DEVELOPMENT BANK OF SOUTHERN AFRICA

GROUP CORPORATE PLAN

2012/13

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EXECUTIVE SUMMARY

I. EXECUTIVE SUMMARY

Introduction

The past year has seen a concerted reaffirmation of government's commitment to realising its vision of a better life for all South Africa's people, through equitable and sustained growth, accelerated delivery of social services, job creation and the reduction of poverty. In 2009 government identified five strategic priority areas to be pursued, namely: creation of decent work and sustainable livelihoods; education; health; crime; and rural development (including land reform, food production and food security). As a leading development finance institution, the DBSA has a key role to play in harnessing its human and financial capital in new and innovative ways in support of national development initiatives.

The Strategic Context for the 2012/13 Corporate Plan

During 2011/12 the DBSA repositioned as a centre of excellence for infrastructure development, complementing its ongoing work in local government with new initiatives and partnerships with various national departments to accelerate and deepen delivery in the key priority sectors of education, health, energy, transport and human settlements. The strategic foci included becoming a preferred source of innovative, integrated and workable infrastructure solutions, and offering a one-stop solution embracing five roles: those of financier, advisor, partner, integrator and implementer. This strategy was pursued while retaining focus on its core infrastructure financing business.

To enhance the repositioning the Bank adopted the following 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 acts as a catalyst, to harness and complement the involvement of as many development partners as possible. Its strategy entails a strong focus on public sector investment and an emphasis on crowding in the private sector. It recognises the imperative that significantly higher investment levels are required if South Africa and the region are to get closer to achieving the desired minimum sustained 6% economic growth rate, which is in turn necessary for sustainable job creation and unemployment alleviation, as well as poverty and inequality reduction.

In operational terms, the Bank is proactive and responsive when embarking on large, scalable national, provincial and regional infrastructure projects. Its engagement philosophy is one that seeks to empower its development partners. Internally, the Bank seeks to diversify revenue sources such as cost recovery and explore cost effective sources of funding to bolster financial sustainability, strengthen its organisational capabilities and review current business processes.

2012/13 Corporate Plan

The 2012/13 DBSA Corporate Plan and Balanced Scorecard (BSC) reflects DBSA's ongoing work in municipalities as well as an increase in activities that support a range of national programmes in sectors such as health and education as well as the Jobs Fund, on a cost recovery basis.

During 2012/13 the DBSA will pursue its expanded development drive with a sharp focus on accelerated, integrated and innovative infrastructure development. On the financing front, the Bank has targeted an infrastructure investment disbursement of R6.9 billion for the 2012/13 financial year.

The successful execution and implementation of Bank's strategy hinges on a number of key programmes and/or initiatives currently underway in the DBSA. These are:

- Accelerating national infrastructure programmes.
- Supporting capacity building and infrastructure funding in South Africa.

- Accelerating infrastructure funding in the region outside South Africa.
- Advisory support on infrastructure delivery.
- Maintaining the DBSA's financial sustainability.

Accelerating national infrastructure programmes

The DBSA has initiated and implemented a number of support initiatives in key priority sectors critical to the achievement of national objectives of economic growth, job creation, national competitiveness in the global economy as well as increased access to services by the citizens of South Africa. In 2012/13 the Bank will continue supporting a number of sector initiatives such as:

- **Education**

  The National Department of Education has embarked on a large-scale programme to improve the quality of basic education and has committed to upgrading school infrastructure and eradicating infrastructure backlogs. The DBSA will implement programmes over the next three years to eradicate unsafe structures (mud schools) and enhance access to adequate school infrastructure by all South Africans.

  During the 2012/13 and 2013/14 financial years, the Bank will undertake a comprehensive project to build new schools under the Accelerated Schools Infrastructure Delivery Initiative (ASIDI) of the Department of Basic Education (DBE). This entails the assessment of the condition of the current provincial and national schools infrastructure across the country to evaluate the extent of the technical support required for rehabilitation and refurbishment. It is anticipated that the programme will benefit more than 120 000 learners with 450 improved schools. To support the effective functioning of ASIDI, the DBSA will coordinate and establish the Programme Support Unit (PSU) at DBE.

  The DBSA will further provide technical support for the planning and preparation of the construction of 91 new schools and refurbishment of 273 schools in the Gauteng Schools Building and Refurbishment Programme.

- **Health**

  Resulting from the development of the health road map, the DBSA has actively supported the development of the national health strategy. The DBSA has concluded an MOU with the National Treasury, pursuant to which the DBSA will assist the government to implement the Health Public Private Partnership (PPP) Programme. Through the Joint Implementation Agreement, the DBSA will collaborate with government to implement the Health PPP programme at five hospitals in the Gauteng, North West, Limpopo, KwaZulu-Natal and Eastern Cape provinces, as well as the construction of nursing colleges in Limpopo.

- **Jobs Fund**

  A R9 billion Jobs Fund was announced by the President during the State of the Nation Address on 10 February 2011 and targets to create 150 000 sustainable jobs. The Minister of Finance has entrusted the DBSA with the responsibility to establish and manage the Jobs Fund, and the programme was officially launched on 7 June 2011. The Programme will be run over a five-year period, which includes three years for implementation and disbursement of funds and a further two-years for Programme close-out and evaluation.

  Going forward the Jobs Fund will adopt and embrace well-structured partnerships between the public and private sectors to realise the goals of creating sustainable jobs. Project proposals will be prioritised in the following four funding windows, each with their own predetermined co-funding ratio:

  i. **Enterprise development**: Investments in product development, local procurement, marketing support, equipment upgrading or enterprise franchising.

  ii. **Infrastructure investment**: Local infrastructure investment projects such as light manufacturing enterprise zones, local market and business hub facilities, critical transport and communication links and upgrading of infrastructure services.

iii. **Support for work seekers**: Support programmes with a particular focus on unemployed young people such as job search projects, training activities and support for career guidance and placement services.

iv. **Institutional capacity building**: for projects aimed at strengthening institutions through which jobs are created. Projects will include internship and mentorship programmes, producer cooperatives, organisation of linkages between small enterprises and large firms or purchasing networks and enhancement of community works projects.

Operational plan 2012 to 2014

For the 2012/13 financial year the Jobs Fund targets to approve funding to the value of R2 billion. At the end of the 2011/12 financial year, it is envisaged that the Fund will disburse funding to the value of R69 million, increasing to R1.5 billion in 2012/13 and R2 billion over each of the 2013/14 and 2014/15 financial years respectively.

- **Human settlements**

  Although government programmes have delivered millions of houses, a significant number of citizens lack formal and decent housing. In assisting government to achieve its objective, the Bank will provide technical support to provincial departments of human settlement by deploying civil engineering and planning experts required to assist in the establishment of programme management units, planning, implementation and monitoring of various human settlements programmes.

Supporting 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.

Key focus areas for 2012/13 include:

1. Social infrastructure and institutional capacity building

- **Enhancing municipal delivery**

  In order to address challenges of social and economic infrastructure backlogs, financial and capacity building support to municipalities represents a critical part of the Bank's business. Weaknesses in institutional, human and implementation capacity within the sphere of local government impact the ability of municipalities to render services effectively and sustainably. These challenges are experienced across all categories of municipalities but are particularly evident in Level 3 municipalities. Since many Level 2 and the majority of Level 3 municipalities do not qualify for funding, these municipalities require a lot of capacity building support to improve their performance and bankability. Thus, DBSA's support to municipalities constitutes a strategic mix of funding and capacity building solutions.

- **Municipal infrastructure funding**

  Through its funding operations in the municipal sphere, the DBSA will continue to play a supportive role in reducing backlogs in basic services, particularly in respect of water, sanitation and electricity. However, over the past 18 months, the Bank experienced a decline in the value of funding to municipalities - mainly due to institutional & financial capacity constraints in many municipalities and the participation of private sector financial institutions in the metro market. As part of the recapitalisation process, the DBSA had proposed that the Municipal Infrastructure Grant (MIG) should be leveraged to enable the Bank to provide more financial support to Level 2 and 3 municipalities and thus fast-track the delivery of infrastructure in these municipalities. Whilst new regulations have been introduced to this effect and DBSA is working closely with key stakeholders to take this programme forward, these regulations are not in line with the MIG leveraging model as originally proposed and have thus significantly limited the DBSA's ability to increase its financial support to these municipalities. It is recommended that these regulations be reviewed. For the 2012/13 financial year, the Bank will further engage municipalities to create the appropriate enabling environment for the successful packaging of finance and has targeted to disburse R1.5 billion during the financial year. The proposed drawdown on callable capital as discussed in the financial plan (under section 4), will further assist in reducing the Bank's overall cost of funding and expedite funding to municipalities. In addition, improving the bankability of Level 3 municipalities will require significant investments to enhance their economic base. The National Treasury has agreed to provide the DBSA with additional resources to undertake this work. Once the mechanisms and resources required have been quantified, DBSA's 2012/13 scorecard will be updated accordingly.

- **Municipal Capacity Building**

  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, amongst others, the training of municipal officials through the Vulindlela Academy, Operations & Maintenance and Rural Development Programmes. These programmes are implemented in partnership with government and external stakeholders, such as communities and private & public sector partners to provide funding and technical support.

  Following discussions with government stakeholders regarding the Siyenza Manje programme, a decision was reached in April 2011 to transfer the finance component of the programme to the National Treasury department. The National Treasury's Municipal Finance Improvement Programme is responsible for the management of finance deployees to target municipalities with the Bank administering this component on an agency basis. Similarly the technical component of Siyenza Manje programme has been allocated to the Department of Cooperative Governance and Traditional Affairs (DCoG) with the aim to establish the Special Purpose Vehicle (SPV) focusing on the managing and coordinating infrastructure delivery at local government sphere. A Municipal Infrastructure Support Agency (MISA) will be established by DCoG with the DBSA's Agency Services Unit providing technical and administrative support throughout the implementation stage. The main purpose of MISA is to implement infrastructure programmes at local municipal levels. MISA will focus on three main programmes namely:

  1. The Cabinet Programme aimed at turning around 21 identified priority district municipalities.
  2. 360 Degree Programme aimed at providing an integrated support to 52 most vulnerable municipalities in the country.
  3. Water and Sanitation Programme which will focus on water and sanitation infrastructure management, upgrading and refurbishment in the rural municipalities**.**

- **Operations and maintenance**

  The inability of municipalities to maintain infrastructure represents a serious risk to sustainable service delivery. The DBSA is implementing a municipal operations & maintenance programme, which will initially be spearheaded by the following initiatives:

  Pilot municipalities

  Local enterprises and community groupings will be utilised to maintain roads, storm water drainage systems, water supply infrastructure, waste water systems, solid waste systems, electrical supply & distribution systems and associated emergency maintenance activities. The Bank will assist municipalities to compile appropriate infrastructure asset registers, determining the scope of work and resources required to develop infrastructure operations & maintenance master plans. A minimum number of 45 operations & maintenance plans in 20 pilot municipalities will be undertaken in 2012/13.

  Artisan Programme

  The initiative focuses on creating a pool of qualified artisans for deployment in municipalities by providing a structured training programme aimed at affording apprentices opportunities to obtain trade certificates and qualify as artisans whilst employed in municipalities supporting operations and maintenance activities. For 2012/13, the programme will support the following:

  - Training and development of 300 Section 13 and 300 Section 28 apprentices in municipalities.
  - Trade qualification of 200 apprentices (80 Section 13 and 120 Section 28).
  - Section 28 baseline study to identify experienced municipal apprentices suitable for upgrading to fully qualified artisans status.

- **Vulindlela Academy**

  Through the Vulindlela Academy, the DBSA is committed to increasing human and institutional capacity. For the 2012/13 financial year, the Bank envisages that 9 200 municipal officials will receive training through the Academy.

  The Academy also offers practical, customised capacity building and training to other DBSA intermediaries, including SADC development finance institutions, government departments, parastatals and public utilities, non-government organisations and some private sector companies involved in development finance. For the 2012/13 financial year the Bank plans to train an additional 800 people from other DBSA intermediaries.

- **Rural Development Programme**

  Rural development

  Rural development is a priority area for the DBSA and rural development principles and practices are continuously identified, prioritised and supported. Key initiatives for the 2012/13 financial year include:

  - **Developing a model to utilise conservation as an instrument for rural development:** Cooperation between South African National Parks (SANPARKS) and private land owners in the Western Cape has demonstrated that conservation partnerships can unlock rural development benefits related to job creation, through sustainable natural resource utilisation. The Bank and SANPARKS have agreed to cooperate to develop and implement an initiative to identify, test and model the most appropriate practices within conservation that can contribute to rural development.
  - **Unlocking funds for rural development pillars:** The DBSA will continue to identify development funding agencies that support rural development initiatives and facilitate links between such agencies and the rural development focus areas of the Bank.

National Rural Youth Service Corps (NARYSEC)

The Department of Rural Development and Land Reform (DRDLR) has developed the NARYSEC initiative whose main objective is to recruit and develop a national rural youth service corps (aged 18 to 35 years) to be paraprofessionals who are trained to work in their own communities over the short term, leading to a creation of enterprises in the medium to long-term.

The Department has contracted the DBSA to support the management of the technical training component of the NARYSEC programme with 6 000 people targeted to benefit from this initiative. The support will be provided at the level of Further Education Technical colleges and include the identification of appropriate construction sites for training, training on construction sites and exit from the initiative.

2. Economic development

Investment in enabling bulk infrastructure and key economic development sectors remains an important strategic focus area for the Bank.

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 information and communications technology (ICT). Disbursements of R2.5 billion in respect of economic and enabling bulk development infrastructure are envisaged for the 2012/13 financial year. A significant portion of this will be made available to support the programmes of State Owned Enterprises (SOE's) involved in key infrastructure projects. The DBSA will proactively engage SOE's across all priority sectors at the onset of projects, in order to identify needs and opportunities.

Key sector programmes include:

- **Energy**

  As highlighted in the development agenda, the lack of adequate investment in the energy sector is a constraint to economic growth and development. The DBSA will continue to play an advisory role to the Department of Energy in this regard. The DBSA further recognises the urgent need to transition to renewable and clean energy. To this end, the Bank will pursue support opportunities in a number of renewal energy projects, the most prominent being the solar park in the Northern Cape.

  Energy: promoting independent power producers

  - The partnership between DBSA, the National Treasury and the Department of Energy is gaining significant traction with the finalisation of the power purchase agreement (PPA) process and renewable energy feed-in tariff (REFIT) programme stipulating South Africa's future energy mix. Under the REFIT programme, 3 725MW of renewable energy will be procured from independent power producers (IPPs). Through its project development activities, the DBSA is working closely with key stakeholders in government to establish an enabling environment for IPP projects as well as providing finance to IPPs.

  Green economy – energy savings and alternate energy sources

  The DBSA remains focused on strengthening the enabling institutional context and framework to 'carbon proof' infrastructure investment projects. During 2012/13 it will pursue programme development initiatives concentrated within the following key areas:

  - Green portfolio management.
  - Sourcing wholesale funding opportunities.
  - Green investment programme origination.

- **Water - early stage bulk water scheme, acid mine drainage and hydro**

  The Department of Water Affairs (DWA) has engaged the DBSA to assist them in addressing a wide range of issues relating to the provision of regional bulk water services under the

Regional Bulk Infrastructure Programme (RBIP), acid mine drainage (AMD), water sector reform and knowledge management. In addition, this assistance broadly relates to the identification of projects, the funding of feasibility studies, building of institutional capacity and the development of funding strategies for approved projects. Key programmes that will be further developed during 2012/13 relating to investment areas of focus for the Bank are:

- Raw bulk water provision.
- Regional bulk water services.
- Acid mine drainage.
- Small hydro dam projects.
- Regional bulk pipeline to service guaranteed off-takers such as mines.

- **Transport**

  Rail investment programme

  The partnership between the DBSA and the Department of Transport (DOT) aims at enhancing transport planning, transport infrastructure delivery and access to finance. A short list of potential projects to form part of the partnership has been identified by DOT, with an alignment process being undertaken to ensure that all public sector entities are co-ordinated to support the shared vision for national transport.

Private sector financing

The private sector remains a key generator of infrastructure capacity and job creation in the economy. Furthermore, investments in these projects also contribute to the financial sustainability of the organisation as they are generally financed at favourable investment return rates.

For the 2012/13 financial year, the DBSA will continue to grow its pipeline of new projects with the private sector. Project financing in affordable housing, ICT, mining and tourism are some of the main sectors in which new projects are being explored.

Accelerating infrastructure funding in the region outside South Africa

The imperatives of achieving regional economic integration and sustained socio-economic development form the foundation of the DBSA's investment in the region outside South Africa.

For the 2012/13 financial year the total disbursement target has been set at R2.9 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 further seek to consolidate the strategic and selective extension of DBSA's operations 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 received grant funding of £67 million from the UK's Department for International Development 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).

BRICS Banking Cooperation Mechanism

In January 2011, South Africa received a formal invitation from the emerging economic coalition of countries comprising of Brazil, Russia, India and China (BRIC), to become a full member of this coalition. The BRIC coalition was established in 2001 in recognition of the synergies and potential for mutually beneficial economic cooperation between these countries. The invitation of

South Africa to the coalition is seen as providing significant potential to promote the development and economic growth of the country and the African continent as a whole.

During April 2011, a high level DBSA mission to China was undertaken as part of South Africa's delegation to the BRICS summit. At the summit, the DBSA was appointed as South Africa's representative bank to the BRICS Inter-Bank Mechanism and an MOU was concluded between DBSA, the China Development Bank (CDB), Banco Nacional de Desenvolvimento Economico e Social (BNDES), Russia's State Corporation (Vnesheconombank) and the Export-Import Bank of India.

For the 2012/13 financial year, the DBSA will continue to engage with all the BRIC representative banks, multilaterally and bilaterally, to advance the implementation of the inter-banking cooperation mechanism as well as further opportunities for project collaboration and knowledge sharing.

Trade finance

The DBSA's role regarding Trade Finance included within the BRICS Interbank Cooperation Mechanism is that of coordination and facilitation to ensure that the respective South African DFIs, as well as the appropriate private sector stakeholders can participate in this initiative to the benefit of the whole of South Africa.

Within this context, the Bank is also considering expanding its product offering to include ***infrastructure-linked*** trade finance initiatives that use ring-fencing techniques to effectively manage the risks associated with doing business internationally. By including this product offering in its suite of solutions offered to the client, an added advantage would be provided from a structuring perspective - especially where the borrower's balance sheet is "thin". The benefits and risks associated with trade finance transactions will be fully assessed going forward, in discussion with all relevant stakeholders.

Proposed restructuring of the International Division

Pursuant to South Africa's membership to the BRICS coalition and the DBSA's role as representative bank, the Bank will be required to expand its infrastructure development role on the continent beyond the current geographic areas. To ensure that the allocation of the DBSA's resources remains appropriately balanced between its primary South African market and elsewhere on the continent, the Bank's International Division will be restructured.

It is the intention to house the International Division's business (including its assets) in a separate legal entity, as this will allow for outside participation by current partners and future local and international partners in development across the region. The Bank is currently engaging with various potential partners in this regard. During the 2012/13 financial year the Bank plans to establish the appropriate structure and operationalise the subsidiary.

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, amongst others 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, especially in priority areas such as health, basic education, human settlement, higher education and skills, transport, green energy, water and sanitation. For the 2012/13 financial year the DBSA will continue to:

- Support government in terms of the action plan agreed to with the Minister of Finance. Many of the workstreams initiated through mandate agreements with the Departments of Water Affairs and Transport in 2011, will continue during the period 2012/13 based on commitment from the relevant Departments. DBSA will work with key departments such as Department of International Relations and Cooperation (DIRCO) in terms of international and regional matters and Department of Monitoring and Evaluation in the Presidency regarding infrastructure outcomes.

- Enhance and support the DBSA's investment portfolio through its Programme Origination and Project Advisory functions in order to expedite infrastructure delivery in priority sectors and ensure that DBSA's operational teams work in alignment with the sector strategies and project guidelines as adopted by the Bank.
- Develop and maintain strategic domestic and international networks of knowledge institutions and decision-makers, for promoting new development insights and practical collaboration. The positioning of South Africa in the African/BRICS context along with the regional think tank programme of the Bank will remain a focus during 2012/13.
- Assist with institutional positioning on national infrastructure and long-term development planning in the context of DBSA as a centre of excellence for infrastructure development.

Maintaining financial sustainability

The Bank's capital structure and reserves are adequate to provide for its operational programmes for the 2012/13 financial year. Prudent financial and risk management policies and practices are in place and monitored on an ongoing basis. The Bank's three year financial plan is discussed in Section 4 of the Corporate Plan and excludes the impact of the proposed capital injection. Such an injection would have increased the DBSA's own capital and would have reduced the weighted average cost of funding, thereby increasing the projected disbursements in a price sensitive market as well as increasing the plough-back values in support of the overall financial sustainability of the Bank. It would have also allowed DBSA to enhance its developmental return whilst at the same time remaining financially sustainable. Within this context, the range of resources required were, and continue, to be access to adequate and cost effective liquidity, including:

- 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.
- Accessing the proposed capital injection.
- Securing support by way of government guarantees to the value of R100 billion over the next five years.

The DBSA will continue to engage the Minister of Finance and the National Treasury on these dependencies and resource requirements in order to seek a timeous resolution. Should additional resources be received, the DBSA will update its targets and operational plans accordingly.

In the absence of a capital injection, it is anticipated that the cost of finance will continue to have a negative impact on local government disbursements as well as other price sensitive markets. In addition, new areas of growth related to national mandates, state-owned enterprises (SOEs) and special economic zones (SEZs) are still in the design phase, and are thus only likely to have a significant impact on disbursements in the 2013/14 financial year. Thus, it is anticipated that revenues for 2012/13 will be below what would have been traditionally expected, resulting in a base case scenario and target of R6.9bn. In the short-term, it is also likely that the quality of DBSA's cost-to-income and sustainable earnings ratios will be impaired, pending the impact of the Bank's repositioned growth strategy.

Support Divisions

During 2012/13 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 2012/13 financial year include:

- Human resources
    - Accelerated focus on building specialised skills, enabling delivery on organisational objectives.
- Risk management

  - Building and maintaining the DBSA's risk management capability.
  - Hands-on management of existing identified and emerging risks.
- Finance and Treasury
  - Fundraising initiatives to finance the Bank's infrastructure funding and development support growth.
- Vector office

  In support of the various national programmes a dedicated unit, the Vector Office, has been established to support the planning, implementation and monitoring of these initiatives. During the 2012/13 year, the Bank will continue to source appropriate resources to ensure the successful implementation of these programmes and the anticipated financial impact has been incorporated into the 2012/13 financial plan.

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 2012/13 Corporate Plan carries forward a strong development drive with a sharp focus on accelerated, integrated and innovative infrastructure development. The DBSA will also begin a process of reviewing its vision and mission to align with its repositioning as a centre of excellence in 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.

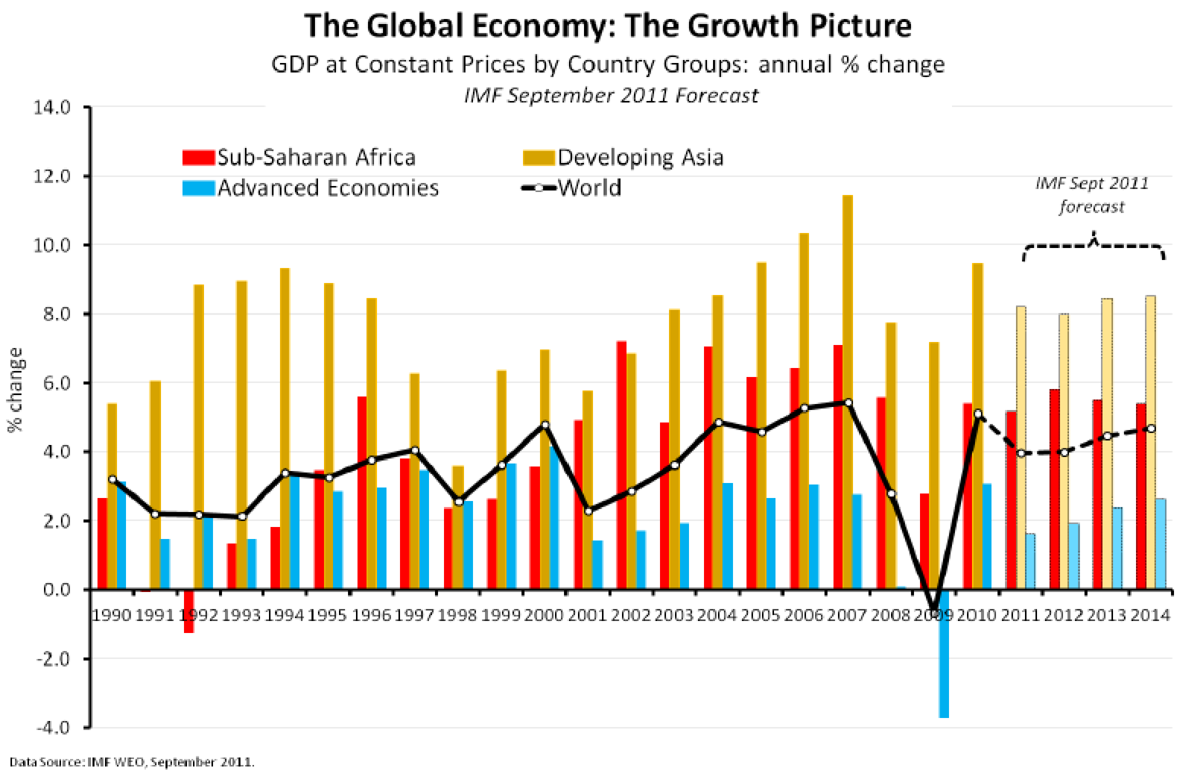
DBSA CORPORATE PLAN

1. Operating environment

The 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

After a promising resurgence in the global economy in the final quarter of 2010 and the first quarter of 2011, the general global recovery stalled in the second and third quarters of 2011. Structural weaknesses in advanced economies and the Euro-zone debt crisis are undermining global growth prospects resulting in the downgrading of the global growth outlook and increase the global recession risk. Sovereign debt problems in the Euro-zone have worsened and default risks from the periphery of the Euro-zone have risen. Concerns are that sovereign defaults in the Euro-zone present significant global contagion risks and with an already faltering global recovery would be further taxed with balance sheet value destruction, reduced bank lending, demand and economic activity.



The SADC region - economic performance and outlook

Growth fundamentals for Sub-Saharan Africa remain encouraging with an average 2011 GDP growth rate of 5.2% for the region and a forecast growth rate of 5.8% anticipated for 2012 led by: Angola (10.8%), Botswana (5.3%), Democratic Republic of Congo (6.0%), Lesotho (5.1%), Mozambique (7.6%), Tanzania (6.1%) and Zambia (6.7%). Slower global growth could, however, impact commodity demand, credit flows and ultimately general growth in the region.

SADC counties growth performance and outlook: real GDP growth

Country	2007	2008	2009	2010	2011	2012
	%	%	%	%	%	%
Angola	22.6	13.8	2.4	3.4	3.7	10.8
Botswana	4.8	3.0	(4.9)	7.2	6.2	5.3
DRC	6.3	6.2	2.8	7.3	6.5	6.0
Lesotho	4.5	4.3	3.2	3.6	5.1	5.1
Madagascar	6.2	7.1	(3.7)	0.6	0.9	4.7
Malawi	9.5	8.3	9.0	6.5	4.6	4.2
Mauritius	5.8	5.5	3.0	4.1	4.2	4.1
Mozambique	7.3	6.8	6.3	6.8	7.2	7.6
Namibia	5.4	4.3	(0.7)	4.8	3.6	4.2
Seychelles	9.6	(1.3)	0.7	6.2	5.0	4.4
South Africa	5.6	3.6	(1.7)	2.8	3.2	2.9
Swaziland	2.8	3.1	1.2	2.0	(2.1)	0.6
Tanzania	7.0	7.3	6.7	6.4	6.1	6.1
Zambia	6.2	5.7	6.4	7.6	6.7	6.7
Zimbabwe	(3.7)	(17.7)	6.0	9.0	6.0	3.1
Sub-Sahara Africa	**7.1**	**5.6**	**2.8**	**5.4**	**5.2**	**5.8**

Source: IMF WEO country forecasts September 2011. South Africa forecast DBSA October 2011

South Africa – the economic outlook

The South African economic recovery faces many challenges in building momentum and is constrained by the fluctuating South African currency, infrastructure backlogs, high poverty rates, high structural levels of unemployment, skills shortages & institutional capacity constraints and cyclical revenue constraints in the public sector. Barring any external economic shocks and greater domestic economic weakness, interest rates in South Africa are unlikely to rise before late 2012.

Rising government debt, slower economic growth, declining tax revenue and weak domestic savings have reduced the fiscal space for contra-cyclical support and structural acceleration of public spending. A recovery and sustained growth will require increased employment opportunities, export growth, capital expenditure on competitive industrial capacity and foreign capital inflows. However, global and local developments are currently placing these at risk, driven by:

- Export growth is constrained by weak economic conditions in advanced countries and slower growth in emerging markets and developing countries.
- Restricted public corporations' balance sheet capacity and peaking spending streams.
- Administrative bottlenecks and project execution capacity limitations in various public authorities and entities.
- Constraints in private business enterprise investments due to deterioration in the export outlook, policy and political uncertainties, significant excess capacity, low business confidence and weak consumer spending.
- Global investor risk aversion and weaker short term South African growth prospects leads to a weaker but volatile Rand. A weaker Rand has positive implications for domestic competitiveness (imports and exports), but negative implications for inflation.
- Inflation dangers evident due to wage inflation, administered price increases, high fuel prices and the impact of Rand depreciation.
- Interest rates – a further reduction is unlikely to stimulate significant demand growth, although it could relieve pressure on indebted consumers and businesses.

Growth diagnostics: deriving cues for DBSA strategy

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 the growth potential of the economy entails the progressive resolution of the sequence of bottlenecks to the growth process - ideally in order of priority. This includes: 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 produced.

On the back of South Africa's modest growth, government revenue growth has 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 to be overcome, there is a greater need for DFIs in particular to play a 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. As such the DBSA has been challenged to support Government in the following areas:

- *Improve public sector capital expenditure flow and service delivery performance*.

  Implications for DBSA: Capacity shortcomings within government in project/programme planning and management of financing & execution is a well known factor impeding financing uptake and disbursements. DBSA has progressively assumed a stronger role in assisting government to improve the project pipeline through various intervention points and modalities.

  Successful DBSA priority programme acceleration will also lead to improved project flow and increased uptake of funding, however this raises issues of cost competitiveness of DBSA's finance if the Bank is to benefit from disbursements and grow its income and assets base. It is important to recognise the extent of non-income dividend flow from the DBSA to the Shareholder in the form of facilitation of infrastructure delivery, research, policy and planning input, and other non-fee earning developmental activities.

- *Address priority skills supply: In the short term identify and source key skills, longer term improve education and training outcomes.*

  Implications for DBSA: Over the short term the DBSA should focus on capacity building in key skills areas in infrastructure service delivery and development finance, whilst the longer term focus should be on the planning improvement and management of education and training outcomes, infrastructure and facilities.

- *Support job creation and address the high cost of creating jobs.*

  Implications for DBSA: Ensuring optimal outcomes from the Jobs Fund to maximise the jobs and livelihoods ultimately created. Furthermore, influencing normal Bank project design to emphasise job creation and supporting labour absorbing public programmes.

- *Address infrastructure obstacles to economic growth and competitiveness.*

  Implication for DBSA: Utilities supply and network infrastructure shortcomings are bottlenecks to realising the growth potential of both South Africa and the region. The DBSA should be supporting and assisting integrated infrastructure planning, co-financing of infrastructure investment programmes whilst prioritising and optimising sequencing when financial and technical resources are limited.

- *Extract optimal economic benefits from new international partnerships (BRICS) and continue to extract value from traditional partnerships*.

  Implication for DBSA: The need for a comprehensive longer term strategy for South Africa is important to ensure the country's developmental interests are advanced to the fullest extent possible. Priorities include: local and regional investments in network and utilities infrastructure; building South Africa's manufacturing base through foreign direct investments in targeted sectors and ensuring access to foreign markets for South Africa, while contributing to local job creation complying with environmental and labour standards. As the BRICS reference bank in South Africa, the DBSA is set to play an important role in facilitating the achievement of South Africa's objectives.

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 for a sharp focus on infrastructure development, especially in South Africa, where it is located in a development finance system in which 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 Management Act (PFMA), 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 Development Fund are currently being reviewed in accordance with the provisions of the new Companies Act, 71 of 2008.

2.2. DBSA mandate

The Bank's mandate is defined by 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)

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."

Context and evolution of the DBSA strategy (Vision 2014)

The economic environment in which Vision 2014 was formulated in 2004 was characterised by:

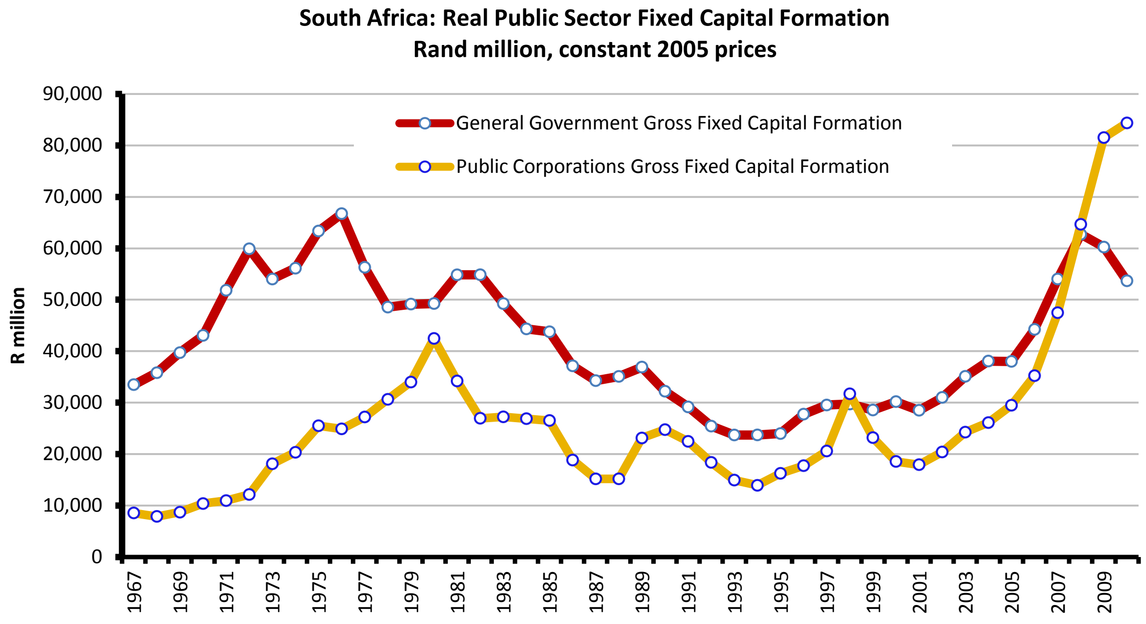
- National GDP growth rates in South Africa on average above 3%.
- Anticipated GDP growth rates of between 4% and 6% spurred by economic growth and development supported by massive infrastructure investment of approximately R800 billion with the launch of the Accelerated Shared Growth in South Africa (ASGISA) plan.

Furthermore, DBSA's Vision 2014 was originally premised on the People's Contract detailing South Africa's ten year vision for the second decade of democracy 2004 to 2014 which targeted to:

- Reduce poverty by half through economic development, comprehensive social security, land reform and improved household and community assets.
- Provide the skills required by the economy, build capacity and provide resources across society to encourage self employment with an education system that is geared for productive work, good citizenship and a caring society.
- Reduce unemployment by half through new jobs, skills development, assistance to small businesses, opportunities for self employment and sustainable community livelihoods (including implementation of a large scale multi- year public works program).
- Massively reduce cases of TB, diabetes, malnutrition and maternal deaths and turn the tide against HIV & AIDS, and working with the rest of Southern Africa, strive to eliminate malaria, improve services to achieve a better national health profile and reduction of preventable causes of death, including violent crime and road accidents (including ensuring that each South African household will have access to clean running water by 2009 and to electricity by 2012).
- Position South Africa strategically as an effective force in global relations, with vibrant and balanced trade and other relations with countries of the South and the North, and in an Africa that is growing, prospering and benefiting all Africans.

An in-depth scrutiny of the DBSA mandate revealed a close alignment between the mandate and the Peoples' contract. The DBSA's focus was mainly on the five key goals of the Peoples' Contact outlined above.

At the broader economic policy level, this macro environment epitomised accelerated general government gross fixed capital formation that began in 2001, as depicted in the graph overleaf, continued through 2006 before peaking in 2008, when it was interrupted by the global economic slowdown. This accelerated gross fixed capital formation by government stimulated similar response from the public entities such as the DBSA.



Data Source: South African Reserve Bank September 2011

In 2006 the DBSA begun a new path of strategic evolution characterised by shifts towards increased investment in infrastructure both social and economic as well as capacity building programs to address path dependency emanating from market failure and institutional weaknesses in order to accelerate service delivery, access to basic services and eventual reduction of infrastructure backlogs. To embed the achievement of both the financial and non financial interventions the Bank built a suite of flagship programmes including amongst other: Siyenza Manje, the most prominent, training through Vulindlela Academy, Sustainable Communities and Local Economic Development (later reconstructed as the Rural Development programme).

As such, to effectively broaden and deepen its development impact and to become a Centre of Excellence in Infrastructure Development (refer section 2.4 for further discussion), the DBSA has expanded its roles from advisor, financier and partner to include the roles of implementor and integrator:

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

In 2007 the refocused strategy was centred around the Development Agenda, thereby opening an avalanche of opportunities for the DBSA to do more through financial interventions, and was characterised by growth in disbursements from R3.7 billion in 2006 to R9.4 billion in 2008 before levelling off to the R8 billion mark in 2009/10 and 2010/11 respectively. The compounded annual growth rate of 22% over the 2006 to 2011 financial years suggests a greater strategic intent by the DBSA to broaden and deepen development impact in South Africa and the rest of the region.

Under the original and conservative plan prior to 2006 a compounded annual growth rate in the range of 7% was projected for disbursements of R3.4 billion in 2006 to R3.9 billion in 2011. In an environment requiring interventions to address greater access to basic infrastructure such as water & sanitation and economic infrastructure for growth and national competitiveness, it is only appropriate that a robust strategy of this kind be embarked on at the appropriate time.

The evolving strategy of the DBSA embraced interventions beyond disbursements to include fundamental shifts such as project origination, aimed at influencing the scope and design of infrastructure projects as well as building a project pipeline, a platform through internal processes (creating the state of readiness of the Bank to do more), instituting the discipline of execution & implementation and a sharpened market segmentation that broadened the range of intermediaries. Capacity building underwent remarkable reorganisation leading to the strengthening of the Development Fund to embarking on multiple capacity building programmes of national significance. Equally over time from 2006 to 2010, the Bank sharpened its set of activities in the value chain to embrace influencing policy (analysis and scope) and enhance advisory support to national departments of government and other spheres of government.

In 2009 the Bank updated its Vision 2014 and its strategy further evolved in response to challenges posed in the Medium Term Strategic Framework 2009-2014. In 2009 government identified five priority areas: (1) creation of decent work and sustainable livelihoods, (2) education, (3) health, (4) crime and (5) rural development (including land reform, food production and food security).

Development Agenda

In 2007 the DBSA Board approved the Development Agenda which departs from the state and challenge of poverty, inequality and dependency in South Africa and the wider region and focuses on a number of development challenges, at both causal and impact relationship levels, between various variables and outcomes. The causal relationships are seen to be impediments to development in South Africa and the region and are underpinned by the following five binding constraints:

- *Weak institutions and shortage of skills*

  Broad based development hinges 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.

- *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, 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 gross domestic product (GDP) by enhancing and or impacting on import and export capability.

- *Apartheid geography/ disjoined spatial development 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.

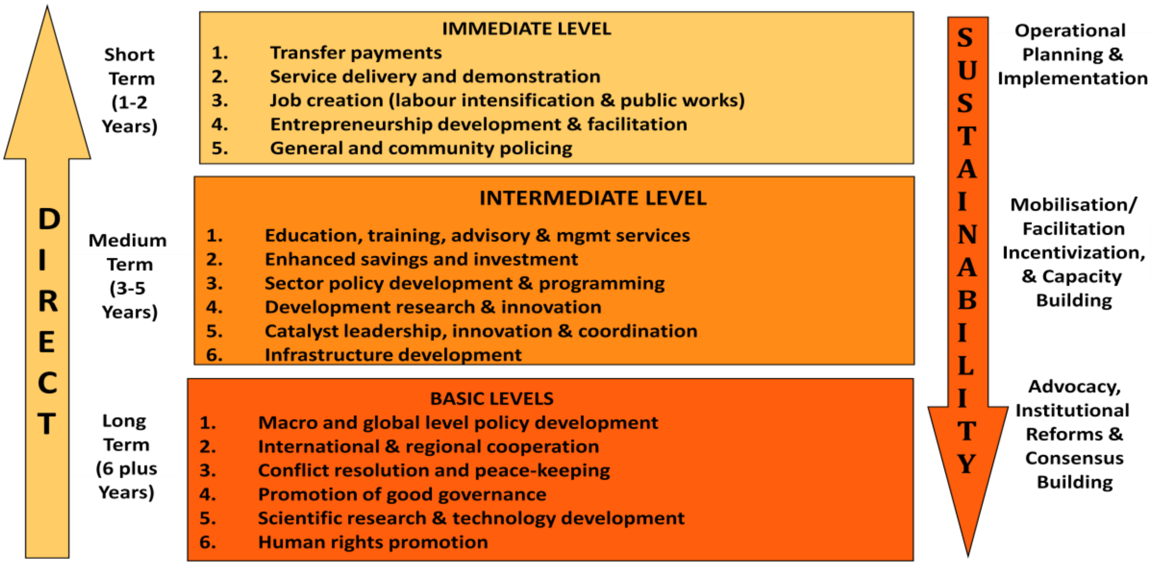
- *Massive inequality*

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

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 and the region.

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 focussed interventions typically address the intermediate causes of under-development. They are 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.

Figure: Structural constraints



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 as a Centre of Excellence in Infrastructure Development

Past Comparative Advantage	Current Comparative Advantage	Immediate Level (Short-term Impacts)	Future Comparative Advantage
		Transfer payments	
→	→	Service Delivery (Coordinating and Facilitating)	←
→	→	Job creation (labour intensification / public works)	←
→	→	Entrepreneurship development and facilitation	←
		General and community policing	
Past Comparative Advantage	**Current Comparative Advantage**	**Intermediate Level (Medium-term impacts)**	**Future Comparative Advantage**
→	→	Training, advisory / management / professional services	←
→	→	Enhanced savings & development investments	←
→	→	Sector policy development and planning	←
→	→	Development research and knowledge building	←
	→	Project origination & development (catalyst coordination)	←
→	→	Infrastructure development	←
→	→	Bulk (national / provincial)	←
→	→	Reticulation(local & district)	←
→	→	Transborder	←
Past Comparative Advantage	**Current Comparative Advantage**	**Immediate Level (Long-term impacts)**	**Future Comparative Advantage**
	→	Macro and international level policy development	←
→	→	International and regional cooperation	←
		Conflict resolution and peace-keeping	
→	→	Promotion of good governance	←
		Scientific research & technological development	
		Human rights promotion	

Colour:

Past / No change

Change in existence or strength

Size:

Small:	low comparative advantage
Medium:	medium comparative advantage
Large:	high comparative advantage

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.

The Bank's short-term interventions 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.

In dealing with the development challenges, the DBSA identified a number of interventions that needed to be undertaken, as means of addressing the obstacles to development. These interventions cut across South Africa and the rest of SADC. In line with the government's Medium Term Strategic Framework (MTSF) 2009-2014, the DBSA 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 & climate change. Furthermore, the Bank places 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.

2.4. DBSA corporate strategy

DBSA as a "Centre of Excellence for Infrastructure Development"

In recent years the DBSA has repositioned itself as a centre of excellence for infrastructure development in order to broaden support to government in accelerating service delivery, job creation, integrated spatial development and regional integration.

Given the scope of the development challenges the DBSA have adopted the following four strategic goals to guide the operations of the Bank:

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

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

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

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

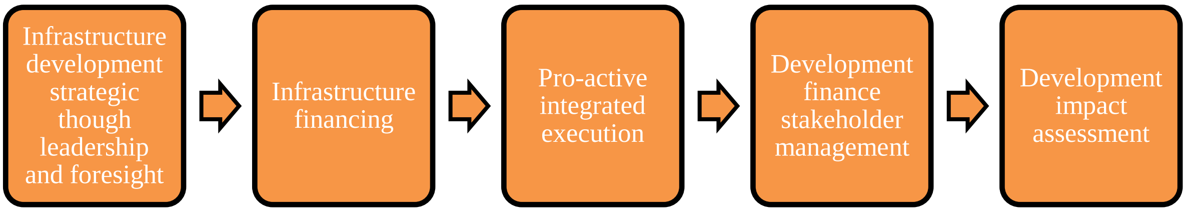
In executing the above strategic goals the Bank will:

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

As a centre of excellence the DBSA seeks to facilitate the designing, scoping and integration of national and regional infrastructure, to be at the centre of integration & coordination and to serve as a one-stop solution institution embracing the five multiple roles. In addition to the DBSA's pursuit of excellence, it seeks to be a leader in its core business, be proactive and responsive in the infrastructure development by being highly informed and knowledgeable about development policies, priorities and lessons of experience in the infrastructure domain. The changing market conditions compel the DBSA to be more proactive, identify high impact projects, improve its financial sustainability and identify clear sector programmes.

As such, the Bank will pioneer new ways of work through enriching, building, executing, tracking, measuring and facilitating strategic collaboration around the following core areas of the infrastructure value chain:

Figure: DBSA Centre of Excellence for Infrastructure Development Strategic Value Chain



- **Infrastructure development, strategic thought leadership and foresight:** Shape infrastructure development towards effective high impact developmental return on investment by demonstrating a deep understanding in the management leadership of infrastructure development, design and integration.
- **Infrastructure financing:** Providing cost effective infrastructure development finance.
- **Pro-active integrated execution:** Develop and deliver a pro-active, tangible integrated execution capability towards effective high impact development interventions.
- **Development finance stakeholder engagement:** Develop and co-deliver a coherent finance stakeholder engagement capability to enrich the overall DBSA decision making and accountability towards its economic, social and environment development contribution and impacts.
- **Developmental impacts assessments:** Compliment infrastructure development initiatives with tracking, measurement processes, reports, feedback and assessments to enable and support productive & sustainable, systemic effects, impetus and tangible consequences from infrastructure development. Effectively delivered it will provide focused infrastructure, with key elements of development impact assessments.

For the DBSA to effectively execute this new strategic path it will hone its skills in the following areas:

- **Development planning capabilities:** Integrating functions from across the DBSA: policy development, systemic risk management, articulating & harnessing economic and social drivers, spatial dynamics, and developing effective measurement systems.
- **Expertise in core sectors:** Energy, water & sanitation, transport, health, education, human settlements and food security.
- **Programme skills:** Programme design using DBSA-wide expertise and programme execution requiring strong programme and project management.
- **Financial, structuring and risk management skills:** Diversified products and services, strong diagnostic and financial structuring skills and financial skills being solution focused.
- **Portfolio management skills:** To ensure a suitable mix of revenue sources (sectors and clients).

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. The DBSA will go beyond municipal infrastructure to embrace bulk, national and regional infrastructure whilst, where appropriate, crowding-in the private sector. The market segmentation framework will sharpen DBSA's delivery mechanism, by highlighting key intermediaries to deliver development to beneficiaries. 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 & Investment Banking** 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, levels of economic activity evidenced in growth rates, institutional commitment and support characterised by a conducive investment climate, capacity to plan and execute programs, diversification, specialisation and linkages between primary, secondary and tertiary sectors.

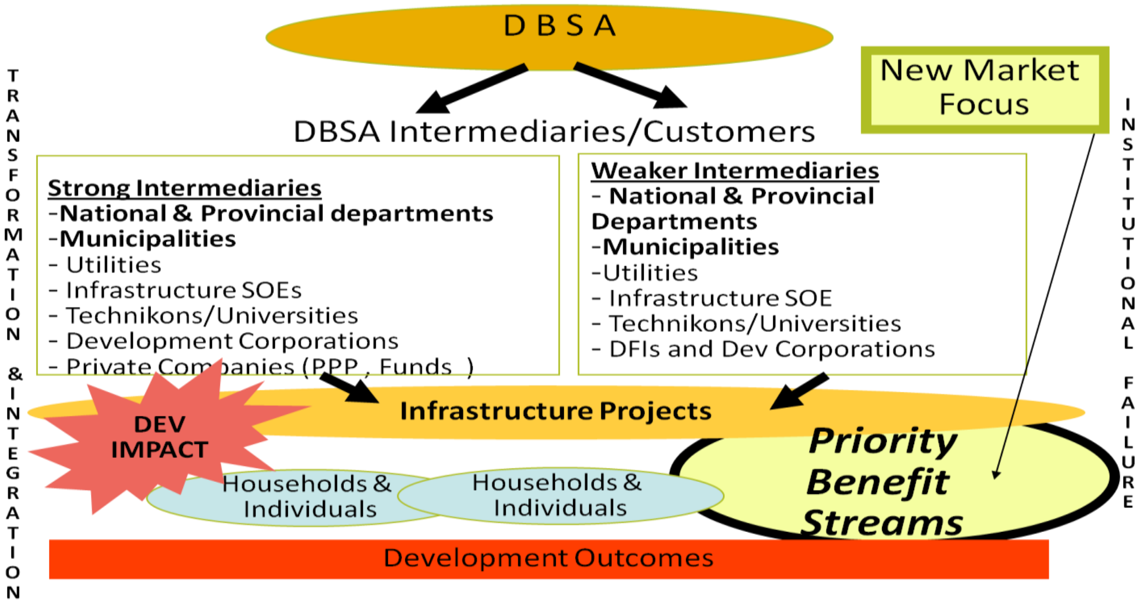
As such, two streams of segments were identified in SADC and have been further refined.

- These streams are growth sectors that support employment, reconstruction and enable the viability of infrastructure projects, and include, among other sectors: tourism, mining, agribusiness (including forestry and fisheries), oil & 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.

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 overleaf, complements 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. Key intermediaries are: municipalities, utilities (both national and local), infrastructure SOE's, technicons, universities and further education and training institutions (FETs), DFI's and development corporations, local/regional development agencies, and private sector entities involved in infrastructure delivery (Private Public Partnerships).

DBSA delivery model



Key initiatives

The DBSA's response has become 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, in enhancing its role in the identified priority sectors, the DBSA has deployed expertise and provided training in municipalities on an agency basis. In operational terms the Bank is expected to respond rapidly, and be proactive in embarking on large scalable national, provincial and regional infrastructure projects. Its engagement philosophy is one that empowers its development partners. Internally the Bank will seek diversified revenue sources such as cost recovery and explore cost effective sources of funding and review current business processes. As mechanisms to enhancing support to Government and sharpen delivery the DBSA embarked on a number of key initiatives (these are further discussed in the respective divisional sections) namely:

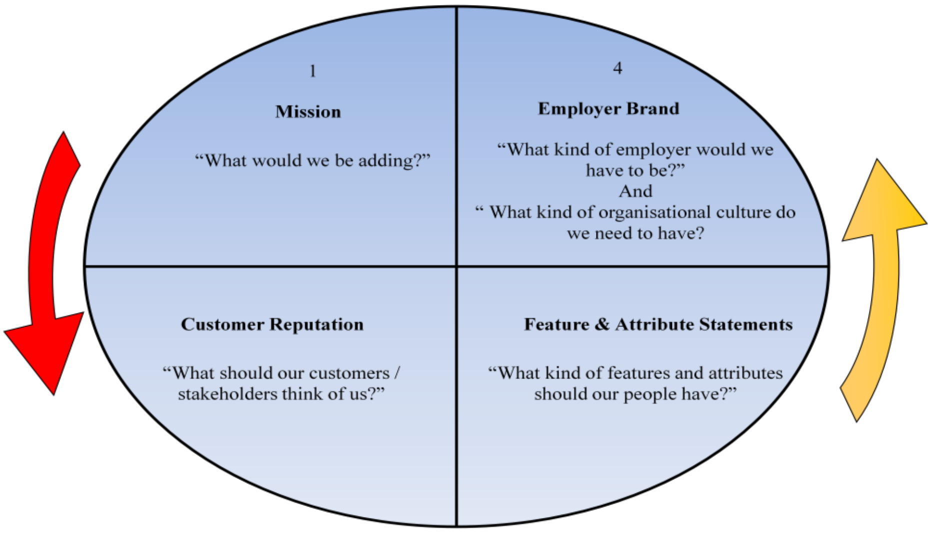
- Municipal operations and maintenance support.
- Supporting broad based job creation through the Jobs Fund.
- Training of municipal officials through the Vulindlela Academy.
- Rural development support through local economic development initiative.
- Prioritisation of support for the energy, health, education, water and sanitation sectors.
- Front-loading of Municipal Infrastructure Grants.

2.5. Organisational values and culture

The DBSA vision is underpinned by its core values which 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 successful application of these principles will enable the DBSA to:

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

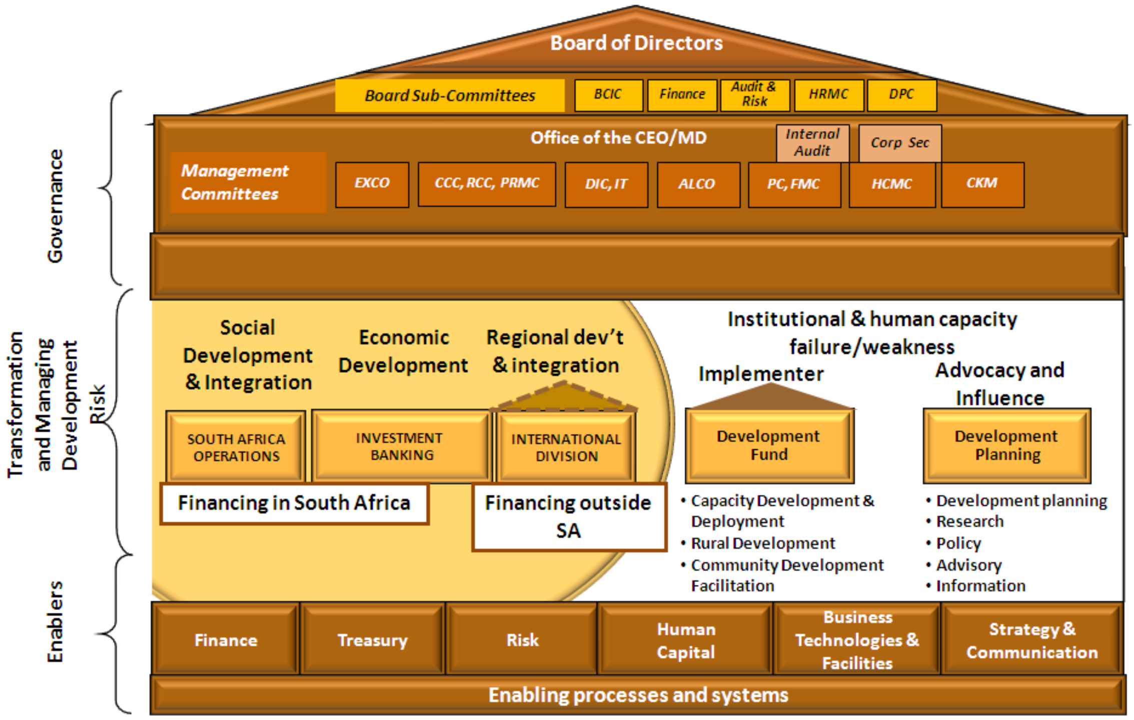
2.6. DBSA delivery structure

The 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, whilst the South African Operations, Investment Banking and International

Divisions support the Bank's *development funding* operations. The DBSA's *implementor* roles are supported mainly through the Development Fund and Investment Banking divisions

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



2.6.1. South Africa Operations Division

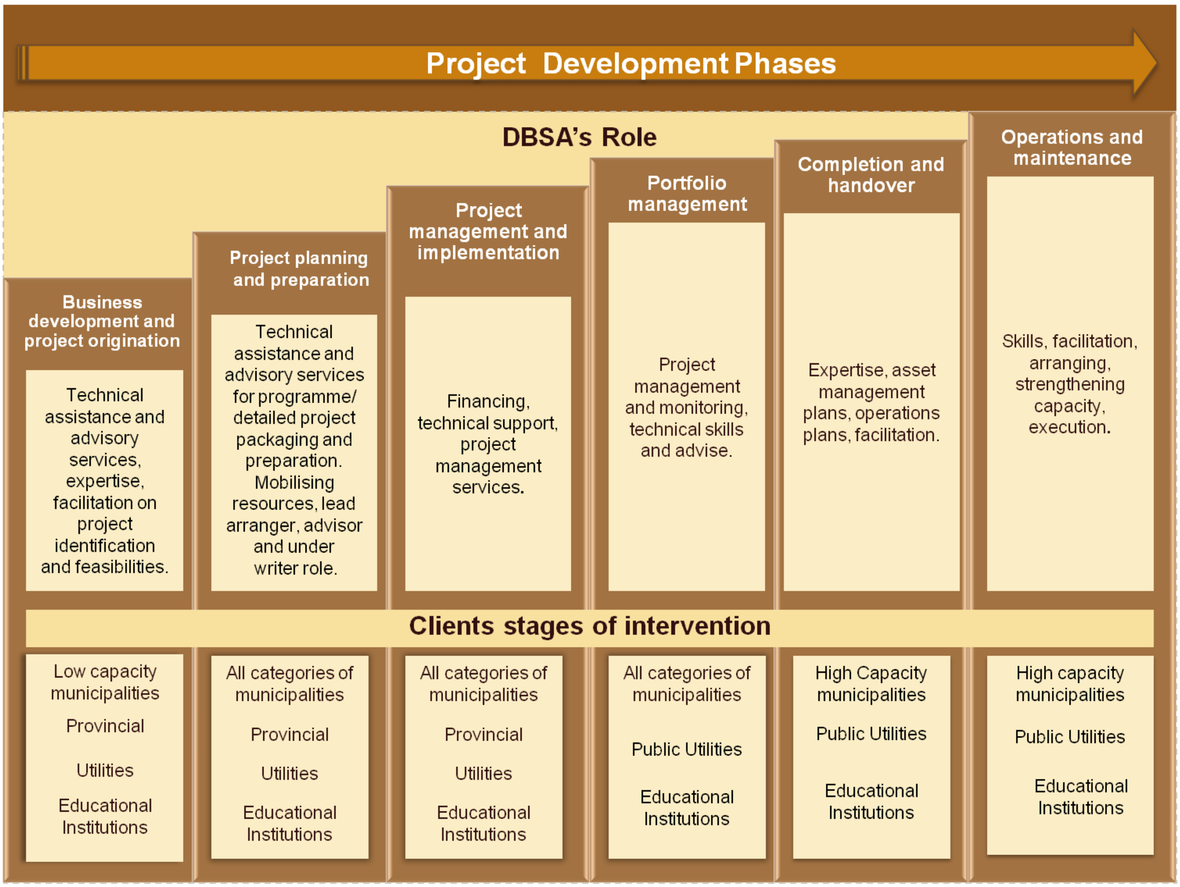
The DBSA defines three primary market segments within South Africa to provide development support to, namely: institutional capacity development, economic development and social development & integration. The South Africa Operations (SA Ops) Division has a primary responsibility for delivery of the latter and focuses on supporting the development of socio-economic infrastructure through the provision of financial and non-financial offerings to public sector intermediaries at municipal and provincial levels. Financial support includes the utilisation of various instruments such as debt and technical assistance, whereas non-financial offerings encompass project preparation assistance, advice and development facilitation. Financial support is mainly targeted at provincial departments, municipalities, utilities and a range of other entities, including educational institutions - to assist them to accelerate service delivery to the communities.

Through its offerings the Division contributes to addressing path dependencies and institutional weaknesses within these public intermediaries. It achieves this goal through structuring its products and services in a holistic, integrated and collaborative manner. In some instances this is accomplished in partnership/collaboration with other DBSA Divisions and external development partners.

Infrastructure development programmes supported by the Division have a latent contribution to poverty alleviation (i.e. temporary or permanently) as some of them create jobs during construction and when it become operational. Besides job creation, the infrastructure also contributes to an increase in households with access to basic services.

Value proposition

The Division has established capacity in key functional areas, namely: social, technical, economic and financial analysis as well as financial structuring portfolio management and strategic planning. It uses these capabilities to execute its pivotal role as the DBSA's primary contact point for public sector intermediaries as well as a range of other entities, including educational institutions. By co-ordinating and benefiting on specialist skills available within other DBSA Divisions, the Division is able to offer an integrated value proposition, as illustrated in the figure below.



Strategic focus

In light of the challenge of accessing loan funding by clients in the Division's target market, five key focus areas were identified which will guide its contribution to acceleration of social development infrastructure delivery in the next few years, namely:

- **Project origination:** In order to support the social development and integration, the Division adopted a more proactive approach to identify, define and develop new infrastructure programme proposals. Project origination is often hindered by a fragmentation of the project life-cycle. The lack of structure creates operational risk as most market participants are unwilling to take-on the early-stage risk inherent in the project origination process. The Division will address 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 programme appraisals and implementations. This will be intensified to ensure the availability of necessary skills in the areas of engineering, finance, risk and programme management as well as in operation and maintenance of infrastructure.

- **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 Medium Term Strategic Framework, key amongst with are the health and education sectors. The Development Planning Division houses a team of sector specialists that is developing sector strategies for the South African market. The Division will work closely with these specialists to identify high-impact programmes within each sector and prepare sector perspectives for immediate attention and possible funding.

- **Providing comprehensive development solutions:** Improved coordination in integrated structuring of the various support offerings by different DBSA's Divisions will form an integral part of the Division's delivery mechanism. These will be reflected in offerings such as technical assistance and advice, transaction structuring and investment. The Division will equally play a facilitation and integrator role in addition to the historical financier role.

- **Accelerate investment in under-resourced municipalities:** Working together with national and provincial governments, the Division will explore possibilities of front-loading of multi-year conditional grants to support under-resourced municipalities to delivery infrastructure.

Planned initiatives

The provision of socio-economic infrastructure in South Africa remains a critical challenge. The Division is repositioning itself to accelerate infrastructure finance and provision of technical assistance in collaboration with other DBSA Divisions and the private sector. It has since revised its technical assistance and public relationship policies to respond appropriately to market needs.

The Division is maintaining its core business and will continue with its endeavours to build infrastructure at municipal and provincial levels within its current client base with a total disbursement target for 2012/13 of R1.5 billion. The support to municipalities will be intensified towards under-resourced municipalities where service delivery challenges are increasingly apparent. The Bank remains committed to the development of the municipal sector and provides various non lending interventions (including, training and O&M support) to improve service delivery capacity. With respect to the secondary and metropolitan municipalities the focus will remain on building the enabling economic base and addressing backlogs at scale.

In line with the Bank's goal of delivery high impact programmes, the Division will focus its activities on increased support to the development and rollout of mandate agreements focusing mainly on water and sanitation, health, education and energy. These agreements will be pursued at provincial and municipal levels.

In addition, the Division is expediting its efforts to engage National Treasury on pledging of Municipal Infrastructure Grant in accordance with Circular 51. A list of programmes worth more than R4 billion have been identified and are at various stages of development. These programmes require not only funding but a high level of technical capacity support. In recognition of this, the programmes will be planned and implemented in close cooperation with the municipalities, Provincial Government, the National Treasury as well as the relevant National Government Departments.

2.6.2. Investment Banking Division

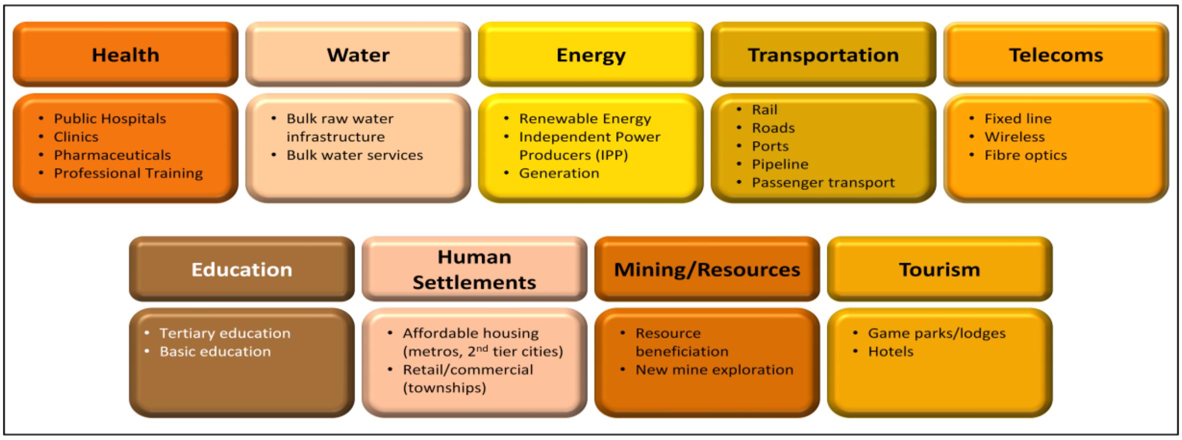
Strategic objectives

The DBSA has embarked on an unprecedented growth trajectory expressed not only in terms of asset growth, but more importantly, in terms of the Bank's development impact. It is in this context that the Investment Banking Division (IBD) contributes to the Bank's operations by providing a full spectrum of project advisory and financing solutions. The Division's business coverage encompasses mainly private-sector companies, state owned enterprises (SOEs) and public-private partnerships. Banking activities are undertaken in support of the infrastructure and enterprise development mandate of DBSA.

The business mandate of the Investment Banking Division can be described as follows:

- 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 & sanitation, human settlements and passenger transportation.
- Large-scale infrastructure projects aimed at addressing 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

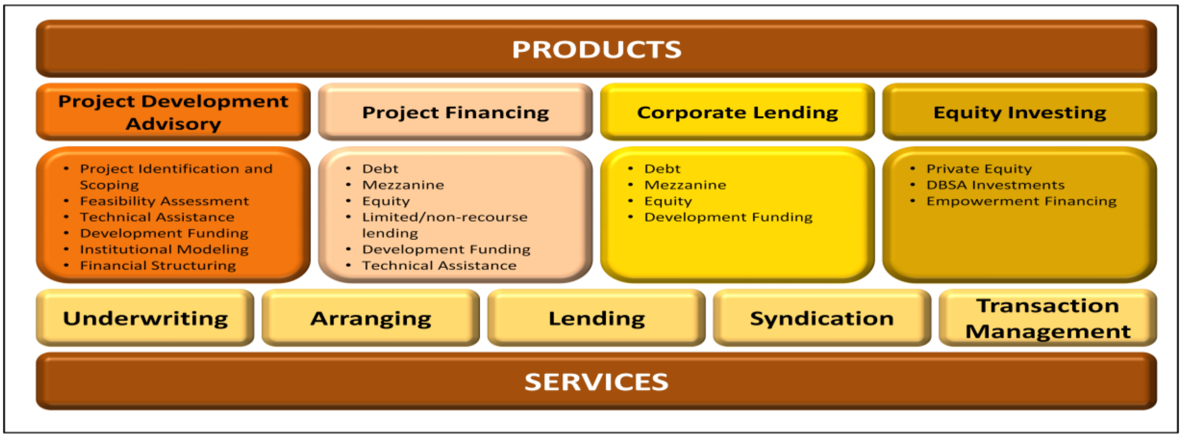


The Division's strategy supports the Bank's goal to become a centre of excellence for infrastructure development, through:

- Partnering with government departments and SOEs to unlock national project development & advisory, financial arranging and underwriting opportunities in order for the DBSA to effectively deploy its balance sheet.
- Serving as a mechanism for government to attract private sector capital to private public partnerships (PPPs) and other bankable projects with proven commercial viability.
- Positioning DBSA as a preferred funder for project opportunities in the private sector that accelerate development impact in priority industry sectors (health, water, energy, human settlements, green economy, transport, mining, ICT, tourism and financial services).
- Pioneering a programmatic approach to unlock development of infrastructure projects in priority socio-economic sectors, in order to multiply the scale of development impact achieved.
- Co-ordinating and aligning the Division's investment activities in support of government's policy objectives in order to remain relevant to policy actions & outcomes.

Investment banking product and service offerings

The Division's value offering is a full end-to-end project origination and execution, which includes project development advisory, structuring and capital-raising by way of underwriting, arranging, financing and syndications.



Key sector programmes and investments for the 2012/13 year

Various large-scale infrastructure initiatives are currently under review or in progress and bringing these programmes to bankability during the forthcoming year will be important in supporting government's infrastructure development programmes and delivery objectives. A disbursement target of R2.5 billion is set for the 2012/13 financial year. Key sector programmes include:

Health: revitalisation of the several public hospital programmes

A partnership exists with the Department of Health and the National Treasury to support the provinces in initiating and bringing to fruition several new hospitals programmes within various PPP arrangements. Six facilities were identified to be supported through PPP programmes, namely:

- Chris Hani Baragwanath Hospital: New 1 800 bed academic hospital with construction expected to commence during the first half of 2012/13.
- Dr. George Mukhari Hospital: New 880 bed academic hospital with construction expected to commence during the second half of 2012/13.
- Limpopo Academic Hospital: New 880 bed academic hospital with construction expected to commence during the first half of 2012/13.
- Limpopo Nursing College: construction expected to commence during the second half of 2012/13.
- King Edward Hospital: New academic hospital with construction expected to commence during the second half of 2012/13.
- Nelson Mandela Academic Hospital in the Eastern Cape with construction expected to commence during the second half of 2012/13.

Value-add by the Division include assisting relevant government departments with a series of necessary project development interventions including:

- Procuring transaction advisors.
- Legal contracting with transaction advisors.
- Development funding expenditure.
- Outsourcing of feasibility studies.
- Issuing of Request for Proposal (RFP) documents.
- Appointment of contractors for the projects.

Energy: promoting independent power producers

The partnership between DBSA, the National Treasury and the Department of Energy is gaining significant traction with the finalisation of the power purchase agreement (PPA) process, and renewable energy feed-in tariff (REFIT) programme stipulating South Africa's future energy mix. Under the REFIT programme, 3 725MW of renewable energy will be procured from independent power producers (IPPs). Through its project development activities, the Division is working closely with key stakeholders in government to create a stable enabling environment for IPP projects and the implementation and support thereof. The Division will under this programme, offer a funding solution to the project comprising mainly of two elements:

- The provision of finance to the Broad Based Black Economic Empowerment (BBBEE) parties that form part of the Sellers shareholding structure.
- An option for the DBSA to participate in the debt financings of the various projects arising from the programme.

Water – early stage bulk water scheme, acid mine drainage and hydro

The Department of Water Affairs (DWA) has engaged the DBSA to assist it in addressing a wide range of issues relating to the provision of bulk water services, regional bulk water services under the Regional Bulk Infrastructure Programme (RBIP), acid mine drainage (AMD), water sector reform and knowledge management. In addition, this assistance broadly relates to the identification of projects, the funding of feasibility studies, building of institutional capacity and the development of funding strategies for approved projects. Key programmes relating to the focus areas of investment for the Division are:

- Raw bulk water provision.
- Regional bulk water services.

- o Acid mine drainage.
- o Small hydro dam projects.
- o Regional bulk pipeline to service guaranteed off-takers such as mines.

Transport – rail investment programme

The partnership between the DBSA and the Department of Transport (DOT) aims at enhancing transport planning, transport infrastructure delivery and access to finance. A short list of potential projects to form part of the partnership has been identified by DOT, with an alignment process being undertaken to ensure that all public sector entities are co-ordinated to support the shared vision for national transport.

Green economy – energy savings and alternate energy sources

The Environmental Finance Business Unit is housed within the Investment Banking Division, and operates as a strategic Business Unit to establish the enabling institutional context and framework within which to concentrate development that will further 'carbon proof' infrastructure investment projects undertaken by the DBSA. Many of its ongoing programme development initiatives are concentrated within the following key areas:

- Green portfolio management.
- Sourcing wholesale funding opportunities.
- Green investment programme origination.

Private sector financing

The private sector remains a key generator of infrastructure capacity and job creation in the economy. The Division continues to grow its pipeline of new funding projects with the private sector. Project financing in affordable housing, ICT, mining and tourism are some of the main sectors in which new projects under consideration are being explored. Many of these projects are at different stages of the investment process and the Division's strategy is to continue growing and maintaining a quality pipeline that will drive development impact and contribute to the financial sustainability of the DBSA.

2.6.3. International Division

The International Division (ID) 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 DBSA's strategy for the continent builds on the development strategies of the region and its countries, which places high priority on infrastructure development, being one of the leading constraints to socio-economic development and regional economic integration.

Overview of operations

Regional and strategic operations

The Division is guided by sector and country-based engagement principles 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 Bank's priorities are broadly aligned with the Government of South Africa's Medium Term Strategic Plan for its International Relations and Cooperation in the region.

Products and services

ID has historically been a provider of senior debt and this emphasis remains. However equity investments are considered on a case-by-case basis in order to complement and shore-up risk capital in viable projects. Equity investments can either be direct, or indirect through third party funds. In certain instances, technical assistance (TA) grant funding may be given to suitable clients. The primary focus of TA products is on specific and direct project preparation and related upstream business origination and development that feed into the investment pipeline of the Division, consistent with its strategy of deal origination. The secondary focus of the TA grants is a targeted research and information approach, as well as capacity development that directly apply to intermediaries and strategic operational partners.

Prioritised sectors

Within infrastructure development, the Division places high priority on infrastructure sub-sectors of power, transport, water and telecommunications, which are critical enablers for agriculture. In addition the division supports social infrastructure in sectors such as health while considering other sectors that either support infrastructure development, such as mining and tourism, or promote exports and economic diversification.

Operating Clusters/Units

As of the beginning of the 2012 financial period, the Division has been divided into four clusters, namely: International Finance Unit I and II, the Risk and Portfolio Management Cluster, and the Projects Development & Partnerships Cluster, with the latter being the newest addition to the Division.

- **International Finance unit (IFU)**

  The International Finance clusters provide infrastructure funding to the public and private sectors in the Southern Africa region, excluding South Africa. By successfully facilitating the participation of both public and private sector clients in the economies of the region, the DBSA views itself as a preferred investor, partner and advisor for regional infrastructure development. The geographic scope of IFU I and IFU II each comprises seven countries. The main distinction between IFU I and IFU II is that the majority of the countries in IFU I are Southern Africa Customs Union (SACU) member states (i.e. Botswana, Lesotho, Swaziland and Namibia) while the majority of IFU II countries are predominantly post-conflict countries (i.e. Angola, DRC, Zimbabwe and Madagascar). 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.

- **Risk and Portfolio Management Cluster**

  The Risk and Portfolio Management Cluster provides post–investment project monitoring services to ensure that project objectives are being met and that the projects are operating in sustainable manner while adhering to agreed upon loan conditions. The cluster's dedicated specialists provide support in areas such as energy and the environment, as well as development economics and finance.

- **Projects Development and Partnerships Cluster**

  Given the scale of the investment requirement and limitations of its own resources, ID places high value on leverage and seeks to work in synergistic partnerships. Accordingly, it seeks to act as a catalyst, to draw in and complement resources and involvement of investors and co-financiers. ID's newest Cluster is specifically dedicated to fostering and nurturing relationships with national development finance institutions and other financial institutions in the region. The objective is to enlist the collaboration of these institutions at operational level in order to achieve synergies in the identification implementation and monitoring of projects.

  Furthermore, this Cluster provides three groups of technical assistance products, namely:

  - Partnership-based facilities (matching and non-matching project preparation grants and concessionary funding).

- Corporate-allocated facilities (TA grants, consultants, and sponsorship budgets).
- Facilities outside Division (agency funds, government funds, and other).

International Division Strategy

Financing infrastructure and economic development in the region is a daunting task that requires creativity and responsiveness to the challenges of the region. The DBSA strategy seeks to support increased investment (disbursement target for 2012/13 of R2.9 billion) in fixed capital formation, with the understanding that higher and sustained investment levels are required if the region is to grow fast enough to create jobs, improve living standards and sustainably lift people out of poverty. It also departs from the basic reality that the region lags far behind the rest of the developing world in access to basic infrastructure services.

Expanded product and services offering

Since April 2011, when the BRICS Banking Cooperation Mechanism was signed between DBSA, the China Development Bank (CDB), Banco Nacional de Desenvolvimento Economico e Social (BNDES), Russia's State Corporation (Vnesheconombank) and the Export-Import Bank of India; ID has played a key role in engaging with our BRICS partners on regional programmes and initiatives that are of mutual interest. Given that analysis suggests that our BRICS partners are interested in expanding their presence in Africa; it is expected that engagements between ID and this bloc of partners will increase in scope and depth over time.

ID will continue to pursue large trade finance transactions through investments in specialised partners such as African Export-Import Bank (Afrexim) and Eastern and Southern Africa Trade and Development Bank (PTA). So far, the DBSA has invested close to a total of US$150 million in these two organisations, with talks underway for an addition investment in Afrexim.

The main objective of expanding the current product range is to exploit market opportunities leveraging off the DBSA brand and skills set. The provision of these two products, of which the income is primarily, fee-based, will impact positively on the top line and diversify the revenue base away from reliance on the interest income, which has come under increased pressure in the recent past due to a combination of factors (i.e. rising cost of funding, declining loan book, exchange rate movements, etc).

Investigating opportunities on the continent beyond SADC

As a result of the emphasis the South African government is increasingly placing on African markets, the DBSA has tentatively started considering investments beyond SADC's border, in line with the Bank's expanding mandates and due to the fact that many of its traditional and emerging partners already operate beyond the borders of SADC.

DBSA International (DBI)

The DBSA has initiated a process to investigate the creation of a new subsidiary to house the business of the International Division. It is envisaged the shareholding of DBI will include key local, regional and international entities, with the DBSA remaining as the majority shareholder. The intention is to create an organisation that is able to ring-fence its operations from that of the DBSA, allowing for improved risk management and a more focused execution of a regional mandate. Furthermore, it will embed existing strategic partnerships with international funders and secure lines of funding to allow for the envisaged growth in the short to medium term. The core rationale of this initiative has to do with managing and reducing the risk of the growing regional portfolio to the DBSA as well as harnessing additional funding- especially concessional funding and risk capital from like-minded development and financial institutions and international cooperating partners. It is also, amongst other things: to strategically position DBSA's international business in the region and the rest of Africa as a strong champion of regional projects, with more strategic and financial clout, as well as preferred creditor status.

This proposed entity has already garnered extensive interest from the international community and in light of recent emerging realities (such as the Bank's BRICS membership), the ID team is in the process of revising the original proposal submitted on behalf of the National Treasury and DBSA, to the Presidency in late 2010.

Augmenting relationships and partnerships

The DBSA works closely with the Public Investment Corporation and the Industrial Development Corporation, as well as the African Development Bank and other members of the African Financing Partnership, which includes major multilateral and bilateral development finance institutions. The DBSA is leading the management of several multi-partner technical assistance facilities involving Agence Francaise de Developpement, the UK Department for International Development, the European Investment Bank and United Nations Office for Project Services (UNOPS). The DBSA is also a member of several regional and global development finance networks and associations. 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, and the EU.

Project origination and development

A key initiative in the International Division has been project origination and development, which was adopted for both business strategy and development impact reasons. While the primary rationale for project development has to do with championing infrastructure solutions for the region, there is a secondary rationale which has to do with business-level strategy that seeks to enable the division to play a leadership role in the shaping of projects and to secure financing opportunities. 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. This initiative fits in the advocacy and thought leadership function that the Bank wishes to assume in the region. It is strongly supported by a related initiative around resource mobilisation, which seeks to harness wider grant resources from international partners as a means of cost and risk reduction for the division. This initiative could likely unlock key cross-border and regional infrastructure projects (by selectively using own risk capital), while mobilising funding from partners and opening up attractive and secure financing opportunities.

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 options such as see-through sovereign lending.

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 for infrastructure development and its associated framework. The Division is currently conducting detailed country and sector analysis, new product evaluations and new lines of credit in order to strengthen the strategy for the year ahead and ensure the Division is targeting the optimal portfolio mix.

Trade finance

The DBSA is currently considering the expansion of its product offering, to areas such as trade finance and advisory services. The Bank is also experimenting with infrastructure-linked trade finance initiatives that use ring-fencing techniques to effectively manage the risks associated with doing business internationally. The practice involves the art of transferring risks in trade finance from parties less able to bear those risks to those more equipped to bear them in a manner that ensures automatic reimbursement of loans from the underlying assets being financed. This product offering is used extensively by a range of international development banks. By including this product offering in its suite of solutions offered to the client, it would provide an added advantage from a structuring perspective especially where the borrower's balance sheet is "thin". The risks associated with trade finance transactions will be carefully assessed on a case-by-case basis.

In addition, the DBSA's role regarding Trade Finance included within the BRICS Interbank Cooperation Mechanism is that of coordination and facilitation to ensure that the respective South African DFIs, as well as the appropriate private sector stakeholders can participate in this initiative to the benefit of the whole of South Africa.

2.6.4. Development Fund

Refer to Annexure 5.11 for the detailed Development Fund 2012/13 plan.

The DBSA Development Fund (DF) is a section 21 company established by the DBSA in 2001 is a project-based entity which manages programmes aimed at addressing human, institutional and implementation capacity constraints within municipalities, communities and local economies. Each of the programmes is mandated to maximise the development impact of its interventions, whilst there is a continuous effort to harness synergies and cross-programme coordination. 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, amongst other, the training of municipal officials through the Vulindlela Academy, Operations & Maintenance and Rural Development Programmes.

After extensive deliberations with relevant government stakeholders regarding the Siyenza Manje programme, a decision was reached in April 2011 to transfer the finance component of the programme to the National Treasury department. The management of finance deployees consequently resides within the National Treasury's Municipal Finance Improvement Programme with the Bank administering this component on an agency basis. Similarly, the technical component of Siyenza Manje programme has been transferred to the Department of Cooperative Governance and Traditional Affairs (CoGTA) with the aim to establish the special purpose vehicle (SPV) focusing on the managing and coordinating infrastructure delivery at local government sphere.

Operations and maintenance

The inability of municipalities to maintain infrastructure assets negatively impacts service delivery resulting in high water losses, disease outbreak and health hazard complications associated with environment and water pollution. In this regard, the DBSA has implemented an operations and maintenance (O&M) programme focusing on periodic maintenance and rehabilitation of infrastructure. The programme also intends to contribute towards job creation, poverty reduction and SMME development. The programme will be implemented through the following initiatives:

Pilot municipalities

Local enterprises will be utilised to maintain roads, storm water drainage systems, water supply infrastructure, waste water systems, solid waste systems, electrical supply and distribution systems and associated emergency maintenance activities. The Fund will assist municipalities to compile appropriate infrastructure asset registers, determining the scope of work and resources required to develop infrastructure O&M master plans. A minimum number of 45 O&M plans in 20 pilot municipalities will be provided for during 2012/13.

Artisan Programme

The initiative focuses on creating a pool of qualified artisans for deployment in municipalities by providing a structured training programme aimed at affording the apprentices opportunities to obtain trade certificates and qualify as artisans whilst employed in municipalities supporting operations and maintenance activities. For 2012/13, the programme will support the following:

- Training and development of 300 Section 13 and 300 Section 28 apprentices in municipalities.
- Trade qualification of 200 apprentices (80 Section 13 and 120 Section 28).
- A Section 28 baseline study to establish identify experienced municipal apprentices suitable for upgrading to fully-qualified artisan status.

Vulindlela Academy

Through the Vulindlela Academy, the DBSA is committed to increasing human and institutional capacity, particularly within under-resourced municipalities. As a result, much needed technical skills and other capacity will be continue to be provided, in the identified priority skills areas of finance, management and planning. For the 2012/13 financial year the Bank targets to train 9 200 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 2012/13 financial year the Bank will target to train an additional 800 people from other DBSA intermediaries.

Technical training in support of the Operations and Maintenance Programme

Through this initiative, the DBSA will deliver technical training in support of the Bank's O&M programme. Training will include: sanitation for the new millennium, process controller training, plant operator vehicle training, asset management, storm water drainage, wastewater treatment works, geometric design, geographic information systems, construction supervision, road compaction, soil and materials testing, general conditions of contract and technical report writing. During 2012/13, 1 000 officials will be targeted for training in any of these technical areas impacting on enhanced technical residual capacity in municipalities.

Rural Development Programme

National Rural Youth Service Corps (NARYSEC)

The Department of Rural Development and Land Reform (DRDLR) has developed the NARYSEC initiative with the main objective to recruit and develop a national rural youth service corps (aged 18 to 35 years) to be paraprofessionals who are trained to work in their own communities over the short term, leading to creation of enterprises in the medium to long term.

The Department has contracted the DBSA to support the management of the technical training component of the NARYSEC programme with 6 000 people targeted to benefit from this initiative. The support will be provided at the level of FET colleges and include the identification of appropriate construction sites for training, training on construction sites and exit from the initiative.

Rural development

Rural development is a priority area for the DBSA and rural development principles and practices are continuously identified, prioritised and supported. Key initiatives for the 2012/13 financial year include:

- **Developing a model to utilise conservation as an instrument for rural development:** Cooperation with between South African National Parks (SANPARKS) and private land owners in the Western Cape has demonstrated that that the core activities associated to conservation partnerships can unlock rural development benefits related to job creation, enhanced flower harvests, improved export prices for resources harvested from within certain land use and conservation areas and disaster management through sustainable natural resource utilisation. Based on this observation the Bank and SANPARKS will have agreed to cooperate to develop and implement an initiative to identify, test and model the most appropriate practices within conservation that can contribute to rural development. This strategic partnership will specifically explore corridor and buffer zone practices throughout South Africa.
- **Unlocking funds for rural development pillars:** The DBSA will continue to identify development funding agencies that supports rural development initiatives and facilitate links between such agencies and the rural development focus areas of the Bank.

Agency Management Services

The DBSA established the Agency Management Services Unit (DAMSU) in response to the acute lack of capacity to implement and manage development programmes in the SADC region. The main purpose of DAMSU is to identify, attract and manage agencies that enhance the public sector's capacity to deliver and sustain development. DAMSU assists and acts on behalf of local and international development and funding agencies that do not have institutional presence or sufficient permanent capacity to implement their development programmes. The target for managed funds for the 2012/13 financial year is R600 million. Programmes and initiatives include:

- **Integrated Agency Information Management Systems**

  The Unit will develop a project tracking system that integrates all agency processes into one complete framework, thus enabling the DBSA Agency Management Services and its clients to work as a single unit with unified objectives. The system will integrate the work of the Unit in terms of the balanced score card reporting requirements, programme implementation at various agencies and issue management to ensure timely response to issues impacting on service delivery.

- **Agency Management Services marketing campaign**

  It is critical for DAMSU to increase awareness of its services following the adoption of the costing and pricing model to which all business originating and support divisions should adhere to. The marketing campaign will expand the knowledge of DBSA's internal divisions/units and equipping them with critical information needed to diversify their portfolios whilst supporting the agency management function.

2.6.5. Development Planning Division

The Development Planning Division (DPD) 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 & 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:

- Supporting 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. Many of the workstreams initiated through mandate agreements with the Departments of Water Affairs and Transport will continue during the period 2012/13 based on commitment from the relevant Departments. The Division will also work with key departments such as DIRCO in terms of international and regional matters and Department of Evaluation and Monitoring in the Presidency regarding infrastructure outcomes.
- Conducts the Infrastructure Inputs Monitoring Project (IIMP) with the following outputs: a research manual, synthesis report, demand side report, supply side report and an interactive database. The four IIMP reports, in combination with the database developed by DBSA, provides a comprehensive picture of the need for infrastructure building inputs, both from a public and private sector view, over the medium term. The Division engages with the National Treasury and the Presidency regarding the findings of this project.
- Enhancing and supporting the DBSA's investment portfolio through its *Programme Origination* and *Project Advisory* functions in order to expedite infrastructure delivery in priority sectors and ensure that DBSA's operational teams work in alignment with the sector strategies and project guidelines as adopted by the Bank.
- Developing and maintaining strategic domestic and international networks of knowledge institutions and decision-makers, for promoting new development insights and practical collaboration. The positioning of South Africa in the African/BRICs context along with the regional think thank programme of the Division will remain a focus during 2012/13
- Assisting 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 release of the Development Report, Infrastructure Barometer, State of Infrastructure in South Africa and Inputs Monitoring Reports in 2011/12, along with the Integrated Infrastructure Planning outputs will require several integration and dissemination strategies and knowledge sharing events to ensure maximum impact on development planning.

The Development Planning Division is structurally organised within the following four clusters: Planning, Policy & Integration, Strategic Operations 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 DFIs need to sharpen their development impact, this internal knowledge and advisory role is of great importance.

Moreover, as a leading DFI financing many State initiatives, the development planning knowledge and expertise of the DBSA is harnessed to assist the State to become more effective, thus extending the DBSA's 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 the 2012/13 period.

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**: Bringing 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 twelve 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 (KMI) function creates new knowledge products & 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.

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.

Strategic Operations

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

Strategic Partnerships

Strategic Partnerships is responsible for facilitating stakeholder engagements between the Bank and critical role-players, especially in the priority areas of the DBSA. Through the use of roundtables and other related engagement tools, the Unit focuses on key sector innovations and topical debates in order to enhance the understanding of priority sectors and solutions to development challenges therein. These strategic linkages are promoted through the establishment of partnerships (both local and international) within development planning and the DBSA's priority sectors. The Unit also supports Strategic Operations in the development and management of new projects in the Division.

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 DBSA Social Accounting Matrix model and other demographic and socio-economic indicators. 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 including the Local Government Resource Centre (LGRC).

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. The Unit also structures and manages data and information to support the DBSA mandated agreements and is working with the Business Technologies and Facilities Division to develop the spatial warehouse to support more efficiently the internal and external requirements for spatial information and other spatial products.

2.6.6. Group Risk Assurance (GRA)

As the DBSA continues to adopt a more aggressive, proactive and innovative strategy that seeks to identify high impact and scalable projects in identified sectors, robust risk management assumes a growing 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 2012/13

In line with the DBSA Group's Enterprise Risk Management (ERM) Framework (see Annexure 5.5), the risk management plans for 2012/13 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.

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

- **Rollout of risk management into the Business Divisions**

  This initiative involves the establishment and staffing of decentralised risk management structures, as well as the rollout of comprehensive risk management control, decision-making and reporting processes into the South Africa Operations and Investment Banking Divisions. The recommendations for the rollout will be informed by the results of the pilot project, which was undertaken during the previous financial year to test divisional-level risk management processes in the International Division. The rollout will be guided by an approved rollout plan and will be monitored through a project schedule.

- **Rollout of risk management into the Development Fund (DF)**

  During the previous financial year it became evident that the changes in the DF's activities necessitated a full rollout of risk management into the structures and business activities of the DF. Therefore, this initiative involves the continued rollout of risk management into the DF with the guidance of a Risk Management Integration Plan, which will be customised to the DF's specific circumstances. The DF will continue to strengthen its capacity to undertake risk governance and risk oversight, as well as further develop its operational-level risk control capacity, which will include risk identification, quantification and day-to-day risk mitigation. The DF will continue to be supported in this initiative by the dedicated Enterprise Risk Management (ERM) team situated in the GRA.

- **Entrench the new GRA structure**

  This initiative involves the bedding down of the revised GRA structure. The aims of the new GRA structure is to improve and streamline centralised risk guidance, advice and support to the Divisions, as well as to improve the Group-wide risk governance and reporting to the DBSA Board, Executive Committee and the National Treasury.

- **Deliver Credit Risk for Development Financiers – Phase Two Course**

  This initiative involves the delivery of the five-day Credit Risk for Development Financiers – Phase Two Course to all staff directly involved in the credit appraisal of proposals and the monitoring of projects and portfolios. This course advances on the three-day credit risk course, delivered during the previous financial period.

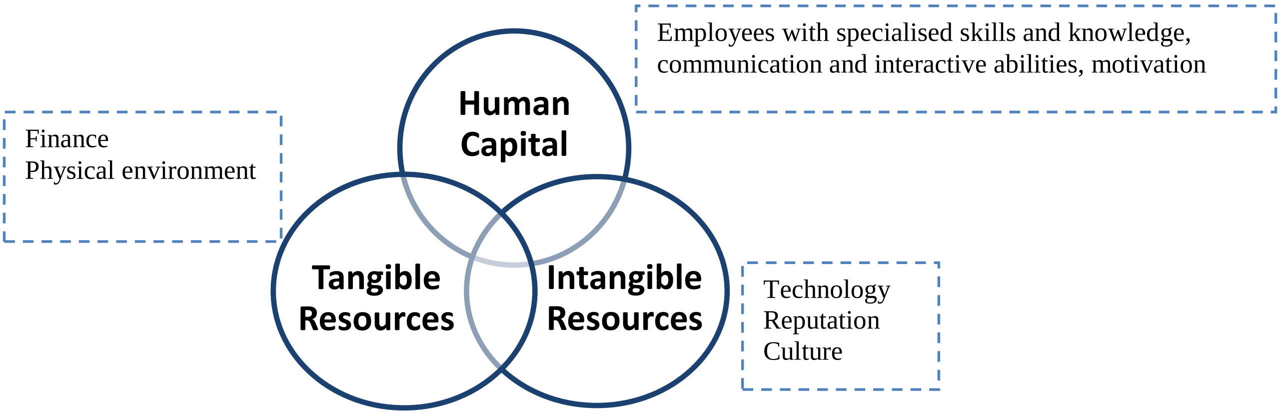
- **Gearing-up the risk function to support the expanded scope of the DBSA**

  As the Bank's expanded mandate gains momentum and it continues to expand the scope of its activities and enhance the impact of its interventions on a local and international level, the GRA will maintain its efforts to gear-up the Bank's capacity to proactively respond to the challenges and inherent risks in the broadened scope. Appropriate initiatives will evolve as the new initiatives become more explicit.

2.6.7. Human Capital Division

The Human Capital (HC) Division is a key enabler within the Bank responsible for facilitating an environment that optimises the engagement, deployment and leveraging of the Bank's human capital. During 2011/12 the DBSA has seen a significant evolution in its overall mandate resulting in organisational capability becoming the key focus area informing the strategic direction of the HC Division.

The provision of organisational capability relates to the ability and capacity of the Bank in terms of its human resources (quantity, skills, quality and experience), its physical resources (equipment, buildings), its financial resources (money and credit), its information resources (pool of knowledge, databases and information technology), and its intellectual resources (copyrights and designs). The interdependencies of these resources to provide organisational capacity can be displayed as follows:



The HC Division's key value drivers are informed by the following strategic imperatives:

- **Strategic enabler**: the critical activities that drive competitive advantage in the market place by directly supporting the Bank's human capital strategy through talent management.
- **Risk mitigation**: initiatives that reduce risks through continuous planning, effective employee relations and compliance with legislation.

- **Efficiency enhancement**: investments that reduce costs and enhance productivity through technology and financial sustainability drivers.
- **Basic services**: the transactions that keep the administrative components of the Bank running.

The focus of the HC Division for the 2012/13 financial year will be on building organisational capability to respond to the scaling-up of existing competencies, extending future competencies and laying the foundation for effective process management which will contribute towards financial sustainability. The HC Division will be differentiating between *maintaining* the current, *growing* internal and external capability and *transforming* current capability.

Maintaining

The HC Division will maintain consistent implementation and monitoring processes of basic services and efficiency enhancement. The following components will form part of maintaining the current business:

- Policies and processes, remuneration and benefits, employee wellness, existing skills, turnover ratio, management of vacancy, staff acquisition, performance and management of discipline.
- Maintain compliance with regards to legislation, policies and procedures.

Growing

The DBSA has seen a significant evolution of its core business which requires a focused approach on ensuring adequate capability to deliver on its objectives. The HC Division will therefore pay specific attention to the development of required skills. It is important to note that with a continuously evolving environment, the growth in skills is not stagnant and continuous initiatives are required to ensure skills are available as and when required. To this extent the HC Division will focus on:

- Growing the core skills talent base for specified sectors (examples would include health, engineering and finance).
- Grow capacity through acquisition, deployment and succession management.
- Grow employee satisfaction levels through initiatives addressing outcomes of the employee value proposition survey and other interventions to further build on the DBSA employer brand.

Transforming

While the HC Division facilitates the growth of skills, there is a need to ensure optimal use of human resources. With the evolution of its mandate, the Bank is compelled to ensure that skills are transformed to enable the Bank to meet the challenges of emerging opportunities. The HC Division will therefore focus on:

- Optimal utilisation of existing skills through deployment to areas that requires capacity and capability.
- Transforming existing skills through targeted development interventions.
- Intangible resource transformation is critical in ensuring that policies, procedures and processes facilitate efficiencies. The focus on flexible solutions will therefore be a key driver in the successful delivery of organisational capability.

2.6.8. Group Strategy, Marketing and Communications

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

- Corporate Strategy, Innovation and Entrepreneurship;
- Communication, Marketing and Public Affairs; and

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 2012/13, 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 DBSA Communication, Marketing and Public Affairs (CMPA) cluster is to provide creative, competitive, innovative communication, marketing and corporate affairs business solutions to the DBSA enterprise. The cluster achieves this through profiling of the DBSA using public relations, media liaison, stakeholder coordination, and deepening brand awareness in its market.

During the 2012/13 financial year, the cluster will pay particular attention to the roll-out of the integrated Communication, Marketing and Public Affairs strategy. This will see the cluster pay more attention to positioning and growing the DBSA brand towards becoming a centre of excellence for infrastructure development. This will be achieved through consistent print, audio-visual and electronic adverts relating to the Bank's priority themes and projects in South Africa, throughout the SADC region and in the rest of the African continent.

Such a thrust will ensure systematic tracking of the effectiveness of communications and marketing campaigns. The cluster will also continue to track client perceptions on the Bank's image, and implement recommendations based on the findings of such perceptions. The CMPA cluster will also lead the profiling of DBSA work in targeted high-level events, workshops and conferences within its operational scope, in line with its support to client-facing divisions as they tackle national and regional mandates.

Special attention will be paid to corporate social investment (CSI) 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 community organisations. The CMPA cluster will support the provision of basic infrastructure such as toilets, classrooms, desks, books, and library facilities where possible.

2.6.9. Business Technologies and Facilities Group

The Business Technologies and Facilities (BTF) Division comprises of four groups: Information Communication & Technologies, Facilities Management, Events Management and Shared Services.

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

- Information, communication and technology.
- Facilities and events 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 2012/13, the ICT cluster will continue to focus on improved business benefits from technology investment. The provision of accurate information will be facilitated through the following projects:

- Mobility – extending the reach of the Bank's information to the new wave of smart devices such as tablets and smart phones, using a combination of existing tools and new applications to manage security.
- Information accessibility – focus will be given to bringing in the remaining islands of data across the organisation in to the corporate data warehouse enabling richer reporting through the use of existing tools.
- Corporate network upgrade – as the Bank has grown, pressure on the corporate wired and wireless infrastructure has increased. The network will be upgraded to meet these increased requirements and to allow for future growth.

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

- Renewable energy plant – continue the implementation of the 1 MW solar photovoltaic and 200KW concentrating solar power plants as part of the energy security and operating cost reduction programs.
- Asset management system improvements to ensure the effective tracking and monitoring of assets on the Bank's campus and other facilities.
- Going green – improve the sustainability key indicators and move the Bank towards a carbon neutral status through energy efficiency measures and improved waste recycling (biogas digesters to process the campus's bio waste and turn it into energy for cooking).
- Improve efficiency in areas such as air travel, car hire and insurance.

Shared Services Unit

The Shared Services Unit focuses on the 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, implement relevant governance & compliance structures during 2012/13 and to facilitate efficient and effective service delivery through co-ordination of the customer support centre teams and the deployment of technologies which will enhance service delivery across the Division. In addition, the Unit will communicate all the ICT policies to the Bank's staff and educate staff on their roles and responsibilities.

Events Management Unit

The Unit aims to create awareness and staff engagement on the impact (sustainability) of the various events held by the DBSA. Workshops, conferences and training events hosted by the Bank are increasing and it has become important to take accountability for the environmental impact of these events.

Most meetings and events require some form of catering and require coordination for the provision of meals and refreshments for participants and staff, handling of the waste produced by catering services and the traffic generated by their transportation. During the 2012/13 financial year data will be collected enabling events management to create a baseline for benchmarking in the future. Attention will be given to the following areas when considering catering and rolling out the "green carpet" for participants:

- Local and seasonal produce, organic products, bulk water dispensers and food waste.
- Reduction in packaging material and ensuring appropriate collection and recycling/disposal of waste.
- Environmental policy/management system for catering service providers, cleaning techniques, and the energy and water efficiency of catering equipment used.

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, the Division'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 in particular addressing municipal service delivery backlogs and the rollout of key national priority infrastructure development programmes, it is envisaged that the Division 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 Division'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 and 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 continued financial sustainability. Nevertheless, persistent anomalies in the domestic interest rate swap market, where 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 2012/13 financial year borrowing requirements are provided in the Borrowing Programme, included as Annexure 5.7 of this Corporate Plan.

2.6.11. Finance

The Finance 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, 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:

- Maintain an efficient capital structure of the Balance Sheet.
- Proactive and regular forecasting and scenario planning.
- 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.
- Value added, accurate and timely financial reporting.
- Delivery of the expense-management strategy as a tool for further financial analysis, decision-making and financial discipline.

3. DBSA 2012/13 Group Balanced Scorecard

3.1. Balanced Scorecard key performance indicators

The 2012/13 Balanced Scorecard (BSC) builds on the 2011/12 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.

DBSA 2012/13 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.

A. Operational effectiveness (65%)

1. Development Fund (15%)
- Municipal capacity building & implementation (2%)
- Enabling Programmes (3%)
  - Agencies(program fund management) (1%)
  - Vulindlela Academy (2%)
- National mandates (9%)
  - Jobs Fund (3%)
  - Accelerated School Infrastructure Delivery (2%)
  - Health (2%)
  - Human settlements(2%)
- Management fees and other income facilitated(1%)

2. South Africa Operations (15%)
- Direct cost-to-Income (3%)
- Sustainable earnings (4%)
- Impairment charge as % of gross loan book (2%)
- Total asset growth (5%)
- Non-interest income (1%)

3. Investment Banking (15%)
- Direct cost-to-Income (3%)
- Sustainable earnings (4%)
- Impairment charge as % of gross loan book (2%)
- Total asset growth (5%)
- Non-interest income (1%)

4. International (15%)
- Direct cost-to-Income (3%)
- Sustainable earnings (4%)
- Impairment charge as % of gross loan book (2%)
- Total asset growth (5%)
- Non-interest income (1%)

5. Research and advisory (5%)
- Knowledge projects (1%)
- Mandate origination (2%)
- Integrated national implementation plans (1%)
- Management fees and other income (1%)

B. Group Financial Sustainability (23%)

6. Maintain corporate credit rating in line with sovereign rating (6%)

7. Group sustainable earnings (6%)

8. Group cost-to-income ratio (6%)

9. Treasury (5%)
- Manage forex & interest rate risk exposure within Board approved limit
- Liquidity management within Board approved limit

C. Organisational capability (12%)

10. Group human capital (5%)
- Employer of choice
  - Level of staff engagement
    - Key areas for improvement
  - Staff retention / turnover ratio
  - Skills development
    - Leadership development

11. Bank-wide group risk management (5%)
- Non performing loans
- Enterprise wide risk management
- Recoveries & rehabilitation of bad debts

12. Customer and partner satisfaction (2%)

The 2012/13 Bank Corporate Plan for the 2012/13 through 2014/15 financial years are:

DBSA 2012/13 Corporate Plan

Group financial sustainability (40%)						
Key performance measure	**Weight**	**Actual 2010/11**	**Forecast 2011/12**	**Target 2012/13**	**Target 2013/14**	**Target 2014/15**
Maintain corporate credit rating in line with sovereign rating	6%	Maintained in line with sovereign rating	Maintained in line with sovereign rating	Maintain in line with sovereign rating	Maintain in line with sovereign rating	Maintain in line with sovereign rating
Total asset growth	10%	14.4%	10.2%	6.9%	2.4%	3.1%
Group sustainable earnings	8%	R853 million	R835 million	R788 million	R766 million	R510 million
Group cost-to-income ratio	6%	41.2%	39.6%	44.2%	48.0%	58.7%
Impairment charge as % of average gross loan book	5%	0.6%	0.5%	0.6%	0.4%	0.3%
Non-interest income (including: net fees income and other operating income)	5%	R198 million	R316 million	R233 million	R257 million	R282 million

Development activities (45%)						
Key performance measure	**Weight**	**Actual 2010/11**	**Forecast 2011/12**	**Target 2012/13**	**Target 2013/14**	**Target 2014/15**
Development Fund	**30%**					
Municipal capacity building & implementation						
• Number of municipalities with non-performing loans supported with the development of turnaround strategies	4%	Not applicable	Not applicable	6	8	10
Enabling Programmes						
Agencies programme						
• Value of infrastructure facilitated through government/donor funded programmes	4%	R2.6 billion	R5 billion	R5 billion	R5 billion	R5 billion
Vulindlela Academy						
• Total number of external learners trained in priority skills	2%	11 381	15 000	10 000	10 000	10 000
• Number of learners certified competent	2%	2 809	3 000	2 000	3 000	4 200
National mandates						
*Accelerated School Infrastructure Delivery **						
• Number of school buildings in construction (commenced during the year)	3%	Not applicable	50	50	100	250
• Number of schools completed	2%	Not applicable	5	85	100	70
Health						
• Number of hospital (all categories) projects in construction and/or renovation	2%	Not applicable	Not applicable	8	9	10
• Number of construction drawings developed for nursing colleges/schools	2%	Not applicable	Not applicable	5	6	7
Human settlement						
• Number of housing units in constructed	3%	Not applicable	Not applicable	400	400	400

Development activities (45%) (continued)						
Key performance measure	**Weight**	**Actual 2010/11**	**Forecast 2011/12**	**Target 2012/13**	**Target 2013/14**	**Target 2014/15**
Development Fund (continued)	**30%**					
Jobs Fund						
• Value of grant funding approved	2%	Not applicable	R1.8 billion	R2 billion	R2 billion	Not applicable
• Estimated number of jobs approved	2%	Not applicable	Not applicable	70 000	70 000	To be determined
• Value of grant funding disbursed	2%	Not applicable	R69 million	R1.5 billion	R2 billion	R2 billion
Research and advisory	**15%**					
State Mandates and program origination	5%					
• SEZ (Spatial Economic Zones) / IDZ (Industrial Development Zones) / Spatial Development		Not applicable	Not applicable	Identification of programmes and projects in one of the thematic areas.	To be determined	To be determined
• Green / Water programmes		Not applicable	Not applicable	Identification of programmes and projects in one of the thematic areas.	To be determined	To be determined
Knowledge and research	5%					
• Unpacking national planning commission (Infrastructure plans)						
○ Integrated Infrastructure Implementation Framework for national planning		Not applicable	Not applicable	Integrated Infrastructure Implementation Framework report.	Facilitating Integrated Infrastructure Implementation Framework per sector.	Assessing impact of Integrated Infrastructure Implementation Framework.
• BRICS		Not applicable	Not applicable	Analysis of SA Inc's national and regional agenda. Mobilising key stakeholders and role players to identify priority programmes in Africa.	To be determined	To be determined

Development activities (45%) (continued)						
Key performance measure	**Weight**	**Actual 2010/11**	**Forecast 2011/12**	**Target 2012/13**	**Target 2013/14**	**Target 2014/15**
Research and advisory (continued)	**15%**					
Knowledge sharing	5%					
• Dissemination of agreed knowledge and workshop ○ Number of round tables / dialogues conducted		Not applicable	Not applicable	6	To be determined	To be determined
• Knowledge week		Not applicable	Not applicable	Two day dialogues and consensus building with government / stakeholders on actions to accelerate infrastructure delivery.	To be determined	To be determined
Group human capital						
• Level staff engagement	2%	37% against global benchmark of 35%	37%	41%	42%	42%
• Staff retention / turnover ratio	2%	11%	8%	10%	10%	10%
• Skills development						
○ Number of managers enrolled in the Leadership Development Programme	1%	Not a measure	Not a measure	20	40	To be determined
○ Talent map	1%	Not applicable	Not applicable	Develop talent map	Not applicable	Not applicable
Bank-wide group efficiency activities						
• Non-performing loan book as a percentage of gross loan book	2%	4.2%	5%	6% (max)	6% (max)	6% (max)
• Recoveries and rehabilitation of bad debt						
○ Gross new impairment / gross performing loan book	2%	0.6%	0.5%	0.7%	0.8%	0.7%
○ Change in the number of existing NPL's as at 01/04/2012 as a percentage of NPL book	2%	18%	18%	15%	15%	15%
• Effective implementation of risk appetite framework to ensure portfolio quality	1%	Not applicable	Not applicable	By year-end	Not applicable	Not applicable
Customer and partner satisfaction survey	2%	Rating of 3.8 out of 5	Rating of 4 out of 5	Rating of 4 out of 5	Rating of 4 out of 5	Rating of 4 out of 5

4. DBSA finance plan

4.1 Financial overview

In preparing the three-year financial plan of the DBSA, the main economic conditions impacting the budget include the volatility, depth and pace of the interest rate and foreign exchange rate movements, the market anomalies in the medium and long term swap and government bonds and increased impairments in line with growth in loan book and potential defaulting of large clients of the Bank. In addition, 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 rates to public sector down significantly.

The Bank's capital structure and reserves are adequate to provide for its operational programmes for the 2012/13 financial year as set out in the finance plan. However, the current capital structure is constraining the growth potential of the Bank, which would be addressed by a capital injection by the shareholder which is currently under consideration. Negotiations regarding the proposed R10 billion capital injection over the next five years and other funding initiatives are currently underway with the relevant stakeholders. The appropriate extent and timing of the proposed capital injections could 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. The proposed cash injection will increase the DBSA's own capital and will reduce the weighted average cost of funding, thereby allowing increasing of the projected disbursements in a price sensitive market as well as increase the plough-back values in support of the overall financial sustainability of the Bank. Prudent financial and risk management policies and practices are in place and monitored on an ongoing basis.

The financial plan detailed below excludes the effect of the proposed R10 billion capital injection and was prepared on the basis of targeted annual infrastructure disbursements of R6.9 billion, R6.4 billion and R6.2 billion for the 2012/13 to 2014/15 financial years respectively.

Financial plan

The salient features of the base financial plan for the financial years 2012/13 to 2014/15 includes:

- Net interest income of R1.7 billion (2012/13) is expected to decrease by approximately 11.0% per annum toward 2014/15, based on the projected loan book, capital repayments and disbursements and taking additional liquidity requirements into account. The net interest margin is projected to decrease from 40.6% (2012/13) to 37.8% (2013/14) and to 32.0% (2014/15), mainly due to the following factors:
    - 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.
    - Equity investments which do not yield interest income, but rather capital gains and dividends.

  Pricing strategies and divisional management policies are being adopted to maintain the margins at the projected levels and to curtail a further decrease in margins from the 2014/15 levels. Furthermore, various initiatives for lowering of the Bank's cost of funding in support of the projected disbursements growth are being pursued.
- The operating expense budget of R837 million (2012/13) is based on activities and initiatives necessary to increase development impact. Staff costs include remuneration, recruitment and training. Expenses are projected to grow by 5.9% per annum between 2012/13 and 2014/15 based on inflationary adjustments.
- The cost-to-income ratio is projected to increase from 44.2% in 2012/13 to 58.7% in 2014/15, mainly as a consequence of the decline in the net interest income, resulting from the loan book only growing marginally.

- Due to the revised capital structure of the Bank, the debt-to-equity ratio including callable capital is projected to reach 96.5% by 2014/15, remaining within the statutory limit of 250%.
- Developmental assets (development loans and equity investments) are projected at R48.7 billion in 2012/13, with a further growth of 2.7% per annum by 2014/15. The slow growth projected in loan assets are mainly as a result of disbursements being only marginally higher that the loan repayments coming back. Total assets of R57.1 billion (2012/13) are expected to grow by approximately 2.7% per annum over the next two years to 2014/15.
- Financial market liabilities are projected to reach R36.9 billion in 2012/13 with a further growth of 2.0% per annum by 2014/15 in line with the growth in loan assets.
- Return on average equity is projected to remain managed at approximately 4.0% by 2014/15. This is largely affected by the gearing, lower net interest margins, conservative estimates of equity income, and inflationary increases assumed 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.

Dividend policy

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

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, Vulindlela Academy and various IT system enhancements in support of the business activities of the Bank.

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

Asset type	Budget 2012/13	Projection 2013/14	Projection 2014/15
Property plant and equipment	R85 mil	R 8 mil	R10 mil
Intangible assets	R27 mil	R6 mil	R6 mil-
Total	**R112 mil**	**R 14 mil**	**R 16 mil**

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.

4.2 Financial forecast

BALANCE SHEET

	2011 Actual R mil	2012 Forecast R mil	2013 Budget R mil	2014 Projection R mil	2015 Projection R mil
Cash & cash equivalents	1 179	1 004	3 070	3 117	3 177
Investment securities	2 795	2 935	3 081	3 235	3 397
Resale agreements	218	228	240	252	265
Derivatives	1 146	1 146	1 146	1 146	1 146
Equity investments	3 478	4 961	5 700	6 525	7 445
Development loans	37 845	40 567	42 968	43 302	43 925
PPE	470	555	638	642	649
Intangible assets	77	68	85	80	77
Other assets	189	197	205	214	223
Total assets	**47 397**	**51 661**	**57 133**	**58 513**	**60 304**
Medium- to Long-term debt	28 297	32 256	36 860	37 306	38 330
Repurchase agreements	219	230	242	254	266
Derivatives	72	72	72	72	72
Other liabilities	896	954	1 016	1 083	1 156
Liabilities	29 484	33 512	38 190	38 715	39 824
Shareholders Equity	3 992	3 992	3 992	3 992	3 992
Revaluation - land & buildings	246	257	269	282	295
Reserve for general loan risk	1 120	1 205	1 279	1 294	1 312
Fair value & hedging reserves	13	13	13	13	13
Retained earnings	12 542	12 682	13 390	14 217	14 868
Equity	17 913	18 149	18 943	19 798	20 480
Total equity & liabilities	**47 397**	**51 661**	**57 133**	**58 513**	**60 304**
Balance sheet ratios:					
Callable capital (R million)	15 000	20 000	20 000	20 000	20 000
Debt / equity (excl. callable capital)	161.1%	181.0%	197.9%	191.9%	190.7%
Debt / equity (incl. callable capital)	87.7%	86.1%	96.3%	95.5%	96.5%
Return on average assets	0.7%	1.1%	1.8%	1.7%	1.4%
Return on average equity	1.9%	2.9%	5.3%	5.2%	4.0%
Net interest margin on average assets	4.6%	4.3%	4.0%	3.7%	3.0%

INCOME STATEMENT

	2011 Actual R mil	2012 Forecast R mil	2013 Budget R mil	2014 Projection R mil	2015 Projection R mil
Interest income	3 588	3 958	4 090	4 207	4 114
Interest expense	(1 946)	(2 283)	(2 430)	(2 616)	(2 798)
Net interest income	**1 642**	**1 675**	**1 660**	**1 591**	**1 316**
Net fee income	114	114	174	191	210
Other income	84	201	60	66	72
Operating income	1 840	1 990	1 894	1 848	1 598
Impairment	(229)	(366)	(269)	(195)	(149)
Operating expenses	(758)	(789)	(837)	(887)	(939)
Personnel cost	(566)	(543)	(593)	(628)	(667)
Other expenses	(176)	(225)	(220)	(233)	(247)
Depreciation	(16)	(21)	(24)	(26)	(25)
Sustainable earnings	**853**	**835**	**788**	**766**	**510**
TA grants	(65)	(79)	(85)	(70)	(56)
DF grant	(257)	(300)	(192)	(165)	(140)
Net surplus before revaluation	531	456	511	531	314
Revaluation (loss) / gain	(399)	(510)	271	311	354
Foreign exchange (loss) / gain	(57)	279	-	-	-
Net profit	**75**	**225**	**782**	**842**	**668**

Income statement ratios

Net interest margin	45.8%	42.3%	40.6%	37.8%	32.0%
Cost to income ratio	41.2%	39.6%	44.2%	48.0%	58.7%

CASH FLOW STATEMENT

	2011 Actual R' million	2012 Forecast R' million	2013 Budget R' million	2014 Projection R' million	2015 Projection R' million
Profit for the year	75	225	782	842	668
Adjusted for:	(743)	(868)	(1 416)	(1 507)	(1 365)
Depreciation	16	21	24	26	26
Grants	322	380	277	235	196
Dividends	(16)	(67)	(15)	(16)	(18)
Fees raised (development loans)	(49)				
Realised capital gain on equity inv	(58)	(123)	(40)	(44)	(48)
Revaluation (gains) / losses	399	510	(271)	(311)	(354)
Foreign exchange (gains) / losses	57	(279)	-	-	-
Impairments	228	365	269	194	149
Net interest income	(1 642)	(1 675)	(1 660)	(1 591)	(1 316)
	(668)	(643)	(634)	(665)	(697)
Change in other assets	20	(7)	(8)	(8)-	(10)
Change in other payables	93	58	62	67-	72
	(555)	(592)	(580)	(606)	(635)
Interest & dividends received	3 171	4 025	4 105	4 223	4 132
Interest paid	(2 266)	(2 283)	(2 430)	(2 616)	(2 798)
Net cash from operating activities	**350**	**1 150**	**1 095**	**1 001**	**699**
Cash flows from development activities	**(5 883)**	**(5 058)**	**(3 375)**	**(1 233)**	**(1 485)**
Development loan disbursements	(7 665)	(6 731)	(6 453)	(5 960)	(5 711)
Development loan principal repayments	2 673	3 644	3 782	5 432	4 939
Equity investment disbursements	(671)	(1 591)	(427)	(470)	(517)
Equity investment disposals	119	-	-	-	-
Grants paid	(339)	(380)	(277)	(235)	(196)
Cash flows from investing activities	**1 643**	**(226)**	**(258)**	**(168)**	**(178)**
Purchase of PPE & intangibles	(51)	(86)	(111)	(14)	(16)
Movement in financial market assets	1 694	(140)	(147)	(154)	(162)
Cash flows from financing activities	**2 378**	**3 959**	**4 604**	**446**	**1 024**
Capital raised					
Financial market liabilities repaid	(5 576)	(3 721)	(3 289)	(2 154)	(476)
Financial market liabilities raised	7 954	7 680	7 893	2 600	1 500
Movement in cash & cash equivalents	**(1 512)**	**(175)**	**2 066**	**46**	**60**
Effect of exchange rate movements	(15)	-	-	-	-
Opening cash & cash equivalents	2 707	1 179	1 004	3 070	3 117
Closing cash & cash equivalents	**1 180**	**1 004**	**3 070**	**3 117**	**3 177**

ANNEXURES

5. Annexures index

5.1 Corporate governance

5.2 DBSA Fraud Prevention Plan

5.3 DBSA Corporate structure

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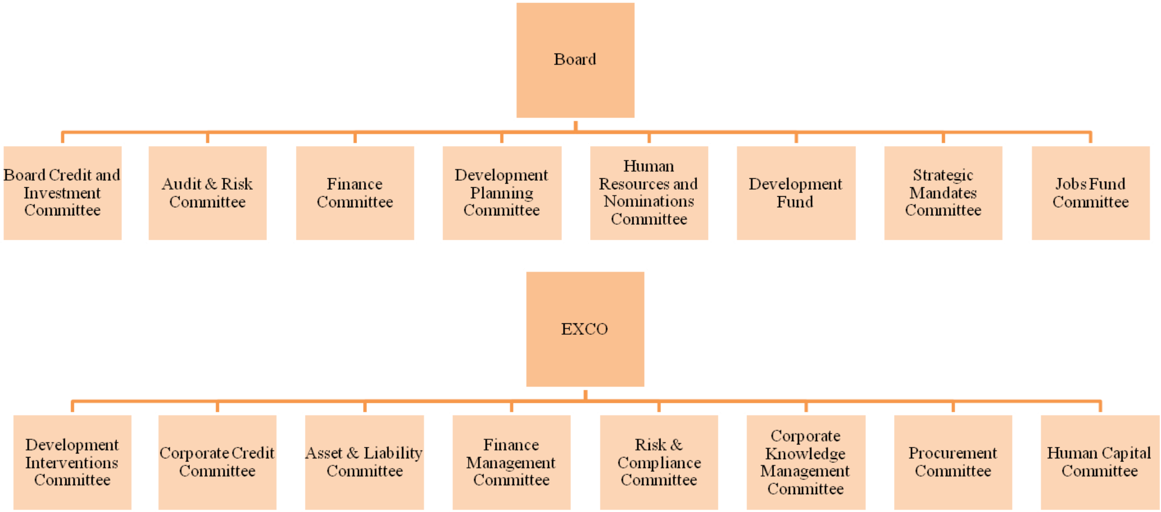
Annexure 5.1: Corporate governance

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 changed during the year under review. Five new directors were appointed, namely: Ms. Albertinah Kekana; Ms. Dawn Marole; Dr. Lungile Bhengu-Baloyi; Ms. Mary Vilakazi and Ms. Busisiwe Mabuza

The Board currently consists of 14 directors, 13 of whom are non-executive and 12 are independent. The Chief Executive is the sole executive director. A member from the National Treasury serves on the Board as a shareholder representative. 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 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 a material interest as defined in the Bank's Conflict of Interest policy. Additionally, he/she may be recused from any meeting at the discretion of the Chairman when such matters are discussed.
- 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.

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 eight committees: The Audit & Risk Committee, Finance Committee, Board Credit and Investment Committee, Human Resources and Nominations Committee, and the Development Planning Committee, which were the existing committees. In the year under review the Board approved the introduction of the following new committees: Jobs Fund Investment Committees and Strategic Mandates 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 & 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 and Nominations Committee

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

Development Planning 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.

Jobs Fund Investment Committee

This Committee will be responsible for the evaluation and subsequent approval or rejection of job creation/investment projects submitted to the committee against the funding criteria of each window and associated project evaluation grid as contained in the Jobs Fund Policies and Procedures Manual and imposing terms and conditions on funding awarded, where necessary. The Committee oversees the decision making process in so far as it relates to the Jobs Fund investments.

Strategic Mandates Committee

This Committee oversees the implementation of national projects and any special projects that the DBSA may be required to perform from time to time. With the number of projects coming through from Government there is a requirement that there be specific focus on oversight at board level to ensure that these national requirement are implemented effectively and ensuring compliance to best standards.

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	Development Fund Divisional Board Committee	Audit & Risk Committee	Finance Committee	Board Credit Investment Committee	Development Planning Committee	Human Resources & Nominations Committee	Strategic Mandates Committee	Jobs Fund Investment Committee
Mr Jabu Moleketi (Chair)	Prof Brian Figaji (Chair)	Ms Albertina Kekana (Chair)	Ms Thembisa Dingaan (Chair)	Ms Wendy Lucas-Bull (Chair)	Mr Andrew Boraine (Chair)	Ms Dawn Marole (Chair)	Mr Jabu Moleketi (Chair)	Mr Frans Baleni (Chair)
Mr Frans Baleni (D/Chair)	Mr Frans Baleni	Mr Paul Baloyi (CE & MD)	Mr Paul Baloyi (CE & MD)	Mr Paul Baloyi (CE & MD)	Mr Paul Baloyi (CE & MD)	Mr Frans Baleni	Mr Frans Baleni	Ms Najwah Allie-Edries
Mr Paul Baloyi (CE & MD)	Mr Paul Baloyi (CE & MD)	Ms Thembisa Dingaan	Ms Albertina Kekana	Ms Thembisa Dingaan	Dr Lungile Bhengu-Baloyi	Mr Paul Baloyi (CE & MD)	Mr Paul Baloyi (CE & MD)	Mr Paul Baloyi (CE & MD)
Dr Lungile Bhengu-Baloyi	Dr Lungile Bhengu-Baloyi	Prof Omar Latiff	Prof Omar Latiff	Prof Brian Figaji (co-opted)	Prof David Everatt (co-opted)	Dr Lungile Bhengu-Baloyi	Mr Andrew Boraine	Ms Thembisa Dingaan
Mr Andrew Boraine	Mr Andrew Boraine	Ms Wendy Lucas-Bull	Ms Wendy Lucas-Bull	Ms Busisiwe Mabuza	Ms Albertina Kekana	Prof Brian Figaji (co-opted)	Ms Albertina Kekana	Mr Andrew Donaldson (NT)
Mr Kenneth Brown	Prof Omar Latiff	Ms Dawn Marole	Ms Dawn Marole	Dr Claudia Manning	Dr R Kfir (co-opted)	Ms Busisiwe Mabuza	Dr Claudia Manning	Dr Paul Kibuuka
Ms Thembisa Dingaan	Ms Busisiwe Mabuza	Ms Mary Vilakazi	Ms Mary Vilakazi	Mr Jabu Moleketi	Prof Vivienne Taylor (co-opted)	Dr Claudia Manning	Ms Dawn Marole	Ms Wendy Lucas-Bull
Ms Albertina Kekana	Dr Claudia Manning			Ms Mary Vilakazi		Mr Jabu Moleketi	Ms. Wendy Lucas-Bull	Mr JJ Njeke (Independent)
Prof Omar Latiff	Ms Mampiti Matsabu						Ms. Thembisa Dingaan	Mr Brian Whittaker (Independent)
Ms Wendy Lucas-Bull								
Ms Busisiwe Mabuza								
Dr Claudia Manning								
Ms Dawn Marole								
Ms Mary Vilakazi								

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 new Companies Act of 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.

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 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 2012/2013. 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.

- 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 2011 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 [1]

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 organisations 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 minimise 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 organisation. Fraud is part of organisational operational risk.

The Public Finance Management Act, No 1 of 1999 and Treasury Regulations, March 2005[2], 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 the National Treasury, a Corporate Plan together with the Fraud Prevention Plan[3].

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 organisations 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.

[1] Approved at the 17 March 2011 DBSA Board meeting
[2] Section 27.2.1 of the Treasury Regulations
[3] 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 organisational governance.

- **Good corporate governance**

  It is critical to promote an organisational culture of ethical behaviour and integrity to prevent fraud and corporate crime by influencing employees' conduct and behavioural standards. Recognising the nexus between the organisational culture and employee behaviour, management strives to ensure that organisational 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.
- Monthly reconciliation of bank statements.

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**

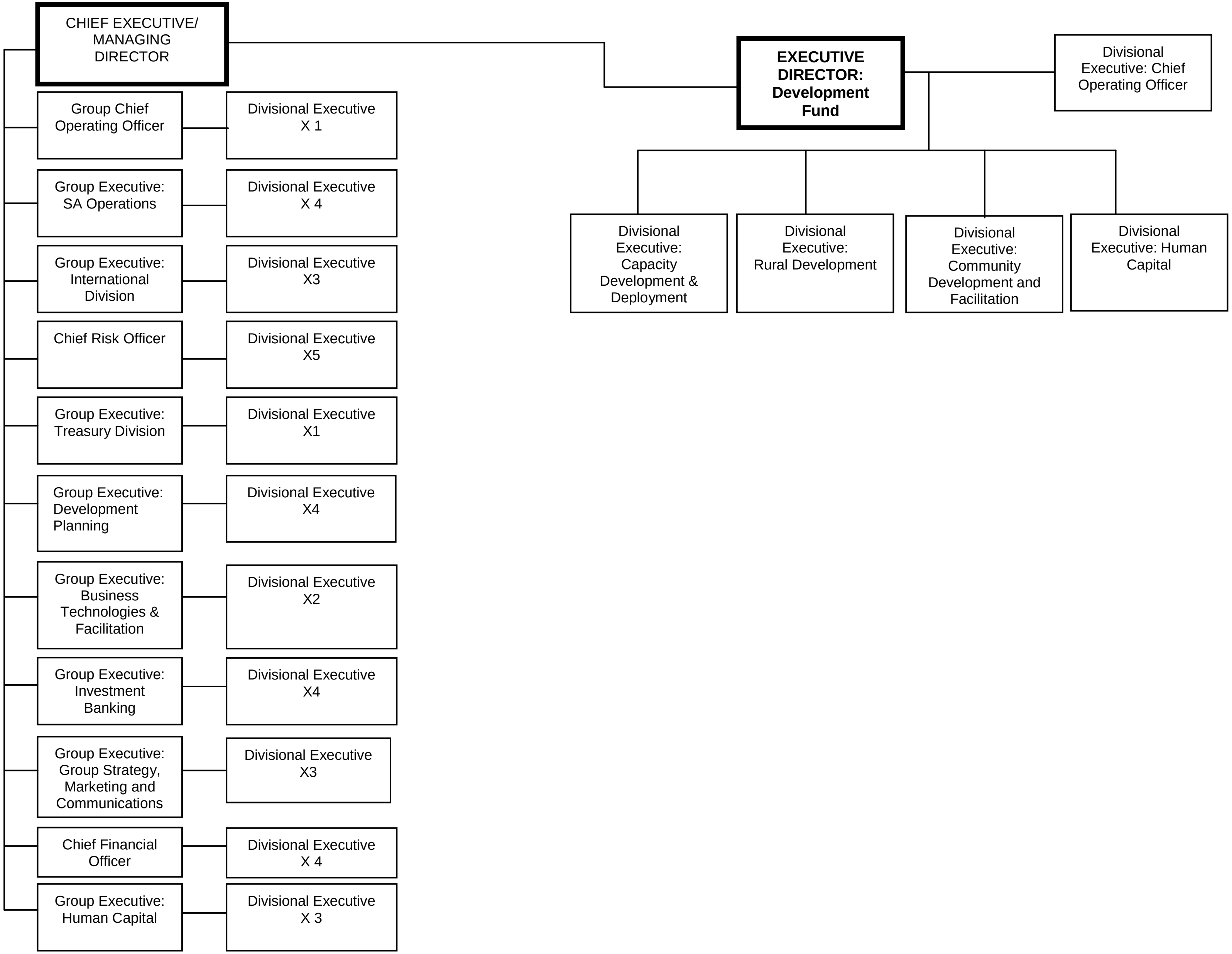
  The Bank will conduct a review of the Fraud Prevention Plan annually to determine the effectiveness thereof.

- **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 2011

Mr Phillip Jabulani Moleketi (54)

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).

Other directorships:

Harith Fund Managers: Non-executive Director.

Brait Societe Anonyme: Non-executive Chairman.

Vodacom: Non-executive Director.

Remgro (Pty) Ltd: Non-executive Director.

MMI Holdings: Non-executive Director.

Mr Frans Msokoli Baleni (51)

General Secretary: National Union of Mineworkers

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

Deputy Chairman of the DBSA Board as from: 1 September 2010.

Academic qualifications:

BA Degree in Social Science Development Studies (2006).

Diploma in Political Science and Trade Unionism, Whitehall College, Dublin (1990).

Other directorships:

DBSA Development Fund: 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 (non-executive).

University of Johannesburg: Deputy Chairman of Council (non-executive).

Mr Paul Cambo Baloyi (55)

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.

Business Ventures: Non-executive Director.

Chrometco Ltd: Non-Executive Director.

DBSA Development Fund: Chief Executive Officer and Managing Director.

Harith Fund Managers (Pty) Ltd: Non-executive Director (DBSA Nominee).

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

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

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

TCX Investment Management Company: Non-executive Director (DBSA Nominee).

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

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

African Capacity Building Foundation: Chairman (Non-executive).

Dr. Lungile Bhengu-Baloyi (55)

Founder & Director : Development and Leadership Consulting

DBSA Non-Executive & Independent Director as from: 12 October 2011

Academic qualifications:

Diploma in (Nutrition), MEDUNSA, (1981).

BSc. (Dietetics), MEDUNSA (1984).

Advanced University Diploma (Adult Education), Natal University (1989).

MA (Social Policy), University of Durban Westville.

LLM (Public Health Law), University of Durban Westville.

Doctorate (Public Administration), University of Durban Westville (2003).

Certificates

Research Techniques (Wits) (1993).

Management for Transformation (UKZN CHESS) (1994).

Companies Act, King III Corporate Governance, (IOD)

Other directorships:

KZN Provincial Planning Commissioner.

Chairperson: AIDS Foundation of Southern Africa.

DBSA Development Fund: Non-executive.

Kellog International Leadership Fellow.

African Leadership Initiative (ALI) Fellow.

Board of Directors (continued)

Mr Andrew Boraine (52)

Chief Executive: Cape Town Partnership,

Adjunct Professor: African Centre for Cities: University of Cape Town

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.

International Downtown Association: Non-executive Director.

Mrs Thembisa Dingaan (38)

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).

LLM, Harvard University (1997).

LLB, University of KwaZulu-Natal (1995).

BProc, University of KwaZulu-Natal (1994).

Other directorships:

Adapt IT Holdings Limited: Non-executive Director.

Apollo Tyres South Africa (Pty) Limited: Non-executive Director.

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

Imperial Holdings Limited: Non-executive Director.

Mustek Ltd: Non-executive Director.

Skweyiya Investment Holdings (Pty) Ltd: Executive Director.

Ukhamba Holdings: Non-executive Director.

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Mr Kenneth Brown (49)

Deputy Director-General: Intergovernmental Relations, National Treasury

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).

Other directorships:

DBSA Development Fund: Non-executive Director.

Ms Albertinah Kekana(38)

DBSA Non-Executive & Independent Director as from: 12 October 2011

Academic qualifications:

B.Com (UCT)

Postgraduate Diploma in Accounting (UCT)

AMP (Harvard Business School)

CA (SA)

Other directorships:

Anglo Platinum Non-executive Director.

Mineworkers Investment Company Non-executive Director.

Vodacom Group Non-executive Director.

Board of Directors (continued)

Mr. Omar Aboobaker Latiff (57)

Director/Partner: PricewaterhouseCoopers

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

Academic qualifications:

Financing Infrastructure in a Market Economy, Harvard Kennedy School, 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: Non-executive Director.

HASMA Investments (Pty) Ltd: Non-executive 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.

Project Preparation Trust: Trustee.

DBSA Development Fund: Non-executive Director.

Mrs Wendy Lucas-Bull (58)

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.

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

Nedbank Group Limited: Non-executive Director.

Ms. Busisiwe Mabuza (48)

Investment Executive, Vulindlela Holdings (Pty) Ltd

DBSA Non-Executive & Independent Director as from: 12 October 2011

Academic qualifications:

BA (Mathematics), City University of New York (Hunter College).

MBA, Stern School of Business, NYC

Other directorships

Forbes Africa: Non-executive Director.

Afgri Limited: Non-executive Director.

CEF (Pty) Ltd: Non-executive Director.

DBSA Development Fund: Non-executive Director.

Dr Claudia Manning (44)

Executive Director: Eci Africa

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).

BA (Economic History; English), University of Natal (1987).

Other directorships:

DBSA Development Fund: Non-executive Director.

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

Sangena investments: Non-executive Director.

Board of Directors (continued)

Ms Dawn Marole (51)

Chairman: Executivemagic Consulting

DBSA Non-Executive & Independent Director as from: 12 October 2011

Academic qualifications:

BCom (Acc), University of Zululand.

Dip Tertiary Education, University of South Africa.

MBA NEU Boston Massachusetts.

Executive Leadership Development Programme, GIBS.

Other directorships:

Eyomhlaba Investment Holdings (Pty) Limited, Non-executive Director.

Richards Bay Minerals (Pty) Limited, Non-executive Director.

JP Morgan Sub Saharan Africa, Non-executive Director.

MTN Group Limited, Non-executive Director.

Santam (Ltd), Non-executive Director.

Govhani Resources (Pty) Ltd, Non-executive Director.

Ms Mary Vilakazi

Independent consultant

DBSA Non-Executive & Independent Director as from: 12 October 2011

Academic qualifications:

BCom (Honours),

HDip Auditing,

CA (SA)

Other directorships:

Curro Holdings Limited Non-executive Director.

Holdsport Limited Non-executive Director.

FSB Long-term Insurance Advisory Committee to the Minister of Finance

Executive Management

Mr Paul Currie (49)

Group Chief 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 Port Elizabeth (1991).

BCom (Accounting), University of Port Elizabeth (1990).

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

Mr Ernest Dietrich (48)

Group Executive: Treasury

DBSA staff member as from: 2 January 2001.

Group Executive as from: 1 April 2006.

Academic qualifications:

CFA Charter (2002).

MBA, University of Cape Town (1996).

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

HDE, University of the Western Cape (1985).

Dr Paul Kiyingi Kibuuka (50)

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, Kampala (1984).

Other directorships:

Mphato Investments: Non-executive Director.

Lincholn Consultants Ltd: Non-executive Director.

Mr Magare Luther Mashaba (59)

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 (1991).

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

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

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

Executive Management (continued)

Ms Dolores Mashishi (43)

Group Executive: Human Capital

DBSA staff member and Group Executive as from: 1 September 2011

Academic qualifications:

General Management Programme, Harvard Business School (2011).

Strategic Management: Human Resources, Wits Business School (2001),

Management Advancement Programme, Wits Business School (1999),

MSc Ed: Development Psychology, University of Illinois, Chicago (1994).

BEd: Psychology, Wits University (1991).

BA Ed: Education and Psychology, University of North West (1989).

Mr Ravindra Naidoo (41)

Group Executive: Development Planning

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

Academic qualifications:

Certificate in South African Executive Leadership Programme (Rethinking the Role of State-Owned Enterprises), University of London (SOAS) (2011).

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

Masters in Public Administration, Harvard Kennedy School, 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.

Foundation for Social Justice: Founding Member.

Element Investment Managers: Advisory Board Member.

Trade & Industry Policy Strategies: Board Member.

Orange Farm Community Development Trust: Trustee.

Mr TP Nchocho (43)

Group Executive: Investment Banking

DBSA staff member as from: 1 February 2002.

Group Executive as from: 1 April 2010.

Academic qualifications:

M.Sc (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:

Old Mutual Housing Impact Fund.

One & Only Hotel (Cape Town).

New Africa Mining Fund.

Shanduka Value Partners Fund.

Africa Agricultural Fund.

Mr Anton Redelinghuis (62)

Acting Group Chief Financial Officer

Acting Group Executive: Business Technologies and Facilities

DBSA staff member as from: 1 July 2009.

Acting Group Executive as from: 1 August 2011

Academic qualifications:

Advanced Management Programme. INSEAD (1999).

International Programme Managers Programme. INSEAD (2008).

CA (SA).

Masters of Commerce (1981).

B Com Hons (Accounting), North West University (1976).

Other directorships:

ATKV: Non-executive Director, Deputy Chairperson and Chairperson of the Audit and Risk Committee.

Mr Admassu Yilma Tadesse (42)

Group Executive: International Division

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 (2003).

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

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

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

Other directorships:

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

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 Project Preparation Development Fund: Trustee (DBSA nominee).

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

Annexure 5.5: Enterprise Risk Management Framework[4]

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 the 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 during 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 was 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.
- 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.

[4] 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.
- 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 provides an overview of the DBSA's risk classification system.

Overview of the DBSA's risk management system

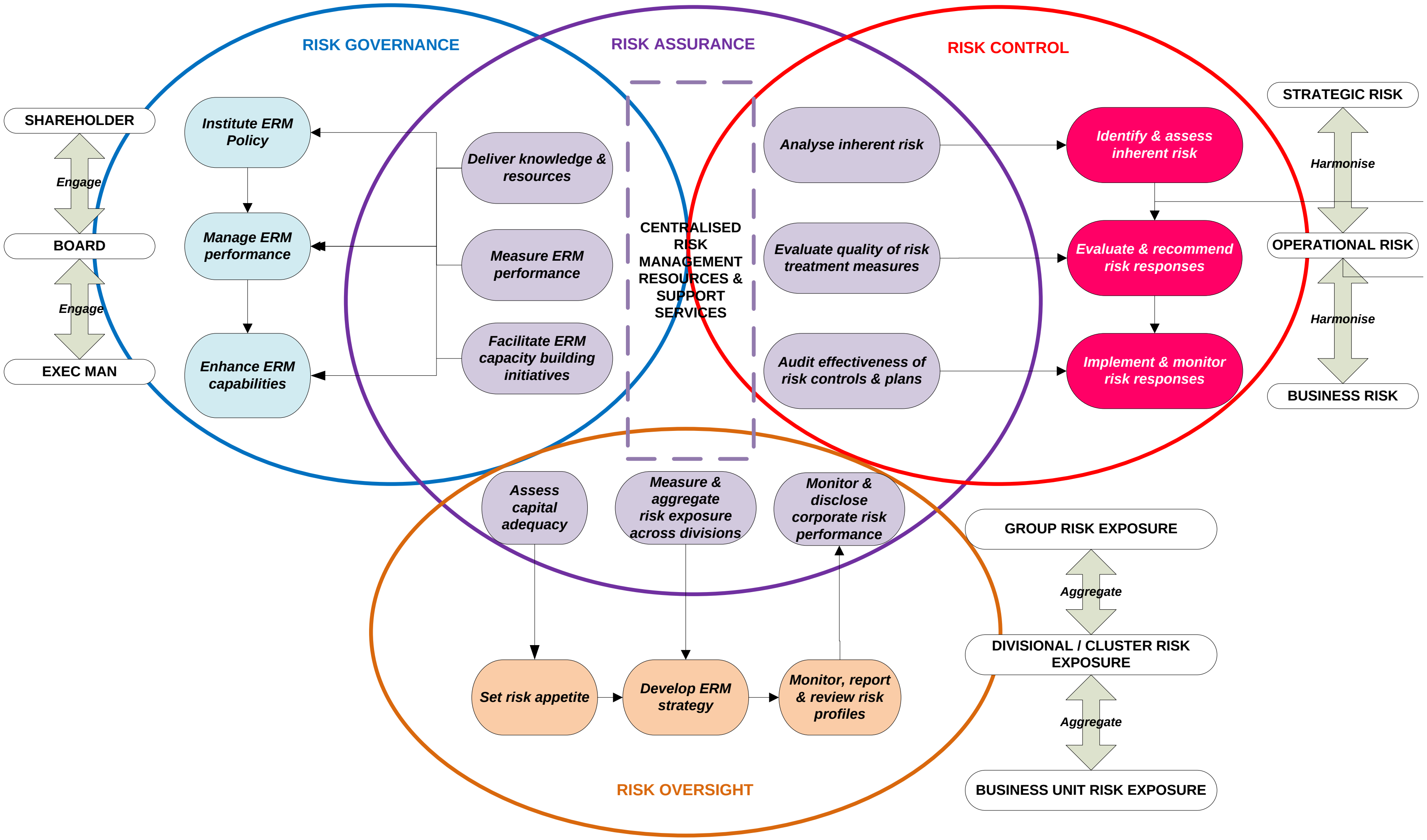
Risk management comprises the tasks performed in governing, executing and overseeing the DBSA's effort directed towards understanding and responding to events which may cause deviations from returns or outcomes. Risk management is applied in the DBSA as:

- 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.
- 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

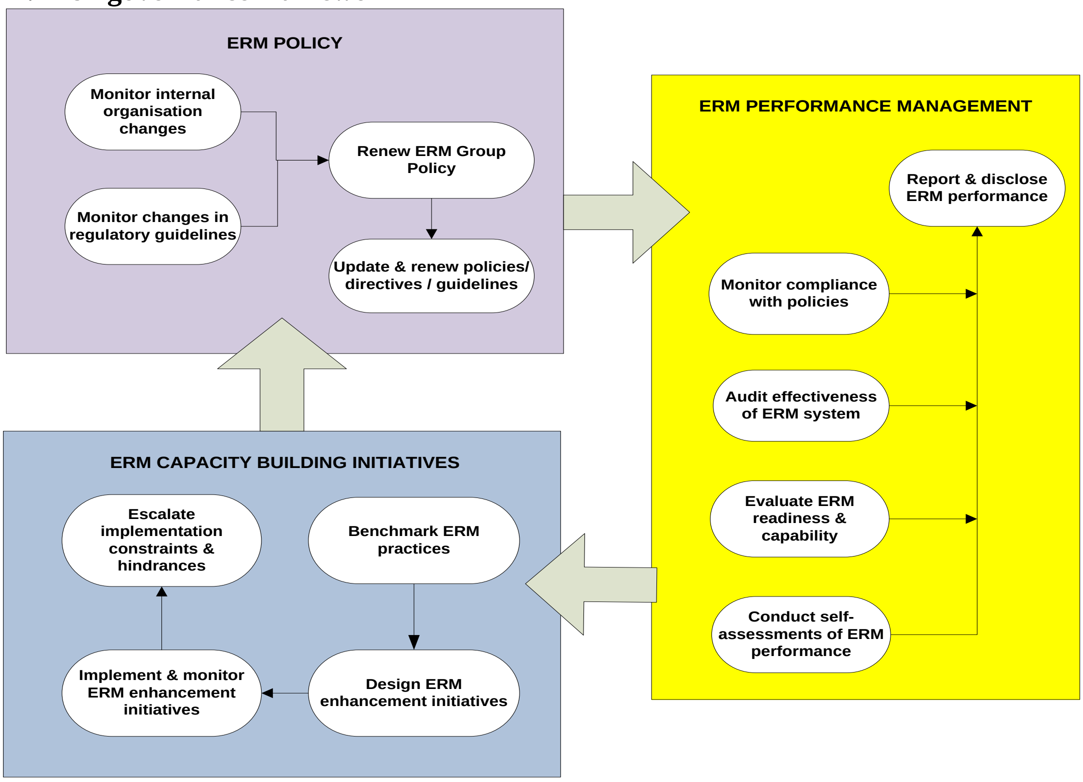
From a conceptual perspective, risk governance constitutes the application of the discipline, principles and practices of corporate governance with the objective of creating an enabling environment for the integrated management of risk and assuring the reliability of the risk management system. In a 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

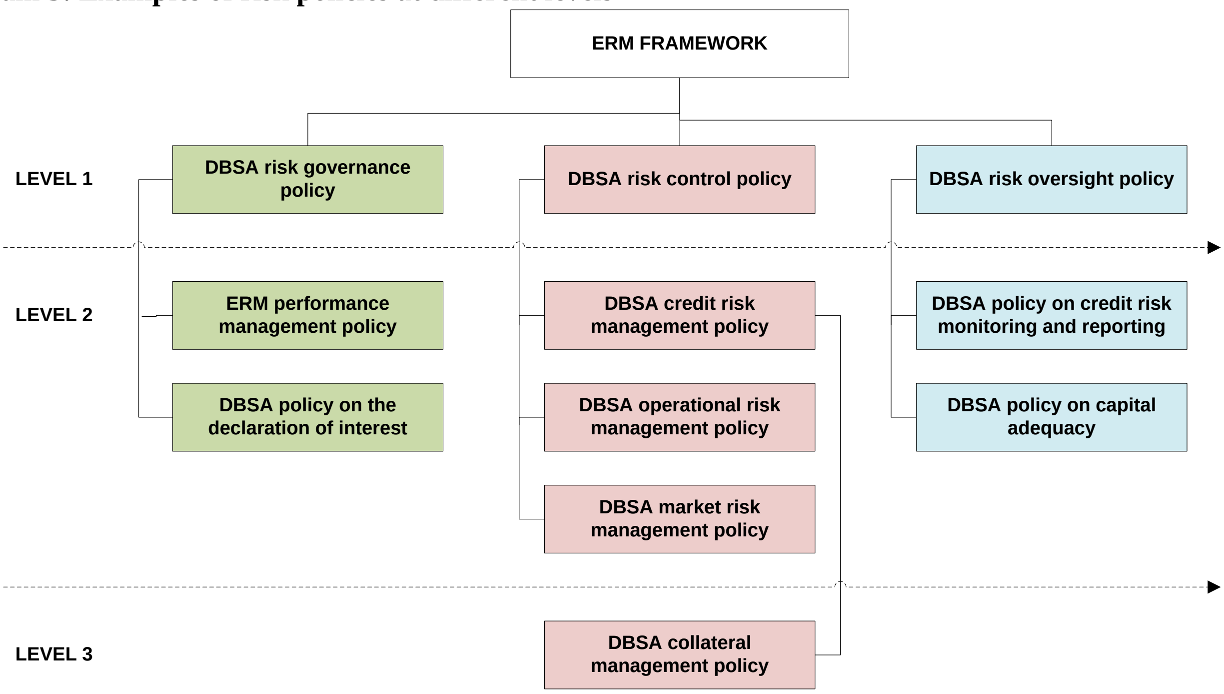
Policy is defined broadly as a set of standing arrangements, directives and instructions aimed at defining and empowering the execution of accountabilities, entrenching values and ethical behaviour and engendering efficiency and assuring quality and consistency in the performance of duties. ERM policy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

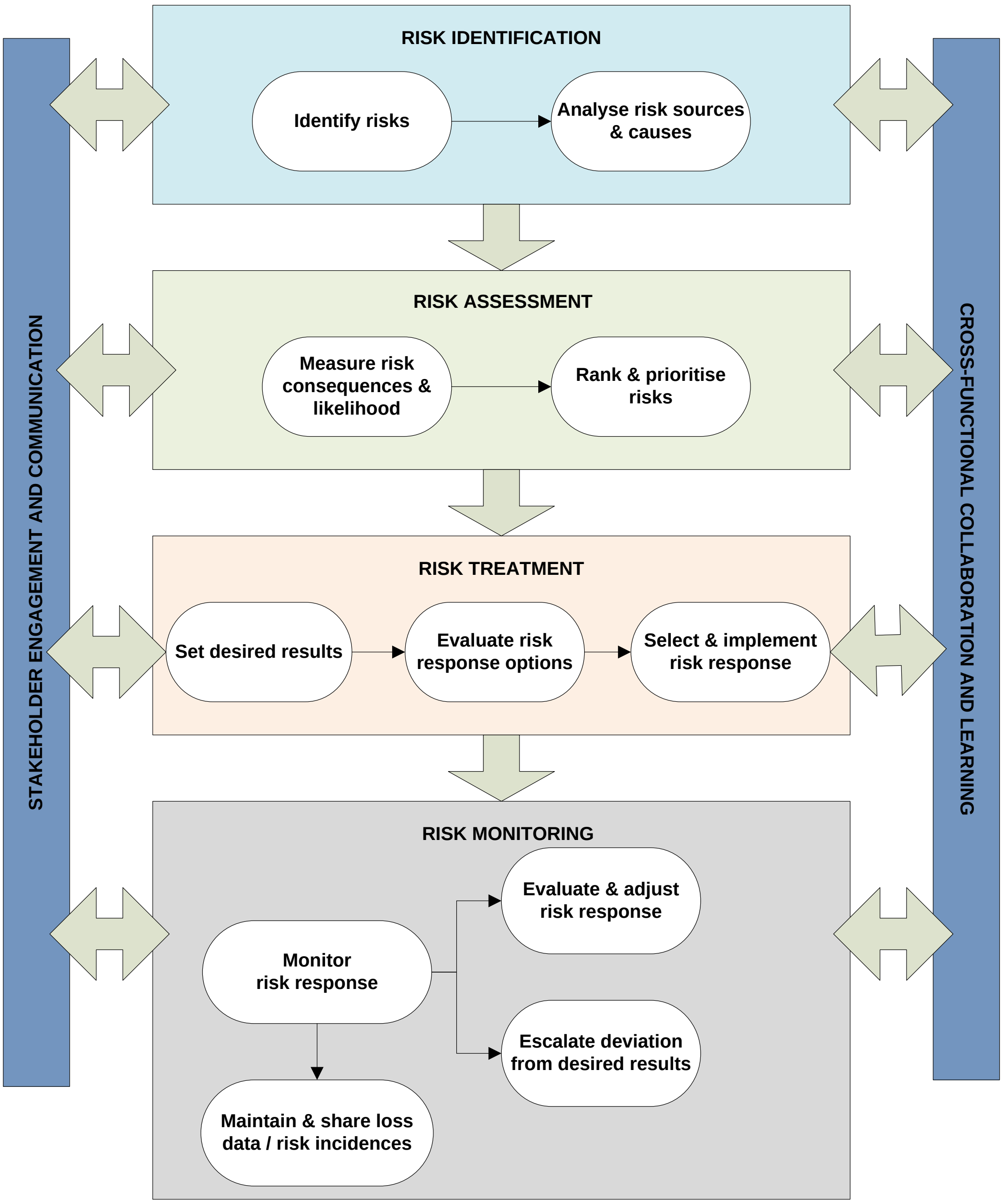
Overview of risk control

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.
- 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



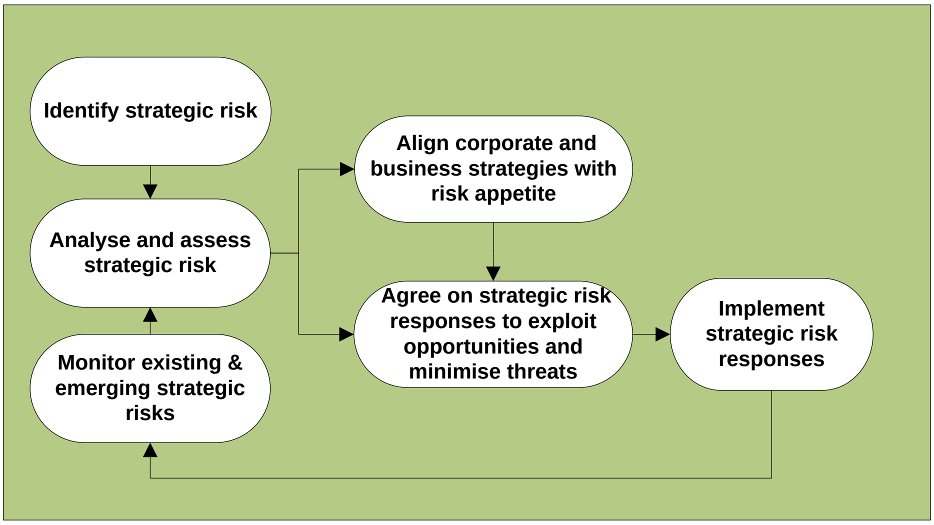
Given the inherent nature of risk in implementing strategy, conducting operations and doing business on a day-to-day basis, control of risk is best performed as close as possible to the source of the risk origination. Ownership of risk at source ensures accountability for risk assumed in protecting assets 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

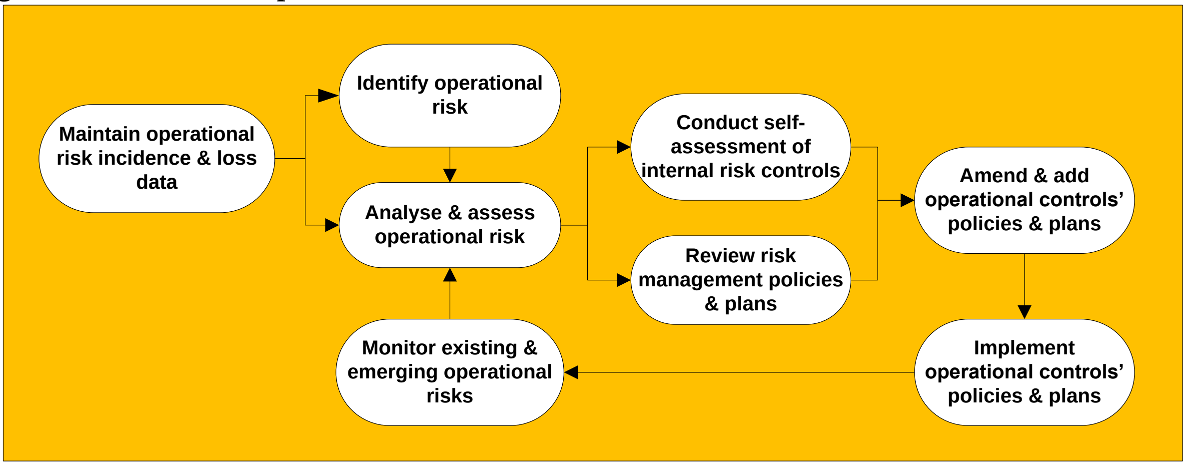


Operational risk management practices

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.

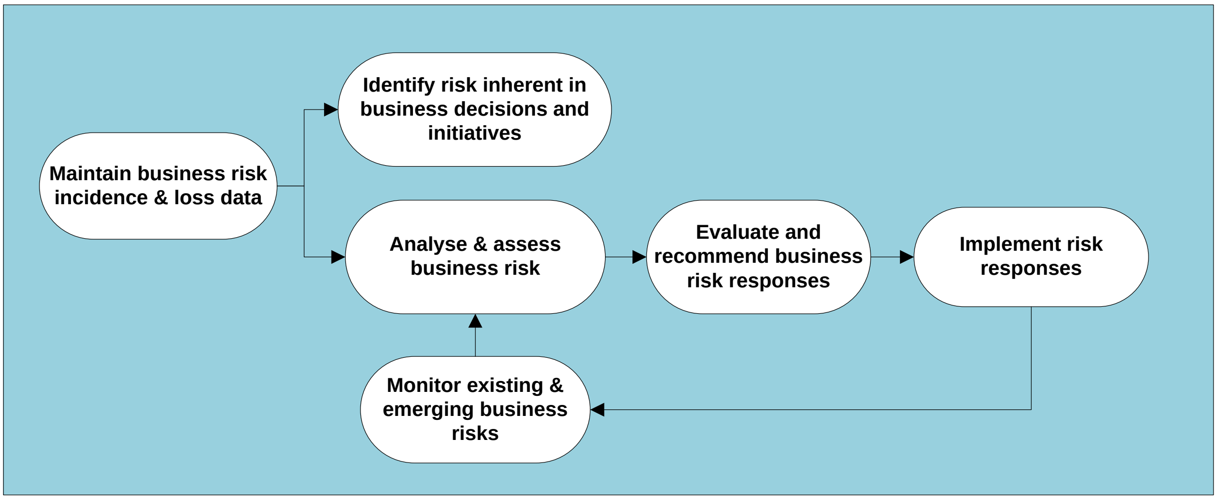
Diagram 6: Overview of operational risk control



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.

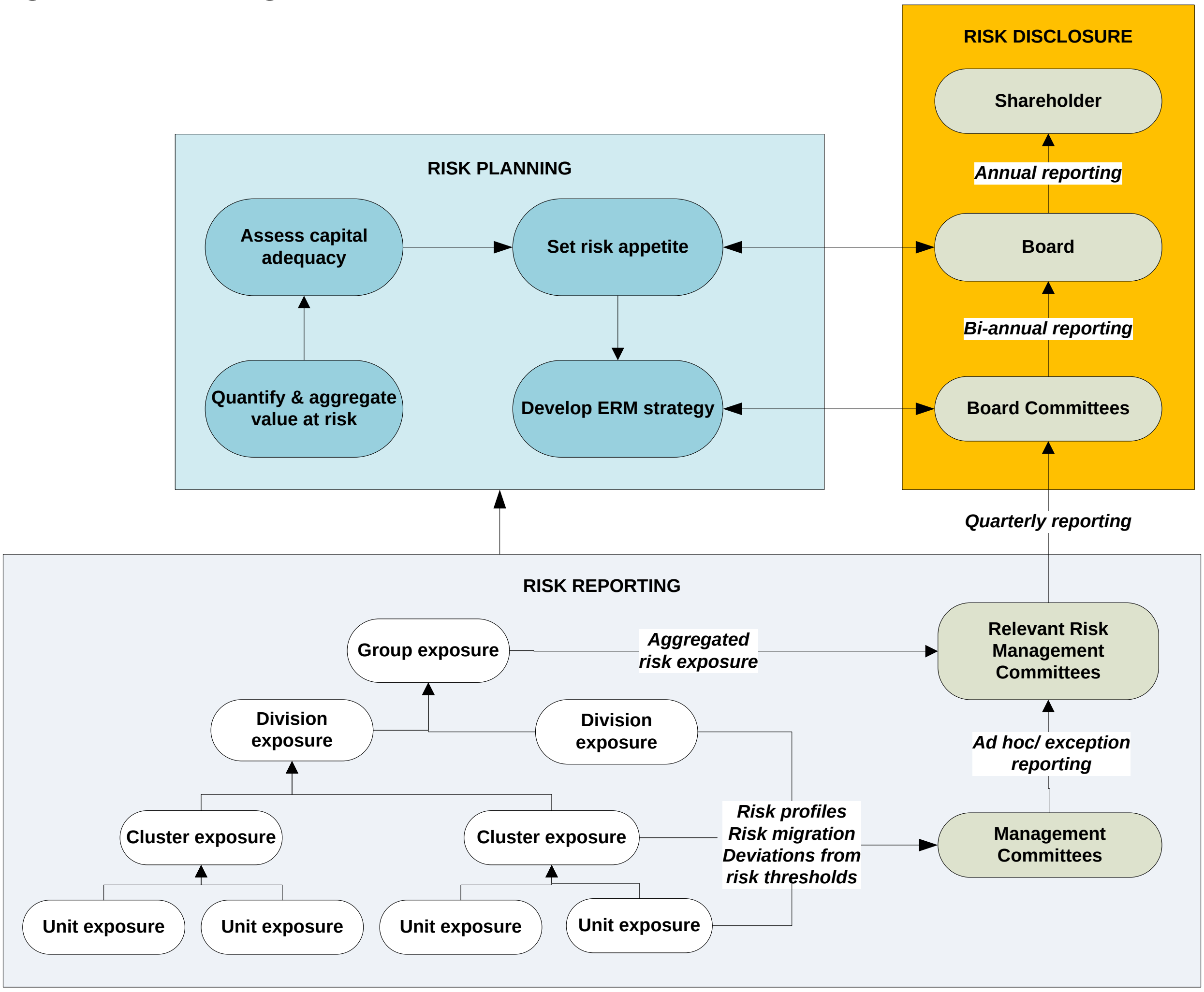
Risk Oversight Framework

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.
- 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.
- 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.
- 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 Chief Risk Officer (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.
- 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.
- Progress with the implementation of risk plans.

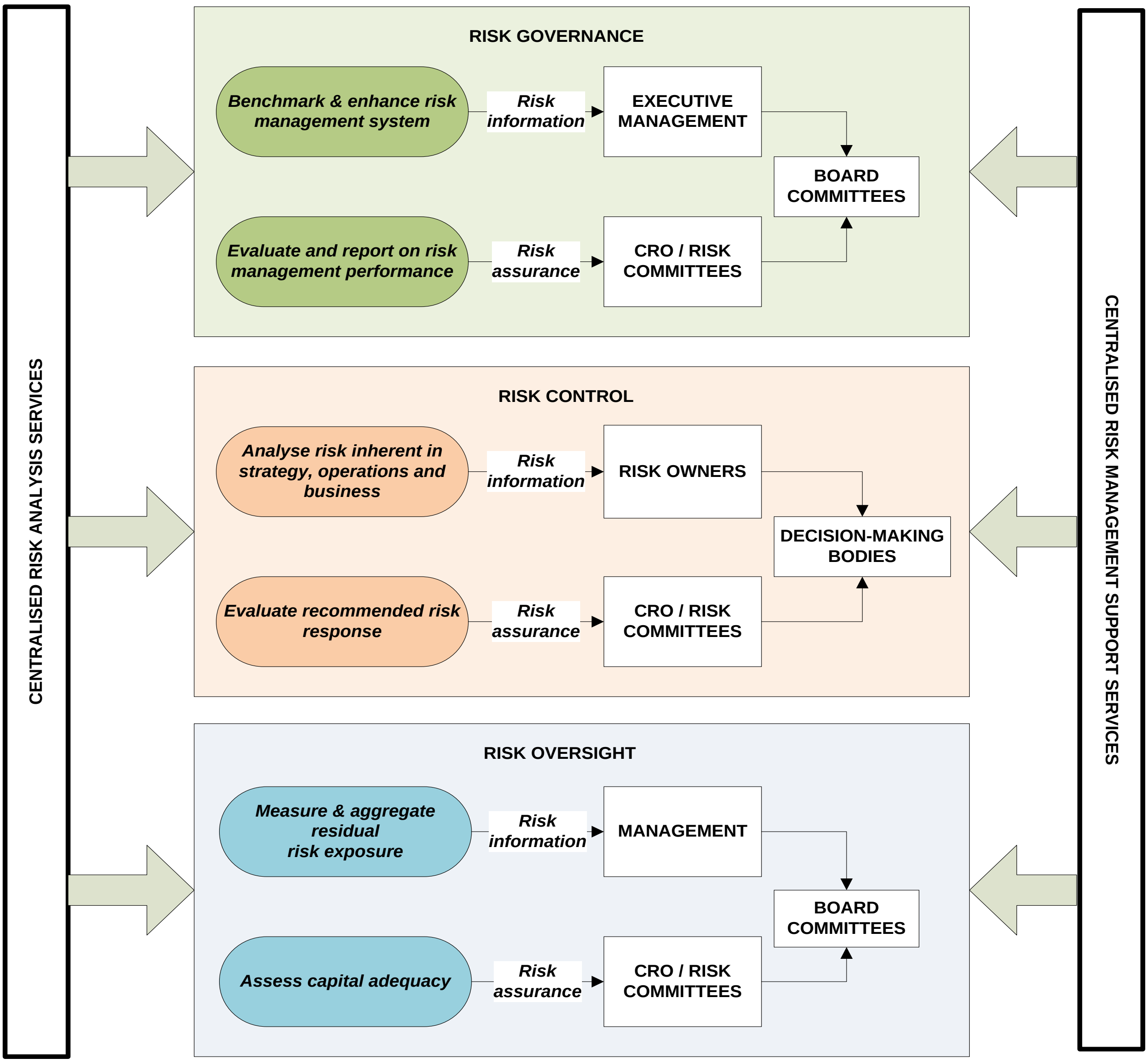
Risk Assurance Framework

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.
- 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.
- 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

During the previous financial year, 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 following 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 by 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.

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	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Ability to finance expanded mandate	• Scenario / sensitivity analysis and stress testing. • Proactive shareholder engagement. • The DBSA is in the process of investigating other efficient mitigation initiatives for financing and execution of expanded mandates.	Moderate	Critical	High	**Board Committee:** Finance Committee **Management Committee:** EXCO Asset Liability Committee Finance Management Committee	Controls in place and reviewed on a continuous basis
Ability to execute on expanded mandate	• The Vector office has been set up to identify all mandate related risks and investigate possible actions.	Moderate	Critical	High	**Board Committee:** Strategic Mandates Committee **Management Committee:** Development Fund EXCO	Controls in place and reviewed on a continuous basis
Financial sustainability	• 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	High	Medium	**Board Committee:** Finance Committee **Management Committee:** Finance EXCO	Controls in place and reviewed on a continuous basis

Strategic risk issues						
Key risk / threat to the DBSA	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Inability to adapt timeously to change in the business environment	• 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. • On-going review of strategy against changes (external/internal) • Alignment of divisional objectives through collaborative objective setting, aligning reward structures to incentivise shared outcomes.	Rare	Medium	Medium	**Management Committee:** EXCO	Controls in place and reviewed on a continuous basis

Operational risk issues						
Key risk / threat to the DBSA	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Organisational capability and talent management.	• 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.	Rare	Moderate	Low	**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	• Business continuity management plans and processes. • Systems back-up processes and Disaster Recovery (DR) 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.	Unlikely	Critical	Medium	**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	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Fraud and corruption	• 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	Low	Medium	**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	• 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. • Training.	Unlikely	Low	Low	**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	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Decrease in asset quality – credit risk	• Portfolio management processes. • Credit monitoring of individual and portfolio exposures. • Proactive workout and recovery function.	Likely	Moderate	High	**<u>Board Committee:</u>** Board Credit and Investment Committee **<u>Management Committee:</u>** Corporate Credit Committee	Controls in place and reviewed on a continuous basis
Brand management and damage to reputation	• 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	Low	Low	**<u>Board Committee:</u>** Audit and Risk Committee **<u>Management Committee:</u>** Risk and Compliance Committee	Controls in place and reviewed on a continuous basis

Annexure 5.7: DBSA funding plan and borrowing programme for 2012/13

Introduction

The purpose of this annexure is top provide the National Treasury with the approved DBSA borrowing programme for the 2012/13 financial year.

Key points

- Total gross borrowings for the 2012 financial year of R5.1 billion.
- Continuation of strategy to diversify and optimise funding sources.
- Projected total new borrowings for 2013 amounting to R10.0 billion. Quantification of funding for new national mandates needed, which will raise borrowing requirement projections.

Funding to December 2011

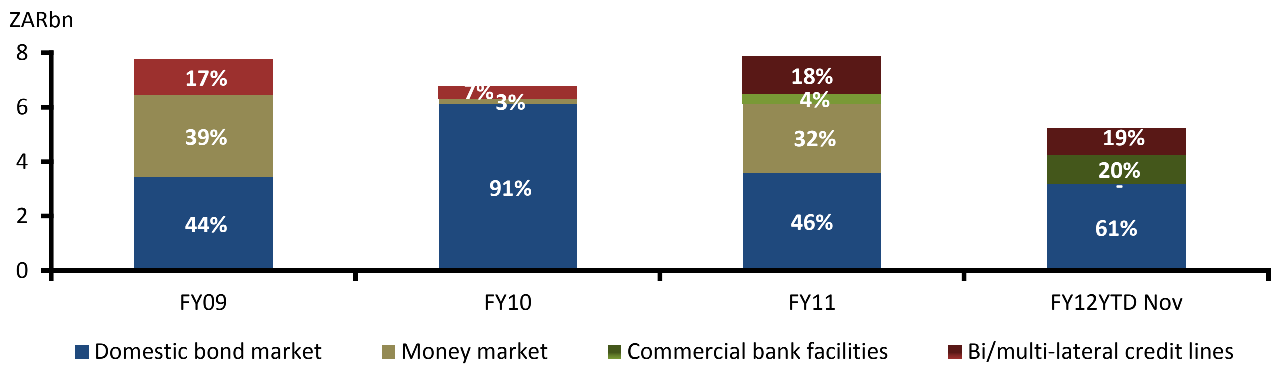
The Bank's funding activities in the nine months ended 31 December 2011 are summarised below:

Table 1: Funding: April 2011 to December 2011

Description	Amount (R million)
Gross borrowings*	5 124
Money market debt repaid	(1 091)
Other debt repayments**	(544)
Net borrowings/(redemptions)	**3 489**
** Excludes carries*	
***May include bonds, lines of credit, private placements*	

Gross borrowings of R5.1 billion were recorded in the financial year to December 2011. This compares to borrowings of R7.9 billion for the entire previous financial year. The bulk of funding continued to be sourced from the domestic bond market, with the balance procured from facilities with domestic and foreign-based commercial banks, as well as the traditional bilateral and multi-lateral institutions. Most of the total outstanding debt 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. The composition of funding is illustrated below.

Chart 1: Funding sources – April 2011 to December 2011



Proposed borrowing programme for the 2012/13 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. Importantly, the funding requirements for the Bank's new national mandates have not been fully quantified; their inclusion will raise the total borrowing requirement significantly. In addition, the inclusion of the anticipated capital injection (R2 billion per year) would accordingly reduce the borrowing requirements.

Table 2: Borrowing requirement

R million	FY2013	FY2014	FY2015
Beginning liquidity	**4 845**	**4 115**	**4 849**
Loan capital repayments	4 224	6 330	6 665
Loan interest income	4 513	5 344	6 212
Investment repayments	444	391	324
Fee & other income	256	282	310
Cash inflows	**9 437**	**12 347**	**13 512**
Debt repayments	(7 090)	(6 595)	(5 210)
Operational expenses	(935)	(995)	(1 056)
Capital expenditure	(127)	(289)	(94)
Disbursements	(9 000)	(13 778)	(15 806)
Cash outflows	**(17 153)**	**(21 657)**	**(22 165)**
Grants (Dev Fund + TA)	(292)	(273)	(253)
Net cash flows	(3 163)	(5 468)	(4 057)
Required liquidity as per liquidity policy	(4 115)	(4 849)	(5 712)
Borrowing requirement	**(7 278)**	**(10 317)**	**(9 768)**

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 the period prior to the 2008/09 financial crisis) is not in all instances fully recoverable from loans extended.

The split of funding sources is expected to exhibit similar trends as in the recent past – ie. approximately 60% from the domestic bond market; 20% from domestic and international commercial bank facilities; and 10% each from the domestic money market and credit lines with bilateral and multilateral institutions. The viability of leveraging the Bank's top-tier credit ratings to raise short-term (up to 12 months) money market funds for on-lending to long-term projects is currently being assessed. Whilst there is growing refinancing risk arising from bulking up on money market funding, the relatively lower cost of procuring such funding at reasonably short notice is a major advantage for tapping this existing source.

Specific tenors and interest rate bases (fixed vs floating) of new long-term 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 using derivative instruments. The issuance of new fixed-coupon DV bonds in the 15- to 20-year maturity area of the curve as previously approved by the Board is also being considered. Consultation with investors will be done to gauge appetite for size and specific tenors. In addition, the option of expanding the existing DV21 bond (ZAR1.0bn outstanding; 2016 maturity) is still available given firm investor demand for that maturity segment of the curve. This option remains under consideration and post the planned investor road show, may be included in the portfolio of outstanding bonds to be offered at the Bank's monthly auctions going forward. The expansion of the Bank's funding curve in this manner is imperative to optimising asset-liability management.

Committed borrowing facilities with foreign DFIs and with the commercial banks are key to diversify the Bank's medium- to long-term funding strategy, given the volatile nature of public capital markets and the growing size of the Bank's funding requirements. In general, however, it should also be noted that credit lines with bilateral and multi-lateral institutions are geared towards very particular sectors, and therefore have restricted availability. A total of R3.3 billion was available from committed facilities as at December 2011 (see table below). While the KfW Energy Infrastructure facility (R523 million) expired at the end of December 2011, efforts are underway to extend the availability of this credit line in light of the Bank's involvement in the country's unfolding renewable energy programme. Meanwhile, amendments to the current facility with AFD are currently underway to allow for a wider application of funds. In particular, it is intended that the funds be made available to a wider set of poorly-resourced municipalities, and in so doing expedite the utilisation of this concessionary facility.

New committed facilities with the Bank's other traditional DFI lenders, such as the Nordic Investment Bank, are currently under negotiation. Facilities with commercial banks, such as ABSA Capital and Sumitomo Bank (similar to previous facilities with the likes of Rand Merchant Bank and Bank of Tokyo-Mitsubishi UFJ) are also under consideration.

Table 3: Available committed funding facilities as at 30 December 2011*

Facilities	Original loan currency	Loan amount (R million)	Available amount (R million)	Amount utilised (R million)
AFD Muni TIP	EUR	1 046	899	147
AfDB LOC 5	USD	2 421	2 421	-
Total		**3 467**	**3 320**	**147**

**All amounts translated at exchange rates as at 31 December 2011*

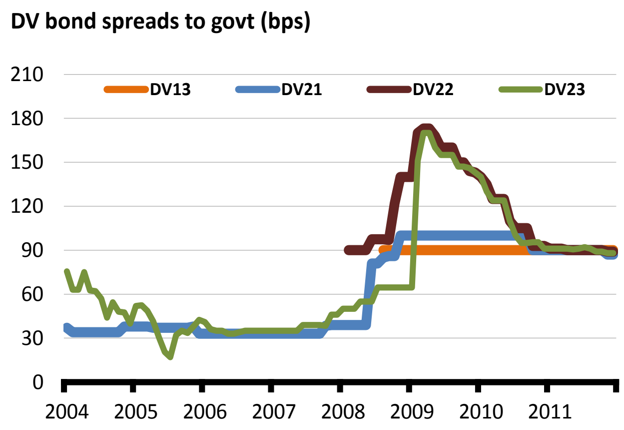
Domestic funding developments

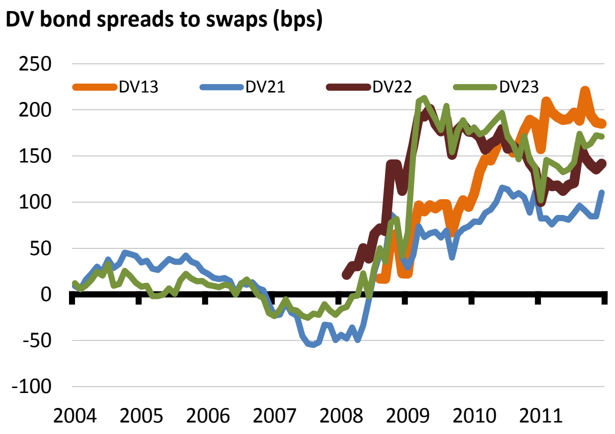
Funding conditions in the domestic capital markets have been fairly stable over the past year, although some upward pressure was evident in the second half of 2011 as financial stress emanating from Europe spread. Still, with the SARB having lowered the repo rate by a cumulative 650 basis points (bps) since the easing cycle began in December 2008, monetary conditions remain favourable.

In the bond market, the Bank issued a total nominal amount of R3.2 billion worth of bonds for the period ended 31 December 2011. The Bank tapped the DV22 (maturing 7 February 2020) and DV23 (maturing 27 February 2023) fixed-rate bonds via the regular monthly auctions. Spreads have remained steady within the 88 bps to 91 bps range (this compares to a peak of 170 bps during February and March 2009).

The charts overleaf depict the historical spreads of the Bank's outstanding bonds above their respective government benchmarks as well as on a floating-rate/swap basis. The spreads reflect where the Bank would be expected to fund new issues in the domestic market. Spreads to government benchmarks on the DV22 and DV23 bonds are currently at 88 bps and 89 bps, respectively, while swap spreads are around the 155 bps level.

Chart 2: DV bond spreads





Source: JSE, I-Net Bridge, DBSA

No new money market funding was raised since the start of the 2012 financial year, leaving 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 30 November 2011 stood at R1.8 billion.

The Bank's domestic medium-term note (DMTN) programme registered with the JSE stands at R35 billion, of which R14.3 billion remains available. As evidenced in funding activities in recent 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.

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 and supplemented with ad hoc opportunities from time to time, such as the issuance of a Brazilian Real note of BRL57 million (USD30 million equivalent) through a private placement with a Brazilian financial institution in 2009. Opportunities for offshore public debt issuance are evaluated continuously. The South African government recently issued a USD1.5 billion 12-year global bond at 270bps above 10-year U.S. Treasury bonds (all-in cost of about 4.68%; equivalent to about 255bps above LIBOR). The issue was two times oversubscribed, with most of the investor demand coming from the U.S. and Europe. Considering that, as a state-owned entity, the

DBSA would pay a premium above the sovereign's issued spread, likely resulting in a spread of around 280bps above LIBOR (if not more), such cost of funding currently does not compare favourably with that which can be achieved through the utilisation of credit lines with the Bank's established lenders. By way of illustration, the USD300 million committed facility with the African Development Bank is available at a margin of 170bps above LIBOR. 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.

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 and foreign exchange risk structure as laid out below will continue to be followed:

- The Bank's 12-month cumulative re-pricing gap to total earnings should at all times be contained to within 22.5% of total interest earning assets.
- The weighted average duration gap of the Bank's net assets and liabilities (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.
- At a 99% confidence level, to ensure that the 10-day value-at-risk (VaR) of the rand value of foreign currency exposures (excluding equity investments) not breach the maximum limit of R90 million.

Although funding options and flexibility remain limited relative to the Bank's product offerings to its clients, the depth and liquidity of the 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. Should the market anomaly normalise in that the swap curve shifts higher and trades above the government curve, this will result in significant fair value losses in the Bank's portfolio of fixed-coupon liabilities hedged through interest rate swaps. Meanwhile, 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.

The 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 sovereign-equivalent *credit ratings* with all three major rating agencies remained unchanged for the 2012 financial year (as at 30 November 2011). On 15 November 2011, Moody's changed its *outlook* for the Bank to 'negative' from 'stable'. The outlook change was triggered by the change in outlook to the sovereign's rating. 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	Negative
Standard & Poor's	Foreign currency Local currency	A-2 A-1	BBB+ A	Stable Stable

Preliminary projected funding requirement

A total funding requirement of R7.3 billion is projected for 2013 financial year, as shown in the projections in Table 2. As an added measure to build in some flexibility to allow for contingencies, it is recommended that the Board approve total new borrowings for 2013 financial year amounting to R10 billion.

Whereas the funding maximum requested already allows for some funding headroom, it however does not take into account the potential funding requirements of some of the new national infrastructure mandates. Quantification of these mandates still needs to be finalised. As such, the increasing demands placed on the Bank could 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 in the implementation of the national mandates, such a scenario remains a distinct possibility. The approval of the Board will however be sought, should actual funding requirements exceed the proposed borrowing level.

Annexure 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 2012/13[5]	Underlying principles
Material for Section 55 – Disclosure, in the Annual Report, of: • Losses due to criminal conduct. • Irregular expenditure. • Fruitless and wasteful expenditure.	**Quantitative:** 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.

[5] Based on the 2010/11 audited financial statements (latest available).

	Proposed Framework	Resulting figures for 2012/13[5]	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. • 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 per the 2010/11 financial year) of the Bank. • Acquisition/disposal of assets (excluding financial market assets, equity investments and development loans) exceeding 1% of total assets (as per the 2010/11 financial year) of the Bank.	R3.55 billion R474 million	• 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[6] as required per Practise Note 4 of 2009/10.

DBSA's employment equity vision

In support of the overall DBSA Vision, 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

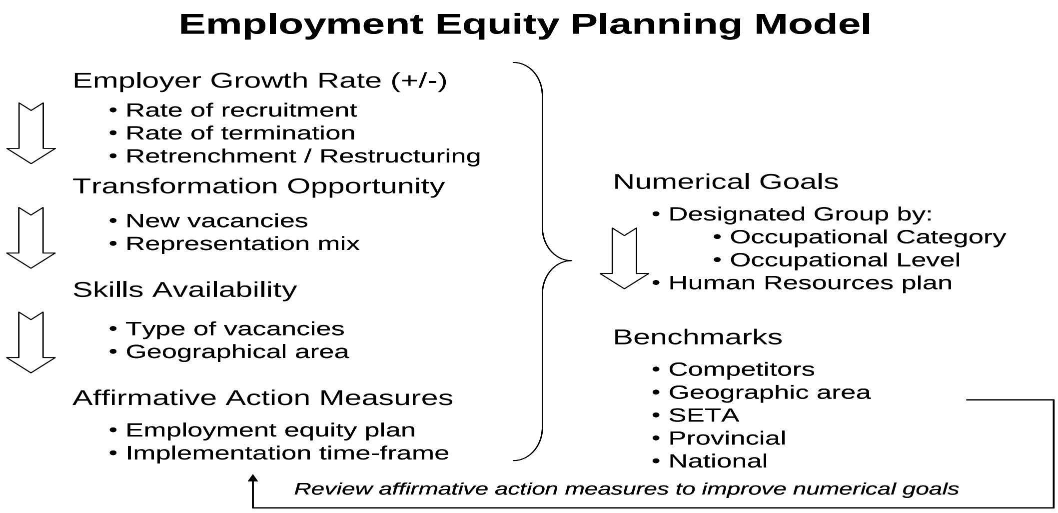
The methodology was developed to redress employment equity in terms of designated groups. The approach followed was the setting up of numerical targets separately for each job family since each job family draws on different skills/disciplines, which in turn is subjected to different trends pertaining 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 (2013 to 2017)

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 2012/2013 to 2016/2017 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

[6] Source: Employment Equity Plan, draft plan January 2012

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 plan for the period 2013-2017

In establishing the numerical goals for the DBSA, the methodology, key challenges, lessons learnt, potential growth rate of the DBSA, benchmarks and the BBBEE scorecard has been taken into consideration in setting the target for 2013 – 2017. The key focus is to improve and or set realistic targets to ensure the DBSA has a representative workforce.

Table 2: Proposed Summary of the 5-year EE Goals (2013 – 2017)

	Black						**Black female**					
Occupational categories	**Base**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**Base**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Top management	85.7%	80.0%	80.0%	80.0%	80.0%	80.0%	42.9%	45.0%	47.0%	48.0%	49.0%	50.0%
Senior management	51.7%	57.0%	58.0%	59.0%	60.0%	60.0%	21.5%	25.0%	28.0%	30.0%	35.0%	40.0%
Mid management professionally qualified	88.1%	70.0%	71.0%	73.0%	74.0%	75.0%	40.30%	40.0%	40.0%	40.0%	40.0%	40.0%
Jnr management, skilled technical	65.8%	70.0%	73.0%	75.0%	78.0%	80.0%	36.7%	37.0%	38.0%	40.0%	43.0%	45.0%
Semi skilled	93.0%	94.0%	94.0%	94.0%	94.0%	94.0%	53.5%	41.0%	44.0%	47.0%	50.0%	55.0%
Unskilled	10.00%	100.0%	100.0%	100.0%	100.0%	100.0%	92.3%	92.0%	92.0%	92.0%	92.0%	92.0%
TOTAL	76.0%	77.0%	78.0%	79.0%	80.0%	80.0%	37.7%	41.0%	42.0%	45.0%	47.0%	50.0%

It must be noted that the target for black top management and mid management professionally qualified employees has been adjusted downwards from 85.7% to 80% and 88.1% to 75% respectively. These targets have been adjusted taking into consideration the lack of available skills in the labour market and the time constraints in developing these skills. These targets will be revised in 2017 when the next five year plan is developed.

The target for black employees living with disabilities has been increased to 3%.

Interventions to achieve the five-year target (2013 – 2017)

- Development of divisional EE Plans including targets. The plans and targets shall be set in line with the principles, objectives and organisational targets as reflected in this document.
- To dispel the misconception of tokenism, only suitably qualified[7] candidates will be considered for appointments and promotions.
- Quarterly and annual reports will be developed for Exco, with the EE manager monitor the progress continuously. This will assist in putting interventions in place to remove/mitigate barriers to achieving the targets.
- The EE manager and relevant role players will develop and facilitate the implementation of a strategy to accelerate the achievement of the disability representativity targets. The key focus areas of this strategy will be the recruitment and development of people with disabilities as well as measures pertaining to accessibility.
- Creating awareness of EEA. All employees should be aware and know their rights pertaining to the EEA. The EE manager and the HC business partner will embark on ongoing awareness through various means such as employee orientation/induction, divisional presentations and events to mark related calendar days e.g. Workers Day, Casual Day and Heritage Day.
- Implementation of Affirmative Action. An identified challenge towards the achievement of representivity targets are mainly the attraction and retention of employees from designated

[7] In accordance with Section 20 (3) & (4) of the EEA, the following factors should be considered when determining the suitability of a candidate: formal qualifications or (recognition) of prior learning; relevant experience or capacity to acquire necessary skills within a reasonable timeframe (potential).

groups. A comprehensive retention strategy, with particular focus on the professional and middle management level will be developed and implemented.

- Promoting diversity. The DBSA management team will undergo diversity management training as part of their leadership and capacity building programme for managers. Various interventions to promote cross-cultural interaction to be identified and implemented. These interventions shall include recreational and social activities.
- Effective development and implementation of the Workplace Skills Plan (WSP) with particular focus on the advancement of designated groups:
  - The DBSA WSPs will be linked to the attainment of the equity targets as outlined in this plan.
  - Mechanisms to ensure that all employees have an individual development plan (IDP) to be informed by a balance between competency requirements of work stream and job profile as well as the individual employee career development needs.
  - The training needs of employees with disabilities are to be identified and implemented.
  - A career management programme that includes career guidance as well as support and monitor the graduate programme will be developed and implemented.
  - A framework for succession planning to be developed and implemented at corporate and divisional level.
  - The leadership development programme will be developed and implemented during the course of 2011/2012 in order to enhance the capacity and expertise of the DBSA management.
- Provision of generic and functional training in line with the DBSA skills development strategy and employment equity requirements:
  - Each division to identify its divisional development plan based on the training needs identified in individual IDP’s and individual performance outcomes.
  - Monitor the implementation of divisional and individual development plans
  - Compile and monitor the implementation of the DBSA’s WSP and report on progress.
  - Maintain the database of accredited training providers.
  - Develop and implement a succession programme in line with the career management and retention strategies/programmes.
  - Orientation of new and existing employees at all levels.
  - Develop the graduate development programme to develop people with disabilities and the youth of the designated group.
- Sourcing, placement and retention of suitable staff from designated groups:
  - Each division will set numerical goals to ensure equitable representation of suitably qualified people from designated groups in all occupational levels as outlined in the organisational goals.
  - Ensure representivity when filling of vacancies through the appointment and promotion of employees in line with set goals.
  - Interviewing panels shall be represented in terms of race and gender. Issues and concerns should be raised/escalated where fairness/enhancement of equity is not adhered to during the short listing and interviews.
  - Internal promotions will be encouraged to advance suitably qualified people from designated groups.

  - Ensure the retention of skilled employees through the implementation of the Career Management and Retention Programmes.
- Ensure effective recruitment and retention of people with disabilities:
  - A disability management strategy will be developed and reviewed on an ongoing basis by the EE manager and the HC business partner.
  - Facilitate the creation of a conducive environment to reasonably accommodate employees with disabilities.
  - Embark on an intensive programme to recruit people with disabilities on all occupational levels.
- Ensure effective recruitment and retention of black women in middle/senior management levels:
  - Create a conducive environment to accommodate black women on middle a senior management level and scarce occupational categories.
  - Develop and implement a gender equity strategy and guidelines to assist in facilitate in the advancement of women.
- Implementation of fair and equitable working facilities for all employees:
  - Ensure equitable availability and distribution of working facilities.
  - Ensure the appropriate working tools and facilities are available for employees and clients with disabilities; i.e. computers, kitchen facilities, parking, etc.
  - Create appropriate access to offices, facilities, etc for employees with disability.

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 Divisional Executive: Human Capital Solutions 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 Human Capital Division 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.

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 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.

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 demand management and generation from renewable energy sources.
- Business travel.
- Office paper use and recycling.
- Solid waste generation and recycling.
- 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 the consumption of energy.

- Minimise the consumption of water and where practicable not to 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 & 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.
- Minimise business travel related carbon footprint.
- Promote environmental awareness and responsibility among all Bank employees.
- 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 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 funding 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 considered for funding support to undergo a rigorous environmental appraisal as part of the broader investment appraisal process, 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. Several of the sustainable energy initiatives funded by the Bank have been 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 and the overall improvement of environmental quality and performance.

Sustainability reporting in accordance with GRI 3 guidelines

To further demonstrate the Bank's commitment to sustainability, as part of the Annual Report, the DBSA presents a sustainability report in accordance with the Global Reporting Initiatives G3 Sustainable Reporting Guidelines, which provides a globally recognised framework for reporting on an entity's economic, ethical, governance, social and environmental performance. For the March 2011 reporting period, the DBSA reported a Level C, which is the entry level in terms of the GRI G3 guidelines.

Annexure 5.11:
DBSA Development Fund

DBSA Development Fund

Corporate Plan

2012/13

February 2012

1. THE DEVELOPMENT FUND AS AN ORGANISATION

The DBSA Development Fund (DF) is a project based entity 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 beneficiaries 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. One such shift has seen the Department of Cooperative Governance and Traditional Affairs (DCoG) develop a strategy for accelerating and improving municipal infrastructure provision. The DF will provide dedicated and co-ordinated technical capacity to support municipalities in accelerating the delivery, as well as sustainable operations and management of municipal infrastructure. The DF has evolved as part of DBSA over a number of years to play the role of Implementer in support of the DBSA as a Centre of Excellence for Infrastructure Delivery in partnership with stakeholders supporting all spheres of government.

2. STRATEGIC OVERVIEW

2.1. Vision

The Vision of the DBSA Development Fund is to be a leading catalyst in capacity building and to 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 and institutional capacity constraints at national, provincial, local government and community level.
- Building institutional and technical capacity in municipalities.
- A contribution by the Fund to the reduction of local financial capacity constraints.

2.2. Mission

To provide a vehicle for implementation of national and provincial infrastructure projects on behalf of DBSA. In fulfilling this mission, the DF will capacitate municipalities and government departments, communities and other development intermediaries for effective service delivery and economic development to improve the quality of life for South Africans.

This Mission will have been accomplished when the following outputs are achieved within the initiatives supported by the DBSA Development Fund:

- All levels of government are in a position to provide effective service delivery.
- Communities are mobilised and resourced to articulate and influence their own development agenda.
- Leverage private sector to support development initiatives.

2.3. Guiding principles

The Fund pursues the following guiding principles during implementation:

- **Additionality:** Add value to funding with experience and expertise provided by other development agencies.
- **Forming strategic alliances:** Provide support in partnership with other stakeholders who share a common interest with the Fund.
- **Focusing on development impact**: Ensure development impact by measuring and quantifying impact of programmes or projects on the quality of life of communities.

- **Sustainability:** Ensure programmes or projects have a lasting effect on institutions, the environment and the economy benefiting future generations.
- **Empowerment:** Ensure that programmes or projects bring communities into the mainstream economy and that those skills are transferred to recipients and beneficiaries within these communities.

2.4. Corporate governance

Legal framework

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 operations of the Development Fund are currently being reviewed in accordance with the provisions of the new Companies Act, 71 of 2008.

The Development Fund falls within the definition of a non-profit company provided in Section 1 of the new Companies Act 7 of 2008 and as such is subject to the provisions contained therein. With the new Companies Act coming into effect on 3 May 2011, it is critical for the Development Fund to analyse the implications of the Act and to develop an Implementation Plan to ensure compliance with the Act.

A working committee has been established to analyse the Act and the following items were identified as critical or high risk items for the Development Fund to ensure compliance:

- Inclusion of "NPC" (Non Profit Company) in the Development Fund's name.
- Drafting of Memorandum of Incorporation.
- Object and policies.
- Fundamental transactions.
- Incorporators of a non-profit company.
- Standards of Directors and Members' conduct.
- Communication of exclusions in terms of the new Act.
- Alignment of the Annual Report.
- Alignment of the Development Fund Committees' terms of reference.

In terms of the new Act, companies are given 18 months to implement the necessary requirements. The Development Fund should therefore implement the provisions of the new Act relating to NPCs, Chapter 2 and Schedule 1 thereof on or before 1 November 2012.

Governance

The Board of Directors of the Development 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 shared sub - committees 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 Fund has appointed a dedicated Assistant Company Secretary who will be responsible for the management of the DF Board and its sub-committees as well as the Jobs Fund Investment Committee and will have dual reporting lines to the DF: Chief Operating Officer as well as the DBSA Corporate Secretary to ensure alignment with the DBSA's governance framework.

In order to ensure effective oversight, the DF Board has constituted a dedicated Board Sub-Committee to provide guidance in risk management and continues to revise and monitor compliance with the code of ethics which includes all DF employees and staff deployed to the three spheres of government. Furthermore, as part of the annual programme, a Board oversight visit is planned to projects to interact with the beneficiaries of the DF interventions, products and services.

2.5. Changes in the internal environment

To effectively develop the economy of the country and unlock potential for job creation opportunities, the South African government intends to achieve an estimated 10% year-on-year growth of investment in public infrastructure. In an effort to effectively support government towards achieving its milestones, the DBSA group will play a leading role as a national development finance institution through its repositioned strategy of being a Centre of Excellence for Infrastructure Development. Furthermore it is expected that the DBSA will support and finance these investments and increase current long term asset base accordingly.

The DBSA refined its strategic initiatives, strengthened its financing and agency roles and assumed the role as “Centre of Excellence for Infrastructure Development” whereupon it 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 New Partnership for Africa’s Development (NEPAD).

In aligning itself with the overall organisational strategy and objectives, the DF’s role is therefore expanded and enhanced to that of a lead implementer so as to support service delivery, job creation, and lowering the cost of doing business in support of government imperatives.

Reduction of dependency on DBSA for financial sustainability

The DF in the last twelve months embarked on a new path to reduce its dependence on the DBSA for financial sustainability. This new path by the DF is a dual pronged approach embodying cost recovery on interventions pertaining to the implementation of infrastructure programmes. Secondly the DF seeks to mobilise funding from partnerships with private sector role players as well as multi lateral and bilateral agencies that seek to play a role in infrastructure implementation in South Africa and the rest of the region.

2.6. Changes in the external environment

Restrained growth in global and local economy

While the DF is committed to contributing to the acceleration of service delivery as well as strengthening the capacity of municipalities, the global economic outlook beyond 2011 remains uncertain. The prospects of buoyant global economic recovery are fast receding and according to the mid September 2011 International Monetary Fund (IMF) forecast the world economy will experience a delayed and weakened recovery and possibly a protracted recession. On the local economic front, in the second and third quarters of 2011, GDP growth in South Africa stalled amidst the global economic weakness and the South African economic growth rate for 2011 has been revised downwards from.

In an economic environment characterised by such endemic weaknesses mentioned above, the DF may face some challenges in meeting its optimal financial sustainability objectives in the financial 2012/13 term. It is envisaged that the DF will proactively manage its financial sustainability in this challenging environment and has started to engage with private sector participants for potential partnerships in capacity building initiatives at both municipal and community levels. The current economic climate will most certainly have a bearing on the DF's ability to meeting targets set for both mobilised and leveraged funding.

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 and operations & maintenance.

In response to the challenges posed by the external environment the DF seeks to realign its services to support the emerging mandates by expanding its programmes such as targeting and strengthening operations & maintenance initiatives, support the turnaround of the Water Trading Entity and the Local Government Turnaround Strategy, 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. The DF has also positioned itself in direct response to the governments need for capacity to drive implementation.

3. THE DEVELOPMENT FUND'S INITIATIVES

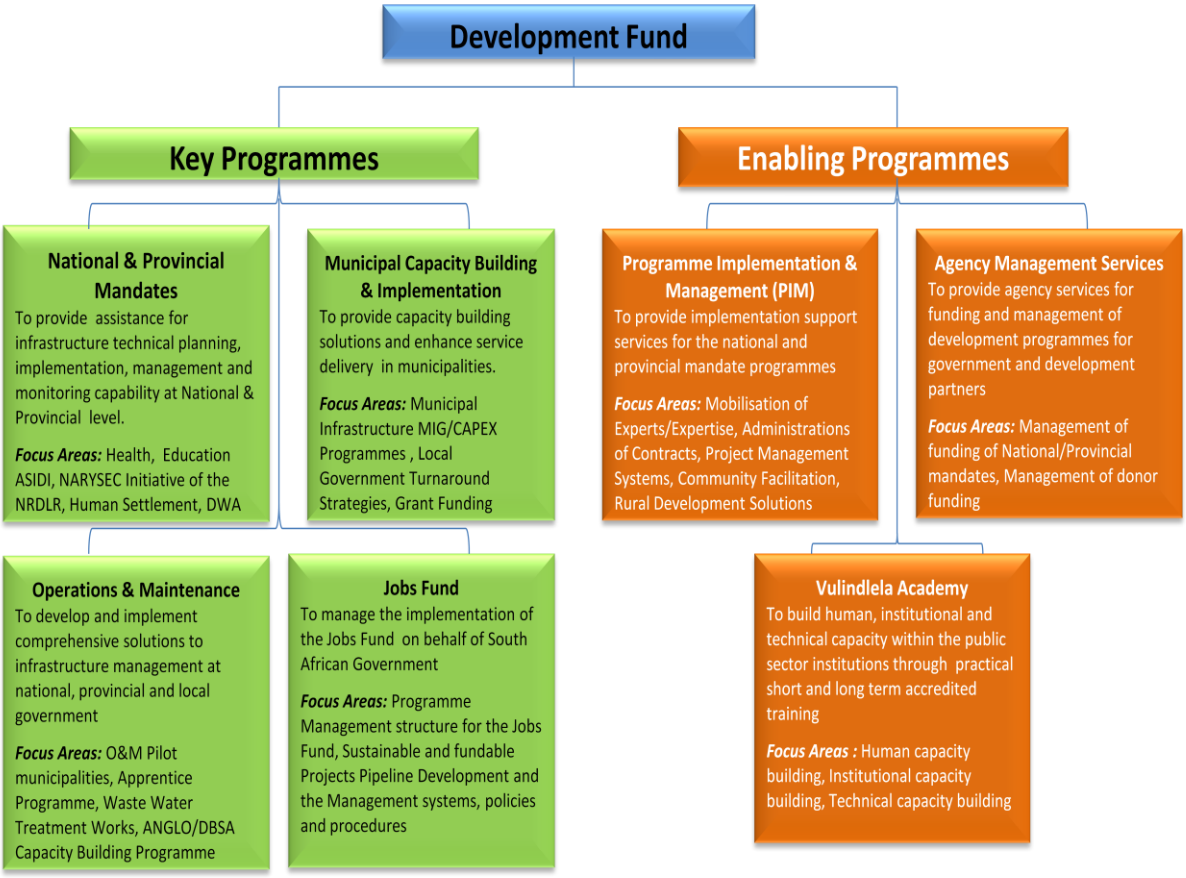
3.1. Delivery model

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

- **Programme & Project Implementation**: Providing a dedicated, comprehensive programme and project management solution to drive the implementation of key programmes and mandates in support of government imperatives.
- **Institutional & Human Capacity Building:** Providing capacity building solutions and enhance service delivery in municipalities by:
    - Mobilising and deploying technical, professional and planning experts to provide capacity support to strengthen municipal capacity to deliver.
    - Providing assistance for infrastructure technical planning, implementation, management and monitoring capability at National & Provincial levels.
    - Developing and implementing comprehensive solutions to infrastructure management at national, provincial and local government.
- **Agency Management Services:** Providing agency services for the funding and management of development programmes for government and development partners. Implement programmes on behalf of others/third parties.
- **Grant and leverage funding:** Provide grants to development projects which 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.
- **Forming strategic development partnerships**: Facilitating deepened development impact through strategic development partnerships.

The DF carries out its mandate to provide these products and services through four key programmes, namely: National and Provincial Mandates, Municipal Capacity Building & Implementation, Operations & Maintenance and the Jobs Fund. The DF also provides these products and services through three enabling programmes, namely: Programme Implementation Management, Agency Management Services and the Vulindlela Academy, whilst Community Development Facilitation and the Rural Development are cross cutting programmes.

The figure below illustrates the deliverables of the DF's key initiatives in order to deliver on its objectives whilst supporting the DBSA mandate to provide social infrastructure and capacitate various government departments with the relevant and necessary skills. 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 will be implemented in partnership with external stakeholders, like local 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.

3.2. Key social infrastructure and institutional capacity building Programmes

South Africa's ability to deliver adequate and proper services to its citizen's has over the years been hampered by the country's challenges around skills shortages, unemployment and back logs in essential infrastructure. The DBSA through the Development Fund seeks to support the government to addressing these challenges.

3.2.1. National and Provincial Mandate Programmes

During the 2012/13 financial year, the DF will undertake national and provincial mandates aimed at supporting the education, health and human settlement departments achieve their objectives through the delivery of the following key initiatives:

Education

A comprehensive project plan for the building of new schools will be undertaken in the 2012/13 and 2013/14 financial years under the Accelerated Schools Infrastructure Delivery Initiative (ASIDI) of the Department of Basic Education (DBE). This entails the assessment of conditions of the current provincial and national schools infrastructure across the country; evaluating the extent of the technical support required for rehabilitation and refurbishment. The programme will benefit more than 120 000 learners at 450 improved schools. To support the effective functioning of ASIDI, the

DF will on behalf of the Mandate Authority, coordinate and establish a Programme Support Unit (PSU) at DBE. The DF will also provide DBSA investment divisions with technical support for planning and preparation to build 91 new schools and the refurbishment of 273 schools in the Gauteng Schools Building and Refurbishment Programme.

Health

The Department of Health, project partners and the DF will in line with government's policy to extend or improve access to health services, engage in infrastructure development and delivery activities by assessing existing Hospital Revitalizations Projects (HRP) and identify technical support required for rehabilitation and refurbishment of national and provincial health infrastructure. Representing the partners, the DF will implement and monitor the roll out of the Health Revitalization Programme at a national level. This is aimed at enabling the health department's capacity to deliver required quality health care services. In addition, further assistance will be provided through the establishment of the Project Management Support Unit (PMSU) functions at the National and Provincial Departments of Health (KwaZulu Natal and Gauteng) for planning, implementation and monitoring of projects.

Human Settlements

Although the country has already delivered millions of houses though there are still considerable numbers of citizens without formal and decent housing. In order to assist government to achieve its objectives, the DF has partnered with government in the facilitation and provision of technical support to various provincial human settlement departments by deploying civil engineering and planning experts to establish programme management units, planning, implementation, and monitoring of various human settlements programmes. Furthermore a Programme Management Unit to support provinces will be established.

3.2.2. Municipal Capacity Building and Implementation Programme

During the 2011/12 financial year, the DF facilitated the transitioning of the Siyenza Manje Programme's Financial, Technical and Planning support to the authority of government. The financial component has now been shifted to the Municipal Finance Improvement Programme (MFIP) at National Treasury supported by DF on an agency basis.

With regard to the technical support component, the aim is for DF and DCoG to jointly incubate and operationalise the Special Purpose Vehicle (SPV) referred to as the Municipal Infrastructure Support Agent (MISA). For this purpose a MOA has been entered into between DBSA and DCoG on 5 September 2011 that established a DF Agency for administrative support and provided for DF support necessary for building and capacitating the Project Management Unit (PMU) for MISA. Besides this, DF is continuing to support MISA to capacitate municipalities and to implement its three core programmes, namely: The Cabinet 22 Priority Municipal Programme, the 360 Degree Programme and the Water and Sanitation Programme. Although significant progress has been made with the transition to MISA, DCoG indicated that continued DF support to MISA will be required in 2012/13 informed by a new MOA.

In 2012/13 the DF Municipal Capacity Building and Implementation Programme will deploy skills to provide implementation capacity support to SAOPS funded infrastructure projects. In this regard DF will closely work with MISA as well as the MFIP and other partners to provide holistic capacity support to municipalities where the Bank has a financial interest. Going forward the programme will prioritise technical support to the SAOPS PMU and Work Out & Recovery (WRU). The envisaged support will include the development of turnaround strategies and capacity building initiatives for municipalities in distress or in default.

Young Professional (YP) Programme

Since 2006 the DF has contributed to the alleviation of youth unemployment through an initiative that trains and places young people in municipalities. The programme is a three year structured experiential learning that prepares young engineering professionals to register as technicians, technologists or engineers with the Engineering Council of South Africa (ECSA). Town planners are afforded the opportunity to register with the South African Council for Planners (SACPLAN) whilst young finance professionals acquire an NQF level 6 Municipal Finance qualifications.

During 2012/13, the focus of the programme will be on ensuring that the current technical and planning YPs complete their training modules and successfully register with the relevant professional bodies.

3.2.3. Operations and Maintenance (O&M) Programme

The inability of municipalities to maintain infrastructure asset management records influences the level of service delivery resulting in high water losses, disease outbreak and health hazard complications associated with environment and water pollution. In this regard the DF implements an operations and maintenance programme focusing on periodic maintenance and rehabilitation of infrastructure. The programme also intends to contribute towards the development of the local municipal O&M industry, national infrastructure preservation, job creation, poverty reduction and SMME development.

The role to be played by the DF will involve facilitating capital partnerships for funding of SMME's and will also bring role players in the O&M industry closer to other opportunities, such as the Jobs Fund. Further interventions of the DF will include:

- Programme formulation and facilitation.
- Contribute funding for pilot projects in selected municipalities.
- Programme management and technical support.
- Training and capacity building of municipal officials, O&M supervisors and process controllers.
- Managing operational risks.

The programme will be implemented through the following initiatives:

Pilot municipalities

Local municipality resources (i.e. small contractors) will be utilised to maintain roads, storm water drainage systems, water supply infrastructure, waste water systems, solid waste systems, electrical supply and distribution systems and associated emergency maintenance activities. DF will assist municipalities to compile appropriate infrastructure asset registers, determining the scope of work and resources required to develop infrastructure O&M master plans. A minimum number of 45 O&M plans in 20 pilot municipalities will be provided for during 2012/13.

Artisan Programme

The initiative focuses on creating a pool of qualified artisans for deployment in municipalities by providing a structured training programme aimed at affording the apprentices opportunities to obtain trade certificates and qualify as artisans whilst employed in municipalities supporting operations and maintenance activities. For 2012/13, the programme will support the following:

- Training and development of 300 Section 13 and 300 Section 28 apprentices in municipalities.
- Trade qualification of 200 apprentices (80 Section 13 and 120 Section 28).
- Section 28 baseline study to establish location and identify experienced municipal apprentices suitable for upgrading to fully qualified artisans status.

Wastewater treatment works

The initiatives is aimed at providing technical input towards improving the current status of water treatment works in municipalities through assessment, identification of challenges and provision of recommendations towards possible facility improvement. The objective is to benefit the municipalities by improving the current state of wastewater treatment works infrastructure, improved environment and efficient asset management.

DBSA/Anglo American SA Capacity Building Programme

This partnership focuses on sustainable operations and maintenance of municipal infrastructure including empowerment of community structures, strengthening project implementation capacity of municipalities, institutional capacity building and training. It involves municipal turnaround and O&M support to ten Anglo American SA hosting and labour sending municipalities in South Africa. It will further enhance local government operations and maintenance with improved local government service delivery and an improved quality of life of affected municipalities.

3.2.4. Jobs Fund

The R9 billion Jobs Fund was announced by the President during the State of the Nation Address on 10 February 2011 and targets to create 150 000 sustainable jobs. The Jobs Fund is aimed at supporting initiatives that pilot new and upscale existing innovative approaches to employment creation, targeting the youth to acquire skills while being productively employed. It will support projects that contribute to addressing identified social and economic objectives. The emphasis is on self-sustaining employment creation and opportunities that lead to long term improvement of employment prospects focusing on both green-field and brown-field projects. The Minister of Finance has entrusted the DBSA with the responsibility to establish and manage the Jobs Fund and the Jobs Fund was officially launched on 7 June 2011. The Programme will be run over a five-year period, which includes three years for implementation and disbursement of funds and a further two-years for Programme close-out and evaluation. As the funder, National Treasury, acting on behalf of the Minister of Finance, will provide oversight and strategic direction over the Jobs Fund, and is also responsible for high level coordination of government input regarding the Jobs Fund.

Going forward the Jobs Fund will adopt and embrace well-structured partnerships between the public and private sectors to realise the goals of creating jobs. Project proposals will be prioritised in the following four funding windows each with their own predetermined co-funding ratio:

i. **Enterprise development**: Investments in product development, local procurement, marketing support, equipment upgrading or enterprise franchising.

ii. **Infrastructure investment**: Local infrastructure investment projects such as light manufacturing enterprise zones, local market and business hub facilities, critical transport and communication links and upgrading of infrastructure services.

iii. **Support for work seekers**: Support programmes with a particular focus on unemployed young people such as job search projects, training activities and support for career guidance and placement services.

iv. **Institutional capacity building**: for projects aimed at strengthening institutions through which jobs are created. Projects will include internship and mentorship programmes, producer cooperatives, organisation of linkages between small enterprises and large firms or purchasing networks and enhancement of community works projects.

The Jobs Fund will make grants to projects with potential to deliver rapid results in creating new employment opportunities and expanding employment and skills development opportunities for the youth. The Jobs Fund is not expected to seek repayment or financial return on the investments, but will reserve the right to reclaim funds that are not spent for the intended purpose or are misappropriated. The Jobs Fund will not provide recurrent financial support or subsidies to the supported projects or programmes.

The Jobs Fund will, on a competitive basis, consider co-financing proposals from private sector, non-governmental organisations, municipalities, government departments and municipalities that show economic development potential linked to sustainable job creation. The Jobs Fund will not limit investments to specific sectors or geographic regions however, it will seek to support projects that contribute to addressing identified social and economic objectives.

Projects will have to satisfy both eligibility and impact criteria with eligibility criteria being used to determine whether or not applicants conform to the core prerequisites of the Jobs Fund and impact criteria measuring the relative merits of each application in relation to all other applications. Only those applications with the highest impact scores will be accepted for consideration.

Governance

The Jobs Fund will establish its own structure, processes, policies and procedures mainstreamed through the DBSA infrastructure with the main activities being governed by the following three committee structures:

- The Advisory Committee will provide strategic guidance and oversight.
- The Investment Committee has the executive and fiduciary responsibility for the funding decisions.
- The Technical Evaluation Committee is responsible for technical assessment of proposals and recommendations to the Investment Committee.

Operational plan 2012 - 2014

The programme aims to create a total of 150 000 sustainable jobs over a four year period. At the end of the 2011/12 financial year, it is envisaged that the Jobs Fund will disburse funding to the value of R69 million, increasing to R1.5 billion in 2012/13 and R2 billion over each of the 2013/14 and 2014/15 financial years respectively.

Key initiatives for 2012/13

The proposed initiatives for this Division during the 2012/13 financial year include:

- **Project prioritisation plan**

  The Jobs Fund will prioritise the implementation of projects to redress the unemployment rates aimed at ensuring that the provinces with higher unemployment rates receive first preference.

- **Creation of project pipeline**

  The Jobs Fund will proactively create a sustainable pipeline of job creation projects by key stakeholders to submit applications and ensuring that projects are appraised on time.

- **Skills development**

  The creation of a database for job-seekers, for access by large corporations.

- **MIS reporting system**

  The establishment of a management information system which will support the assessment of the effectiveness of the monitoring and evaluation mechanisms of projects.

- **Create a brand of the Jobs Fund and use at second call for proposals**
- **Develop the Jobs Fund’s policies and procedures as well as the disbursement process strategy**

3.3. Enabling programmes

3.3.1. Vector Programme

In line with the engagement principles between the DBSA and Mandating Authorities of National Mandates, the Bank has adopted a new programme approach as a key thrust for the DBSA’s positioning. Special attention to accelerate infrastructure development on a sustainable and value-for-money basis, in defined priority areas.

This entails the establishment of focused programme management structures with formal mandate to coordinate execution of programmes on a day-to-day basis, through a disciplined project management methodology of the DBSA’s management framework. Combined with specific project management, the Vector programme involves 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. A delivery model in line with guiding principles has been developed to allow for fast and efficient performance on the new mandated programmes. During 2012/13 this model will be streamlined to align perfectly with the rest of the enabling programmes and then implemented to ensure successful delivery on the mandates.

3.3.2. Programme Implementation and Management (PIM)

In order to successfully deliver and implement the national mandates, the DBSA requires dedicated capacity to support implementation of signed mandates as per agreement with relevant stakeholders. Through the PIM, the DF undertakes to play a pivotal role of being the hub for implementation capacity support for national mandates, with the following core areas of implementation:

- Overall strategic management support to the programme.
- Scoping and planning.
- Contract management.
- Programme cycle management.
- Technical implementation support.
- Monitoring and reporting support.
- Capacity building and systems development support.

3.3.3. Development Facilitation

Following the Fund's restructuring process, the former Community Development facilitation division was integrated into the PIM as this will ensure that the Fund mainstreams the core function of facilitation This is to build capacity within vulnerable communities to ensure that they participate in the formulation of a shared vision of their development with the intention that their aspirations that do not compromise future generations are incorporated into the established structures (e.g. integrated development plans) and that resultant projects are well developed and fundable.

Key initiatives

Under this cross cutting programme, the following key initiatives will be implemented during the 2012/13 financial year:

- **Mainstreaming of development facilitation support across DBSA Divisions**

  This initiative supports the Divisions within the DBSA Group to ensure the success and sustainability of the implemented projects. A Development Charter Framework has been developed and approved to streamline and standardise the development facilitation support. The DBSA Divisions will agree upfront with the CDF Division on projects/sites that need development facilitation support and will prioritise the sites/projects and budget for targeted interventions. The project/programme will be handed over to the relevant Division once the Development Charter is signed.

  The Division will look at broadening the database of development facilitators and deepening the understanding thereof in the market to ensure that support to other DBSA divisions is not compromised.

- **Supporting the National Department of Education**

  DBSA is implementing Accelerated Schools Infrastructure Development Initiative (ASIDI) Programme in support of the National Mandate of eradicating mud and unsafe school structures especially in Eastern Cape. The Division will provide development facilitation services which will culminate in a signed Programme/Project Charter to ensure the sustainability and ownership of the programme. The implementation of the programme will consider the usage of alternative technologies and replication of approved technologies with partners.

- **Supporting the National Department of Human Settlement**

  This initiative supports one of the National Mandates as outlined by the government and strives to contribute towards the creation of the sustainable integrated human settlements in South

Africa. The work of CDF is aligned to the DBSA's Human Settlement Strategy as the division is already partnering with different stakeholders across all spheres of government.

- **Rural human settlement – Elliotdale**

  The DBSA was appointed by the Eastern Cape Provincial Department as an implementing agent for Elliotdale Integrated Rural Human Settlement Programme towards the end of the 2009/10 financial year to construct 1 000 out of 7 000 housing units. The first phase of building 200 housing units should be completed by March 2012 with the second phase of 400 housing units commencing thereafter. The transfer of R40 million funding for the second phase from the Eastern Cape Provincial Department of Human Settlement will be concluded before the first phase reaches completion to ensure the seamless implementation of the programme.

- **Urban human settlement – Kokstad**

  One of the key initiatives identified in the site was the implementation of the human settlement programme. Discussions have been held with the KwaZulu Natal Provincial Department of Human Settlement to facilitate the implementation of Human Settlement Programme in Kokstad. Kokstad will replicate the model that was developed from the Grabouw site.

- **Replication of the rural housing model in other areas**

  The division is in the process of documenting the rural human settlement model based on the Elliotdale experience, and has been approached by the Eastern Cape Provincial Department of Human Settlement to replicate the Elliotdale model to other parts of the Eastern Cape. The Division will support the projects where the model can be replicated but will ensure that the Department is capacitated to run the model on its own in the future.

- **Replication of models in the existing/new sites**

  - **Community led sanitation programme**

    This initiative supports the National Mandate to provide basic services to South African citizens. The Division embarked on piloting community-led sanitation programme in Diepsloot in 2011/12 financial year and this model is envisaged to be replicated in the Eastern Cape School Programme / (ASIDI). The process of finalising and identifying schools that can implement such a programme will be concluded in due course.

- **Refining of the Sustainable Development Planning (SDP) Framework and Methodology**

  This initiative enhances the Municipal process of developing Integrated Development Plans (IDPs) and provides a long term (50-year) vision and programme to direct subsequent IDPs. The Sustainable Development Framework is developed after the Development Charter process is concluded and gives effect to the agreed principles and vision contained in the Charter. The SDP looks at the planning of social, economic and natural resource use and development in a sustainable way and in harmony with each other. Regional economic viability is essential to ensure logical Local Economic Development (LED) growth, creation of decent work and economic empowerment of communities. The Framework will integrate the systems approach that evolved from the King Sabata Dalindyebo municipality (KSD) Spatial Development Framework (SDF) process namely: market, home, people, street and river systems. The Division intends to further refine the guidelines for planning and to broaden the database of the SDF practitioners to minimise the repeated usage of the same practitioners.

- **Mainstreaming of the Sustainable Communities Programme as a National Imperative**

  The DBSAs *Sustainable Communities Methodology* is but one of the development approaches introduced to implement the range of government policies, including that of a participatory democracy, integrated planning, Sustainable Development (National Framework) and Comprehensive Rural Development Programme. Despite the big strides in demonstrating success in the application of the sustainable communities' methodology, the conventional planning approach towards compliance in producing documents such as LED, SDF and Land Use

Management System (LUMS) without the required integration or development facilitation is still a challenge in most municipalities. There are cases where development is not derived from a local vision, development policy or embedded in the community plan resulting in lack of ownership and rigour to implement.

The division will again seek alliance in the highest levels of government (DCoG, the National Treasury, Presidency and selected Provincial Departments) so as to obtain the acknowledgement of the principles and process as 'best practice' and worthwhile of replication and funding viability.

- **Project Management Frameworks**

  The division will ensure that Government Agencies and clients' project management capacity is enhanced to facilitate smooth hand-over of programmes/projects. The Project Development Framework has been developed and is modified to meet the needs of respective clients.

3.3.4. Rural Development

Rural development is a priority area for the DBSA and therefore the DF will ensure that rural development principles and practices are continuously identified, prioritised and mainstreamed in all DF programmes. The DF will also continue to identify and develop the most appropriate rural development pillars with examples being green energy and conservation. This work is done in close cooperation with institutions such as the DBSA's Green Initiative as well as South African National Parks (SANPARKS).

Through an agreement with the Department of Rural Development, the DF will also provide an agency management service to the Department for the implementation of a Land reform programme to support black farmers throughout South Africa.

Local Economic Development (LED)

Local economic development is an activity that is supported by the DF through technical support and various governmental instruments e.g. Employment Creation Fund of the Department of Trade and Industry (DTI), seed funding by IDC, and numerous provincial economic development funds like the Eastern Cape Development Corporation (ECDC). The DF will continue to support its current three regionally based economic development initiatives, as well as initiatives funded by the mentioned stakeholders. Support to rural and under resourced municipalities will be aligned to support the 21 priority districts as identified by cabinet in an integrated manner to support municipal capacity building.

National Rural Youth Service Corps (NARYSEC)

The Department of Rural Development and Land Reform (DRDLR) has an initiative called NARYSEC. The main goal is to recruit and develop a National Rural Youth Service Corps (aged 18 to 35 years) to be paraprofessionals who are trained to work in their own communities over the short term, leading to creation of enterprises in the medium to long term.

DRDLR has contracted the DF to support the management of the technical training component of the NARYSEC programme with 6 000 people benefiting from this initiative. The support will be provided at the levels of the FET colleges, the identification of appropriate construction sites for training, training on construction sites and exit from the initiative. All facets of the programme will be monitored by the DF through a system developed to collect and collate all the information required by DRDLR.

3.3.5. Vulindlela Academy

The DBSA Vulindlela Academy (VA), accredited by the Local Government Sector Education and Training Authority (LGSETA), is the capacity building, knowledge sharing platform and skills transfer academy of the DBSA. The Academy offers accredited capacity building and training to development intermediaries in the Southern Africa Region, including municipalities in South Africa, Government departments, parastatals & public utilities and non-governmental organisations and development finance institutions (DFI's). VA's strategic purpose and focus is to address human and institutional capacity failure, including technical, finance, management, planning and governance issues which are critical to the improvement of service delivery in South Africa and the region.

Technical training in support of the Operations and Maintenance Programme

Through this initiative, the DF will deliver technical training in support of the DF's O&M programme. Training will include: sanitation for the new millennium, process controller training, plant operator vehicle training, asset management, storm water drainage, wastewater treatment works, geometric design, geographic information systems, construction supervision, road compaction, soil and materials testing, general conditions of contract and technical report writing. In 2012/13, 1 000 officials will be targeted for training in any of these technical areas impacting on enhanced technical residual capacity in municipalities.

Piloting the Leadership Programme for Municipal Managers

The Vulindlela Academy is developing an Executive Leadership Programme for Municipal Managers in South Africa in collaboration with the Institute for Local Government Management (ILGM). The objective is to produce a cadre of professional municipal managers that will drive service delivery in the municipalities. In 2012/13, VA will pilot the programme to selected municipalities in two provinces.

Municipal finance interns training

This initiative entails the delivery of municipal finance management training to finance interns in municipalities supported by the National Treasury's Municipal Finance Improvement Programme. The target is to initially train 100 youth interns on the NQF Level 6 Municipal Finance Management Programme and will positively impact on the development of youth in the country.

Pan African Capacity Building Programme

The Pan-African Capacity Building Programme (PACBP) is a partnership between DBSA, Agence Française de Développement (AFD) and the Industrial Development Corporation (IDC) aimed at addressing training and skills gaps that prevent the continent from meeting its infrastructural development objectives. The main objective of the PACBP is to set up a partner-driven skills enhancement, training and capacity building initiative for African professionals working towards sustainable infrastructure development on the continent.

- **Short courses**

  A series of specially selected short courses for skills improvement in infrastructure management in various regional blocks in Africa. These courses are demand-driven, and range from project finance, financial modelling, advanced project management and public-private-partnerships (PPPs), to leadership & governance and risk management. At least 200 participants will be targeted to enrol in the short courses to be delivered in 2012/13.

- **Masters Programme**

  The DBSA and IDC will finalise the Integrated Masters in Infrastructure Management Programme to be offered through the specialised PACBP university partners i.e., University of Pretoria (Southern Africa), University of Dakar (West Africa), Makerere University (East Africa). The integrated masters will commence in January 2012 with 75 students expected to register for the programme. The AFD's 54% contribution will focus on the Water and Sanitation Masters programme delivered by AgroParis Tech (France) supported by *Institut International d'Ingénierie de l'Eau et de l'Environnement* (2IE) from Burkina Faso and the National Water and Sewerage Corporation (NWSC) from Uganda.

- **Young Professionals Internship**

  In partnership with AFD, the DBSA selects a group of Young Professionals to obtain international exposure in medium-sized municipalities in France for three months. The internship curriculum is aligned to the competency requirements and contributes the continuous professional development points required by professional bodies. The programme will send 15 learners from five African countries to France in 2012.

Support to BRICS

The DBSA has signed an agreement of cooperation with the Chinese Development Bank (CBD) to implement BRICS. The Vulindlela Academy will be at the helm of the capacity building support that the DF will provide to this partnership and will drive initiatives such as those listed below:

- Study tours to assess infrastructure capacity needs in the region.
- Provide policy training relevant to South Africa, SADC and other parts of Africa.
- Showcase lessons learnt and publications focusing on infrastructure development.

3.3.6. Agency Management Services Unit

Agency Management Services Unit

The DBSA established its Agency Management Services Unit (DAMSU) in response to the acute lack of capacity to implement and manage development programmes in the SADC Region. DAMSU assists and acts on behalf of local and international development and funding agencies that do not have institutional presence or sufficient permanent capacity to implement their development programmes and therefore the target for managed funds for the 2012/13 financial year is set at R600 million. 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.

Integrated Agency Information Management Systems

The Unit will develop a project tracking system that integrates all agency processes into one complete framework, thus enabling the DBSA Agency Management Services and its clients to work as a single unit with unified objectives. The system will integrate the work of the Unit in terms of the balanced score card reporting requirements, programme implementation at various agencies and issue management to ensure timely response to issues impacting on service delivery.

Agency Management Services marketing campaign

It is critical for DAMSU to increase awareness of its services following the adoption of the costing and pricing model to which all business originating and support divisions should adhere to. The marketing campaign will expand the knowledge of DBSA's internal divisions/units and equipping them with critical information needed to diversify their portfolios whilst supporting the agency management function.

3.4. Financial sustainability and the Development Fund Funding Model

The Funds primary mandate has evolved from capacity building to being an implementer of Government's National mandates and programmes, with the capacity building focus aligned to the implementer role.

This realignment of the mandate requires an operational shift in the current structure of the DF, with a view of consolidating functions. This will enhance the operational efficiencies and effectiveness and create a cost effective operating environment.

The DF has recognised the importance of funding its activities through various strategies, and in this manner become a self sustainable entity. The strategies are based on the premise that the activities of the DF should be self funding by recovering costs directly from the principal entity for which the DF is acting as an implementing agent.

The financial sustainable strategies of the DF are as follows:

1. The Vulindlela Academy has implemented a cost recovery model, whereby costs will be recovered for courses presented and coordinated. The design of the model takes account of the affordability criteria of the client base and allows for the cross subsidisation of poorer clients by those with stronger financial means.

2. Agency Management Services has finalised a pricing model which will enhance the pricing of the agency management products and services. This model determines the actual cost of managing an agency. Objective input will then determine the final quote for managing an agency with the objectivity being based on amongst others, the strategic nature of the agency, the development impact and risks involved in managing the agency.
3. The mandates are fully funded and costs incurred on the mandates are recovered by the DF.

Through the implementation of the strategies above the DF aims to ensure the continued financial sustainability of the operations of the DF.

Below is the Development Fund's forecasted Income Statement and Balance Sheet for the period ending March 2013, March 2014 and March 2015.

INCOME STATEMENT	**ACTUAL**	**BUDGET**	**FORECAST**		
R' millions	**2011**	**2012**	**2013**	**2014**	**2015**
Gross income					
National Treasury	288.4				
DBSA	257.0	300.0	191.3	151.4	163.1
Other	37.5	60.0	60.0	120.0	130.0
	582.9	**360.0**	**251.3**	**271.4**	**293.1**
Operating expenditure[8]					
General and administration costs[9]	214.4	64.0	69.9	75.5	81.5
Grants (Capacity and training) [10]	69.8	102.5	54.0	58.3	63.0
Personnel expenditure	288.0	178.5	127.4	137.6	148.6
	572.2	**345**	**251.3**	**271.4**	**293.1**
BALANCE SHEET	**ACTUAL**	**BUDGET**	**FORECAST**		
R' millions	**2011**	**2012**	**2013**	**2014**	**2015**
Current assets	83.6	58.0	61.8	49.7	36.5
Cash	121.7	84.4	90.0	72.4	53.2
	205.3	**142.4**	**151.8**	**122.1**	**89.7**
Funding reserve	20.9	35.9	35.9	35.9	35.9
Current liabilities	95.9	104.5	113.9	84.2	51.8
Deferred income	88.5	2.0	2.0	2.0	2.0
	205.3	**142.4**	**151.8**	**122.1**	**89.7**

3.5. Development Fund human capital plan

[8] Inflationary increase has been set at 8% from year to year.
[9] The expenditure for the 2011 year includes the Siyenza Manje programme. The MOU of the programme has been restructured and from the 2012 financial year the programme is accounted for as an agency, and therefore the concomitant real reduction in the DF's expenditure for the 2012 and going forward.
[10] Capacity building grants will remain constant from year to year, in line with the strategy to leverage grant funding from third parties.

The DF delivers on its mandate through the efforts, skills and capabilities that its people contribute to the business. The Human Capital strategy is therefore central to the delivery of the DF strategic objectives as it sets out the direction the DF will follow to secure and develop its human capital to deliver a sustainable and successful development agency. New developments and changes in the environment in which the DF operates, call for a creation of a platform that will encourage effective management of its human capital. The following areas have thus become key focus areas in people management within the DF: growing and building organisational capability, maintaining operational excellence and transformation and change management.

Building human capital capability

To ensure alignment of human capital key initiatives with the DF business and the implementation of new mandates, the focus in the 2012/13 financial year will therefore be on building organisational capability by scaling up existing competencies, sourcing future competencies and lay the foundation of effective process management which will contribute towards the achievement of organisational objectives. The DF will therefore pay specific attention to the development of required skills and will make sure that these skills are available as when required. This will be done by:

- Growing the core skill talent database for specified sectors (examples would include health, education, human settlement, etc.).
- Grow capacity through skills acquisition, deployment and succession management.
- Grow employee satisfaction levels through the employee value proposition survey and interventions to further build on the DF's employer brand.

Maintaining operational excellence

The DF will maintain a conducive working environment by aligning conditions of employment through developing and revising the following human capital programmes:

- Policies and processes development and refinement, remuneration and benefits management; employee wellness facilitation, skills development programmes, performance management and employee discipline management.
- Maintain compliance with relation to legislation, policies and procedures.

Transformation and change management

To ensure a smooth transition, the DF will embark on a systematic change management process in order to minimise the negative impact on the business and its people. This becomes critical in preparing for redeployment of existing skills to areas of business that requires capacity and capability. This deployment of people is beneficial to the DF because it capitalises on existing resources to enable optimal delivery and contributing towards a high performing culture.

3.6. Effective risk management

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

Risk management in the DF broadly focuses on operational and strategic risk management, legal risk management, regulatory compliance, business continuity and occupational health and safety.

The DF has identified the following high-level risk categories:

- Stakeholder management and engagement.
- Sustainability and funding.
- Reputational risk and brand management.
- Compliance with governance and procedures (internal and external).
- Data plus information systems and technology.

Going forward the DF is faced with significantly increased exposures due to the National Mandates that the DBSA Group has taken on, so that additional risks come to the fore:

- Capacity to execute and implement.
- Human resources – organisational capability, talent and skills management.

In order to effectively respond to risk, the DF had previously established dedicated risk management capability allocated from DBSA Group Risk. Going forward the DBSA Group Risk Division has developed an overall programme for strengthening risk management capacity at the business level. This programme includes the integration of risk management into the individual business areas (Risk Management Integration – "RMI") and 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 levels of risk management understanding, knowledge, skills and responsiveness.
- Improving risk management reporting.

Given the rapidly evolving strategic thrust of the DF, the DF has recognised the increasing frequency and variety of risk categories that will be faced and has therefore adopted the RMI plan for early implementation in the DF's own sphere of operations.

The Plan envisages increased operational level support on a day-to-day basis for all Risk issues that the DF may face.

The DF Integrated Risk Division will play a dual role of risk assurance and oversight as well as assisting the fund to uncover risk gaps and mitigating these effectively.

The RMI plan will be customised to the DF's specific circumstances given the range of increased or additional risks that the DF is being exposed to and it is envisaged that the process of fully adopting the plan will be imbedded over the course of the next financial year.

4. 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 2014/15.

DBSA Development Fund 2012/13 Balanced Scorecard targets

Key performance measure	Weight	Actual 2010/11	Forecast 2011/12	Target 2012/13	Target 2013/14	Target 2014/15
National Education	**8%**					
Number of construction plans completed		Not a measure	50	100	300	Expanded mandate not yet finalised
Number of schools in construction		Not a measure	50	50	100	250
Number of schools completed		Not a measure	5	85	100	70
National Health	**5%**					
Number of hospital (all categories) projects in construction and / or renovation		Not a measure	Not a measure	8	9	10
Number of construction drawings developed for nursing colleges/schools		Not a measure	Not a measure	5	6	7
National Human Settlements	**7%**					
Number of Project Management Unit's established or supported		Not a measure	Not a measure	4	4	4
Number of housing units completed		Not a measure	Not a measure	400	400	400
Operations and maintenance (O&M)	**3%**					
Number of contract work packages developed for SMME contracting		Not a measure	Not a measure	24	30	36
Number of workload assessment packages developed for O&M municipalities		Not a measure	Not a measure	15	20	25
% of O&M budget expended by municipalities implementing O&M programme		Not a measure	50%	75%	80%	90%

Key performance measure	Weight	Actual 2010/11	Forecast 2011/12	Target 2012/13	Target 2013/14	Target 2014/15
Municipal Capacity Building & Implementation	**5%**					
Number of municipalities identified with non-performing loans supported with the development of turnaround strategies		Not a measure	Not a measure	6	8	10
Number of DBSA funded service delivery projects provided with implementation capacity support: SAOPS / IB Funded Projects		Not a measure	Not a measure	5	7	9
Number of municipalities provided with technical support through partnerships with other stakeholders		Not a measure	Not a measure	10	12	15
Jobs Fund	**20%**					
Value of grant funding approved		Not a measure	R1.8 billion	R2.0 billion	R2.0 billion	Not a measure
Projected number of projects approved		Not a measure	30	60	75	Not a measure
Projected number of sustainable jobs approved		Not a measure	Not a measure	70 000	70 000	TBD
Value of grants disbursed		Not a measure	R69 million	R1.5 billion	R2.0 billion	R2.0 billion
Vulindlela Academy	**7%**					
Number of external learners trained by intervention offered in priority sectors/skills		11 381	15 000	10 000	10 000	10 000
Number of learners certified competent		2 809	3 000	2 000	3 000	4 200
Agency Management Services	**8%**					
Value of infrastructure facilitated through government / donor funded programmes		R2.6 billion	R5 billion	R5 billion	R5 billion	R 5 billion
Rand value of new funds under Agency Management		Not a measure	R400 million	R600 million	R700 million	R800 million

Key performance measure	Weight	Actual 2010/11	Forecast 2011/12	Target 2012/13	Target 2013/14	Target 2014/15
SHARED	**2%**					
Funding mobilised		Not a measure	R81 million	R60 million	R65 million	R70 million
Funding leveraged		Not a measure	R305 million	R200 million	R250 million	R300 million
Employment opportunities created		Not a measure	45 432	5 450	7 600	150
Financial Sustainability	**23%**					
Maintain budget expenditure utilisation below 95%		Not a measure	Not a measure	95%	93%	90%
Income / management fees contribution to the DBSA group in line with budgets		Not a measure	Not a measure	R124 million	R155 million	R172 million
Income as percentage of budget		Not a measure	Not a measure	71%	100%	100%
Human Capital	**6%**					
Level of staff engagement		Not a measure	Not a measure	41%	45%	45%
Turnover rate		Not a measure	Not a measure	11%	11%	11%
Risk Management	**6%**					
Integrate Risk Management into the DF as per the RMI timetable		Not a measure	Not a measure	RMI In Place	TBD	TBD
Provide opinions and assurance on risk management and effectiveness of controls		Not a measure	Not a measure	Submit 3 to 3 x Audit Committees	TBD	TBD