DEVELOPMENT BANK OF SOUTHERN AFRICA

CORPORATE PLAN

2016/17

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DBSA CORPORATE PLAN

1. INTRODUCTION

Since 1994 the Development Bank of Southern Africa (DBSA) has positioned itself into a development finance institution (DFI) that champions, and often leads, infrastructure integration and development. The Bank has sought to promote economic and social development by mobilising financial and other resources from the national and international private and public sectors for sustainable development projects in South Africa, the SADC region and more recently to the whole of the African continent.

In broad and aspirational terms, the DBSA has the vision of "*a prosperous and integrated resource efficient region, progressively free of poverty and dependency*". More specific to its value proposition and comparative advantages, is its mission to "advance the development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solution to:

- Improve the quality of life of people through the development of social infrastructure
- Support economic growth through the investment in economic infrastructure
- Support regional integration
- Promote the sustainable use of scarce resource

In fulfilling its mandate, the DBSA is guided by a number of international, regional and local policies, accords and agreements; and subscribes to the goals and targets of the United Nation's Transforming our World: the 2030 Agenda for Sustainable Development. Furthermore, in accordance with COP21 the Bank supports business innovation and bringing scale to the emerging green economy. At a national level, the DBSA strives to improve the lives of all South Africans through the investment in infrastructure and in keeping with the priorities and objectives of the National Development Plan. Refer to section 3.1.3 for an overview of the Sustainable Development Goals (SDGs) and National Development Plan (NDP) as well as section 3.4.5 for DBSA specific role in supporting these objectives.

The preparation of the 2016/17 DBSA Corporate Plan is set against a backdrop of unprecedented economic uncertainty and volatility. Analysts agree that global growth will continue to be hampered in the short to medium term and commodity process are likely to remain persistently low. In addition to the commodity price headwinds, South Africa' growth prospects are moderated by a constrained fiscus, on-going power and infrastructure bottlenecks, difficult labour relations, a declining Rand value and the worst drought in recorded history. These factors weigh heavily on the country's international investment grade ratings and any negative movements would result in higher borrowing costs that would ultimately impact on the DBSA's bottom line given its dependency on financial markets as a source of financing. For DBSA clients, some 35% of their infrastructure programmes are financed through debt securities, all of which would be negatively impacted should any sovereign ratings downgrades occur. Refer section 3.1.1 and 3.1.2 for further detail on the economic and socio-political environment in which the DBSA operates.

However, while the DBSA is not immune from the impacts of the economic distress it is precisely for such an environment that the DBSA was established to play a counter-cyclical role. In the context of the economic uncertainty and the need to remain financially sustainable, the DBSA has realigned the 2016/17 Corporate Plan and will seek to disburse R16.4 billion in 2016/17 whilst reduced the growth in the annual infrastructure disbursements targets to inflation from 2017/18. To offset this the Bank will expand its catalytic role by leveraging our partnership (including the New Development Bank) and convening power to crowd in third party funders into infrastructure projects to the value of R9.6 billion per annum by 2018/19.

Our infrastructure implementation support services to various government entities will continue in the important sectors of education, health and housing. In addition the Bank will be seeking to expand its service offering to municipalities and the maintenance of infrastructure.

In the context of the challenging economic environment the Bank will maintain a financially prudent budget and generate a return-on-equity within the South African Reserve Bank's target inflation bands of 3% to 6% over the reporting period. Refer section 4 for an overview of the financial plan.

2. MANDATE STATEMENT [1]

The DBSA, as a state-owned enterprise and a development finance institution (DFI), is recognised as a single yet critical component of the national infrastructure system. Within the broader DFI community, it is important that the mandate of each of the entities be clearly articulated. In this regard the Shareholder, through the National Treasury, has guided:

- *Infrastructure development is a key pillar in South Africa's growth and development agenda*

  The National Development Plan (NDP) sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality. Faster economic growth is both a key objective of the NDP and a necessary condition to raise the resources needed to fund the country's social and economic transformation. Large-scale investment in infrastructure, especially in energy, transport, water and ICT as well as various education, health and housing, is a critical enabler and the DBSA should play a pivotal role in delivering developmental infrastructure in South Africa.

  The DBSA Act's regulations provide for a focus on infrastructure development, especially in South Africa, where it is located, in a development finance system in which various development finance institutions (DFIs) have been given specific areas of focus in order to limit duplications and unnecessary overlaps. Although certain overlaps are unavoidable, the DBSA should ensure that significant overlaps are avoided but rather seek enhanced cooperation with other DFI in providing infrastructure development solutions.

- *Supporting cities to promote economic growth and spatial development*

  Rapid urbanisation and the need for spatial transformation as outlined in the National Development Plan are also putting pressure on cities and other large urban municipalities to increase the level of spending for strategic infrastructure. This is because the role of cities and other large urban municipalities is to create a conducive environment for inclusive growth, job creation and poverty eradication by providing well-maintained and well-functioning infrastructure. In view of this, it is necessary for government to provide a framework that allows municipalities to mobilise the broadest possible range of resources to fund municipal infrastructure needs to support inclusive economic growth and the provision of sustainable and quality services.

  Recognising that the demand for infrastructure is the greatest in large urban centres and municipalities should not only rely on fiscal transfers to fund infrastructure, the National Treasury, DBSA and various metros are currently designing solutions to support the development of economic infrastructure to expand the income generation base of municipalities. In addition, metros and secondary cities represent the engine of growth for the economy and, as such, DBSA, National Treasury and the Department of Co-Operative Governance and Traditional Affairs should work towards unlocking their economic potential through innovative funding of viable projects. The need to partner with other national and provincial DFIs should also be considered to effectively address the desired objectives.

  Furthermore, the National Treasury in collaboration with relevant stakeholders has embarked on the reforming of municipal borrowing strategies. In this regard, the DBSA should position itself to play a critical role in the development and deepening of the municipal debt market, through supporting and expansion in debt maturities, enhancing secondary market liquidity through expanding available issuances, and encouraging innovation in lending instruments. Furthermore, the DBSA should explore municipal infrastructure bonds, municipal bond

[1] Draft 2016/17 Mandate Statement

underwriting, project finance, and various contracting models as some of the ways to encourage greater private investment in the municipal infrastructure investment.

- *Providing planning and implementation support to municipalities, with specific emphasis on lower tier secondary cities and under-resourced municipalities*

  The challenges and constraints in the implementation of infrastructure projects, especially in the municipal segment are well documented. Firstly, municipalities generally continue to underspend on their allocated infrastructure budget funds. The consequence is that they would have less need for borrowings. Secondly, financial governance and institutional limitations continue to plague many. The consequences are that municipalities are generally slow in planning and execution of projects, resulting in slowed down capital expenditure. Financial lending flows to municipalities could be limited if interventions are not put in place.

  In this regard, the DBSA, together with increased private sector involvement, should provide planning and implementation capacity support interventions to selected municipalities, intended to alleviate some of the mentioned constraints and fully enable expanded lending take-up. This take-up is important if government is to make good on its infrastructure development targets.

- *Support to large state-owned companies*

  State-owned companies (SOCs) play a central part in government's infrastructure development programme, managed under the auspices of the PICC. It is recognised that economic infrastructure development, which is undertaken by SOCs (in areas such as transportation, logistics, bulk water and energy) is also part of the DBSA's infrastructure finance mandate. The DBSA and the National Treasury have agreed on a working arrangement for practically managing transactions arising from DBSA financing activities relating to projects that are "intra-state" in nature. Key principles include:

  - With the growing imperative for infrastructure development, DBSA's financing activities encompass intermediary SOCs that are charged with infrastructure mandates. DBSA's primary emphasis is on mid-tier SOCs such as Water Boards.
  - There is a clear understanding and acknowledgement that some of the major / Tier 1 SOCs are supported through sovereign instruments by the National Treasury and that the DBSA's contributions in this respect should be guided by objectives to:
    - Facilitate project preparation and that the early stage funding provided can be recouped from the SOCs through fees and /or funding structures.
    - Enhancing capacity for raising "off-balance sheet" capital through project financing structures on projects with high developmental impact.
    - Demonstrating added value in funding terms, for example:
      - Source/supply funding at rates cheaper than what the capital market can provide (address market failure).
      - Provide long-term funding solutions for example longer tenor (i.e. extending the yield curve for SOCs) and/or risk mitigation solutions.
  - Tier 1 SOCs are classified as such due to their ability to secure funding on the strength of their respective balance sheets. Projects funded by Tier 1 SOCs are commercial projects with revenues generated sufficient to service the debt incurred.

Where the DBSA can deliver on its infrastructure mandate to achieve a development outcome and such an outcome cannot be achieved through a loan instrument alone, the DBSA may consider an appropriate equity vehicle taking into account the following principles:

- Project preparation
  - Provide early stage risk capital in support of bringing projects to bankability to enable future participation by third party funders in the infrastructure projects.
- Other equity type investments
  - The ability of the investment to generate positive economic and financial returns, net of the cost of equity on a portfolio basis.
  - Direct investments should be focused in the priority sectors of energy, transport, telecommunications and water.

- *The DBSA should serve both domestic and regional requirements*

The movement of goods and services between South Africa and the rest of the continent continue to grow and various binational- and trade agreements have been concluded with countries across the continent. Recognising the infrastructure deficit on the wider African continent and that participation in such projects would support broader regional integration, the DBSA received mandate[2] approval to expand operations beyond SADC to all countries on the African continent.

The DBSA should deepen its response to the development needs of Southern Africa and the wider continent, in line with the SADC integrated Infrastructure Development Plan, and the Programme for Infrastructure Development in Africa (PIDA) and Africa 2063 which are led by the African Union Commission, the NEPAD Secretariat and the African Development Bank Group (AfDB).

In particular the DBSA should ensure that South Africa fulfils its obligations in relation to support for infrastructure development in the region's development corridors. Infrastructure development including transportation, energy, telecommunications and the supply of water sector.

The DBSA acknowledges that investment support to the SADC region remains critical and should remain the primary focus area of the organisation. As a guide investment exposure outside SADC (excluding South Africa), should not exceed 30% of the SADC (excluding South Africa) exposure.

In supporting projects outside SADC, the Bank’s investment decisions should be guided by the following broad principles:

- Projects in support of selected regional economic communities.
- Programmes in support of key development corridors across Africa.
- In all instances deals should generate adequate risk adjusted commercial returns and only provide a portion of the overall funding (i.e. not take up 100% of the funding). Where appropriate due consideration must also be given to supporting SA Inc. objectives and local business expansion plans into Africa.
- For continental and national strategic consideration, the DBSA may consider investments outside the countries identified only with the authorisation from the National Treasury.

[2] Government Gazette No 37178 of 18 December 2013

Consequently opportunities will be explored in the following countries outside SADC:

EAC	ECOWAS	Other non-SADC countries
Burundi	Benin	Djibouti
Kenya	Cameroon	Egypt
Rwanda	Cote D'Ivoire	Ethiopia
Tanzania (included in SADC)	Ghana	Republic of Congo
Uganda	Nigeria	
	Senegal	

- *Crowding in the private sector*

  The DBSA as a stand-alone entity cannot undertake its developmental role alone. Operating within the constraints of a limited balance sheet allows for greater third party (such as private sector, international DFIs and pension funds) involvement. The DBSA needs to act as a catalyst for enhanced third parties participation in infrastructure development. With the establishment of the BRICS Bank, the DBSA should consider how to differentiate itself from the new entity as well as consider how to effectively leverage the resources available in offering a value-enhancing value proposition.

  Innovative ways need to be found to work with the private sector to ensure that infrastructure development and capacity building at municipal level continue at an improved rate.

- *Lifting the standard of living through social infrastructure development*

  Whilst supporting the provision of hard infrastructure is important for long term, sustainable growth, the provision of social infrastructure in the education, health, sanitation and other spheres, can bring short-term relief, and strengthen the social fabric, promoting resilient and productive communities. The DBSA should provide direct implementation support, on cost recovery basis, for social infrastructure projects.

- *Financial sustainability is key if the DBSA is to remain viable.*

  In the context of the impact of the unfavourable economic climate and coupled with increased social demands in South Africa, the Government's budget is constrained. In the light of the projected increase in gearing over the next five years, the Bank needs to develop strategies to ensure the organisation meets its developmental mandate whilst remaining financially sustainable. The DBSA should seek to generate net returns on average equity of at least 4.5% annually, which represents the medium of the inflation bands of 3% to 6% as defined by the South African Reserve Bank.

  The DBSA should work with the National Treasury on various capital management strategies to ensure the DBSA remains below the regulatory gearing limit of 250% beyond the 2019/20 financial year.

- *The DBSA should continue to identify niche markets and improve its performance.*

  There are an increasing number of DFIs active on the continent and in the region. The development finance landscape is changing rapidly. Apart from the traditional role-players, a growing number of emerging countries are engaging with Africa as development finance partners. Even commercial banks are extending their presence to development financing. The DBSA is challenged to become a development financier of choice and should identify its niche, its comparative advantage and its value proposition. The DBSA should continuously seeks to improve its processes and capacity to remain relevant in the market it serves.

3. CORPORATE STRATEGY

3.1. Overview of the operating environment

3.1.1. Economic overview

Global growth appears set for another disappointing year[3] as it struggles to gather momentum with activity in the Euro area, Japan and China continuing to decelerate, the economies of Brazil and the Russian Federation contracting, and those of other major commodity exporters weakening. Even though the economies of the United States and the United Kingdom appear to be rebounding the global outlook remains muted, with the risk of another financial crisis over the next few years as a possibility.

In addition to the uncertainty about the global path of the largest economies of the world, commodity prices have remained persistently low. Robust supplies and lower demand had generally explained the decline in commodity prices across the board. As a result of these subdued commodity prices and declining external demand, many emerging and frontier market economies are showing more signs of slowing growth. Weak growth among major emerging economies such as Brazil, Nigeria, Russia and South Africa is projected to continue in 2016.

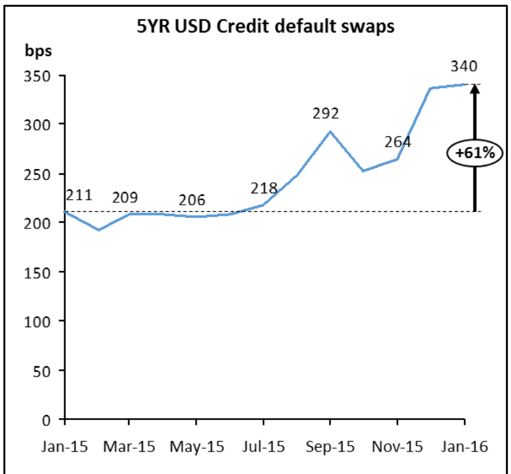
Global growth is now expected to slow from 2.6% in 2014 to 2.5% in 2015, before strengthening to 3% in 2016-2017, driven in part by and expected rebound in emerging and low-and middle-income countries. Risks to the global outlook remain tilted to the downside. Major downside risk are centred on the prospects in emerging and low-and middle-income countries, which could be significantly affected by a further slowdown in China and a disorderly increase in borrowing costs as the U.S Federal Reserve embarks on a gradual tightening cycle. Meanwhile, deflation concerns remain, with actual and expected inflation staying below policy objectives in an increasingly large number of economies amid declining commodity prices.

The growth outlook for Sub-Saharan Africa (SSA) is expected to remain robust, averaging 5% over the next three years, despite lower commodity prices. That being said, the continent's growth prospects are uneven. The region's oil and commodity exporters—especially oil producers such as Angola, Equatorial Guinea, Nigeria, and the Republic of Congo, but also producers of minerals and metals, such as Botswana and Mauritania—are experiencing setbacks to growth. In some cases, growth woes, such as in South Africa and Zambia, are compounded by structural domestic factors. In other cases such as Burundi and South Sudan, political and social tensions are taking a toll on economic activity. Nonetheless, several countries, such as Cote d'Ivoire, Ethiopia, Mozambique, Rwanda, and Tanzania, are posting robust growth figures.

In addition to commodity and oil price headwinds, limited growth prospects in some countries are expected to be compounded by infrastructure (electricity supply and transport) constraints. This is especially the case in the region's largest two economies: Nigeria and South Africa as well as other countries such as Zambia, Botswana, Ghana, Namibia and Senegal. In South Africa, on-going power and infrastructure bottlenecks compounded by difficult labour relations weighed heavily on growth, although a drought in agriculture also contributed to the fall in output. Despite rising demand, electricity supply has remained broadly constant and power cuts are pervasive. Growth in unit labour cost has continued to outstrip growth in productivity, and prolonged strikes have set back mining production. South Africa is projected to have modest growth levels of 1.7% in 2016 and 2.6% in 2017[4]- well below the region's average.

A number of emerging market countries, including Russia and Brazil, have in recent times received below investment-grade sovereign credit rating. Russia's sovereign credit rating was downgraded from BBB- to BB+ in January 2014 by Standards and Poor while Brazil was downgraded to BB+ by the

[3] Source: Africa's Pulse – An analysis of issues shaping Africa's economic future. World Bank Group, 2015
[4] Source: 2015 Medium Term Budget Policy Statement, October 2015



Source: Bloomberg

same rating agency in September 2015. There are increasing indications[5] that South Africa, together with the other countries such as Columbia and Turkey, may be next in line to be rerated below investment-grade rating. The spread on South Africa's Credit Default Swap (CDS) has in recent months increased to ~340 bps. It would appear that, post the global financial crisis, a CDS spread of around 400 bps indicates an eminent downgrade. When Ireland and Spain were downgraded to below investment-grade rating in 2011 and 2012, their respective spreads were 550 and 400 bps.

South Africa has traditionally relied on issuances of debt securities to finance its public infrastructure programme. The government issues debt securities for public infrastructure financing, converts these into infrastructure grants and transfers the funds to implementing entities. For DBSA clients, some 35% of their infrastructure programme is financed through debt securities. In addition, nearly half of the country's current account deficit, is financed through debt securities issued mostly by the sovereign. In the last five years, capital inflows raised through issuances of debt securities amounted to some 4% of GDP and this helped to finance the country's current account deficit of 4% of GDP. Given the importance of the issuance of debt securities in financing South Africa's infrastructure and current account balance, an important question is how the country may be affected by a downgrade to below investment-grade.

Recent international experience on downgrades in emerging markets have yield the following insights:

- Downgrades rarely produce net capital outflows

  Sovereign downgrades tend to weaken investor confidence in debt securities more generally irrespective of whether the issuer is the sovereign or a private entity. In addition, a reduced investor confidence tends to spill over into other types of financial market instruments and the wider economy.

  Nevertheless, a downgrade to below investment grade (BB+) is unlikely to spark off net capital outflows. A review of the experiences of emerging market countries indicated that net capital outflows were associated mostly with extreme events such as financial sanctions. When South Africa was under financial sanctions during 1984 to 1994, it experienced net capital outflows of 1% GDP. Financial sanctions against Iran (2009 – 2016) are producing net capital outflows of 5% of GDP, while financial sanctions against Russia (2014 – present) are producing net capital outflows of 15% of GDP.

  Compared to financial sanctions, sovereign downgrades to below investment grade, is a relatively mild event. Although they result in a generalised weakening of investor confidence, such weakening seldom creates a generalised "panic" that results in a net outflow of capital.

  A downgrade is more likely to cause reduced net capital inflows. Currently, South Africa attracts net capital inflows amounting to 4% of GDP. With a downgrade to below investment-grade, capital inflows are likely to decline to 2% of GDP. During 1995 to 2000, a period in which South Africa had a below investment-grade rating and after financial sanctions were lifted, the country attracted net capital inflows of 2% of GDP. The IMF is projecting that Brazil will still attract net capital inflows of 2% of GDP in 2015 and 2016.

  If the government were to make no policy adjustments to counter the effects of reduced net capital inflows, there would be an unfinanced gap in the current account deficit. The current account deficit currently averages 4% of GDP. If net capital inflows are reduced to 2% of GDP as

[5] Standards and Poor's, September 2015

a result of a downgrade, the unfinanced gap would be 2% of GDP. The Rand would probably depreciate by between 20% and 40% if there is no compensating austerity programme.

Given the import-content of the public infrastructure programme, the borrowing requirement of government and public entities would increase. With the import content currently estimated at 30% of the infrastructure build programme, and the current build programme at ~R275 billion per annum, the borrowing requirement (and hence the debt-to-GDP ratio) would increase by as much as 1% of GDP in the event of a 20% depreciation of the currency.

The government has a range of options available to it for addressing the problem of reduced net capital inflows, including:

- Implementing a fiscal austerity programme (a common response in such events by reviewing the budget, including, amongst others raising taxes, refocusing expenditure priorities and implementing expenditure cuts to finance the higher interest costs as well as create sufficient headroom for future growth.
- Tightening of monetary policy through higher interest rates.

Each option has advantages and disadvantages the government would probably choose the option that reflects their policy priorities.

- Uncertainty leads to increased yields prior to the date of the actual downgrade

It would appear that, months prior to the actual event of a downgrade, debt security investors tend to anticipate the event and make appropriate adjustments to their portfolios. In both Brazil and Russia, yields on government-issued securities increased months in advance of the actual date of the downgrade. In the case of Brazil, yields increased by nearly 300 basis points (bps) to 15.8%. The process started in December 2014, some nine months ahead of the September 2015 downgrade. In the case of Russia, yields increased by some 400 bps from June 2014, some seven months ahead of the actual date of the downgrade in January 2015. With a downgrade to BB+, the South Africa sovereign's cost of borrowing is likely to increase by between 300 to 400 bps from their present levels.

With a gross national debt of R2 trillion, the additional interest costs could range between R59.7 billion and R79.6 billion. Given the government's stated goal of stabilising the country's debt to GDP ratio at around 48% of GDP, these additional interest costs would require significant adjustments to government expenditure in order to keep the government's borrowing requirement at pre-downgrade levels.

At R59.7 billion, the required adjustment is equivalent to the entire budget for infrastructure grants to municipalities plus the entire health infrastructure budget. In the event that the yield on government securities increases by 400 bps, the required adjustment to the budget would be equivalent to the entire budget for infrastructure grants to municipalities, the entire health infrastructure budget and the entire education infrastructure budget.

Nevertheless, as in the case of reduced capital inflows, the government has a range of options available, including:

- Relax the debt ceiling of 48% of GDP and allow the debt to increase.
- Require municipalities to increase their own borrowing for purposes of financing municipal infrastructure given that the rating agencies consider only gross national debt in their determination of debt sustainability. National debt, as opposed to public debt, excludes loans to municipalities and state owned companies. However the downstream impact of higher interest rates, inflation and taxes on consumers could impair the ability of such entities to honour the debt obligations over the longer term.
- Increase off-balance sheet financing of public infrastructure. However, these options have their own advantages and disadvantages and in practice the government is more likely to resort to a combination of these options in formulating a response to a downgrade. Thus,

impact of higher costs of borrowing on the wider South African economy and on the DBSA will depend critically on the policy response to the event (of a downgrade).

In addition, the global interest rate environment would likely also impact the final economic outcomes following a downgrade. A delayed interest rate normalisation in the USA would minimise the adverse impact of a downgrade. On the other hand, rapid rise in interest rates could accentuate the impact of the downgrade on the wider South African economy due to capital outflows to the USA earning higher yields at a lower risk.

Given the considerable uncertainty regarding the likely policy response and the timing of interest rate normalisation in the USA, the overall impact of a sovereign downgrade on the DBSA depends critically on the policy response to the downgrade and these would need to be assessed on an ongoing basis.

3.1.2. Socio-political

Based on the prevailing economic realities, the SSA region is yet again at a crossroads: macroeconomic and governance fundamentals have improved significantly in recent years, but lower commodity prices and a more moderate global growth outlook now demand greater state efficiency and efficacy if the region's growth dynamic is to regain its momentum. Political and social stability remain prerequisites for economic growth. Many African countries, including South Africa, are facing a complex array of environmental, political, social, technological and business challenges which needs to be appropriately managed in order to continue to attract the necessary trade and in-country investment and ensure the continued delivery of social and economic infrastructure. Some of the key issues facing the region that could have an impact on the delivery of infrastructure include: changing demographics, climate change and rising security concerns.

It is estimated that Africa's population of 1 billion in 2010 should double by 2050. As a result, the workforce on the continent is expected to increase by 910 million people by 2050, of which 830 million in sub-Saharan Africa and 80 million in North Africa. To that end, and according to the IMF[6], addressing the infrastructure gap remains critical to allow new higher-productivity sectors to develop, generate jobs for the rapidly growing young population, and foster integration into global value chains.

Secondly, like other emerging countries that are in the process of industrialising, African economies face the challenge of structural transformation in a global context of climate change. The poorest Africans are largely dependent on agricultural resources for both food and jobs, and climate change-related hazards pose serious welfare challenges for SSA's rural poor. Furthermore, pressure on already limited water supply is expected to increase sharply due to changes in water cycles caused by erratic rainfall and to affect negatively the production of annual crops. It is therefore highly likely that climate change could lead to mass migration and rapid urbanisation, which in turn would impact on human settlements and their supporting infrastructure.

Finally, security risks have recently come to the forefront in a number of African countries – especially due to the rise of religious extremism. The Arab Spring of North Africa has had significant impact on East and West African markets and politics, making marches and civil uprisings common occurrences to bring about change- and South Africa is not immune to this rising trend. In 2014 in South Africa, police presence was required at 14 740 service delivery and community protests, 2 289 of which became violent. This represents a year-on-year increase of 2 341 incidents. Most protests occurred in townships near major cities such as Johannesburg, Cape Town, Durban and Port Elizabeth. According to Municipal IQ, last year there were 191 major service delivery protests (that were large enough to capture media attention) staged by community members against a municipality raising issues that are the responsibility or perceived responsibility of local authorities. These high rates of protest and potentially destabilising unrest emphasise the importance and urgency of delivering quality infrastructure to the country's local communities.

[6] Source: Regional Economic Outlook: Sub-Saharan Africa, April 2015

In South Africa, complementary policies are needed to boost employment and economic participation, basic education, and skills acquisition. Government's infrastructure programme promotes higher levels of economic growth and job creation in the medium term, and could boost long-term growth potential. Greater competitiveness could enable local firms to access new markets and hire more people. Thus the NDP correctly points out that rebalancing and transforming the South African economy will take time.

Greater regional integration has also provided a new growth opportunity for South African businesses. Greater integration should positively influence the rate of development on the continent and is therefore considered an essential building block towards a prosperous Africa.

3.1.3. Sustainable Development Goals and National Development Plan

In September 2015, United Nations Member States adopted the **Sustainable Development Goals** (SDGs). This Agenda is a plan of action for people, planet and prosperity. It also seeks to strengthen universal peace. It recognises that eradicating poverty in all its forms and dimensions, including extreme poverty, is the greatest global challenge and an indispensable requirement for sustainable development. The 17 SDGs and 169 targets will seek to build on the Millennium Development Goals and complete what these did not achieve. They seek to realise the human rights of all and to achieve gender equality and the empowerment of all women and girls. They are integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental.

The goals and targets will stimulate action over the next fifteen years (to 2030) in areas of critical importance for humanity and the planet:

- People - end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment.
- Planet - protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations.
- Prosperity - ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature.
- Peace - foster peaceful, just and inclusive societies which are free from fear and violence. There can be no sustainable development without peace and no peace without sustainable development.
- Partnership - mobilise the means required to implement this agenda through a revitalised Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity, focused in particular on the needs of the poorest and most vulnerable and with the participation of all countries, stakeholders and people.

The South African government continues to drive its vision to improve the lives of all South Africans. The **National Development Plan** (NDP) sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality. According to the plan, South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

Faster economic growth is both a key objective of the National Development Plan and a necessary condition to raise the resources needed to fund the country's social and economic transformation. At the heart of the NDP is the need to shift South Africa's economic growth trajectory from one led by consumption to higher levels of investment and export investment should be in dynamic sectors that transform ownership and economic structure, and draw in a larger proportion of the economically inactive population.

Investment in infrastructure is not just essential for faster economic growth and higher employment, it also provides inclusive growth, proving citizens with the means to improve their lives and boost their incomes. Infrastructure is essential to development. The plan targets public infrastructure investment of 10% of GDP, financed through tariffs, public-private partnerships, taxes and loans, whilst focusing on transport, energy and water. The plan further highlights the need to prioritise infrastructure investment, amongst others, in the following:

- Upgrading informal settlements on suitably located land as well as support integrated urban development.
    - The Integrated Urban Development Framework (IUDF) is designed to primarily respond to Chapter 8 of the NDP and seeks to unlock the development synergy that comes from coordinated investment in people and places. This will result in inclusive, resilient and liveable cities and towns. Key policy levers include integrated transport and mobility, sustainable human settlements, infrastructure planning, inclusive economic development, efficient land governance and management, empowered active communities and effective urban governance.
- Public transport infrastructure and systems, including the renewal of the commuter rail fleet, supported by enhanced links with road-based services.
- Developing the eThekwini-Gauteng freight corridor, including a new dug-out port on the site of the previous international airport.
- Building a new coal line to unlock coal deposits in Waterberg.
- Developing several new water schemes to supply urban and industrial centres.
- Constructing infrastructure to import liquefied natural gas and increasing exploration to find domestic gas feedstock to diversify the energy mix and reduce carbon emissions.
- Procuring at least 20 000 MW of renewable electricity by 2030, importing electricity from the region, decommissioning 11 000 MW of ageing coal-fired power stations and stepping up investment in energy efficiency.
- Establishing national, regional and municipal fibre-optic networks to provide the backbone for broadband access.

The plan also emphasises the need for development to be provided on a sustainable and resilient basis to ensure that long-term sustainability of our resources (resource efficiency). Key initiatives include:

- Manage the transition to a low-carbon economy at a pace consistent with government’s pledges, without harming jobs or competitiveness. Achieving scale in stimulating investment in renewable energy, waste recycling and mass transport programmes are examples of what is required
- Need to ensure the effective utilisation of our resources and assets for example appropriate maintenance of infrastructure to prolong their useful life or promoting innovation in the use of new technologies.

Large-scale investment in infrastructure is a critical enabler and government has budgeted in excess of R800 billion for public-sector infrastructure investment over the next three years i.e. from 2016/17 to 2018/19. In addition, the National Infrastructure Programme, coordinated by the Presidential Infrastructure Coordinating Commission (PICC) plays an important role in ensuring the systemic selection, planning and monitoring of large projects across the country and seeks to:

- Identify five-year priorities.
- Develop a 20-year project pipeline.
- Achieve development objectives: skills, industrialisation, empowerment, research & development.
- Expand maintenance: new and existing infrastructure.

- Improve infrastructure links: rural areas and poorest provinces.
- Address capacity constraints and improve coordination and integration.
- Scale-up investment in infrastructure.
- Address impact of prices.
- Support African development and integration.

In response to the above challenges as well as the need to be more client-centric, the DBSA continues to review its strategy and operating model to ensure that its infrastructure development activities are geared towards maximising impact and also play an appropriate role in a development state. Key to the Bank's strategy is the organisation's vision to make a meaningful contribution to the development of infrastructure to support the improvement of the quality of life of people, economic growth and regional integration (examples of the DBSAs role in supporting the NDP and SDGs are discussed further under paragraph 3.3.5). Over the next three years, the DBSA seeks to be the catalyst for infrastructure development support by seeking to fast track project preparation activities, increase infrastructure financing across the various operating areas as well as be a leader as an implementing agent on behalf of government departments. The DBSA is also seeking to establish a small unit to consider innovative products or programmes to catalyse infrastructure development in key areas.

3.1.4. Infrastructure outlook

Without sound and well-maintained infrastructure, national economic development will remain severely constrained. Improvements to the continent's infrastructure in recent years have been responsible for more than half of Africa's recently better economic performance and have the potential to contribute even more in the future. By the same token, inadequate infrastructure holds back faster growth on the continent. According to the IMF[7], "increased public infrastructure investment raises output in both the short and long term, particularly during periods of economic slack and when investment efficiency is high. This suggests that in countries with infrastructure needs, the time is right for an infrastructure push: borrowing costs are low and demand is weak in advanced economies, and there are infrastructure bottlenecks in many emerging markets and developing economies. Debt-financed projects could have large output effects without increasing the debt-to-GDP ratio, if clearly identified infrastructure needs are met through efficient investment".

Current estimates of the infrastructure investment required annually across Africa are in the order of US$93 billion, with investment at around US$45 billion, leaving a considerable shortfall[8]. In a recent Frost and Sullivan report it was estimated that Africa requires a US$180 billion to US$230 billion infrastructure investment by 2025[9]. Clearly then, the potential opportunities are enormous.

Over the past five years South Africa's public sector has spent an excess of a R1 trillion on infrastructure and spending by the public sector is planned to exceed R800 billion over the period of the government's medium-term expenditure framework to 2019. That being said, according to the latest budget speech, while public spending on infrastructure will remain above the R800 billion threshold, spending had been revised downwards by R34.2 billion.

Despite the heavy investments already made, more funding is required. Investment in infrastructure is considered critical to increase the ability of the economy to grow in an inclusive way and to improve the delivery of basic services to all citizens.

The Presidential Infrastructure Coordinating Commission (PICC) has identified a pipeline of projects to address infrastructure backlogs whilst the NDP provides guidelines for capital investment priorities

[7] Source: Is it time for an infrastructure push? The macroeconomic effects of public investment – International Monetary Fund, October 2014

[8] Source: Africa's Infrastructure: A Time for Transformation – World Bank, 2009

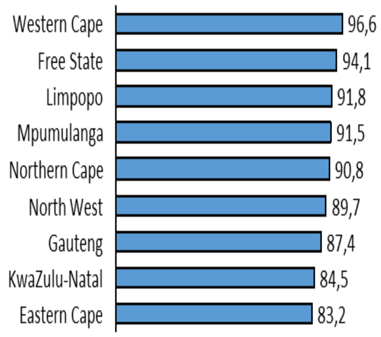
[9] Source: Mega Trends in Africa- Frost & Sullivan, 2015

and the sequence of decisions required to ensure that the country's infrastructure needs are provided for in a sustainable, equitable, affordable and practical manner.

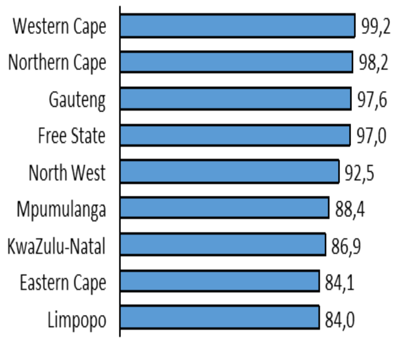
Linked to the NDP is the Integrated Urban Development Framework (IUDF) which is designed to unlock the development synergy that comes from coordinated investments in people and places. An integrated urban infrastructure policy framework that is resource-efficient and provides for both universal access and more inclusive economic growth needs to be extensive and strong enough to meet industrial, commercial and household needs, and should also be planned in a way that supports the development of an efficient and equitable urban form and facilitate access to social and economic opportunities. During the forthcoming year the DBSA will continue to assess opportunities to support the initiatives as well as consider ways to further align its operations to these imperatives.

Since 1994, the South African government has shown a sustained commitment to reducing backlogs in municipal infrastructure in order to redress the inequalities of the past. Budget allocations have grown significantly over the years, and there have been large strides in providing housing and basic services such as electricity, water supply and sanitation. Yet, despite these budgets for municipal infrastructure and services, backlogs still remain.

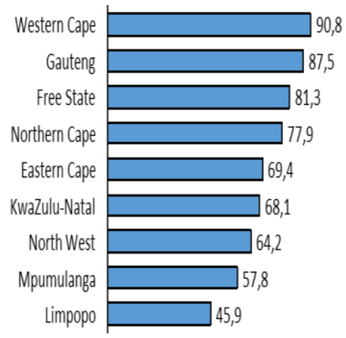
Access to electricity 2013 (%)[10]



Access to water 2013 (%)



Access to sanitation 2013 (%)



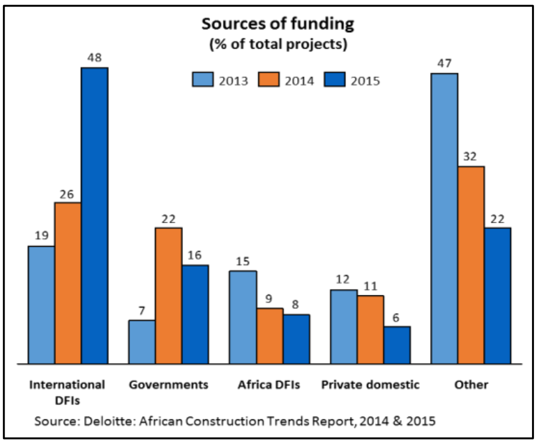
The country's municipal infrastructure asset base remains under strain, owing to low levels of investment and poor maintenance with backlogs in bulk infrastructure remaining critical. Given the upcoming Municipal Elections in 2016, the DBSA will continue to work closely with the new incumbents as well as a range of public and private sector stakeholders and strategic partners to crowd-in investment in Metros and smaller municipalities to ensure the timely infrastructure delivery within our focus sectors and target markets

South Africa is also well placed to support infrastructure development and strengthen regional economic collaboration within the African continent. The DBSA, as a vehicle of the state and a development finance institution, is recognised as a single yet critical component of the infrastructure development system with a mandate to contribute meaningfully towards national infrastructure objectives.

3.1.5. Competition

The financing of infrastructure projects continue to be of interest to institutional investors across the world as these assets offer inflation protection and attractive yields. Furthermore, as banks no longer want to provide long-term infrastructure financing, institutions, in particular insurers and pension funds, have started to plug the gap.

[10] Source: Statistics South Africa: GHS 2013



With the growth in infrastructure projects in Africa, many international funders, including private entities and international DFIs are targeting opportunities on the African continent. With access to competitive funding rates (lower cost of capital), these enterprises have a distinctive advantage over many African enterprises such as the DBSA.

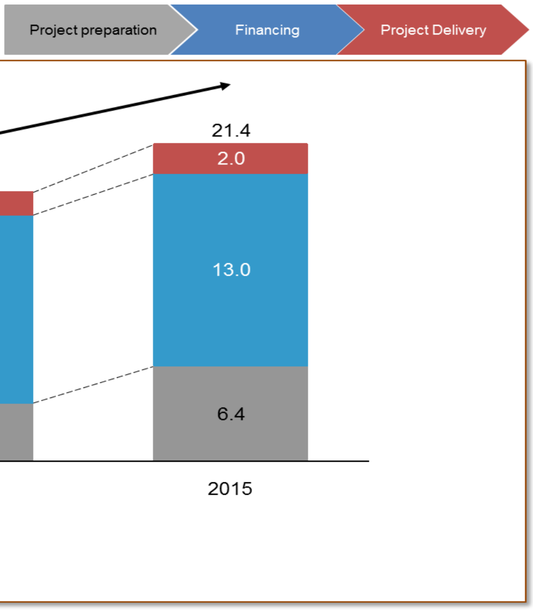
In Africa International DFIs are the largest providers of financing of infrastructure, representing 48% [11]of total projects, significantly up from the 26% recorded on 2014. Governments is the second highest provider of funding with 16% of the total (2014: 22%).

The establishment of the BRICS New Development Bank (NDB) also offers various challenges and opportunities to the DBSA as the two organisation's mandates overlap in many instances. The NDB will have an Africa Regional Centre in Johannesburg. Of concern to the DBSA is the ability of the NDB to potentially provide preferential rates to clients due to its funding structures and financial strengths of the key founding countries. The Bank is currently assessing its approach to the NDB and how it would leverage these resources to catalyse infrastructure development in our target markets.

3.2. DBSA 2014/15 performance overview

For the 2014/15 financial year the DBSA delivered a strong set of development and financial results in a challenging operational environment.

Total approvals amounted to R30.2 billion (2014: R14 billion) and commitments R17.4 billion (2014: R12.2 billion). Disbursements were at a new high of R13.0 billion (2014: R12.7 billion). Disbursements were largely driven by R6.7 billion disbursed to economic infrastructure transactions, R3.7 billion to metros, R1.3 billion to secondary municipalities and R0.5 billion to under-resourced municipalities. In addition to the disbursements, the Infrastructure Delivery division had R2.0 billion (2014: R1.5 billion) under management and Project Preparation unlocked projects to the value of R6.4 billion for funding. These contributed to a 17.0% increase in the total infrastructure development support in 2015 of R21.4 billion (2014: R18.2 billion).



Regional integration is critical in growing both the South African and broader continent's economies. Following the successes of the previous financial year, the International Financing division faced a

[11] Source: A 360° View, Africa Construction Trends Report 2015, Deloitte

challenging trading environment. Total approvals amounted to R8.7 billion, compared to the R4.0 billion achieved during 2014. Despite the high level of approvals, the division recognises that the development of bulk infrastructure is extremely complex and time consuming, and can take a number of years to reach financial close. Consequently, both commitments and disbursements were lower than 2014. Total commitments amounted to R2.2 billion (2014: R4.6 billion) and disbursements totalled R619 million (2014: R3.6 billion).

Through the Bank's project preparation efforts R6.4 billion was approved for funding (2014: R3.9 billion), mainly in support of Round III of the government's Renewable Independent Power Producers Energy Programme. Going forward we see significant opportunities for the Project Preparation unit to continue to feed the DBSA infrastructure financing pipeline.

The DBSA has a strong record of supporting the Southern African Development Community (SADC) region's transformation. Through our portfolio of lending operations as well as project implementation and programme management support activities, we are promoting growth which is both inclusive and sustainable in nature. Measuring the Bank's overall contribution to the region's development is a challenging and complex undertaking. The Bank is just one of many players promoting development, alongside other government agencies, development partners, companies and civil society organisations. In this context, it is difficult to attribute overall development results to the work of a single organisation. We therefore assess our results by building a picture of our support from a project level.

Key development outcomes achieved during the year include:

- Our planning and implementation support to under-resourced municipalities yielded the following: 27 projects were in planning, and 60 projects completed – 17 in transport, six in water and sanitation as well as 37 in the energy sector. A total of 1 773 job opportunities were created from the projects in implementation. Three infrastructure plans were completed in line with milestones agreed with respective municipalities.
- An estimated 289 000 households (2014: 264 000) could benefit from commitments in favour of various municipalities across the country.
- In all, R100 million was disbursed in terms of the INEP Programme, bringing electricity to 9 794 households.
- Non-municipal funding for 2015 in both South Africa and SADC contributed substantially to energy generation, including 975 MW renewable energy, coal project preparation financing for 9 000 MW and 340 MW in gas. The Bank also contributed to funding 120 000 houses, 1 880 km of roads, 5 204 beds for student accommodation and support to procure 171 buses for the Bus Rapid Transit System.
- Through our Infrastructure Delivery division the Bank completed the construction of 15 schools, 1 128 affordable houses, 26 health clinics and 60 doctors' consulting rooms. In addition 48 schools and 2 420 affordable houses were in various stages of construction at year-end

The Bank produced a strong financial performance with net profit of R1.2 billion (2014: R787 million), sustainable earnings of R808 million (2014: R374 million) and cost-to-income ratio of 34% (2014: 28%). The Infrastructure Delivery division is managed on a full cost recovery basis and achieved a net profit of R16.2 million for the year (2014: R12 million), representing a cost recovery ratio of 112%.

Overall our financial position remains sound, with the Bank's credit rating maintained in line with the sovereign rating and we continue to see the financial benefits of our restructuring concluded during 2013. Total assets grew by 11% to R71 billion (2014: R63.8 billion). The total development assets increased by 14% to R63.1 billion (2014: R55.5 billion), with the non- performing loan book after specific impairments at only 1.9% (2014: 2.2%). The debt/equity ratio of 195.7% remained well below the 250% statutory threshold.

3.3. DBSA 2015/16 performance overview to December 2015

For the 2015/16 financial year the DBSA is on track to deliver a strong set of performance results. Key highlights for the nine months period ended 31 December 2015 include:

- Total approvals amounted to R11.2 billion and commitments R8.8 billion.
- R12.5 billion (YTD target: R13.5 billion) was disbursed during the period and the DBSA is projected to exceed R17 billion by year end.
  - To date R4.8 billion has been disbursed to Metro's (a new record), and a total of R346 million disbursed to secondary and under-resourced municipalities.
- Projects prepared through the Bank's Project Preparation Unit amounted to R6.8 billion.
- The Bank's Infrastructure Delivery Division completed 22 schools, 939 houses, 21 NHI clinics and 21 VCT clinics during the period. Funds under management totalled R2.4 billion (YTD target: R2.2 billion).
- The Bank's financial performance remains strong with sustainable earnings[12] of R1.1 billion. Net profit for the period amounted to R2.6 billion, mainly as a result of the depreciation of the South African currency which contributed an additional unrealised R1.2 billion and R238 million net revaluation surplus on financial instruments to net profit.
- Costs were well managed, with the cost-to-income ratio, excluding IDD, at 25%, below the internally set threshold of 35% and total assets have grown to R80 billion from the previous financial year.

3.4. DBSA strategy

3.4.1. Vision, mission and strategic objectives

At the core of its mandate, the DBSA seeks to play a pivotal role in delivering developmental infrastructure in South Africa and the continent.

Vision

A prosperous and integrated resource efficient region, progressively free of poverty and dependency

Mission

To advance the development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions to:

- Improve the quality of life of people through the development of social infrastructure
- Support economic growth through the investment in economic infrastructure
- Support regional integration
- Promote sustainable use of scarce resources

The DBSA has refined its strategic objectives to support its transformation journey and have defined the following three key strategic objectives:

- **Sustained growth in developmental impact:** Grow each of our businesses aggressively to maximise developmental impact.
- **Integrated infrastructure solutions provider:** Provide integrated infrastructure solutions, across the value chain and be the partner of choice for infrastructure solutions.
- **Financial sustainability:** Maintain profitability and operational efficiency to enable growth in equity and fund developmental activities.

[12] Sustainable earnings: earnings before foreign currency and financial instruments adjustments, but including revaluation on equity investments.

The DBSA's strategy maintains the Bank's focus on social and economic infrastructure development but with an emphasis on driving financial and non-financial investments in the primary sectors of energy, transport, water and communications, whilst providing support to various social sectors such as health, education and housing to a lesser extent. Social and economic infrastructure is defined as follows:

- Social infrastructure: Infrastructure aimed at addressing backlogs and expediting the delivery of essential social services in support of sustainable living conditions and improved quality of life within communities.
- Economic infrastructure: Infrastructure aimed at addressing capacity and bottleneck constraints in order to optimise economic growth potential.

3.4.2. Priority markets and activities

DBSA primarily plays a key role in the preparation, funding and building phases of the infrastructure development value chain. The diagram below illustrates the various services as well as the key targets markets per value chain segments.

DBSA role in the infrastructure value chain

3.4.3. Go-to-market strategy and competitive advantages

The DBSA strategy is designed around the ability to leverage its competitive advantages, as described in the table below, to target:

- Early stage infrastructure projects.
- Work closely with key partners and advisors to de-risk a project, including the provision of early stage risk capital (partly utilising the DBSA balance sheet).
- Where appropriate seek to be the mandate lead arranger and crowd-in third party funders into the deal.

Competitive advantage	Source of competitive advantage
Integrated infrastructure solutions provider	• The DBSA operates across the infrastructure finance value chain and can therefore offer clients an integrated solution • Opportunities for 'cross selling' across DBSA divisions.

Competitive advantage	Source of competitive advantage
Early stage risk	• As a DFI, the DBSA is positioned to take on early-stage risk where commercial banks are reluctant to take on this risk for example use project preparation services to support the growth of the deal pipeline
DBSA a trusted partner	• The DBSA is positioned to leverage its role as a trusted partner between the government and the private sector. • Private sector banks generally not 'threatened' by DBSA
Exclusive access to deal flow	• DBSA able to leverage preferential access to RSA government to access opportunities in South Africa (SOCs, municipalities) and countries in Africa with strong relations with RSA.
Basel III capital requirements not applicable to DBSA	• Allows DBSA to take longer tenor on debt (vs. commercial banks)

3.4.4. Strategic enablers

To execute the strategy, the Bank has also identified the following by six strategic enablers in order to differentiate itself from our peers:

Strategic enabler	Rationale
High performance culture	• People are our most valuable resource and we are committed to attracting, developing, retaining and rewarding the best people through the continued establishment of a challenging and exciting environment, which stimulates commitment, and encourages development and growth.
Balance sheet capacity	• Balance sheet strengthening and implement treasury's strategy in order to meet the growth ambitions.
Partnerships	• Developing and leveraging our strategic partnerships and relationships to profitably expand and deepen our penetration of our selected market segments and geographic markets. • Strategic partnerships enable business to gain competitive advantage through access to knowledge and project funding. • Distinguishing ourselves by proactively partnering with our clients and development partners to originate, plan and deliver infrastructure projects.
Business intelligence	• Acquiring relevant actionable knowledge and understanding of our selected industry market and geographic sectors, economic business trends, clients and competitors, in order to inform quality decisions that should drive performance.
Operational excellence	• Creating within our group operating model and organisational structure, distinctive skills processes and operating models for the effective provision of innovative finance for development and enhanced project execution capabilities.
Innovative infrastructure Solutions	• Innovation can support the DBSA to: ○ Solve for client and market needs more effectively. ○ Gain a competitive edge to be able to demand a premium (rather than provide "commoditised" products). ○ Accelerate delivery of infrastructure. ○ Expand reach. ○ Provide solutions to ensure the effective utilisation of resources as well as the transition to a low-carbon economy.

3.4.5. DBSA's role in supporting the NDP and SDGs

As an organ of the state it is important that the activities of the organisation is closely aligned to support key national imperatives. The strategy of the DBSA is linked to the objectives of the National Development Plan. The diagram below illustrates the role of the DBSA as well as various examples of activities linked to each National Development Plan objective.

NDP outcome	DBSA's role	Examples
Create an economy that will create more jobs	◐	• IDD: ASIDI and Eastern Cape Rural Housing
Investing in economic infrastructure	●	• Funding of various energy, transport and ICT projects
Environmentally sustainable and resilient: Transition to a low carbon-economy	●	• Preparation and funding of renewable energy programmes • Funding of water, sanitation and mass transit projects • Providing planning and implementation support to under-resourced municipalities
An inclusive and integrated rural economy	●	• Funding of bulk water supply and transport networks across the country. • Eastern Cape Rural Housing Programme
South Africa in the region and the world	●	• Funding of projects in SADC • North-South corridor
Transforming Human Settlements	●	• Eastern Cape Rural Housing Programme • Housing Impact Fund • Support to urban development programmes
Improving the quality of education, training and innovation	●	• IDD: ASIDI programme • Funding of student accommodation
Quality health care for all	●	• IDD: refurbishment of health clinics and construction of doctors' rooms
Social protection	○	
Building safer communities	○	
Building a capable and developmental state	●	• Provision of technical support in the planning and implementation of projects
Fighting corruption	◐	• IDD: management of procurement processes in appointing service providers
Transforming society and uniting the country	●	• Supporting development impact through investment in social and economic infrastructure

● **Direct** ◐ **Indirect** ○ **Not applicable**

On the back of the outcomes achieved in the implementation of the Millennium Development Goals (MDGs), the United Nations recently adopted 17 Sustainable Development Goals (SDGs) to shape a new development agenda for the next 15 years (to 2030). The diagram overleaf illustrates the role of the DBSA as well as various examples of activities linked to each of the SDGs.

SDG outcome	DBSA's role	Example
End poverty in all its forms everywhere	Indirect	IDD: ASIDI and Eastern Cape Rural Housing (job creation)
End hunger, achieve food security and improved nutrition, and promote sustainable agriculture	Direct	Contributing to agriculture sector through the funding of roads, energy generation and bulk water
Ensure healthy lives and promote wellbeing for all at all ages	Direct	IDD: refurbishment of health clinics and construction of doctors' rooms
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Direct	• IDD: ASIDI programme • Funding of student accommodation
Achieve gender equality and empower all women and girls	Indirect	DBSA procurement processes
Ensure availability and sustainable management of water and sanitation for all	Direct	• Funding of bulk water, reticulation and sanitations infrastructure • Post implementation reviews
Ensure access to affordable, reliable, sustainable and modern energy for all	Direct	Preparation and funding of IPPs
Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all	Direct	Funding of various energy, transport and ICT projects
Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation	Direct	Funding of various water, sanitation, renewable energy and mass transit projects
Reduce inequality within and among countries	Indirect	• Funding of projects in SADC • North-South corridor
Make cities and human settlements inclusive, safe, resilient and sustainable	Direct	• IDD: Eastern Cape Rural Housing • Financing of municipal infrastructure
Ensure sustainable consumption and production patterns	Not applicable	
Take urgent action to combat climate change and its impacts	Direct	• Green Fund • Funding of IPPs
Conserve and sustainably use the oceans, seas and marine resources for sustainable development	Not applicable	
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation, and halt biodiversity loss	Direct	• Implementation of environmental assessment procedures as part of the due diligence process • Post implementation reviews
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	Not applicable	
Strengthen the means of implementation and revitalise the global partnership for sustainable development	Direct	Partnerships with • Global and regional DFIs • Association for African Development Finance Institutions

Direct **Indirect** **Not applicable**

3.4.6. Potential disruptors to the execution of the Bank's strategy

The environment in which the Bank operates continues to evolve for example with changes in the market demand, new entrance to the market, social and economic factors and well as technology advancements. The DBSA continues to scan the market to identify potential disruptors as these disruptors could provide either an opportunity or a threat to the DBSA business. Key disruptor identified include:

Disruptor	Description	Potential impact on DBSA	Scale and likelihood of impact	Likelihood of impact	DBSA response
Downgrade of SA credit rating to sub-investment	Downgrading to sub-investment could: • Trigger a sell-off by conservative investment funds barred from buying sub-investment grade securities • The move could spook equity and bond traders and lead to investor flight • Could activate clauses in debt agreements causing SA's repayment deadlines to be brought forward • Higher costs of borrowing for government • Liquidity will shrink because there will be fewer potential investors • Currency weakness as the demand for the Rand falters • Higher inflation rates	• Increase in cost-of-funding • Exit of funders from the local market could create an opportunity for the DBSA to participate further in infrastructure projects			• Diversification of the DBSA services offering to "infrastructure catalysts" e.g. acting as mandate lead arranger. • Continued active management of the DBSA treasury strategy • Potential review and moderation of DBSA disbursement growth targets
Geo-political	• Established economies and emerging "super-powers" are competing to achieve strategic positioning within the African continent and this could potentially distort the market for infrastructure projects through increased inflow of "cheap money" as a competitive tool • Potential rise in extremism and terrorism which could increase the project risks and limit capital flows to infrastructure projects within Sub-Saharan Africa	• The Bank can be potentially crowded out of the infrastructure debt financing market due to sub-economic pricing levels • The ability of the Bank to form broad based strategic partnerships can be affected			• Continuously engage the Government to obtain political cover • Increase focus on DBSA's non financing value offering e.g. Project Preparation, Infrastructure Delivery and Infrastructure Advisory Services

 **Low**  **Medium**  **High**  **Very high**

Disruptor	Description	Potential impact on DBSA	Scale and likelihood of impact	Likelihood of impact	DBSA response
Increased competition	Increased direct competition in the form of: • New international infrastructure banks that can potentially distort the market through the provision of sub-economic loans e.g. The New Development Bank • New infrastructure investment institutions with relatively lower cost of funding e.g. Pembani-Remgro infrastructure fund, GAIA infrastructure partners, Meridiam Capital • Increased participation within Africa from well-funded European, American and Asian DFIs with cheaper funds (e.g. KfW, AFD)	• Potential loss of market share and revenue due to aggressive pricing from competitors • The emergence of new and traditional investors and funds on the continent presents opportunities for the Bank to leverage new and foreign capital for investment and possibly earn lead arranger fees for deals that emerge from the DBSA's Project Preparation team			• Develop key strategic partnerships to allow for blended financing opportunities • Formulate "defensive tactics" for direct competitors e.g. positioning Project Preparation as a loss leader as part of a cost effective integrated solution to clients • Develop "niche" / specialised service offering e.g. Advisory services & Infrastructure Delivery that enhances the Bank's brand and core business • Potentially establish an infrastructure investment fund
Private sector lobbying	• Requests to the National Treasury by private sector participants that the DBSA should not participate in certain sectors of the market e.g. metro debt offerings	• The metro exposures, including metro bonds, account for 27.7% of the total DBSA loan book of R66.7 billion. • Exiting the metro market could have significant negative impact on the Bank's business model, growth and financial sustainability			• Proactively engage National Treasury and demonstrate how DBSA could be playing a catalytic role and crowding in the private sector through various initiatives such as the Large Urban Catalyst Infrastructure initiative. • The Bank is also developing other programmatic opportunities within the Metro space e.g. Municipal Root-top Solar PV & Municipal Waste Water Treatment Works in which it could continuously crowd in the private sector

 **Low**  **Medium**  **High**  **Very high**

Disruptor	Description	Potential impact on DBSA	Scale and likelihood of impact	Likelihood of impact	DBSA response
Collapse of the user-pay model	• The user pay model could potentially be under threat as more communities opt for non-payment for what is perceived as social / public infrastructure (e.g. e-tolling)	• A shortfall in revenue to public institutions due to non-payment from the infrastructure users will decrease the public sector infrastructure spend going forward. This could imply a dwindling number of projects available for funding • A collapse of the user-pay model could also mean the non-financial viability of off-balance sheet projects with no identified off-taker			• Explore the opportunity to place some of the public infrastructure risks with the National Treasury

Low **Medium** **High** **Very high**

3.5. Key deliverables for the period 2016/17 to 2018/19

Over the next three years, the DBSA will seek to significantly increase its infrastructure development support. Refer to section 5 for the Bank's detail annual performance metrics as included in the Balanced Scorecard. The salient features include:

Strategic objective	Rationale	Metrics
Sustained growth in developmental impact	• Grow each of our businesses aggressively to maximise developmental impact	• Be a catalyst for infrastructure by crowding-in third parties by crowding in between R5.6 billion and R9.6 billion per annum over the next three years. • Disbursements of R16.4 billion in 2016/17 and growing annually by 6% thereafter (R17.4 billion in 2017/18 and R18.4 billion (2018/19) • IDD funds under management: ~ R4 billion to R5 billion per annum (low road) • Project prep – supply ~50% of financing commitments • Development impact o Maximise the value of infrastructure catalysed / facilitated o Development effectiveness
Integrated infrastructure solutions provider	• Provide integrated infrastructure solutions, across value chain	• Client satisfaction rating
Financial Sustainability	• Maintain profitability to enable growth in equity and fund developmental activities • Maintain operational efficiency	• ROE of 3-6% • Cost-to-income ratio < 35% (core-banking ratio, excluding IDD) • IDD: ~R380M revenue by FY 2018/19 • IDD: 5 - 10% profit margin • NPL < 6% of book • Maintain a debt/equity ratio at 200% (can go up to 250% in line with DBSA regulations)

The table overleaf summarises the respective infrastructure segments which the DBSA will support over the next three years to 2018/19. Further detail is provided under section 3.3.1 to 3.3.3.

Underpinning these activities, the Bank should remain financially sustainable by generating sufficient net surplus to grow the Bank's shareholders' equity by at least inflation annually by 2017. Consequently:

- Developmental lending will be undertaken on terms ranging from subsidised to fully commercial.
- Additional non-infrastructure financing related development activities to assist government in socio-economic developments will be provided on a full cost recovery basis.

DBSA support areas over the next three years

Focus areas	Key sector coverage	DBSA's role	Counter party entities	Responsible division	Key deliverables over the next three years to 2018/19
• Sustained growth in developmental impact • Integrated infrastructure solutions provider	Municipal (including water & sanitation, electricity, roads, and refuse)	Lending	Municipalities (all)	South Africa Financing	Total disbursements: R18.3 billion
		Project planning support (pre-financing support)	Secondary and under-resourced municipalities	South Africa Financing	Completion of the following outcomes for selected municipalities: • Investment plans • Feasibility plans • Funds sourcing
		Project implementation support (post-financing support)	Secondary and under-resourced municipalities	South Africa Financing	Completion of the following outcomes for selected municipalities: • Technical planning • Procurement • Contract management
		Implementation support to SIP 6, National Integrated Municipal Infrastructure Programme	• PICC • Municipalities	Infrastructure Delivery	Provide Implementing support to selected projects
	Other social Education, health and housing (non-municipal)	Lending	• PPPs • Higher education • SOCs (such as Water Boards) • Private companies • Investment funds	South Africa Financing	Total disbursements: R3.9 billion
		Implementation support to: • SIP 13: National Schools Programme • Accelerated Schools Infrastructure Delivery Initiative • Eastern Cape Rural Housing programme • Various health programmes	• National and provincial government	Infrastructure Delivery	Increase Funds under management from R4.2 billion in 2016/17 to R4.7 billion in 2018/19.
	Economic infrastructure • Bulk water • Transportation / logistics • Power/energy • Telecommunications • Liquid fuels (oil/gas)	Project preparation	• National & provincial government • PPPs • SOCs • Private companies • The Rest of African continent	Financing Operations	Value of projects prepared: R30 billion
		Lending and/or direct investment	• PPPs and IPPs • SOCs • Joint ventures • Private companies • Concessions • Joint ventures	South Africa Financing International Financing	Total disbursements South Africa: R18.0 billion Total disbursements rest of Africa: R12.0 billion
		Fund management services	• National government	Financing operations	Support various funds with management services

Within this context the Bank has prioritised the following areas and activities for the 2016/17 to 2018/19 financial years:

3.5.1. Project preparation fund(s)

The demand for infrastructure development in Africa is extensive and one of the key bottlenecks is the development and preparation of bankable projects. In addition, the planning and delivery of large infrastructure projects is complex and fraught with risk. Hence, many projects fail or are implemented with budget and timeline overruns. Over time, many DFIs have tried to fill the space where government capacity is low and risk is high. Although this landscape is evolving and expanding, current DFIs in Africa have not proven a large scale successful model. This need and these challenges translate into an opportunity for the DBSA to create a high-skill, scaled-up, end-to-end project development and preparation business that de-risks projects and delivers project concepts to bankability.

Through the DBSA's project preparation function, the Bank is seeking to:

- Build a large portfolio of pipeline projects to be presented for funding consideration annually.
- Mobilise project preparation funds from own balance sheet and funding partners.
- Build capacity and systems to mobilise and appraise projects in pipeline.
- Build a self-sustaining business.

The key project preparation principles are as follows:

- The potential project shall align with the Bank's development mandate and be within the identified priority sectors of the Bank.
- The sponsors should be able to demonstrate a high probability of being able to bring the project to bankability within a reasonable time frame.
- The principle of co-financing shall apply with the sponsors showing commitment to the project by contributing a significant portion of the development costs from their own sources.
- Each facility shall be priced (pricing should reflect equity type returns) to reflect its high risk nature.
- The facility shall be refinanced from the capital funding of the project once financial close is reached.
- The Bank shall seek to obtain an irrevocable right to finance a portion of the total debt package of the project. The minimum portion of the debt to be financed by the Bank shall be agreed upfront with the sponsors and included in the facility agreement.
- The facilities shall not be used for any expenses incurred for the sponsor's own staff.

The Bank will seek to play a significant part in early stage project development and target to prepare projects to the value of approximately R10 billion per annum over the next three years. Where appropriate, the Bank will also seek to crowd-in private sector funders through syndication arrangements in financing the underlying programmes.

Infrastructure and Investment Programme for South Africa (IIPSA)

As part of the Bank's project preparation activities, the DBSA will continue to manage the IIPSA programme on behalf of the National Treasury and the European Commission (EU). The IIPSA facility EU was concluded during the 2013/14 financial year, unlocking €100 million for project preparation over the next three years, and to be implemented over the next seven years.

The IIPSA financing agreement covers among other things the following:

- IIPSA will operate by providing innovative financing involving the co-funding of EU grants together with loans from participating South African and European development finance institutions.
- It is estimated that a leverage effect of at least five to 10 times the amount of financial non-refundable contributions could be achieved.
- In order to be eligible, projects should preferably be supported by more than one of the participating finance institutions in consortium.

SADC Project Preparation and Development Fund

The Bank's partnership with the SADC Project Preparation and Development Fund (PPDF) to support project development across SADC will continue during 2016/17 the year. The SADC Secretariat has concluded two financing agreements with the German development finance institution, KfW (for €4.8 million) and the European Union Regional Office in Gaborone (for €11.7 million) to support project preparation for the projects as identified in the SADC Regional Infrastructure Development Master Plan (RIDMP) and especially those projects that have been shortlisted in the SADC short-term priority list.

3.5.2. Infrastructure finance

- **South Africa**
  - Municipal market

    Municipalities play an important role in the provision of basic services to the country's citizens and businesses as a whole. The need to improve and increase infrastructure in municipalities is therefore of critical importance as the demand on existing and new infrastructure is expected to rise with more people migrating to larger cities and towns in search of employment opportunities, and expansion of businesses that utilise the current existing infrastructure in their daily operations. Municipalities in South Africa are a key market for the Bank and the organisation has built extensive expertise and product offering in servicing this important market as a catalyst for socio-economic development within municipalities.

    In terms of the municipal market, competition is higher in the **metro market** and secondary cities market, and lower in ordinary secondary municipalities. Virtually no competition exists in under-resourced municipalities (who have limited borrowing and institutional capacity). DBSA's current municipal portfolio is predominantly focused on the metropolitan market and after a couple years of decline have increased due to the participation of the Bank in key metro infrastructure programmes over the last two years. Due to the importance of cities in driving South Africa's socio-economic growth (see further below on the support to large urban centres), the DBSA will continue to actively participate and seek commercially-viable returns in this market, targeting to disburse R4.8 billion annually during 2016/17 to 2018/19.

    DBSA's investments in **secondary municipalities** have historically provided good returns with a relatively low number of non-performing loans. Growing the infrastructure financing support to this segment remains a critical component of the Bank's objectives and the Bank will continue to seek innovative ways to support this market. Over the next three years, the Bank targets to disburse between R1.0 billion and R1.2 million per annum, on terms ranging from subsidised to fully commercial.

Recognising that the demand for infrastructure is the greatest in **large urban centres**, the DBSA and the National Treasury are collaborating to support the development of economic infrastructure to expand the income generation base of municipalities. Crowding-in the private sector investment is essential to increasing the funds available to large urban centres. Key solutions under consideration include:

- Identify bankable, catalytic/economic infrastructure projects in the eight large SA metros.
- Preparation of potentially catalytic/economic projects to feasibility/bankability.
- Develop innovative financing products/solutions geared towards attractive private capital.
- Placement of bankable, catalytic/economic projects with DFI's and commercial banks.

The success of funding solutions are however largely dependent on the availability of a strong project pipeline of bankable projects. Project preparation plays an important role in the unlocking of viable projects. During 2014/15 the DBSA was appointed by National Treasury to manage/host the Cities Project Preparation Facility (PPF). The main objective of the programme is to support metropolitan and large cities to support resource efficient infrastructure planning to develop a pipeline of catalytic, spatially integrated infrastructure projects, leverage partnerships and establish new partnerships, and support them with procurement of service providers, as well as necessary preconstruction preparation and planning.

Due to limited debt funding absorptions capacity in **under-resourced municipalities**, the Bank is constrained in its ability to support this market with debt financing and will continue to provide pre- and post-financing support (described below). For the period 2016/17 to 2018/19 the Bank targets to provide loan funding of R200 million per annum to under-resourced municipalities. In order to achieve these targets the following key business development initiatives have been identified:

Initiative	**Activities**
Provide lending to municipalities	• Funding small loans on a bilateral basis. • Participating in conditional grant bridge funding.
Build project pipeline through medium term project preparations support to district municipalities and other under-resourced municipalities	• Prepare projects to the value of R2 billion in 2016/17 subject to approval of a dedicated revolving project preparation facility under consideration. • Leverage on project plans from the Project Preparations Facility for Secondary Cities.
Provide Project Implementation Support in DBSA Funded Municipalities	• Develop an integrated SAF & IDD solution to fast track implementation and avoid procurement/capacity constraints impeding effective use if the grant pledging programme.
Adopt -a- Municipality Programme	• Providing identified municipalities with complete suite of support services that relate to planning, financing, implementation and/or Operation & Maintenance • Partnership with national government agencies (e.g. MISA, Provincial governments, etc.), and the private sector, to contribute aspects that are outside the DBSA mandate to drive the programme.
Special Projects Support Programme:	• Aimed at national, provincial and/or municipal growth points and municipalities with high backlogs (27 district support).

<table>
<tr><th>Initiative</th><th>Activities</th></tr>
<tr><td>The intervention should unlock development at scale. (note: several large towns have put moratoria on further developments due to bulk infrastructure having reached full capacity)</td><td>• Provide portfolio of services including projects packaging, funding and implementation support on approved catalytic projects.
• Municipalities will be identified jointly by COGTA, DBSA, DWS and NT as per the relevant MOAs signed with the DBSA.</td></tr>
<tr><td>Collaboration with government and non-government partners to support project preparations and implementation and identify prospects for funding</td><td>• MOAs with MISA, Government Technical Advisory Centre (GTAC), Provincial Governments and Private Sector (LONMIN) to crowd in skills, funds and prospects for funding and non-financing support.</td></tr>
<tr><td>Cities PPF: The Cities Project Preparation Facility is an initiative by the National Treasury managed through the DBSA in order to:
• Capacitate 18 targeted municipalities
• Creating a pipeline of catalytic spatially integrated infrastructure projects
• Enabling the Urban Network Strategy</td><td>• Prepare bankable projects for municipalities.
• Support metropolitan and secondary cities to develop a pipeline of catalytic projects.
• Providing funded technical support for concept and feasibility studies.</td></tr>
</table>

The DBSA notes the important challenges and constraining factors that prevail around the various municipal categories. Firstly, municipalities generally continue to underspend on their allocated infrastructure budget funds and secondly, financial governance and institutional limitations continue to plague many. Consequently these municipalities are generally slow in planning and execution of projects, resulting in slowed down capital expenditure. Financial lending flows to these municipalities can thus be limited.

Within this context, the DBSA will continue to provide development planning (pre-financing) and implementation (post-financing) support interventions in the origination of infrastructure projects to identified municipalities, intended to alleviate some of the mentioned constraints and enable expanded lending take-up. This support will be financed through funds set aside, currently approximately R100 million per annum, for non-lending support for all municipal market segments, with more focus on lower tier municipalities. The development spend envelope will specifically cover operational expenditure incurred within the development planning and implementation support areas, and limited concessional funding.

The DBSA will also support under-resourced municipalities through:

- The unlocking of Municipal Infrastructure Grants as a pledge for the implementation of selected infrastructure projects.
- INEP Programme

  Integrated National Electricity (INEP) Programme is an intervention programme by the Department of Energy to electrify houses within previously disadvantaged communities. The Bank has agreed to provide bridging finance to municipalities in support of the programme.

To reduce the reliance on grant or subsidies funding to support under resourced municipalities, the Bank is currently investigating the possibility to establish a revolving fund to support the planning, subsidised lending and implementation services.

- Other social infrastructure (non-municipal)

Other public entities, excluding municipalities and SOCs, provide various opportunities for infrastructure financing especially within the water boards, student accommodation and university infrastructure markets.

The lack of water infrastructure, including bulk and reticulation services, remains a key constraint to both social and economic development. Over the next 10 years an estimated R805 billion [13] (~R81 billion per annum) is required for water (~R630 billion) and sanitation (~R175 billion) infrastructure of which R46 billion per annum is available from the fiscus sources and grant donor funders. The shortfall of ~R35 billion per annum needs to be sourced from institutions such as the DBSA. The DBSAs activities in the water sector will be underpinned by:

- Providing financing products to redress water losses in selected metros and secondary cities e.g. Ekurhuleni Metro, Nelson Mandela Metro, Mangaung Metro, Polokwane local municipalities.
- Developing feasible solution to financing TCTA funding gaps.
- Leveraging of DBSA project preparation capabilities and funds to cultivate potential transactions.
- Strengthening relationships with key stakeholders such as DWS, National Treasury, COGTA, SALGA & MISA to generate opportunities

The education sector provides various, however limited, opportunities for infrastructure financing. Many higher education institutions (including universities, technical and vocational (TVETs) and FETs colleges) are challenged by issues such as institutional capacity and implementation constraints, lack of adequate operations and maintenance budgets, limited third party income streams to support CAPEX as well as long-term lease escalations are not adequate to support project finance for student accommodation. Consequently the DBSAs approach to the sector includes:

- Structure debt offering to each university based on balance sheet strength and the allocated capital grants.
- Collaborate with Department of Higher Education and Training (DHET) to expedite procurement and construction timelines.
- Leverage IDD project implementation capacity.
- Work with NT and DHET to structure long term funding solution for the TVET colleges build program.
- Provide off-balance sheet funding and development solutions to universities.
- Leverage the Bank's project preparation capability credit-enhance DHET-sponsored student accommodation pilot projects.

For the period 2016/17 to 2018/19 the Bank targets to provide annual loan funding between R1.2 billion and R1.4 billion per annum to the other social sector.

- Economic infrastructure

Development is multi-sectoral in nature and an integrated approach is required to maximise the impact of investments. Investment in social infrastructure, such as health, housing and education,

[13] Sources: Department Water & Sanitation- Presentation to Portfolio Committee on Water & Sanitation June 2015

should be supported by investment in bulk enabling infrastructure such as energy, water (dealt with above) and transport to stimulate economic growth and job creation.

Given the current energy supply constraints, a key focus area for the Bank is the continued support for energy generation capacity, including renewable energy, as well as coal and gas-fired power sources in the country. Various energy opportunities will be explored over the next few years especially in the 2 500MW coal fired baseload and renewable energy IPP (round 4 and 5) programmes as well as co-generation opportunities (800MW). Significant opportunities have also been identified in the liquid fuel and gas segments related to gas import storage, pipelines for transportation as well as inland distribution systems.

Investment to enhance industrial transport facilities is another important government focus area. This is to support national efforts, which include moving more freight from road to rail, reducing the country's carbon footprint, growing the mining sector, creating jobs and positioning South Africa as a regional trans-shipment hub. Anticipated investment in this sector are largely be driven by the CAPEX programmes of Transnet (through the R120 billion 'private sector participation' programme), PRASAs investment in new rolling stock (R58 billion) and the extension of the Gautrain network (R50 million).

In total, the DBSA seeks to disburse R5.6 billion in 2016/17, R6.0 billion in 2017/18 and R6.4 billion in 2018/19 through:

- State-owned companies (SOCs)

  SOCs play a central part in government's infrastructure development programme, managed under the auspices of the PICC. It is recognised that economic infrastructure development, which is undertaken by SOCs (in areas such as transportation, logistics, bulk water and energy) is also part of the DBSAs infrastructure finance mandate. DBSA also recognises the need to ensure the optimal capital deployment in support of all areas of imperative such as municipalities, water and sanitation and avoid over-concentration to one or few major borrowing entities.

- Public-Private-Partnerships (PPP)

  PPP deals have historically been driven by government and the DBSA's proactive role in this market has been limited. Building on the successful participation of the DBSA in the Independent Power Producers (IPP) programme. In addition, the Bank seeks to work with government to replicate the IPP model and implement key lessons learnt to unblock the PPP pipeline. The provision of this support would be predicated on the ability of DBSA to participate as mandate lead arranger and recover the full costs of any project development expenditure incurred at financial close.

- Private sector intermediaries

  The private sector plays an important role in infrastructure development through its various capital expansion programmes and the DBSA will, where appropriate, continue to partner with the private sector, using both debt and equity instruments.

- **Financing beyond South Africa**

  Regional integration is critical in growing both the South African and broader continent's economies. The DBSA's International Financing Division supports the Bank's regional development and integration strategy aimed at facilitating trade in Africa by investing in infrastructure projects outside of South Africa, through:

  - Providing funding, related products and services for commercially viable and sustainable projects, primarily in the energy, transport, water and telecommunications sectors, which contribute to economic development and regional integration.
  - Supporting project planning and development, advocacy and partnership building for resource mobilisation.

- Promotion of inter-regional integration and cooperation between SADC and the adjoining regional economic communities in Africa.

Infrastructure demands on the continent are extensive. It is clear that as a financier alone, the DBSA is unable to address the significant infrastructure gaps on the continent. While the DBSA has achieved much over the last couple of years, it has and can only contribute to a small portion of the infrastructure development needs. Part of the challenge is not so much the availability of funding, but the readiness of bankable projects in the region.

The scale of preparation support required necessitates a multi-faceted, partnership based approach. Over the years, the Bank has developed a comparative advantage in the deep understanding of the needs of African infrastructure market and will seek to harness these relationships and expertise, whilst partnering with other DFIs and role players to support project preparation on the continent.

In supporting projects outside SADC, the Bank's investment decisions would be guided by the following broad principles:

- Projects in support of selected regional economic communities
  - Tripartite free trade area linking SADC, COMESA and EAC

    The Heads of State and Government of the Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC) launched the declaration to start negotiations of the COMESA-EAC-SADC Free Trade Area on 12 June 2011.

    COMESA-EAC-SADC comprises of 26 Countries with the main objective of the tripartite to strengthen and deepen economic integration of the southern and eastern Africa regions. Twenty four Member/Partner States (including South Africa) have signed the Declaration; only Libya and Eritrea have not signed.

    The three main pillars of the Tripartite Strategy includes market integration, infrastructure development and industrial development. Related to the mandate of the DBSA, the objectives of the agreement includes the following objectives:

    - Enhancement of trade facilitation to improve the flow of goods along regional transport corridors by lowering transit times and cost of trading.
    - Joint planning and implementation of infrastructure programmes, which mainly comprises of surfaces (road, rail, border posts, seaports) and air transport, ICT, and energy.

  - Economic Community of West African States (ECOWAS)

    Established on May 28 1975 via the treaty of Lagos, ECOWAS is a 15-member regional group with a mandate of promoting economic integration in all fields of activity of the constituting countries.

    Member countries making up ECOWAS are Benin, Burkina Faso, Cape Verde, Cote d' Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal and Togo.

    Considered one of the pillars of the African Economic Community, ECOWAS was set up to foster the ideal of collective self-sufficiency for its member states. As a trading union, it is also meant to create a single, large trading bloc through economic cooperation.

    As a result of the growth opportunities in various West African countries, many South African companies (especially engineering, procurement and construction (EPC) companies) are expanding to West African countries. Various opportunities are available for the DBSA to partner with these entities in those countries.

- Programmes in support of key development corridors across Africa, including:
  - North South Corridor

    The extended North-South Corridor Programme seeks to unlock the economic potential of landlocked countries in southern and eastern Africa, by:

    - Enhancing transportation through improvements to road, rail and ports, as well as trade facilitation measures
    - Increasing the power generation and energy trade potential of the Southern African Power Pool with new power generation and transmission investments.

    The North-South Corridor links the port of Durban to the copperbelt in DR Congo and Zambia and has spurs linking the port of Dar es Salaam and the copperbelt and Durban to Malawi. Countries involved: Botswana, Democratic Republic of Congo, Malawi, Mozambique, South Africa, Tanzania, Zambia and Zimbabwe. Notwithstanding the extended definition of the North-South Corridor that is stretching from Cape-Town to Cairo in Egypt, the DBSA is currently more focused on those countries which is listed on the draft NSC MoU.
  - Central Corridor

    The Central Corridor Transit Transport Facilitation Agency (TTFA) is a multilateral agency established on 2nd September, 2006, formed by an Agreement by the five Governments of the Republic of Burundi, the Democratic Republic of the Congo (DRC), The Republic of Rwanda, The United Republic of Tanzania and the Republic of Uganda.

    The TTFA was formed in recognition of the right of landlocked countries (LLC) to transit trade as declared under specific United Nations General Assembly Resolution 56/180 on particular needs of Landlocked Developing Countries from which other declarations and action programmes evolved.

    Through co-operation amongst private and public sector stakeholders the TTFA is charged with the promotion of transport utilisation of the Central Corridor, encouraging the maintenance, upgrading, improvement and development of infrastructure and supporting service facilities at port, rail, lake, road border posts and along the route to meet user requirements, ensure open competition and reduce the costs of transit transport for land-locked Member States.
  - Lapsset

    In March 2013, the LAPSSET Corridor Development Authority (LCDA) was established to plan, coordinate and manage the implementation of the Lamu Port-South Sudan-Ethiopia Transport Corridor. LAPSSET was endorsed in June 2015 at the AU Summit as one of the 8 PICI programmes under the PIDA programme. The DBSA has been working closely with the Agency and discussions are underway to have potentially 60% of SA Inc. involvement in this programme.
  - Abidjan-Lagos transport corridor

    The Abidjan-Lagos transport corridor is a Presidential initiative and is the major east-west transport corridor in West Africa, connecting the capital cities of five countries (Cote d'Ivoire, Ghana, Togo, Benin and Nigeria). This include the construction of a six-lane (2x3) dual-carriage highway from Abidjan to Lagos with provision for amongst other rail and fibre optics, as well as extensive transport/trade facilitation & corridor management; spatial development initiatives scoping and diagnostics; food security & related community development. This is one of the major PIDA projects for the AU and NEPAD in supporting regional integration across West Africa.

- In all instances deals should generate adequate risk adjusted commercial returns and only provide a portion of the overall funding (i.e. not take up 100% of the funding). Where appropriate due consideration must also be given to supporting SA Inc. objectives and local business expansion plans into Africa.
- For continental and national strategic consideration, the DBSA may consider investments outside the countries identified only with the authorisation from the National Treasury.

Consequently opportunities will be explored in the following countries outside SADC:

EAC	ECOWAS	Other non-SADC countries
Burundi	Benin	Djibouti
Kenya	Cameroon	Egypt
Rwanda	Cote D'Ivoire	Ethiopia
Tanzania (included in SADC)	Ghana	Republic of Congo
Uganda	Nigeria	
	Senegal	

Total disbursements to the market beyond South Africa are targeted at R24.5 billion over the next three years, with R3.6 billion targeted for 2016/17, R4.0 billion for 2017/18 whilst increasing to R4.4 billion in 2018/19.

3.5.3. Infrastructure delivery support

The DBSA currently supports government in leveraging skills and capabilities to accelerate the implementation of a number of programmes through the provision of project management and implementation support in key priority sectors of education, health and housing as well as various urban infrastructure programmes. All non-financing activities are provided on a full cost recovery basis whilst activities beyond the Bank's core business are kept to a focused minimum, undertaken only at the behest of the shareholder.

In providing the infrastructure delivery support, the Bank seeks to:

- Manage the design and construction of government infrastructure projects using innovative, turnkey solutions to drive greater value for money, asset sustainability and full functionality.
- Provide programme management and specialist expertise to support state entities in managing the planning, design, budgeting, execution and maintenance of infrastructure projects and programmes.
- Gather and analyse project and spatial information to improve government infrastructure planning, project prioritisation and design, delivery co-ordination, tracking and performance.

The role of the Infrastructure Delivery Division (IDD) is distinct from the infrastructure funding mandate of the Bank in that it acts as an implementing agent as well as a programme manager and coordinator for infrastructure projects. It supports the government by filling the gap left by weak implementing agents of the state that have underperformed in the delivery of social infrastructure. Many government departments suffer from limited institutional capacity, which impacts on the way infrastructure projects are planned, costed, packaged, executed and managed. We aim to help by providing a professional, cost-effective service, while recovering all our costs.

A key enabler for the division is the Innovation and Design Lab and the Nerve Centre, a platform for clients and partners to assess best practices and cutting-edge alternative building technologies in our priority sectors and so remain abreast of the latest technologies.

During 2016/17 the Bank will continue to support a number of implementation and capacity building initiatives, including:

- Supporting government in implementing Strategic Integrated Projects.

  During 2011/12 Government adopted a National Infrastructure Plan intended to transform the economic landscape of South Africa, create a significant number of new jobs, strengthen the delivery of basic services to the people of South Africa and support the integration of African economies. Based on the work by the PICC, eighteen strategic integrated projects (SIPs) were developed and approved. The DBSA was requested to co-ordinate two SIP programmes, namely: SIP 6, *National Integrated Municipal Infrastructure Programme*, as well as co-lead SIP 13, *National Schools Programme*.

SIP 6 was established as part of a broader plan by government to develop national capacity to assist the 23 district municipalities with the fewest resources. It focuses on:

- Addressing all maintenance backlogs and upgrades required.
- Coordinating, integrating and accelerating the implementation of new infrastructure.
- Promoting integrated service delivery across all spheres of government and sectors.

SIP 6 handles the above aspects in the areas of water and sanitation, electricity distribution, roads maintenance, new road construction, revitalisation of clinics and hospitals, revitalisation of schools, solar water heaters and digital migration. The DBSA was identified as the lead agency to coordinate and facilitate the implementation and monitoring of the programme.

SIP 13 was launched during October 2012 and seeks to consolidate and integrate plans to remove inappropriate and unsafe school structures, upgrade and refurbish existing schools and construct new schools across the country. The Department of Education (DBE) approached the DBSA and the Independent Development Trust (IDT) during 2013 to jointly coordinate the implementation of the programme, including:

- The Schools Infrastructure programme at national and provincial levels.
- The Schools Infrastructure Maintenance programme at provincial level.
- Other key DBE programmes, e.g. the "Race to the Top" programme which seeks to improve learning outcomes at a district level.
- Other strategic education related interventions identified at national and provincial levels.

- Accelerated Schools Infrastructure Delivery Initiative (ASIDI)

  During 2011/12, the DBE appointed the DBSA as the implementing agent for the construction of 49 schools in the Eastern Cape under ASIDI. The objective of ASIDI is to provide decent school infrastructure through the eradication of mud schools and inappropriate structures in mainly rural areas. Following the successful completion of the programme during 2013/14, DBE has requested the DBSA to support phase II of the programme and implement the lessons learnt in the planning and construction of a further 72 schools during 2014/15 (22 schools) and 2015/16 (50 schools). It is anticipated that the final 17 schools should be completed during 2016/17.

- Eastern Cape Rural Housing Programme

  The Eastern Cape Department of Human Settlements mandated the DBSA to act as an implementing agent for the Elliotdale Rural Sustainable Human Settlements Pilot Project. The project is part of the Enhanced People's Housing Process. This project presented an ideal case study for the DBSA and the Eastern Cape and national Departments of Human Settlements to design and pilot a programme that would provide an innovative development solution to a sector of the economy where there is persistent market failure. The project is unique, as it addresses housing backlogs through an integrated approach.

  To date the DBSA completed 1 000 housing units as part of phase I and II. During 2014/15 an additional 4 000 units were allocated to the DBSA for completion over a three year period. 888 units were completed during the previous financial year and it is anticipated that an additional 915 would be completed by year-end. The remaining units are planned to be completed during 2016/17.

- Health programmes

  The DBSA supports various health initiatives with the objective of optimising the acquisition, operation and management of South Africa's public healthcare infrastructure. Key interventions include:

  - Programme management support to the National Department of Health

    Over the 2014/15 and 2015/16 financial years, the Bank continued to support the department in implementing the Health Infrastructure Rapid Delivery Framework which seeks to support the maintenance of 251 clinics and the construction of 102 doctor consulting rooms (in the National Health Insurance (NHI) pilot districts.

  - KFW Voluntary Counselling and Testing.

    The objective of the VCT Clinic building programme is to successfully rehabilitate public health facilities in identified areas and to improve access to voluntary counselling and testing services. Key deliverables include:

    - Construction of 60 public health facilities in Limpopo and the Northern Cape over the three year period to 2016/17.
    - Improve knowledge, attitudes and behaviours of target groups with respect to HIV/AIDS and other related ailments.
    - Development of new private sector concepts for the provision of efficient and effective VCT and supplemental services.

Funds under management are projected to increase to R4.2 billion in 2016/17 to R4.8 billion in 2018/19. Going forward the Bank envisages its role in providing implementation support services to link closer to the Bank's preparation and funding business, i.e. providing an integrated service offering to our core clients for example to address water losses in municipalities. Furthermore, the lack of adequate operations and maintenance of key infrastructure in many government entities provides an opportunity for the Bank to expand its activities further down the infrastructure delivery value chain.

3.5.4. Fund management services: development of a sustainable South Africa and a green economy

The Bank is actively involved in broadening its support for the development of a greener economy and sustainable green infrastructure across its mandate areas. In particular the Bank is working with the Department of Environmental Affairs and the National Treasury with the aim of facilitating and ensuring greener infrastructure and sustainable development across the region. The Bank is also involved in the following environment and sustainable development related initiatives:

- Collaboration in the environmental sector with the DEA: This programme is aimed at knowledge sharing, sustainable development and the development of greener infrastructure. This applies to both the built environment and the natural environment in South Africa. This involves policy work, such as the use of the budget in mainstreaming decisions in infrastructure and other incentives to green behaviour.

  Implementing the Green Fund. The Green Fund memorandum of agreement (MOA) was signed with the Department of Environmental Affairs (DEA) during April 2012, committing R1.1 billion, to assist in the transition to a sustainable society. The DBSA manages the Green Fund on behalf of the DEA on a full cost-recovery basis. The lifespan of the Green Fund is currently being reconsidered, with the possibility of including the Fund into DBSA's mainstream operations.

- Accreditation with the Global Environment Facility as Project Agency in May 2014, a funding window of the World Bank, which enables the Bank to implement climate change and biodiversity projects that contribute to global environmental priorities.

- Accreditation is nearly finalised with the new Green Climate Fund, to upscale investment in climate change and adaptation. The Fund is set to make $US100 billion available globally for this important environmental initiative.
- Research and publications related to the greening of the economy, green jobs, climate change and green infrastructure development.
- Co-funding of the Renewable Energy and Independent Power Producers (REIPP) program, through the provision of finance to renewable energy projects
- Several Clean Development Mechanism (CDM) projects aimed at carbon emissions reductions.

3.5.5. Support for black empowerment, gender equality and SMMEs

As an organ of the state is it important for the DBSA to support national objectives, where appropriate and feasible, through the execution of its mandate such as broad based black empowerment, gender equality and small, medium and micro-sized enterprises (SMMEs). Examples of where the Bank has supported these important areas in 2014/15 as well as some of the plans for 2016/17 are reflected in the table below.

	Examples of areas supported	Plans for 2016/17
BBEEE	• R166 million for BEE for IPP program • R22 million to community trusts (BBBEE) for IPP program • Two 100% blacked owned advisors were procured for the Gautrain transaction	• PPU is in discussions with the IPP office to run a dedicated BEE tender but still needs to ensure compliance to tender procedures
Gender equality	• Procurement targeting carve outs for women and youth	• The DBSA procurement policy will incorporate enterprise development and carve specific targets for gender and youth
SMMEs	• IDD – R170 million in procurement was used to promote 734 SMMEs	• IDD procurement – 20% of the value of programme expenditure will be directed to SMME

4. MAINTAINING FINANCIAL SUSTAINABILITY

4.1. Financial plan

In preparing the three-year financial plan of the DBSA, the main economic conditions impacting the budget include uncertainties regarding the outlook for the South Africa credit rating status, the rising interest environment b(both locally and internationally), the volatility of exchange rates as well as the increased impairment risk in certain client segments.

With the objective of achieving financial sustainability and meeting the Bank's goal of generating and sustaining inflation-linked growth in equity, the financial plan incorporates the financial results of the business strategy outlined previously. The plan is also premised on the phased inclusion of the callable capital into the Bank's debt/equity ratio. The inclusion thereof will provide sufficient gearing headroom for the Bank to continue its growth objectives and ensure that the Bank remains below the regularity debt/equity limit of 250% (including callable capital). The DBSA and National Treasury are currently finalising the proposal to phase in the callable capital in the following tranches to maintain the ratio at approximately 200% per annum:

- 2016/17 financial period : 10% - 30%
- 2017/18 financial period : 30% - 40%
- 2018/19 financial period : 10% - 20%
- 2019/20 financial period : 0% - 10%

In addition various internal initiatives are currently underway to help mitigate the risk of the Bank reaching its debt/equity limit (including callable capital of R20 billion) beyond 2019/20, including:

- Implementation of a capital management strategy.
- Seeking ways to act more as a catalyst for infrastructure development instead of taking up an extensive portion of the available instrument. This role will also assist the Bank to earn non-interest income (income diversification).

The financial projections are premised on the following assumptions:

- The Bank applied the inflation rates as stated in the table below in the preparation of the corporate plan figures. This constitutes the general factor used to grow expenses, except where specific adjustments or a budget for specific non-recurring expenditure was done.

	2016/17	2017/18	2018/19
DBSA internal inflation	7%	7%	7%
Economic inflation [14]	6.2%	5.9%	5.8%

- Budgeted foreign exchange rates for:

  2016/17: R18.00/$, 2017/18: R18.26/$, 2018/19: R18.53/$.

- R130 million set aside in 2016/17 in favour of secondary and under-resourced municipalities for development expenditure, including interest subsidy and funds for planning and implementation support. The budgeted amount is increased by R10 million per annum over the three years.
- Full cost recovery in the non-lending business.

The salient features of the plan for the financial years 2016/17 to 2018/19 includes:

- Targeted annual infrastructure disbursements of R16.4 billion, R17.4 billion and R18.4 billion for the respective financial years.

[14] Source – National Treasury, Medium Term Budget Policy Statement, October 2015

- Net interest income of R2.8 billion (2016/17) is expected to increase to R3.1 billion by 2018/19, based on the projected loan book, capital repayments and disbursements and taking additional liquidity requirements into account. The net interest margin is projected to decline from 40% in 2016/17 to 35% in 2018/19, mainly attributable to the reduction in the endowment effect as the balance sheet grows, as well as increased margin squeeze due to increased competition as well as higher funding costs. Strategies to supplement interest income with non-interest income is being investigated.
- The cost-to-income ratio, excluding IDD, is projected to improve from 35% in 2016/17 to 30% in 2018/19, mainly as a consequence of the growth in the net interest income. These ratios are well below the internally set threshold of 35%.
- Developmental loans are projected to grow to R99 billion by 2018/19. The table below reflects the budgeted gross loan book and impairment provision over the medium term. The provision figure reflected in the financial plan does not factor in the impact of IFRS 9. An implementation team is currently assessing this impact and any significant change will be communicated accordingly.

R'million	2014/15	2015/16	2016/17	2017/18	2018/19
South Africa Financing					
Gross loan book	45 485	56 133	66 367	75 172	82 939
Provision	(1 694)	(2 061)	(2 504)	(3 013)	(3 555)
Net loan book	43 791	54 072	63 862	72 159	79 384
International Financing					
Gross loan book	14 184	17 687	21 182	21 874	22 150
Provision	(1 235)	(1 396)	(1 752)	(2 122)	(2 502)
Net loan book	12 949	16 291	19 430	19 752	19 648
Total DBSA	56 740	70 363	83 293	91 911	99 032

The Bank targets to maintain a gross non-performing loan ratio of less than 6%.

- Return on average equity is projected to be maintained between 3.3% and 3.4%.

4.2. Borrowing programme

The detailed borrowing programme for the 2016/17 financial year, together with the projected borrowing requirements for the subsequent two financial years are provided in Annexure 6.7 of the Corporate Plan.

4.3. Dividend policy

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

4.4. 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 government policy and relevant legislation.

The DBSA also strives to create value for local suppliers through its preferential procurement practises. The DBSA is currently rated as a Level 2 contributor in terms of the Broad based Black Empowerment Act (old codes). The Bank has assessed the impact of the new codes and will endeavour to optimise the Bank's rating in line with business requirements of the organisation.

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

Asset type	Budget 2016/17	Projection 2017/18	Projection 2018/19
Building	R22 mil	R24 mil	R25 mil
Computer equipment	R3 mil	R3 mil	R4 mil
Intangible assets	R88 mil	R94 mil	R101 mil
Total	**R113 mil**	**R121 mil**	**R130 mil**

4.6. Financial forecast

BALANCE SHEET

	2014/15 Actual R mil	2015/16 Forecast R mil	2016/17 Budget R mil	2017/18 Projection R mil	2018/19 Projection R mil
Cash & cash equivalents	3 902	3 324	155	79	227
Financial market assets	3 106	2 266	2 266	2 207	2 151
Equity investments	5 092	5 733	6 424	6 861	6 695
Project preparation	-	-	160	320	480
Development loans	56 740	70 363	83 293	91 911	99 032
Development bonds	1 290	1 291	1 290	1 289	1 289
Fixed assets	580	564	564	563	562
Other assets	233	186	151	156	162
Total assets	**70 944**	**83 727**	**94 303**	**103 386**	**110 597**
Medium- to long-term debt	46 163	53 111	62 526	70 393	76 297
Deferred income	-	-	37	73	104
Other liabilities	1 098	1 412	1 543	1 673	1 814
Liabilities	47 261	54 523	64 107	72 139	78 215
Shareholders' equity	200	200	200	200	200
Retained earnings	12 261	14 518	15 510	16 562	17 696
Other reserves	11 222	14 486	14 486	14 486	14 486
Equity	23 683	29 204	30 196	31 247	32 382
Total equity & liabilities	**70 944**	**83 727**	**94 303**	**103 386**	**110 597**
Balance sheet ratios:					
Debt / equity (excl. callable capital)	200%	187%	212%	231%	241%
Debt / equity (incl. R4.8 billion callable capital)	200%	160%	183%	200%	210%
Step implementation of callable capital					
Callable capital: R6 billion (30%)			177%		
Callable capital: R13.3 billion (67%)				162%	
Callable capital: R20 billion (100%)					149%
Debt / equity (incl. R20 billion callable capital)	108%	111%	128%	141%	149%
Return on average equity	5.6%	10.7%	3.3%	3.4%	3.6%

INCOME STATEMENT

	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	**Forecast**	**Budget**	**Projection**	**Projection**
	R mil	**R mil**	**R mil**	**R mil**	**R mil**
Interest income	5 327	6 328	6 961	7 957	8 920
Interest expense	(3 003)	(3 511)	(4 115)	(5 024)	(5 793)
Net interest income	**2 324**	**2 817**	**2 846**	**2 934**	**3 127**
Net fee income	299	311	484	610	695
Other income	74	49	100	155	350
Operating income	2 697	3 177	3 431	3 699	4 022
Impairment	(743	(800)	(800)	(880)	(969)
Operating expenses	(886)	(953)	(1 209)	(1 307)	(1 399)
Financing					
Personnel cost	(508)	(571)	(666)	(715)	(766)
Other expenses	(213)	(166)	(221)	(237)	(254)
Depreciation	(25)	(29)	(35)	(35)	(35)
IDD					
Personnel cost	(99)	(129)	(213)	(239)	(257)
Other expenses	(40)	(57)	(72)	(80)	(86)
Depreciation	-	-	(1)	(1)	(1)
Project preparation costs	(6)	-	(40)	(40)	(40)
Development expenditure: interest subsidy	(30)	(3)	(100)	(110)	(120)
Development expenditure planning and capacity support	(5)	-	(30)	(30)	(30)
Revaluation on equity investments	(219)	(125)	(150)	(150)	(166)
Stakeholder relations cost	(3)	(6)	(10)	(10)	(10)
Sustainable earnings	**805**	**1 289**	**1 092**	**1 172**	**1 288**
Revaluation (loss) / gain on other financial instruments	(81)	237	-	-	-
Foreign exchange gain / (loss)	490	1 306	(100)	(120)	(153)
Net profit	**1 214**	**2 831**	**992**	**1 051**	**1 134**
Income statement ratios					
Net interest margin	44%	45%	41%	37%	35%
Cost to income ratio: Total	34%	30%	40%	40%	40%
Cost to income ratio: IDD	89%	91%	91%	92%	89%
Cost to income ratio: (including lending and project preparation)	31%	24%	35%	31%	30%

Note 1: Cost-to-income ratio includes operating expenditure plus development expenditure and project preparation costs (and excludes income and costs related to IDD) divided by operating income

CASH FLOW STATEMENT

	2014/15 Actual R' million	2015/16 Forecast R' million	2016/17 Budget R' million	2017/18 Projection R' million	2018/19 Projection R' million
Profit/(loss) for the year	1 214	2 831	992	1 051	1 134
Adjusted for:	(775)	(1 267)	(1 850)	(1 857)	(1 942)
Depreciation	25	29	36	36	36
Grants	44	29	10	10	10
Dividends	(30)	(10)	(100)	(120)	(150)
Fees accrued (development loans)	31	35	-	-	-
Realised capital gain on equity inv	(45)	(39)	150	150	166
Revaluation (gains) / losses	304	32	-	-	-
Foreign exchange (gains) / losses	476	673	100	121	153
Impairments	743	800	800	880	969
Net interest income	(2 324)	(2 817)	(2 846)	(2 934)	(3 127)
	439	1 564	(858)	(806)	(808)
Change in other assets	45	(77)	(125)	(165)	(165)
Change in other payables	18	4	169	165	172
Interest & dividends received	4 989	5 943	7 061	8 065	9 046
Interest paid	(2 831)	(3 249)	(4 115)	(5 011)	(5 769)
Net cash from operating activities	**2 661**	**4 185**	**2 132**	**2 247**	**2 476**
Cash flows from development activities	**(6 398)**	**(12 602)**	**(9 884)**	**(9 967)**	**(8 014)**
Development loan disbursements	(12 340)	(17 217)	(16 200)	(17 200)	(18 200)
Development loan principal repayments	6 644	4 841	6 188	7 793	10 147
Net increase in equity investments	(495)	(321)	138	(550)	49
Grant paid	(7)	(29)	(10)	(10)	(10)
Net advances to National Mandates	(140)	123	-	-	-
Cash flows from investing activities	**(730)**	**(385)**	**(35)**	**24**	**21**
Purchase of PPE & intangibles	(45)	(24)	(35)	(35)	(35)
Movement in financial market assets	(685)	(361)	-	59	56
Cash flows from financing activities	**4 200**	**8 213**	**4 618**	**7 619**	**5 666**
Capital raised	2 500	3 000	-	-	-
Financial market liabilities repaid	(11 963)	(3 724)	(8 913)	(5 646)	(8 067)
Financial market liabilities raised	13 663	8 937	13 531	13 265	13 733
Movement in cash & cash equivalents	**(268)**	**(590)**	**(3 169)**	**(76)**	**148**
Effect of exchange rate movements	34	12	-	-	-
Opening cash & cash equivalents	4 136	3 902	3 324	155	79
Closing cash & cash equivalents	**3 902**	**3 324**	**155**	**79**	**227**
Liquidity per IFRS	**7 008**	**5 590**	**2 421**	**2 286**	**2 378**
Cash and cash equivalents	3 902	3 324	155	79	227
Financial market assets [15]	3 106	2 266	2 266	2 207	2 151
Liquidity per Treasury policy	**5 911**	**4 546**	**1 315**	**1 181**	**1 274**
Cash and cash equivalents	3 902	3 324	155	79	227
Investment securities	2 009	1 221	1 160	1 102	1 047

[15] Includes investment securities, derivative assets held for risk management and post-retirement medical benefit investment

5. DBSA 2016/17 GROUP BALANCED SCORECARD

The Bank utilised the balanced scorecard (BSC) methodology as a strategic measurement and management tool. On an annual basis the BSC is reviewed and updated to take into account any changes in the Bank's strategy or reflect key focus areas over the medium term.

In the past the DBSA utilised a single BSC to drive the strategic transformation agenda of the Bank and use it to assess annual corporate performance. Following an independent review of the BSC, it was recommended that the Bank split these into two separate framework, namely:

1. An output driven performance scorecard to be used to assess annual corporate performance.

   In drafting the framework it is important to recognise the Auditors General's requirement for the external auditors to perform certain procedures on a PFMA listed entity's performance scorecard and report their findings in their audit report. An adverse finding could impact an entity's audit opinion. The scorecard reflected in section 5.3 will thus be used for reporting purposes in the Bank's Integrated Annual Report (as included in the Directors' Report).

   It is recognised that the DBSA Board approves the Bank's annual performance score which is used to determine the size of the performance related to the variable pay provision. The performance score derived from performance against objectives will be used as base for the discussion with management. It is the Board's prerogative to amend the score as it deems appropriate.

2. Strategic monitoring framework incorporating both input and output KPIs to measure the long-term strategic transformation of the Bank.

   By nature certain KPIs could be more difficult to measure e.g. social impact of disbursement, and would be difficult to meet the requirements of the Auditor General. They are however important to track and learn from over a long term.

Both scorecards will be used for quarterly reporting to Board and National Treasury.

5.1. Key dependencies in drafting the performance scorecard

Given the Bank's role as financial intermediary, it is recognised that the successful delivery on the disbursement and financial targets, as reflected under section 5.3, is predicated on the following key factors:

- The target market's ability to execute their respective programmes diligently within the timeframes envisaged and the uptake of financing facilities made available from the DBSA, within an acceptable risk framework.
- The Bank's continued access to sufficient and cost effective liquidity to ensure its continued ability to provide affordable infrastructure financing.
- The full impact of the possible downgrade of South Africa's credit-rating to sub-investment grade is yet unknown. Such an event could have a significant influence in meeting the targets.
- Ability of the Bank to maintain inflation linked equity (capital and reserves).
- Availability of adequate gearing headroom through the inclusion of available callable capital in the Bank's debt/equity ratio.

An important focus area for the Bank is the improvement of various systems and processes. Various programmes or activities have been identified to support the implementation of the strategy and operating model of the DBSA, including amongst others:

- Capital management strategy.
- Continuous Improvement in the Bank's cost-to-income. The Bank seeks to maintain a cost-to-income ratio below 35% (excluding IDD).

- Improve loan process to reduce overall turnaround times as well as improve the quality of through-put of projects.
- Reduction in cost of capital.
- Build culture and capabilities.
- Develop new products and services in key segments.

5.2. Changes to key performance indicators

- New measures
  - Value of third party funds catalysed by DBSA. Measured based on funds committed by third parties though:
    - Mandate lead arranging
      - Facilitating and leading a group of investors in syndicated loans for infrastructure financing. To qualify for MLA, DBSA must be the appointed mandate lead arranger.
    - Project preparation
      - Preparing projects to be funded by 3rd parties (private sector and other DFIs).
      - Planning and delivering infrastructure projects within the M2/M3 space (unlock funds from the RSA government fiscus).
    - Risk enhancement structure. Provide credit guarantee, mezzanine structure, longer tenor, etc. to enable third party funder's participation in infrastructure projects. DBSA investment committees must approve the deal as "catalytic"

    Included in the performance scorecard and strategic input and output framework
  - Development effectiveness of funds disbursed. As a DFI it is important that the organisation monitors how well projects finances were implemented (in terms of cost, time and quality) and whether the planned development outcomes (as stipulated in the appraisals report) were met. The measure will be owned by the Operations Evaluation team and will be conducted on a sample of projects completed in recent years.

    Included in the strategic input and output framework
  - Provision of an integrated development solution to secondary and under-resourced municipalities.

    During 2016/17 DBSA will pilot an initiative to improve the service offering to secondary and under-resourced municipalities by provide an integrated implementation and financing product/solution to the before-mentioned municipalities. This measure also seeks to improve the collaboration between SAF and IDD. Measured based on signed agreement between the DBSA and respective municipality and will be jointly owned by the two divisions.

    Included in the strategic input and output framework.
  - Implementation and delivery support programmes:
    - Number of jobs created
    - Number of SMMEs benefitting
    - Implementation efficiency. Measured based on time and cost efficiency of plan, i.e. at a point in time are the projects on time and within budget based on the approved plan. Approved plan will included changes in design approved by the client. For measurement purposes a 50% weighting will be allocated to the budget and time

components. Over time IDD seeks to achieve 80% implementation efficiency on projects on a portfolio basis.

Included in the strategic input and output framework

- Non-interest revenue

  Defined as the total of fees from disbursement related activities, project preparation and catalytic income. Through this measure the DBSA is seeking to diversify its income sources. The measure excludes fees related to IDD and income from equity investments.

  Included in the performance scorecard and strategic input and output framework

- Turnover of under-performers

  Defined as the % of non-performers rerated as a performer within a timeframe defined in a formalised performance improvement plan (PIP) from the previous review or person exiting the DBSA. Key milestones include:

  - Formalised PIP concluded within one month after review period
  - Re-assessment of individual based on formalised plan
  - If found not to have met expectations, proceed with performance disciplinary procedures

  Included in the strategic input and output framework

- Training of staff in critical positions.

  Training of employees in critical positions to support improved performance and operational efficiencies is a key input to the successful execution of the DBSA strategy. Measure: % training completed in line with training plan of people in critical positions.

  Included in the strategic input and output framework

- Manage debt/equity ratio. Included in the strategic input and output framework
- Capital management strategy. Measurement: Approved capital management strategy.

  Included in the performance scorecard and strategic input and output framework

- % of credit appraisals deferred by DBSA Investment Committee. Calculation: number of deferrals by IC over total number of credit submissions (first time submissions).

  Included in the strategic input and output frameworks

- KPIs refined
  - Project preparation: Gross value of bankable projects committed for financing. Includes preparation work completed in secondary and under-resourced municipalities (previously planning support to these municipalities measured on a completion of milestones basis).

    Included in the performance scorecard and strategic input and output framework

  - New product development – fees generated through syndication and/or other new projects. This measure is has been changed to “innovative concept / product approved” as the Bank will be launching its Innovation initiative during 2016/17.

    Included in the performance scorecard and strategic input and output framework

- KPIs removed
  - Implementation support to secondary and under-resourced municipalities (% of milestones completed). This measure was previously introduced to measure the Bank’s support to municipalities in completing business plans, support projects designs, assisting in procuring

implementing agents, etc. All of these activities were provided to fast-track disbursements and is thus an input to the disbursement KPI.

- Implementation support to SIP 6. Measured at a divisional level.
- Effectiveness of business intelligence and knowledge management processes. The BI and KMI activities is an input to other processes and decisions. The outcome of these should be evident through the other output KPIs and client and partner satisfaction surveys.
- Leadership development as part of succession planning programme. This now forms part of the Bank's day-to-day activities and to be managed at a divisional level.

5.3. Performance scorecard

In developing the performance scorecard the following principles were applied:

- Identify the most critical or high-impact short-term performance drivers (outputs) to achieve the long-term DBSA strategy. In identifying the KPI, the measures used in the strategic input and output framework (refer section 5.4 below) were used as base
- Key measures of interest to the DBSA Board.
- Ability to assess performance annually.

Refer to the table overleaf for the Bank's performance scorecard:

Performance scorecard for 2016/2017

Objective	Key performance indicator	Owner	Weighting	Forecast 2015/16	Target 2016/17	Target 2017/18	Target 2018/19
CUSTOMER PERSPECTIVE (45%)							
Sustained growth in development impact	**Project preparation**						
	• Value of projects prepared and committed by DBSA (note 1)	GE: FO	5%	R7.4 billion	R9 billion	R10 billion	R11 billion
	Infrastructure financing						
	Total value of infrastructure funding catalysed			**R17.6 billion**	**R22 billion**	**R25 billion**	**R28 billion**
	• Value of third party funds catalysed (based on committed) by DBSA (note 2)			-	***R5.6 billion***	***R7.6 billion***	***R9.6 billion***
	○ South Africa	GE: SAF & FO	7%	-	R2.0 billion	R3.5 billion	R4.8 billion
	○ Rest of SADC	GE: IF & FO	3%	-	R3.6 billion	R4.1 billion	R4.8 billion
	• Total disbursements			***R17.6 billion***	***R16.4 billion***	***R17.4 billion***	***R18.4 billion***
	South Africa						
	○ Metropolitan cities	GE: SAF	4%	R5.0 billion	R4.8 billion	R4.8 billion	R4.8 billion
	○ Secondary municipalities	GE: SAF	3%	R492 million	R1.0 billion	R1.1 billion	R1.2 billion
	○ Under-resourced municipalities	GE: SAF	3%	R60 million	R200 million	R200 million	R200 million
	○ Value of social infrastructure disbursements in South Africa (education, health, housing and water)	GE: SAF	3%	R0.9 billion	R1.2 billion	R1.3 billion	R1.4 billion
	○ Value of economic infrastructure disbursements in South Africa (transport, energy, ICT)	GE: SAF	4%	R6.3 billion	R5.6 billion	R6.0 billion	R6.4 billion
	African continent (including SADC, excluding RSA)	GE: IF	1%	R5.0 billion	R3.6 billion	R4.0 billion	R4.4 billion
	Of which SADC (excluding RSA)	GE: IF	3%	R3.3 billion	R2.5 billion	R2.8 billion	R3.1 billion
	Implementation and delivery (IDD)						
	• Value of funds under management	GE: IDD	5%	R3.3 billion	R4.2 billion	R4.4 billion	R4.7 billion
Integrated infrastructure solutions provider	• Client satisfaction survey	GE: Strategy	4%	Rating of 3.9	Rating of 4	Rating of 4	Rating of 4

Note 1: Value of projects prepared and committed by DBSA: Includes preparation work executed in the M2/M3 market.

Note 2: Value of 3rd party funds catalysed (committed) though project preparation, mandate lead arranger, and credit enhancement structure (i.e. due to the credit structuring and involvement in of DBSA in the project as sub-ordinated, mezzanine funder, longer tenor, guarantees, etc., the project would not have happened).

Performance scorecard for 2016/2017 (continued)

Objective	Key performance indicator	Owner	Weighting	Forecast 2015/16	Target 2016/17	Target 2017/18	Target 2018/19
FINANCIAL PERSPECTIVE (30%)							
Maintain financial sustainability	• Sustainable earnings	CFO	20%	R1.3 billion	R1.1 billion	R1.2 billion	R1.3 billion
	• Net interest margin	CFO	5%	45%	41%	37%	35%
	• Non-interest revenue (note 1)	GE SAF, IF, FO	5%	R131 million	R250 million	R300 million	R350 million
LEARNING AND GROWTH PERSPECTIVE (10%)							
Create and maintain a high performance culture	• % Retention of critical staff members	GE: HC	5%	92% (Dec 2015)	85%	85%	85%
	• Reduction in the Bank's entropy score	GE: HC	5%	Not available. Survey to be conducted during March 2016	3% improvement from 2015/16 results	To be determined based on 2016/17 results	To be determined based on 2017/18 results
INTERNAL PROCESS PERSPECTIVE (15%)							
Continuous improvement of internal systems and processes	• Cost-to-income: Financing businesses	CFO	5%	24.3%	<35%	<35%	<35%
	• Cost-to-income IDD	CFO & GE: IDD	5%	91%	<95%	<95%	<95%
	• Balance sheet capacity: Capital management	CFO	2%	Not a measure	Capital management strategy/ framework approved	Target to be determined post finalisation of strategy	Target to be determined post finalisation of strategy
	• Innovation	CRO	3%	Not a measure	Approval of an innovative concept / product	Target to be determined post implementation of Innovation Unit	Target to be determined post implementation of Innovation Unit

Note 1: Non- interest revenue. Defined as the total of fees from disbursement related activities, project preparation and catalytic income. Through this measure the DBSA is seeking to diversify its income sources. The measure excludes fees related to IDD and income from equity investments.

5.4. Strategic input and output framework

CUSTOMER PERSPECTIVE (1 of 2)						
Objective	**Key performance indicator**	**Owner**	**Projected March 2016**	**Target 2016/17**	**Target 2017/18**	**Target 2018/19**
Sustained growth in development impact	**Project preparation**					
	Value of projects prepared and committed by DBSA (note 1)	GE: FO	R7.4 billion	R9 billion	R10 billion	R11 billion
	Infrastructure financing					
	Total value of infrastructure funding catalysed		**R17.6 billion**	**R22 billion**	**R25 billion**	**R28 billion**
	• Value of third party funds catalysed (based on committed) by DBSA (note 2)		-	***R5.6 billion***	***R7.6 billion***	***R9.6 billion***
	○ South Africa	GE: SAF & FO	-	R2.0 billion	R3.5 billion	R4.8 billion
	○ Rest of SADC	GE: IF & FO	-	R3.6 billion	R4.1 billion	R4.8 billion
	• Total disbursements		***R17.6 billion***	***R16.4 billion***	***R17.4 billion***	***R18.4 billion***
	South Africa					
	○ Metropolitan cities	GE: SAF	R5.0 billion	R4.8 billion	R4.8 billion	R4.8 billion
	○ Secondary municipalities	GE: SAF	R492 million	R1.0 billion	R1.1 billion	R1.2 billion
	○ Under resourced municipalities	GE: SAF	R60 million	R200 million	R200 million	R200 million
	○ Value of social infrastructure disbursements in South Africa (education, health, housing and water)	GE: SAF	R890 million	R1.2 billion	R1.3 billion	R1.4 billion
	○ Value of economic infrastructure disbursements in South Africa (transport, energy, ICT)	GE: SAF	R6.3 billion	R5.6 billion	R6.0 billion	R6.4 billion
	African continent (including SADC, excluding RSA)	GE: IF	R5.0 billion	R3.6 billion	R4.0 billion	R4.4 billion
	Of which SADC (excluding RSA)	GE: IF	R3.3 billion	R2.5 billion	R2.8 billion	R3.1 billion
	Development effectiveness of funds disbursed (note 3)	GE: FO	Not a measure	80% of project outcomes completed in line with plan	To be reassessed based on 2016/17 results	To be reassessed based on 2016/17 results

Note 1: Value of projects prepared and committed by DBSA: Includes preparation work executed in the M2/M3 market.

Note 2: Value of 3rd party funds catalysed (committed) though project preparation, mandate lead arranger, and credit enhancement structure (i.e. due to the credit structuring and involvement in of DBSA in the project as sub-ordinated, mezzanine funder, longer tenor, guarantees, etc., the project would not have happened)

Note 3: Development effectiveness. New measure introduced to track how well projects were implemented (cost, time and quality) and whether the planned development outcomes (as stipulated in the appraisals report) were met. The measure will be owned by the Operations Evaluation team and will be conducted on a sample of projects completed in recent years. As this is the first year of measurement, an 80% success rate has been allocated for 2016/17. The 2017/18 and beyond targets will be re-evaluated based on the results from 2016/17 year.

CUSTOMER PERSPECTIVE (2 of 2)						
Objective	**Key performance indicator**	**Owner**	**Projected March 2016**	**Target 2016/17**	**Target 2017/18**	**Target 2018/19**
Sustained growth in development impact	**Non-financing business**					
	• Provision of integrated development solution to secondary and under-resourced municipalities (note 1)	GE: SAF & IDD	-	Successfully conclude an integrated implementation and financing solution to a municipality	To be determined based on 2016/17 results	To be determined based on 2016/17 results
	• Implementation and delivery (IDD) ○ Value of funds under management	GE: IDD	R3.3 billion	R4.2 billion	R4.4 billion	R4.7 billion
	○ Number of jobs created	GE: IDD	5 500	16 832	17 556	18 688
	○ Number of SMMEs benefiting	GE: IDD	370	194	203	216
	○ Implementation efficiency (note 2)	GE: IDD	62%	70%	80%	80%
Integrated infrastructure solutions provider	Client satisfaction survey	GE: Strategy	Rating of 3.9	Rating of 4	Rating of 4	Rating of 4

Note 1: **Provision of an integrated development solution to secondary and under-resourced municipalities**. During 2016/17 DBSA will pilot an initiative to improve the service offering to secondary and under-resourced municipalities by provide an integrated implementation and financing product/solution to the before-mentioned municipalities. This measure also seeks to improve the collaboration between SAF and IDD. Measured based on signed agreement between the DBSA and respective municipality and will be jointly owned by the two divisions.

Note 2: **IDD Implementation efficiency** – measured based on time and cost efficiency of plan, i.e. at a point in time are the projects on time and within budget based on the approved plan. Approved plan will included changes in design approved by the client. For measurement purposes a 50% weighting will be allocated to the budget and time components. Over time IDD seeks to achieve 80% implementation efficiency on projects on a portfolio basis. The remaining 20% has been set aside to take to account variation orders, delays, etc. Post implementation quality assessment will also be conducted in future periods

FINANCIAL PERSPECTIVE						
Objective	**Key performance indicator**	**Owner**	**Projected March 2016**	**Target 2016/17**	**Target 2017/18**	**Target 2018/19**
Maintain financial sustainability	Sustainable earnings	CFO	R1.3 billion	R1.1 billion	R1.2 billion	R1.3 billion
	Return on average equity	CFO	10.7%	Greater than 3%	Greater than 3%	Greater than 3%
	• Net interest margin	CFO	44.5%	41%	37%	35%
	• Non-interest revenue (note 1)	CFO	R131 million	R250 million	R300 million	R350 million

LEARNING AND GROWTH PERSPECTIVE						
Objective	**Key performance indicator**	**Owner**	**Projected March 2016**	**Target 2016/17**	**Target 2017/18**	**Target 2018/19**
Create and maintain a high performance culture	% Retention of critical staff members	GE: HC	92% (Dec 2015)	85%	85%	85%
	Turnover of under-performers (note 1)	GE: HC	Not a measure	100%	100%	100%
	Reduction in the Bank's entropy score	GE: HC	Not available. Survey to be conducted by March 2016	3% improvement from 2015/16 results	To be determined based on 2016/17 results	To be determined based on 2017/18 results
	Training of staff in critical positions	GE: HC	Not a measure	80% successfully completed in line with training plan	80% successfully completed in line with training plan	80% successfully completed in line with training plan

Note 1: **Turnover of under-performers**. Defined as the % of non-performers rerated as a performer within a timeframe defined in a formalised performance improvement plan (PIP) from the previous review or person exiting the DBSA. Key milestones include:

- Formalised PIP concluded within one month after review period
- Re-assessment of individual based on formalised plan
- If found not to have met expectations, proceed with performance disciplinary procedures

INTERNAL PROCESS PERSPECTIVE						
Objective	**Key performance indicator**	**Owner**	**Projected March 2016**	**Target 2016/17**	**Target 2017/18**	**Target 2018/19**
Continuous improvement of internal systems and processes	**Balance sheet capacity**					
	• Manage debt/equity ratio (note 1)	CFO	188.4% (excl callable capital)	200% (incl callable capital)	200% (incl callable capital)	200% (incl callable capital)
	• Balance sheet capacity: Capital management	CFO	Not a measure	Capital management strategy approved	Target to be determined post finalisation of strategy	Target to be determined post finalisation of strategy
	Innovation efficiency					
	• Innovation	CRO	Not a measure	Approval of an innovative concept / product	Fees target to be determined post implementation of Innovation Unit	Fees target to be determined post implementation of Innovation Unit
	Cost efficiencies					
	• Cost-to-income: Financing businesses	CFO	24.3%	<35%	<35%	<35%
	• Cost-to-income IDD	CFO	91%	<95%	<95%	<95%
	Credit management efficiencies					
	• Non-performing loan ratio	CRO	3.6% (Dec 2015)	Range between 3% and 6%	Range between 3% and 6%	Range between 3% and 6%
	• % of credit appraisals deferred by DBSA Investment Committee (Note 2)	GE: SAF, IF &FO	12%	<20%	<20%	<20%
	Partnerships					
	• Partner satisfaction survey	GE: Strategy	Not a measure	Rating of 4	Rating of 4	Rating of 4

Note 1: **Debt/equity ratio**: Internally set threshold. Can go up to 250% in line with regulations. Includes callable capital.

Note 2: **Reduction in the credit appraisal deferrals** (measure the quality of appraisals). Calculation: number of deferrals by IC over total number of credit submissions (first time submissions).

ANNEXURES FOR PFMA COMPLIANCE PURPOSES

6. ANNEXURES INDEX

Annexure 6.1: Corporate governance

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 the wider African continent ("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.

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

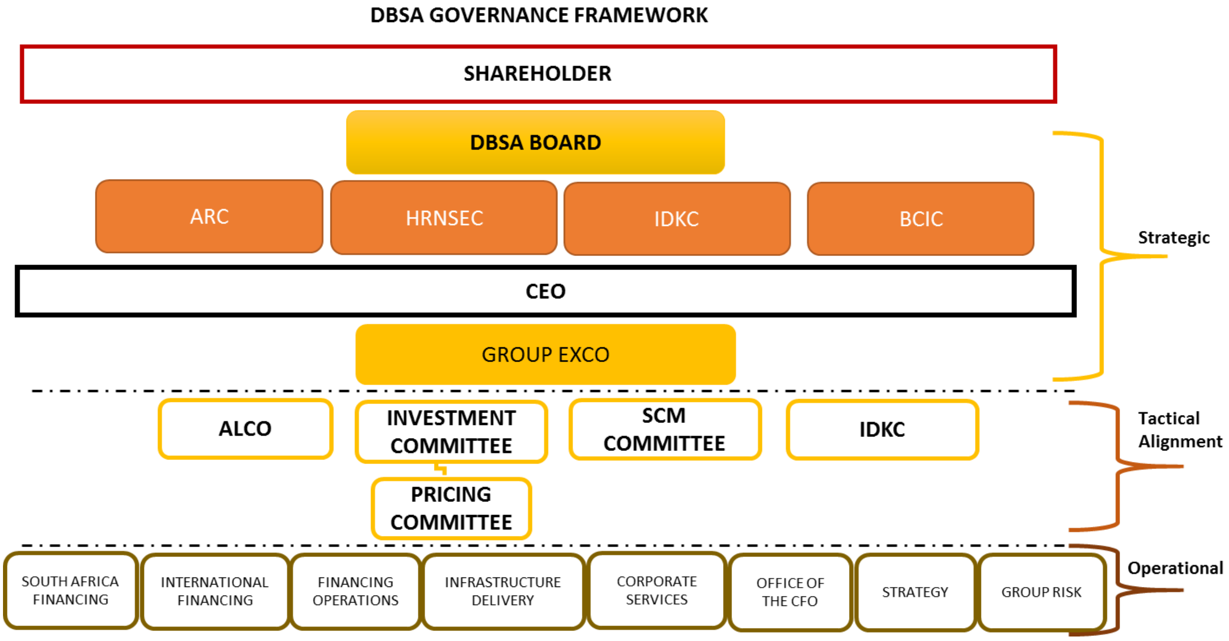
b) to assist other institutions in the national or international, public and private sectors with the management of specific funds;

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

Source: DBSA Act (No. 13 of 1997)

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 Board currently consists of 15 directors, 13 of whom are non-executive. The Chief Executive and Chief Financial Officers are the only executive directors. 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, Nominations, Social and Ethics Committee of the Board invites nominations for appointments, produces shortlists for the Board of Directors and the Board 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 the 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.
- 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 sub-committees 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 four committees: The Audit Risk & Finance Committee; Board Credit & Investment Committee; Human Resources, Nominations, Social & Ethics Committee and Infrastructure Delivery & Knowledge Committee.

Audit & Risk Committee

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

The Committee oversees and also 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.

Board Credit & 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 as shown on the table overleaf.

	MS1 – MS10	Above MS10
South Africa		
Municipal clients	R1 000 million	R500 million
Other public sector clients	R500 million	R250 million
State Supported Programmes	R500 million	R250 million
Private sector clients	BCIC	BCIC
SADC Countries (Excluding South Africa)		
Low risk countries	$50 million	BCIC
Medium risk countries	$20 million	BCIC
High risk and post conflict countries	$10 million	BCIC
Rest of Africa		
Low risk countries	BCIC	BCIC
Medium risk countries	BCIC	BCIC
High risk and post conflict countries	BCIC	BCIC

Human Resources, Nominations, Social & Ethics Committee

The Board of Directors has established the Human Resources, Nominations, Social and Ethics Committee (HRNSEC) to support it in the execution of its duties with respect to implementation of the human capital strategy, nomination of directors and executive remuneration for the DBSA, Board/Directors affairs and governance as well as social and ethics issues. The Board of Directors is the focal point of corporate governance in the DBSA. It is ultimately accountable and responsible for the performance, affairs and behaviour of the Bank. The HRNSEC has the responsibility to ensure that there are adequate processes, policies systems and procedures to ensure sound corporate governance.

Infrastructure Delivery & Knowledge Committee

This Committee oversees the implementation of the strategic mandates and infrastructure delivery programmes as well as the Bank's policy advisory and knowledge management strategy as approved by the Board of Directors.

Composition of DBSA Board and Board Committees

The table below presents the composition of the DBSA Board and Board Committees. The current position, academic qualifications, other directorships, etc. are detailed under Annexure 6.4.

DBSA Board	Audit & Risk Committee	Board Credit & Investment Committee	Infrastructure Delivery & Knowledge Committee	Human Resources, Nominations, Social & Ethics Committee
Mr Jabu Moleketi (Chair)	Ms Gugu Mtetwa (Chair)	Ms Thembisa Dingaan (Chair)	Mr Frans Baleni (Chair)	Ms Dawn Marole (Chair)
Mr Frans Baleni (D/Chair)	Ms Thembisa Dingaan	Mr Patrick Dlamini	Dr Lungile Bhengu-Baloyi	Mr Frans Baleni
Mr Patrick Dlamini (CE & MD)	Ms Martie J van Rensburg	Ms Busisiwe Mabuza	Mr Patrick Dlamini	Dr Lungile Bhengu-Baloyi
Dr Lungile Bhengu-Baloyi	Ms Dawn Marole	Mr Jabu Moleketi	Mr Jabu Moleketi	Ms Busisiwe Mabuza
Ms Thembisa Dingaan	Mr Arthur Moloto	Mr Arthur Moloto	Ms Anu Sing	Mr Jabu Moleketi
Ms Martie J van Rensburg		Ms Gugu Mtetwa	Prof Mark Swilling	Ms Gugu Mtetwa
Ms Busisiwe Mabuza		Ms Kameshni Naidoo		Prof Mark Swilling
Ms Dawn Marole		Ms Anu Sing		
Mr Arthur Moloto				
Ms Gugu Mtetwa				
Ms Kameshni Naidoo (CFO)				
Ms Malijeng Ngqaleni				
Ms Anu Sing				
Prof Mark Swilling				

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

Responsibility for the systems of internal financial and operational control rests with the Board and has, without subrogation, been delegated to the Audit and Risk Committee. The Bank's governance principles on ethical behaviour, legislative compliance and sound accounting practice lay the foundation for its internal control processes, while the enterprise-wide risk management approach and risk strategy adopted by the Board form the framework for internal control. Executive management is accountable for determining the adequacy, extent and operation of control systems.

The Internal Audit function conducts periodic reviews of key processes linked to the significant risk of the Bank to provide independent assurance to the Board and management on the effectiveness of the internal control system. Members of the Audit and Risk Committee review the work of Internal Audit, and the Chief Audit Executive has unfettered access to the chairperson of the Committee and the Board to ensure the escalation of any significant audit matters requiring immediate Board attention

Quality Assurance assessments for the Internal Audit function (internal and external)

Internal Audit conforms to the International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors. The Internal Audit function undergoes an external quality assurance assessment every five years as required by King III. The function has further implemented a Quality Assurance and Improvement Program where internal Quality Assurance assessments are conducted on an ongoing basis for all audit engagements. Additionally, periodic self-assessments are conducted to assess the function as a whole in terms of quality and areas of improvements.

With regards to the external quality assurance assessment, the last assessment was conducted during January 2012, which revealed that the DBSA Internal Audit Department "Generally Conforms" to the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors).

Combined assurance

Per the requirements of King III, the DBSA has implemented a combined risk assurance model which is co-ordinated and managed by the Internal Audit function. King III describes the combined assurance model as "Integrating and aligning assurance processes in a company to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee, considering the company's risk appetite".

The DBSA combined assurance model reflects the key risks facing the DBSA coupled with the key processes and controls in place to ensure the mitigation and/or minimization of these key risks. Along with the five levels of defence strategy the DBSA has adopted, the combined assurance model seeks to identify the assurance providers of the identified key risks. The assurance providers are delineated in the Combined Assurance Plan and report accordingly to the required governing bodies regarding the outcome of the assessment of the risks and control environment in place to mitigate those risks.

Additionally, Internal Audit function issues a written assessment annually to the Audit and Risk Finance Committee as required by King III. The written assessment provides assurance by Internal Audit on the overall control environment taking cognisance of the governance, Information Technology, Risk management and operational/financial risk areas. The assurance provided is informed by the outcome of the audits/reviews conducted based on an approved risk-based audit plan.

Ethics management and fraud prevention

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 is updated annually 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 6.2 for the Bank's fraud prevention plan.

Annexure 6.2: DBSA Fraud Prevention Plan

Purpose

The Development Bank of Southern Africa has adopted a Code of Ethics articulating the values and acceptable ethical standards to which all persons associated with the Bank are required to adhere. This notwithstanding, the Bank acknowledges that in today's business environment, fraud is prevalent and all business 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 Audit & Risk 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 organisation assesses risks on an on-going basis and design effective internal controls to manage risks throughout the organisation. Fraud is part of organisational operational risk.

The Public Finance Management Act, No 1 of 1999 and Treasury Regulations, March 2005[16], enjoin the Board to adopt a risk management strategy that should 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[17].

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.

[16] Section 27.2.1 of the Treasury Regulations
[17] 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 could 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 & Risk 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 & Risk 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 should ensure that actions to address the identified fraud risk exposures are implemented to mitigate these exposures.

  The above will be formulated into a “Fraud Risk Assessment” which should provide an indication of how fraud risks are manifested and, a “Fraud Risk Register” which should 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 should 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 are 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 is responsible for implementing an internal audit program which incorporates 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 should 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 should 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 should 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 should 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 should 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 should have regard for due process and should 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**

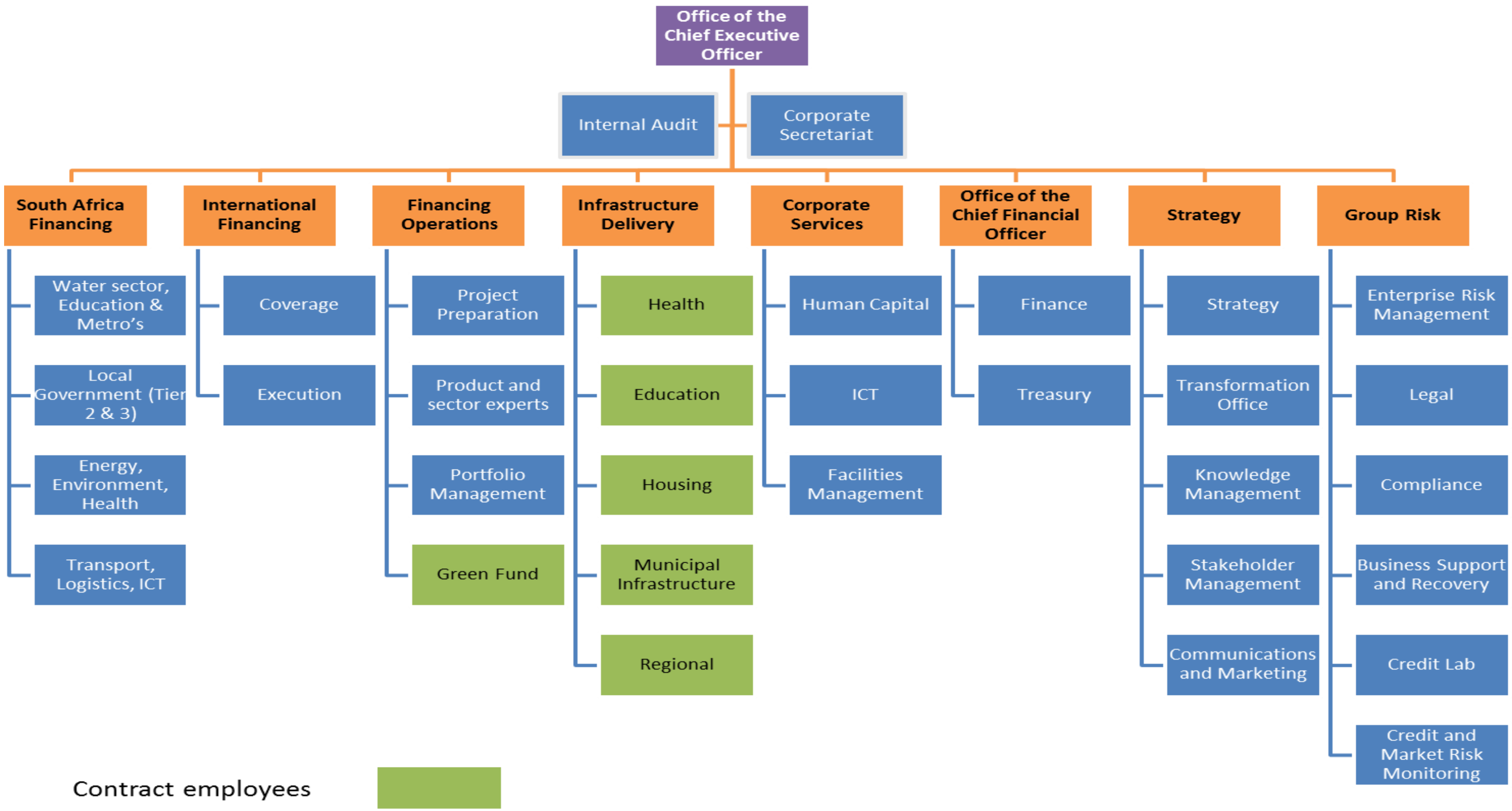
  The Bank should conduct a review of the Fraud Prevention Plan annually to determine the effectiveness thereof.

- **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 & Risk Committee shall have oversight and provide guidance on the review of the Plan.

Annexure 6.3: DBSA Corporate structure



Annexure 6.4: Composition of the Board of Directors and Executive Management Team

Board of Directors [18]

Mr Phillip Jabulani Moleketi (58)

Director of Companies

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

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

Expertise

Financial economist, strategic leadership

Academic qualifications:

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

Masters of Science in Financial Economics, University of London.

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

Other directorships:

Harith Fund Managers: Non-executive Director.

Brait South Africa: Non- executive Chairman.

Vodacom: Non-executive Director.

Remgro (Pty) Limited: Non-executive Director.

MMI Holdings: Non-executive Director.

TCX Investment Management Company BV: Non-executive Director.

Newshelf 1078 (Pty) Limited: Non-executive Director.

Centre for Education in Economics and Finance Africa (NPO): Non-executive Director.

Vodacom Group Limited: Non-executive Director.

Mr Frans Msokoli Baleni (56)

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.

Expertise

Political science, trade unionism and social development

Academic qualifications:

BA (Social Science Development Studies), University of Johannesburg.

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

Other directorships:

Elijah Barayi Memorial Training Centre: Non-executive Director.

JB Marks Bursary Trust Fund: Chairman (Non-executive).

Mineworkers Investment Trust: Chairman (Non-executive).

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

Jolinkomo Family Trust: Trustee (Non-executive).

Ms Thembisa Dingaan (42)

Consultant and Director of Companies

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

Expertise

Project finance, tax and legal

Academic qualifications:

H Dip Tax, University of the Witwatersrand.

LLM, Harvard University, Boston.

LLB, University of KwaZulu-Natal.

BProc, University of KwaZulu-Natal.

Other directorships:

Executive Director: Skweyiya, Investment Holdings (Pty) Limited.

Non-executive Director: ABSA Bank Ltd, Afripack (Pty) Limited, Borzov Investments (Pty) Limited, Cardiac Mobile (Pty) Limited, Imperial Holdings Ltd, Rivalo Investments (Pty) Limited, Sumitomo Rubber South Africa (Pty) Limited, Telkom SA SOC Limited, Termico (Pty) Limited, Theshka (Pty) Limited, Zeigler Investments (Pty) Limited.

University of KwaZulu-Natal: Member of Council (Covering Body).

ABSA Bank Ltd: Pension Fund Trustee.

Dr Lungile Bhengu-Baloyi (59)

Founder & Director : Development and Leadership Consulting

DBSA Non-Executive & Independent Director as from: 1 August 2011.

Expertise

Research, policy analysis, project management, public health law practitioner, poverty reduction & development strategist and management, leadership coaching and author

Academic qualifications:

Doctorate (Public Administration), University of KwaZulu-Natal.

MA (Social Policy), University of KwaZulu-Natal.

LLM (Public Health Law), University of KwaZulu-Natal.

Advanced University Diploma (Adult Education), University of KwaZulu-Natal.

BSc. (Dietetics), MEDUNSA.

Other directorships:

Chairperson: AIDS Foundation of Southern Africa.

Commissioner: KZN Planning Commission, Director and founder of MaBhengu Midwife-Umbelethisi Transformation Multiversity, Inaugural governor for SACANI (South African Comprehensive Agroecology National Initiative

[18] Ages as at 31 January 2016

Board of Directors (continued)

Ms Busisiwe Mabuza (52)

Director of companies

DBSA Non-Executive & Independent Director as from: 1 August 2011.

Expertise

Finance, business and investment analysis

Academic qualifications:

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

MBA, Stern School of Business, New York University.

Other directorships:

Afgri Limited: Non-executive Director.

Izitsalo (Pty) Limited: Non-executive Director.

Afgri Charitable Trust: Trustee.

Afri Employee Employment Trust: Trustee.

Argon Asset Management: Non-executive Director.

Africa Business News (Pty) Limited: Non-executive Director.

Pan African Business Media Holdings (Pty) Limited: Non-executive Director.

Industrial Development Cooperation: Non-executive Director.

Kleoss Capital (Pty) Limited: Non-executive Director.

Cell C Foundation: Non-executive Director.

Tsogo Sun Holdings: Non-executive Director.

Lehumo Women's Investment Holdings: Non-executive Director.

Nehawu Investment Holdings: Non-executive Director.

Ms Dawn Marole (55)

Chairman: Executive Magic Consulting

DBSA Non-Executive & Independent Director as from: 1 August 2011.

Expertise

Strategic management, finance, human capital and business development

Academic qualifications:

Executive Leadership Development Programme GIBS.

MBA NEU Boston Massachusetts.

Diploma Tertiary Education, University of South Africa.

BCom (Acc), University of Zululand.

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) Limited, Non-executive Director

Ms Martie J van Rensburg (58)

Director of companies

DBSA Non-Executive & Independent Director as from: 1 January 2016.

Expertise

Finance, treasury, project finance

Academic qualifications:

Executive Programme in Strategy and Organisation, Stanford University Business.

CA(SA)

B Compt Hons, UNISA

B Comm, University of the Free State

Other directorships:

Firstrand Limited, Non-executive member of International Credit Committee

Headstream Water Holdings (Pty) Ltd, Chairman

Headstream Holdings (Mauritius), Chairman

Headstream Water Treatment (Pty) Ltd, Chairman

Mr Patrick Dlamini (46)

Chief Executive and Managing Director: DBSA

DBSA Staff member and CEO as from 1 September 2012.

Expertise

Strategic leadership, human capital development and finance

Academic qualifications:

Advanced Executive Programme, Kellogg School of Management.

EDP, University of the Witwatersrand's Business School.

Business Studies Unit, Natal Technikon.

B Com, University of KwaZulu-Natal.

Other directorships:

BOPHYLD: Director.

Bridges Worldwide SA: Director.

Xcargo: Director.

Lanseria Holding: Non-executive

Director.

Lanseria International Airport: Non-executive Director.

Ms Kameshni Naidoo (41)

Chief Financial Officer

DBSA Staff member and Group Executive as of 1 September 2012.

Expertise

Finance

Academic qualifications:

CA (SA).

Advanced Certificate in Auditing University of Johannesburg.

Certificate in the Theory of Accounting Science (CTA) University of KwaZulu-Natal.

Bachelor of Accountancy University of KwaZulu-Natal.

Other directorships:

None

Board of Directors (continued)

Ms Gugu Mtetwa (36)

Managing Executive Finance: Vodacom South Africa

DBSA Non-executive Director as from: 1 August 2014.

Expertise

Business Management, auditing and financial management

Academic qualifications:

Partner development programme, GIBS.

Executive Leadership Development Programme, USB.

CA (SA).

Post Graduate Diploma in Accounting, University of Cape Town.

Bachelor of Commerce (Accounting), University of Cape Town.

Other directorships:

Brand South Africa: Non-executive

Director.

Siyakhula Women Investments: Non-executive Director.

Rakgwadi Energy Consortium: Non-executive Director

Prof Mark Swilling (56)

Divisional Head: Sustainable Development, University of Stellenbosch.

DBSA Non-executive Director as from: 1 August 2014.

Expertise

Research, policy analysis, sustainable development

Academic qualifications:

Phd, Department of Sociology, University of Warwick.

Bachelor of Arts Honours, Department of Political Studies, Wits University.

Bachelor of Arts, Wits University.

Other directorships:

Centre for Complex Systems in Transition, Stellenbosch University: Co-Director.

Management Board of the Centre for Renewable and Sustainable Energy Systems, Stellenbosch University: Member.

International Resource Panel, convened by the United Nations Environment Programme: Member.

World Academy of Arts and Science: Fellow.

Mr Arthur Moloto (47)

Political and Economic Advisor to the Speaker of National Assembly at Parliament of South Africa

DBSA Non-executive Director as from: 1 August 2014.

Expertise

Law, economics and political strategy

Academic qualifications:

Msc in Finance and Financial Law, University of London.

Postgraduate Diploma in Economic Principles, University of London.

Bachelor of Arts Honours Development Studies, University of Limpopo.

Bachelor of Arts in Education, University of Limpopo.

Other directorships:

Kansai Plascon Africa Ltd: Non-executive Director.

SA Corporate Real Estate Fund Managers Limited: Independent Non-executive Director.

Centre for Education in Economics and Finance. Africa: Non-executive Director.

Seboka Resources (Pty) Limited: Non-executive Director.

Omricon Capital: Director.

Harith General Partners: Non-executive Director.

Land Bank: Non-executive Chairman

Ms Anuradha Sing (44)

Chief Investment Officer at Kagiso Capital

DBSA Non-executive Director as from: 1 August 2014.

Expertise

Finance and business investment

Academic qualifications:

MBA, Wits Business School.

BSc Eng (Mechanical), University of Natal (Durban).

Other directorships:

Trentyre (Pty) Limited: Non-executive Director.

Goodyear Tire and Rubber Company (Pty) Limited: Non-executive Director.

Goodyear SA (Pty) Limited: Non-executive Director.

Onelogix Group Limited: Non-executive Director.

Kagiso Capital (Pty) Limited: Executive Director.

Ms Malijeng Ngqaleni (56)

Deputy Director General: Intergovernmental Relations (IGR), National Treasury

DBSA Non-Executive & r as from: 1 January 2016 (Shareholder representative)

Expertise

Economics

Academic qualifications:

MSc. Agricultural Economics: University of Saskatchewan, Canada

BA Economics: National University of Lesotho

Other directorships:

None

Executive Management

Mr Ernest Dietrich (52)

Group Executive: South Africa Financing

DBSA staff member as from: 2 January 2001.

Acting Group Executive as from:

1 February 2015 and Group Executive from 1 January 2016

Academic qualifications:

CFA Charter (2002).

MBA, University of Cape Town (1996).

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

HDE, University of Western Cape (1985).

Directorships:

None

Mr Paul Currie (53)

Group Chief Risk Officer

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

Academic qualifications:

Advanced Management Programme, INSEAD.

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

CA (SA).

Postgraduate Diploma in Accountancy, University of Port Elizabeth.

BCom (Accounting), University of Port Elizabeth.

BSc (Physiology), University of Cape Town.

Directorships:

Trustee: Pan Infrastructure Development Fund: (DBSA nominee)

Investment Committee member: Old Mutual Housing Impact Fund: (DBSA nominee)

Ms Dolores Mashishi (47)

Group Executive: Corporate Services

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

Academic qualifications:

General Management Programme, Harvard Business School.

Strategic Management: Human Resources, Wits Business School.

Management Advancement Programme, Wits Business School.

MSc Ed: Development Psychology, University of Illinois, Chicago.

BEd: Psychology, Wits University.

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

Directorships:

None

Ms Sinazo Sibisi (48)

Group Executive: Infrastructure Delivery

DBSA staff member as from: 1 November 2007

Group Executive as from: 1 April 2012.

Academic qualifications:

Executive MBA, University of Cape Town Graduate School of Business.

Partner Development Programme, GIBS.

Executive Development Programme, IMD, Lausagne.

Post-Graduate Diploma in HRM, University of Cape Town.

BA Honours in History with Economic and Social History, Birmingham University, UK.

Directorships:

None

Executive Management (continued)

Mr Rieaz (Moe) Shaik (56)

Group Executive: International Financing

DBSA staff member and Group Executive as from 13 August 2012

Academic qualifications:

AMP, Harvard Business School, Boston.

Masters degree in Optometry (Cum Laude) University of Kwazulu-Natal.

B Optometry, University of Kwazulu-Natal.

BS c (Computer Science), University of Kwazulu-Natal.

Directorships:

Foresight Advisory Services (Pty) Ltd: Non-executive Director.

Mr Michael Hillary (45)

Group Executive: Financing Operations

DBSA Staff member and Group Executive as from 1 October 2012

Academic qualifications:

MBA, University of Witwatersrand.

BCom Hons, University of Witwatersrand.

CAIB (SA), Institute of Bankers.

Directorships:

None

Mr Mohan Vivekanandan (42)

Group Executive: Strategy

DBSA Staff member and Group Executive as from 24 March 2014

Academic qualifications:

MBA, Kellog School of Management.

Bachelor of Arts (Honours) in Economics and Mathematical Methods in the Social Sciences (MMSS), Northwestern University, USA.

Directorships:

None

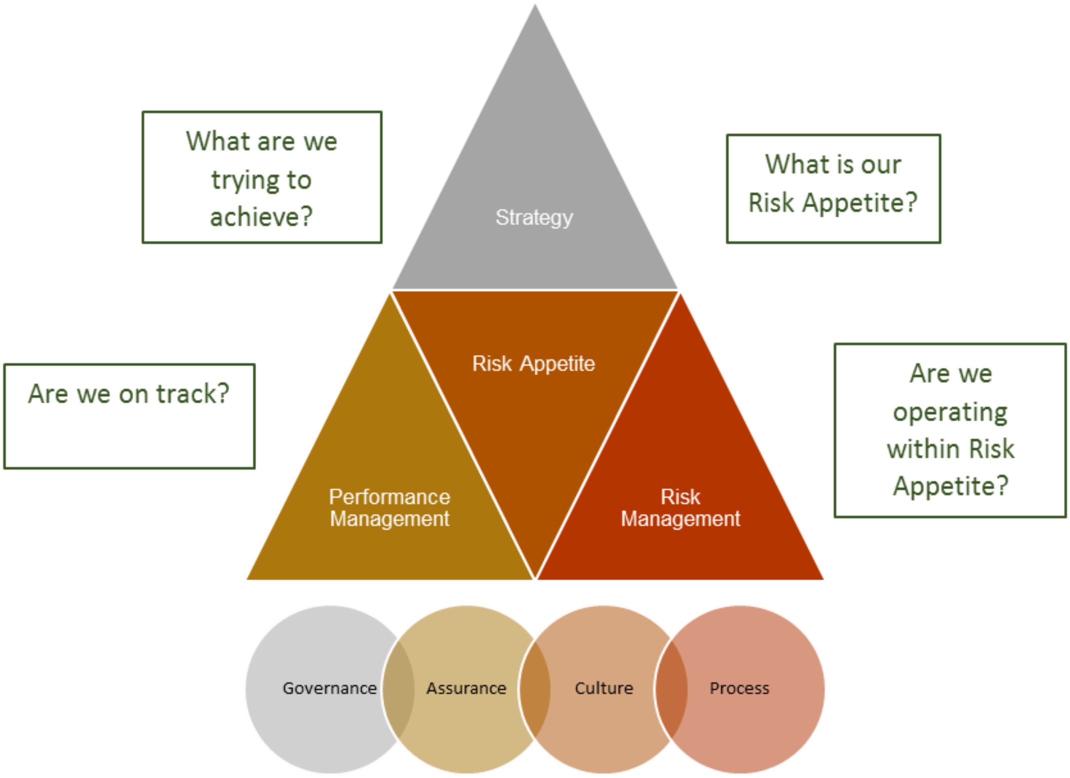
Annexure 6.5: Enterprise Risk Management Framework

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 for the DBSA Group.

Background

At the DBSA managing risk and opportunities is a fundamental part of delivering on our mandate ensuring that the Bank delivers, on a sustainable basis. This linkage is depicted graphically below:



Adopted: COSO ERM Thought paper: Improving Organisational Performance and Governance

The DBSA Board is ultimately accountable for the effective management of risks within the Bank and has adopted an enterprise risk management (ERM) framework and approach to managing risk exposures. This approach ensures that the DBSA takes a holistic view of the risks inherent in its strategy, operations and business, and that the management of risks is embedded into the mainstream planning, business and decision-making processes.

Risk exposures are measured against an approved risk appetite statement that is aligned to the organisational strategy, prepared by management and approved by the Board on an annual basis.

The ERM framework and approach is adopted from the following best practice risk management guidelines ISO/DIS 31000:2009: Risk Management - Principles and Guidelines implementation, Public Sector Risk Management Framework, King III Report and Committee of Sponsoring Organisations (COSO) 2013 framework.

Risk is managed within the four pillar of the Bank, namely strategic, operational, financial and business.

- **Strategic risk**
  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 and deliver on its mandate successfully.
- **Operational risk**

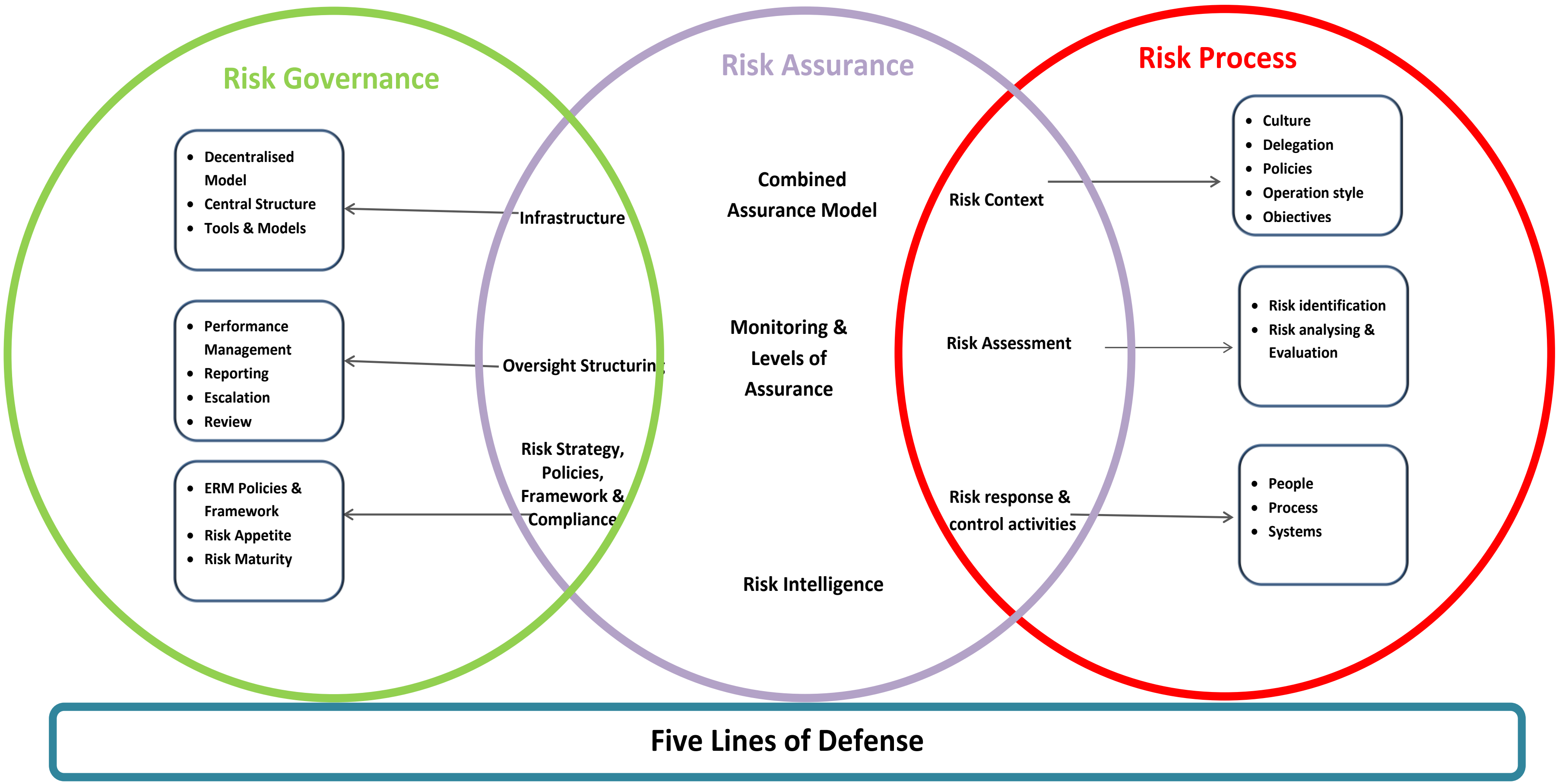
The chance that internal or external events and circumstances can have a disruptive impact on the reliability, continuity, quality and efficiency of the DBSA's operations or cause damage to tangible assets and harm to intangible assets.

- **Financial risk**
  Defined as the standard deviation of the return on total investment. Degree of uncertainty of return on an asset.
- **Business risk**
  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.

As shown in the pictorial below, the DBSA's risk management system comprises the following interrelated functions.

- The **five lines of defence** risk management strategy that allocates roles and accountabilities at various tactical levels in the Bank.
- **Risk governance**, which entails the creation of an enabling environment for the structured management, oversight and reporting of risks.
- **Risk process**, which entails the planning, understanding and responding to risks inherent in the DBSA's strategy, operations and business.
- **Risk assurance,** which entails the combined efforts of various parties in monitoring and assessing the adequacy, effectiveness and economy of the governance, control and oversight of risks

Diagram 1: DBSA Enterprise Risk Management System



The Bank has adopted the five lines of defence model in line with ERM best practice. The aim is to embed the five lines of defence model continuously optimally in line with the Bank's risk maturity journey. The benefits of the model are that it clearly defines the roles and responsibilities for the management for risk within the DBSA and emphasises the fundamental concept that risk ownership and management is everyone's responsibility from the Board right through to the client-facing units. The model is summarised below:

Line of defence	Role	Responsibility
First	Business units, support functions, line management and all staff	Implementation and management of risk
Second	Group Risk Assurance	Perform a policy-setting and monitoring role to ensure implementation of risk management principles and adherence to regulation and legislation.
Third	Internal and External Audit	Independent assurance on the effectiveness of risk management
Fourth	Executive Committee	Responsibility and oversight of DBSA activities to ensure that they are consistent with business strategy and policies as approved by the Board
Fifth	Board	Overseeing the activities of the DBSA and is accountable to the shareholder for the Bank's strategy and performance.

The Group Risk Assurance division provides risk policies, strategies and best practice standards for the DBSA as a whole in order to mitigate the main risk exposures inherent in its mandate. Each division is responsible for controlling and monitoring the risks in its operating environment, while the Group Risk Assurance division undertakes risk monitoring and consolidated reporting at a Bank-wide level, drawing on and aggregating the risk reporting from the divisions. The Board's Audit and Risk Committee is mandated to oversee the implementation of the Bank's ERM framework and assesses key risk reports and indicators on a quarterly basis.

Regulatory and best practice requirements, as well as on-going changes to the regulatory environment within which the DBSA operates, require an increased focus on compliance. This includes the need to ensure compliance with not only the applicable legislation, but also supervisory requirements and industry guidelines. The DBSA's compliance risk management programme is aligned with the Generally Accepted Compliance Practice Framework of the Compliance Institute of South Africa. The compliance framework supports the active management of compliance risk, which entails a four-phase cyclical approach to identify, assess, manage and monitor compliance risk. Compliance risk is the risk that processes, procedures and controls implemented by the DBSA to comply with applicable laws and regulations are not followed and/or are inadequate and ineffective. The failure to manage compliance risks can result in financial penalties, criminal prosecution, reputational damage and greater regulatory scrutiny and intervention. Compliance Risk Management Plans address and manage compliance risk by outlining compliance risks applicable to the DBSA and its business units and relevant controls implemented to manage and mitigate those risks.

The DBSA Board and executive management formally endorse the establishment of the compliance function and are committed to ensuring that business within the DBSA is run with integrity, complies with all regulatory and best practice requirements and is conducted in accordance with the highest ethical standards. On an annual basis the adequacy and effectiveness of the DBSA's Compliance function is evaluated.

Annexure 6.6: Key Enterprise-wide Risks

The DBSA Board and EXCO continuously monitor the top corporate risks to ensure an appropriate understanding of the DBSA's operating environment. Various key risk indicators have been developed to provide an early warning signal for areas of concern. A detailed re-evaluation of the risks will be conducted during the 2016/17 financial year.

Risk	Impact	Likelihood	Inherent Risk	Mitigation	Residual risk	Action plans	Responsible official	Implementation date
Incorrect investment strategy to deliver on infrastructure funding targets	• Failure to deliver on disbursement targets and the required development impact.	Moderate	Critical	• Board approved strategies and investment targets. • Detailed analysis and research undertaken prior to approval. • Establishment of project preparation function to support the development of the project pipeline. • Provision of planning and implementation support to under capacitated municipalities.	Moderate	• Implementation of a go-to market strategy	GE: Strategy, South Africa Financing, International Financing	March 2017
						• Identification of new product Identified new products in the pipeline for approval and implementation.	GE: Financing Operations	Ongoing
Inability to secure deals competitively on a portfolio basis	• Failure to deliver on infrastructure disbursement targets. • Lower returns and reduction in surpluses available to support development activities.	Likely	Critical	• Dedicated market analysis. • Continuous assessment of alternative sources of funding. • Review and improvements of pricing model • Pro-active monitoring of the credit portfolio.	High	• Implementation of a go-to market strategy	GE: Strategy, South Africa Financing, International Financing	March 2017
						• Review and improvements of pricing model	Chief Risk Officer	March 2017
						• Improved stakeholder engagements and alliances in expanding into Rest of Africa.	GE: International Finance	Ongoing
Failure to deliver on non-financing mandate	• Negative impact on relationship and reputation with mandating authorities. • Non recovery of costs incurred	Likely	Critical	• Dedicated implementation division established with the necessary skills and resources. • Review of operations by the Board. • Cost recovery principles incorporated in memorandum of agreements.	High	• Ongoing monitoring of implementation against strategy.	GE: Infrastructure Delivery	Ongoing

Risk	Impact	Likelihood	Inherent Risk	Mitigation	Residual risk	Action plans	Responsible official	Implementation date
	• Lower surpluses available to the Bank.			• Improved pricing and cost model implemented.				
Failure to remain financially sustainable	• Inability to continue to deliver on mandate. • Require review and restructuring of operations • Need for capital support from government	Likely	Critical	• Financial sustainability criteria of inflation linked return-on-equity agreed with the shareholder. • Strategy, financial plan and three year financial forecast annually reviewed and approved by Board. • Continuous assessment of alternative sources of funding. • Cost management programme implemented.	High	• Proactive monitoring of performance against financial plan and forecast • Continuous assessment of alternative sources of funding.	Chief Financial Officer	Ongoing
Failure to adapt the business model due to changes in the business environment	• Failure to deliver on infrastructure disbursement targets as well as non-financing programmes	Moderate	High	• Annual review of strategy and operating model by the Board, taking into changes in the operating environment.	Moderate		GE: Strategy	Ongoing
Inadequate capital levels to support developmental growth and targets	• Need for capital support from government • Failure to deliver on infrastructure disbursement targets. • Breach of the prescribed gearing limits	Likely	Critical	• Capital management strategy has been approved and is being rolled out	High		Chief Financial Officer	Ongoing

Annexure 6.7: DBSA funding plan and borrowing programme for 2016/17

Introduction

The purpose of this annexure is to outline the DBSA borrowing programme for the 2016/17 financial year.

Key points

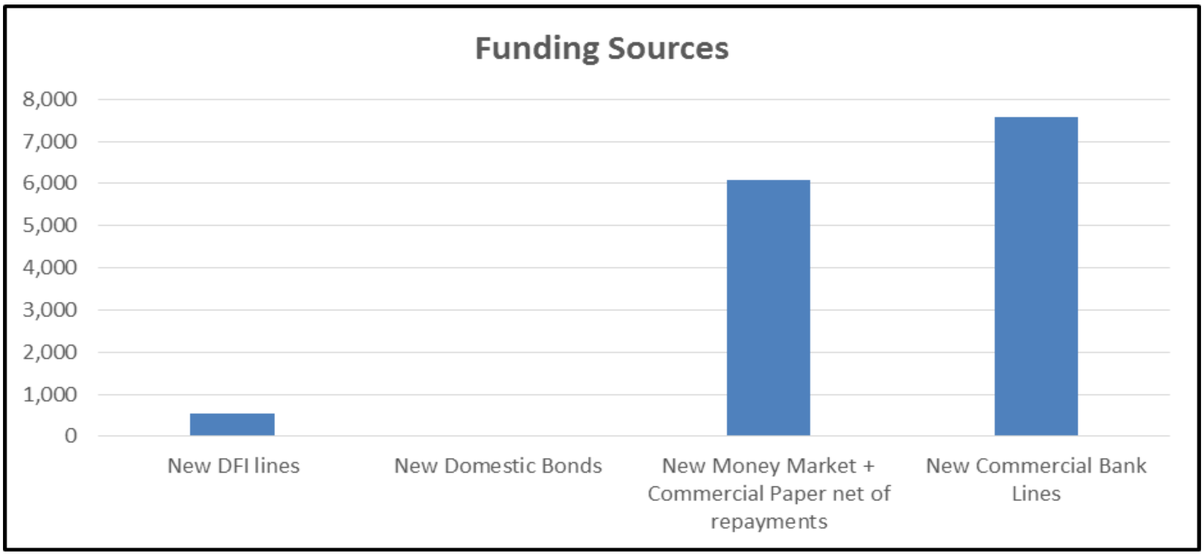
- The total gross borrowings from 1 April 2015 to 31 December 2015 amounted to R11.1 billion.
- The focus needs to continue on:
  - The diversification of the Bank's funding sources to achieve a funding mix at optimal cost to promote financial sustainability of the Bank.
  - Reducing cost of funding by entering into bi-laterals with offshore commercial banks, expanding the investor base, commence market making in DBSA paper, entering into asset swaps and repurchase undertakings.
- The Bank has received approval for the foreign currency borrowing limit in terms of section 66(7)b of the PFMA for the period 2016/17 from the Minister of Finance.
- The final projected borrowing is subject to the Corporate Plan targets being met.
- The callable capital has been increased to R20.2 billion.

Funding to December 2015

Gross borrowings, the aggregate of all debt that was rolled and raised, amounted to R11.1 billion in the period ended 31 December 2015. Net borrowings, after repayments amounts to R3 billion.

As at 31 December 2015, the new borrowings of R11.1billion was within the Board approved limit of R19 billion for the 2015/16 financial year. The bulk of the funding was sourced from the commercial bank lines and the debt capital markets to facilitate the asset-lead-liability-lag strategy.

Chart 1: Funding sources YTD – April 2015 to 31 December 2015 (Rand – billion)



Proposed borrowing programme for the 2016/17 financial year

Factors considered in the calculations of the borrowing requirements

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

- Projected loan disbursements.
- Current and projected loan interest and capital receipts (cash inflows).
- Debt service and repayments (cash outflows).
- Operational expenses.
- Remaining capital injection.
- Liquidity levels required in terms of the policy.

Estimates of the following variables are made:

- Interest income and expense, with floating-rate interest receipts and payments are 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 projected prudential liquidity level required by the end of the financial year.
- Capital injection being received in accordance with the timeframes communicated by National Treasury.

Contractual obligations of the Bank are certain as the Bank does not hold any liabilities of which the maturities are behaviour driven – as would be the case with most deposits in deposit taking institutions. Hence, 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, and even more so as it relates to periods beyond 12-months. Further to this, the Bank’s dependence on wholesale borrowing implies that liquidity risk management should remain cognisant of prevailing and expected market conditions, as temporary market liquidity squeezes could have a significant adverse impact on both margins, and in extreme circumstances, on business continuity. The preliminary projected borrowing requirement for the next three financial years is shown in Table 1 overleaf.

Table 1: Borrowing Plan for 2016 to 2018

R million	FY2017	FY2018	FY2019
Beginning liquidity	**3,324.41**	**805.47**	**1,233.05**
Loan capital asset receipts	6,188	8,105	10,779
Capital injection	-	1	2
Loan interest receipts	5,943	7,114	8,323
Fee & other income	313	350	385
Cash inflows	**15,768**	**16,376**	**20,722**
Debt capital repayments	(8,913)	(6,113)	(9,004)
Debt interest repayments	(2,831)	(3,249)	(4,239)
Operational expenses	(1,234)	(1,332)	(1,424)
Capital expenditure	(35)	(35)	(35)
Disbursements	(18,900)	(20,000)	(21,200)
Cash outflows	**(31,912)**	**(30,729)**	**(35,902)**
Net cash flows	(16,144)	(14,353)	(15,180)
Additional liquidity per policy	-	-	-
Liquidity per current policy	-	-	-
Projected Borrowing requirement	**(16,144)**	**(14,353)**	**(15,180)**

Debt: Equity (FY2017) 224% (without callable capital)

Debt: Equity (FY2017) 134% (including R20 billion callable capital)

Provisional funding plan

The provisional funding plan includes drawing on lines of credit bank facilities, capital market issuances, bonds, and private placement and money market issuances (commercial paper). Actual funding and final split between the different funding sources that the Bank has access to will be driven by expected disbursement outcomes, market demand for DBSA paper and pricing considerations. As part of the strategy to diversify funding sources the Treasury Unit continually monitors markets both domestic and offshore in order to identify opportunities to lower the Bank's borrowing cost whilst at the same time expanding the universe of investors and lenders in order to secure access to the quantum of funding required on a timely and cost effective basis.

The projected funding sources comprise funding from the domestic capital markets, DFI's, money market (as part of the asset lead liability lag strategy) and National Treasury capital injection for 2015/16 financial year. Specific tenors and interest rate bases (fixed vs. floating) of new long-term debt issuance will be driven by investor and client demand market conditions building the Bank's funding curve demand/supply imbalances and their associated cost impact at the time of issuance. Any new funding will be sourced and structured to achieve better matching for an appropriate funding solution in the development loan book for the short medium and long term taking into account tenors and interest rate bases.

Foreign currency borrowing

Committed borrowing facilities with foreign DFIs and with commercial banks remain pivotal in the bank's efforts to diversify the Bank's medium- to long-term funding strategy and achieve matching. These facilities form the main source of foreign borrowings for the DBSA the level of which is driven by the anticipated need for foreign currency funding towards on-lending in SADC region and to the extent to which commitments are made to SA projects eligible for specific foreign currency denominated lines of credit.

Lines of credit

New facilities with DFIs and commercial banks are currently under negotiation and are subject to agreement on key terms and pricing. A total of R 58.52 billion equivalent (at exchange rate of $/R16.55 as of 18 January 2016) is currently available from committed facilities and from the Amended and Updated DMTN Programme as at 31 December 2015 as shown in Table 2 below.

Table 2: Available lines of credit

Facility Provider	Project / Pipeline	Currency	Original Amount	Utlised Amount	Available Amount
KFW	SAPP II - Itzezhi-tezhi	USD	35,000,000	10,550,599	24,449,401
KFW	German GVt Guaranteed Cenpower	USD	29,000,000	24,000,000	5,000,000
JBIC	Green Energy Line	USD	50,000,000	-	50,000,000
JBIC	Export Line	USD	100,000,000	-	100,000,000
ABSA	General Corporate Facility	USD	100,000,000	30,000,000	70,000,000
Standard Bank (Isle of Man)	General Corporate Facility	USD	200,000,000	82,000,000	118,000,000
Subtotal ZAR equivalent at R16.55			**R 8,506,700,000**	**R 2,425,412,413**	**R 6,081,287,587**
JSE Updated and Amended DMTN Programme	General Corporate Facility	ZAR	80,000,000,000	27,700,000,000	52,300,000,000
ABSA	Uncommitted Headroom Facility	ZAR	1,000,000,000	-	1,000,000,000
					R 59,381,287,587

Foreign borrowings are utilised to match fund loan book assets to minimise the foreign currency risk and to obtain cost efficient funding. The source of the foreign borrowings will be from foreign DFI's and foreign currency facilities from commercial banks. Opportunities for offshore public debt issuances are continuously evaluated to identify opportunities to reduce the cost of funding and to diversify the investor base in support of the revised DBSA strategy.

The Bank has obtained a foreign currency borrowing limit with the Minister of Finance in terms of Section 66(7)(b) of the PFMA as follows:

- R26 billion for the 2016/17 financial year.

The outstanding debt in foreign currency as at 31 December 2015 is summarised in Table 3 below.

Table 3: Outstanding debt in foreign currency

	EUR	USD	Total
Commercial Banks		4 479 740 867	4 479 740 867
DFI	2 585 549 930	8 843 201 342	11 428 751 272
			15 908 492 139

The USD rate used was R13.84 to USD1 and R15.47 to the EURO.

Domestic funding developments

The Bank was more active in the capital markets and conducted 8 auctions since 1 April 2015 which are reflected in Table 4 below.

Table 4: Domestic funding

Date of Issuance	Instrument Name	Amount issued (R)
11-Jun-15	DVC011	689 000 000
26-Jun-15	DVC012	75 000 000
26-Jun-15	DVC013	718 000 000
30-Jun-15	DV2021	516 055 575
25-Aug-15	DVC014	989 000 000
25-Aug-15	DVC015	51 000 000
18-Sep-15	DVC016	957 000 000
18-Sep-15	DVC017	178 000 000
	Total	**4 173 055 575**

Commercial paper issuances and money market funding has been primarily used as part of the asset-lead-liability lag strategy that was adopted which resulted in diversification of funding and optimising the cost of debt. The Bank's updated and amended DMTN programme registered with the JSE has recently received informal approval with a revised limit of R80 billion.

Borrowing terms and conditions

The Bank's domestic bonds are issued under the JSE listed DMTN Programme which captures the terms and conditions of the bond funding. These terms are typical to all bond issuers and no extraordinary covenants are contained in the documentation. Bilateral facilities both from DFIs and commercial banks similarly are executed under terms and conditions typical of international loan agreements with many of the Bank's lenders adopting or approximating the standards of the Loan Market Association (LMA).

Some of the conditions include:

- The ownership of the Bank with the requirement that the SA government retains control of the Bank.
- The leverage of the Bank measured in terms of the Bank's regulatory debt-equity ratio.
- Credit ratings with the typical requirement that the Bank retains an investment grade rating.

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 parameters applicable from time to time will continue to be adhered to. As at preparation of the Borrowing Programme these included:

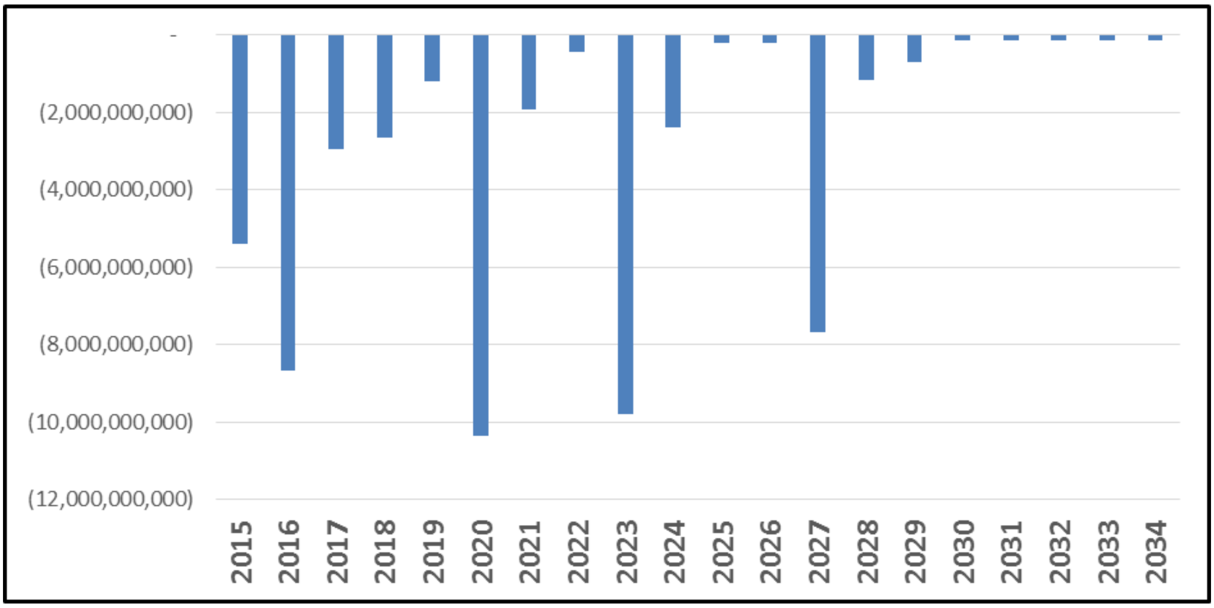
- The Bank's 12-month cumulative re-pricing gap to total earnings to be contained to within 22.5% of total interest earning assets. To contain longer-term net interest income volatility the desired interest rate risk profile (net maturity profile) should over time approach a uniform ladder structure. The latter is a risk reduction strategy in which an asset portfolio is constructed to have approximately equal amounts invested in each maturity within a given range in order to reduce interest rate risk by minimising the amount re-pricing in any given maturity bucket.
- The weighted average duration gap of the Bank's net assets and liabilities (i.e. duration gap limit) to be contained to a maximum of five years.

- At a 99% confidence level to maintain the 10-day Value At Risk (VAR) of the ZAR value of foreign currency exposures (excluding equity investments) within the maximum limit of 0.5% of shareholders' capital and reserves.

Although funding options and flexibility remain limited relative to the Bank's product offerings to its clients the depth and liquidity of the ZAR spot and derivatives markets both with respect to currency exchange and interest rates afford the Bank a plethora of options through which to ensure that the overall risk exposure remains within the Board-defined risk parameters which govern the Bank's market risk management. 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.

The maturity profile of the Bank's debt book is depicted in Chart 2 below.

Chart 2: Debt Maturity Profile



Credit ratings

The credit rating reviews were conducted by Standard and Poor's (S&P's) Fitch and Moody's. All three rating agencies maintained the DBSA's rating and the table below summarises the ratings as at 31 December 2015. Key considerations taken into account include adequate capitalisation government support in the event of financial distress capital injection to support the Bank's new strategy high single name lending concentration and weak earnings stability. The ratings are summarised in Table 5 below.

Table 5: Credit ratings

Current DBSA Ratings			
Ratings	**Fitch**	**S & P**	**Moody's**
Foreign Currency Long Term		BBB-	Baa2
National (Long Term)	AA+		
Local Rating (Long Term)		BBB+	
Outlooks	Stable	Stable	Negative

Recommendation

The projected borrowing requirement for the 2016/17 financial year amounts to R16.144 billion. As an added measure to build in some flexibility to cater for market volatility, possible client defaults, funding for strategic projects and other factors that may impact on the projections made. It is recommended that the Board approve total new borrowings for 2016/17 financial year amounting to **R18 billion**.

The Borrowing Programme will be reviewed and revised as loan disbursements, debt service required, liquidity and retained income change. The implementation of the borrowing strategy will further be influenced by the Bank's liquidity policy requirements, development strategy, market conditions, liquidity cost management and investor demand. The approval of the Board will be sought should actual funding requirements exceed the proposed borrowing level.

Annexure 6.8: 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 2015/16[19]	Underlying principles
Material for Section 55 (2)(b)– Disclosure, in the Annual Report, of: • Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure. • Particulars of any criminal or disciplinary steps taken as a consequence of such losses, irregular expenditure or fruitless and wasteful expenditure. • Particulars of any losses recovered or written off other than in the ordinary course of business. • Particulars of any financial assistance received from the State and commitments made by the State on behalf of the DBSA.	**<u>Quantitative</u>:** 0.3% of Revenue Revenue is represented by 'Interest Income" per the DBSA annual financial statements. ***Note: Fruitless and wasteful expenditure disclosure*** Irrespective of the value of any fruitless and wasteful expenditure, all losses incurred, will be disclosed in the annual financial statements.	R16.0 million	• Each loss due to criminal conduct, irregular expenditure or fruitless and wasteful expenditure, as identified, should 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.

[19] Based on the 2014/15 audited financial statements (latest available).

	Proposed Framework	Resulting figures for 2015/16[19]	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 2014/15 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 2014/15 financial year) of the Bank.	 R5.3 billion R709 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 6.9: DBSA Employment Equity Plan

The purpose of this annexure is to provide the National Treasury with an extract of the DBSA Employment Equity (EE) Plan 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.

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 should 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%.

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 6.10: DBSA Environmental Framework

The DBSA recognises the importance of placing poverty eradication and achievement of sustainable development at the centre of its development agenda. The Bank is legally obliged to promote sustainable development through its operations and this is integrated into the Banks strategy which highlights the need for effective integration of environment and sustainability issues as the key to ensuring sustainable economic and social development.

Environmental Policy statement

The DBSA is committed to the following:

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

Environmental and sustainability considerations at the DBSA are founded on the following key DBSA documents, the DBSA Environmental Sustainability Strategy, the DBSA Environmental Policy, the environmental management system[20], the DBSA Environmental Appraisal Framework and the DBSA Environmental and Social Safeguard Standards. These documents combine to form the ***DBSA environmental management framework***. The DBSA environmental management framework serves as the structure that ensures the DBSA's operations, programmes and projects are socially responsible, environmentally sound, financially sustainable and in line with government requirements.

The DBSA environmental management framework serves to ensure on-going improvement of its environmental performance. To this end 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. In order to do this the DBSA strengthens its environmental management framework and initiatives with integrated reporting and membership to the United Nations Global Compact.

Integrated Reporting, Global Reporting Initiative and United Nations Global Compact (UNGC)

A key component of the organisation's environmental framework is the need to not only manage but also monitor, evaluate and strengthen the effectiveness and sustainability of the Bank's operations, programmes and projects. To this end the DBSA has adopted integrated and sustainable reporting principles which underlie the Banks reporting initiatives. In addition, during 2013 the DBSA also became a member of the United Nations Global Compact (UNGC). The UNGC is the world's largest corporate citizenship initiative that address and integrates Corporate Social Reporting (CSR) requirements with the integrated reporting requirements. As a result the DBSA Annual Report was (as of 2014-2015) compiled to align with both the integrated and sustainability reporting requirements of the Global Reporting Initiatives Sustainable Reporting Guidelines, as well as the UNGC universally accepted ten principles that address the areas of human rights, labour, environment and anti-corruption.

Thus the DBSA seeks to ensure that it reports on and effectively considers its economics, ethical, governance, social and environmental performance.

DBSA's contribution towards the development of a sustainable South Africa and a green economy

The Bank is actively involved in broadening its support for the development of a greener economy and sustainable green infrastructure across its mandate areas. In particular the Bank is working with the

[20] The DBSA environmental management system is aligned with the international standard, ISO 14001,for international best practice for environmental management systems

Department of Environmental Affairs and the National Treasury with the aim of facilitating and ensuring greener infrastructure and sustainable development across the region. The Bank is also involved in the following environment and sustainable development related initiatives:

- Collaboration in the environmental sector with the DEA: This programme, to 2014 is aimed at knowledge sharing, sustainable development and the development of greener infrastructure. This applies to both the built environment and the natural environment in South Africa. This involves policy work, such as the use of the budget in mainstreaming decisions in infrastructure and other incentives to green behaviour.
- Implementing the Green Fund: this is the management of an R1.1 billion Fund originally planned until2015, to assist a transition to a sustainable society. The lifespan of the Green Fund is currently being reconsidered, with the possibility of including the Fund into DBSA's mainstream operations.
- Accreditation with the Global Environment Facility as Project Agency in May 2014, a funding window of the World Bank, which enables the Bank to implement climate change and biodiversity projects that contribute to global environmental priorities.
- Accreditation is nearly finalised with the new Green Climate Fund, to upscale investment in climate change and adaptation. The Fund is set to make $US100 billion available globally for this important environmental initiative.
- Research and publications related to the greening of the economy, green jobs, climate change and green infrastructure development.
- Co-funding of the Renewable Energy and Independent Power Producers (REIPP) program, through the provision of finance to renewable energy projects
- Several Clean Development Mechanism (CDM) projects aimed at carbon emissions reductions.

Environmentally sustainable operations

The DBSA's Environmental Policy and Environmental Framework 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 and equitable development.

In line with the Constitution of the Republic of South Africa, particularly Section 24 –the environmental rights, the Bank is committed to providing an environmentally safe work place for its employees and to minimising environmental impact. Consequently, the Bank actively seeks to reduce its direct environmental impact on the biophysical environment, namely: air, land and water from all its operations and activities.

In addition the Bank has developed (and continues to refine) its environmental appraisal framework (EAF) and Environmental and Social Safeguards (ESS), which outline the Bank's approach to environmental appraisal and due diligence. The DBSA EAF is aligned with national and international best practice for environmental assessment and are implemented by the Bank's environmental analysts, to direct them in how to approach and implement environmental appraisals and due diligence at the Bank. The EAF and ESS ensure that the Bank's environmental appraisals are applied in a consistent manner that supports and enhances the Bank's decision-making processes and mitigates and manages environmental risk, while also ensuring increased development impact.

With regard to its operations the major environmental aspects that the Bank is working towards reducing its impact include, in order of magnitude of impact by;

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

- Water consumption reduction.
- Sustainable campus management (maintenance of the natural vegetation on the campus).

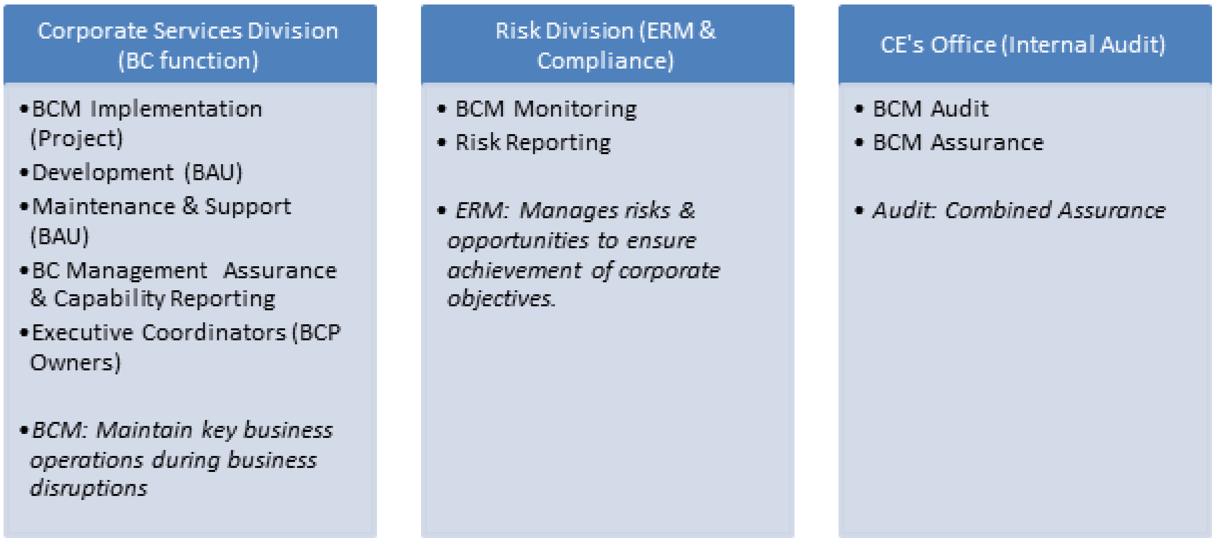
The above initiatives combine to reduce the Bank's carbon emissions, water use, waste generation and maintain a sustainable campus with the ultimate aim of reducing the Bank's environmental impact.

Annexure 6.11: Business Continuity Management

Background

Business Continuity Management (BCM) is a function in the Facilities Business Unit which falls under the Corporate Services Division. The function reports into the Risk Governance structures of the Bank in order to provide assurance to the Board. All Group Executives have joint accountability for the implementation of BCM in their divisions.

Diagram 1: BCM & ERM functional split



Objectives of the BCM function

BCM is deemed to be a key process within the DBSA and is being fully integrated into the business. In order to ensure a certified business continuity capability, the DBSA has aligned to the ISO standard 22301 and the Business Continuity Institute’s (BCI) Good Practice Guidelines (GPG).

The objective of the Business Continuity Management Programme is to provide ongoing management, coordination and governance to ensure that all BCM activities are conducted and implemented in an agreed manner that achieves the Bank’s BCM and Crisis Management objectives.

Continuity assurance framework

The BCM function aims to ensure that the Bank can adequately respond, recover and restore business operations resulting from business interruption.

The Continuity Assurance Framework (CAF) provides management with an evaluation of the enterprise’s preparedness in the event of a major business disruption and assists with the identification of any issues that may limit interim business processing and restoration.

There are five elements that form the basis for the Continuity Assurance Framework. These elements ensure that we have the ability to adequately respond to any incident by preparation and anticipation, we are able to prevent and mitigate a disruptive incident, and if the incident does occur we are able to adequately respond, recover and restore business as soon as possible, ultimately building a resilient organisation. This framework enables us to effectively measure and report on the BCM capability for the Bank.

Diagram 2: Continuity Assurance Framework