard targets for the 2010/11 through 2011/12 financial years.

Refer note	Key performance measure	Weight	Actual 2008/09	Forecast 2009/10	Target 2010/11	Target 2011/12	Target 2012/13
Development Fund		25%					
1	Grant Funding Disbursed	5%	R117 million	R90 million	R75 million	R90 million	R100 million
2	Number of jobs created	5%	18 767	42 000	45 000	50 000	55 000
3	Number of Households benefiting from water projects	2.5%	276 382	130 000	125 000	138 000	150 000
4	Number of Households benefiting from sanitation projects	2.5%	138 976	81 000	100 000	110 000	120 000
5	Funding leveraged or crowded-in	5%	R472 million	R 150 million	R 170 million	R 180 million	R200 million
6	Funding mobilised from external resources to support DF activities	5%	Not a measure	Not a measure	R120 million	R220 million	R370 million
Siyenza Manje programme		**45%**					
7	MIG/CAPEX Expenditure	20%	R4.8 billion	R7 billion	R7 billion	R7.7 billion	R8.5 billion
8	Number of people trained on the job	10%	1 762	2 100	1 300	1 430	1 570
9	Number of projects completed	15%	769	700	1 000	1 000	1 000

Notes to the BSC

(1) to (5) No comment

(6) The budget provides for 85% of DF costs the balance (15%) will be raised from external sources

(7) to (9) Programme under review (NT/COGTA) structure and size may change.

- Key focus - improve quality of progress – key evidence will be the number of projects completed.
- No new projects to be added.
- No increase in deployees.
- No increase in number of municipalities where Siyenza Manje is deployed.

Refer note	Key performance measure	Weight	Actual 2008/09	Forecast 2009/10	Target 2010/11	Target 2011/12	Target 2012/13
Vulindlela Academy		**10%**					
10	Number of external learners trained	5%	5 259	9 500	10 000	10 000	10 000
11	% of Siyenza Manje Municipalities supported	5%	Not a measure	70%	70%	70%	70%
	Sustainable Communities	**5%**					
12	Value of projects referred for funding	5%	Not a measure	Not a measure	R900 million	R1 billion	R1.1 billion
	Rural Development (LED)	**5%**					
13	Rand value of MIG and other grants releases for rural municipalities	2.5%	Not a measure	Not a measure	R1 billion	R1.1 billion	R1.2 billion
14	Number of rural municipalities supported	2.5%	Not a measure	Not a measure	55	55	55

Notes to the BSC

(10) and (11) Focus on quality

- Targeted training – focus on Siyenza Manje covered municipalities.
- Improve quality of both choice of training programmes and deployment of skills learned.
- Target limited to 10 000. Quality measure to be developed for 2010/11 financial year and to be added by 30 June 2010.

(12) Focus on completion of the project information memorandum. Impact report to be prepared by DBSA Operations Evaluations Division.

(13) and (14) Focus on widening distribution per revised market segment and sector based strategy. Rural municipalities defined as B4 COGTA/NT classification.

Refer note	Key performance measure	Weight	Actual 2008/09	Forecast 2009/10	Target 2010/11	Target 2011/12	Target 2012/13
	Agencies unit	**5%**					
15	Effective compliance with Agencies Programme lifecycle	2.5%	Not a measure	Not a measure	90%	90%	90%
16	Value of infrastructure delivered	2.5%	Not a measure	Not a measure	R115 million	R130 million	R150 million
	Operations and maintenance	5%					
17	O&M plans developed and implemented	2.5%	Not a measure	Not a measure	12	24	36
18	Number of SMME's benefiting from O&M	2.5%	Not a measure	Not a measure	15	30	45

Notes to the BSC

(15) Key focus on outputs and outcomes:

- Effective compliance with Agency life cycle:
- Contracting.
- Monitoring and implementation.
- Portfolio management.
- Close-out and completion.

(16) Infrastructure delivered through donor funds.

(17) and (18) New intervention in pilot phase as presented and agreed at Board strategy session and DF Board. Outputs - new industry in maintenance, job creation and SMME creation. There are dependencies (COGTA/NT agreement to enhance adoption in local authorities) and subject to change in relevant legislation and budget allocation.