DEVELOPMENT BANK OF SOUTHERN AFRICA

GROUP CORPORATE PLAN

2011/12

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EXECUTIVE SUMMARY

I. EXECUTIVE SUMMARY

Introduction

The development needs of South Africa and the region remain extensive, both in breadth and depth. While considerable progress has been made over the past sixteen years, levels of poverty remain high and structural weaknesses in key areas of the economy persist. These problems are characterised by high backlogs in services (such as water, sanitisation, housing, and health), unrelenting unemployment and institutional weaknesses. The effect of the global economic recession had also exacerbated the unemployment problem in recent years.

In order to address these development challenges government identified five focal priority areas in the Medium-Term Strategic Framework (MTSF) 2009-2014, including education, health care, fighting crime, rural development and job creation. Furthermore, the New Growth Path (NGP) identifies a single encompassing public policy objective namely job creation. Arsing from the MTSF and the NGP are the following 12 national outcomes:

12 National Outcomes

- High quality basic education.
- Improved health and life expectancy.
- Greater public protection and safety.
- More rapid employment creation and inclusive growth.
- A skilled and capable workforce.
- Efficient economic infrastructure networks.
- Vibrant rural communities and food security.
- Sustainable human settlements and improved quality of household life.
- Responsive and accountable local government.
- Protection of environmental assets and natural resources.
- International cooperation for a better and safer world.
- A development-orientated public service and inclusive citizenship.

Cutting across virtually all priority national outcomes is the stock and quality of infrastructure. It is essential that the rate of investment in infrastructure be accelerated, that maintenance be strengthened and that partnerships be broadened and deepened in support of both economic and social development in South Africa.

While South Africa has among the best infrastructure in the region, it is uneven and not adequately keeping up with the pace of population growth, urbanisation and technological advancement. The outcomes addressing efficient economic infrastructure networks, food security, protection of environmental assets and natural resources, as well as international cooperation for a better and safer world comprise the active promotion of shared and complementary infrastructure and related economic development in the region line with the national commitment to the integration and development of the region.

Accordingly, Government plans to invest R800 billion in infrastructures over the next three years and has prioritised scalable infrastructure programmes in the following areas:

- Healthcare infrastructure.
- Accelerating the delivery of water and sanitation services.
- Development of scalable green energy programmes.
- Provision of enabling education infrastructure.
- Improved maintenance of roads and other facilities.

In 2009/10, with guidance from the Minister of Finance and direction from the Board of Directors, the DBSA revised its internal strategic plan to align itself with the new plans, thrusts and initiatives of Government around these priority outcome areas. The revision was reflected in new strategies and initiatives in the DBSA's 2010/11 corporate plan as well as revised performance targets and levels that saw the DBSA shifting its approach to push national, scalable infrastructure programmes in a manner that delivers sustainable, value-for-money results at an accelerated pace. This is a shift away from the more fragmented and reactive approach dealing mostly with individual projects at the level individual institutional clients.

Toward this end, new agreements have been struck with the Department of Energy and the Department of Health on new investment programmes in the areas of green energy and refurbished/new hospitals. In this frame, new green energy and hospital investments, on a public-private partnership basis, are already under development, and R15 billion of development financing has been approved to support ESKOM's large scale development financing needs. Other agreements are under discussion with the Department of Water Affairs and the Department of Education.

It has also resulted in the DBSA giving a new push to support cross-border regional projects in the priority areas of transport and power, and the Bank is supporting the revitalised North-South Corridor Infrastructure Initiative that is being championed by the President of South Africa in the context of the African Union and NEPAD. In 2010/11, the Bank has approved historic levels of development financing for regional and trans-African roads that will strengthen the economic integration of Zambia and Zimbabwe with Angola, Namibia, Mozambique, Botswana and South Africa.

Repositioning the DBSA as a Centre of Infrastructure Excellence

As part of the changing paradigm of development finance in the context of a more vigorous developmental state, the DBSA, with the guidance of the Minister of Finance and direction of the Board of Directors, has begun an institutional shift which will re-position it as a major centre of excellence for infrastructure development. It will serve as a leading national development bank supporting infrastructure projects across all spheres of government, with a particular view to accelerating planned infrastructure development, supporting job creation, advancing the green economy and helping ensure the delivery of value-for-money infrastructure.

This shift will give a particular boost to value-for-money infrastructure in identified priority areas which need a concerted push, due to backlogs and capacity considerations. It will result in a deepening of DBSA's implementation support role – a non-traditional and fast growing role that the DBSA took on in 2006 with the introduction of the Siyenza Manje.

This deeper and expanded engagement will be undertaken in the context of the existing roles and responsibilities of the various government and public institutions in the identified priority sectors, and will build on the experience of Siyenza Manje, and more recently, the ability of the DBSA to back and finance award winning PPPs in the region. The engagement will be shaped by a number of engagement principles, recognising the prevailing authorities, responsibilities and accountabilities of mandated and lead role players.

A new programme approach at national level

Accordingly, a new programme approach is being adopted as a key thrust in the DBSA's new positioning, with special attention to accelerating infrastructure development, on a sustainable and value-for-money basis, in defined priority areas.

This should entail the establishment of focused programme management structures that will have the formal mandate to coordinate execution of programmes on a day-to-day basis, through a disciplined project management methodology in a DBSA management framework. Together with specific project management, it should also involve programme design, oversight, procurement, budget management, monitoring and evaluation, supported by sector planning and programme advisory services, with a focus on the formulation of solutions and the design of programmatic and project interventions. This approach will need to be underpinned by the establishment of dedicated governance and management arrangements around each programme to ensure ownership, clarify accountability, enhance stakeholder coordination and install the requisite hands-on implementation capacity.

In taking this approach forward, the Bank will continue to engage with the Minister of Finance and National Treasury on the potential role of the DBSA in respect of each programme area. In this regard, the DBSA expects to focus its roles as follows:

1. DBSA's advisory role relates to specialist planning and programming support to key national government departments in priority sectors, with clear emphasis and focus on improving the management and monitoring of infrastructure programmes.
2. DBSA's implementer role refers to support to national departments with delivery models to accelerate infrastructure provision. In this role DBSA can assist the mandating departments with programme design, coordination, project management and oversight.
3. DBSA's role as funder of infrastructure in education, health, water and sanitation, health is linked to the implementer role, and will be defined through agreements to be concluded with the National Treasury. The envisaged role of the DBSA in each of mentioned sectors include:

- **Education**

  The National Department of Education has embarked upon a large-scale programme to improve the quality of basic education and has committed to upgrading school infrastructure and eradicating infrastructure backlogs. The DBSA has proposed an implementation plan and model as a potential strategic partner and implementation agent. ***The role of the DBSA in supporting this national programme is under discussion and the actual role of the DBSA will depend on the choices made by the Department of Education.*** The envisaged and potential role of the DBSA may include the following:

  - ***Education Infrastructure Planning Unit*** *(DBSA role: advisor)*: A joint National Department of Basic Education / DBSA Education Infrastructure Planning Unit is proposed in order to monitor the details of infrastructural delivery across provinces. This will be staffed by specialists. DBSA's support to this unit will broadly be to undertake:
    - Planning, programming and budgeting of integrated infrastructure programmes.
    - Oversight, monitoring and evaluation activities.
    - Other technical work and funding mobilisation.
  - ***Schools' building programme*** (DBSA role: implementation and funding): DBSA will manage a national schools' building programme targeting in the region of 800 unsafe schools in three years. Whilst the proposal is essentially aimed at addressing the eradication of unsafe schools, the same approach can be used for the building/refurbishment of schools where required by provinces.

- **Health infrastructure**

  Flowing from the health road map, the DBSA, in the past few years, has been active in supporting the development of the national health strategy. The DBSA has been requested to support the implementation of the strategy in the following manner:

  - ***Health infrastructure status review*** (DBSA role: advisory): This programme involves assessments of all capital projects at hospitals around the country, starting with those linked to the hospital revitalisation grant:
    - Phase 1 relates to Hospital Revitalisation Programme capital projects and will be finalised by 31 March 2011 for more than 300 capital projects.
    - Phase 2 of the status reviews will cover the remainder of capital projects, approximately a total of 1700 and will be finished by March 2012.
  - ***Health Infrastructure Planning Unit*** (DBSA role: advisory): In order to support the implementation of capital projects at hospitals at a national level, DBSA will establish a Health Infrastructure Planning Unit for the National Department of Health. The Unit will consist of a technical team dealing with the technical planning components of the implementation of health infrastructure projects. This will include:
    - Managing the implementation of the portfolio of infrastructure projects on the priority list of the department.

- Performing a monitoring and oversight function over the delivery of capital projects.
- Ensuring actual expenditure and implementation of projects.
- Capacity building to ensure future sustainability.

This Unit will be staffed by specialists, including health advisors, quantity surveyors, civil engineers, and project managers.

- ***Health PPP Programme*** (DBSA role: implementation and funding): The DBSA has signed a MOU with National Treasury through which the DBSA will assist government to implement PPP projects in strategic sectors. The Health PPP Programme is the initial pilot programme under the MOU.

  Through the Joint implementation Agreement, the DBSA will collaborate with various government structures to implement the Health PPP programme at the following hospitals and locations:

  - Chris Hani Baragwanath Hospital: New 1 800 bed academic hospital.
  - Dr. George Mukhari Hospital: New 880 bed academic hospital.
  - Limpopo Academic Hospital: New 880 bed academic hospital.
  - Five nursing colleges in Limpopo: Five colleges to be built / refurbished.
  - King Edward Hospital: New academic hospital.

- **Water and sanitation**

  The DBSA has also proposed to assist the Department of Water and Environmental Affairs in planning and co-financing the expansion and rehabilitation of bulk water and sanitation infrastructure.

  As in the case of the DBSA's offer to support the implementation of the national education programme, the actual role of the DBSA in the implementation of the water and sanitation programme will depend on the choices by the Department of Water and Environmental Affairs.

  Various mandates are under discussion and include:

  - Co-financing and implementation of bulk raw water supply augmentation schemes, regional bulk water services' infrastructure projects, and refurbishment/rehabilitation of water and waste water treatment works (DBSA role: implementation and funding).
  - Turnaround of the Water Trading Entity (WTE): The DBSA has been approached by the Department of Water Affairs (DWA) to facilitate the review of policy, water resource management and infrastructure delivery aspects. As part of this mandate the Bank will support the DWA in the development and implementation of the WTE turnaround strategy which includes: institutional reform/restructuring, financial management (revenue and debt management, etc.), business process and systems, profitability and sustainability (DBSA role: advisory and implementation).
  - Establishment of water sector knowledge management systems within DWA Programme scope (DBSA role: advisory).

Related key dependencies and resource requirements

The successful implementation of the new national programme approach will depend not only on the actual request to the DBSA to play an implementation support role, but in certain respects, also on the following:

- Formalisation and communication of the national programme mandates with the respective government departments.
- Access to adequate and cost effective liquidity.

It is envisaged that the roll-out of the anticipated national programmes in addition to the Bank's current development activities could result in Bank-wide infrastructure disbursements increasing to between R15 billion and R20 billion per annum. Discussions are underway between the Bank and the National Treasury on potential avenues through which the Bank's ability to access sufficient volumes of cost effective funding could be improved. Key amongst these is:

- Formalising and finalising the increase in callable capital to serve solely to increase the levels of debt the Bank can take on to fund future operations.
- Securing support by way of government guarantees to the value of R100 billion over the next five years. It is envisaged that the selective and strategic use of guarantees would substantially enhance the DBSA's capacity to access the levels of funding anticipated to arise from the Bank's enhanced development role, and to do so on a cost effective basis.
- Issuing redeemable, non-voting, non-convertible preference shares as an alternative debt funding instrument to reach a different class of investors and thereby increase the total pool of market funding available for development finance, whilst doing so at potentially lower cost than those of its other capital raising instruments.
- Accessing callable capital. Whereas the increased callable capital mentioned above contributes to improving the Bank's access to debt funding through enhancing the Bank's perceived credit risk profile, it unfortunately does not result in reduced cost of debt for the Bank. Of the initial R5 billion capitalisation of the Bank, the Bank has to date only drawn R200 million. The Bank has indicated to National Treasury that apart from the above remedies of accessing additional capital, it may be necessary for the Bank to exercise a call on part of the available capital on a progressive basis. In this respect discussions have commenced between the Bank and the National Treasury on a proposition for the Bank to access capital on the following basis: year 1: R3.5 billion; years 2 and 3: additional amounts of R5 billion for each year, depending on the extent and size of the DBSA's support to national infrastructure programmes.

  It is our estimate that the extent and timing of capital injections as proposed above would position the DBSA to deliver successfully, both in terms of the volume and cost effectiveness of development financing expected to emanate from the Bank's enhanced role in the roll-out of key national infrastructure, and to do so without compromising the long term sustainability of the Bank. The proposed capitalisation would further support the Bank's concessional lending programmes to under-resourced municipalities, as well as the non-return generating capacity deployment and development programmes of the Bank's Development Fund. It would further serve to bolster the Bank's ability to provide capacity support to national and provincial government departments in the structuring and implementation of prioritised infrastructure programmes.

The DBSA will continue to engage the Minister of Finance and the National Treasury on these dependencies and resource requirements.

2011/12 Corporate Plan

The 2011/12 DBSA Corporate Plan and Balanced Scorecard (BSC) has begun to reflect the institutional shift and the adoption of implementation support to certain national programmes, such as in the health sector. Involvement in other national programmes will be considered during the course of the year, depending on the decisions to be taken and resources. As such, the tabled Plan and BSC does not take into account the potential effect of all these other programmes. It is a "base case" scenario, with operations and related targets based on prevailing business and operating environment. On conclusion of the discussions with the Minister and role of the DBSA in other national infrastructure programmes, discussed earlier, the base scenario of the Corporate Plan and BSC will be moved toward a high road scenario.

In 2011/12 the DBSA will continue to carry forward its expanded development drive and growth, with a sharp focus on accelerated, integrated and innovative infrastructure development. The Bank has thus targeted infrastructure investment disbursement of R9 billion for the 2011/12 financial year, a 9.8% increase on the 2010/11 forecast of R8.2 billion.

DBSA strategic direction

In broad and aspirational terms, the DBSA holds the shared vision of "*a prosperous and integrated region, progressively free of poverty and dependency*". More specifically its primary purpose is anchored in is its renewed mission *"Driving development impact in the region through expanding access to development finance and effectively integrating and implementing sustainable development solutions."*

The DBSA's strategic direction is drawn from its shared vision and is premised on the following revised four strategic goals:

i. Catalyse, expand and enable delivery of basic and social services.

ii. Provide and build human and institutional capacity.

iii. Promote broad-based economic growth, job creation, efficiency, fixed capital formation and regional integration.

iv. Engender sustainability, external (i.e. environmental, social and economic) and internal (financial and institutional).

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

- Finance and facilitate public and private investment in infrastructure and broad-based economic growth as a key to accelerating fixed capital formation, job creation, reduction of backlogs in basic services and assisting in achieving the goal of halving the number of people living in poverty.
- Direct its investments beyond traditional hard infrastructure assets, to include softer 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.

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 sharing 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.

Accelerating capacity building and infrastructure funding in South Africa

In South Africa, the Bank seeks to enhance the impact of development support and funding in a coordinated and targeted manner. As such three key segments have been identified, namely:

- **Socio-economic development and integration segment:** Activities focus on the delivery of socio-economic development and integration by investing in infrastructure which promotes service delivery and provides people with a sustainable living environment by providing access to basic services, such as water, sanitation, electricity, health, education and affordable housing
- **Institutional capacity building segment**: Support the upliftment of human capital in the areas where growth and development are constrained by a lack of education, skills and institutional capacity.
- **Economic development segment**: Activities focus on supporting an efficient, competitive and responsive economic infrastructure network and ultimately providing economic growth, job creation and transformation. Investment into bulk and economic development sectors such as

power, transportation, communications, development funds, tourism, etc. are included in this segment.

In South Africa, over the last five years, the DBSA has extended its development growth trajectory to expand access to development finance and accelerate inclusive economic growth, as an integral part of achieving sustainable and holistic development. To this end the DBSA has increased the levels of development finance funding support from R2.7 billion in 2006/07 to R7.2 billion in 2008/09 at the height of the global financial crisis. Together with the Municipal Infrastructure Grants (MIG's) released, total funding beneficiation rose to R12.0 billion in the 2008/09 financial year. These historic levels of development financing were sustained during 2009/10, despite the challenges emanating from the global financial crisis, total funding beneficiation reached R16.2 billion (comprising disbursements of R7.3 billion and marshalling the release of MIG's of R8.9 billion). For the 2010/11 financial year the DBSA anticipates to provide funding beneficiation in South Africa to the value of R12.8 billion with disbursements in South Africa for the year estimated at R5.8 billion and MIG expenditure released of R7 billion.

On the back of these results, the DBSA committed to expanding its developmental support of capacity building further, sector and integrated development planning and financing during 2011/12. The funding disbursement target in South Africa for 2011/12 has been agreed at R6.6 billion and MIG's released at R8 billion. Support is targeted towards social and economic interventions in government priority areas such as water, health, education, energy human settlements, information, communication & technology; as well as targeting development finance and capacity support to poorly capacitated municipalities, in aggressive support of the reduction of municipal infrastructure backlogs, and improved operations & maintenance.

Key focus areas for each of these segments for 2011/12 includes:

Social infrastructure and institutional capacity building

- **Enhancing municipal delivery**

  Municipalities are the sphere of government where most infrastructure service delivery takes place. The weaknesses in institutional, human and implementation capacity impact the ability of municipalities to render services effectively and sustainably. In order to address social backlog challenges, financial and capacity building support to municipalities represents an important part of the Bank's business. Key support areas include: municipal infrastructure investments, electrification programmes, public transport & system developments and neighbourhood development partnerships.

  In support of government's objective to ensure a "*responsive, accountable and efficient local government system"*, the Bank will continue to provide municipal capacity building support through the Siyenza Manje Deployment Programme, training of municipal officials through the Vulindlela Academy, Operations and Maintenance and Rural Development Programmes. All these initiatives and programmes are based on sustainable development principles and triple bottom-line systems and values. The programmes are implemented in partnership with government and external stakeholders, such as communities and private & public sector partners to provide funding and technical support.

  Siyenza Manje

  Siyenza Manje remains the biggest programme under DBSA Group management that continues to improve the capacity of municipalities and unblock constraints hampering sustained service delivery. 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. Funding and implementation mandate of the Siyenza Manje Programme is currently under discussion with National Treasury and CoGTA.

  Through the Siyenza Manje Programme, the DBSA will continue to deploy engineering, planning and financial experts to support 179 municipalities and 18 provincial departments, release MIG and capital expenditure to the value of R8 billion, assist in the implementation of 2 500 technical projects and complete 1 000 projects during the 2011/12 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. The deployees will further support the development of future expertise and knowledge specialists within municipalities through on-the-job training to 1 430 municipal officials.

Through this programme the Bank envisages to benefit 270 000 households to water and sanitation facilities respectively and facilitated to create 48 000 temporary jobs.

The future of this is under discussion, as the Department of Cooperative Governance and Traditional Affairs and National Treasury have advised the DBSA that Siyenza Manje will cease to exist in its current form. Accordingly, deliverable by the DBSA in respect of its management of Siyenza Manje may be significantly altered in the 2011/12 period and thereafter.

Key capacity building initiatives for 2011/12 include:

- ***Youth Development initiatives:*** The Bank is involved with two key youth development initiatives, namely the Young Professionals Programme and the Artisan Programme. The Young Professionals (YP) programme provides both professional and personal development training for Technical, Town Planning and Municipal Finance graduates. In 2011/12 it is envisaged that (amongst other targets) skills development and employment opportunities for 170 YP's will be created, and that training support will continue to be given to the National Treasury interns. The Artisan Programme plans to employ 300 apprentices by the end of the financial year, in addition to the recruitment of apprentices, 94 municipal officials were assessed and the selected candidates will be exposed to off-site training and development that will eventually lead to formal qualification. Exit strategies are planned with stakeholders to ensure apprentices are absorbed after their qualification phase.
- ***Operation Clean Audit and Compliance with MFMA:*** The ministerial performance agreement has committed to eradication of adverse and disclaimer audit opinions by 2011 in all municipalities and to deliver clean audits by 2014. The SM programme is supporting the campaign through deployment of experts in 94 low capacity municipalities with finance expertise. It is also planned for SM to work with Provincial Treasuries to set up MFMA Units to ensure that municipalities comply with the 16 priority areas of the MFMA.

Vulindlela Academy

Through its Vulindlela Academy, the DBSA 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 skills area of finance, management and planning. For the 2011/12 financial year the Bank targets to train 2 000 municipal councillors and 9 400 other municipal officials. The Academy also offers practical, customised capacity building and training to other DBSA intermediaries, including 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. For the 2011/12 financial year the Bank will target to train an additional 600 people from other DBSA intermediaries.

Operations and maintenance

The national demand to support the reliability, effectiveness and functionality of current infrastructure remains substantial. The DBSA's initiatives to address issues in respect of operations and maintenance are conducted over a broad front and include the assistance to low capacity municipalities through the deployment of technical experts by the DBSA as well as engagements on a policy and strategy level to embed the discipline and methodology of systematic operations and maintenance in municipalities. Although the scale of the problem varies among municipalities, there is consensus that if municipal operations and maintenance 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 unachievable. This initiative focuses on preserving and rehabilitating municipal infrastructure to improve asset life with an aim to maximise utilisation and service delivery. The DBSA has been engaged in the following initiatives within this cross cutting sector:

- The Bank has been requested to support COGTA and provincial governments in the development of a municipal asset audit as well as an asset management strategy. The emphasis will be on policy formulation and capacity building. An investment programme based on the results may emanate from the above.
- In collaboration with the Department of Water Affairs (DWA) and the Provincial Treasury of the Northern Cape pilot municipal sites are being identified for the roll-out of an Integrated Water Asset Management System. The Municipal Infrastructure Development and Management Improvement Programme will form the basis for a demonstration project. As part of this mandate the DBSA will support the DWA in the development and implementation of the WTE turnaround strategy which includes: Institutional reform/restructuring, financial management (revenue and debt management, etc), business process and systems, profitability and sustainability.
- The Bank is exploring the possibility of an Operations and Maintenance facility linked to future project appraisals.

Rural Development Programme

In support of government's Rural Development Programme, the Bank seeks to facilitate and execute programmes which can translate into sustained socio-economic activities within 26 identified priority rural communities. Interventions are aimed at reducing critical capacity gaps in areas of development information, institutional development, strategy formulation and finance. The targeted sectors include roads, railways, electricity networks, communication networks, water, sanitation, tourism and social infrastructure.

The programme supports implementation of the government's Comprehensive Rural Development Programme (CRDP) and Integrated Sustainable Rural Development Framework through the following priority areas:

- ***Support to 55 rural municipalities***: Determining the infrastructure needs of 55 rural municipalities by reviewing Integrated Development Plans, Comprehensive Infrastructure Plans (CIP), economic plans and the Municipal Turnaround Strategy for implementation by the Bank.
- ***Presidential rural pilot sites****:* Co-piloting three of the nine selected presidential sites involving assessments, facilitating planning and implementation of social and economic catalytic infrastructure, development and implementation of institutional and economic turnaround strategies in addition to mobilising required fiscal and private sector funding.
- ***MIG leveraging***: Following the approval of the concept by National Treasury the Bank is in the final stages of developing a framework to guide the institutional, economic and financial due diligence in support of municipal funding appraisals for MIG frontloading in line with the National Treasury MFMA Circular No. 51. The programme is currently under pilot phase in Dipaleseng and will be rolled-out to an additional 20 rural, under resourced municipalities.

Municipal infrastructure funding

It is recognised that the Bank through its funding operations plays a supportive and indirect role in reducing the national basic services backlogs, especially regarding water, sanitation and electricity. Through the funding services offered by the DBSA, the Bank undertakes to provide financial resources in a cost effective manner to municipalities that are responsible for implementation of the respective infrastructure. For the 2011/12 financial year the Bank will specifically target loan funding to the value of R2.7 billion for municipalities. In line with the drive to act as lead arranger, the DBSA is engaging with municipalities on issues over and above the historic business-as-usual activities, to create the appropriate enabling environment for the successful packaging of finance. As a result, R1.5 billion funding is earmarked for secondary and under-resourced municipalities.

- **Human settlements**

  As part of the normal funding operations of the DBSA, the Bank provides financial assistance for the construction of affordable housing, improving access to water, sanitation, refuse removal and electricity. Various projects have been identified under the Ministerial priority projects as well as provincial priority projects and various private sector initiatives. The key challenge facing most of these mega developments is the inability of local government to provide funding for delivery of bulk services to the projects. DBSA is currently evaluating various business models to provide a funding solution that could unlock a number of these projects.

  The Bank will also provide an agency programme management capacity support to the Department of Human Settlement and includes:

  - Support to the Eastern Cape Province-Duncan Village Redevelopment Initiative.
  - Deployment planned in KwaZulu-Natal, Limpopo and the Western Cape in the areas of project planning & preparation, evaluation of project technical/engineering specifications and project management (management of scope, resources, quality, cost, time) and reporting.

Economic development

Through its initiatives in economic infrastructure, the Bank seeks to drive economic stimulation and ultimately employment creation through the investment in bulk infrastructure and key economic development sectors.

Over the next five years, the DBSA will embark on an aggressive growth path to provide capacity to major infrastructure projects across priority sectors such as energy, bulk water, transport and ICT. As such planned disbursements of R3.3 billion in favour of economic and enabling development infrastructure are envisaged for the 2011/12 financial year. The financial capacity required in most State Owned Enterprises (SOE's) in supporting government's capital expenditure programmes will require DFI support. The DBSA will have to play a proactive role in engaging SOE's across all priority sectors at the onset of projects, in order to understand the quantum of needs with a view of providing support to these projects. A large allocation of the total disbursement budget is therefore allocated toward SOE's undertaking major infrastructure projects over the next five years.

Various large-scale infrastructure initiatives are currently under review or in progress. Bringing these programmes to bankability during the next couple of years will be important in supporting governments' ultimate infrastructure development programmes. Key sector programmes include:

- **Energy**

  The Department of Energy and National Treasury have placed extensive focus on promoting Independent Power Producers (IPP's) in support of wind and solar renewable energy generation. The Bank is seen as a key implementation agent for providing financial and project development capacity in this sector and is actively growing its pipeline portfolio of renewable energy projects. Approximately 20 projects are in the pipeline for funding which consist of solar (six projects), wind (six projects), co-generation and landfill and biomass projects. The Solar Park initiative by the Department of Energy is currently in the early stage of planning and the DBSA is closely involved in this process.

- **Mining**

  South Africa has substantial natural resource endowments especially in commodities such as coal, iron ore, manganese and platinum. The DBSA is working in partnership with other DFI's and government to make a contribution to the development and transformation of this sector as the mining sector provides significant job creation and wider socio-economic development benefits.

- **Infrastructure development funds**

  Investments in private equity infrastructure development funds are vital to the Bank's attempts to accelerate and expand infrastructure investments through active and committed partnerships with willing investors. Since 1999, the Bank has committed approximately R2.8 billion to 15 private equity infrastructure development funds which largely focused on infrastructure in sectors aligned to those of the DBSA's priority sectors, in South Africa and throughout the region.

  The total funds invested by the DBSA have helped attract combined capital of R22.6 billion, leveraging the total commitment to 7.8 times its own portion as well as championing important development impact outcomes in critical economic sectors, job creation, enterprise development and the empowerment of disadvantaged groups. The Bank envisages expanding its activities in this asset class with investments of R2 billion per annum over the next five years in sectors such as health, infrastructure and broad-based economic development initiatives.

Accelerating infrastructure funding in the region outside South Africa

The economic imperative to achieve regional economic integration and boost socio- economic development forms the foundation of the DBSA's investment in the region outside South Africa. Key desired outcomes include:

- Regional development and integration through infrastructure that form the cornerstone for regional integration and focuses on producing economies of scale and cross-border connectivity in areas such as: power, water, transport and communication.
- Reconstruction and enabling of viable socio-economic projects and employment creation include sectors such as: agribusinesses, health, tourism, mining and financial services.

For the 2011/12 financial year the total disbursement target has been set at R2.4 billion. The Bank's transactional and project financing focus will be complemented by a strategic role of upstream strategic planning and project development, with an 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. The Bank will also undertake functional and targeted international relations, in support of regional advocacy and resource mobilisation.

The Bank 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 £67 million by the UK's Department for International Development as an agent to support regional and inter-regional integration projects, to blend with the Bank's financing, across the north-south corridor, comprising southern and eastern Africa.

Policy engagement and advisory

The DBSA has accumulated extensive knowledge in infrastructure and implementation of sector strategies over the years. The role of the DBSA as a knowledge bank focuses on using its distinctive competencies to:

- Target high-impact development solutions in priority sectors.
- Support appropriate funding mandates for the DBSA.

In applying this knowledge, the Bank has demonstrated a distinctive competency as facilitator and integrator with the State, especially in priority areas such as health, basic education, human settlement, higher education and skills, transport, green energy, water and sanitation.

For the 2011/12 financial year the DBSA will continue to support the State to achieve a more integrated approach to long-term national infrastructure planning, implementation and spatial development frameworks and provide advisory support in programme origination in priority sectors.

Maintaining financial sustainability

The financial plan for 2011/12 and the projections for 2012/13 and 2013/14 are detailed under section 4 of the Corporate Plan and includes the income statement, balance sheet and cash flow statements. The plan is based on the targeted annual infrastructure disbursements of R9 billion, R10.2 billion and R11.6 billion for the 2011/12 to 2013/14 financial years respectively and is considered achievable without any Shareholder cost-of-funding interventions. The plan also does not take into account the financial impact of the proposed cash injection as previously discussed. The proposed capitalisation would enable a substantially increase in the targeted annual disbursements of between R15.1 billion and R20 billion per annum and by reducing the effective lending rates, further support the Bank's concessional lending programmes to under-resourced municipalities, as well as the non-return generating capacity deployment and development programmes of the Bank's Development Fund. The financial projections taking into account the cash injection as well as the reduction in effective lending rates to support increased targeted disbursements are reflected under section 4.2.2 of the Corporate Plan.

Over the past two years, given the current economic conditions, the Bank's disbursements have been maintained at around R8 billion. Recent economic and market conditions have seen a contraction in borrowing for new and expansion projects, especially in the private sector, resulting in less overall demand for development finance. It has also resulted in excess liquidity amongst commercial banks, shifting the supply curve outwards, while the demand curve has shifted inward. These short-term dynamics have led to a reduction in lending interest rates across the industry, including the DBSA. Despite these conditions, the overall balance sheet of the DBSA remains healthy.

For the next three years, and in line with the Shareholders requirements, the Bank will continue to implement the strategy of increasing investment in its mandated development impact interventions. 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 base financial plan for the financial year 2011/12 to 2013/14 include:

- Net interest income of R1.7 billion (2011/12) is expected to grow by approximately 3.8% per annum toward 2013/14, based on the projected loan book and disbursements and taking additional liquidity requirements into account. The result is an expected drop in the net interest margin from 42.9% (2011/12) to 40.1% (2012/13) and to 39.3% (2013/14), due to a number of factors, including:
    - The effect of the higher gearing, due to projected growth in disbursements as a result of an increased demand for infrastructure funding.
    - Equity investments which do 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 the Bank's cost of funding in support of the projected disbursements growth are being pursued, including

    - Support by Government through guarantees, co-funding and appropriate forms of credit enhancements.
    - Support from Government through the re-routing of available funding lines.
    - Alternative sources of low cost long-term capital and/or funding.
    - Liquidity strategy of the DBSA.

- The expense budget of R819 million (2011/12) 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 70% of all outstanding vacancies and new headcount are filled during 2011/12, and limited new headcount is created. Expenses are projected to grow by 6% per annum between 2011/12 and 2013/14 based on inflationary adjustments.
- The cost-to-income ratio is projected to increase from 44.0% in 2011/12 to 46.8% in 2013/14, exceeding the prudential limit of 45%. Plans are currency under investigating to reduce the ratio below the prudential limit.
- The debt to equity ratio is projected to reach 116.3% by 2013/14. Due to the revised capital structure of the Bank, this ratio now includes the increased callable capital as agreed with the Governor of the DBSA. The ratio would exceed the statutory limit of 250% by 2012/13 had the increased callable capital not been included in the calculation.
- Developmental assets (development loans and equity investments) are projected at R48.5 billion in 2011/12, with a further growth of 8.5% per annum by 2013/14. Total assets of R58.9 billion (2011/12) are expected to grow by approximately 6.8% per annum over the next two years.
- Financial market liabilities are projected to reach R39.3 billion in 2011/12 with a further growth of 8.6% per annum by 2013/14.
- Return on average equity is projected to remain managed at approximately 5.0% by 2013/14. 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.

Support Divisions

During 2011/12 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 2011/12 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.

Way forward

The DBSA will continue to play a central role in supporting government's public infrastructure investment programmes and focus on the improvement of service delivery. The 2011/12 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.

DBSA CORPORATE PLAN

1. Operating environment

The operating environment faced by South Africa and the wider region over the next year is fraught with risk and challenges, especially in the light of uncertainties in the global economy. The purpose of this section is to provide an overview of economic developments, challenges and outlook for the global, regional and South African economies and link these to the DBSA operating environment by identifying key implications for strategy and operations.

The global economy

Post the 2008 global financial crisis and the slowdown in economic activity in many countries, the global economic recovery is proving uneven and fragile, with growth variable and unevenly distributed. Growth in Asia is continuing to be robust and proving to be durable, the recovery in the US is flagging, Europe is recovering slowly and unevenly, Latin America is maintaining growth momentum, the Middle East and North Africa are recovering strongly, and growth in Africa is accelerating. Worldwide recovery is likely to continue but it will remain uneven and prone to setbacks with significant downside risks remaining.

Over the medium and longer term, four key risk factors are evident which could have a bearing on the global economic outlook:

- Dangers of further debt crises, for example sovereign debt burdens, real estate and debt roll-over problems.
- Exhaustion of policy instruments to deploy if recovery does not regain traction, which could lead to the loss of fiscal policy room (especially given public debt run-up in afflicted countries) and monetary policy room (i.e. interest rates, reserve requirements/credit easing).
- The lack of ability to adjust and develop new growth dynamics in countries where structural macroeconomic problems have emerged.
- Globally, inflation pressures remain muted in 2011, but dangers exist in the medium term if fiscal reform is not forthcoming in advanced countries.

The unevenness of the global recovery is currently creating problems for stronger performing countries as investors move capital around the globe in pursuit of higher yields. Consequently exchange rates have become overvalued on trade fundamentals and latently volatile which is detrimental for exports or ultimately, inward investments. This is especially impacting certain developing and emerging market countries including South Africa.

The SADC region: economic performance and outlook

Because of their economic linkages to global trade and capital markets countries of the SADC region, were materially impacted by the global crisis in 2008 and 2009. However the economic slowdown in the SADC region proved short-lived in most countries. Real growth of 5 % or more is expected in 9 of 15 SADC countries in 2010. A number of factors have contributed to the buoyant rebound:

- Robust growth in developing Asia stimulating demand for Africa's resources.
- Recovery in global commodity prices.
- Macroeconomic policy headroom for contra-cyclical support.
- Foreign investment in the resource and infrastructure sectors in the Region.

In 2011 SADC economies stand to benefit from further growth in global trade (especially from developing Asia), continued strength in commodity prices, and, better flows of finance, and further resource sector and infrastructure development. As reflected below, in 2011 output growth of 5% or more expected in seven of 15 SADC countries.

SADC counties growth performance and outlook: real GDP growth

Country	2007	2008	2009	2010	2011
	%	%	%	%	%
Angola	20.3	13.2	0.7	5.9	7.1
Botswana	4.8	3.1	(3.7)	8.4	4.8
DRC	6.3	6.2	2.8	5.4	7.0
Lesotho	2.4	4.5	0.9	5.6	3.8
Madagascar	6.2	7.1	(3.7)	(2.0)	2.8
Malawi	5.8	8.8	7.5	6.0	6.2
Mauritius	5.4	5.0	2.5	3.6	4.1
Mozambique	7.3	6.7	6.3	6.5	7.5
Namibia	5.4	4.3	(0.8)	4.4	4.8
Seychelles	19.7	(1.3)	0.7	4.0	5.0
South Africa	5.5	3.7	(1.8)	2.9	3.4
Swaziland	3.5	2.4	1.2	2.0	2.5
Tanzania	7.1	7.4	6.0	6.5	6.7
Zambia	6.2	5.7	6.3	6.6	6.4
Zimbabwe	(3.7)	(18.9)	5.7	5.9	4.5
Sub-Sahara Africa	**7.0**	**5.5**	**2.6**	**5.0**	**5.5**

Source: IMF WEO country forecasts October 2010

South Africa – the economic outlook

In South Africa economic recovery faces many challenges in building momentum and is constrained by the strong South African currency, infrastructure backlogs, high poverty rates, high structural levels of unemployment, skill shortages and institutional capacity constraints and cyclical revenue constraints in the public sector.

After a surprisingly rapid recovery in growth in the fourth quarter of 2009 and first quarter of 2010, the pace of recovery has slackened in the third quarter of 2010. Third quarter 2010 indicators and data streams further confirm the fragility in the recovery in the shorter term, whilst leading indicators, such as the dipping of the Purchasing Managers Index and deceleration in manufacturing output, justify concerns on short term prospects for the recovery.

The growth outlook for the economy is to stabilise and slowly recover over the course of 2011 however it is likely to remain below potential during 2011, mainly due to:

- The pace of consumer spending easing after early rebound in interest rate sensitive categories. Growth in spending is anticipated to gain momentum and broaden in 2011 and 2012, supported by employment growth, low interest rates, stronger consumer spending, better credit availability, wage increases and growth in the consumer market.
- Government spending remains contra-cyclical and structural support for social and economic development continues within budgetary constraints. Government current spending growth is expected to be sustained and from 2012, public infrastructure investment begins rebuilding momentum “post-FIFA World Cup”.
- Private sector fixed investment adversely impacted by the recession, will only improve when the recovery gains some traction. Gradual strengthening is anticipated during 2011 and gaining momentum in 2012 with exports recovering and strengthening in local consumer demand.
- Export volumes remain under pressure due to the global recession and strong Rand. The growth in Asia and improvement in other trading partners will support increases in exports but the fragile global recovery and drag of a strong Rand will constrain the rate of export recovery. Pre-crisis export volumes unlikely before 2013.
- Consumer inflation is currently at the lower end of the 3% to 6% target band. Consumer price inflation is expected to pick up as 2011 progresses with high real wage increases, further

increases in administered prices and a likely weakening of the Rand. Over the medium term the inflation rate is however expected to remain within the set target band.

- Prime lending rates are at a 30 year low and barring dramatic developments, no upturn in the interest rate cycle is anticipated before the end of 2011/early 2012.

Growth diagnostics: deriving cues for DBSA strategy

The International Monetary Fund[1] recently indicated that currently, the South African economy is growing below potential as potential output shows a "negative macroeconomic output gap". The current gap is a reflection of "insufficient demand" in both the domestic and international markets due to the reduction in local consumer sector spending, private business enterprise capital expenditure investments and the lower exports impacted by the uneven global recovery and the strong Rand.

As growth accelerates it is anticipated that supply-side (structural) bottlenecks will emerge as constraints which limit future economic expansion and performance. These include inadequate and inefficient utilities supply (electricity and water), transport and communication infrastructure capacity, competitive productive capacity, and skills.

For South Africa to ultimately reduce endemic poverty and high structural unemployment it is imperative for the country to raise the economic growth rate and labour absorption capacity of the economy. Practically, raising growth potential of the economy entails the progressive resolution of the sequence of bottlenecks to the growth process - ideally in order of priority. Raising growth potential in South Africa requires more and better infrastructure, more skills, effective government institutions, efficient productive capacity, appropriate industry structure, a competitive currency and access to markets for goods and services the economy produces.

On the back of South Africa's sub-potential growth, government revenue growth has however declined, placing fiscal constraints on public spending and thus raising the need for the sourcing of more long-term finance for development. For the financial limitations of the Fiscus and balance sheet constraints of public sector borrowers are to be overcome, there is a greater need for the banking sector in general and DFI's in particular to play a more supportive role.

In this context the DBSA will need to play a central and expanded role in supporting public infrastructure investment programmes in South Africa and the region outside South Africa. The need for the DBSA to support and build the long-term growth potential of the economy requires a strong focus on infrastructure and human capital development. The DBSA has been challenged by the DBSA Governor, the Minister of Finance, to escalate its interventions in the following areas:

- Raise the urgency of local economic development and poverty eradication interventions to support economic growth and reduce the country's high unemployment rate.

- Infrastructure bottlenecks in the energy, transport and water sectors are looming constraints on future economic growth and social development. They require sustained escalated investment in local and regional infrastructure.

- Public sector execution capacity and effectiveness shortcomings makes institutional capacity building imperative to improve government service delivery in support of social development and the economy.

As such the DBSA has taken up the challenge posed by the Governor and the 2011/12 Corporate Plan carries forward an expanded development drive and growth, with a sharp focus on accelerated, integrated and innovative infrastructure development.

[1] Basic data source: IMF Staff Report on South Africa September 2010

2. DBSA as an organisation

2.1. Constitution of the DBSA

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 wider Southern Africa region ("the region"). Its regulations provide a sharp focus on infrastructure development, especially in South Africa, where it is situated in a development finance system where various DFI's have been given specific areas of focus to limit duplication and unnecessary overlaps.

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 III Report and the Protocol on Corporate Governance in the Public Sector.

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, 71 of 2008.

2.2. DBSA mandate

The DBSA Regulations define the Bank's mandate in Section 3 of the DBSA Act as follows:

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 path dependency and institutional failure. Path dependency 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 path dependency and institutional failure is threefold:

- Provision of capacity building through skills development, skills training, capacity building funding, such as grants.
- Support for infrastructure funding.
- Actively provide policy advocacy and advice to Government and other stakeholders on policy formulation.

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

2.3. DBSA's Vision, Mission and Development Agenda

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

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

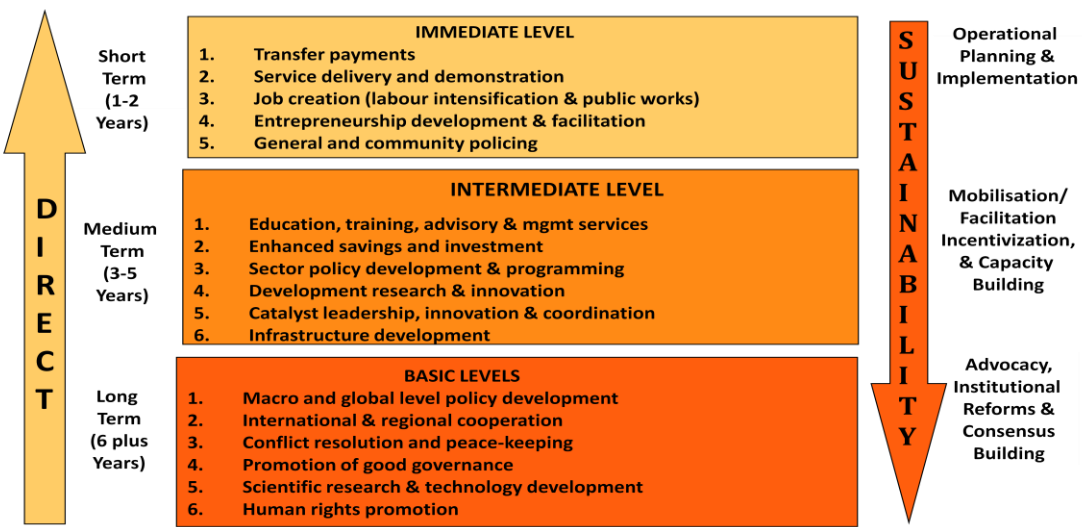
This is supported by the Bank's mission:

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

The DBSA's development agenda emanates from its shared, developmental vision of "a prosperous and integrated region, progressively free of poverty and dependency" and considers the multi-dimensional development problem and causes of poverty, inequality and dependency faced by South Africa and the region.

The Bank's Development Agenda departs from a conceptual framework of the causes of under-development. The framework, as illustrated below, outlines three sets of structural constraints that interact dynamically to produce under-development, namely the immediate, the intermediate and the basic or fundamental; with each representing short, medium and longer term causes. The levels are not necessarily mutually exclusive.

Figure: Structural constraints



The Development Agenda focuses on a number of development challenges, at both causal and impact relationship levels, between various variables and outcomes mainly within South Africa and to an extent the rest of the continent. The causal relationships are seen to be impediments to development and therefore it is seen as necessary to streamline the DBSA actions and interventions along with other partners, in unlocking development potential in South Africa, for example environmental problems were seen to have an influence on socio-economic sustainability of development. The following five key binding constraints to development were identified in South Africa and the rest of SADC:

- *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 time frames witnessed in history. At the moment, the number of countries demonstrating that everything equal the presence of strong institutions and abundance of skills has the ability to enable faster economic growth and development as evident in China and some parts of the Middle East is increasing.

- *Small fragmented markets*

  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. Africa and Southern Africa for example, is characterised by smaller fragmented markets, which inhibit greater intra-trade between states thereby limiting opportunities for growth and sharing of resources to enhance development.

- *Inadequate and unaffordable infrastructure*

  The high cost of infrastructure such as energy, telecommunications (ICT), etc. 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 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 GDP by enhancing and or impacting on import and export capability.

- *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*

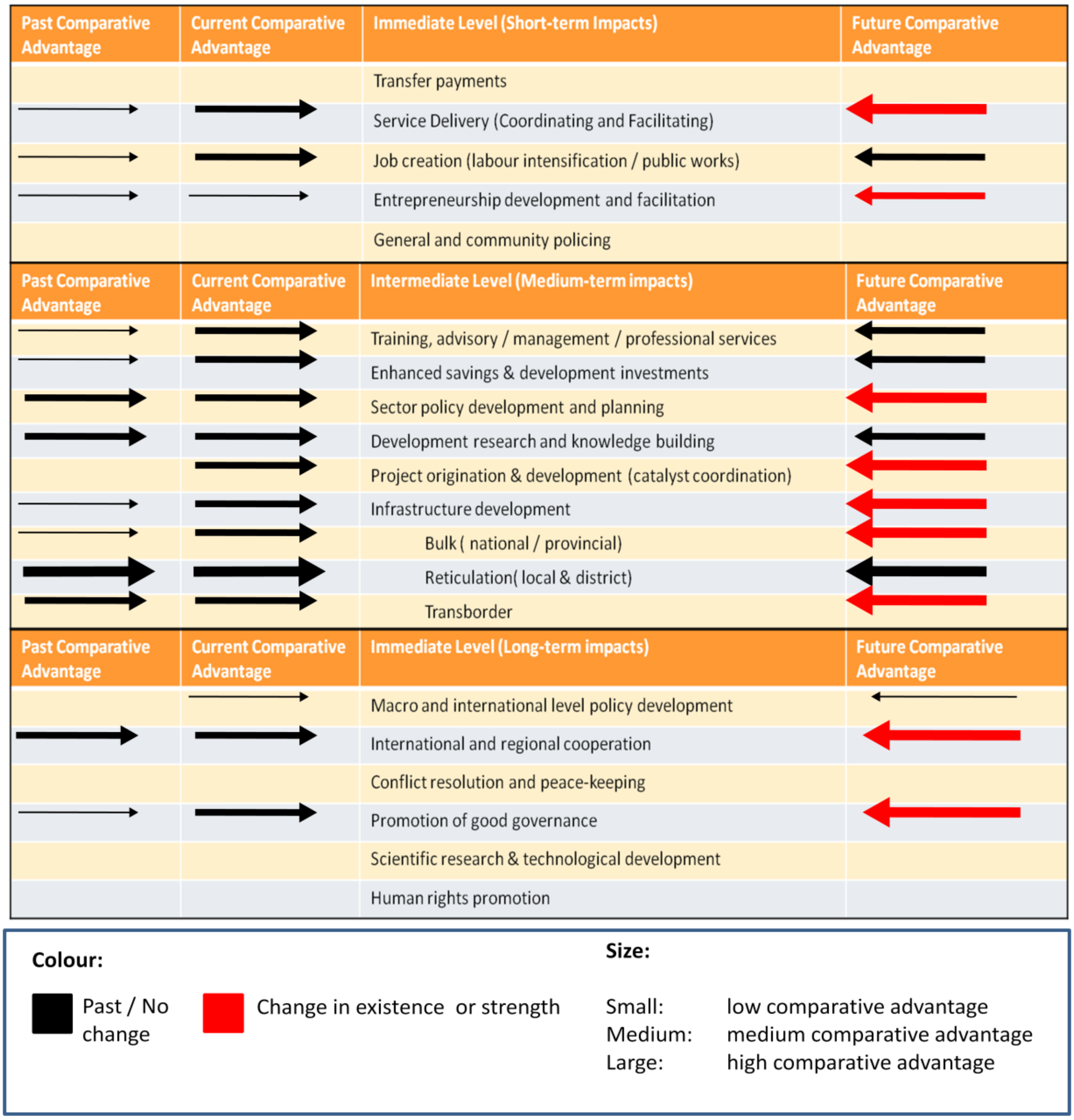
  Over the years, inequalities for opportunities to participate and benefit from economic growth have been skewed away from a majority of the population.

Drawing on the impediments to development, the Bank's mandate leads it to direct its effort on the mobilisation and accumulation of infrastructural and productive capital, as well as the development of human resources. These focus interventions typically address the intermediate causes of under-development. They are typically large, complex, and often implemented over the medium and longer term, yielding impacts in a similar timeframe. This is reflected in the nature of infrastructure and economic development projects, which take several years to develop, build and operate. It is also reflected in 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 through the Bank's internal recruitment and professional development initiatives, or whether one is investing in physical buildings of universities or technical training institutions.

The intermediate and basic levels of intervention are not short term, but key to sustainability, which is central to the Bank's mandate and a golden principle in development world-wide. Short term interventions are very important, but rely on the conditions generated by medium and longer term interventions. Moreover, the results of short term interventions are not sustainable without medium and longer term interventions that address some of the underlying and root causes of under-development. The Bank recognises that it 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.

The Bank's Development Agenda clarifies the organisation's absolute and comparative advantages, in the context of major short, medium and long term interventions as well as sustainability considerations. Most importantly, it highlights the vital role of medium and long term interventions in pursuit of enduring development solutions, especially where the causes of under-development are structural and basic in nature.

Figure: Aligning and growing DBSA's comparative advantage in line with new positioning as Centre of Excellence



Through the Development Agenda, the DBSA positioned itself to deliver interventions on the basis of its comparative advantage (interventions best suited to DBSA's capabilities at the lowest cost and highest impact). These key dimensions of comparative advantage are:

- Training.
- Advisory, management and professional services.
- Infrastructure development (bulk, reticulation and trans-border).
- Sector policy and programming.

- Development research and knowledge dissemination as catalytic leadership.
- Project origination and development (catalyst coordination).
- International and regional integration.
- Macro and international policy development and promotion of good governance.

The Bank's Development Agenda goes far beyond the traditional and outdated view which sees development in narrow terms as general growth in GDP. Apart from taking a multi-dimensional approach to development, it factors in the matter of equitable development. The Bank therefore strongly supports socio-economic transformation, aimed at making economic opportunities available to all and distributing the benefits of economic growth equitably, as an integral part of achieving sustainable and wholesome development. It is in this regard, therefore, that the South African government and its regional partners in SADC have called on development finance institutions to consider empowerment as part of social sustainability, together with economic and environmental sustainability.

In its Development Agenda, the Bank puts high value on human resource and institutional development. The building of human and social capital is understood to be one of the key enablers for infrastructural and productive capital, and one of the underlying strands of transformation. It recognises that improvements in human and social capital are closely related to opportunities for employment, self-employment, and improved income – and indeed a better quality of life. In this view, human and social capital is considered to be part and parcel of economic development – the link being the ability, productivity, health and longevity of people.

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.

Addressing the manifestations of under-development requires a structured set of interventions that address the different factors and causality underlying under-development and therefore it is necessary to streamline the DBSA actions and interventions along with other partners, in unlocking development potential in South Africa, for example environmental problems were seen to have an influence on socio-economic sustainability of development.

In dealing with the development challenges, the DBSA identified a number of new 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 has now identified eight priority sectors as a means of executing the Development Agenda. These sectors include: ICT, water, education, human settlements, transport, health, energy and environmental and climatic change. The binding constraints, interventions and initiatives identified by the DBSA, along with the priority sectors are depicted in the table overleaf:

DEVELOPMENT AGENDA – BINDING CONSTRAINTS				
Weak institutions and shortage of skills	Small fragmented markets	Inadequate and unaffordable infrastructure	Apartheid geography/ disjointed spatial patterns	Massive inequality
INTERVENTIONS				
• Siyenza Manje Programme • DF Capacity building grants • Agency services • Skills partnerships • Targeted training programmes and partnerships • Advisory services • Policy and sector strategies • **26 Municipal profiles** • **Focus on under-resourced municipalities (per MoU with NT)**	• Regional Integration initiative • **Pan African Capacity Building Initiatives** • NEPAD/RISDP support initiative	• Project origination initiative • **Rural development initiative** • TA and TIP facilities • Provincial growth Fund initiative • **Revised capital structure and cost effective liquidity initiative** • **Enhanced DBSA offering initiative, new marketing strategy & focus and review of pricing** • **Focused Sector strategies**	• Project origination initiative • Provincial Growth Fund initiative • **Rural development initiative** • Sustainable Communities programme • **PPPs in health and transportation** • **Education and health roadmaps** • **Operations and maintenance initiative**	• Sustainable communities • **Rural development initiative** • Housing initiative

PRIORITY SECTORS						
ICT	WATER	EDUCATION	HUMAN SETTLEMENTS	TRANSPORT	HEALTH	ENERGY
ENVIRONMENTAL AND CLIMATIC CHANGE						

Following from the above, the DBSA's response is becoming increasingly focused and targeted towards alleviating constraints to development - thus broadening and deepening development, as stipulated in the Development Agenda. In addition, on the capacity building front in South Africa, the DBSA in enhancing its role in the identified priority sectors has undertaken deployment of expertise and training in municipalities.

2.4. DBSA corporate strategy

Given the scope of the development challenge, 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 support government accelerate service delivery, job creation, integrated spatial development and regional integration. For the DBSA, infrastructure development is not just about bricks and mortar – it is about the quality of life and productivity of people, aimed at increasing their opportunities, expanding their choices and helping them to build better lives. It is not simply about physical infrastructure and related management systems; it is about restoring human dignity and enabling people to improve their standards of living.

DBSA roles – value proposition

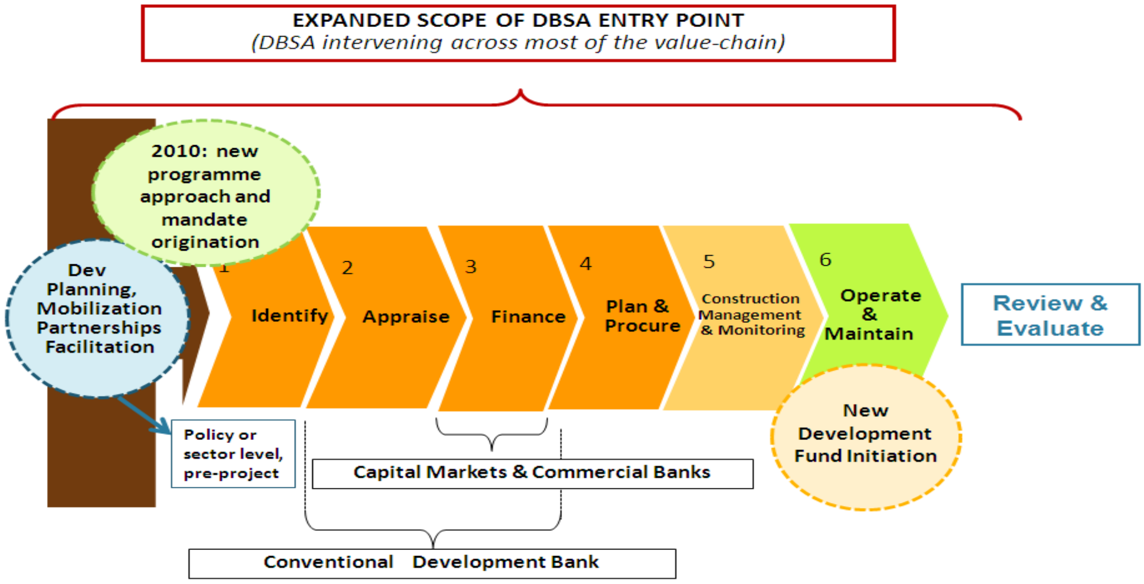
To effectively broaden and deepen its development impact, the DBSA has over the years expanded its roles from advisor, financier and partner to include the roles of implementor and integrator.

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.

Despite the Bank's traditional institutional design and historic comparative advantage that led it to focus almost exclusively on intermediate and longer term interventions in infrastructure development, the Bank has boldly expanded its engagement model to address more downstream, short term types of problems relating to operational planning and implementation support. The

Bank's engagement model has been expanded to address more short term problems downstream in the project life-cycle, as illustrated in the model below.



DBSA as a "Centre of Excellence for Infrastructure Development"

Key to the national priorities is the strategic objective to accelerate infrastructure development and delivery, job creation and economic growth. While significant progress has already been made over the past 16 years, levels of poverty remain high and structural weaknesses in key areas of the economy persist. These problems have been compounded by the sheer magnitude of backlogs, unrelenting unemployment, institutional failures and the global financial crisis.

Crucial to any economy is the design of infrastructure, and in South Africa this requires a conscious effort to create an equitable balance between and social and economic priorities. Therefore, the scalable infrastructure programmes that have recently been prioritised by the government include: the delivery of healthcare infrastructure; accelerating the delivery of water and sanitation services; the development of scalable green energy programmes; and the provision of enabling education infrastructure.

Given the scope of development challenges and the limited financial, institutional, and human capital in the region, innovative and proactive solutions should be sought. Within this context the DBSA is redefining its role as a government delivery agent and assuming the role as "Centre of Excellence for Infrastructure Development". This role includes:

- Focus on catalytic interventions to enhance national competitiveness and social equity.
- Planning and design of programmes to boost changes in structure of economy.
- Focus on high impact, scalable infrastructure projects.
- Support planning and design of infrastructure.
- Lead arranger for Government.

Therefore, these emerging requirements and realities have resulted in the in-depth analyses of these conditions and developments, which have led to a significant evolution of 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. This financial year has marked the reinvigoration and repositioning of the Bank's strategy through the adoption of 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.

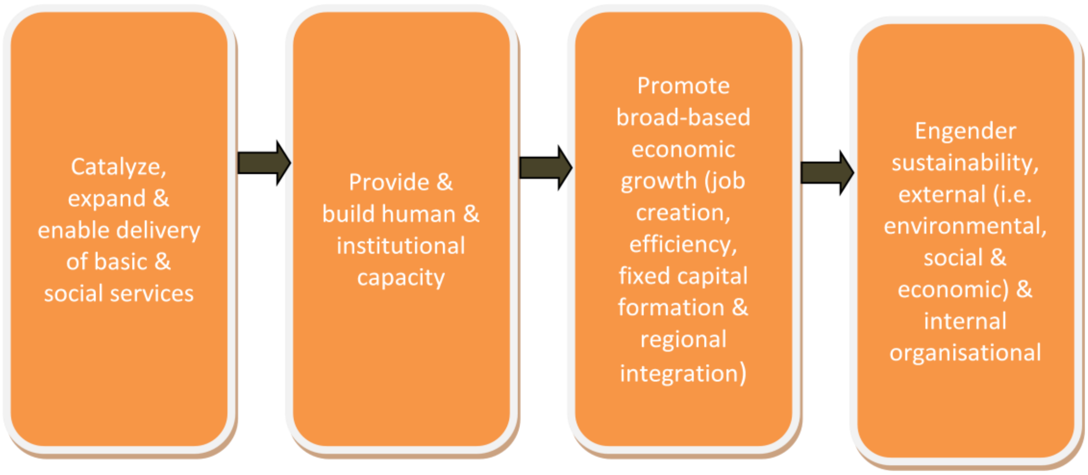
The DBSA's strategic approach to infrastructure funding will go further beyond simply addressing the funding gaps and responding to market conditions. It will embrace a more proactive, innovative and research-led approach to project identification and development, in the context of a more integrated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

As part of giving the strategy more strategic impetus; the DBSA's orientation as a Centre of Excellence for Infrastructure Development will be more proactive, identify high scale and impact projects in the identified sectors while maintaining financial sustainability. In addition this will embrace strong governance and risk processes and controls.

The sectors and related programs are aligned to the DBSA Development Agenda. The focus of the Bank as a Centre of Excellence takes into account the national priorities as succinctly articulated in the Government's Medium Term Strategic Framework (MTSF) 2009 to 2014.

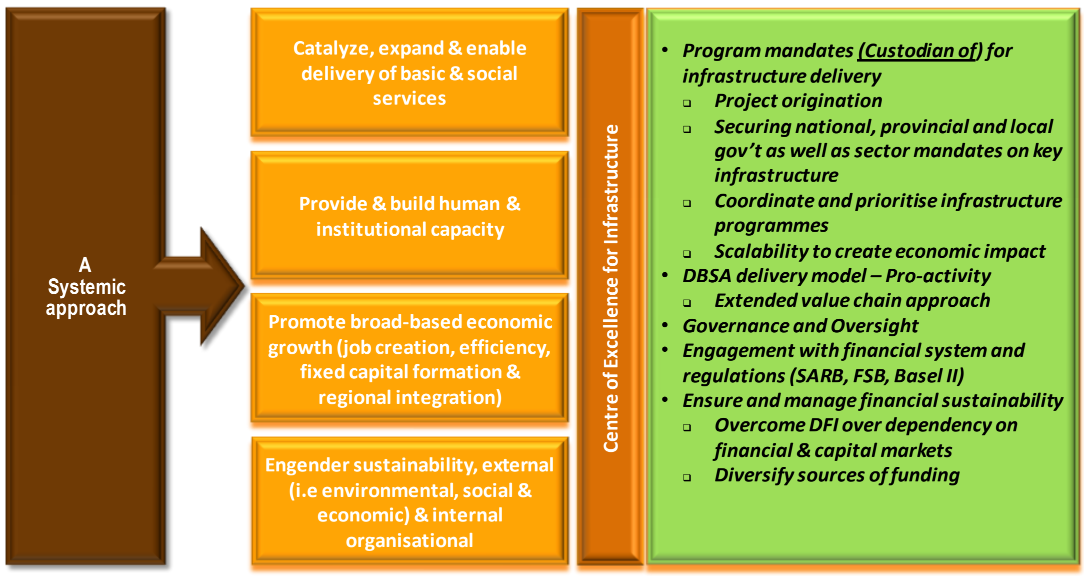
Strategic objectives

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

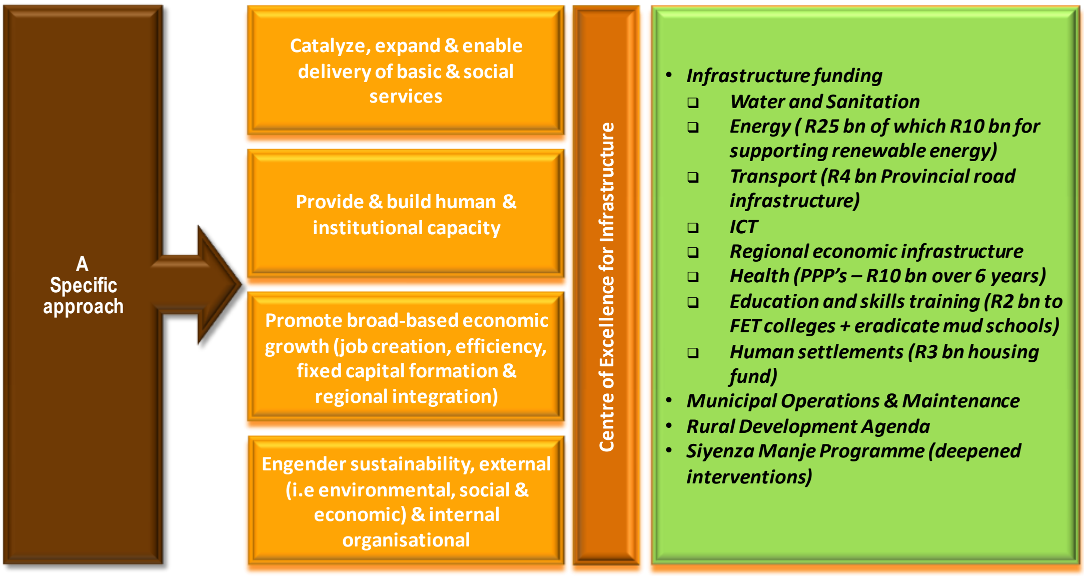


The strategy departs from the understanding that higher investment levels are necessary if South Africa and the region are to get closer to achieving the desired minimum sustained 6%[2] economic growth rate, which is necessary for sustainable job creation, especially in the current global economic uncertainty.

In executing the strategy and the development agenda the DBSA has adopted two approaches both systematic and specific. The systematic approach embodies four strategic prongs or actions that ultimately underpin the Centre of Excellence; while the specific approach comprises key national, regional and DBSA specific initiatives.



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



The Bank has been taking on shorter term interventions to unblock key constraints in execution. However, this has been done as part of a wider and structured set of interventions that address multiple causal factors in a complex set of challenges. This expanded engagement model underpins the Bank's enhanced strategy, and reflects a more hands-on approach. This hands-on approach has been actively advanced through a number of strategic initiatives, notably the Siyenza Manje and Sustainable Communities initiatives, which will be discussed in subsequent sections.

The more hands-on approach stresses not only the implementation of strategic initiatives, but also catalytic interventions that open up development opportunities in areas with latent potential. It recognises that expanded engagements at the immediate and basic levels require more practical and strategic partnerships, with public and private sector institutions, to expand execution capacity and foster innovation. It is in this context that the Bank's traditional triple role set of financier, advisor and partner, has taken on implementation and integration dimensions.

The Bank's revised and enhanced strategy recognises that effective implementation requires a refined and sharpened engagement model across the entire value chain.

New scope of intermediaries and market segments

In line with the expanded strategy of the DBSA, the South African market segmentation model has been refined and sharpened in order to enhance the impact of resource allocation and direct investment to promote economic stimulation.

As such, the three key segments in South Africa have been refined as follows:

Segment	DBSA Focal Point
1: Social Development and Integration – people and need • Access to basic services: water, sanitation, energy. • Access to social services: health & education (mostly higher). • Access to affordable housing and transport.	**SA Operations** Sharpened focus on delivery of socio-economic development and integration
2: Economic Development – place and potential • Bulk infrastructure: power, transport, ICT. • Infrastructure related economic development sectors.	**Investment Banking** Sharpened focus driving economic stimulation
3: Institutional Capacity Building • Municipalities. • National public utilities (collaboration, co funding etc). • Regional public utilities (RED's, water boards, transport boards etc). • Local public utilities (City power, housing associations etc). • Other agencies (cooperatives/NGO's) – collaboration.	**Development Fund** Sharpened focus as implementer & institutional capacity building **Development Planning** Increased focus on advocacy and influencing growth path of SA

In the rest of SADC, a broader understanding of strategic and economic imperatives to achieve regional economic integration for economic growth, development 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 evidenced in growth rates as well as institutional commitment and support characterised by a conducive investment climate as well as capacity to plan and execute programs.

As such, the two streams of segments were identified in SADC and have also now been further refined.

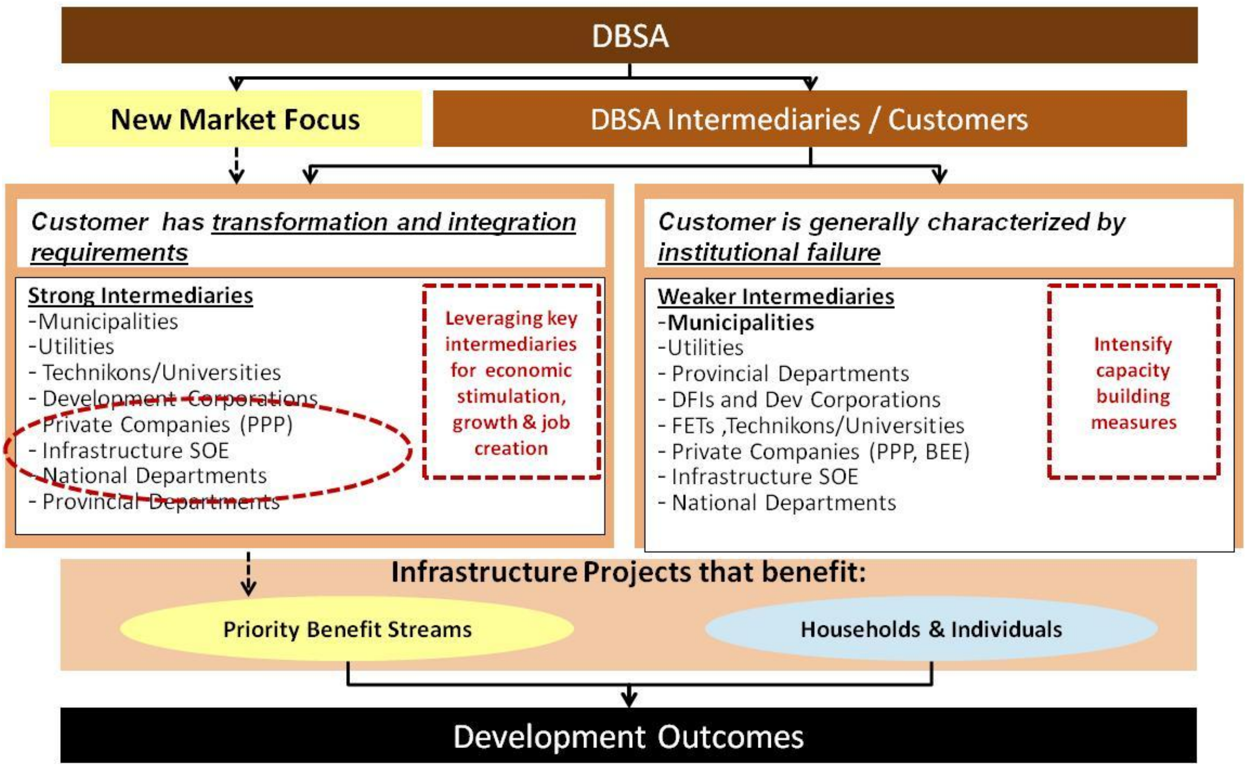
- These streams are growth sectors that support employment, reconstruction and enable the viability of infrastructure projects, and include, among other sectors: tourism, mining, agribusiness / forestry / fisheries, oil and gas and financial sectors.
- The other segment is focused on regional development and integration through infrastructure that form the cornerstone for regional integration and focuses on producing economies of scale / pooling and cross-border connectivity, in areas such as: power, water, transport and ICT.

As a Centre of Excellence for Infrastructure Development, the DBSA will go beyond municipal infrastructure to embrace bulk, national and regional infrastructure and continued emphasis on crowding-in the private sector. The market segmentation framework will sharpen DBSA's delivery mechanism, by highlighting key intermediaries to deliver development to beneficiaries.

DBSA intermediaries' delivery model

The delivery model in implementing the Development Agenda and market segmentation is based on two sets of intermediaries; strong and weak intermediaries. The delivery model, as illustrated below, compliments the DBSA strategic approaches of addressing social economic integration, economic development, regional economic development and integration, strengthening institutional capacity as well as advocacy and influencing policy. Among the key intermediaries are: municipalities, utilities (both national and local), infrastructure SOE's, technikons, universities and FET's, DFI's and development corporations, local/regional development agencies, and private sector entities involved in infrastructure delivery (Private Public Partnerships).

DBSA delivery model

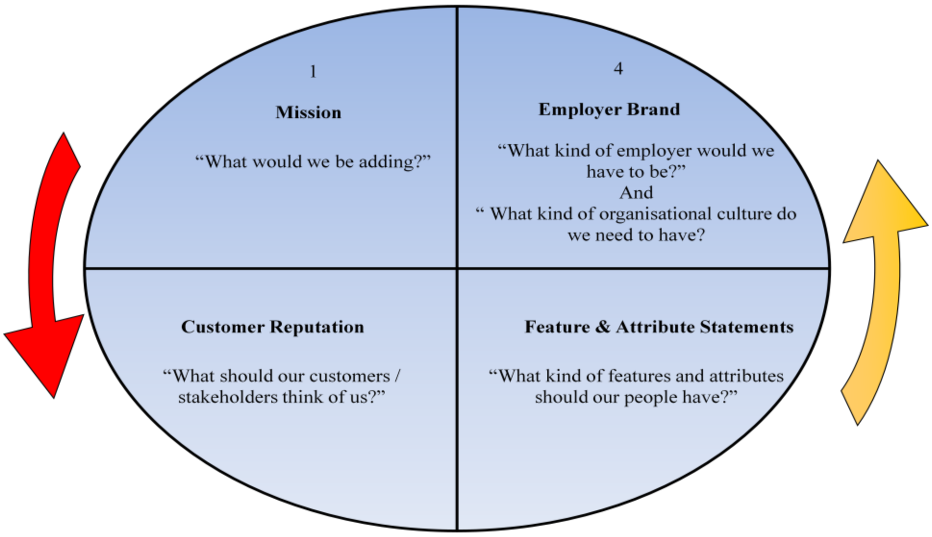


2.5. Organisational values and culture

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.

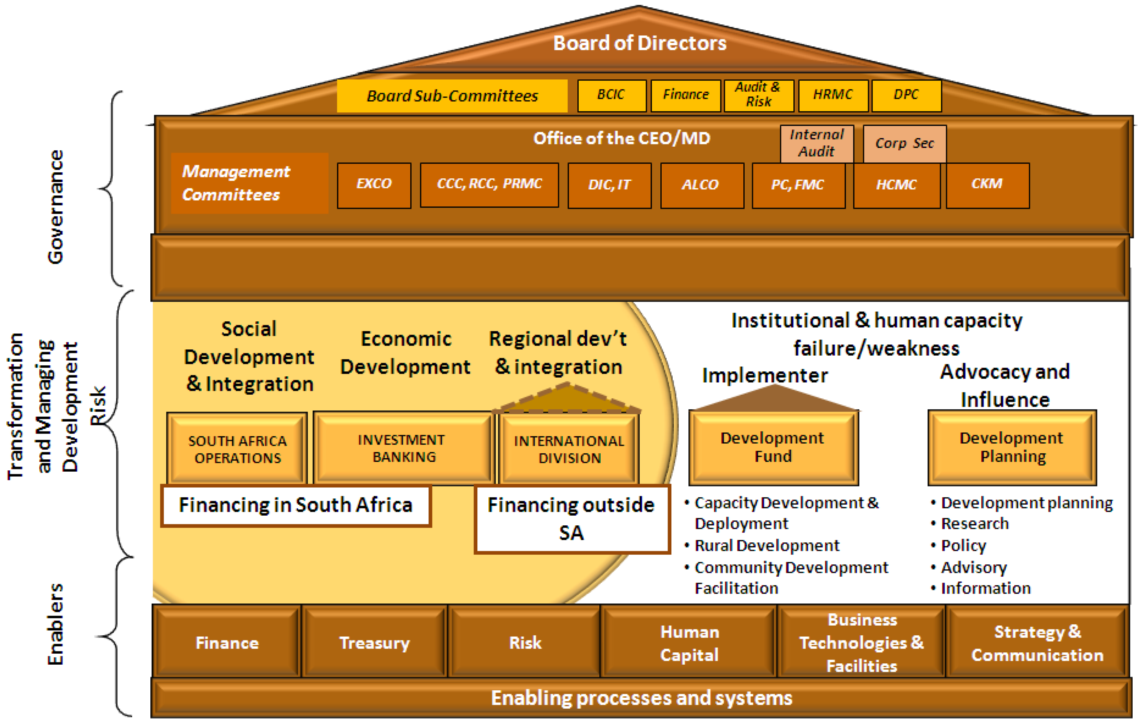
The success of the above would enable the DBSA to:

- Create space for employees to excel, encourage innovation and recognise employee contribution at all levels.
- Minimise red tape, yet retain good corporate governance.
- Are results rather than output driven.
- Have a principle (rather than procedure) driven process and culture.
- Is 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.

2.6. DBSA delivery structure

The figure below illustrates the delivery framework of the DBSA, including the governance oversight tiers, core operations and enabling role 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 five "client-facing" operational areas, each with a specific focus on development impact, good corporate governance and development risk management.

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

2.6.1. South Africa Operations Division

The DBSA defines three primary market segments within South Africa i.e., institutional capacity building, economic development, and social development and integration. The South Africa Operations (SA Ops) Division has a primary responsibility for delivery of the latter. It therefore focuses on socio-economic development, working with national, provincial and local governments, intermediary utilities and regional/local DFI's, to stimulate economic growth and poverty reduction through the provision of social and enabling infrastructure at a provincial and local level.

Value proposition

The SA Ops Division has built capacity in key functional areas, namely: financial structuring, social, technical, economic and financial analysis, as well as portfolio management and strategic planning. The Division uses these capabilities to execute its pivotal role as the DBSA's primary contact point with provincial and municipal governments and their intermediary utilities. By co-ordinating and capitalising on specialist skills available within other parts of the DBSA, SA Ops is able to act as:

- **Lead arranger**, to advise on, define and package projects together with client entities.

- **Financier**, to structure suitable financial packages for bankable projects.
- **Partner,** to manage the risks on approved projects.

Target market

In April 2010, the DBSA created a new division i.e., the Investment Banking Division, by consolidating all private sector, national government and large state owned entity (SOE) market segments, as well as public-private partnership (PPP) and equity product offerings.

This meant that responsibility for these market segments moved from SA Ops to the new division, allowing SA Ops to focus on the provincial and municipal market segments. Although the municipal market has traditionally been well served by SA Ops, the recent structural changes allow the Division to extend a similar focus to the provincial level. This has begun to deliver returns, with programme mandates already being defined with the Gauteng, Free State, Mpumalanga and Eastern Cape provincial governments.

Strategic focus

The SA Ops Division works very closely with individual municipalities to finance infrastructure delivery, however a number of factors have recently contributed to making this market challenging to operate in and successfully conclude funding opportunities. Possibly, the largest contributing factor for this is the weak financial and operational health of certain municipalities. Municipalities are burdened with poor and declining revenue bases, a lack of operational skills, and in some cases instability within the management layer. They are thus often unable to borrow within the Municipal Financial Management Act (MFMA) framework. Due to these factors, the municipal clients of the DBSA are closely monitored, and this has led SA Ops to define the following five key focus areas to ensure that infrastructure delivery continues despite these challenges:

- *Project origination***:** The Division adopted a more proactive approach to identifying, defining and developing new infrastructure project proposals. Project origination is often hindered by a fragmentation of the project life-cycle. The lack of structure creates risk as most market participants are unwilling to take on the early-stage risk inherent in the project origination process. The Division is addressing this issue by signing mandate agreements with provinces and municipalities that allows it to play a central role in project origination, as lead arranger and financier on high-impact programmes.
- *Partnerships:* The Division adopted an approach that draws specialist intermediaries into its project appraisals and implementations. This is being intensified to ensure the availability of necessary skills in the areas of engineering, finance, risk and project management as well as in operation and maintenance.
- *Sector emphasis:* The DBSA has defined a set of priority sectors to ensure that the Bank's resource allocation is in line with the Governments MTSF. These sectors are: health, education, transport, energy, human settlements, water and sanitation, as well as operation and maintenance. The Development Planning Division houses a team of sector specialists that develop sector strategies for the South African market. SA Ops works closely with these specialists to identify high-impact projects within each sector and prepare sector perspectives for immediate attention and possible funding.
- *Providing comprehensive development solutions:* A coordinated and integrated structuring of the various support offerings by different DBSA's divisions (such as technical support and advice, transaction structuring and investment and increasingly by playing a facilitation, leading, integrator role in addition to the financier role), was developed to ensure that public sector intermediaries (i.e., municipalities and state owned entities) gets the assistance they need.
- *Accelerate investment in under-resourced municipalities and state owned entitles:* Working together with national and provincial governments, the Division is exploring possibilities of the frontloading of multi-year conditional grants to support under-resourced municipalities to delivery infrastructure.

Initiatives for 2011/12

The Division is currently executing on a range of key strategic initiatives:

- Municipal engagement

  In line with the drive to act as a lead arranger, SA Ops has begun engagements with municipalities on issues over and above the historic business-as-usual activities, to create the appropriate enabling environment for the successful execution of specific projects. Examples of these issues incorporate the following:

  - *Municipal Infrastructure Grant front-loading:* In order to help municipalities continue with the rollout of infrastructure despite their high levels of debt on their balance sheets and other capacity challenges, the DBSA is working with National Treasury to define a process whereby the municipalities' future MIG allocations can be used as a guarantee within the current financial year for the financing of suitable infrastructure programmes. As such, the Division is working closely with municipalities to define programmes that can benefit from this process. In collaboration with the Development Fund, the Division continues to ensure that the execution capacity is created within those municipalities benefitting from this initiative.
  - *Capital programmes*: A proactive approach has been adopted to define DBSA involvement with the capital programmes of metros such as Johannesburg and Tshwane municipalities (calculated at R1.8 billion and R340 million respectively). These have been approved within DBSA and are being finalised with the two Metros. Other metros will also be approached, e.g. the City of Cape Town in relation to its 2011 capital expansion programme.

- Sector programmes

  The Division is engaged with provincial and municipal governments to define and execute infrastructure programmes within the following sectors: health, education, transport, energy, human settlements, water and sanitation, as well as operation and maintenance. In relation to these programmes, the Division has signed several mandate agreements with provincial government departments and will continue to strengthen its relationships with external stakeholders through the signing of further mandate agreements. Notable is the initiatives (although in the very early planning stage) of the operation and maintenance programmes in the Northern and Eastern Cape provinces regarding water infrastructure.

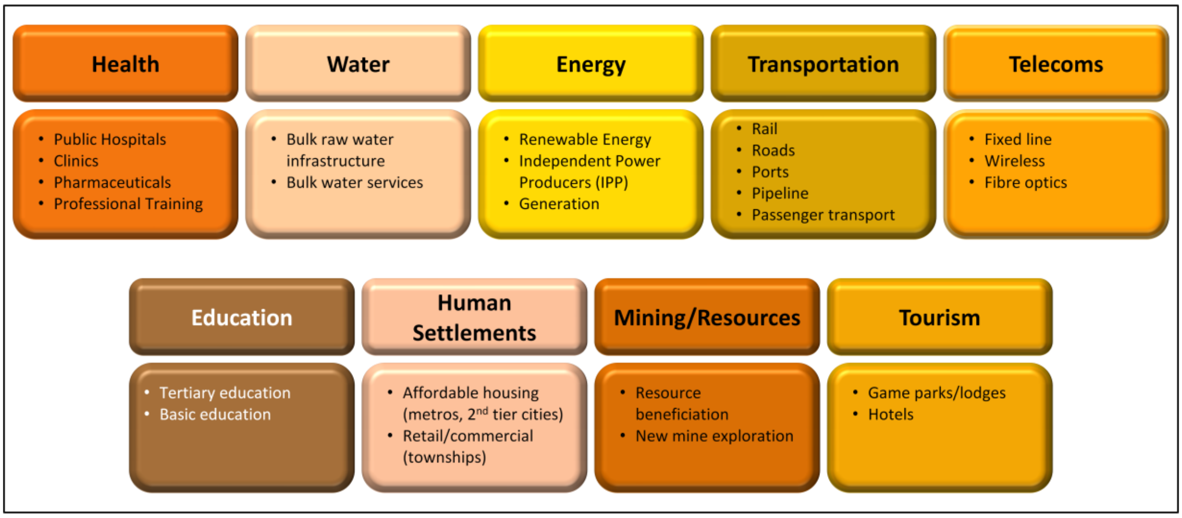
  The Division anticipates that there will be increases in approvals in respect of key infrastructure sectors e.g. water, sanitation, transport, and roads: These key sectors will be driven by a focus on project origination. However, these initiatives will take time to mature due to the complex and time-intensive nature of these programmes. The Division will work with the Development Planning Division's team of sector specialists to identify high-impact projects within each sector and prepare sector perspectives for immediate attention and possible financing.

2.6.2. Investment Banking Division

The Investment Banking Division focuses on playing a key role in meeting the country's socio-economic development and growth imperatives in order to reduce infrastructure backlogs and address social challenges of poverty and joblessness. The primary focus of the Division is to provide a spectrum of investment banking solutions to both public entities and private enterprises in undertaking projects in support of scalable economic infrastructure development within South Africa. As depicted in the graph overleaf, support primarily focus on large scale infrastructure projects aimed at addressing:

- Backlogs and expediting essential social service delivery in support of sustainable living conditions, and improved quality of life within communities. These projects support social service delivery in sectors such as health, water and sanitation, human settlements and passenger transportation.
- Capacity and bottleneck constraints which unlocks optimal economic growth potential. These projects support growth in sectors such as industrial transportation, telecommunications, mining, tourism and renewable energy.

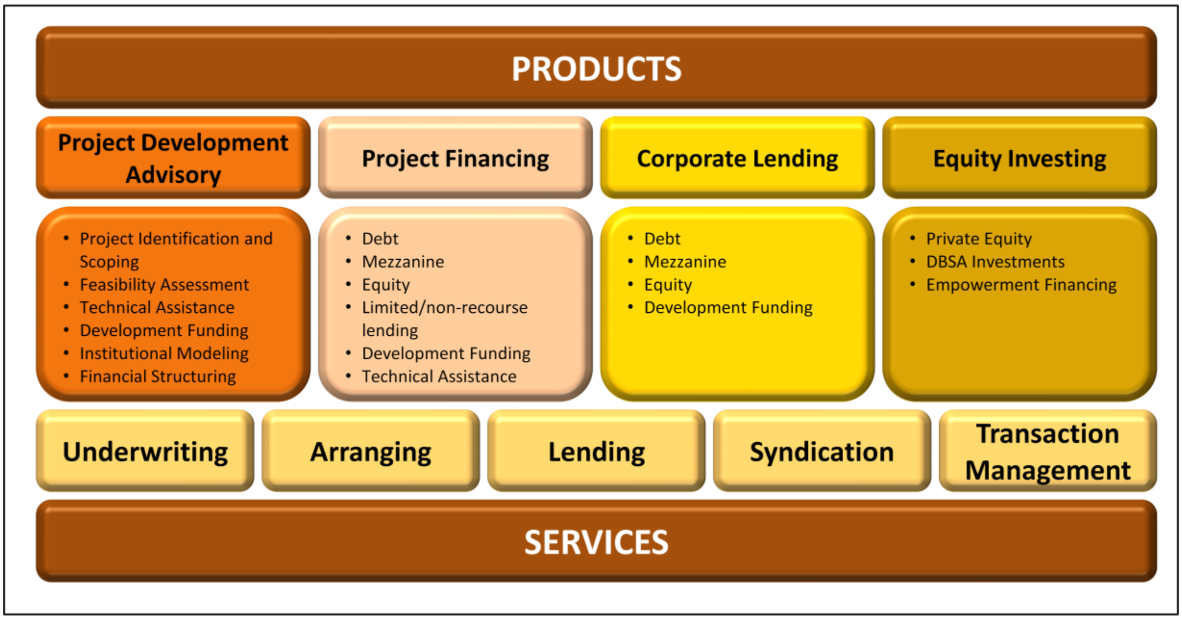
Sector profile of infrastructure support



The ability to make a difference in the quality of life of millions requires innovative financing at early stages and effective models to enhance private sector participation in infrastructure financing. A significant number of these projects are public-private partnerships (PPP's) aimed at leveraging private sector capital and capacity for delivery. For this reason, feasibility studies undertaken at early stages must prove not only technical feasibility but also commercial viability for purposes of attracting private sector finance and investment.

The Division also directs its efforts to originating large-scale infrastructure development projects within priority sectors largely prioritised to expedite infrastructure delivery and stimulate economic growth. As such the Division is uniquely structured to mobilise and allocate resources to projects at early inception stages, seeking mandates from clients pursuing opportunities that address key development challenges across the country. Solutions provided encompass the full end-to-end execution that includes project development advisory, project structuring, modelling and capital-raising by way of arranging, underwriting, financing and syndication of projects with positive development impact across priority sectors.

Investment Banking product and service offerings



Planned initiatives

The financial capacity required by SOE's in supporting government's capital expenditure programmes should not be underestimated. The DBSA will have to play a proactive role in engaging SOE's across all priority sectors at the onset of projects, in order to understand the quantum of needs with a view of providing support to these projects. A large allocation of the total disbursement budget is allocated toward SOE's undertaking major infrastructure projects over the next five years.

Over the next five years, the Division will embark on an aggressive growth path to provide support to major infrastructure projects across priority sectors. As such the disbursement target for the 2011/12 financial year has been set at R3.3 billion.

Various large-scale infrastructure initiatives are currently under review or in progress and bringing these programmes to bankability during the next couple of years will be important in supporting governments' ultimate infrastructure development programmes. Key sector programmes include:

Health: Revitalisation of the several public hospital programmes

During 2010/11 the Division concluded a partnership with the Department of Health and National Treasury to support the Provinces in initiating and bringing to fruition several new hospitals programmes within various PPP arrangements. The Division will continue to play a strong role in providing capacity to develop these projects.

Water – Early stage bulk water scheme

The Division has received a request from the Department of Water Affairs to support numerous early stage bulk water scheme projects envisaged. The Division is assisting with scoping work to help bring projects to execution.

Energy: Promoting Independent Power Producers

The Department of Energy (DoE) and National Treasury are placing extensive focus on promoting Independent Power Producers (IPP's) in support of wind and solar renewable energy generation. The Division is seen as a key implementation agent for providing financial and project development capacity in this sector and is actively growing its pipeline portfolio of renewable energy projects.

Mining

The country has substantial natural resource endowments especially in commodities such as coal, iron ore, manganese and platinum. The Division working in partnership with other DFI's and government intends to make a contribution to the development and transformation of this sector as the mining sector has demonstrated significant job creation benefits as well as wider socio-economic development impacts.

Infrastructure development funds

Investments in private equity infrastructure development funds are vital to the Division's attempts to accelerate infrastructure investments through active and committed partnerships with willing investors. Since 1999, the Bank has committed approximately R2.8 billion to 15 infrastructure development funds which largely focused on infrastructure in sectors aligned to those of the DBSA's priority sectors, in South Africa and throughout the region.

The total funds invested by the DBSA have attractive combined capital to the tune of R22.6 billion, leveraging the total commitment to 7.8 times its own portion as well as making important development impact outcomes in critical economic sectors, job creation, enterprise development and the empowerment of disadvantaged groups. The Division envisages expanding its activities in this asset class with investments of R2 billion per annum over the next five years in sectors such as health, infrastructure and regional integration initiatives.

2.6.3. International Division

The International Division is responsible for the DBSA's operations in the Southern African 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 priorities and integration through key regional and international development dialogues. 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.

The global financial crisis threw into stark relief underlying complexities in the Southern African market. A regional environment already defined by political, social and economic fractures was further aggravated by the increased scarcity and high cost of capital. The consequence was the cancellation or shelving of many otherwise viable projects, with regional projects being amongst the most affected.

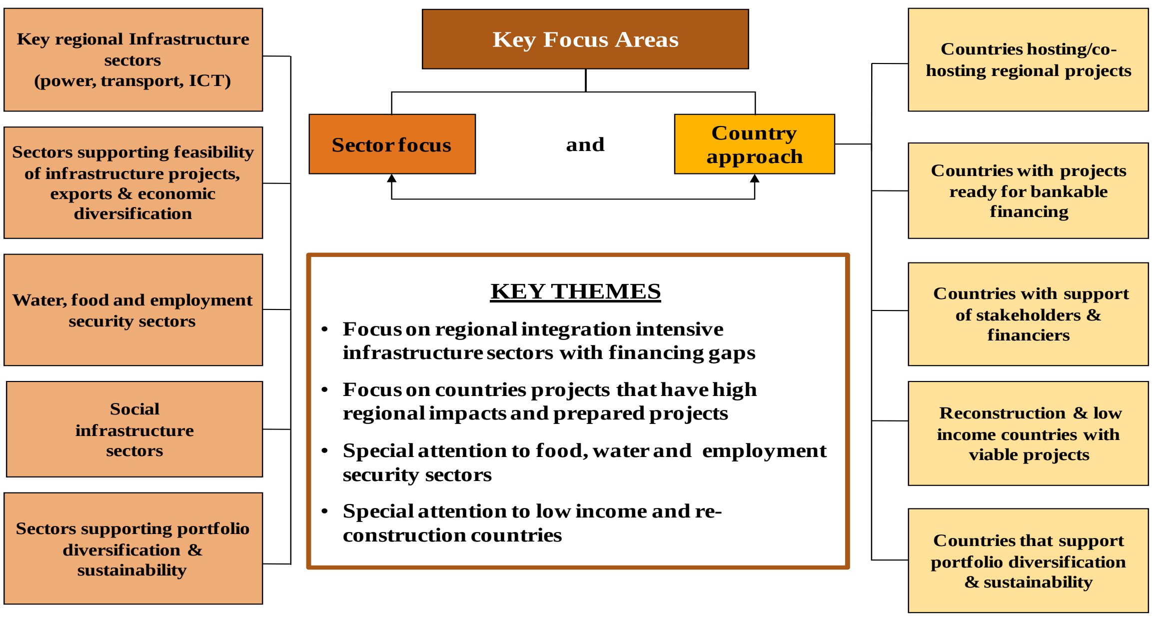
This dynamic required that the Division deepen its ability to source and nurture projects within target markets. A revised operating structure was implemented early in 2010, defining a business development function separate from the project structuring function. The changes drew on lessons learned regarding the challenges of implementing regional projects, as well as the experience of implementing country-specific strategies.

Overview of operations

Regional and strategic operations

The International Division is guided by sector and country based engagement principles (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) as well as evolving developments in the region and amongst the Regional Economic Communities (RECS) in identifying priority infrastructure and development finance sectors for the region. The similar priorities are reflected in the Government of South Africa's Medium Term Strategic Plan for its International Relations and Cooperation in the region.

DBSA's Regional Development Finance Strategy



The DBSA has historically been a provider of senior debt, and this emphasis remains. However equity investments are often made on a case-by-case basis in order to provide a capital base to viable projects. The equity investments can either be direct or indirect through third party funds. In certain instances technical assistance (TA) grant funding is deployed to facilitate project development in high impact areas, by funding feasibility and pre-feasibility interventions that help progress projects to a stage of bankability.

The Division focuses on regional integration, particularly in relation to economic infrastructure sectors with high financing gaps, such as power, transport and ICT. In addition the division supports social infrastructure in sectors 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 and 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.

Engagement with intermediaries

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.

Furthermore, 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 is also 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 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.

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 International Division is seeking to expand cooperation with new national programmes, in order to target resource mobilisation among regional economic communities around special purpose grant funds, risk capital and concessional lines of credit. Targeted organisations and programmes include: South African Government's new international development agency, regional institutions such as SACU, SADC, AfDB, bilateral development agencies of donor countries such as France, Germany, the EU and China Development Bank.

The Division is leading the management of several multi-partner technical assistance facilities involving Agence Francaise de Development, the UK Department for International Development, the European Investment Bank and UNOPS. The division targets a priority set of infrastructure sectors through this initiative, notably power/energy and transport.

International Division Strategy

Alignment of International Division's strategy to the DBSA

Many of the Division's existing strategies, programmes and initiatives already speak to the new repositioning of the DBSA as a Centre of Excellence and its associated framework. It is anticipated that over time, and through successive Corporate Plans, the Division's operations will be streamlined and enhanced in order to fully align to the Centre of Excellence framework, as well as to meet the Division's objectives.

The Division is currently conducting detailed country and sector analysis in order to strengthen the strategy for the year ahead and ensure the Division is targeting the optimal portfolio mix. It is envisaged that the final strategy will account for external and internal realities and trends, and will be in accordance with the Centre of Excellence.

Current and proposed strategic initiatives

A key initiative in the International Division in 2010 has been project origination and development, which was adopted for both business and strategic development impact reasons. While the rationale has to do with championing infrastructure solutions for the region, it is also a competitive business-level strategy that seeks to enable the division to play a leadership role in the shaping of projects and to secure a financing opportunity. The initiative is informed by a combination of considerations, principally business and financial criteria related to the bankability and attractiveness of development projects, together with criteria concerning the scale, sustainability and strategic importance of the development impact. It is strongly supported by a related initiative around resource mobilisation (mentioned previously), which seeks to harness wider grant resources from international partners as a means of cost and risk reduction for the division.

The essence of the initiative is about unlocking key cross-border and regional infrastructure projects, selectively using own risk capital while mobilising funding from partners, while opening up attractive and secure financing opportunities.

Some of the key initiatives that the Division aims to explore in the upcoming year include:

- ***Private Equity funding strategy:*** the DBSA is currently reviewing its private equity strategy with the intention of increasing development impact through the use of equity investments.
- ***Regional Deployments:*** the Division is currently investigating the option of deploying staff to key regional locations in order to expand the scope and depth of its operations within SADC.

This would: enhance relationship building; improve the operational collaboration of the institutions involved; improve the standards of operations; harmonise approaches to addressing development challenges; and create a mechanism to increase the rate of project identification and development.

2.6.4. Development Fund

The DBSA Development Fund (DF) is a section 21 company established by the DBSA in 2001 is a project based entity, comprising three divisions which manage programmes aimed at addressing human, institutional and implementation capacity failure within municipalities, communities and local economies. Each of the programmes is mandated to maximise the development impact of their interventions, whilst there is a continuous effort to harness synergies and cross-programme coordination. Siyenza Manje (SM) remains the most important and most heavily resourced initiative. Funding and implementation mandate of the Siyenza Manje Programme is currently under discussion with National Treasury and CoGTA. Other programmes include Vulindlela Academy, Agency Unit, Sustainable Communities, Project Management Unit and Rural Development.

Refer to Annexure 5.11 for the detailed Development Fund 2011/12 plan.

Capacity Development and Deployment Division

The Capacity Development and Deployment is a capacity building division with three main clusters namely: the Siyenza Manje Programme (capacity building in municipalities); Vulindlela Academy (training) and Agencies (managing third party funding for development programmes supported).

- **Siyenza Manje**

  Contributing to "a responsive, accountable, effective and efficient local government system", Siyenza Manje is a 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), other government departments and capital expenditure (CAPEX) budgets of municipalities. Siyenza Manje focuses on three main intervention areas: unlocking 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 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, ensuring compliance with Municipal Finance Management Act with special emphasis on the sixteen priority areas of the MFMA. Deployees also provide on-job training to municipal officials as part of the sustainability plan for Siyenza Manje support in municipalities.

  Realigning Siyenza Manje

  The DF management commissioned a three-year review of the Siyenza Manje Programme to assess the overall performance of the programme. The review aimed to provide management with an analysis of successes, weaknesses and areas for improvement of the programme; a review of the programme's inputs, outputs, outcomes and processes and to capture and document lessons learnt during implementation of the programme. Key findings of the review indicate that there is broad agreement amongst most stakeholders that the Siyenza Manje programme is vital and must be retained. The programme remains relevant, however it must be enhanced by making sure that it aligns and supports a focused national capacity development and municipal intervention strategy which will require revised governance arrangements and a differentiation between capacity development and short-term gap-filling interventions.

The key focus outputs and outcomes for the 2011/12 financial year include:

- Unlock MIG/CAPEX to the value of R8 billion.
- Support the improvement in adverse or disclaimed audit opinion in 60% of Siyenza Manje municipalities.
- Benefit 270 000 households to water and sanitation facilities and create 48 000 temporary jobs.

- **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, customized 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.

To this end, the DBSA targets to train 12 000 people during the 2011/12 financial year of which 2 000 will be in favour of municipal councillors.

- **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 Agencies 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.

The Agencies unit acts as an agent mainly to government and donors that do not have institutional presence in South Africa or not in a position to create permanent capacity to deliver development initiatives. The Unit has been able to successfully ring-fence support services required by agencies and also manage risks for the bank, attract like-minded development partners to the DBSA thus further enhancing the DBSA as an effective development partner in South Africa and the region.

Key initiatives

- ***Regional integration focused programmes:*** The Agencies Unit will attract programmes that promote regional integration and facilitate a sustainable development growth path in the region in line with DBSA's Vision. This calls for sector targeting of SADC wide agency programmes, particularly water and transport infrastructure projects. The programmes will foster the delivery of economic and social infrastructure and further create jobs for neighbouring communities.
- ***Strategic partnerships:*** Focus on strategic partnerships with agency programmes that align to the DBSA's strategic expansion areas such as energy, green energy and ICT.

Collaborative agreements will be reached with relevant market players to undertake agency services and to contribute to the overall fund mobilisation programme.

- **Operations and Maintenance Programme**

  The Operations and Maintenance Programme promotes the use of small contractors for carrying out routine and periodic maintenance, and rehabilitation of infrastructure. This will also entail capacity building of small contractors in work execution, supervision and management skills.

  This 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.

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.

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.

The division has established a Project Management Unit which is an internal project management resource centre that provides capacity to other units within the Development Fund and the broader DBSA. At present the bulk of the unit’s activities are in support of the sustainable communities programme.

Rural Development Division

The Rural Development Division facilitates and executes catalytic infrastructure programmes that contribute to and/or facilitate improved living standards and sustained socio economic activity in rural communities. Rural municipalities will be supported in the provision of basic social and economic infrastructure which includes 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 leverage resources required to implement the rural development programmes.

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.

2.6.5. 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 contributes towards the achievement of the DBSA mandate in the following key ways:

- Supports government in terms of the Action Plan agreed to with the Minister of Finance and addresses systemic risks within the DBSA priority areas. In so doing, it contributes to the impact and sustainability of both the state and DBSA's long-term development interventions.

- Enhances and supports the DBSA's investment portfolio through its *Programme Origination* and *Project Advisory* functions in order to expedite infrastructure delivery in priority sectors.
- Develops and maintains strategic domestic and international networks of knowledge institutions and decision-makers, for promoting new development insights and practical collaboration.
- Assists with institutional positioning on national infrastructure and long-term development planning in the context of DBSA as a Centre of Excellence for Infrastructure Development.

The Development Planning Division is structurally organised within the following four clusters: Planning; Policy & Integration; Strategic Operations & Research; and Information & Business Processes.

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 aim 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).
- 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.

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 strategies and sector briefs; best practice guides that inform operational execution within infrastructure sector projects; project appraisal technical advice as well as project management in priority operational areas to build capacity internally and externally. The Advisory unit is also responsible for coordinating Knowledge Platforms, previously known as Communities of Practice. These Knowledge Platforms exist in the Bank's areas of development impact, namely socio-institutional, economic, technical and environmental. A Development Planning Platform will be introduced in 2011.
- 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:

- 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.

A newly established business unit within the Planning cluster will focus on the development of **Sector Strategies.** This unit will be responsible for leading the work of developing Bank strategies for cross cutting priority areas – such as economic infrastructure. This will enhance DBSA investment in critical infrastructure support that will make significant development impact.

Policy & integration

Policy

The Policy Unit undertakes the following functions:

- Analysis of policy environment and issues that affect development in general and the Bank's mandate in particular.
- Design of policy development options and solutions, generally on request.
- Advocacy of policy positions.
- Advice to clients and stakeholders, including capacity building where required.
- Publication of knowledge products.
- Advice on policy processes

The strategic focus of the policy function in the year ahead will be to continue providing support critical to Government and other stakeholders. Strategic engagements include providing support to the Department of Performance Monitoring and Evaluation in achieving the 12 key target areas or outcomes government plans to achieve by 2014. Policy advice is also provided to other government entities such as the office of the Speaker in Parliament and the National Planning Commission, as and when requested. 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.

Knowledge Management Integration

The Knowledge Management Integration function creates new knowledge products and services; and ensures integration and facilitation across business units to achieve alignment, elicit lessons from colleagues, and ensure integrated package offerings to support clients.

KMI is thus a cross-cutting function needed to ensure alignment between the generators, disseminators and users of knowledge, hence the focus on integrated knowledge management.

More specifically, the standard products and services of KMI include the following:

- Dialogues (internal and external)
- Lessons learnt reports
- Facilitation of case studies
- Hosting strategic partners' key forums and discussions
- Conducting an annual knowledge management survey

Strategic operations & research

Strategic Operations coordinates the implementation of priority and cross-cutting projects in the Division and in collaboration with other divisions as well as the production of evidence-based research and strategic partnerships with identified institutions.

Research

The vision of the research function is for the DBSA to be recognised as a thought leader 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 and in supporting greater knowledge within the DBSA's priority sectors. The unit relies on a research approach that ensures maximum input from clients and stakeholders to ensure relevance of outputs to clients' needs and the existing discourse.

In addition to its regular publication of the Development Planning working paper series of publications and the academic journal *Development Southern Africa*, the Division will publish the

Infrastructure Barometer in the 2011/12 financial year. 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.

Strategic Partnerships

This is a new unit in the Division and its main responsibility is to build strategic partnerships (both local and international) within development planning and within the DBSA's priority sectors. It was established in 2010/11 and the work is expected to gain greater momentum in the coming financial year.

Information and business processes

The purpose of the Information Cluster of the Division is to support the Bank's ongoing business planning and decision-making processes by providing socio-economic, financial, institutional and infrastructure sector related information. Directly and indirectly the function also supports national, provincial and local government as well as the wider development fraternity with information for the purpose of policy-making and development planning.

Information Analysis

The Information Analysis function focuses on the profiling of provinces and municipalities as well as Country profiles and perspectives for all the SADC countries. The function is responsible for the management and maintenance of the municipal prioritisation model, the municipal services funding model as well as the DBSA Social Accounting Matrix / Model. The function is the main source for all the data, information and knowledge that is provided to the rest of the Bank and municipalities by means of a range of information portals and a data & information service. The updating of provincial profiles will be one of the main focus areas in the period April 2011 to March 2012.

Information Management

The Information Management function is responsible for the management of all the Division's integrated information database, six information portals and the geographical information system (GIS). The Section also includes the DBSA Knowledge Centre through which it provides a full knowledge searching facility and library services to the Bank. The full integration of the GIS into the Section's databases and selected Bank systems, the enhancing of the municipal differentiation model and the deploying of a local government nerve centre is some of the main deliverables for the new financial year.

2.6.6. Group Risk Assurance (GRA)

Introduction

Given the DBSA's adoption of an more aggressive and proactive strategy that seeks to identify high impact and scalable projects in identified sectors, strong governance and controls; as well the building, maintaining and leveraging of a robust risk management capability throughout the DBSA, takes on even greater significance

The overall objective of risk management in the DBSA is, on an enterprise-wide basis, to reduce its vulnerability to uncertainty by identifying and responding to risk events which can cause a deviation from the planned outcomes, or variance from its expected returns. Risk management is executed through the functions of risk governance, risk control, risk oversight, and risk assurance.

The Board of Directors is accountable for the management of risk in the DBSA and is supported in executing this responsibility by a number of Board subcommittees. The Audit and Risk Committee is mandated to guide the DBSA's enterprise risk management frameworks; and the Board Credit and Investment Committee is mandated to take approval decisions relating to DBSA investments (credit instruments, equity, and development interventions) on behalf of the Board, as well as perform a quality assurance on management reporting and advisory role to the Board on effective credit risk management. The Board and its Committees are assisted by the Group Risk Assurance (GRA) Division which provides assurance to the Board regarding the status of risks and the management thereof (refer also Annexure 5.1 for further detail on the DBSA corporate governance framework).

Risk Management Plans for 2011/12

In line with the DBSA Group's Enterprise Risk Management (ERM) Framework (see Annexure 5.5), the risk management plans for 2011/12 aim to achieve the following strategies:

- Improvement in the efficiency and effectiveness of de-centralised risk control in the mainstream strategic, operational and business-levels, throughout the DBSA Group.
- Further enhancement of centralised risk governance and risk assurance to provide comfort to DBSA Board and the shareholder on the DBSA's ability to manage inherent risk.

Key initiatives for 2011/12

During the forthcoming period, a number of key initiatives will be executed.

- **Risk governance and risk policy**

  From a risk governance perspective, the reviewed ERM Framework and high-level policies will be implemented at strategic, operational and business risk levels throughout the DBSA Group. The implementation of the reviewed ERM Framework will be achieved through facilitating mechanism of the multi-stakeholder Risk Management Integration Programme, which was initiated by the GRA Division during the previous financial period. It is anticipated that this initiative will continue into the following financial period.

  The Risk Management Integration Programme consists of several workstreams, part of which is aimed at clarifying, strengthening and enforcing ERM risk policy and risk governance. Another workstream will identify suitable ERM capacity building and talent planning and management programmes, to ensure that the DBSA Group has the sustained capacity to manage its risk.

- **Risk reporting**

  During the financial year focus will be placed on the enhancement of a risk appetite model to aid risk strategy setting and planning at the strategic and operational levels. With this enhancement in place, it is anticipated that aggregated risk reporting will also be greatly improved, especially in the areas of risk escalation, risk measurement, and risk performance review.

- **The implementation of the ERM Framework, throughout the DBSA Group**

  The reviewed ERM Framework, (See Annexure 5.5) provides the basis for the implementation of enhancement in risk management.

  From a risk assurance perspective, the role of the GRA Division will expand from that of a group technical specialist function to the provider of specialist services to facilitate the strengthening of de-centralised risk control at strategic, operational and business levels.

  From a business risk perspective, the focus will be on the enhancement of risk control and risk management in the business products and services value chains, which will include credit risk and development risk.

  From an operational risk perspective, there will be continued focus on enterprise-wide risk control in a wide range of risk areas, including reputation risk, human capital risk, fraud risk, market risk, liquidity risk, legal risk, business continuity risk, knowledge and information risk, ICT system risk, and Occupational Safety and Health risk. The project to assess and monitor key bank-wide operational-level projects, initiated in the previous financial year, will continue during the forthcoming financial year.

  From a strategic risk perspective, the focus for the forthcoming financial year will be on enhancing strategic risks, such as asset portfolio risk, investment project risk, development impact risk, and strategic planning and decision-making risk.

- **Compliance Risk**

  During the previous financial period the Compliance Risk Framework, policies, processes and systems were established throughout the DBSA Group. The focus for the forthcoming financial period will be on further development of the function, as well as the continued monitoring of the DBSA Group's Top 10 Regulatory Risks and the respective compliance risk management plans. Upcoming changes and proposed amendments to the current legislative framework, such as the Financial Intelligence Centre Amendment Act, the Protection of Personal Information Bill; as well as guidelines issued by the National Credit Regulator, will also be monitored during the forthcoming financial period.

- **Top risk exposures**

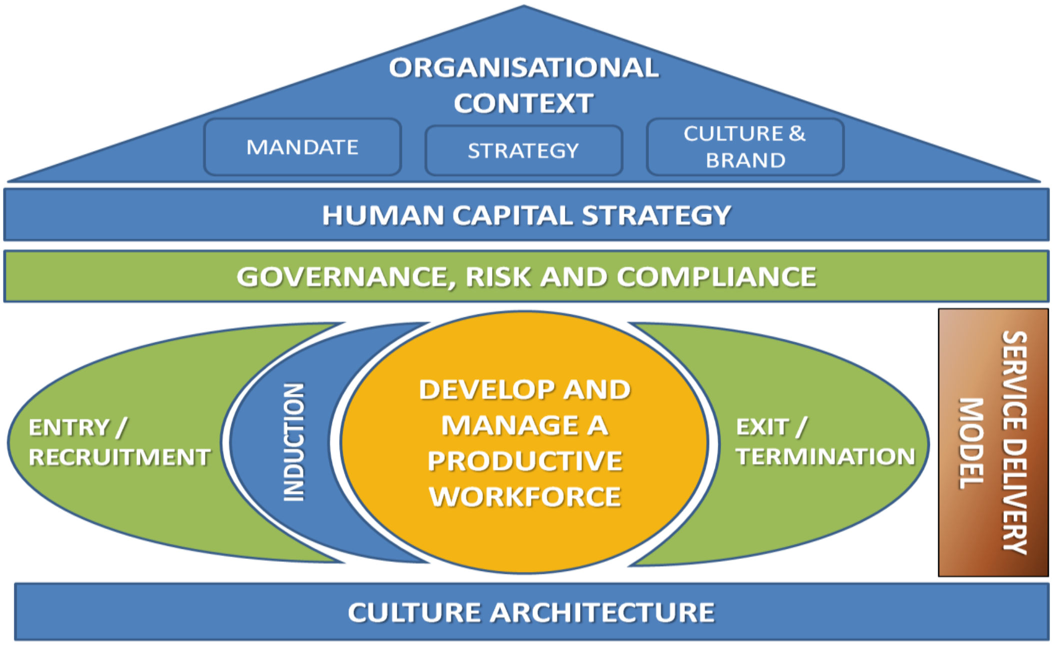
  During the previous financial period the GRA Division, in line with the principles of the King III Code on Corporate Governance, facilitated a "top down" review of the DBSA's top potential risk exposures by the Board and Executives. This was followed by a refinement process to identify mitigation measures and action plans to address the controllable risk factors. Going forward, during the 2011/12 financial year the top risks, as well as emerging risk issues, will be elevated to the relevant governance structures, on a quarterly basis. The top operational risks are further detailed in Annexure 5.6.

2.6.7. Human Capital Division

The Human Capital (HC) Division is a key enabler within the Bank responsible for facilitating an environment that optimise the engagement, deployment and leveraging of our human capital. In order to develop and maintain such an environment, it is important for the HC Division to strike a balance between:

- Designing and implementing key HC solutions to ensure that the business is effectively capacitated to deliver against its commitments.
- Maintaining efficient HC processes and integrated information systems (HRIS) to enhance decision making and ensure effective governance.

The Human Capital strategy therefore concentrates on the following:



- **Enrich: Build and Bind** (through the implementation of human resource development and talent management).
- **Enact: Borrow, Bounce, Bind and Boost** (through implementation of outsourcing/strategic partnerships and talent management).
- **Enable: Boost and Bind** (through talent management).
- **Engender: Build and Boost** (human resource development and talent management).

- **Extend: Build, Buy and Boost** (through hiring of skills not able to create within the organisation and talent management).

During the 2010/11 financial year, the Division ensured optimal positioning through alignment of its' service delivery model and structure in order to pro-actively respond to the future delivery requirements against the strategy and mandate of the Bank.

The focus for the HC Division for the 2011/12 financial year will therefore be on building DBSA talent to respond to the scaling up of existing competencies, extending future competencies and lay the foundation of effective process management which will contribute towards financial sustainability.

The key initiatives will therefore be:

Strategic Human Capital initiatives

- **Building of capabilities** specifically focussing DBSA development programme on:
  - Planning.
  - Core skills related to energy, water, transport, health, education, human settlements.
- **Building a leadership pipeline** through targeted development plans based on the outcomes of the talent management processes.
- **Measurement of human capital cost efficiency** and improvement on elements that can contribute towards the financial sustainability which include the re-engineering of placement strategies to optimise existing competencies and deploy in priority areas.
- Maintaining a climate and culture supported by the **employee value proposition** through retention of key skills and attracting of scares skills to the Bank specifically concentrating on our reward and recognition total package.

Human Capital operational matters

- Continue to ensure the DBSA operational model is maintained in order to provide a business partner relationship to the business that will facilitate **optimal service delivery**.
- Embedding of the **SAP implementation** to ensure efficient management of data in order to enhance decision making. The implementation of the SAP HC module commenced and will continue with final implementation in the new financial year.

2.6.8. Group Strategy, Marketing and Communications

The Group Strategy, Marketing and Communications Division (GSMC) comprises of three clusters:

- Corporate Strategy, Innovation and Entrepreneurship;
- Communication, Marketing and Public Affairs; and
- Events and Hospitality Management Unit.

Corporate Strategy, Innovation and Entrepreneurship

The Corporate Strategy function is responsible for guiding and influencing strategic processes in line with the DBSA vision, mission and mandate. During 2011/12, 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.
- 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.

Marketing, Communications and Public Affairs

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

In the 2011/12 financial year, the cluster will concentrate on positioning and maintaining the DBSA brand as a Centre of Excellence in Infrastructure Development. 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. This will 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.

Events & Hospitality Management Unit

The key role of Events & Hospitality Management Unit is to provide a centralised events and hospitality management function/service that is proactive, collaborative and supportive of internal events within DBSA. The Events & Hospitality Management Function is considered key as co-ordinator and catalyst for the execution of successful event planning in DBSA, a central one-stop-shop for placement of catering orders and good quantity and quality management for catering requests within DBSA.

2.6.9. Business Technologies and Facilities Group

The Business Technologies and Facilities (BTF) Division comprises of three groups: Information, Communication and Technologies Cluster; Facilities Management Cluster and Shared Services Unit.

The Business Technologies and Facilities Group provide the following services to the Bank:

- Information, communication and technology.
- Facilities management.

Information, Communication and Technologies (ICT) Cluster

The ICT function seeks to achieve corporate efficiency through the optimisation of technology, processes and systems (information and communication technology).

Key projects for the year

During 2011/12, the ICT cluster will focus on systems integration and getting value-add to the business from the SAP system through the implementation of:

- Business intelligence (BI) solution.
- Budgeting and forecasting solution.
- Integrating the geographic information system (GIS) solution with the SAP system.

These solutions are aimed at increasing the efficiency of corporate performance reporting and analysis.

Facilities Management Cluster

The Facilities Management function seeks to achieve efficiency by providing adequate facilities and services that support the Bank's operations.

Key projects for the year

- Energy generation plant – the implementation of a 1 MW solar Photovoltaic plant and a 200KW Concentrating Solar Power plant as part of the energy security program including the reduction and management of the Bank's carbon footprint.
- Acquisition of additional land to the DBSA campus – this will include the rezoning of the land, currently zoned for agricultural use to be zoned for special office rights as well as delivering basic infrastructure (i.e. roads and services) to the new land.
- Going green – waste recycling to contribute to the reduction of landfills and the installation of Biogas Digesters to process the campus bio waste and turn it into energy for cooking.
- Continue the planning of a new wing to accommodate the organic growth in head count to support the bank's strategic mission and also begin the process of returning the various agencies from the leased premises up at New Road to the main campus.

Shared Services Unit

The Shared Services unit focuses on the proper coordination, monitoring, implementation and reporting of shared functions within the Business Technologies and Facilities Group such as governance and compliance, contracts management and the customer support centre.

The unit aims to proactively manage risk and implement relevant governance and compliance structures during 2011/12 and to facilitate efficient and effective service delivery through proper co-ordination of the customer support centre teams and the deployment of technologies which will enhance service delivery across the division.

2.6.10. 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 forecast business requirements and prevailing market conditions. Whereas demands on Treasury services are primarily driven by the core business strategy and resultant requirements from the Bank's lending divisions, Treasury's strategy is ultimately subject to a plethora of external market factors, foremost of which are the prevailing interest rate environment and changes in investor demand and preference from time to time.

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 addressing municipal service delivery backlogs, particularly relating to under-resourced municipalities, as well as the roll-out of key national priority infrastructure development programmes, 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 for the Bank to fulfil these roles, 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. The fundamental objective of 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, to 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, both with respect to size, and 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 in large part remain relatively short-term in focus.

The Bank's borrowing activities are therefore underpinned by an evolving short term (12 to 24 months) strategy taking into account prevailing and expected market conditions as well as the Bank's balance sheet structure from time to time. The longer term funding strategy is currently under review, given the steep growth in annual borrowing requirements likely to arise from key national infrastructure development programmes in which the Bank is expected to play a lead role.

- *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 committed USD denominated funding facilities, in the absence of which USD requirements are managed as part of the Bank's ZAR funding projections. In instances where ZAR funding is used to finance USD denominated loans, cross currency swaps are used to offset the resulting currency risk. Residual currency risk however, remains in the form of the Bank's portfolio of USD and EUR denominated development equity investments.
- *Trading and investment* – managing Bank's liquid assets, i.e. investments held as prudential liquidity. 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 an*d the associated credit risk. Through effective asset-liability management the Bank is able to provide clients with the flexibility to borrow on terms suited to their own unique requirements, without assuming market risk of a quantum that may pose a threat to continue*d financial sustainability. Nevertheless, persistent anomalies in the domestic intere*st rate swap market, w*here swaps are trading below the government yield curve place substantial basis risk on the Bank's hedged portfolios. Hence, despite being soundly hedged from an economic perspective, a correction in the swap spreads could have a significant negative unrealized revaluation impact on the hedged portfolio(s). In addition, increased volatility in credit spreads has also increased the risk of adverse movements in instances where liabilities are hedged with fixed income assets held as part of prudential liquidity. Treasury is therefore paying close attention to the residual risks that remain, and has already started engaging the banking sector with a view to finding alternatives to hedge these risks.
- *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 loan and investment products to meet client requirements and managing the risks arising from such.
- *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 2011/12 financial year borrowing requirements are provided in the Borrowing Programme, included as Annexure 5.7 of this Corporate Plan.

2.6.11. 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.

3. DBSA 2011/12 Group Balanced Scorecard

3.1. Balanced Scorecard key performance indicators

The 2011/12 Balanced Scorecard (BSC) builds on the 2010/11 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.

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 2011/12. These three strategic perspectives are:

- Development Impact (weighted at 50 percent).
- Sustainability, both developmental and financial (weighted at 30 percent).
- Organisational capability (weighted at 20 percent).

DBSA 2011/12 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. The 2011/12 Group Balanced Scorecard for the 2011/12 through 2013/14 financial years are:

DBSA 2011/12 Corporate Balanced Scorecard targets

DEVELOPMENT IMPACT PERSPECTIVE (50%)							
Number	**Key performance measure**	**Weight**	**Actual 2009/10**	**Projected 2010/11**	**Target 2011/12**	**Target 2012/13**	**Target 2013/14**
1	Development Fund						
1a	Siyenza Manje Programme						
	- MIG/CAPEX expenditure	3%	R8.9 billion	R7 billion	R8 billion	R8.9 billion	R9.5 billion
	- % of SM municipalities with improved audit opinions (reduction in adverse and disclaimers)	3%	Not a measure	50%	60%	80%	100%
1b	Vulindlela Academy						
	- External learners trained through Vulindlela	3%	11 366	10 000	12 000	12 000	12 000
	- Number of learners certified	2%	Not a measure	Not a measure	2 400	2 600	2 700
1c	Agencies						
	- Value of infrastructure delivered	3%	Not a measure	R115 million	R120 million	R130 million	R140 million
1d	Operations and maintenance						
	- O&M Plans developed and implemented	2%	Not a measure	12	24	36	48
	- Number of SMME's benefiting through O&M	2%	Not a measure	15	30	45	60
	- Number of municipalities implementing O&M	2%	Not a measure	3	10	12	15
1e	Jobs created and households impacted						
	- No of temporary jobs facilitated	3%	64 869	55 000	48 000	53 000	60 000
	- Number of households benefiting from basic services support (direct and bulk)	3%	310 320	555 000	540 000	590 000	680 000

DEVELOPMENT IMPACT PERSPECTIVE (50%) (continued)							
Number	**Key performance measure**	**Weight**	**Actual 2009/10**	**Projected 2010/11**	**Target 2011/12**	**Target 2012/13**	**Target 2013/14**
2	Rand value disbursements to identified intermediaries						
	South Africa						
	- Municipal: High capacity	3%	R3.4 billion	R2.0 billion	R1.3 billion	R1.4 billion	R1.6 billion
	- Municipal: Medium capacity	3%	R1.3 billion	R0.8 billion	R1.1 billion	R1.2 billion	R1.3 billion
	- Municipal: Low capacity	3%	R0.1 billion	R0.2 billion	R0.4 billion	R0.5 billion	R0.6 billion
	- Other public	3%	R0.5 billion	R0.6 billion	R1.7 billion	R2.0 billion	R2.3 billion
	- Private sector intermediaries	3%	R1.9 billion	R2.1 billion	R2.1 billion	R2.4 billion	R2.7 billion
	Rest of SADC (excluding South Africa)	3%	R0.9 billion	R2.5 billion	R2.4 billion	R2.7 billion	R3.1 billion
3	Customer and partner satisfaction survey	6%	Rating of 4.1	Rating of 4	Rating of 4	Rating of 4	Rating of 4

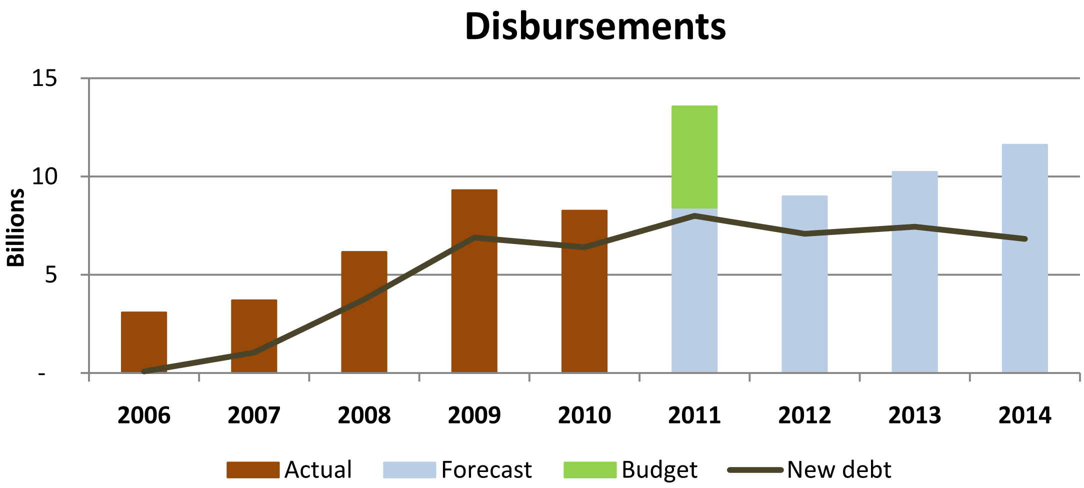
SUSTAINABILITY PERSPECTIVE (30%)							
Number	**Key performance measure**	**Weight**	**Actual 2009/10**	**Projected 2010/11**	**Target 2011/12**	**Target 2012/13**	**Target 2013/14**
4	Maintain corporate credit rating in line with sovereign rating	4%	Corporate credit rating maintained in line with sovereign rating	Corporate credit rating maintained in line with sovereign rating	Maintain corporate credit rating in line with sovereign rating	Maintain corporate credit rating in line with sovereign rating	Maintain corporate credit rating in line with sovereign rating
5	Sustainable earnings	5%	R823 million	R797 million	R784 million	R698 million	R742 million
6	Cost-to-income ratio	5%	40.5%	42.7%	44.0%	47.0%	46.8%
7	Non-performing book debt as % of total book debt	3%	4.9%	4.8%	6% (max)	6% (max)	6% (max)
8	Net interest income as % of average interest bearing assets	5%	4.3%	3.8%	3.5%	3.2%	3.2%
9	Quality of policy engagement and research						
	Research						
	Quality of research	4%	Rating of 4.3	Rating of 4	Rating of 4	Rating of 4	Rating of 4
	Policy						
	Dissemination of recommendations to key stakeholders	4%	Not a measure	Rating of 4	Rating of 4	Rating of 4	Rating of 4

ORGANISATIONAL CAPABILITY PERSPECTIVE (20%)							
Number	**Key performance measure**	**Weight**	**Actual 2009/10**	**Projected 2010/11**	**Target 2011/12**	**Target 2012/13**	**Target 2013/14**
10	Level of staff engagement (staff satisfaction survey)	10%	Not a measure	Rating of 3.6	To be reviewed based on 2010/11 results	To be reviewed based on 2011/12 results	To be reviewed based on 2012/13 results
11	Staff retention/turnover / ratio	10%	10.4%	11%	11%	11%	11%

4. DBSA finance plan

4.1 Financial overview

Over the past two years, given the current economic conditions, the Bank's disbursements have been maintained at around R8 billion, as illustrated in the graph below.



The current interest rate environment has brought about increased investment activity by commercial banks in infrastructure development which has had the effect of driving the lending rate to public sector down significantly. The Bank will continue to implement the strategy of investment in its mandated development impact interventions.

The revised capital structure, through increasing the callable capital of the Bank has been finalised but the cost of raising capital on the market, domestic as well as international, remains the key challenge to the DBSA. Despite the additional security offered by the Shareholder, spreads to Government bonds still currently average at 95 basis points. Management have devised various initiatives to address accordingly and is currently in discussions with the Shareholder in order to implement proposed solutions to reduce the cost of borrowings which is essential in order to meet the agreed investment objectives.

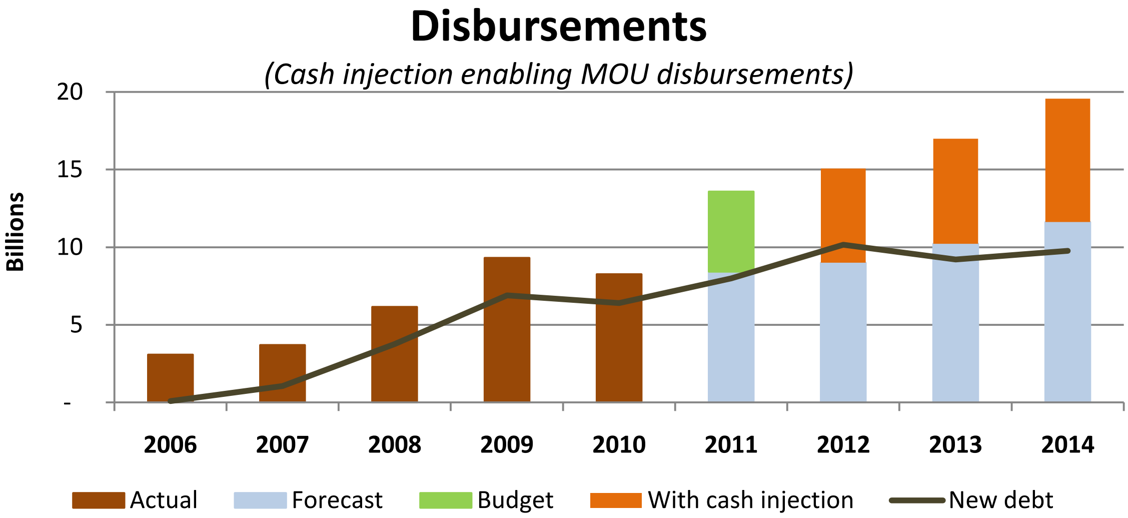
In preparing the three-year financial plan of the DBSA, the main economic conditions impacting the budget include:

- 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 financial plan detailed below was prepared on the basis of targeted annual infrastructure disbursements of R9 billion, R10.2 billion and R11.6 billion for the 2011/12 to 2013/14 financial years respectively and is considered achievable without any Shareholder cost-of-funding interventions. The plan also does not take into account the financial impact of the proposed cash injection as previously discussed.

The Bank estimates that the extent and timing of capital injections as proposed would position the DBSA to deliver successfully, both in terms of the volume and cost effectiveness of development financing expected to emanate from the Bank's enhanced role in the roll-out of key national infrastructure, and to do so without compromising the long term sustainability of the Bank. The proposed capitalisation would enable a substantially increase in the targeted annual disbursements of between R15.1 billion and R20 billion per annum and by reducing the effective lending rates, further support the Bank's concessional lending programmes to under-resourced municipalities, as well as the non-return generating capacity deployment and development programmes of the Bank's Development Fund. It would further serve to bolster the Bank's ability to provide capacity support to national and provincial government departments in the structuring and implementation of prioritised infrastructure programmes. The financial projections taking into account the cash injection as well as the reduction in effective lending rates to support increased targeted disbursements are reflected under section 4.2.2.



The salient features of the base financial plan for the financial year 2011/12 to 2013/14 include:

- Net interest income of R1.7 billion (2011/12) is expected to grow by approximately 3.8% per annum toward 2013/14, based on the projected loan book and disbursements and taking additional liquidity requirements into account. The result is an expected drop in the net interest margin from 42.9% (2011/12) to 40.1% (2012/13) and to 39.3% (2013/14), due to a number of factors, including:
  - The effect of the higher gearing, due to projected growth in disbursements as a result of an increased demand for infrastructure funding.
  - Equity investments which do 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.

- The expense budget of R819 million (2011/12) 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 70% of all outstanding vacancies and new headcount are filled during 2011/12, and limited new headcount is created. Expenses are projected to grow by 6% per annum between 2011/12 and 2013/14 based on inflationary adjustments.
- The cost-to-income ratio is projected to increase from 44% in 2011/12 to 46.8% in 2013/14, exceeding the prudential limit of 45%. Plans are currency under investigating to reduce the ratio below the prudential limit.

- The debt to equity ratio is projected to reach 116.3% by 2013/14. Due to the revised capital structure of the Bank, this ratio now includes the increased callable capital as agreed with the Governor of the DBSA. The ratio would exceed the statutory limit of 250% by 2012/13 had the increased callable capital not been included in the calculation.
- Developmental assets (development loans and equity investments) are projected at R48.5 billion in 2011/12, with a further growth of 8.5% per annum by 2013/14. Total assets of R58.9 billion (2011/12) are expected to grow by approximately 6.8% per annum over the next two years.
- Financial market liabilities are projected to reach R39.3 billion in 2011/12 with a further growth of 8.6% per annum by 2013/14.
- Return on average equity is projected to remain managed at approximately 5.0% by 2013/14. 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, direct engagement with the larger 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.

Proposed funding model

It is necessary for the Bank to complement the Bank's portfolio of liquidity assets with reliable and committed sources of funding in order to provide the Bank with ready access to sufficient levels of funds. The primary sources of funding will remain in the domestic and potentially international bond markets, as well as longer term credit lines with the Bank's traditional lenders viz. the major bilateral and multilateral development finance institutions.

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 2011/12 financial year, together with the projected borrowing requirements for the subsequent two financial years are provided in Annexure 5.7 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 costs remain high, placing pressure on margins.
- Increased demand for long term floating rate loans against subdued investor demand for similar debt securities therefore potentially creating asset-liability mismatches.
- Increased liquidity cost thus placing pressure on margins and earnings.
- Foreign currency risk, especially due to 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.

Capital expenditure plan

The capital expenditure plan as set out below is mainly to support the collective operations of the Bank and the envisaged growth over the next three years. The key capital expenditure for the next three years relate to the expansion of main DBSA campus and Vulindlela Academy.

The following table provides a summary of the planned fixed capital expenditure per the main fixed asset category:

Asset type	Budget 2011/12	Budget 2012/13	Budget 2013/14
Alterations & improvements: Main building	R80.0 mil	R150.1 mil	R270.0 mil
Alterations & improvements: Vulindlela	R27.4 mil	-	-
Computer equipment & software	R39.0 mil	R10.0 mil	R10.0 mil
Furniture and fittings	R2.0 mil	R2.5 mil	R3.0 mil
Office equipment	R0.2 mil	R1.5 mil	R2.0 mil
Motor vehicles	R0.7 mil	-	-
Total	**R149.3 mil**	**R164.1 mil**	**R285.0 mil**

4.2 Financial forecast

4.2.1 Base scenario

BALANCE SHEETS

	2010 Actual R mil	2011 Forecast R mil	2012 Budget R mil	2013 Projection R mil	2014 Projection R mil
Cash & cash equivalents	2 707	4 033	4 435	4 384	2 959
Investment securities	3 090	3 090	3 399	3 739	4 113
Resale agreements	1 168	199	199	199	199
Derivatives	1 263	1 417	1 417	1 417	1 417
Equity investments	3 253	3 384	4 215	5 098	6 088
Development loans	32 969	38 875	44 282	48 180	51 025
PPE	412	452	588	745	1 021
Intangible assets	59	92	98	82	69
Other assets	223	234	246	259	271
Total assets	**45 144**	**51 776**	**58 878**	**64 103**	**67 162**
Medium- to Long-term debt	25 875	32 517	38 941	43 557	45 944
Repurchase agreements	371	207	207	207	207
Derivatives	82	117	117	117	117
Other liabilities	927	973	1 022	1 073	1 126
Liabilities	27 254	33 814	40 287	44 954	47 394
Equity	3 992	3 992	3 992	3 992	3 992
Revaluation - land & buildings	206	206	206	206	206
Loan risk	1 022	1 210	1 382	1 509	1 604
Fair value & hedging reserves	17	17	17	17	17
Retained earnings	12 653	12 536	12 994	13 425	13 949
Equity	17 890	17 962	18 591	19 149	19 768
Total equity & liabilities	**45 144**	**51 776**	**58 878**	**64 103**	**67 162**
Balance sheet ratios:					
Debt / equity (excl. callable capital)	147.2%	182.8%	211.2%	229.1%	234.0%
Debt / equity (incl. callable capital)	94.4%	99.6%	101.7%	112.1%	116.3%
Average return on assets	1.5%	0.8%	1.7%	1.4%	1.5%
Average return on equity	3.5%	2.1%	5.1%	4.7%	5.0%

INCOME STATEMENTS

	2010 Actual R mil	2011 Forecast R mil	2012 Budget R mil	2013 Projection R mil	2014 Projection R mil
Interest income	3 602	3 704	4 019	4 372	4 719
Interest expense	(1 971)	(2 072)	(2 296)	(2 621)	(2 864)
Net interest income	**1 631**	**1 632**	**1 723**	**1 751**	**1 855**
Net fee income	89	90	62	69	75
Other income	47	86	74	34	35
Operating income	1 767	1 809	1 860	1 853	1 965
Impairment	(228)	(240)	(257)	(302)	(303)
Operating expenses	(716)	(772)	(819)	(871)	(920)
Personnel cost	(493)	(514)	(549)	(582)	(617)
Other expenses	(206)	(244)	(247)	(262)	(277)
Depreciation	(17)	(14)	(23)	(27)	(26)
Sustainable earnings	**823**	**797**	**784**	**698**	**742**
TA grants	(67)	(60)	(93)	(99)	(105)
DF grant	(341)	(300)	(300)	(330)	(363)
Net surplus before revaluation	414	437	391	269	274
Revaluations	469	(287)	238	289	345
Foreign exchange losses	(261)	(78)	-	-	-
Net profit	**622**	**72**	**629**	**558**	**619**

Income statement ratios

Net interest margin	45.3%	44.1%	42.9%	40.1%	39.3%
Cost to income ratio	40.5%	42.7%	44.0%	47.0%	46.8%

CASH FLOW STATEMENTS

	2010 Actual R' million	2011 Forecast R' million	2012 Budget R' million	2013 Projection R' million	2014 Projection R' million
Profit for the year	622	72	629	558	619
Adjusted for:	(1 226)	(739)	(1 349)	(1 332)	(1 438)
Depreciation	17	14	23	27	26
Grants	408	360	393	429	467
Dividends	(24)	(31)	(21)	(33)	(35)
Realised capital gain on equity inv	(17)	(55)	(40)	-	-
Profit on sale of PPE	(117)	-	-	-	-
Revaluation (gains) / losses	(469)	287	(239)	(289)	(345)
Foreign exchange (gains) / losses	261	78	-	-	-
Impairments	228	240	257	285	303
Net interest income	(1 631)	(1 632)	(1 723)	(1 751)	(1 855)
	(604)	(667)	(720)	(774)	(819)
Change in other assets	(19)	(11)	(12)	(12)	(13)
Change in other payables	25	46	49	51	54
	(598)	(632)	(683)	(735)	(778)
Interest & dividends received	3 345	3 735	4 039	4 405	4 754
Interest paid	(1 955)	(2 072)	(2 296)	(2 621)	(2 864)
Net cash from operating activities	**792**	**1 031**	**1 061**	**1 049**	**1 112**
Cash flows from development activities	**(5 466)**	**(6 829)**	**(6 610)**	**(5 207)**	**(4 260)**
Development loan disbursements	(7 839)	(8 181)	(8 448)	(9 632)	(10 969)
Development loan principal repayments	3 152	1 957	2 784	5 449	7 822
Equity investment disbursements	(420)	(245)	(552)	(595)	(645)
Equity investment disposals	26	-	-	-	-
Grants paid	(385)	(360)	(393)	(429)	(468)
Cash flows from investing activities	**25**	**822**	**(473)**	**(509)**	**(663)**
Purchase of PPE & intangibles	(91)	(87)	(164)	(169)	(289)
Movement in financial market assets	116	909	(309)	(340)	(374)
Cash flows from financing activities	**4 950**	**6 302**	**6 424**	**4 616**	**2 386**
Financial market liabilities repaid	(1 461)	(1 698)	(660)	(2 825)	(4 440)
Financial market liabilities raised	6 411	8 000	7 084	7 441	6 826
Movement in cash & cash equivalents	**301**	**1 326**	**402**	**(51)**	**(1 425)**
Effect of exchange rate movements	(70)	-	-	-	-
Opening cash & cash equivalents	2 475	2 707	4 033	4 435	4 384
Closing cash & cash equivalents	**2 707**	**4 033**	**4 435**	**4 384**	**2 959**

4.2.2 Financial projections with cash injection and increased disbursements and reduced effective lending rates

BALANCE SHEETS

	2010 Actual R mil	2011 Forecast R mil	2012 Budget R mil	2013 Projection R mil	2014 Projection R mil
Cash & cash equivalents	2 707	4 033	5 224	6 354	7 076
Investment securities	3 090	3 090	3 399	3 739	4 113
Resale agreements	1 168	199	199	199	199
Derivatives	1 263	1 417	1 417	1 417	1 417
Equity investments	3 253	3 384	4 215	5 098	6 088
Development loans	32 969	38 875	50 202	60 071	69 371
PPE	412	452	588	745	1 021
Intangible assets	59	92	98	82	69
Other assets	223	234	245	259	271
Total assets	**45 144**	**51 776**	**65 588**	**77 964**	**89 625**
Medium- to Long-term debt	25 875	32 517	42 013	48 393	53 729
Repurchase agreements	371	207	207	207	207
Derivatives	82	117	117	117	117
Other liabilities	927	973	1 022	1 073	1 126
Liabilities	27 254	33 814	43 359	49 790	55 179
Equity	3 992	3 992	7 492	12 492	17 492
Revaluation - land & buildings	206	206	206	206	206
Loan risk	1 022	1 210	1 562	1 871	2 162
Fair value & hedging reserves	17	17	17	17	17
Retained earnings	12 653	12 536	12 952	13 589	14 569
Equity	17 890	17 962	22 229	28 174	34 446
Total equity & liabilities	**45 144**	**51 776**	**65 588**	**77 964**	**89 625**

Balance sheet ratios:

	2010	2011	2012	2013	2014
Debt / equity (excl. callable capital)	147.2%	182.8%	190.5%	172.9%	156.9%
Debt / equity (incl. callable capital)	94.4%	99.6%	100.3%	101.1%	99.3%
Average return on assets	1.5%	0.8%	1.8%	1.8%	2.0%
Average return on equity	3.5%	2.1%	5.3%	5.1%	5.2%

INCOME STATEMENTS

	2010 Actual R mil	2011 Forecast R mil	2012 Budget R mil	2013 Projection R mil	2014 Projection R mil
Interest income	3 602	3 704	4 269	5 077	5 820
Interest expense	(1 971)	(2 072)	(2 408)	(2 921)	(3 300)
Net interest income	**1 631**	**1 632**	**1 861**	**2 156**	**2 520**
Net fee income	89	90	62	69	75
Other income	47	86	74	34	35
Operating income	1 767	1 809	1 997	2 259	2 630
Impairment	(228)	(240)	(257)	(302)	(315)
Operating expenses	(716)	(772)	(819)	(871)	(920)
Personnel cost	(493)	(514)	(549)	(582)	(617)
Other expenses	(206)	(244)	(247)	(262)	(277)
Depreciation	(17)	(14)	(23)	(27)	(26)
Sustainable earnings	**823**	**797**	**921**	**1 086**	**1 395**
TA grants	(67)	(60)	(93)	(99)	(105)
DF grant	(341)	(300)	(300)	(330)	(363)
Net surplus before revaluation	414	437	528	657	927
Revaluations	469	(287)	238	288	345
Foreign exchange losses	(261)	(78)	-	-	-
Net profit	**622**	**72**	**767**	**945**	**1 272**

Income statement ratios

Net interest margin	45.3%	44.1%	43.6%	42.5%	43.3%
Cost to income ratio	40.5%	42.7%	41.0%	38.5%	35.0%

CASH FLOW STATEMENTS

	2010 Actual R' million	2011 Forecast R' million	2012 Budget R' million	2013 Projection R' million	2014 Projection R' million
Profit for the year	622	72	737	945	1 272
Adjusted for:	(1 226)	(739)	(1 487)	(1719)	(2 090)
Depreciation	17	14	23	27	26
Grants	408	360	393	429	467
Dividends	(24)	(31)	(21)	(33)	(35)
Realised capital gain on equity inv	(17)	(55)	(40)	-	-
Profit on sale of PPE	(117)	-	-	-	-
Revaluation (gains) / losses	(469)	287	(238)	(288)	(345)
Foreign exchange (gains) / losses	261	78	-	-	-
Impairments	228	240	257	302	315
Net interest income	(1 631)	(1 632)	(1 861)	(2 156)	(2 520)
	(604)	(667)	(720)	(774)	(819)
Change in other assets	(19)	(11)	(12)	(12)	(13)
Change in other payables	25	46	49	51	54
	(598)	(632)	(683)	(735)	(778)
Interest & dividends received	3 345	3 735	4 290	5 110	5 854
Interest paid	(1 955)	(2 072)	(2 408)	(2 921)	(3 300)
Net cash from operating activities	**792**	**1 031**	**1 198**	**1 454**	**1 776**
Cash flows from development activities	**(5 466)**	**(6 829)**	**(12 530)**	**(11 195)**	**(10 728)**
Development loan disbursements	(7 839)	(8 181)	(14 520)	(16 396)	(18 919)
Development loan principal repayments	3 152	1 957	2 935	6 225	9 304
Equity investment disbursements	(420)	(245)	(552)	(595)	(645)
Equity investment disposals	26	-	-	-	-
Grants paid	(385)	(360)	(393)	(429)	(468)
Cash flows from investing activities	**25**	**822**	**(473)**	**(509)**	**(662)**
Purchase of PPE & intangibles	(91)	(87)	(164)	(169)	(288)
Movement in financial market assets	116	909	(309)	(340)	(374)
Cash flows from financing activities	**4 950**	**6 302**	**12 996**	**11 380**	**10 336**
Capital raised	-	-	3 500	5 000	5 000
Financial market liabilities repaid	(1 461)	(1 698)	(660)	(2 825)	(4 440)
Financial market liabilities raised	6 411	8 000	10 156	9 205	9 776
Movement in cash & cash equivalents	**301**	**1 326**	**1 191**	**1 130**	**722**
Effect of exchange rate movements	(70)	-	-	-	-
Opening cash & cash equivalents	2 475	2 707	4 033	5 224	6 354
Closing cash & cash equivalents	**2 707**	**4 033**	**5 224**	**6 354**	**7 076**

ANNEXURES

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Annexure 5.1: 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 11 directors, 10 of whom are non-executive and nine 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 and nomination 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, Remuneration and Nominations 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 to 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 III.
  - 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 recuesed 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.

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 III 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 & Risk Committee, Finance Committee, Board Credit and Investment Committee, Human Resources, Remuneration and Nominations Committee and the Knowledge Strategy Committee.

Audit & Risk Committee

The functions of the Audit & Risk Committee are regulated by the PFMA and King III Report. Currently the Audit & Risk 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, Remuneration and Nominations 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 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 5.4.

DBSA Board	Audit & Risk Committee	Finance Committee	Board Corporate Investments Committee	Human Resources Remuneration and Nomination Committee	Knowledge Strategy committee
Mr. Jabu Moleketi (Chair)	Mr. Omar Latiff (Chair)	Ms. Thembisa Dingaan (Chair)	Ms. Wendy Lucas-Bull (Chair)	Mr. Ivan Mzimela (Chair)	Mr. Andrew Boraine (Acting Chair)
Mr. Frans Baleni (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	Mr. Omar Latiff	Dr. Claudia Manning	Mr. Jabu Moleketi	Dr R Kfir (Co-opted)
Mr. Omar Latiff	Ms. Wendy Lucas-Bull	Ms. Wendy Lucas-Bull	Mr. Jabu Moleketi	Dr. Claudia Manning	Prof. V Taylor(Co-opted)
Mr. Ivan Mzimela	Mr. Andrew Boraine	Mr. Andrew Boraine	Ms. Thembisa Dingaan	Ms. Thembisa Dingaan	Prof. D Everatt (Co-opted)
Ms. Thembisa Dingaan			Prof. B Figaji (Co-opted)	Mr. Frans Baleni	Prof. Edward Webster
Ms. Wendy Lucas-Bull				Prof. B Figaji (Co-opted)	
Dr. Claudia Manning					
Mr. Andrew Boraine					
Prof. Edward Webster					
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 and Finance Committee with the DBSA.

The Board of Directors of the Fund is composed of 14 members, 13 of whom are non-executive directors and 11 are independent. The Bank will review the composition of the Development Fund Board during 2011/12, 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.

Corporate Secretariat

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 in entrenching governance principles, which incorporate and emphasise ethical behaviour, legislative compliance, sound accounting practice and strict adherence to delegations of authority.

The Bank has reviewed the terms of reference of the Audit Committee and aligned them with the precepts of the legislative and regulatory instruments. The draft documents are awaiting Audit Committee approval.

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 2011/2012. 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 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; and
- Ensure that key risks of the Bank are appropriately addressed.

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 5.5).

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 updated in 2010 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. (Refer to Annexure 5.2 for the DBSA Fraud Prevention Strategy).

Annexure 5.2: DBSA Fraud Prevention Plan

Purpose

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 organizations are susceptible to the risk of fraud. In this regard, the purpose of the Fraud Prevention Plan ("the plan") is to set out and reinforce the Bank's policy of zero tolerance towards fraud and corruption as well as 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 minimize its fraud risk exposure.

Background

This Fraud Prevention Plan has been developed as a result of the expressed commitment of Government to fight fraud and corruption. It is also an important contribution to the National Anti-Corruption Strategy of the country and supplements both the Public Service Anti-Corruption Strategy and the Local Government Anti-Corruption Strategy.

An effective fraud prevention process can help increase the confidence of investors, regulators and the general public in the financial integrity of an organization in addition to attracting and retaining human and financial resources.

The King III Report on Corporate Governance recommends that an organization assesses risks on an on-going basis and design effective internal controls to manage risks throughout the organization. Fraud is part of organizational operational risk.

The Public Finance Management Act, No 1 of 1999 and Treasury Regulations, March 2005[3], enjoin the Board to adopt a risk management strategy that must include a formal Fraud Prevention Plan. The Bank is also required to submit annually to National Treasury, a Corporate Plan together with the Fraud Prevention Plan[4].

The Prevention and Combating of Corrupt Activities Act, No 12 of 2004 ("PCCA") has strengthened measures against corruption and has created specific offences relating to corruption.

The Protected Disclosure Act, No 26 of 2000 makes provisions for procedures in terms of which employees may disclose information regarding unlawful or irregular conduct by their employers or other employees. The Act also accords protection to employees for disclosures made in good faith, under defined circumstances and encourages organizations to adopt internal whistle blowing mechanisms.

Definition of fraud

Fraud is defined as "the unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another". The term "fraud" is also used in a wider sense by the general public.

In this regard, the term is used in this document in its widest possible meaning and is intended to include all aspects of economic crime and acts of dishonesty. In other words, fraud can be described as any conduct or behaviour of which a dishonest representation and/or appropriation forms an element.

[3] Section 27.2.1 of the Treasury Regulations
[4] Section 29.1.1 (e) of the Treasury Regulations

POLICY PRINCIPLES

Scope of the policy

This policy applies to all employees, stakeholders, contractors, vendors / suppliers doing business with the Bank.

Policy

It is the policy of the DBSA that fraud, corruption, maladministration or any other dishonest activities of a similar nature will not be tolerated. Such activities will be investigated and actions instituted against those found responsible. Such actions may include the laying of criminal charges, civil and administrative actions and the institution of recoveries where applicable.

Prevention, detection, response and investigative strategies will be designed and implemented. These will include any existing controls (system controls and manual internal controls) and those currently prescribed in existing policies, procedures and other relevant prescripts to the activities of the Bank.

It is the responsibility of all employees to report all incidents of fraud and corruption that may come to his/her attention to his / her manager. Alternatively, such reports can be made by way of submitting a report through the prescribed whistle blowing mechanism as adopted and promoted by the DBSA from time to time.

All reports received will be treated with the requisite confidentiality and will not be disclosed or discussed with parties other than those charged with investigation into such reports.

All Managers are responsible for the detection, prevention and investigation of fraud and corruption, within their areas of responsibility.

FRAUD CONTROL STRATEGIES

The approach in controlling fraud and corruption is focused into three areas, namely:

- Structural Strategies.
- Operational Strategies.
- Maintenance Strategies.

Structural strategies

Structural Strategies represent the actions to be undertaken in order to address fraud and corruption at the level of organizational governance.

- **Good Corporate Governance**

  It is critical to promote an organizational culture of ethical behaviour and integrity to prevent fraud and corporate crime by influencing employees' conduct and behavioural standards. Recognising the nexus between the organizational culture and employee behaviour, Management strives to ensure that organizational culture and corporate governance promote high ethical standards.

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

  - The Audit Committee reporting to the Board has oversight responsibility over the Bank's systems of internal control.
  - An independent Internal Audit function conducts reviews and tests the effectiveness of internal controls providing assurance through periodic reports to the Audit Committee.
  - The Bank's operational risk function facilitates 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.
  - Written delegations of authority and documented financial control system.

- **Responsibility for fraud risk management**

  The Chief Executive (CE) bears the ultimate responsibility for fraud and corruption risk management within the Bank. This includes the coordination of risk assessments, overseeing the investigation of suspected fraud and corruption, and facilitation for the reporting of such instances. The CE has delegated the oversight of this function to the Chief Risk Officer (CRO). The managing of fraud remains a managerial responsibility.

- **An ethical culture**

  As part of inculcating an ethical culture the Bank has formulated and adopted a Code of Ethics to regulate ethical behaviour. The Code has been communicated to all employees and forms an integral part of employee induction programme. The Code is reviewed annually and has been subjected to an independent quality assurance review by the Ethics Institute of South Africa.

  The Code *inter alia* regulates the following:

  - Corporate values.
  - Compliance with laws and regulations.
  - Conflict of Interest.
  - Acceptance and offering of business gifts, courtesies and donations.
  - Use of Bank resources.
  - Protection of whistle blowers.

- **Assessment of fraud risk**

  The Bank, under the guidance of the CRO will conduct annual fraud risk assessments to identify potential fraud risk exposures to the Bank. This process will ensure that actions to address the identified fraud risk exposures will be implemented to mitigate these exposures.

  The above will be formulated into a “Fraud Risk Assessment” which will provide an indication of how fraud risks are manifested and, a “Fraud Risk Register” which will prioritise the fraud risks and indicate actions to mitigate these risks.

- **Employee awareness**

  The main purpose of fraud and corruption awareness workshops / training is to assist in the prevention, detection and reporting of fraud and corruption by raising the level of awareness as to how fraud and corruption is manifested in the workplace. In this regard, all employees will receive training on the following:

  - Fraud Prevention Plan.
  - Code of Ethics.
  - Whistle blowing policy.
  - How to respond to fraud and corruption.
  - Manifestations of fraud and corruption in the workplace.

  Corporate Secretariat and the Forensic services will be responsible for employee awareness.

Operational strategies

- **Internal controls**

  Internal controls are the first line of defence against fraud and corruption. While internal controls may not fully protect the Bank against fraud and corruption, they are essential elements in the overall Fraud Prevention Plan.

  All areas of operations require internal controls, for example:

  - Physical controls (securing of assets).
  - Authorisation controls (approval of expenditure).

- Supervisory controls (supervising day-to-day issues).
- Analysis of data.
- Monthly and annual financial statements.
- Reconciliation of bank statements, monthly.
- Internal Audit will be responsible for implementing an internal audit program which will incorporate steps to evaluate adherence to internal controls.

- **Prevention strategies**

  A number of combined initiatives result in an overall preventative environment in respect of fraud and corruption. These include the following:

  - Pre-employment screening

    Pre-employment screening is being carried out for all appointments, and evidence of such screening is maintained by the Human Capital Division. Consideration is given to the following pre-employment screening:

    - Verification of identity.
    - Police criminal history.
    - Reference checks with the two most recent employers – this normally requires telephone contact.
    - Verification of formal qualifications claimed.

  - Recruitment procedures

    Recruitment is conducted in accordance with the requirements of the Bank's Recruitment and Selection policy.

  - Fraud and corruption prevention plan

    The actions set out in this plan are all focused at mitigating the risk of fraud and corruption in the Bank.

  - Disclosure of interests

    All the Directors and staff members of the Bank are required to disclose their specific personal assets and business interests at least on an annual basis. This register is kept with the Company Secretary.

- **Detection strategies**

  Detection of fraud and corruption may occur through:

  - Vigilance on the part of staff members, including management.
  - The Internal Audit function.
  - Ad hoc management reviews.
  - Anonymous reports.
  - The application of detection techniques.
  - Segregation of duties is a powerful control to prevent fraud from going undetected.

  The Forensic services at the Bank are responsible for developing detection strategies, and are working closely with management for this purpose.

  The Bank will continue embarking on a number of initiatives to detect fraud and corruption in the workplace.

- Internal Audit

  A robust Internal Audit plan which focuses on the prevalent high Fraud and Corruption risks also serves as an effective detection measure. As part of the detection strategy, the Internal Audit plan will cover the following:

  - Surprise audits: Unplanned audits conducted on specific business processes throughout the year.
  - Post-transaction reviews: A review of transactions after they have been processed and completed can be effective in identifying fraudulent or corrupt activity. In addition to the possibility of detecting fraudulent transactions, such a strategy can also have a significant fraud prevention effect as the threat of detection may be enough to deter a staff member who would otherwise be motivated to engage in fraud and corruption.
  - Forensic data analysis: The Bank's computer system is an important source of information on fraudulent and sometimes corrupt conduct. Software applications will be used during internal audits, surprise audits and post-transaction reviews to assist in detecting any possible fraud and corruption.
  - Management accounting reporting review: Using relatively straightforward techniques in analysing the Bank's management accounting reports, trends can be examined and investigated which may be indicative of fraudulent conduct.

  The Bank will continue to implement a strategy to ensure appropriate management accounting report reviews are conducted.

- External audit

  The Bank recognises that the external audit function is an important control in the detection of fraud. The Chief Financial Officer will continue to hold discussions with all engaged external auditors to ensure that due consideration is given, by the auditors, to ISA 240 *"The Auditors' Responsibility to Consider Fraud in the Audit of a Financial Statement"*.

- **Response strategies**
  - Reporting fraud and corruption – a Whistle blowing policy

    One of the key obstacles to fighting fraud and corruption is the fear by employees of being intimidated to identify or "blow the whistle" on fraudulent, corrupt or unethical practices witnessed in the work place. Those who often do "blow the whistle" end up being victimised and intimidated. For this reason, the Bank has adopted a Whistle Blowing Policy setting out the detailed procedure which must be followed in order to report any incidents of fraud and / or corruption. This policy is designed to comply with the provisions of the Protected Disclosures Act.

    Any suspicion of fraud and corruption will be treated seriously and will be reviewed, analysed, and if warranted, investigated. If an employee becomes aware of a suspected fraud, corruption or any irregularity or unethical behaviour, such employee has the duty to report in terms of a Whistle Blowing Policy.

  - Investigating fraud and corruption

    All allegations of fraud and corruption should be investigated in terms of the relevant human resources disciplinary procedures.

    In investigating all suspected acts of fraud and corruption, the Bank must have regard for due process and must respect the legal rights of all involved.

    The outcomes of the disciplinary proceedings (especially dismissals) should be communicated to the rest of the Bank so as to act as deterrence for potential would-be-transgressors and communicate a zero tolerance approach to fraud and corruption.

Maintenance strategies

- **Review of the effectiveness of the Fraud Prevention Plan**

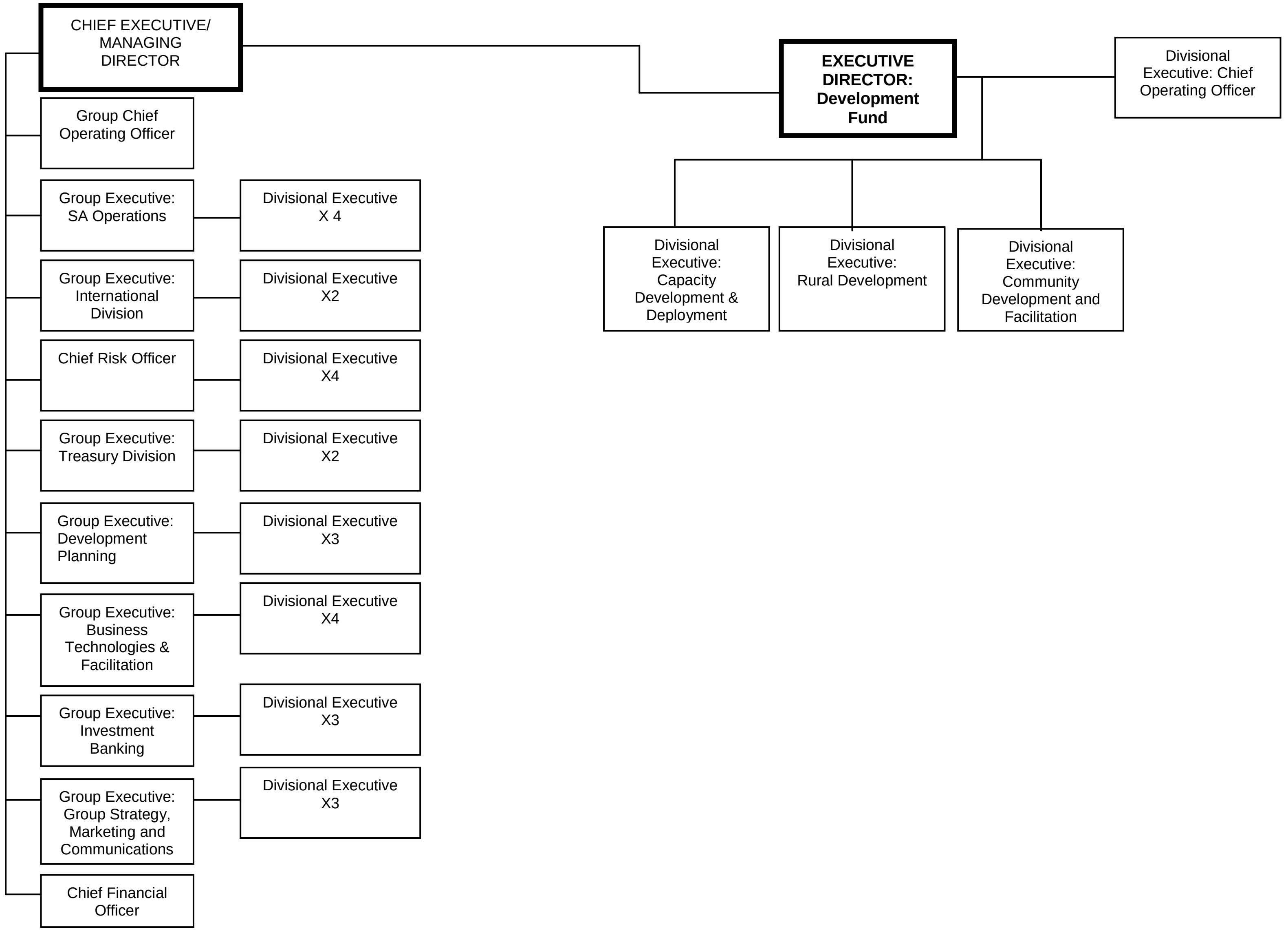
  The Bank will conduct a review of the Fraud Prevention Plan annually to determine the effectiveness thereof.

- **Review and updating the Fraud Prevention Plan**

  This Plan should be maintained and reviewed annually to ensure that the Bank's focus of detection and prevention remains relevant as the internal and external operating environment continually changes the DBSA fraud risk profile.

  The Chairperson of the Audit Committee shall have oversight and provide guidance on the review of the Plan.

Annexure 5.3: DBSA Corporate structure



Annexure 5.4: Composition of the Board of Directors and Executive Management Team

Board of Directors

As at 31 December 2010

Mr Jabu Moleketi (53)

Director of Companies

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

Chairman of the DBSA Board as from: 1 September 2010

Academic qualifications:

Advanced Management Programme (AMP), Harvard Business School in Boston (2003).

Masters of Science in Financial Economics, University of London (2001).

Post-graduate diploma in Economic Principles, University of London (1996).

Senior military management course (up to Guerilla Brigade Commander), USSR (1982-1983).

Other directorships:

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 Frans Msokoli Baleni (50)

General Secretary: National Union of Mineworkers

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

Academic qualifications:

BA Degree in Social Science Development Studies

Member of Golden Key International Honour Society Alumnae (IMS), Switzerland.

Political Science and Trade Unionism, Whitehall College), England.

Other directorships:

Eskom: Non-Executive Director and Chairman of Tender Committee.

Rand Mutual Assurance: Non-Executive Director.

International Federation chemical, Energy, Mine and General Worker's Unions: Executive Member.

JB Marks Bursary Trust Fund: Trustee.

Elijah Barayi Memorial Training Centre: Non-Executive Director.

Mineworkers Investment Trust: Chairman (2006 to date).

University of Johannesburg: Council member (2009).

Mr Paul Cambo Baloyi (54)

Chief Executive Officer and Managing Director: DBSA

DBSA Director and staff member as from: 1 July 2006

Academic qualifications:

Advanced Management Programme, INSEAD (2006).

MBA, University of Manchester (2004).

Senior Executive Programme, Harvard Business School (2001).

Management Development Programme, University of Stellenbosch (1996).

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

Other directorships:

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 Andrew Boraine (51)

Chief Executive: Cape Town Partnership

DBSA Non-Executive & 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): Non-Executive Chairman

DBSA Development Fund: Non-Executive Director.

St Patrick's Trust: Trustee.

Board of Directors (continued)

Mr Kenneth Brown (48)

Deputy Director-General: Intergovernmental Relations

DBSA Non-Executive Director as from: 1 January 2010

Academic qualifications:

MSc in Economics, University of Illinois at Urban-Campaign (2000).

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

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

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

Mrs Thembisa Dingaan (37)

Consultant and Director of Companies

DBSA Non-Executive & Independent Director as from: 1 August 2007

Academic qualifications:

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

Bar Admission, New York State Bar (1998).

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.

Mr. Omar Aboobaker Latiff (56)

Director/Partner: PricewaterhouseCoopers

DBSA Non-Executive & 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:

PricewaterhouseCoopers Incorporated: Director.

PricewaterhouseCoopers Advisory Services (Pty) Ltd: Director.

PricewaterhouseCoopers Partnership: Partner.

Bellewan (Pty) Ltd: Director.

HASMA Investments (Pty) Ltd: Director.

Jodya cc: Member.

LMD Africa Chartered Accountants Inc: Non-Executive Director.

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

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

Omar Aboobaker Latiff Family Trust: Trustee.

.

Mrs Wendy Lucas-Bull (57)

Executive Director: Peotona Group Holdings (Pty) Ltd

DBSA Non-Executive & Independent Director as from: 1 August 2005

Academic qualifications:

BSc, University of the Witwatersrand (1976).

Other directorships:

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

Dimension Data Holdings Plc: Non-Executive Director.

Eskom Holdings Ltd: Non-Executive Director.

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

Nedbank Group Limited: Non-Executive Director.

Nedbank Group: Non-Executive Director.

Board of Directors (continued)

Dr Claudia Manning (43)

Executive Director: Sangena Investments

DBSA Non-Executive & 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 Director.

Mr Ivan Mzimela (48)

Chairman: Hollard Risk Capital

Executive Director: Capricon Ventures International

DBSA Non-Executive & 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.

Hollard Risk Capital Board: Chairman

Insurance Institute of South Africa: Non-Executive Director.

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

Prof. Edward Charles Webster (67)

Professor of Sociology: University of the Witwatersrand

DBSA Non-Executive & 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).

Ela Bhatt Professor of Development and Decent Work, International Centre of Development and Decent Work, Kassel University, Germany

Other directorships:

Chris Hani Institute: Non-Executive Director.

DBSA Development Fund: Non-Executive Director.

Human Sciences Research Council: Member of Council

Labour Job Creation Trust: Non-Executive Board Member

Executive Management

Mr Paul Currie (48)

Group Risk Officer

DBSA staff member and Group Executive as from: 17 May 2010

Academic qualifications:

Advanced Management Programme, INSEAD (2007).

MBA (with distinction), Institute of Financial Management, Manchester Business School and University of Wales (2000).

CA (SA) (1994).

Postgraduate Diploma in Accountancy, University of Pretoria (1994).

BCom (Accounting), University of Port Elizabeth (1991)

BSc (Physiology), University of Cape Town (1983).

Mr Ernest Dietrich (47)

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).

Mr Pieter de la Rey (46)

Group Chief Financial Officer

Acting Group Executive: Business Technologies and Facilities [5]

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).

Dr Paul Kiyingi Kibuuka (49)

Group Executive and Managing Director: DBSA 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

[5] Vacancies currently in the process of being filled

Executive Management (continued)

Mr Magare Luther Mashaba (58)

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 (39)

Group Executive: Development Planning

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

Academic qualifications:

Certificate in Management Consulting, Wits Business School, University of Witwatersrand, 2010

Masters in Public Administration, Kennedy School of Government, Harvard University (2004).

Certificate in Managing Policy NGOs, Institute for Development Policy & Management , University of Manchester (1998)

B.Com (Law), University of KwaZulu-Natal (1991).

Other directorships:

Economic Transformation Committee: Member

National Human Resources Development Council: Council Member

Cape Peninsula University of Technology: Council Member

Foundation for Social Justice: Founding Member

Element Investment Managers: Advisory Board

Trade & Industry Policy Strategies: Member of Members

Mr TP Nchocho (42)

Group Executive: Investment Banking

DBSA staff member as from: 1 February 2002

Group Executive as from: 1 April 2010

Academic qualifications:

MSC (Development Finance), London School of Economics (2007).

Programme for Venture Capital and Private Equity, Wits Business School (2003).

MBL, Graduate School of Business Leadership, University of South Africa (2001).

BCom, University of the North (1989).

Other directorships:

National Department of Public Works, Audit and Risk Committee: Non-Executive Chairman

Seroto Investment Holdings Limited: Non-Executive Director

Mr Admassu Yilma Tadesse (41)

Acting Group Executive: International Division [6]

Group Executive: Corporate Strategy, Marketing and Communication

DBSA staff member as from: 1 June 2002

Group Executive as from: 1 September 2006

Academic qualifications:

Private Equity Investments Euromoney (2006)

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:

African Association of Development Finance Institutions and Exim Banks (Vice-Chairman)

Development Bank of Zambia: Non-Executive Director

ECF Children's Fund: Director

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

Promotion et Participation pour la Coopération économique (Proparco): Non-Executive Director (DBSA nominee)

SADC Development Finance Resource Centre: Trustee (DBSA nominee)

SADC-EAC-COMESA Tripartite Account: Trustee (DBSA nominee)

Mrs Leonie van Lelyveld (39)

Group Chief Operating Officer

Acting Group Executive Human Capital [2]

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).

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[6] Vacancies currently in the process of being filled

Annexure 5.5: Enterprise Risk Management Framework[7]

Purpose

The document outlines the Enterprise-wide Risk Management (ERM) Framework adopted as a coherent guide for the implementation of an integrated risk management system at DBSA Group level.

Background

For the DBSA to deliver successfully on its mandate and vision, risks need to be understood and responded to in a proactive and coherent manner. In response to this challenge, the Board endorsed the implementation of an enterprise-wide risk management approach in October 2007. This approach was introduced to ensure that the DBSA takes a holistic view of the totality of risks inherent in its strategy, operations and business and that the management of the risks are embedded into the mainstream planning, business and decision-making processes.

The initial ERM Framework is revised and extended with the aim of further enhancing the risk management capability of the DBSA. This was necessitated by the impact of the increased level of operations and complexity of the market on the risk profile of the DBSA.

Objective of the ERM Framework

The ERM Framework represents a high level view of the risk management system applied in the DBSA Group. The Framework serves as a key mechanism to:

- Give comfort to the DBSA's shareholder on its intentions to comply with national regulations and expectations for the management of risk in public sector institutions;
- Obtain an agreement between the Board and senior management on the approaches, principles and standards to be adhered to in the effective management of risk; and
- Provide the Group Risk Assurance Division with a sound foundation for policy-making aimed at the integration of risk management into the main stream planning and decision-making processes and application of consistent risk management practices and methodologies throughout the enterprise.

The following sources were considered in the design of the ERM Framework to ensure compliance with regulatory requirements and adherence to international standards:

- Public Sector Risk Management Framework – Department National; Treasury Republic of South Africa (1 April 2010).
- Risk Management: Principles and guidelines on implementation ISO/DIS 31000 - International Organisation for Standardisation (2008).
- King Code of Governance Principles for South Africa – Chapter 4 (2009).
- Basel II (2004).

DBSA's Approach to Risk Management

Definition of risk

Risk is defined as the chance of a deviation from an expected return or planned outcome occurring under conditions of uncertainty, caused by events which, if not anticipated and prepared for, have the potential to impact on the achievement of the institution's objectives. Risk is recognised in the DBSA as:

- Being inherent in the institution's strategy, operations and business and essential in delivering on the institution's development mandate, which has to be managed to acceptable levels, rather than perceived as undesirable consequences to be avoided;
- Imposing both opportunities and threats, which can respectively engender the attainment of objectives to be exploited through offensive treatment, or hinder the attainment of objectives to be minimised through defensive treatment; and

[7] As submitted to DBSA Audit & Risk Committee 12 November 2010

- Arising from events which can, by way of systematic management at all levels, be identified, assessed and responded to proactively.

The DBSA differentiates between three major groups of risk, which are:

- Strategic risk, as the chance that unforeseen opportunities or threats may render the DBSA's strategy ineffective or uncompetitive or that events or circumstances may occur which could hinder the ability of the DBSA to implement its strategy successfully;
- Operational risk, as the chance that internal or external events and circumstances can have a disruptive impact on the reliability, continuity, quality and efficiency of the DBSA's operations or cause damage to tangible assets and harm to intangible assets; and
- Business risk, as the chance that unknown events or circumstances can result in deviations from the returns expected on individual business propositions or impact on the planned outcomes of specific value creating initiatives.

Risk Section A (page 84) provides an overview of the DBSA's risk classification system.

Overview of the DBSA's risk management system

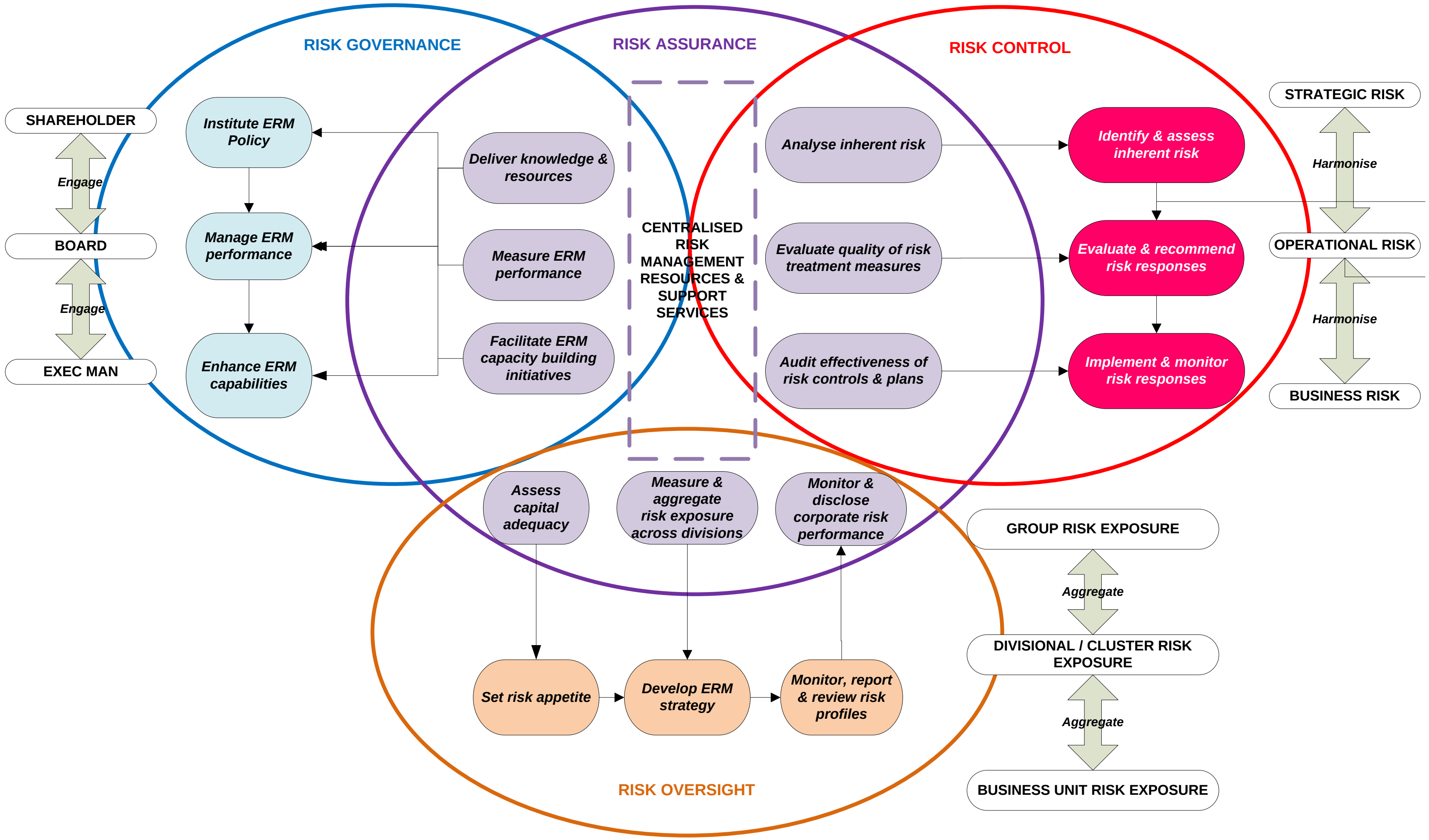
Risk management comprises the tasks performed in governing, executing and overseeing the DBSA's effort directed towards understanding and responding to events which may cause deviations from returns or outcomes. Risk management is applied in the DBSA as:

- A means of increasing certainty of success in the attainment of the objectives related to maximising development returns, ensuring financial sustainability and adhering to sound governance;
- A discipline to be practiced by everyone in the day-to-day activities of protecting assets and creating value; and
- A competency which can best add value when embedded into the normal management processes and applied spontaneously as a means of informing all forward-looking planning and decision-making activities.

As shown in Diagram 1: DBSA Enterprise Risk Management System, the DBSA's risk management system comprises the following interrelated functions:

- Risk governance, which entails the functions performed in the creation of an enabling environment for the management of risk and assurance on the effective functioning of the risk management system at DBSA Group level;
- Risk control, which entails the functions performed in understanding and responding to each of the risks inherent in the DBSA's strategy, operations and business and the monitoring of the effectiveness of risk responses;
- Risk oversight, which entails the planning, measuring, reporting, reviewing and disclosing risk management exposures at various levels of aggregation; and
- Risk assurance, which entails a broad spectrum of centralised services and resources provided in support of the governance, control and oversight of risk.

Diagram 1: DBSA Enterprise Risk Management System



Risk Governance Framework

Overview of risk governance

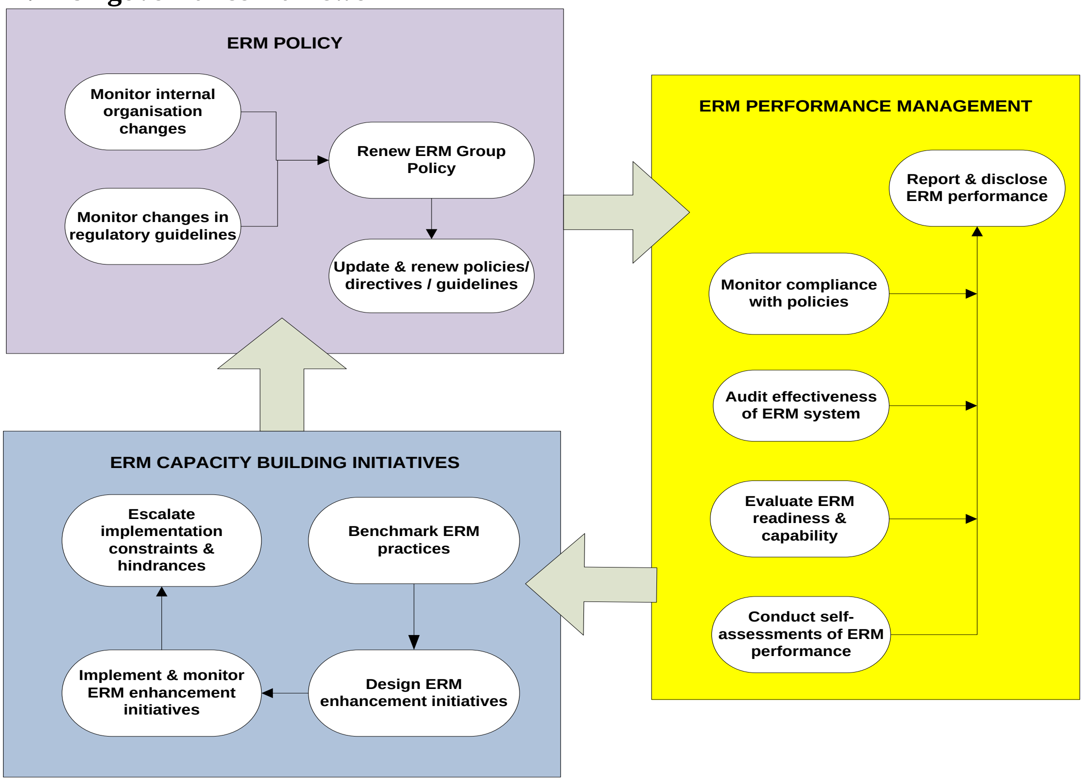
From a conceptual perspective, risk governance constitutes the application of the discipline, principles and practices of corporate governance with the objective of creating an enabling environment for the integrated management of risk and assuring the reliability of the risk management system. In a practical context, risk governance is concerned with the design, implementation and enhancement of the DBSA's risk management system.

The ultimate accountability for the governance of risk resides with the Board. Key Board-level governance duties include setting the expectations and tone for the management of risk, encouraging the application of sound risk management practices and validating and disclosing the performance and reliability of the risk management system. The Board is expected to challenge senior management with regard to perceived resource and capacity weaknesses and provide comfort to the shareholder on the DBSA's ability to manage risk inherent in its strategy, operations and business.

Senior management is responsible for the design, implementation, evaluation and enhancement of the risk management system. As shown in Diagram 2: Risk Governance Framework, the following three mechanisms are applied by senior management in the governance of risk:

- ERM policy, which serves as a mechanism to formalise, communicate and enforce standing decisions aimed at directing and guiding the consistent and transparent management of risk at various levels and in different applications.
- ERM performance management, which serves as a mechanism to monitor, evaluate and disclose the effectiveness of the risk management system.
- ERM capacity building programme, which serves as a mechanism to design and implement initiatives aimed at the strengthening and enhancement of the DBSA's risk management system.

Diagram 2: Risk governance framework



These three risk governance mechanisms are explained in more detail in the following sections:

- ERM Policy.
- ERM Performance Management.

- ERM Capacity Building Programme.

ERM Policy

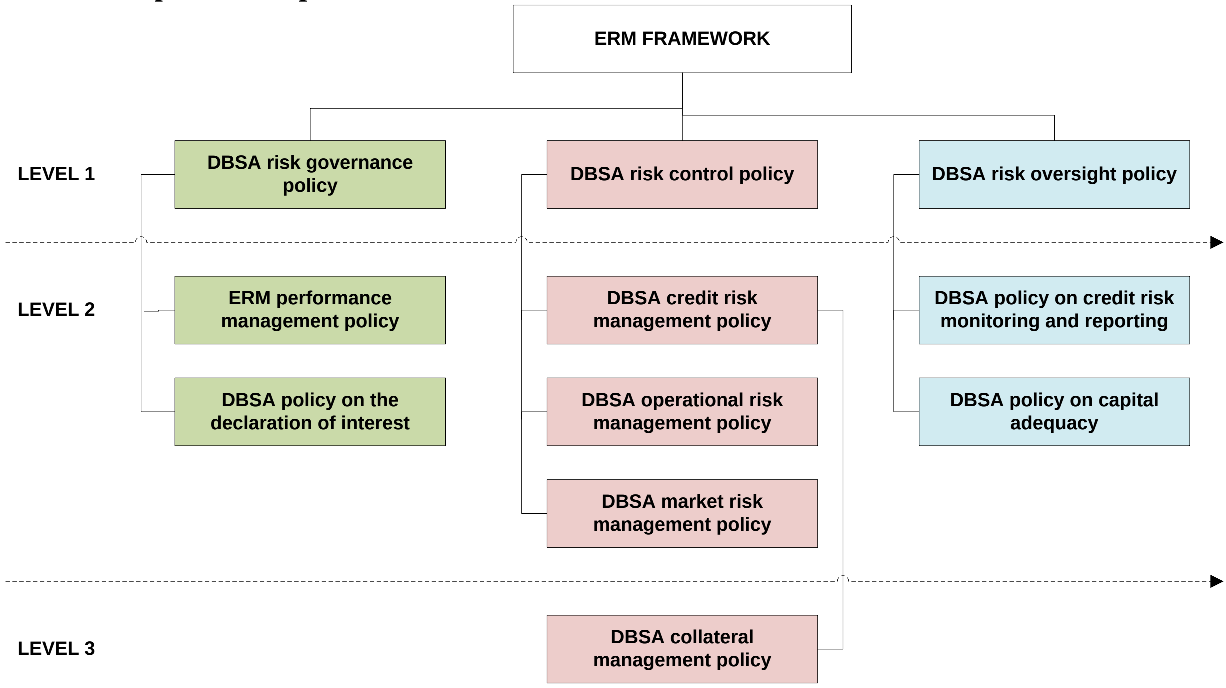
Policy is defined broadly as a set of standing arrangements, directives and instructions aimed at defining and empowering the execution of accountabilities, entrenching values and ethical behaviour and engendering efficiency and assuring quality and consistency in the performance of duties. ERM policy is applied by management as a means to:

- Create an enabling environment for the governance of risk, which is based on the principles of encouraging close board-level oversight and active executive management leadership, adhering to international standards and best practices and creating a sound understanding and ownership of all sources of risk (risk governance);
- Implement good practices and procedures for the identification, assessment, treatment and monitoring of different types of risk (risk control);
- Establish rigorous standards and consistent methods for the measurement, review and disclosure of risk exposures against risk appetite and tolerances (risk oversight); and
- Institute optimal levels of centralised resources for the delivery of specialist and support services in the management of risk at all levels (risk assurance).

In practice, the ERM Policy constitutes a suite of policies to govern and guide the implementation of risk management at different levels and in different applications. As shown in Diagram 3: Examples of Risk Policies at Different Levels, risk policies are instituted for the risk management functions at three levels:

- Level 1 policy, which defines the high level risk management objectives, principles, approaches and accountabilities across the entire DBSA Group;
- Level 2 policy, which governs the management of different types of risk performed across similar areas of business or within cross functional operational processes; and
- Level 3 policy, which sets standards for specific risk management activities performed by teams and/or functional units.

Diagram 3: Examples of risk policies at different levels



ERM performance management

ERM performance management entails the evaluation of the effectiveness of the risk management system. ERM performance management serves as a mechanism to ensure that resources are deployed effectively in the governance, control and oversight of risk and that the risk management system performs efficiently.

The following mechanisms are applied in the management of ERM performance:

- Assessment of the risk management readiness and capability of the DBSA;
- Audit of the effectiveness of components of the ERM system;
- Evaluation of the outcomes of the ERM capacity building programme; and
- Self-assessments of the effectiveness of risk management structures.

Readiness and capability assessment

Readiness and capability assessments entail the validation of compliance with the conditions required for the effective management of risk at enterprise level in accordance with the ERM Framework. Assessments are conducted by independent sources as a means to give assurance to the Board on the reliability of the DBSA's risk management system and identify areas for improvement against leading risk management practices in financial service institutions.

Risk audit

Risk audit entails the in-depth evaluation of specific components of the risk management system. Risk audit is conducted to obtain reasonable assurance as to the effectiveness of ERM policy.

Risk evaluation

Risk evaluation entails the evaluation of the effectiveness of ERM capacity building initiatives. Risk evaluation is conducted internally to ensure that interventions aimed at the enhancement of risk management capabilities achieve the planned outcomes and desired results.

Risk performance self-assessments

Risk performance self-assessments entail the evaluation of the effectiveness of committees and risk management teams by members of the committees and teams. Risk performance self-assessments are applied as a mechanism for the Board, risk management committees and risk management teams to conduct a critical review of their performance in the management of risk.

ERM capacity building programme

The ERM capacity building programme has as its key objective the enhancement of the risk management capabilities of the DBSA. The programme focuses on instituting and strengthening risk management activities as an integral part of the business processes and practices. The programme is aimed at embedding, rather than adding on, the management of risk in the on-going planning, decision-making, monitoring and other management processes.

The Programme focuses on the following as key elements of the risk management system:

- Risk leadership;
- Risk resources;
- Risk infrastructure; and
- Risk culture.

Risk leadership

Risk leadership refers to the accountability of the Board, in collaboration with senior management, to "set the tone at the top" for risk management. Enhancement of risk leadership is aimed at:

- Opening channels of communication between the Board and senior management on the risk management challenges faced by the DBSA
- Placing risk issues on the agendas of management committees

- Consulting employees in decisions on appropriate responses to critical risks faced by the DBSA

Risk resources

Risk resources refer to the human resources, skill sets, budgets and information required for the effective management of risk. Enhancement of risk resources is aimed at:

- Building risk management knowledge and skills throughout the enterprise.
- Deploying optimal number of specialists with appropriate talent in support of the management of risk.
- Budgeting for sufficient funds to cover the cost of implementation and enhancement of the risk management system.
- Upgrading the quality of risk information, including historical risk loss and incidence data and industry benchmarks.

Risk infrastructure

Risk infrastructure refers broadly to the enabling mechanisms applied in support of the management of risk. Enhancement of risk infrastructure is aimed at:

- Establishing a streamlined, consistent and transparent process for the management of risk, which is integrated into the DBSA's planning, decision-making and management processes.
- Instituting appropriate oversight and review structures to monitor and act on risk management performance.
- Deploying best in class methods, tools and technology in support of the assessment, measurement and reporting of risk.

Risk culture

Risk culture refers to the general understanding of risk and awareness of the potential implications thereof on the institution if not anticipated and prepared for, the willingness and commitment in applying the discipline of risk assessment in decision-making and the alignment of conduct with ethics and behaviour with corporate values.

The enhancement of the DBSA's risk culture is aimed at:

- Increasing understanding of the concept of risk and recognition of the importance of risk management in day-to-day activities;
- Encouraging business units in taking ownership of risks within their respective areas of operations and accepting responsibility for the management of these risks;
- Entrenching behaviour that is in line with the Bank's code of ethics and values, including declaring conflicts of interest, speaking up when detecting any behaviour that can harm the Bank's reputation and complying with the Bank's whistle blowing policy; and
- Creating freedom of expression at all levels to raise concerns in respect of strategies and decisions which expose the Bank to high risks and contribute towards learning from experience.

Risk Control Framework

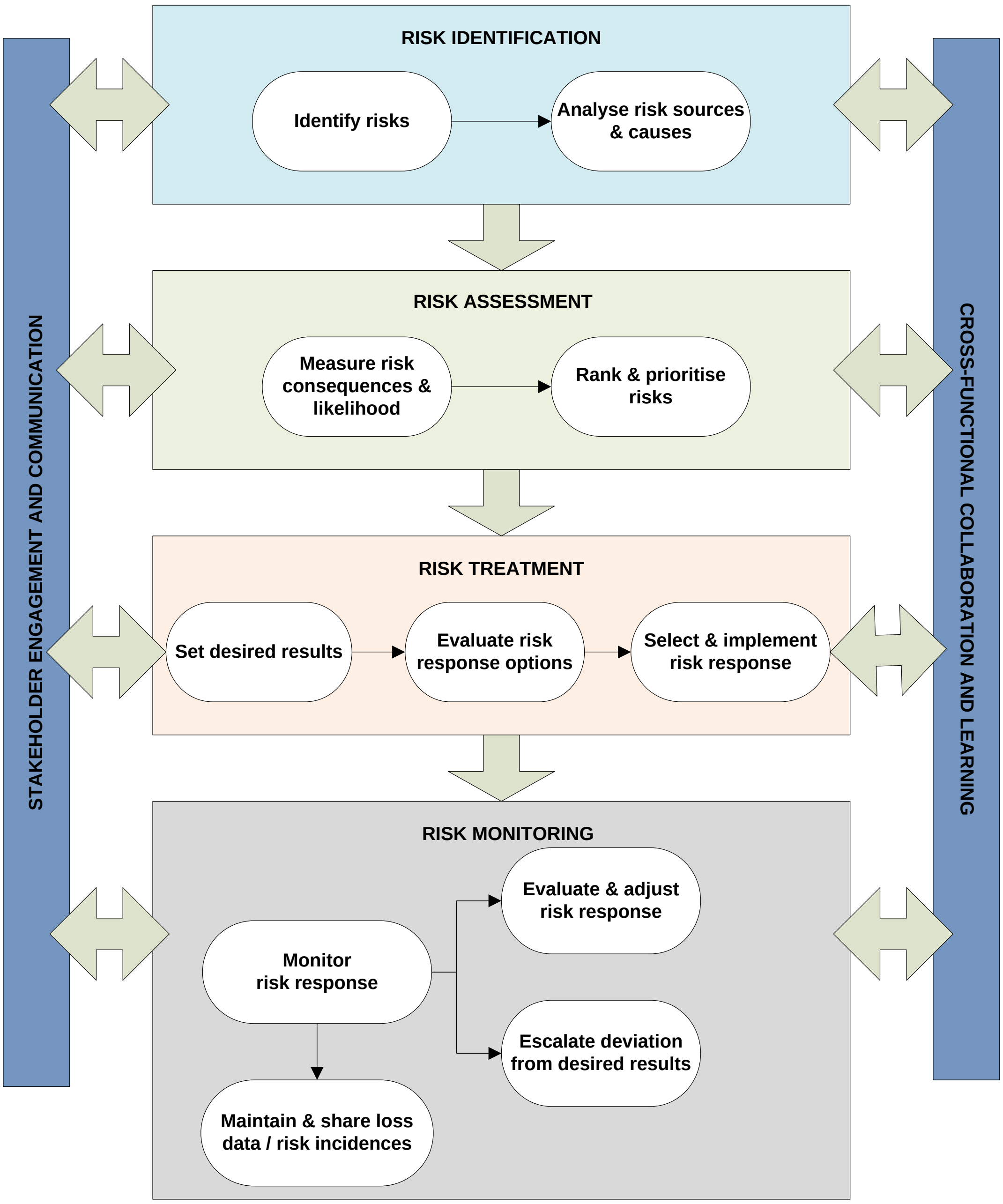
Overview of risk control

Risk control entails the effort directed towards understanding and responding to each risk inherent in the DBSA's strategy, operations and business. As shown in Diagram 4: Risk Control Process, risk control is executed through the following generic process:

- Risk identification, which entails obtaining information on where, when, why and how events, both internal and external to the DBSA, could prevent, minimise, delay or improve the achievement of objectives into the future;

- Risk assessment, which entails the quantification or qualification of the organisation's exposure to the identified risks based on an analysis of the likelihood of the event occurring and the severity of consequences of the event should it happen;
- Risk treatment, which entails making an informed choice between retaining, avoiding or modifying the inherent risk based on the risk assessment and in the event of the latter option, recommending and implementing an appropriate response to reduce vulnerability to unacceptable risk exposures; and
- Risk monitoring and review, which entails the continuous evaluation of the effectiveness of risk responses and where required the adjustment of risk responses.

Diagram 4: Risk control process



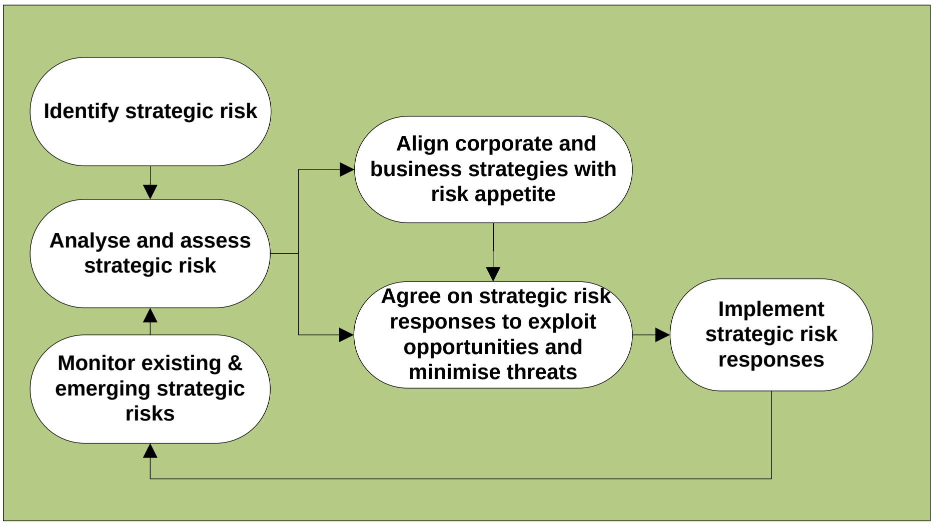
Given the inherent nature of risk in implementing strategy, conducting operations and doing business on a day-to-day basis, control of risk is best performed as close as possible to the source of the risk origination. Ownership of risk at source ensures accountability for risk assumed in protecting assets and creating value and enables agile and proactive responses to risk events. Risk ownership is assumed by management within their respective area of responsibility, but can also be assigned for risk impacting across units and divisions.

Strategic risk management practices

Strategic risk is managed as an iterative process of aligning the risk inherent in corporate and business strategies with the Bank's risk appetite. As shown in Diagram 5: Overview of the Strategic Risk Control Process, the following practices is applied to embed strategic risk management into the strategic planning process:

- Corporate and business strategies are informed by an assessment of the identified risks inherent in the strategy.
- Responses to opportunities and threats associated with strategic risk are evaluated and recommended to the Board as part of the annual strategic planning process.
- Strategic risks assumed, together with actions to be taken to reduce the organisation's vulnerability to these risks, are incorporated into the corporate and business strategies.
- Emerging strategic risks are monitored through environment scanning, assessed and responded to on a continuous basis.

Diagram 5: Overview of the strategic risk control process



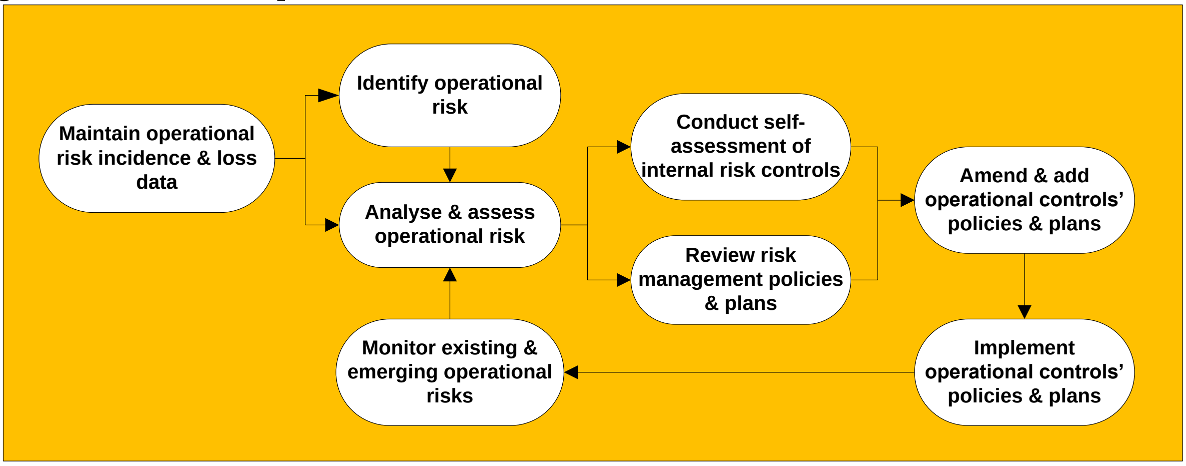
Operational risk management practices

Operational risk is managed through the business planning process. As shown in Diagram 6: Overview of Operational Risk Control, the following practices is applied to embed operational risk management into the business planning process:

- Risk thresholds on individual risks and tolerances on aggregated risk exposure are discussed and refined at divisional and unit levels prior to the annual update of business plans.
- Risk registers of the respective business units are updated as an integral part of the annual business planning by reviewing the risks identified and adjusting the risk profile and measures applied in the mitigation and other forms of risk treatment.
- Actions decided upon to enhance internal controls are incorporated into the business plans and budgets of all units.
- Plans for operational risks that can best be managed across the organisation, such as events external to the organisation that can disrupt the business, are updated and approved on an annual basis.
- Risk registers are updated and approved by the relevant management committee.

- The effectiveness of risk controls are reviewed periodically at division and business unit level as part of the normal business performance reviews.

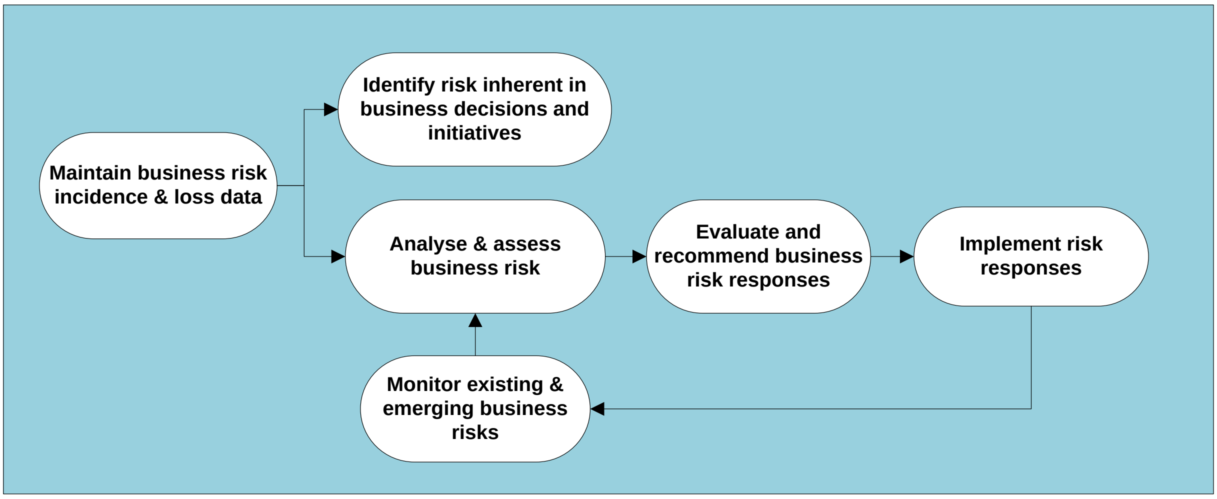
Diagram 6: Overview of operational risk control



Business risk management practices

As shown in Diagram 7: Overview of Business Risk Control Process, business risks, irrespective of the nature of the risk taken, need to be managed by way of the standardised process.

Diagram 7: Overview of business risk control process



In practice, the activities of identifying, assessing, treating and monitoring business risk are embedded in various business processes such as the DBSA's lending process, asset and liability management process and procurement process, as well as management processes such a business planning and budgeting process and monitoring and reporting process.

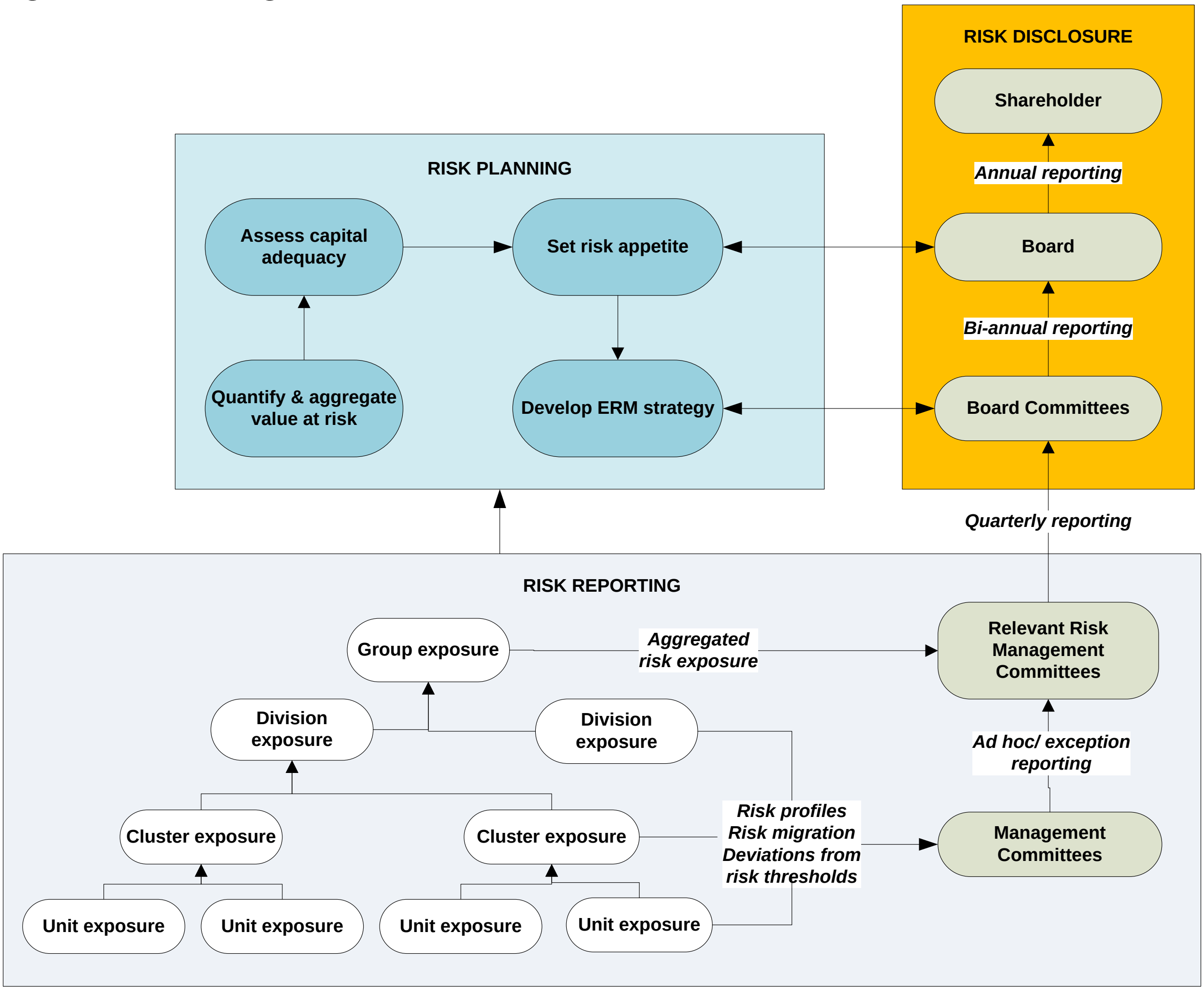
Risk Oversight Framework

Overview of risk oversight

Risk oversight entails the setting of the DBSA's risk appetite and strategy, as well as the measurement, review and disclosure of risk exposures and results against thresholds, limits and targets. As shown in Diagram 8: Risk Oversight Framework, risk oversight is performed through the following mechanisms:

- Risk planning, which entails the setting the DBSA's risk appetite, establishing tolerances and limits for acceptable risk exposure and providing guidance on responses to unacceptable levels of risk.
- Risk reporting, which entails informing risk planning, review and disclosure through the quantification of residual risk exposures.
- Risk disclosure, which entails the review of risk profiles, escalation of risk variances and presentation of risk results.

Diagram 8: Risk oversight framework



Risk planning

Risk planning sets the boundaries for the management of risk. Risk planning is facilitated by the following mechanisms:

- Risk appetite, which is the amount of risk that the DBSA is willing to accept;
- Capital adequacy, which the DBSA beliefs is adequate cushion against unexpected losses; and
- Risk strategy, which sets risk thresholds for tolerable levels of risk exposures and provides guidance on the responses to unacceptable levels of risk exposures.

Risk appetite

Risk appetite defines the level of enterprise-wide risk that the Board is willing to take in the pursuance of the DBSA's objectives. Risk appetite serves as a mechanism to inform strategic planning, as well as to guide the setting of thresholds for specific types of risk. The risk appetite is influenced by a combination of factors such as the expectations of shareholders, the nature, scope and competitive position of the business, the market share and conditions within which it operates, the culture and management style of the DBSA, the financial capability to absorb losses and the ability to manage risks.

Senior management recommends and the Board approves the appetite for risk at a corporate level as an integral part of the strategic planning process.

Capital adequacy

Capital adequacy comprises the amount of risk capital, assessed on a realistic basis, which the DBSA beliefs is adequate as a cushion against unexpected losses to keep its balance sheet solvent following a series of risk events. Risk capital is referred to as economic capital, which is determined by the desired credit risk rating which the DBSA wants to attain.

Risk strategy

The risk strategy serves as mechanism to optimise the DBSA's risk profile and aligning risk exposure with its risk appetite. The risk strategy:

- Establishes thresholds for all significant risks in accordance with the Bank's risk appetite as a mechanism to quantify or qualify the amount or level of residual risk that the Bank is willing to tolerate; and
- Provides guidance on the responses to unacceptable levels of risk exposures, either as a result of risk portfolios being over- or under exposed in accordance with the risk thresholds.

The risk strategy is prepared by senior management on an annual basis and presented to the Board for validation.

Risk reporting

Risk reporting comprises the following:

- Risk measurement;
- Risk performance review; and
- Risk escalation.

Risk measurement

The measurement of risk entails the quantification of expected and unexpected losses and the qualification of risk profiles and exposures. Risk measurement constitutes a challenge and methodologies for quantifying measurable risk exposures and qualifying non-measurable risk profiles need to be enhanced over time. As an interim measure, a differentiation is made between risk exposures which are quantifiable, such as credit and market risk, and other risks which have to be qualified, such as strategic and operational risk.

Risk performance reviews

Risk management performance and results are reported by business unit managers as part of the normal business reviews as follows:

- Performance against the Bank's risk management objectives.
- Residual risk exposures against risk thresholds and other key risk indicators.
- Progress with the implementation of actions taken to enhance inadequate risk management capability or ineffective risk control.

Levels and frequency of risk reporting:

- Business unit managers report on a monthly basis to executive managers for discussion at the divisional management committee.

Owners and custodians of the various risk types/classes report on a quarterly basis to the relevant risk management committees; and

- Executive managers report on a bi-annual basis to the CEO for discussion at relevant risk management committees.

Risk escalation

Risk owners need to escalate the following risk issues to the CRO for consideration at the relevant risk committee:

- Deviation from risk thresholds.
- Emerging strategic risks.
- Material risk events and loss incidents.

Risk disclosure

Risk disclosure entails the presentation of risk management results to the Board Committees in order to enable the execution of their oversight duties. The following standards are applied in the disclosure of risk:

- CEO reports on a quarterly basis to the Audit Committee;
- Audit Committee reports on a bi-annual basis to the Board; and
- Board reports on an annual basis to the shareholder.

The following information is required for the disclosure of risk:

- Performance against risk management objectives incorporated into the corporate BSC;
- Risk profile against risk thresholds;
- Progress in the enhancement of the risk profile and actions taken for addressing emerging risks; and
- Progress with the implementation of risk plans.

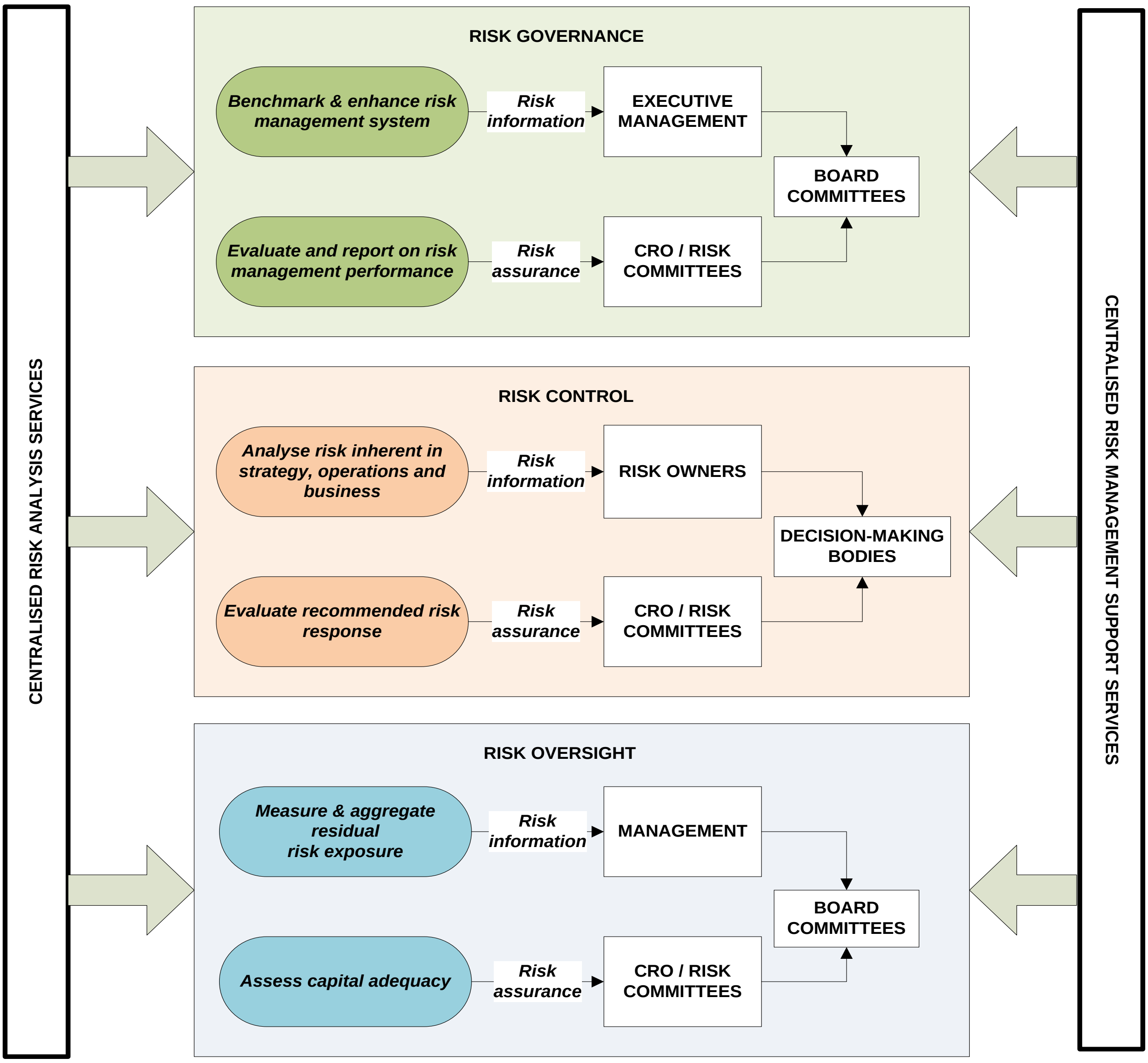
Risk Assurance Framework

Overview of risk assurance

Risk assurance constitutes specialist and support services rendered in the management of risk. The risk assurance function, by definition, does not own any of the DBSA's risk and cannot assume any form of responsibility for the management of such risks. As shown in Diagram 9: Risk Assurance Framework, risk assurance interfaces with functions performed in the governance, control and oversight of risk. The services can be grouped into the following broad categories:

- Delivery of support services for the execution of governance functions in the implementation, monitoring and enhancement of the risk management system, which are centralised by nature.
- Provision of information to risk owners as an input into the control of risk based on an objective analysis of risk inherent in strategy, operations and business.
- Independent evaluation of the appropriateness of risk responses recommended by risk owners as part of the planning and decision-making processes.
- Mobilisation of resources which are uneconomical to deploy at decentralised levels due to scalability of operations or scarcity of skills.

Diagram 9: Risk assurance framework



Risk governance

The following constitutes key focus areas of support services delivered in the governance of risk:

- Draft and maintain ERM policy;
- Coordinate and facilitate the design and implementation of the ERM capacity building initiatives; and
- Give assurance on the effectiveness of the risk management system.

The ERM Policy is renewed periodically to remain relevant as a mechanism for enabling and guiding the execution of risk management functions. Group risk assurance provides resources and knowledge in the drafting of policy at different levels, as well as analysis and expertise in the design of standards, to guide the management of risk.

Group risk assurance provides resources for the management of the ERM capacity building programme and expert inputs into the design and implementation of specific risk management enhancements.

Assurance on the effectiveness of the risk management system is given through the:

- Independent audit of compliance with the ERM Policy.
- Objective evaluation of the outcomes of the ERM capacity building initiatives.

Risk control

Group risk assurance performs the following functions in support of the control of risk, i.e.:

- Conduct analysis of risk inherent in the DBSA's strategy, operations and business in order to inform planning and decision-making processes.
- Evaluate the recommended risk responses in order to give assurance on the appropriateness of risk mitigation measures given the risk profile and the balance between the level of risk and reward.
- Deliver administrative, legal and workout and recovery services.

The following services are delivered in the analysis of risk and evaluation of the risk responses:

- Facilitate the enterprise-wide identification and assessment of strategic risk and evaluate the recommended risk responses to exploit potential opportunities and minimise potential threats.
- Coordinate the update of the operational risk inventory, self-assessment of internal risk controls and review of the effectiveness of operational risk management plans.
- Conduct analysis of value at risk inherent in key business decisions and value creating initiatives and evaluate the recommended risk responses in the mitigation of unacceptable levels of risk exposure.

Risk oversight

The following services are delivered in support of the oversight of risk performance and results:

- Qualify corporate risk profile and quantify portfolio exposures at different levels of aggregation.
- Assess capital requirements as a buffer against expected and unexpected losses.
- Facilitate the review and update of the DBSA's risk strategy.
- Monitor, escalate and report on the DBSA's overall risk profile against targets, thresholds and limits.

RISK SECTION A: RISK CLASSIFICATION SYSTEM

Overview of the risk classification system

The purpose of the risk classification system is to group risks with similar characteristics into categories for purposes of the control and oversight of risk. As shown in Table 1 below, the system differentiates between strategic risk, operational risk and business risk and their impact on the objectives of development impact, financial sustainability and institutional capability.

Table 1: Risk classification system

Corporate objectives	Strategic risk	Operational risk	Business risk
Development impact	• Systemic risk		• Development risk • New product risk
Financial sustainability	• Business model risk Asset portfolio risk	• Fraud risk • Legal risk	• Credit risk • Market risk • Liquidity risk • Country risk • Sovereign risk
Institutional capability	• Reputation risk • Human resource risk • Management risk	• Process failure risk Compliance risk • Business continuity risk IT system risk • Financial reporting risk	• Project failure risk

Strategic risk

Strategic risk is the effect of uncertainty on the successful execution of the DBSA's corporate and business strategies. Strategic risk is associated with events which could engender or hinder the implementation of strategy in the medium to long term.

The following types of strategic risks exist:

- Systemic risk, which arises from external events which could have an impact on the sustainability of the DBSA's future growth plans and the ability to realise the planned development impact, such as economic recessions, wide-spread political instability and conflicts. Systemic risk can have an adverse;
- Business model risk, which arises from changes in the market impacting on the products and service offerings, such as new competitors entering the market, current business partners exiting the market and changes in the development finance market;
- Asset portfolio risk, which arises from events which impact on the quality of the lending and investment portfolio;
- Reputation risk, which arises from events which could have a permanent adverse impact on the standing and public esteem of the DBSA;
- Human resource risk, which arises from events impacting on the ability to attract and retain appropriate or sufficient resources;
- Management risk, which arises from events which have a positive or negative effect on the ability to design and implement the DBSA's strategy, such as the lack of leadership and the mismanagement of resources.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, or from people related or external events. Operational risk is by nature short term associated with the chance that internal or external events can have an adverse impact on the continuity and reliability of the DBSA's operations, result in losses of property or capital or cause damage to tangible and intangible assets.

Operational risk is referred to as "pure" or "unrewarded" risks, which are not consciously taken, but has the potential to cause direct or indirect financial losses. Operational risk impacts to a large degree on the enterprise as a whole or on functions which are performed across divisions.

- Process failure risk, which arises from break downs in the processing of product and service delivery.
- Compliance risk, which arises from non-compliance with regulation or legislation.
- Business continuity risk, which arises from external or internal events impacting adversely on the ability of the institution to operate efficiently.
- IT system risk, which arises from system failures and stoppages.
- Financial reporting risk, which arises from inaccurate data or misrepresentation of financial results.

Business risk

Business risk comprises the risk inherent in forward-looking decisions or value creating initiatives whereby resources are committed to a future return or outcome under conditions of uncertainty. Business risk is also referred to as "speculative" or "rewarded" risk, given that business risks are taken deliberately in exchange for a reward or as a means of creating value. The risk is associated with the chance that unknown events or circumstances could occur which can result in a deviation from the expected returns or planned outcomes embodied in the business and other plans of units and divisions.

Business risk is inherent in the activities performed by all units in the DBSA. Business risk can be specific to a particular operation or decision, such as business and financial transactions, partnerships and contracts with external counterparties, entering into a new market, launching a new product or service or implementing changes to the supply chain, as well as to support services rendered internal to the DBSA or change management initiatives launched to improve internal efficiencies and effectiveness. Business risk can be financial or non-financial in nature.

Financial risk includes the following types of risk:

- Credit risk, which is the chance of failure of a counter party to perform on its obligations in terms of the terms and conditions for the extension of credit.
- Country risk, which is the likelihood that changes in the political, economic or business environment will occur that reduce the profitability of doing business in a country.
- Sovereign risk, which is the risk that a government will either default on its obligations or will impose regulations restricting the ability of counterparties in that country to meet their obligations, such as foreign currency restrictions.
- Market risk, which is the potential for loss inherent in asset and liability transactions arising from movements in the level or volatility of market rates or prices.
- Liquidity risk, which is the chance that the DBSA will be unable to meet its obligations as they become due as a result of an inability to obtain adequate funding or liquidate assets.

Non-financial risk includes the following:

- New product risk, which arises from the chance of deviations from the expected returns and profitability of new products.
- Legal risk, which is the risk arising from uncertainty in the applicability or interpretation of contracts, laws or regulations.
- Development risk, which is the risk of a deviation from the planned outcomes of programmes and projects financed or supported through DBSA's resources.
- Project risk, which is the risk of a deviation from the planned outcomes of organisation development initiatives or change management interventions internal to the DBSA.

Annexure 5.6: Key operational risks

The DBSA Board and EXCO identified the top corporate risks with various risk drivers or causes as part of build up to the strategic planning process for the 2011/12 financial year. The risks were identified through a structured review process which included the following:

- A Board survey to identify individual Board Members views on the top potential risks the DBSA is exposed to.
- One-on-one discussions with the DBSA Group Executives to obtain their views on what they believe are the top potential risk exposures for the DBSA.
- Analysis of the top risks identified the Group Risk Assurance Division.
- Benchmarking of the top corporate risks identified against external reviews and reports.
- Review of the top corporate risks at various operational, management and board sub committees.

These risks are continuously reviewed and refined in terms of the risks drivers or causes and related control/ mitigation measures. The top corporate risks have been split into Strategic, Operational and Business issues. The details to these risks are listed and detailed in the table overleaf:

Strategic risk issues						
Key risk / threat to the DBSA	**Context (Risk drivers / causes of this risk)**	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Responsible Board and Management Oversight Committees**	**Target date**
Sustainability	The impact of the global financial crisis continues to remain a challenge for the banking industry due to the higher global capital requirements which has resulted in the cost of funding remaining high for the DBSA and this in turn puts a strain on profitability. This has been further compounded by the slowdown in economic growth which has a direct impact on the DBSA in terms of the numbers of projects coming through as well as the disbursements rate. The DBSA is also required to play a countercyclical lending role which has an impact on the financial sustainability of the Bank as a result of higher risk funding.	• Various strategic initiatives are being considered at Board level • Careful management of operating costs • Operating on funded mandates • Scenario / sensitivity analysis and stress testing - anticipating impact and appropriate responses as well as identifying opportunities • Tighten credit control / monitoring • Rigorous review of resource allocation and investment / project selection • Proactive shareholder engagement	Rare	Critical	**Board Committee:** Finance Committee **Management Committee:** EXCO Asset and Liability Committee Finance Management Committee	Controls in place and reviewed on a continuous basis
Inappropriate Business Model	The increased competition from the private sector in terms of market prices has resulted in the DBSA losing tenders and potential income. The challenge with regards to finding the appropriate structure to position the business for growth in line with the new growth strategy further impacts on this risk. Turnaround times and process efficiency with regards to the approval of deals remain to be a challenge for the DBSA.	• The DBSA is positioning itself to proactively offer a package of product offerings rather than reactively tender for business. • A pricing committee has been established which deals with pricing transaction on an individual basis. • Consultative approach to development of Corporate strategy and BSC • Continuous monitoring of the execution against strategy and BSC	Moderate	High	**Board Committee:** Audit and Risk Committee **Management Committee:** EXCO	Controls in place and reviewed on a continuous basis
Stakeholder Management and Engagement	Stakeholder management and engagement is of the utmost importance for the DBSA. The potential for unrealistic changes in the DBSA's mandate may impact on the ability to achieve strategic objectives and hold its standing as the Centre of Excellence for the delivery of social transformation and the driver of development impact. The possible withdrawal of support by the Shareholder of the DBSA as well as other key role players whom are critical in assisting the DBSA to discharge their mandate due to over promising and under delivery may have an impact on the credibility and reputation of the DBSA	• Ongoing communication and engagement with the shareholder and other stakeholders • Staying focused on the Bank's strategy, anticipating that the Bank will be expected to do more and explore how the Bank can do more on a structured basis.	Rare	High	**Board Committee:** Audit and Risk Committee **Management Committee:** EXCO	Controls in place and reviewed on a continuous basis

Operational risk issues						
Key risk / threat to the DBSA	**Context (Risk drivers / causes of this risk)**	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Responsible Board and Management Oversight Committees**	**Target date**
Coordination of Divisional Efforts	The DBSA organisational design and structure is not suited for appropriate integration and coordination of divisional efforts. This is further compounded by the organisational culture which is reluctant to change. Other factors include divisions driven by their own business objectives and lack of incentives for divisions to integrate and work together. Inappropriate coordination, communication and integration also impacts business integration.	• On-going review of strategy against changes (external/internal) • Alignment of divisional objectives through collaborative objective setting, aligning reward structures to incentivise shared outcomes	Moderate	High	**Board Committee:** Audit and Risk Committee **Management Committee:** EXCO	Controls in place and reviewed on a continuous basis
Talent Management and Organisational Capability	The skills shortage in the market remains a key challenge for the DBSA in terms of filling the vacancy levels. The current DBSA skills set may and capacity not be appropriate as the DBSA engages in and executes on signed off mandates. The geographic location of the projects and the working environment at municipalities impact on the ability to attract and retain the appropriate skills for capacity building and execution in the low capacity municipalities which are located in dispersed areas.	• Capacity building, talent management and succession planning • Effective knowledge management processes • Effective performance management and utilisation of resources and skills • Incentivisation of staff through effective reward and recognition structures	Moderate	Moderate	**Board Committee:** Human Resources, Remuneration and Nominations Committee **Management Committee:** EXCO Human Capital Committee	Controls in place and reviewed on a continuous basis
Business Disruptions and System Failures	In today's global market place the definition of a disaster has significantly changed. No longer are disasters discussed in terms of hurricanes, fires or human errors, but also our ability as an organisation to remain connected to our supply chain and clients. These business disruptions or system failures can have a direct impact on the DBSA stakeholders, revenues, brand and reputation and the quality of our service to customers and ultimately impact on the productivity of staff.	• Business continuity management plans and processes. • Succession planning and talent management • Systems back-up processes and Disaster Recovery site • Regular update and testing of the DR Plan • Real time Anti Virus system, DBSA firewall and Telkom firewall in place, where monthly reports are received indicating any incidents that occurred	Moderate	Moderate	**Board Committee:** Audit and Risk Committee **Management Committee:** Risk and Compliance Committee ICT Steering Committee	Controls in place and reviewed on a continuous basis

Operational risk issues						
Key risk / threat to the DBSA	**Context (Risk drivers / causes of this risk)**	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Responsible Board and Management Oversight Committees**	**Target date**
Fraud and corruption	There are always concerns about financial crime (fraud and corruption) when the market declines. The DBSA has adopted a zero tolerance stance to fraud and corruption and ethics training is instrumental to ensuring that the DBSA's efforts focus on preventative and educational efforts as opposed to solely punitive measures. Breakdown and weaknesses in internal control processes as well as conflict of interest, increase the potential for fraud and corruption. The DBSA is also exposed to external related fraud due to the projects and clients that it provides funding to.	• Established policies and procedures which include internal control systems in place, up to date and enforced consistently • Fraud awareness and forensic review capacity • Internal audit reviews	Likely	Moderate	**Board Committee:** Audit and Risk Committee **Management Committee:** Risk and Compliance Committee Ethics and Governance Committee	Controls in place and reviewed on a continuous basis
Non compliance with applicable legislation, regulation and statutory requirements	Regulatory pressure on financial firms including the DBSA has increased sharply in light of the global financial crisis. Regulatory developments and changes such as the new Companies Act will have a significant impact on the DBSA as a state owned entity as well as the client's that it provides funding to. Operating in the SADC region is also a challenge due to the various regulatory requirements which are not consistent.	• Implementing and embedding the established compliance risk management capacity (i.e. policies, processes and systems) • Development of compliance risk management plans to regularly measure, monitor and report on non-compliance	Unlikely	Moderate	**Board Committee:** Audit and Risk Committee **Management Committee:** Risk and Compliance Committee	Controls in place and reviewed on a continuous basis

Business risk issues						
Key risk / threat to the DBSA	**Risk drivers / causes of this risk**	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Responsible Board and Management Oversight Committees**	**Target date**
Decrease in Asset Quality – Credit Risk	The impact of the global financial crisis has put strain on client's ability to repay interest and capital obligations with a resulting increase in the probability of default of businesses which are vulnerable to the challenging market conditions.	• Portfolio management processes. • Credit monitoring of individual and portfolio exposures. • Proactive workout and recovery function.	Rare	High	**Board Committee:** Board Credit and Investment Committee **Management Committee:** Corporate Credit Committee	Controls in place and reviewed on a continuous basis
Brand management and damage to reputation	The DBSA as a state owned entity is continuously in the public eye and under media scrutiny. Damage to the DBSA brand or loss of the reputation in the local, regional and international space can potentially harm the good standing reputation of the DBSA as a Centre of Excellence for Infrastructure Development.	• Appointed spokespersons to deal with media issues • Pro-active media monitoring and environmental scanning process in place • Media training, process and procedures in place • Confidentiality clauses in employment contracts	Unlikely	High	**Board Committee:** Audit and Risk Committee **Management Committee:** Risk and Compliance Committee	Controls in place and reviewed on a continuous basis

Annexure 5.7: DBSA funding plan and borrowing programme for 2011/12

Introduction

The purpose of this annexure is to provide National Treasury with the approved DBSA Borrowing Programme for the 2011/12 financial year.

Key points

- Total net redemptions of funding liabilities for the nine months ended 31 December 2010 of R1.0 billion due to significantly lower borrowings on slow disbursement demand.
- Recommended borrowing requirement for the 2011/12 financial year of R15 billion.
- Continuation of strategy to diversify and optimise funding sources.

Funding to 31 December 2010

The Bank's funding activities for the nine months ended 31 December 2010 are summarised below:

Table 1: Funding: April to December 2010

Description	Amount (Rm)
Gross borrowings*	3 479
Money market debt repaid	(3 026)
Other debt repayments**	(1 500)
Net borrowings/(redemptions)	**(1 048)**

** Excludes carries*
***Bonds, lines of credit, private placements*

On a net basis, including redemptions of money market paper of R3.0 billion, a net redemption of just over R1.0 billion was recorded for the financial year to December 2010. This compares to net borrowings of R6.0 billion for the entire 2009/10 financial year. Borrowings are significantly lower than originally envisaged at the start of the 2010/11 financial year, primarily due to a slower than anticipated pace of disbursements and the substantial increase in liquidity carry cost, which rules out execution of the scheduled funding plan with a view to holding proceeds for later disbursements.

Proposed borrowing programme for the 2011/12 financial year

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.
- 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.
- Debt capital repayments made.
- Operational expenses.
- Available liquidity at the start of the new financial year.
- 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 and size of projected loan disbursements remains the single largest risk factor in as far as liquidity risk management is concerned, even more so as it relates to periods beyond 12-months.

The table below presents the derivation of the projected borrowing requirement for the next three financial years.

Table 2: Borrowing requirement projections

R millions	FY2012	FY2013	FY2014
Beginning liquidity	**3 150**	**4 142**	**5 162**
Loan capital repayments	3 774	6 225	9 304
Loan interest income	3 366	5 191	6 088
Investment repayments	253	246	243
Fee & other income	82	103	110
Cash inflows	**7 475**	**11 764**	**15 745**
Debt repayments	-3 133	-6 255	-8 010
Operational expenses	-824	-877	-928
Capital expenditure	-127	-397	-350
Disbursements	-15 072	-16 991	-19 564
Cash outflows	**-19 156**	**-24 520**	**-28 853**
Grants (Dev Fund + TA)	-393	-429	-468
Net cash flows	-12 073	-9 043	-8 414
Required liquidity as per new policy	-4 142	-5 162	-6 362
Borrowing requirement	**-13 156**	**-14 205**	**-14 776**

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. 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 (as compared to pre-financial crisis levels) is not in all instances fully recoverable from loans extended, in particular to structurally weak municipalities.

The specific tenors and interest rate bases (fixed vs. floating) of new debt issuance will 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 long term 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 **R5.7 billion** is available from **current 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. Opportunities like the short-term Brazilian Real-denominated offshore note issued in during the 2009/10 financial year continue to be explored in order to market the DBSA credit to international investors.

Table 3: Available committed funding facilities – as at 31 December 2010*				
Facilities	**Original loan currency**	**Loan amount**	**Available amount**	**Amount utilised**
		R mil	**R mil**	**R mil**
EIB Affordable & Social Housing	EUR	1 123	871	252
EIB Muni Infrastructure	EUR	531	442	88
KfW Energy Infrastructure	EUR	442	442	-
KfW Energy Infrastructure (SADC)	EUR	309	309	-
KEXIM Korea Related Co.'s	USD	331	331	-
AFD Muni TIP	EUR	884	884	-
PIC private placement	ZAR	3 000	2 400	600
Total		**6 620**	**5 680**	**940**

**All amounts translated at exchange rates as at 31 December 2010*

Furthermore, **new facilities** with the African Development Bank, Nordic Investment Bank and RMB are currently under negotiations.

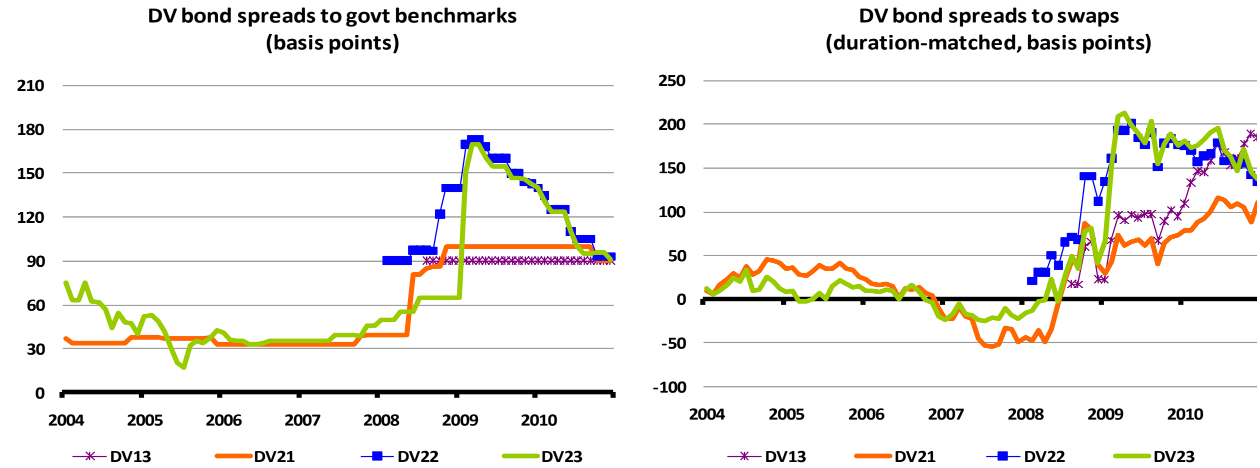
Domestic funding developments

Funding conditions have improved in the past year, helped by continued monetary policy accommodation by central banks worldwide. Domestically, the SARB has lowered the repo rate by a cumulative 650 basis points (bps) since the easing cycle began in December 2008, 150 bps of this was done in the past 12 months. 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 R2.0 billion worth of bonds in the up to December 2010. The Bank tapped the DV22 (maturing 7 February 2020) and DV23 (maturing 27 February 2023) fixed-rate bonds, as well as the DVF12 (maturing 13 October 2012) floating-rate bond. These bonds were tapped via the regular monthly auctions. The taps were done at increasingly lower spreads, moving from 125 bps above the government benchmark at the start of the financial year to 90-95 bps in December 2010 (this compares to a peak of 170 bps in February/March 2009). The balance of the DV07 bond remaining from the buy-back in December 2009 was fully redeemed and paid out on 30 September 2010 (total principal and interest of R734 million).

The charts overleaf depict the historical spreads of the Bank's outstanding bond issues above their respective government benchmarks and on a floating-rate/swap basis. The spreads reflect where the Bank would be expected to fund in the domestic market. Spreads to government benchmarks on the DV22 and DV23 bonds are currently between 90 and 95 bps, while swap spreads are around the 135 bps level.

Chart 1: DV bonds spreads



Source: JSE, I-Net Bridge, DBSA

No new money market funding was raised since the start of the 2010/11 financial year, primarily as a result of the slow pace of loan disbursements. The reduction in money market paper outstanding leaves considerable headroom to complement the Bank's bond market funding towards requirements anticipated for the last quarter of the financial year. The balance of money market paper outstanding as at 31 December 2010 stood at R700 million.

The Bank's domestic medium-term note (DMTN) programme registered with the JSE stands at R35 billion, of which R18 billion remains available. As evidenced in funding activities in the past two financial years, 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.

To date funds were tapped from two credit line facilities in the 2010/11 financial year. The JBIC facility, designated for projects with Japanese content, was fully drawn down (USD158 million). R200 million was sourced from the EIB Affordable and Social Housing line in November 2010 and allocated to a Johannesburg Inner City project.

International markets

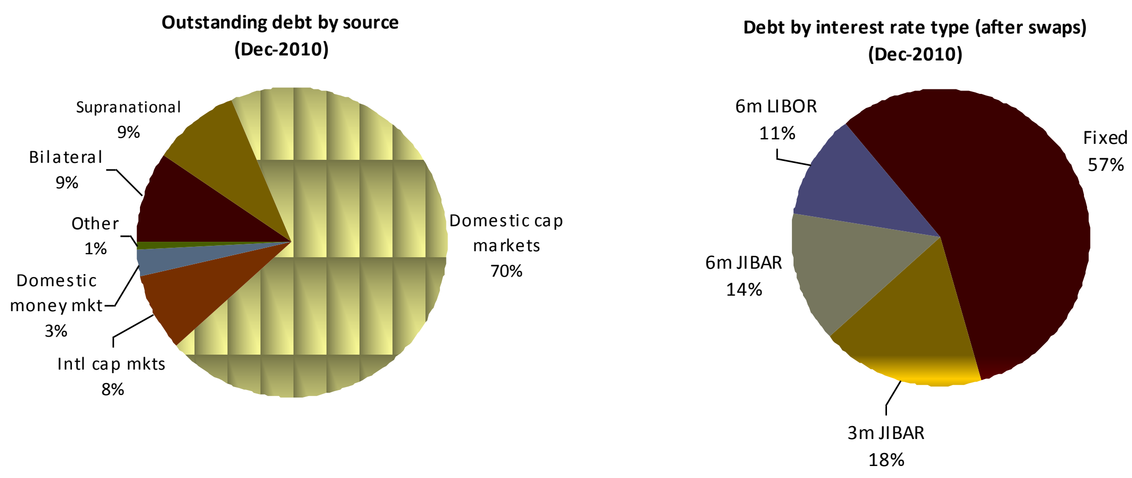
The bulk of the Bank's international debt issuance has thus far been limited to two long-term Eurorand bond issues maturing in 2027 and 2028 respectively. In September 2009, the Bank issued a **Brazilian Real Note (BRL)** of BRL57 million (USD30 million equivalent) through a private placement with a Brazilian financial institution. The placement was short term in nature (maturing 22 December 2010) and was issued at a fixed BRL rate of 9.8% and subsequently swapped to USD at 6-month LIBOR+150bps (at the time, yielding 2.2%). Upon its maturity in December 2010, the BRL note was fully repaid.

Opportunities for **offshore public debt issuance** are evaluated continually. Whilst investor risk appetite for emerging market debt indeed picked up in the aftermath of the global financial crisis – as evidenced by the narrowing of the South African sovereign credit default swap spread – the substantial negative cost of carry for the DBSA for raising such funding remains a major impediment. By way of example, USD cash proceeds from a Eurobond issued at a spread of, say, 180 bps would be warehoused in a cash account yielding sub-50 bps. International market and issuance conditions will nevertheless continue to be assessed in order for the Bank to capitalise on opportunities that may arise, both to meet its foreign currency demand, and to alleviate domestic market dependence as and when opportune.

Existing debt profile

The charts below illustrate the split of total liabilities as at 31 December 2010, amounting to **R24.4 billion**, by source and interest basis:

Chart 2: Distribution of outstanding debt by source as at December 2010



The domestic bond market remains the Bank's largest source of funding (70%). Most of the total outstanding debt (57%) is on a fixed-rate basis. The Bank's foreign currency exposures are hedged either through cross-currency swaps with approved counterparties, or naturally through offsetting loan investments. Residual currency exposure remains however, in the form of foreign currency development equity investments.

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 maturity 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 South African Rand 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

The Bank's credit ratings and outlook views with all three rating agencies remained the same for the financial year to December 2010. On 26 January 2011, S&P lowered its long-term local currency rating for the country to A from A+, while reaffirming the long-term foreign currency rating of BBB+. It also raised its outlook to "Stable" from "Negative". As a result, these changes were also made to the DBSA as a government-owned entity. The 'A' local currency rating remains in the upper investment-grade category. The ratings are summarised in the table below.

Table 4: 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	Stable Stable

Conclusion

Projected funding requirements

In support of the Bank's goals of accelerated development in South Africa and the broader SADC region total new borrowings for the 2011/12 financial year amounting to **R15 billion** has been approved.

Whereas the funding maximum requested already 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 by the Board will however be sought, should actual funding requirements exceed the proposed borrowing level.

Annexure 5.8: 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 2011/12[8]**	**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	R10.8 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.

[8] Based on the latest audited financial statements

	Proposed Framework	Resulting figures for 2011/12[8]	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.	R3.386 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, as the 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 5.9: DBSA Employment Equity Plan

The purpose of this annexure is to provide National Treasury with the approved DBSA Employment Equity (EE) Plan[9] 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.

Methodology of setting EE numerical targets

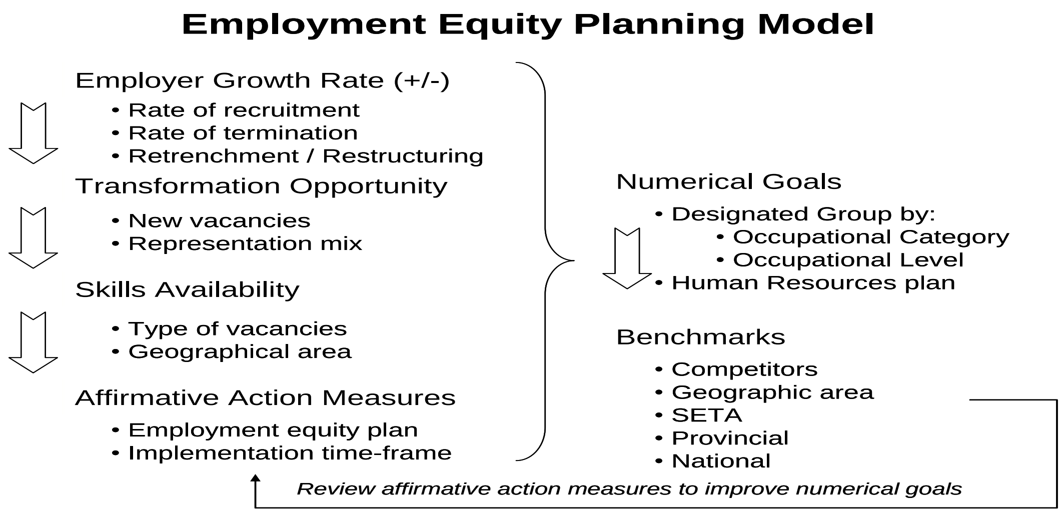
The methodology was developed to redress employment equity in terms of designated groups. The approach followed was the setting up of numerical targets separately for each job family since each job family draws on different skills/disciplines, which in turn is subjected to different trends pertaining 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.

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 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

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

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).

  The transformation opportunity was further determined, not only by the number of positions available, but also by the Bank's practices. 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 goals

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

Table 1: Summary of the 5-year EE Goals

	Black						Black Female					
Occupational Categories	**Base**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**Base**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Top Management	85.7%	85.7%	85.7%	85.7%	85.7%	85.7%	42.9%	42.9%	42.9%	42.9%	42.9%	42.9%
Senior Management	37.4%	40.4%	43.4%	46.2%	49.0%	51.7%	15.8%	17.0%	18.2%	19.3%	20.4%	21.5%
Professionally qualified	70.0%	74.1%	78.0%	81.6%	84.9%	88.1%	32.7%	34.5%	36.1%	37.6%	39.0%	40.3%
Skilled technical	59.0%	60.6%	62.0%	63.4%	64.7%	65.8%	44.0%	42.3%	40.7%	39.3%	37.9%	36.7%
Semi skilled	91.8%	92.1%	92.3%	92.5%	92.8%	93.0%	62.3%	60.3%	58.5%	56.7%	55.1%	53.5%
Unskilled	100.0%	100.0%	100%	100.0%	100.0%	100.0%	92.3%	92.3%	92.3%	92.3%	92.3%	92.3%
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%

Appointment of Black employees with disabilities

The representation of employees with disabilities is expected to comprise of 2% of the total workforce.

Challenges to the Appointment: Black 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.

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 five 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

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 its 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.

The 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. The Bank has, 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.

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.

A formal approach to long term human resources planning is required, which involves all managers, in order to support the organisation's mandate, objectives and strategies. This report highlighted certain strategies, which if adopted and implemented, will position the DBSA as an employer of choice in South Africa and help the Bank achieve its numerical goals for employment equity.

Annexure 5.10: 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 DBSA management and staff take cognisance of the fact that their activities and operations have an impact on the environment and thus take full responsibility to not only address environmental risks and impacts related to their products and services, but also environmental impacts related to their in-house activities and operations.

The Bank has demonstrated its commitment to environmental sustainability through its Environmental Policy, which among other requirements, mandates the establishment and implementation of an effective environmental management system (EMS) to improve its environmental performance.

In line with Constitution of the Republic of South Africa, particularly Section 24, Environmental rights, the Bank is committed to providing an environmentally safe work place to its employees and is therefore actively seeking ways to reduce its direct environmental impact on the biophysical environment, namely: air, land and water from its in-house operations and activities. The major environmental aspects of the Bank, where it has control and influence include, in order of magnitude of impact:

- Energy consumption.
- Business travel.
- Office paper use.
- Solid waste generation.
- Water consumption.
- Land management.

This policy provides the focus for achieving best practice, through the SANS ISO 14001, an international standard for environmental management. The framework allows the Bank to be amongst the sector leaders in the management of internal environmental issues or facility environmental management.

Some of the financial institutions, nationally and internationally, have adopted and certified their EMS's to ISO 14001 international standards. It is however not the intention of this policy to advocate for ISO 14001 certification, but to establish the framework that will allow the Bank to systematically and effectively manage its facility environmental impacts.

Policy statement

Within the scope of this policy and as outlined is Section 2.1 of the DBSA Facility Management – Environmental Management System, the DBSA is committed to the following:

1) Continual improvement of the Bank's environmental management system in line with the international standard, SANS ISO 14001, on environmental management systems.
2) Pollution prevention emanating from our in-house activities and operations.
3) Comply with all applicable environmental legislative and regulatory requirements and other requirements to which the DBSA subscribes, related to our environmental aspects.

Policy objectives

In fulfilling the above environmental policy statements, the DBSA will:

- Minimise reduce the consumption of energy.
- Minimise the consumption water, and where practicable, not use potable water for gardening purpose.

- Reduce the use of office paper, and where practicable, re-use and recycle waste paper.
- Minimise solid waste generation, mainly in the catering services, and promote re-use and recycling, where possible.
- Avoid the use of hazardous materials, including cleaning detergents that may cause harm to the environment.
- Use and manage land efficiently in the interest of biodiversity conservation.
- Seek ways to minimise carbon footprint related to business travel, through a carbon management programme.
- Promote environmental awareness and responsibility among all Bank employees.
- Within the scope of this policy, train environmental representatives to effectively implement, operate and maintain the system.
- Engage with our key stakeholders, mainly neighbouring residential and commercial estates, on environmental management of our premises.
- Comply with all relevant requirements set out in the Occupational Health and Safety Act, 1993, Act No. 85 of 1993, as amended.
- Commission regular internal environmental audits, including legal compliance audits.
- Within the scope of this policy, report annually on its key environmental aspects and overall environmental performance.

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.

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.

Annexure 5.11:
DBSA Development Fund

DBSA Development Fund

Corporate Plan

2011/12

February 2011

1. EXECUTIVE SUMMARY

The Development Fund (DF) is a project based entity within the DBSA, comprising of programmes or units aimed at addressing human, institutional and implementation capacity failure within municipalities, communities and local economies. Each of the programmes is mandated to maximise the development impact of their interventions, whilst there is a continuous effort to harness synergies and cross-programme coordination. Siyenza Manje (SM) remains the most important and most heavily resourced initiative. The funding and implementation mandate of the Siyenza Manje Programme is currently under discussion with National Treasury and CoGTA. Other programmes include Vulindlela Academy, Agency Unit, Sustainable Communities, Project Management Unit and Rural Development.

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 grant 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. This is primarily to local government, to accelerate implementation of Municipal Infrastructure Grant (MIG) and capital expenditure (CAPEX) funded projects and to empower the recipients with the skills and systems to perform their functions more efficiently and effectively. There have been a number of operational lessons learnt in addition to shifts and developments in the external environment that needed to be incorporated into the DF business model.

Furthermore, the scope of development challenges and the limited financial, institutional, and human capital in the region has resulted in innovative and proactive strategic solutions being sought by the DBSA in its refined 2011/12 strategy. Within this context the DBSA is redefining its role as a government delivery agent and farther be a Centre of Excellence for Infrastructure Development. This has created the basis for the refinement of the DF strategy as well.

2.2. Vision

The DBSA Development Fund vision is to be a leading catalyst in capacity building and maximise the impact of development finance in South Africa. The achievement of this vision will be measured by the following indicators of initiatives supported by the Fund:

- A contribution by the Fund to the reduction of human capacity constraints, mainly at local government level.
- Building institutional capacity in municipalities.
- A contribution by the Fund to the 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 of Southern Africans. 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 principles

The Fund pursues the following guiding principles during implementation:

- **Additionality:** To add value to funding, experience and expertise provided by other development agencies.
- **Forming strategic alliances:** To provide support in partnership with other stakeholders who have a common interest with the Fund.
- **Focusing on development impact**: To ensure by measuring and quantifying impact, that programmes or projects improve the quality of life of communities.
- **Sustainability:** To ensure programmes or projects have a lasting effect on institutions, the environment and the economy, and that they benefit future generations.
- **Empowerment:** To ensure that programmes or projects bring communities into the mainstream economy and those skills are transferred to recipients and beneficiaries.

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 Development Fund Board of Directors of the Fund is composed of fifteen members, thirteen of whom are non-executive directors. In accordance with the provisions of the Public Finance Management Act (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 the DBSA Corporate Plan.

In order to ensure effective oversight, the DF Board has constituted a dedicated Board Sub-Committee to provide guidance in risk management. 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.

2.6. Changes in the internal environment

For the South African economy as a whole, government seeks to achieve about ten percent (10%) year-on-year growth of investment in public infrastructure in real terms. It is agreed that the DBSA should play a leading role as a national development finance institution and be a Centre of Excellence in mobilising development finance and expertise. A substantially expanded role for the DBSA is envisaged in supporting and financing these investments and to this end the Bank envisages increasing its current long term asset base of R45 billion in 2010 to about ten percent (10%) of the South Africa gross domestic product (GDP), thereby growing the asset base to approximately R250 billion by 2020.

Therefore, over the past 18 months the DBSA refined its strategic initiatives, strengthened its financing and agency roles and assumed the role as "Centre of Excellence for Infrastructure Development". In assuming this responsibility, the Bank seeks to:

- Develop capacity to engage with national infrastructure programmes as a sector-wide strategic core capability. This entails a shift from focusing on single infrastructure projects to supporting strategic multiple-project infrastructure programmes, enabling greater scale and impact. This requires engagement with multiple entities across government and the private sector.

- Strengthen sector-wide consultative processes and development strategies to develop an advisory role to government associated with sector development programmes.
- Strengthen and supplement municipal capacity to manage infrastructure projects and services. Drawing on lessons learned through capacity building interventions, sustainable solutions are required to support the current institutional weaknesses in many municipalities and state institutions.
- Develop a strategic regional infrastructure coordination and development capacity, in partnership with the South African government, neighbouring countries and regional organs of state. 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), East African Community (EAC), African Development Bank and NEPAD.

Through this, the DF seeks to expand and enhance its capacity building initiatives to support service delivery, job creation, and lowering the cost of doing business. It will embrace a more proactive, innovative and strategy-led approach to project identification and development, in the context of a more integrated and multi-sector approach to development planning, service delivery and programming. In addition this will be undertaken in an environment of strong governance, risk processes and controls.

Following from repositioning, in February 2011 the DBSA submitted a proposal to the Minister of Finance to enable the execution of national priority infrastructure programmes- especially in the health, education, water and sanitation sectors. The document provided a framework for the acceleration of service delivery that encompassed a scalable model that will enable the deepening of impact and the creation of jobs through infrastructure delivery. It is envisaged that the DF will play a significant role in the delivery of this action plan.

2.7. Changes in the external environment

This section provides a brief overview of some of the external factors that have current and potential impact on the Development Fund and its programmes.

Restrained growth in global and local economy: While the DF is committed to contributing to the acceleration of service delivery, the global economic downturn has affected the sustainable earnings of the DBSA –thus constraining the funding available to pursue development activities. 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. It has also identified existing local opportunities to harness funding for programmes such as leveraging of the Municipal Infrastructure Grant (MIG) to contribute to acceleration of service delivery in municipalities.

Increased private sector participation in municipal finance space: Many private sector banks both in South Africa and the rest of SADC are seeking opportunities in the municipal finance space and are emerging as strong and direct competitors to the DBSA's initiatives as they are able to provide lower cost financing to the municipalities. These and other emerging/potential market forces will be carefully monitored and managed by the Development Fund. The DF has started engaging with private sector participants for potential partnerships in capacity building initiatives at both municipal and community levels.

Increased emphasis on rural development: The Department of Rural Development and Land Reform (DRD&LR) approved the Comprehensive Rural Development Programme (CRDP) focusing on enabling economic activities and infrastructure development. The DF, the SA Operations (SA OPS) and other development finance institutions such as the Land Bank will be crowded in to contribute to government rural development priorities, namely agrarian transformation and land reform.

Prioritisation of key sectors by government: The National Treasury and other government departments prioritised the following infrastructure and service delivery sectors, namely: water and sanitation; green energy; hospitals and PPP's; housing and sustainable human settlements; schools; public transport; operations and maintenance.

In response to the challenges posed by the external environment the Fund seeks to realign its services to support the emerging mandates by expanding its programmes such as targeting and strengthening operations & maintenance initiatives; support to the turnaround of the Water Trading Entity and the

Local Government Turnaround Strategy; the implementation of the Pan African Capacity Building Programme; support to the Comprehensive Rural Development Programme; enhancing Operation Clean Audit; and compliance with the Municipal Management Finance Act.

2.8. DF specific challenges

Availability of funding

An evaluation of the DF's internal environment reveals that funding available is inadequate to support development programmes and projects. In addressing this challenge and in order to streamline its operations, the DF has achieved integration and closer collaboration between its divisions and other units of the bank. In this regard a framework documenting this process has been presented to the Board as part of the overview of DF activities. A Project Management Framework has also been developed by the Project Management Unit. This framework will be utilised to guide project management in the division and the rest of the DBSA.

3. DEVELOPMENT FUND KEY PLANS

The Development Fund seeks to achieve its mission through the provision of the following products and services:

Grant funding: The Development Fund provides grants to development projects that seek to build sustainable capacity in people, processes and systems at municipal or community level and secondly, to unlock and/or crowd-in other partners with access to financial sources.

Expertise: The Fund mobilises and deploys engineering, planning and financial experts to implement technical and non-technical infrastructure projects.

***Development facilitation*:** The Fund promotes technical support and knowledge-sharing by leveraging and deploying (internal and external) resources in development facilitation activities and sustainable community development.

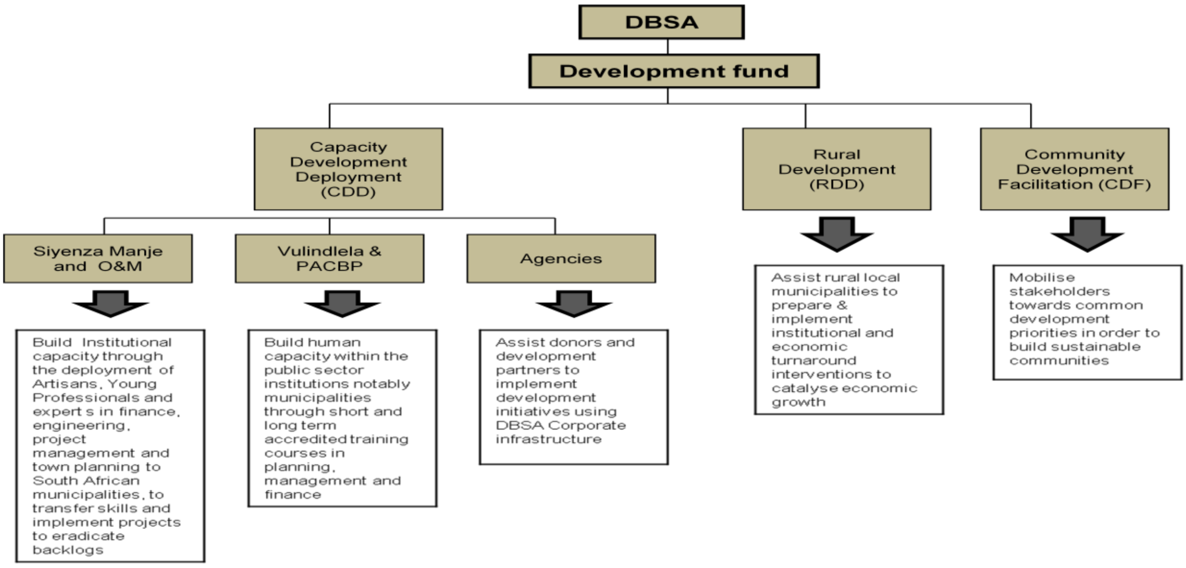
***Rural development*:** The Fund identifies, prepares and implements rural catalytic social and economic infrastructure in addition to institutional and economic turnaround strategies.

The Fund carries out its mandate to provide these products and services through the three divisions, namely: Capacity Development and Deployment, Rural Development and Community Development Facilitation Divisions.

Figure 1 overleaf provides an overview of the Development Fund's current key initiatives. It is envisaged that these and other initiatives will continue to evolve in accordance with the DBSA's revised corporate strategy and positioning, as well as emerging external and internal realities and trends.

All these initiatives and programmes are based on sustainable development principles and triple bottom-line systems and values. The programmes are implemented in partnership with external stakeholders, such as communities, private and public sector partners to provide funding and technical support. The main implementation challenges include limited financial, human and other resources essential for programme implementation.

Figure 1: Overview of DF's divisions and initiative



The remainder of this section will provide an overview of each of the three divisions.

3.1. Capacity Development and Deployment

The Capacity Development and Deployment is a capacity building division 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).

3.1.1. Siyenza Manje

Contributing to "a responsive, accountable, effective and efficient local government system", Siyenza Manje is a 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), other government departments and CAPEX budgets of municipalities. Siyenza Manje focuses on three main intervention areas: unlocking 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 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, ensuring compliance with Municipal Finance Management Act with special emphasis on the sixteen priority areas of the MFMA. Deployees also provide on-job training to municipal officials as part of the sustainability plan for Siyenza Manje support in municipalities.

Realigning Siyenza Manje

The DF management commissioned a three-year review of the Siyenza Manje Programme to assess the overall performance of the programme. The review aimed to provide management with an analysis of successes, weaknesses and areas for improvement of the programme; a review of the programme's inputs, outputs, outcomes and processes and to capture and document lessons learnt during implementation of the programme. Key findings of the review indicate that there is broad agreement amongst most stakeholders that the Siyenza Manje programme is vital and must be retained. The programme remains relevant, however it must be enhanced by making sure that it aligns and supports a focused national capacity development and municipal intervention strategy which will require revised governance arrangements and a differentiation between capacity development and short-term gap-filling interventions.

The DF management will ensure that there are clear roles and responsibilities of national departments (including National Treasury and Department of Cooperative Governance) that are aligned to their authority and constitutional mandates.

Key 2011/12 initiatives:

The proposed initiatives for this Division in the new financial year are in line with its new mandate; and will also assist the DBSA in meeting its objectives outlined in its action plan to deliver national infrastructure initiatives in the water and sanitation, health, and education sectors.

- ***Turnaround of the Water Trading Entity (WTE)*****:** The DBSA has been approached by the Department of Water Affairs (DWA) to facilitate the review of policy, water resource management and infrastructure delivery aspects. As part of this mandate the DF will support the DWA in the development and implementation of the WTE turnaround strategy which includes: institutional reform/restructuring, financial management (revenue and debt management, etc), business process and systems, profitability and sustainability.
- ***Youth Development initiatives:*** The DF is involved with two key youth development initiatives, namely the Young Professionals Programme and the Artisan Programme. The Young Professionals (YP) programme provides both professional and personal development training for Technical, Town Planning and Municipal Finance graduates. In 2011/12 it is envisaged that (amongst other targets) skills development and employment opportunities for 170 YP's will be created, and that training support will continue to be given to the National Treasury interns. The Artisan Programme plans to employ 300 apprentices by the end of the financial year, in addition to the recruitment of apprentices, 94 municipal officials were assessed and the selected candidates will be exposed to off-site training and development that will eventually lead to formal qualification. Exit strategies are planned with stakeholders to ensure apprentices are absorbed after their qualification phase.
- ***Support to the Department of Human Settlement on the housing programme management:*** The initiative provides programme management capacity support to the Department of Human Settlement. Capacity building to the Eastern Cape Province-Duncan Village Redevelopment Initiative, deployment planned in KwaZulu-Natal, Limpopo and the Western Cape in the areas of project planning and preparation, evaluation of project technical/engineering specifications and project management (management of scope, resources, quality, cost, time) and reporting.
- ***Provide capacity support to the Hospital Revitalisation Programme*****:** In the 2011/12 financial year, the DF will provide technical and project management support to the DBSA led Hospital Revitalisation Programme. This will include amongst others, defining the project scope, contract management and monitoring of professional service providers and developing required reporting guidelines, formats and templates.
- ***Support to the Local Government Turnaround Strategy (LGTAS):*** This entails evaluation of the Municipal Turnaround Strategies (MTAS). The Fund will support Department of Cooperative Governance (DCOG) with the establishment of the national command centre and the provincial rapid response teams.
- ***Operation Clean Audit and Compliance with MFMA:*** The ministerial performance agreement has committed to eradication of adverse and disclaimer audit opinions by 2011 in all municipalities and to deliver clean audits by 2014. The SM programme is supporting the campaign through deployment of experts in 94 low capacity municipalities with finance expertise. It is also planned for SM to work with Provincial Treasuries to set up MFMA Units to ensure that municipalities comply with the 16 priority areas of the MFMA.

3.1.2 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.

Key 2011/12 initiatives

- ***Councillor training and development:*** Councillors play a strategic leadership role in municipalities; hence the understanding of integrated development planning, project implementation, alignment of service delivery with budgets is essential. Councillor training ranging from ABET, introduction to local government in South Africa, local government legislation, project management, municipal financial training, leadership training, strategic planning (IDP), local economic development (LED), IT computer skills, communication skills are essential in order for them to perform their functions effectively. Whilst both PALAMA and Local Government Leadership Academy (LOGOLA) are programmes of Government aimed at developing leadership and management capacity in the public sector, the Vulindlela Academy will collaborate and partner with both institutions in delivering leadership and management training programmes to new councillors after 2011 local government elections.
- ***Technical training:*** In the 2011/12 financial year it is anticipated that up to 500 people will be trained in order to provide technical support to the O&M initiative.
- ***Leadership Development Programme:*** the academy in partnership with ILGM/CLC will develop an accredited training programme that will address all key competencies aimed at empowering municipal managers and creating a pipeline of skills in the country.

3.1.3 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.

The Agencies unit acts as an agent mainly to government and donors that do not have institutional presence in South Africa or not in a position to create permanent capacity to deliver development initiatives. The Unit has been able to successfully ring-fence support services required by agencies and also manage risks for the bank, attract like-minded development partners to the DBSA thus further enhancing the DBSA as an effective development partner in South Africa and the region.

Key initiatives

- ***Regional Integration Focused Programmes:*** The Agencies Unit will attract programmes that promote regional integration and facilitate a sustainable development growth path in the region in line with DBSA's Vision. This calls for sector targeting of SADC wide agency programmes, particularly water and transport infrastructure projects. The programmes will foster the delivery of economic and social infrastructure and further create jobs for neighbouring communities.
- ***Strategic partnerships:*** Focus on strategic partnerships with agency programmes that align to the DBSA's strategic expansion areas such as energy, green energy and ICT. Collaborative agreements

will be reached with relevant market players to undertake agency services and to contribute to the overall fund mobilisation programme.

3.1.4 Operations and Maintenance Programme

The Operations and Maintenance Programme is critical to the maintenance of infrastructure, operations & maintenance of infrastructure offers outstanding opportunities for economic stimulation, jobs creation and sustainable service delivery .There is substantial scope for maintenance contracts to promote SMME development by using small contractors for carrying out routine and periodic maintenance, and rehabilitation of infrastructure. This will also entail capacity building of small contractors in work execution, supervision and management skills.

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 unachievable.

Key initiatives

- ***Piloting of O&M programme*:** the Development Fund will commence with the implementation of pilots in identified municipalities focusing on the establishment of local small enterprises and capacitating them for the maintenance of roads and storm water drainage systems, water supply infrastructure, waste water systems, solid waste systems, electrical supply and distribution systems and associated emergency maintenance. Capacity building and institutional support of the municipalities' technical divisions will be provided by the O&M team in the preparation of O&M plans, formulation of work programmes, work supervision and project management functions. The programme promotes the use of small contractors for carrying out routine and periodic maintenance, and rehabilitation of infrastructure. The creation of jobs will be enhanced through the employment of youth, women and community co-operatives in labour-based infrastructure maintenance activities.
- ***Reduction in water losses (wastage):*** Contributing towards an efficient, competitive and responsive economic infrastructure network, the Fund continues to ensure the reduction in water losses through various water conservation and demand management measures facilitated by deployees in municipalities. The scope of water conservation and demand management measures includes leak detection and repair, replacement of broken pipes, valves, and non-functioning meters, community education and awareness campaigns, improvement in billing and collection systems, pressure management and implementation of management information systems. The common challenges observed is the non-prioritisation of water conservation in municipalities, limited funding for O&M, delayed decision making by municipalities leading to projects being delayed and the absence of baseline percentage water loss figures in municipalities. Both technical and financial deployees will be working in institutionalising change towards municipal spending on repairs and maintenance.
- ***Enterprise development support:*** Municipalities contract SMME's to assist with the delivery of O&M activities. The DF supports the establishment and operation of enterprises and SMME's by leveraging resources from partner organisations i.e. Khula Enterprises, SEDA etc. to support SMME's.

3.2 Community Development and Facilitation Division

Community Development Facilitation (CDF) Division sets the basis for integrated development planning and project implementation through coordination and empowerment of key stakeholders in South African communities. Its strategic objectives are premised on sustainability principles and include conceptualisation and development of sustainable communities; development and piloting of innovative models for effective community development; effective crowding in of public and private sector resources and execution of self funding initiatives.

The Division focuses on community mobilisation and empowerment, project development and dedicated project management capacity and achieves its strategic objectives through services offered by its three units, namely: Sustainable Communities, Project Development and Project Management.

3.2.1 Sustainable Communities

The Sustainable Communities Unit promotes sustainable 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. The unit contributes to the acceleration of basic service delivery by focusing on empowering designated communities in the municipal area and facilitating integration of sustainability issues in the planning process in partnership with the municipalities and or other public and private sector stakeholders. These partnerships enable realisation of the communities' optimal social and economic potential. The unit experience in social facilitation shows that resources need to be mobilised to establish sustainable and functional community structures; development champions that steer the process into the future and sustain momentum after signing off the development charter, should be identified and trained where necessary; and that commercial projects identified within communities should be structured such that the community assumes some level of risk to foster participation and ownership of commensurate roles and responsibilities.

3.2.2 Project Management

The Project Management Unit (PMU) is an internal project management resource centre that provides capacity to other units within the CDF division, the Development Fund and other parts of the DBSA. At present, the bulk of the unit's activities are in support of the Sustainable Communities programme. The unit provides expertise for project implementation and a technical platform for knowledge sharing. The core roles of project managers include project and programme scoping, project planning, monitoring and tracking of programme/project progress and preparation of close out reports that focus on lessons learned and achievement of expected development impact. The PMU also coordinates the compilation of models of projects that could be replicated by the division.

3.2.3 Project Development

The unit prepares projects for bankability from previously disadvantaged communities and the public sector. The bulk of the projects are referrals from the division, Rural Development and the Capacity Development and Deployment divisions. The projects developed add to the pipeline of the DBSA investment divisions.

Key initiatives

- ***Piloting of an Integrated Rural Transport National Model with the National Department of Transport***

  This initiative supports the Transport Ministers' performance contract (scorecard) by assisting the department to develop an integrated rural transport national strategy and model. This initiative with King Sabata Dalindyebo (KSD) and National Department of Transport will build on the Mthatha sustainable development initiative (SDI) and will capitalise on the role of Mthatha as a regional rural centre and focus on improving access to services by the rural population of approximately 1.5 million. For phase 1, the CDF Division will provide expertise in the following areas - stakeholder engagement, concept development and project management. Expected outputs from this phase are a strategic framework and business model.

- ***Piloting of Integrated Human Settlements Programmes***

  This initiative supports the Human Settlement's Ministers' performance scorecard by assisting to deliver houses through the following programmes:

  Rural human settlement in Elliotdale

  The DBSA has been appointed as an implementing agent on this programme. This appointment took place after an unsuccessful open tender process in which no response was received from appropriate service providers. The DBSA was then approached to facilitate successful implementation of the programme, through contract and fund management, in which houses will be delivered in three phases. The first phase will deliver 200 houses, the funding of which will be managed through the DF Agency Unit at a cost of R16 million. The CDF Division will drive the contract management component of the programme.

Urban human settlement in KSD

Approximately 17 450 units will be built over a seven year period. The CDF Division will provide development facilitation, project management stakeholder engagement expertise and oversee the delivery of houses on the available 250 hectares where approximately 6 500 will be built.

Waaihoek human settlement in KZN

The CDF Division will structure the KZN human settlement model for implementation on approximately 12 000 hectares of land.

- ***Piloting of a community led water & sanitation and operations & maintenance programmes***

  This initiative will be piloted in the Diepsloot area in Region A of the City of Johannesburg Municipality. It was selected as a pilot for the Sustainable Communities Programme as it presents potentially, one of the greatest opportunities to showcase how, through the application of sustainable technologies and approaches, the community can benefit, and how this can lead to the building of a resilient and thriving community. The Project represents a developmental approach aimed at securing community ownership and control of their development future, and a community-driven development initiative for the Diepsloot area, backed by the Johannesburg Development Planning and Urban Management unit in the City of Johannesburg Region A, and Johannesburg Water. It is to lead a process of securing a commitment from all stakeholders to a specific project plan. It aims to put together that plan for the area, in this instance a Sustainable Sanitation Plan, based on a common vision, and in so doing, contribute towards the evolution of Diepsloot into a 'Sustainable Human Settlement'. The role of the CDF division will be to provide development facilitation expertise to ensure community ownership of existing water and sanitation infrastructure.

- ***Supporting National Education Programmes***

  Eradication of mud schools and unsafe structures

  The DBSA in partnership with and at the request of the Department of Education and the Department of Finance was approached to assist in developing a model for eradication of mud schools and unsafe structures in the Eastern Cape. The model has two components - a technical component and a funding component. The funding component was referred to SA OPS in this case and over the next period, the CDF Division will assist in the technical aspects of the model and the implementation by providing contract management and programme monitoring expertise.

  Implement alternative technologies with partners

  As part of the mud schools programme mentioned above, the construction of schools involves using alternative or appropriate technologies. In this regard, the DF has partnered with Arcellor Mittal to develop a school in Mthatha using steel frame technology. The model involves training local community members to be integral in the construction of the school. Arcellor Mittal will produce and deliver the material and community members will construct the school. The intention is to use the knowledge gained to assist implementation in at least 50 schools using alternative technologies in the entire programme.

  Replicate winter school programme

  The DF in partnership with Eskom, SASOL and BHP Billiton successfully ran a winter school programme for the last two years in KwaZulu-Natal. The programme involved the recruitment and training of teachers to teach grades 10 to 12 mathematics and science during the winter school holidays. The CDF Division will in 2011/12 mobilise other partners and funding to replicate and expand the programme and its successes in other tertiary institutions and provinces.

- ***Develop models for replication in new and/or old sites:***

  Through the application of a sound project management approach, the CDF Division is in the position to collate all project information – from inception, through implementation, up to close-out

– into usable models for replication. The models will contain lessons and approaches on the technical operations, financial models and resource models of various initiatives. Replication models will only be compiled for projects that were successfully delivered but will at the same be developed for projects with challenges, in order to improve approaches previously used.

3.3 Rural Development Division

The Rural Development Division facilitates and executes catalytic infrastructure programmes that contribute to and/or facilitate improved living standards and sustained socio economic activity in rural communities. Municipalities in rural areas will be supported in the provision of basic social and economic infrastructure which includes 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 leverage resources required to implement the rural development programmes.

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 and Sustainable Communities and active engagement with development partners and stakeholders using existing financial and non-financial resources.

Key initiatives

The programme supports implementation of the government's Comprehensive Rural Development Programme (CRDP) and Integrated Sustainable Rural Development Framework through the following priority areas:

- ***Support to 55 rural municipalities***: Determining the infrastructure needs for the 55 rural municipalities through review of the IDP's, Comprehensive Infrastructure Plans (CIP), economic plans and MTAS.
- ***Presidential rural pilot sites****:* Piloting three of the nine selected presidential sites involving assessments, facilitating planning and implementation of social and economic catalytic infrastructure, development and implementation of institutional and economic turnaround strategies in addition to mobilising required fiscal and private sector funding.
- ***MIG leveraging***: Following the approval of the concept by National Treasury the DF has developed a framework to guide the institutional, economic and financial due diligence in support of appraisals to SA OPS for MIG frontloading in line with National Treasury MFMA Circular No. 51. Lessons learned in Dipaleseng will be used to rolled-out the tool to an additional twenty rural under resourced municipalities.

4. THE DF'S STRATEGY

Many of the DF's programmes and initiatives have already started shifting focus toward supporting the new repositioning of the DBSA as a Centre of Excellence (COE) as a national capacity building entity. It is anticipated that over time, and through successive corporate plans, the DF's operations will be streamlined and enhanced in order to fully align to the COE framework, as well as to meet the Fund's own targets as an implementing agent for the capacity building solution.

4.1. Financial sustainability and the DF Funding Model

Currently the two primary funding sources of the Development Fund (DF) are the transfers from the DBSA and National Treasury (NT).

- In terms of the DBSA's financial model, 45% of the sustainable surplus of the Bank is targeted towards funding developmental initiatives - the Development Fund being the largest recipient of the DBSA development grant.
- The fiscal funding of the Siyenza Manje programme is determined through the signed MOU with National Treasury (NT) whereby the DF contributes 30% towards the programme and Treasury funds 70% towards the initiative. The MOU will expire at the end of March 2011 and negotiations are underway to renew the MOU.

In order to ensure continued financial sustainability, the Development Fund will:

- Seek extended funding required from financiers of similar mandate.
- Seek mutually beneficial partnerships that enable the possible income generating activities.
- Engage in aggressive revenue enhancement initiatives (e.g. cost recovery mechanisms).

Using both transfers (DF and NT) and funds mobilised, the DF' three-year financial projections to 2014 are reflected in the tables below.

FORECAST INCOME STATEMENT AND BALANCE SHEET TO MARCH 2014

	Actual	Budget		Forecast	
	2010	**2011**	**2012**	**2013**	**2014**
Income statement					
Gross income	663.6	709.7	716.3	725.2	305.1
National Treasury	319.6	334.0	324.0	314.3	2.8
DBSA	340.9	300.0	320.0	340.0	302.3
Other	3.1	75.6	72.3	70.9	-
Operating expenditure	663.6	709.7	716.3	725.2	305.1
General and administration costs	266.4	200.8	199.4	198.5	50.0
Grants	120.1	108.3	118.0	128.7	140.3
Personnel expenditure	277.1	400.6	398.8	398.0	114.9
Assumptions					
Siyenza Manje costs	456.6	477.2	462.9	449.0	4.0
National Treasury contribution expected		282.5	296.7	311.6	

TA grants (excl Vulindlela) remain at the same level for the 2012, 2013 and 2014 years (R75 million).

Siyenza Manje costs will decrease by 3% per annum for the 2012 and 2013 years from the 2011 base.

Inflationary increase for the other units of 9% was used.

The following units have been included in the forecast, Community Development and facilitation, Capacity Development and deployment, Rural development and Operations and maintenance.

The current MTEF has made provision for the funding of the Siyenza Manje program for the 3 years 2011, 2012, and 2013.

The next MTEF will determine allocation for Siyenza Manje Program, however the above forecast has not taken this into consideration.

	Actual	Budget		Forecast	
	2010	**2011**	**2012**	**2013**	**2014**
Balance sheet					
Current assets					
Cash	161	124.6	109.2	115.3	84.9
Other current assets	30	23.2	20.3	21.5	15.8
	191	**147.8**	**129.6**	**136.8**	**100.7**
Funding reserve	10	10	10	10	10
Current liabilities					
Other current liabilities	92.6	100.9	110.0	119.9	90.7
Deferred income	88.4	36.9	9.5	6.8	-
	191	**147.8**	**129.6**	**136.8**	**100.7**

4.2. Strengthened stakeholder relations

Feedback received from various stakeholders has impressed on the management of the DF the urgency to create awareness of the various programmes and initiatives undertaken by the Fund in the municipal space and SADC. In addition, unsatisfactory brand management and damage to reputation has been listed as one of the top 10 significant risks of the DBSA.

In order to mitigate these risks, the DBSA has divisionalised the corporate marketing, communication and public affairs function. This move has culminated in the DF establishing a Marketing, Communication and Public Affairs Unit in line with this function.

Strategic roles for this function include: Consistent and effective marketing and communication solutions to position the DF strategically both internally and externally, promote the DF through leveraging on internal and external events as well as position the DF and manage its reputation through public relations, brand management and protocol services in order to build sound stakeholder relationships.

4.3. Enhanced organisational capability

The DF delivers on its mandate through the efforts, skills and capabilities that its people contribute to the business. Human Capital constitutes the main component of its value offering. The human capital strategy is therefore central to the delivery of the DF strategic objectives as it sets out the direction the Fund will follow to secure and develop its human capital to deliver a sustainable and successful development agency. The DF has identified the following human capital strategic themes which respond to the revised DF strategy:

Talent attraction: DF has identified the need to have a particular type of organisation and workforce in order to deliver its strategy. Given its unique organisational profile, the challenges in attracting and developing the staffing profile it requires, innovative attraction, recruitment and retention strategies will be employed.

Leadership and management development: DF recognises that the growth and change that it constantly undergoes will be significantly enabled through the effective leadership and management of people. It will therefore provide opportunities for the development of leadership capability at all levels within the organisation. Through the talent management programme, the succession and career planning is conducted to identify leadership potential in order to put in place appropriate development initiatives.

Management of performance: The DF recognises that the management of performance at all business levels is fundamental to the delivery of its growth and strategic plans. Individual objectives and personal development plans are set and reviewed biannually. For effective performance management, managers are coached and trained in all aspects of performance management, including performance problem solving.

Learning and development: The DF recognises the need for a well motivated and highly skilled staff compliment and as such has a wide range of learning and development needs which are identified during the performance planning process. There will be a concerted effort to drive a culture change with staff to recognize that learning and continuous updating of skills is integral to all employee roles. Targeted training and development will be conducted in response to specific business imperatives.

Reward and recognition: The DF recognises that in order to compete for skills in the market, among others, fair and competitive reward systems need to be employed. The DF has begun to adopt a total reward approach by acknowledging the importance on non-financial reward elements such as recognition and opportunities. The current job grading structure makes explicit career progression paths for a wide range of staff. There is an effort to integrate existing and new human capital programmes with the reward and performance management, which is aimed at achieving a competitive employee value proposition.

Staff engagement: The need to engage staff with the business strategic objectives and to have their committed support is recognized as key to the delivery of the DF objectives. There are staff surveys that provide a measure of performance in this area which also enables the organization to develop strategic interventions in support of management of change. It is also envisaged that the DF will fully align with, and implement, the information systems of the DBSA in order to ensure integrated and seamless delivery.

4.4. Effective risk management

As the Development Fund is a 100% owned subsidiary of the DBSA Group it has adopted the DBSA Group's risk management frameworks. The objectives of these frameworks are to enable the Fund to manage and mitigate risk effectively, and to inculcate a risk management culture into its operations.

Risk management in the Fund broadly focuses on operational and strategic risk management; legal management; regulatory compliance; business continuity; and occupational health and safety. The Fund has identified the following high-level risk categories:

- Scarce resources/funding.
- Stakeholder management/political environment.
- Compliance with governance/procedures (internal and external).
- Data plus information systems and technology.

In order to effectively respond to these risks, the Fund has established an in-house risk management capability supported at the DBSA Group level for integration purposes. Going forward the DF Risk Division will continue to strengthen risk governance structures, policies and procedures. Currently an overall programme of strengthening risk management capacity at the business level is being developed by Group Risk and will be implemented in phases to be defined in detail in its plan. It is envisaged that the programme will include, among others, the following:

- Providing risk management capacity and capability that conducts risk assessments on specific activities, processes, key projects and investments to proactively identify risks and mitigation measures.
- Facilitating an improvement in the Fund's levels of risk management understanding, knowledge, skills and responsiveness.
- Improving risk management reporting.

5. 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 and, as detailed overleaf, contains the objectives, measures, activities and targets for the three years to 2013/14.

DBSA Development Fund 2011/12 Balanced Scorecard targets

The table below provides a summary of the DBSA Development Fund Balanced Scorecard targets for the 2010/11 through 2013/14 financial years.

Key performance measure	Weight	Actual 2009/10	Forecast 2010/11	Target 2011/12	Target 2012/13	Target 2013/14
Development Fund	**10%**					
1. Funding leveraged or crowded-in	5%	R181 million	R70 million	R82 million	R97 million	R119 million
2. Funding mobilised from external resources to support DF activities	5%	Not a measure	R63.6 million	R68.5 million	R82 million	R98 million
Siyenza Manje programme	**50%**					
3. % of SM municipalities with improved audit opinions (reduction in adverse and disclaimers)	2.5%	Not a measure	50%	60%	80%	100%
4. MIG/CAPEX Expenditure	22.5%	R8.9 billion	R7 billion	R8 billion	R8.9 billion	R9.5 billion
5. Number of temporary job facilitated	15%	Not a measure	40 000	48 000	53 000	60 000
6. Number of Households benefiting from water projects	5%	613 218	305 000	270 000	300 000	338 000
7. Number of Households benefiting from sanitation projects	5%	513 914	250 000	270 000	290 000	342 000
Vulindlela Academy	**10%**					
8. Number of external learners trained by intervention offered	5%	11 366	10 000	12 000	12 000	12 000
9. Number of learners certified	2.5%	Not a measure	Not a measure	2 400	2 600	2 700
Community Development Facilitation	**10%**					
10. Number of sites exited	1%	Not a measure	3	3	3	3
11. Number of development models/interventions replicated with partners	2.5%	Not a measure	2	4	4	5
Rural Development (LED)	**10%**					
12. Rand value of MIG projects leveraged	2.5%	Not a measure	R200 million	R1 billion	R1 billion	R1 billion
13. Number of rural municipalities supported	4%	Not a measure	55	55	55	55

Key performance measure	Weight	Actual 2009/10	Forecast 2010/11	Target 2011/12	Target 2012/13	Target 2013/14
Agencies unit	**5%**					
14. Effective compliance with Agencies Programme lifecycle	2.5%	Not a measure	90%	90%	90%	90%
15. Value of infrastructure delivered	2.5%	Not a measure	R115 million	R120 million	R130 million	R140 million
Operations and maintenance	**5%**					
16. O&M Plans Developed and implemented	2%	Not a measure	12	24	36	48
17. Number of SMME's Benefiting from O&M	2%	Not a measure	15	30	45	60
18. Number of municipalities implementing O&M	1%	Not a measure	3	10	12	15