DEVELOPMENT BANK OF SOUTHERN AFRICA

CORPORATE PLAN

2017/18

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1 EXECUTIVE SUMMARY

The DBSA's Macro environment[1]

The preparation of the 2017/18 DBSA Corporate Plan is set against a backdrop of unprecedented economic uncertainty and volatility. Analysts agree that global growth will continue to be constrained and commodity prices are likely to remain low. In addition, South Africa's growth prospects are moderated by a constrained fiscus, a challenging and changing political environment, ongoing power and infrastructure bottlenecks, difficult labour relations, a declining Rand value and the worst drought in recorded history. The country's international investment grade ratings are under pressure and any negative movements would result in higher borrowing costs for the DBSA. 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.

DBSA's response to its environment and discharge of its mandate

The DBSA must discharge its mandate regardless of whether the conditions are favourable or not. Despite the economic uncertainty the DBSA must remain financially sustainable. The DBSA has chosen to entrench and extend Best Practice demonstrated by the most successful DFIs globally, that is to catalyse infrastructure development by creating favourable investment conditions and terms for 3rd party investments to be able to invest while attaining commensurate returns. The Bank seeks to enhance its catalytic capabilities within the infrastructure space by offering financing and advisory solutions along the entire infrastructure delivery value chain.

Context: the sector trade-offs and DBSA's recent history

The DBSA underwent a strategic review and restructure in 2012/13 in order to turn around its performance. At the time, disbursements were stagnant and operating losses were growing. The Board and Management have achieved significantly enhanced Balance Sheet strength and sustainable earnings since then, and have now re-envisioned DBSA's future course with an ambitious target of achieving R100 billion per annum in infrastructure unlocked by 2019/20, while remaining sustainably profitable. This will be achieved by doing the following:

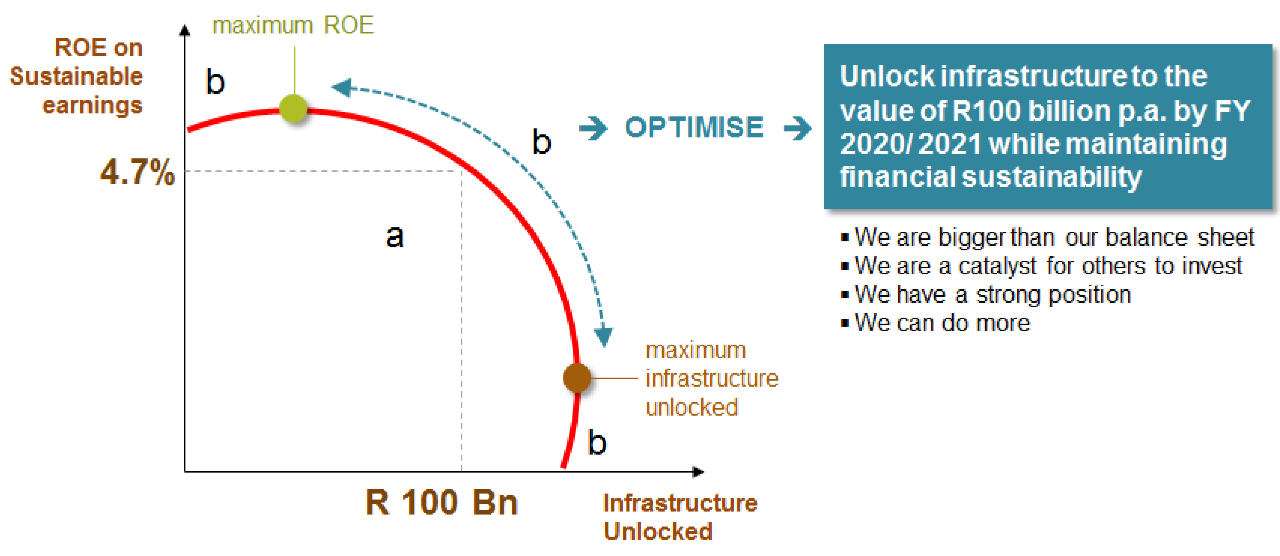
- The Balance Sheet strength allows the DBSA to take unique, catalysing investment positions in order to be able to "crowd-in" 3rd party capital. It therefore enhances the multiplier factor of "own-capital vs. 3rd party capital invested" in infrastructure development.
- Taking such unique investment positions will require a dilution in interest revenue in order to enhance investment returns for 3rd parties, although some of this reduction will be offset by diversifying revenues to non-interest revenue earned from fees.
- These fees will be earned from other infrastructure-catalysing activities such as preparation of municipal infrastructure plans, project identification, project preparation for investment, as well as infrastructure delivery via program management and the maintenance of infrastructure assets in order to preserve and extend their useful lives.

[1] Refer section 7.3.1 and 7.3.2 for further detail on the economic and socio-political environment in which the DBSA operates.

- In order to achieve the above, there are specific key competencies the DBSA has identified that the organisation must become proficient in:
  - Crowding in 3rd parties to take investment positions with us (by innovating products to enhance returns for others, and by being able to occupy and be competitive in all segments of the infrastructure delivery value chain).
  - Forging deep partnerships with other strategic organisations in the infrastructure development sector in order to secure multiple small advantages in the sector.
- By avoiding direct competition with commercial banks and other funders and by regarding 3rd parties as co-investors.
- By playing to our longer-tenor cost-of-funding advantage wherever possible to protect margins while catalysing and crowding-in 3rd parties.
- For organic growth in our assets the DBSA has embarked on a Capital Management regime so as to ensure the prudential limits are observed and that investing in infrastructure development is not constrained.

The DBSA's challenge: Achieving an Optimal position of Sustainable Development

Consider the Dual Objectives of Achieving Infrastructure Development Impact and remaining Financially Sustainable by analysing the graphic below:



a. It is impossible to maximize both objectives simultaneously. We have to find that optimal position along the curve
b. Below a certain minimum of one or the other objectives there is no longer a replacement of one at the expense of the other, but reduction in both (below a certain minimum level of infrastructure unlocked even financial sustainability is eroded.
c. Range of indeterminacy

This is the optimisation that the Bank has strived to achieve in its Corporate Plan (and its elements), as well as how it flows through to the allocation of resources and ultimately the Balanced Scorecard. The Bank has therefore realigned the 2017/18 Corporate Plan and will seek to disburse R20 billion in 2017/18, whilst crowding in a further R26.9 billion of additional investment in infrastructure through strategic partnerships and innovative products.

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 ABRIDGED MANDATE STATEMENT [2]

NOTE: A detailed Mandate statement can be found in section 7.2 “Annexure: Detailed Mandate statement”.

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 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 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 the sustainable use of scarce resources”.

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 7.3.3 for an overview of the Sustainable Development Goals (SDGs) and National Development Plan (NDP) as well as section 7.4 for DBSA specific role in supporting these objectives.

The DBSA 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 the mandate to include:

- Large-scale infrastructure investment, especially in energy, transport, water and ICT as well as various education, health and housing, as a critical enabler for faster economic growth.
- Supporting integrated urban infrastructure development in cities to promote economic growth and efficient spatial development as key to achieving inclusive economic growth, job creation and poverty eradication in our urban areas.
- The provision of much-needed planning and implementation support to municipalities, together with increased private sector involvement with specific emphasis on lower tier secondary cities and under-resourced municipalities, intended to alleviate some of the mentioned constraints and fully enable expanded lending take-up (i.e. utilisation of facilities).

[2] Signed 2016/17 Mandate Statement

- Support to large state-owned companies that play a central part in government's infrastructure development programme (in areas such as transportation, logistics, bulk water and energy), managed under the auspices of the PICC.
- The DBSA serves both domestic and regional requirements. South Africa has concluded various binational- and trade agreements with countries across the continent to support broader regional integration in line with the SADC integrated Infrastructure Development Plan, the Programme for Infrastructure Development in Africa (PIDA) and Africa 2063.
- Crowding in the private sector as the DBSA acts as a catalyst for third parties' participation in infrastructure development. Operating within the constraints of a limited balance sheet demands greater third party (such as private sector, international DFIs and pension funds) involvement.
- Lifting the standard of living through the provision of social infrastructure development in the education, health, sanitation and other spheres. The DBSA not only finances but also provides direct implementation support, on cost recovery basis, for social infrastructure projects.
- Remaining financially sustainable as the Bank develops strategies to ensure the organisation meets its developmental mandate. The DBSA seeks to generate net returns on average equity of at least 4.5% annually (i.e. the average of the upper and lower inflation target bands of 3% to 6% respectively as defined by the South African Reserve Bank). The DBSA strives to ensure it remains below the regulatory gearing limit of 250% beyond the 2019/20 financial year.
- The DBSA continues to strive for continuous improvement and innovation that secures the required results. There is increasing competition for deals, funding and professionals. There is a greater demand for sustainable investments from investors and this attracts new competitors (including commercial banks). Apart from the traditional role-players, a growing number of emerging countries are engaging with Africa as development finance partners. The DBSA is challenged to become a development financier of choice and strives to identify its niche, its comparative advantage and its value proposition.

3 CORPORATE STRATEGY

3.1 Summary of the operating environment

NOTE: A detailed account of the Operating environment can be found in section 7.3 "Annexure: Detailed reviews of the operating environment".

3.1.1 Economic overview

The current outlook for South Africa's economy is shaped by a convergence of long-term structural trends, decline in the terms of trade for commodity producers, and a vulnerability to new shocks. Profound uncertainty exists about future economic prospects. Growth is too low to raise living standards and reverse the effective exclusion of one third of the working population. The government is experiencing challenges in implementing structural reform, removing infrastructure bottlenecks and continued commitment to fiscal consolidation.

The currency experienced a sharp decline in December 2015 and has not reached previous levels. Policy uncertainty and political shocks are seen to curtail growth, defer investments (from both foreign and domestic entities) and erode business confidence. The global uncertainty that exists further affects South Africa's economic prospects adversely.

The rise of populist, inward-looking policies are best highlighted by the UK's "Brexit" vote and the election of Donald Trump as the President of the United States of America. It would appear as though both may affect the SA economy adversely but this remains unclear.

GDP growth rates.[3]	2016	2017
Global	3.1%	3.4%
Advanced economies	1.6%	1.8%
Emerging & Developing economies	4.2%	4.6%
South Africa (SARB, Jan 2017)	0.1%	1.2%

South Africa's ratings review

Possible downgrading of South Africa's foreign and domestic debt to below investment grade by the major ratings agencies has, and continues to be, the most watched indicator of fiscal credibility and confidence in the countries' economic governance in 2016 and into 2017. The key factors considered by the ratings agencies have been infrastructure constraints, especially in the power sector, unstable labour relations, high rates of unemployment, slow economic growth rates, risks to fiscal consolidation given the large share that the public sector wage bill makes of recurrent expenditure, escalating contingent liabilities accumulated by State owned Enterprise as well as governance failures among same.

[3] International Monetary Fund. 2016. World Economic Outlook: Subdued Demand: Symptoms and Remedies. Washington, October.

The most recent major ratings review was completed by Moody's, S&P and Fitch in December 2016. While no downgrades were made their outlook was revised downward to "negative". More significant for the outlook for the South African economy and the operating environment for the DBSA are the interlinked questions of whether there is tangible progress to clear the structural issues facing the economy.

South Africa's economic outlook for the near term is dominated by political activity, is volatile, and reacts to events. Forecasts for better growth in the years ahead will still fall short of the levels needed to reach targets set in the National Development Plan.

Critical factors influencing the outlook for infrastructure in Africa

The SSA region remains 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. While 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.

It is estimated that Africa's population of 1 billion in 2010 should double by 2050. To that end, and according to the IMF[4], 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.

The African continent is urbanising fast (share of urban residents has increased from 14% in 1950 to 40% today, and will is expected to be 50% by the mid-2030s). This present immense opportunities and challenges for human development. As the 2016 African Economic[5] outlook sets out, two-thirds of the investments in urban infrastructure to 2050 have yet to be made, the scope is large for new, wide-ranging urban policies to turn African cities and towns into engines of sustainable structural transformation.

Furthermore, African economies face the challenge of structural transformation in a global context of climate change (i.e. agricultural resources for both food and jobs, welfare challenges for SSA's rural poor, the already limited water supply is expected to be negatively affected). 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.

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

[5] African Economic Outlook 2016, 15th edition. African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme.

3.1.2 Socio-political overview

NOTE: A detailed Socio-political review can be found in section 7.3.2 "Socio-political review".

In addition to the abovementioned economic issue, South Africa faces a number of socio-political factors that are creating uncertainty and impacting on investments in infrastructure. These include, but are not limited to: rapid urbanisation, high rates of unemployed youth; and high levels of disparity. The growth in informal settlements reflect all of these phenomena. The levels of social conflict and protest are increasing as a starkly unequal society continues to grow ever more unequal in an economy constrained by structural limitations and policies aimed at transformation, often at the expense of country competitiveness.

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

NOTE: refer to section 7.3.3 "Sustainable Development Goals and National Development Plan" for a more detailed description.

The **Sustainable Development Goals** (SDGs) seeks to build on and complete the outstanding items of the Millennium Development Goals. 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 thirteen years (to 2030) in areas of critical importance for humanity and the planet: People, Planet, Prosperity, Peace and Partnership.

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.

Investment in infrastructure is essential for faster economic growth, higher employment and provides inclusive growth. 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 certain infrastructure investments and 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).

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 three years 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.

In response to the above goals and challenges, as well as the ambition to be more competitive in the infrastructure development arena, the DBSA continues to review its strategy and operating model (examples of the DBSAs role in supporting the NDP and SDGs are discussed further under paragraph 7.4). Over the next three years, the DBSA seeks to be a more effective catalyst for infrastructure development through both financing and non-financing activities.

3.1.4 Infrastructure outlook

South Africa is considered to be the most developed infrastructure market in Africa. According to the latest World Economic Forum competitiveness rankings, the country's transportation infrastructure in particular, compared favourably to that of its peer economies. Furthermore, the country plans to sustain its focus on infrastructure investment for the foreseeable future, with a R2.2 trillion commitment over the next decade[6]. Over the next three years projected public-sector capital expenditure of R865.4 billion is expected to address infrastructure bottlenecks. This investment in infrastructure represents a significant economic opportunity for the country as well as for job creation.

That being said, there are still major gaps in electricity supply and access to clean water and sanitation facilities. 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. The DBSA will continue to work closely with the new political incumbents following the recent Municipal elections, as well as a range of public and private sector stakeholders in order to crowd-in investment in Metros and smaller municipalities to ensure the timely infrastructure delivery.

Furthermore, the DBSA's investments will be informed by the Presidential Infrastructure Coordinating Commission's (PICC) pipeline of projects as well as the guidelines for capital investment priorities provided by the NDP. Linked to the NDP is the Integrated Urban Development Framework (IUDF). In 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.

Outside of South Africa, 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. Despite the recent commodity price decreases, the region's infrastructure sector has been identified as one of the major global growth points for the next 20 years, specifically in sectors such as mining and agriculture.

[6] Source: South Africa's Big Five: Bold Priorities for Inclusive Growth- McKinsey & Company, 2015

Investor appetite for the region has also been reflected in significant increase in investment in renewable power projects.

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[7]. 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[8]. Clearly then, the potential opportunities are enormous.

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

As mentioned, the risks associated with South Africa's potential downgrade has already been factored in by the financial markets, resulting in the DBSA's cost of funding rising since the start of the year. While all commercial banks have experienced a similar cost of funding increases, due to their business model they are able to cross-subsidize the cost of the loans in many instances and still provide more competitive rates. The DBSA is experiencing increasing competition in its traditional Metro and other African markets- especially for loans of a shorter tenor. That being said, the Bank still has a relative competitive advantage for longer term loans (10+ years) given that banks no longer want to provide long-term infrastructure financing due to international banking legislation and regulatory constraints

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.

The BRICS New Development Bank (NDB) opened its offices in Johannesburg in April 2016. The establishment of this multilateral bank presents both opportunities and threats for the DBSA as the two organisation's mandates overlap in many instances. Recently, the NDB announced with will finance Phase Two of the Lesotho Highlands Water Project, along with the DBSA. The organization also appears to prioritise energy and water sector investments in South Africa and on the continent. 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.

Also, we have observed that commercial banks are withdrawing their interests to fund longer-term tenor transactions as a result of the regulatory capital requirements. This is expected to present less competition from these commercial banks. In addition, some banks are rebalancing their global portfolios and withdrawing altogether from Africa, such as Barclays.

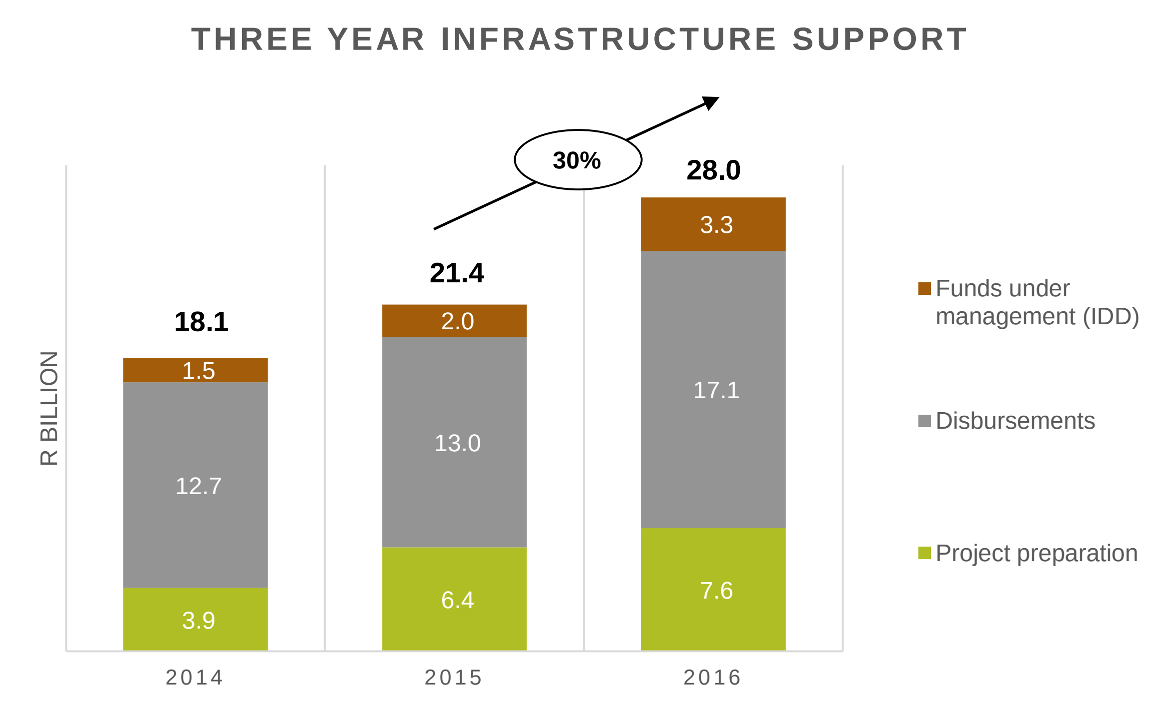
[7] Source: Africa's Infrastructure: A Time for Transformation – World Bank, 2009

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

3.2 DBSA 2015/16 performance overview

For the 2015/16 financial year the DBSA delivered a strong set of development and financial results in a challenging operational environment.

DBSA Infrastructure Support Achieved	FY2015/16	FY2014/15
Total approvals	R24.6 billion	R30.2 billion
Total commitments	R18.3 billion	R17.4 billion
Disbursements *(Largely driven by:* ▪ *R7.5 billion disbursed to metros,* ▪ *R4.9 billion economic infrastructure* ▪ *R3.5 billion to outside South Africa).*	R17.1 billion	R13.0 billion
Infrastructure Delivery division (Funds under management)	R3.3 billion	R2.0 billion
Project Preparation unlocked for funding	R7.6 billion	R6.4 billion
Total infrastructure development support (30.0% increase)	R28.0 billion	R21.4 billion



Regional integration: the International Financing division had a successful year disbursing R3.5 billion in the rest of Africa excluding South Africa following the challenging trading environment it experienced during the 2015 financial year. Total approvals amounted to R9.5 billion, compared to the R8.7 billion achieved during 2015. Total commitments amounted to R6.4 billion, compared to the R2.2 billion achieved during 2015.

Through the Bank's project preparation efforts R7.6 billion was approved for funding (2015: R6.4 billion), mainly in support of the government's Renewable Independent Power Producers Energy Programme and Gautrain Phase 1 expansion project.

Key development outcomes achieved during the year include:

- Our planning and implementation support to under-resourced municipalities yielded the following: 10 projects were in planning, and 70 projects completed – seven in water and sanitation, one in fleet project, nine in roads and storm water as well as 53 in the energy sector. A total of 5 240 job opportunities were created from the projects in implementation. Four infrastructure master plans and detail designs were completed in line with milestones agreed with respective municipalities. A total of 63 242 households received access to new and improved services from the municipal projects supported by the infrastructure planning and support unit of the Bank.
- An estimated 638 000 households (2015: 289 000) could benefit from commitments in favour of various municipalities across the country.
- Non-municipal funding for 2016 in both South Africa and SADC contributed substantially to energy generation, including coal project preparation financing for 9 000 MW and 225 MW in gas. The Bank also contributed to funding 120 000 houses, 6 204 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 35 schools, 1 382 affordable houses and 111 health facilities. In addition 22 schools, 17 health facilities 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 R2.6 billion (2015: R1.2 billion), sustainable earnings of R1.4 billion (2015: R805 million) and cost-to-income ratio of 29% (2014: 34%). The Infrastructure Delivery division is managed on a full cost recovery basis and achieved a net profit of R27 million for the year (2015: R16 million), representing a cost recovery ratio of 87%.

Total assets grew by 16% to R82.3 billion (2015: R70.9 billion). The total development assets increased by 22% to R77.1 billion (2015: R63.1 billion), with the non- performing loan book after specific impairments at only 1.1% (2015: 1.9%). The debt/equity ratio of 177.8% remained well below the 250% statutory threshold.

3.3 DBSA 2016/17 performance overview to December 2016

For the 2016/17 financial year the DBSA is on track to deliver a strong set of performance results. Key highlights for the nine-month period ended 31 December 2016 include:

- Total approvals amounted to R14.5 billion and commitments R8.8 billion.
- R10.9 billion (YTD target: R11.6 billion) was disbursed during the period and the DBSA is forecasted to disburse R16.9 billion by year end.

  - To date R4.4 billion has been disbursed to Metro's, R1.9 billion disbursed to economic infrastructure, R764 million disbursed to secondary and under-resourced municipalities, R358 disbursed to other social infrastrucutre and a total of R3.6 billion disbursed to the Rest of African Continent (including SADC and excluding RSA).
- The Bank's Infrastructure Delivery Division completed 6 schools, 129 houses, 4 NHI clinics, 28 VCT clinics, 3 new clinics, 11 rural access roads and 1 urban road during the period. Funds under management totalled R2.1 billion (YTD target: R2.9 billion).
- The Bank's financial performance remains strong with sustainable earnings9 of R2.4billion. Net profit for the period amounted to R1.8 billion, mainly as a result of the strengthening of the South African currency which loads to a net foreign loss of R480 billion and R94.1 million net revaluation loss on financial instruments to net profit.
- Costs were well managed, with the cost-to-income ratio, excluding IDD, at 16%, below the internally set threshold of 35% and total assets have declined to R85.2 billion from the previous financial year.

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

3.4 DBSA strategy

3.4.1 DBSA's Strategy: adapted and extended but fundamentally unchanged

The articulation of DBSA's strategy for the FY2017/18 Corporate Plan can be summarized in the graphic below. It is driven by the need to create world class infrastructure catalyzing capabilities in an ever-increasing competitive environment. The DBSA has chosen to respond in ways that will give effect to that, and has initiated actions to achieve that.

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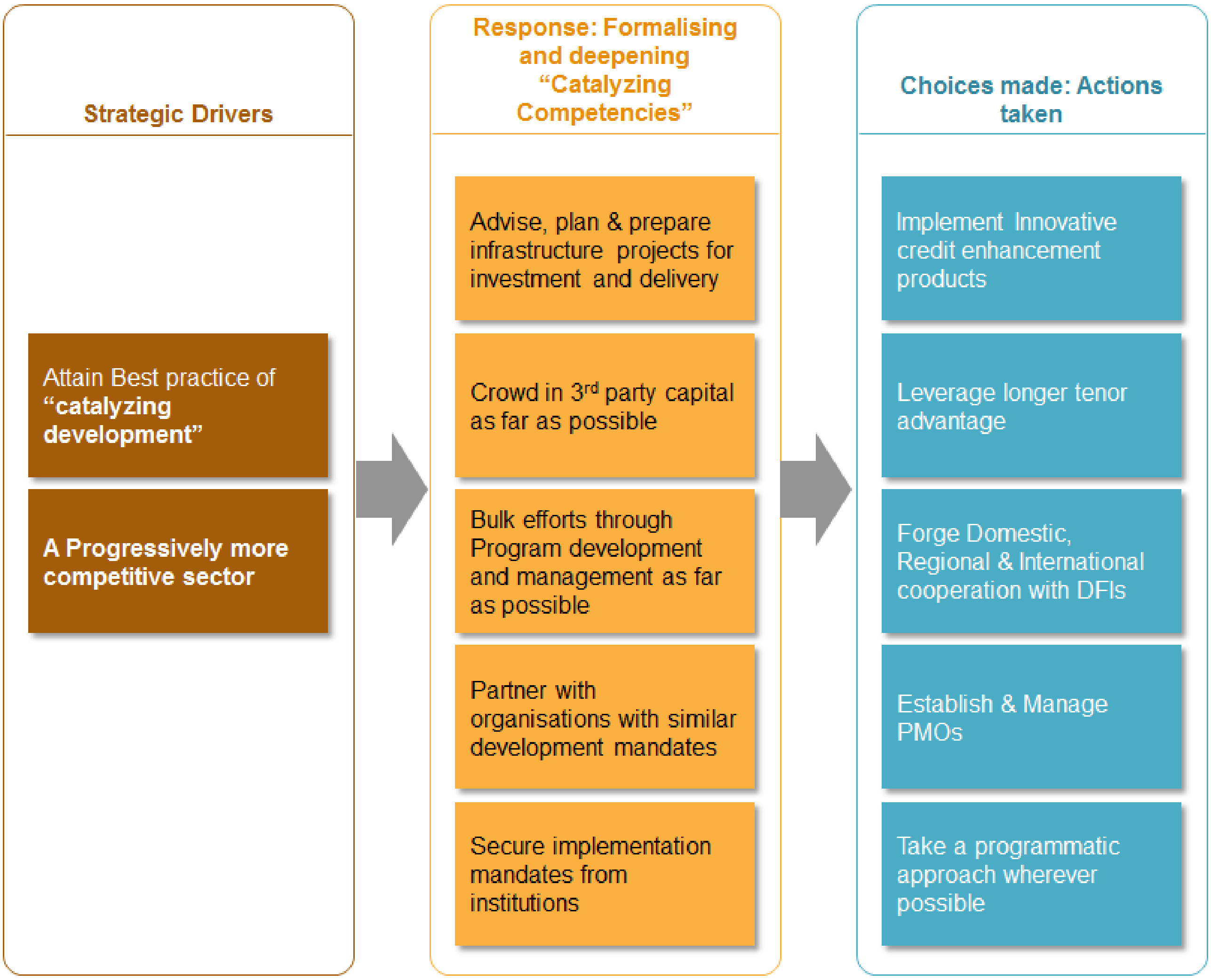


The table below explains the diagram above in more detail:

Emerging themes that demand a response	Responses and Interventions formulated

<u>As a result of Global Best Practice</u>
 	
• Play more of a role of a catalyst for private sector funding to invest in infrastructure (i.e. the role of "catalysing" or "crowding in")
• Form strategic partnerships so that the development finance institutions with similar mandates can pool funding and can
	• Focus on catalytic roles by:
	  ○ Taking certain unique positions in transactions:
	    ▪ Credit enhancement positions
	    ▪ Taking longer tenor
	    ▪ Development of structured finance solutions and products

Emerging themes that demand a response	Responses and Interventions formulated
be optimally invested across national boundaries • Development of a programmatic approach rather than a project-by-project basis. • Alignment to global development and sustainability goals	○ Playing unique roles in the development landscape ▪ Preparation of Master plans from which projects are identified and initiated ▪ Preparation of infrastructure investment papers for investment
<u>As a result of increasing competition</u> • More asset management mandates are in existence and more funding allocated to development finance, sustainability and responsible investing. • Commercial banks are more competitive for tenors up to 7 years than the DBSA. They are uncompetitive, however, for longer tenors due to the Capital Adequacy regulations (i.e. Basel, etc).	• Leverage unique position, reputation and ratings in order to: ○ Form strategic partnerships on both the deal and funding sides ○ Initiate programs for other DFIs and private sector to participate in • Manage Infrastructure delivery mandates on behalf of other institutions.

This strategy and its deliverables is reflected in the initiatives and the Balanced Scorecard.

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 seeks to leverage its advantages as far as possible. We have a comprehensive offering across all segments of the infrastructure delivery value chain (from preparation, to financing and delivery). Therefore, our clients may interact with multiple DBSA business units and their needs and requirements can vary substantially depending on what stage in the infrastructure value chain their prioritized projects are in. The environment we work in has numerous complexities: at times our clients may also simultaneously be our partners and/or competitors, making it essential that we are active and competitive across the entire value chain.

Our core competitive advantages are detailed in the table below.

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.
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
A trusted partner	▪ The DBSA is positioned to leverage its role as a trusted partner between the government, SOEs and the private sector, both within South Africa and abroad. ▪ The DBSA is able to access concessional financing from its international partners.
Dual focus on financial and developmental returns	▪ By taking a subordinated debt position, the DBSA, with its partners, can ensure that critical infrastructure will be delivered. ▪ The DBSA is able to take a longer tenor for projects (usually10-15 years) than most commercial banks who are constrained by international regulations. ▪ Our ROE targets of between 3-6% mean we can ensure we place significant focus on the development impact of our investments.

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	Description
High performance culture	We will focus on recruiting and retaining critical skills that will provide the competencies to drive the deepening of catalysing capabilities and to be able to deliver a holistic offering across the infrastructure value chain. To support this effort there will be effective Performance management. The desired Values-based culture will be communicated and implemented. The progress

Strategic enabler	Description
	will be measured by assessing the engagement of employees (i.e. the entropy score)
Balance sheet capacity	We will free up the balance sheet as far as possible by Formulating and implementing the capital management strategy. We will also shift focus from delivering infrastructure development via balance sheet lending to catalysing and crowding in 3rd party capital. This will also diversify our earnings base from interest income to fee income.
Partnerships	In RSA we will build stronger relationships with municipalities, SOEs. In the Rest of Africa we are forging Regional & international DFI partnerships that we will seek to collaborate with. Globally we wish to grow partnerships with organisations that can provide low–cost funding and grants, as well as transfer of best practice.
Business intelligence	We are revising and realigning our R&D programmes to specifically target the information and intelligence requirements. We are also extracting knowledge and insights from our strategic partners. There is an investment into a CRM system so that sales metrics and behaviours can be measured and monitored. The bank has also initiated an Enterprise Data Warehouse project that will enable it to have significantly enhanced analytical capabilities.
Operational excellence	We are critically assessing our systems and processes for all critical activities to ensure they support our objectives and client requirements. We will automate where possible.
Innovative infrastructure Solutions	We have launched the Innovation Laboratory in order to formalise and track the objective of innovating products and services and methodologies to better achieve our objectives and client criteria.

3.4.5 Summary of Potential disruptors to the execution of the Bank's strategy

The DBSA continues to scan the market to identify potential disruptors that could provide either an opportunity or a threat to the DBSA's business. These major disruptive risks that have been identified and integrated into the DBSA's enterprise risk management framework. Where possible, mitigating steps have been identified.

- **Change in political parties and Management Teams in Major metros and M2 Municipalities**: new relationships will have to be made with Municipal Management and innovative solutions need to be developed to remain relevant (Threat).
- **Domestic political tension and threat of ratings downgrade:** demand for RSA bonds may falter, higher borrowing costs for capital market funding, currency weakness and higher inflation rates all pose a threat.
- **Subdued economic outlook and lower commodity prices:** low economic growth and high unemployment.
- **New entrants to the sector**: the competition for good transactions is higher while competitors have lower costs of funding. Alternatively, they are also potential co-investors (threat and opportunity).

- **Climate change and SDGs**: new financing opportunities and sources of funding (Green Climate Fund and the Global Environment Facility) (opportunity).
- **Technology advances in key sectors (e.g. renewables):** The DBSA's experience in the renewable energy sector as well as its accreditations with GCF and GEF present significant opportunities for further investments (opportunity).
- **Urbanization:** This represents significant infrastructure investment opportunities for the DBSA in: mass transit, water and sanitation, as well as energy generation and transmission (opportunity).
- **Fall in price of LNG:** Gas power is expected to play an increasingly important role in securing South Africa's energy needs between 2020 and 2030- while diversifying the economy's energy mix even further. It is estimated that up to R708 billion capital is required to fund the required pipelines and new power plants - presenting significant opportunities for investment by the DBSA

3.5 Key deliverables for the period 2017/18 to 2019/20

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 and entrench each of our businesses to optimise developmental impact	• Be a catalyst for infrastructure by crowding-in third parties by crowding in between R39 billion and R73 billion per annum over the next three years. • Disbursements of R18.0 billion in 2017/18 and growing annually to R23.5 billion in 2018/19 and R31 billion 2019/20 • IDD funds under management: ~ R3.9 billion in 2017/18, R4.4 billion in 2018/19 and to R4.8 billion • Project prep – prepare and commits projects to the value of R10 billion in 2017/18, R11 billion in 2018/19 and R12.5 billion in 2019/20 • Value of projects approved for innovation project of R2 billion in 2017/18, R4 billion in 2018/19 and R10 billion in 2019/20 • 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	• ROE of 4.7% • Cost-to-income ratio < 30% (core-banking ratio, excluding IDD) • IDD: 5% profit margin

Strategic objective	Rationale	Metrics
	developmental activities • Maintain operational efficiency	• 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.

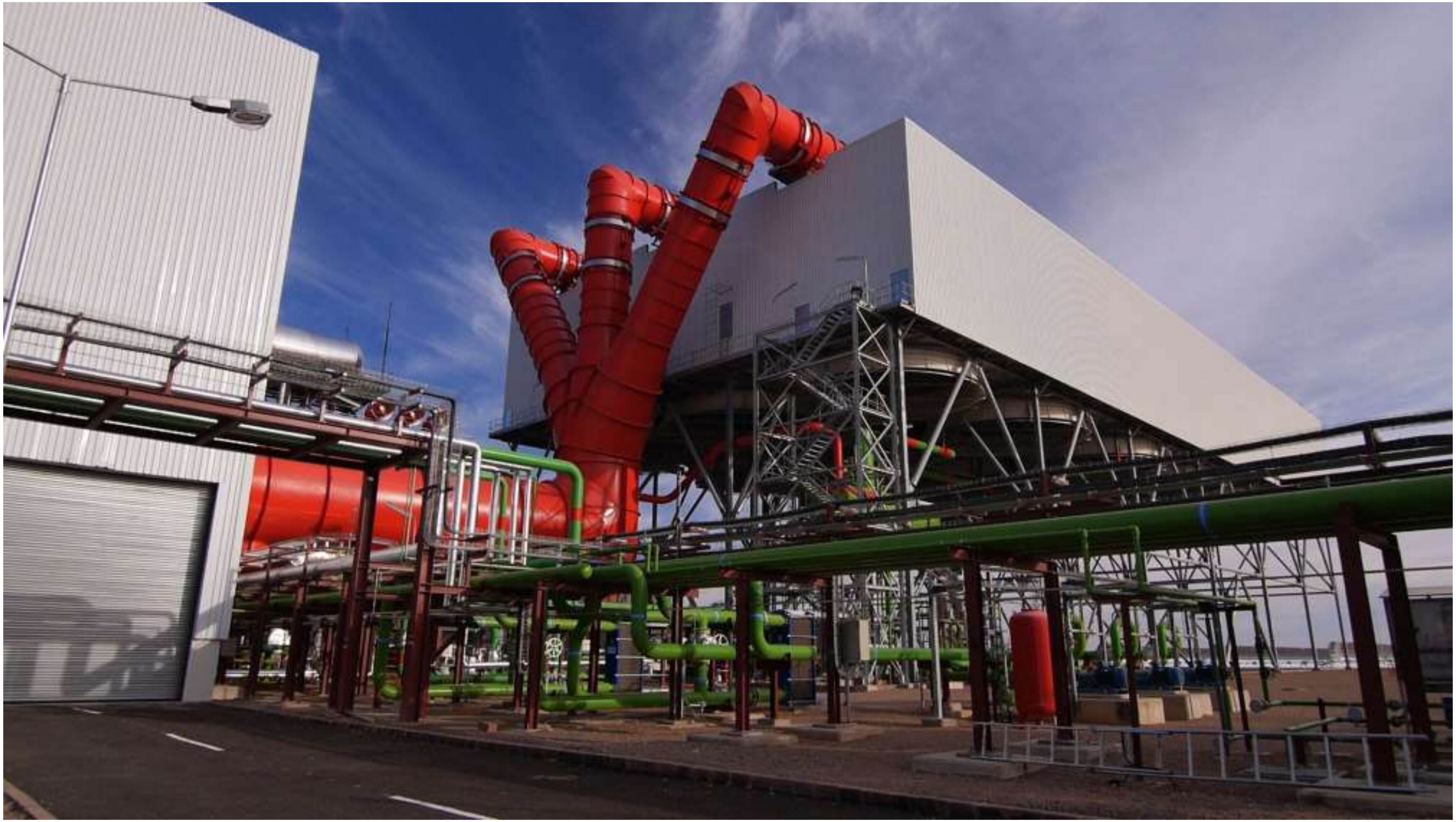
Underpinning these activities, the Bank should remain financially sustainable by generating sufficient net surplus to grow the Bank's shareholders' equity by at least inflation annually by 2017. Consequently:

- 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: R17 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: R7.5 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 R2.5 billion in 2016/17 to R4.8 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: R16.9 billion Total disbursements rest of Africa: R16.5 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, although there are less than 20 Project Preparation Facilities in Africa that have proven business models at scale. This translates into an opportunity for the DBSA to continue investing in building 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.
- Conceptualise, design, test and launch innovative infrastructure programmes to allow different solutions to be deployed under one single engagement in a standardised and transparent manner
- Build a self-sustaining business.

The Bank will seek to play a significant part in early stage project development and target to prepare projects to the value of:

- R10 billion in FY 2017/18
- R11 billion in FY 2018/19
- R12.5 billion in FY 2019/20

Where appropriate, the Bank will also seek to crowd-in private sector funders through syndication arrangements in financing the underlying projects / 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 and implementation. The IIPSA facility has a target to disburse and have all projects completed by October 2020.

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 FY 2017/18. During the current financial year, DBSA has approved the entire SADC PPDF facility of €16.5 million to support project preparation for the projects 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. The SADC Secretariat and the Government of Germany has concluded an agreement which will unlock a further €6 million facility agreement with KfW towards the PPDF which we hope will be concluded before the end of the financial year

3.5.2 Infrastructure finance

- **South Africa**
  - *Municipal market*

    The need to improve and increase infrastructure in municipalities is 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). The DBSA will continue to actively participate and seek commercially-viable returns in this market, targeting to disburse R4.3 billion annually during 2017/18. DBSA currently have investments in the following five Metros: City of Johannesburg, Tshwane, Ekurhuleni, eThekwini and Mangaung. The remaining three metros have been financing their infrastructure spending from government grants and own revenue.

    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.

    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 R1.1 billion and R1.2 billion per annum, on terms ranging from subsidised to fully commercial. The success of funding solutions are however largely dependent on the availability of a strong project pipeline of bankable projects. 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 2017/18 to 2019/20 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: 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)	Aimed at national, provincial and/or municipal growth points and municipalities with high backlogs (27 district support). 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.
Collaboration with government and non-government partners to support project preparations and implementation and identify prospects for funding	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.
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	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.

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. Under-resourced municipalities tend to also be characterised by a highly variable revenue base; are hhighly dependent on grants and therefore have a limited ability to borrow. Financial lending flows to these municipalities is thus relatively 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 [10] (~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. That being said, there is a shortage of bankable water projects.

The DBSAs activities in the water sector will be underpinned by:

- Providing project preparation assistance to structure and take projects to bankability.
- Facilitating IIPSA capital grants for projects that are not self funding

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

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. Furthermore, education related infrastructure spending has reduced significantly over the past three years. In light of the call for free higher education, as well as various insourcing initiatives, universities have limited and declining capacity to take up new balance sheet loans necessitating that the DHET along with these institutions, explore off balance sheet financing alternatives.

Consequently the DBSAs approach to the sector includes:

- Structure loans to each university based on cash flow
- Work with NT and DHET to structure long term funding solution for the TVETC's build program
- Develop off-balance sheet funding solutions to universities
- Leverage the Bank's project preparation capability and IDD project implementation capacity

For the period 2017/18 to 2018/19 the Bank targets to provide annual loan funding between R1.3 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, 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 R6.0 billion in 2017/18, R6.4 billion in 2018/19 and 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.

- **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. Currently, the Bank's disbursement projections have been impacted by the delayed announcement of preferred bidders by the Department of Energy.

- **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.

  - SADC Programmes and Projects

    The International Finance division has been active in the last quarters in the SADC region with a disbursement of approximately R1.6bn to Zambia for projects in the energy sector. We have also recently approved a ~ R400m project in Angola and committed another ~R370m in the Democratic Republic of Congo for another energy project.

    The DBSA is also further strengthening its relationship with its other regional Development Banks such as the Mozambique Development Bank, the Namibian Development Bank and the Development Bank in Angola to create greater impact in development across the region.

    The International finance division is further working closely with the SADC Regional Economic Community on the NSC/ BEIRA acceleration programme.

    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.

The NSC MoU with regard to the establishment of the North-South Corridor Management Institution (NSCMI) recently received cabinet approval. The SADC Ministers of Transport in essence agreed to establish the NSCMI which will unlock bottlenecks along the NSC and thus create more opportunities for investment into projects on this PICI project.

In addition, the DBSA is has taken up an advisory position on the SADC NSC and Beira Acceleration Programme where member states of the NSC and Beira corridors convene to discuss priority projects for these corridors, explore what needs to be done to unlock these projects and the action plans associated with the implementation of these projects. In so doing, the DBSA ensures that it is in the forefront of driving infrastructure priority development projects in the SADC region.

The DBSA has also recently strengthened further its relationship with the NEPAD Planning and Coordinating Agency (NPCA) by signing an MoU with the focus on driving infrastructure development towards Agenda 2063 and the implementation of the Programme for Infrastructure Development in Africa.

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.

- 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.

  The TTFA is now under the steering of a new Executive Secretary, Mr Dieudonne Dukundane, who will be visiting the DBSA in November 2016 to discuss a formal partnership agreement between the DBSA and the TTFA.

  The TTFA is currently driving the 24 priority infrastructure projects of the Central Corridor to bankability.

- 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 infrastructure programmes through the provision of project management and implementation agent support in key priority sectors of education, health and housing as well as various municipal infrastructure programmes. All non-financing activities of the Bank 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 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 and economic infrastructure. Many government departments face challenges of slow project kick-off, slow procurement processes, poor project implementation management capabilities and lack of sufficient or adequately skilled technical and design professionals. The IDD provides a response for emergency work with regard to procurement and execution of projects (emergency works), efficient project initiation and project kickoff and has technical and programme management expertise.

During 2017/18 the Bank will continue to provide implementing agent and programme management services managing funds estimated at R4.38 billion and increasing expenditure to R3.95 billion. The key programmes for 2017/18 include (but not limited to):

- **Construction of new infrastructure:**
    - The Bank will bring 21 ASIDI schools that achieved practical completion during 2016/17 to final completion and hand over them to the Department. There are eight (8) new schools in the Free State that will be constructed and completed during 2017/18.
    - The Bank will construct two hospitals on behalf of the National Department of Health which will be a combination of phased sectional new additions and refurbishment.
    - Construction of new student accommodation for 1 800 beds at the Sefako Makgatho University in the North West.
- **Refreshment, Upgrades and Maintenance**
    - Upgrades and rehabilitation of various schools in Kwa Zulu Natal (229), Limpopo (42), Eastern Cape (200) for the provincial Departments of Education. The majority of the work in these schools will be upgrading to meet the national norms and standards and repairing storm damaged schools.
    - Refurbishment and maintenance of health facilities (clinics, hospitals, nursing colleges) in Limpopo (28) and Eastern Cape (60).
    - Maintenance of state buildings managed by the National Department of Public Works estimated at 98 projects for 2017/18.
- **Programme Management Support**
    - Programme management for the implementation of two (2) SADC Water and Sanitation Fund projects approved for implementation during the year. The Bank will manage feasibilities and appraisal of new projects in the pipeline for approval for funding.
    - Placement of technical and programme management expertise in state departments to support the management and implementation of infrastructure programmes. The Bank is supporting Programme Management Offices of the Limpopo Department of Public Works, Roads and Transport, the National Department of Health and the National Department of Public Works.

An estimated R12billion will be catalysed and unlocked by the Bank in 2017/18 through the deployment of these resources.

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. IDD will play a role in implementation management of the innovative structured products of the Bank. 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: 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 mechanism of the UNFCCC (World Bank as trustee), which enables the Bank to implement climate change and biodiversity projects that contribute to global environmental priorities.
- The DBSA was further accredited to Green Climate Fund (a new and bigger financing mechanism of the UNFCCC), to upscale investment in climate change and adaptation. The Fund is currently funded to the tune of over $US10billion and has an aspirational budget of $US 100 per annum from 2020. This funds are available globally to assist countries in responding to the climate change challemge.
- 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 2016/17 as well as some of the plans for 2017/18 are reflected in the table below.

	Examples of areas supported	Plans for 2017/18
BBEEE	• R159 million for BEE for IPP program • R60 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

	Examples of areas supported	Plans for 2017/18
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 – R710 million in procurement was used to promote 665 SMMEs	IDD procurement – 20% of the value of programme expenditure will be directed to SMME

4 MAINTAINING FINANCIAL SUSTAINABILITY

4.1 Financial plan (including Callable Capital)

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 (both locally and internationally), the volatility of exchange rates as well as the possible deterioration of the asset portfolio, compounded by the uncertain economic environment.

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 current scenario does not include the inclusion of callable capital. The DBSA and National Treasury are engaging on an ongoing basis regarding the use of callable capital in the Bank's gearing ratio. Should the need arise to utilize the callable capital, this will be discussed with the National Treasury and highlighted in the Corporate Plan.

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.

	2017/18	2018/19	2019/20
DBSA internal inflation	7%	7%	7%
Economic inflation [11]	6.2%	5.9%	5.8%

- Budgeted foreign exchange rates for:
  - 2017/18: R14/$,
  - 2018/19: R15/$,
  - 2019/20:R16/$.
- 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 2017/18 to 2019/20 includes:

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

- Targeted annual infrastructure disbursements of R20.3 billion, R23.8 billion and R31.1 billion for the respective financial years.
- Net interest income of R3.8 billion (2017/18) is expected to increase to R4.4 billion by 2019/20, 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 45.9% in 2017/18 to 41.7% in 2019/20, 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 are currently being implemented.
- The cost-to-income ratio (Financing business) is projected to improve from 31.7% in 2017/18 to 31.1% in 2019/20, 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 R125 billion by 2019/20. 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	2015/16	2016/17	2017/18	2018/19	2019/20
South Africa Financing					
Gross loan book	55 112	59 601	72 161	85 252	103 836
Provision	(1 865)	(1 435)	(2 284)	(2 605)	(3 306)
Net loan book	53 247	58 166	69 877	82 645	100 530
International Financing					
Gross loan book	18 188	22 291	23 925	26 396	28 461
Provision	(1 940)	(2 830)	(3 281)	(3 599)	(3 968)
Net loan book	16 248	19 461	20 644	22 798	24 493
Total DBSA	69 495	77 627	90 521	105 442	125 023

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 4.29% and 5.03%.

4.2 Borrowing programme

The detailed borrowing programme for the 2017/18 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 2017/18	Projection 2018/19	Projection 2019/20
Building	R19.8 mil	-	-
Computer equipment	R12.0 mil	R12.7 mil	R13.4 mil
Intangible assets	R34.4 mil	R36.4 mil	R38.7 mil
Total	**R66.2 mil**	**R49.1 mil**	**R52.1 mil**

4.6 Financial forecast

BALANCE SHEET

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Forecast	Budget	Projection	Projection
	R mil	R mil	R mil	R mil	R mil
Cash & cash equivalents	2 085	1 406	881	1 153	1 281
Financial market assets	2 479	2 161	2 123	2 073	2 025
Equity investments	6 279	6 220	6 101	6 154	6 099
Project preparation	-	-	-	-	-
Development loans	69 495	77 627	90 521	105 442	125 023
Development bonds	1 290	1 290	1 290	1 289	1 289
Fixed assets	501	550	547	543	540
Other assets	218	167	147	152	157
Total assets	**82 346**	**89 421**	**101 609**	**116 806**	**136 414**
Medium- to long-term debt	51 791	56 280	66 852	80 211	97 791
Deferred income	-	-	78	151	207
Other liabilities	1 290	1 395	1 512	1 642	1 782
Liabilities	53 081	57 674	68 442	82 004	99 780
Shareholders' equity	200	200	200	200	200
Retained earnings	14 545	17 039	18 460	20 095	21 925
Other reserves	14 520	14 508	14 508	14 508	14 508
Equity	29 265	31 747	33 168	34 803	36 633
Total equity & liabilities	**82 346**	**89 421**	**101 609**	**116 806**	**136 414**
Balance sheet ratios:					
Debt / equity (excl. callable capital)	177%	177%	202%	231%	268%
Debt / equity (incl. R20 billion callable capital)	105%	109%	126%	147%	173%
Return on average equity	9.7%	8.2%	4.4%	4.8%	5.1%

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

INCOME STATEMENT	2015/16	2016/17	2017/18	2018/19	2019/20
(Amounts in R mill)	**Actual**	**Forecast**	**Budget**	**Projection**	**Projection**
Interest income	6 541	7 340	8 234	9 436	10 652
Interest expense	(3 355)	(3 746)	(4 454)	(5 317)	(6 206)
Net interest income	**3 186**	**3 594**	**3 779**	**4 119**	**4 446**
Net fee income	334	260	388	442	496
Other income	76	689	18	39	51
Operating income	3 596	4 544	4 184	4 600	4 993
Impairment	(1 426)	(362)	(1 067)	(1 121)	(1 203)
Operating expenses	(975)	(1 054)	(1 247)	(1 374)	(1 465)
Financing					
Personnel cost	(626)	(661)	(715)	(773)	(824)
Other expenses	(152)	(184)	(248)	(268)	(290)
Depreciation	(29)	(31)	(35)	(35)	(35)
IDD					
Personnel cost	(105)	(120)	(156)	(195)	(207)
Other expenses	(62)	(57)	(74)	(82)	(88)
Depreciation	(1)	(1)	(2)	(2)	(2)
Innovation					
Personnel cost	-	-	(4)	(4)	(5)
Other expenses	-	-	(12)	(13)	(14)
Depreciation	-	-	(1)	(1)	(1)
Project preparation costs	(15)	(45)	(90)	(100)	(120)
Corporate Social Investment	-	-	(5)	(4)	(6)
Development expenditure: interest subsidy	(45)	(40)	(100)	(110)	(120)
Development expenditure planning and capacity support	(1)	(6)	(30)	(30)	(30)
Revaluation on equity investments	(253)	(42)	(104)	(104)	(102)

Stakeholder relations cost	(4)	(10)	(10)	(10)	(10)
Sustainable earnings	**1 385**	**3 068**	**1 532**	**1 746**	**1 937**
Revaluation (loss) / gain on other financial instruments	189	(94)	-	-	-
Foreign exchange gain / (loss)	1 002	(480)	(111)	(111)	(106)
Net profit	**2 577**	**2 494**	**1 421**	**1 635**	**1 831**
Income statement ratios					
Net interest margin	49%	49%	46%	44%	42%
Cost to income ratio: Total	28.7%	25.4%	35.4%	35.4%	35.1%
Cost to income ratio: IDD	87%	154%	98.1%	98.5%	95.4%
Cost to income ratio: (including lending and project preparation)	26%	22.1%	31.7%	31.3%	31.1%

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	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	**Forecast**	**Budget**	**Projection**	**Projection**
	R' million	**R' million**	**R' million**	**R' million**	**R' million**
Profit/(loss) for the year	**2 577**	**2 494**	**1 421**	**1 635**	**1 831**
Adjusted for:	**(2 732)**	**(2 847)**	**(1 512)**	**(1 858)**	**(2 113)**
Depreciation	31	33	38	38	38
Grants	63	99	15	14	16
Dividends	(19)	(10)	(18)	(28)	(33)
Loss on asset disposals	(90)	(10)	-	-	-
Fees accrued (development loans)	128	50	-	-	-
Equity gain	(297)	(692)	104	104	102
Revaluation (gains) / losses	(190)	(106)	-	-	-
Foreign exchange (gains) / losses equity inv	(689)	1 011	73	(247)	(225)
Forex (gains) / losses on USD assets	-	-	1 331	142	132
Forex (gains) / losses on USD funding	-	-	(343)	1 116	1 099
Impairments	1 426	362	1 067	1 121	1 203
Net interest income	(3 186)	(3 594)	(3 779)	(4 119)	(4 446)
Subtotal	**(1 56)**	**(353)**	**(91)**	**(223)**	**(282)**
Change in other assets	(22)	(2)	(21)	(5)	(5)
Change in other payables	(10)	(247)	195	203	196
Interest & dividends received	6 327	6 963	8 251	9 464	10 685
Interest paid	(3 115)	(3 297)	(4 456)	(5 322)	(6 214)

Net cash from operating activities	**3 025**	**3 068**	**3 922**	**4 122**	**4 387**
Cash flows from development activities	**(11 199)**	**(7 760)**	**(14 414)**	**(15 208)**	**(19 854)**
Development loan disbursements	(16 461)	(16 108)	(20 100)	(23 600)	(31 000)
Development loan principal repayments	5 549	7 615	5 759	8 316	10 985
Net increase in equity investments	(369)	782	(57)	90	177
Grant paid	(19)	(46)	(15)	(14)	(16)
Net advances to National Mandates	100	(4)	-	-	-
Cash flows from investing activities	**(167)**	**(771)**	**(947)**	**(885)**	**(887)**
Purchase of PPE & intangibles	(31)	(3)	(35)	(35)	(35)
Proceeds from PPE	-	-	-	-	-
Movement in financial market assets	198	(768)	(912)	(850)	(852)
Cash flows from financing activities	**6 086**	**4 789**	**7 399**	**7 095**	**4 621**
Capital raised	3 000	-	-	-	-
Financial market liabilities repaid	(20 164)	(9 622)	(4 350)	(6 622)	(17 700)
Financial market liabilities raised	23 250	14 411	15 295	18 893	34 220
Movement in cash & cash equivalents	**(1 921)**	**(675)**	**(525)**	**272**	**128**
Effect of exchange rate movements	104	(4)	**-**	**-**	**-**
Opening cash & cash equivalents	3 902	2 085	1 406	881	1 153
Closing cash & cash equivalents	**2 085**	**1 406**	**881**	**1 153**	**1 281**
Liquidity per IFRS	**3 400**	**2 494**	**1 932**	**2 153**	**2 233**

Cash and cash equivalents	**2 085**	**1 406**	**881**	**1 153**	**1 281**
Financial market assets 12	**1 315**	**1 088**	**1 051**	**1 000**	**952**

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

5 DBSA 2017/18 GROUP BALANCED SCORECARD

The Bank utilises the balanced scorecard (BSC) methodology as a strategic measurement, alignment 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.

The DBSA previously made use of two BSCs as a result of the recommendations of an independent review: one BSC to drive and measure the strategic transformation agenda (the "Strategic Input and Output Framework") and another to drive and measure performance (the "Performance Scorecard"). This dual BSC approach has not provided significant benefits and the Board HRNSEC and ARC subcommittees requested that the DBSA revert to a single, integrated BSC. The Executive believes that this approach is more appropriate for the DBSA's needs.

The DBSA's Board continues to have oversight over and approve the Bank's annual score derived from the Balanced Scorecard. This, in turn, is used as a basis for performance-based remuneration.

The long-term strategic transformation objectives of the Bank continues to receive the oversight and attention of the Board and is now also tied to performance-based remuneration.

The monitoring of social impact also continues to be measured in accordance with the Auditor General's requirements, and is reported in the Annual Integrated Report of the Bank.

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:

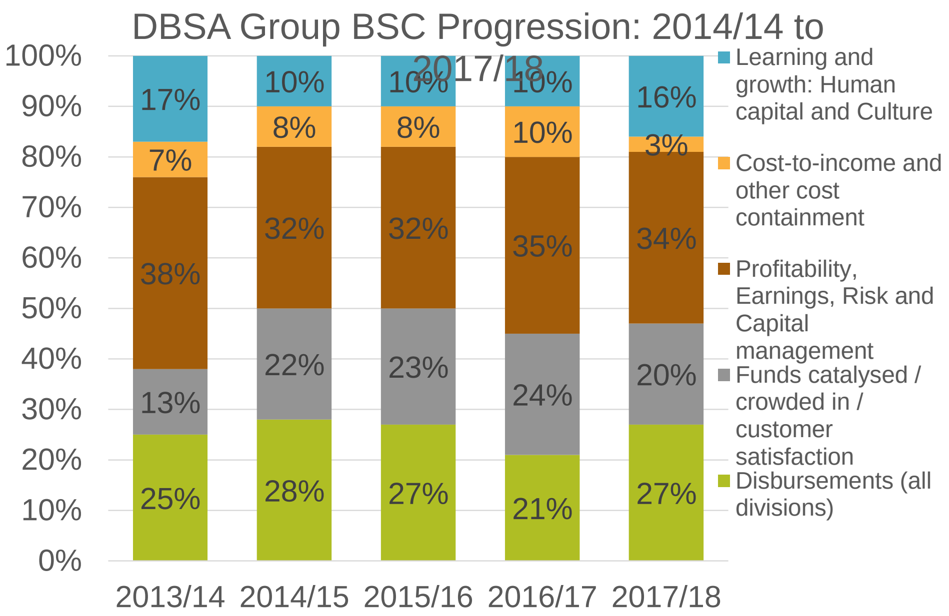
- Capital management strategy.
- Continuous Improvement in the Bank's cost-to-income. The Bank seeks to maintain a cost-to-income ratio below 30% (excluding IDD).

- Improve transaction pipeline processes 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

▪ Changes to Weightings in Perspectives

There has been a reclassification of certain measures between perspectives, for example: cost-to-income was included under Internal Perspective in the past to indicate efficiency of internal processes, but has now been included under Financial Perspective. We have therefore set out the changes in weighting by category other than the perspectives in order to make comparisons meaningful. The changes in the overall perspectives were as follows:



▪ Changes in individual Measures introduced

- New Measures introduced
  - There was a need to specifically focus on the DBSA's internal efficiencies in its investment pipeline and processing activities since approvals. A new measure was introduced under the Internal Perspective with a weighting of 2%;
  - The results of the innovation initiative will mean that the resulting structured finance unit, that will focus on unlocking infrastructure in under-resourced municipalities and on social infrastructure that we could not fund before, will carry a weighting of 5% (2% to meet specific disbursement targets, and 3% for infrastructure catalysed).

- Net cash generated from operations (aimed at the quality of earnings and readiness to disburse from the balance sheet): 8% (under the Financial perspective).
- IDD infrastructure catalysed (this is aimed at leveraging the current IDD impact through Project Management Office establishment and via securing maintenance contracts): 2% (under the Customer perspective).
- Operating model implementation (the exact measures to be established, but this is aimed at bedding down any adjustment to the operating model that may be required to catalyse and crowd in capital from the private sector): 3% (under Internal perspective).
- Adherence to Critical training paths (aimed at closing any skills gaps that exist between staff members and their requirements in the roles they occupy): 2% (under the Learning and Growth perspective)

- Changes in weightings:
  - Cost-to-income targets have been removed as a stand-along item, and is now embedded in the ROE on Sustainable earnings measure (13%) and the net cash generated from operations measure (8%). This is because the specific focus has now been addressed and will be managed in the ordinary course of business.
  - Cash generated from operations was increased by 4% from 4% to 8%;
- Changes to targets
  - The ARC committee felt that the measures to achieve a “3” score should represent a stretch target. Certain targets were therefore revised on this basis.
  - ROE on sustainable earnings was revised upwards from 4.5% to 4.7%.
  - Retention of critical skills has been kept at a target of 90% for both planned and unplanned attrition (previously only planned attrition).

5.3 Balanced scorecard

In developing the Balanced 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:

Balanced scorecard for 2017/2018

Objective	Key performance indicator	Owner	Weighting	Forecast 2016/17	Target 2017/18	Target 2018/19	Target 2019/20
FINANCIAL PERSPECTIVE (60%)							
Maintain financial sustainability	**Group**						
	• ROE on sustainable earnings (see definitions slide)	CFO	17% (25%)	7.1%	4.7%	4.7%	4.7%
	• Non-interest revenue (see definitions slide)	GE SAF, IF, FO, CRO	3% (5%)	R195 M	R250 M	R300 M	R350 M
	• Cost-to-Income ratio (Financing Business)	CFO	3%	22% (unadjusted)	30%	30%	30%
	• Net operating cash generated from operations	CFO	10% (0%)	R3.1 Bn	R3.9 Bn	R4.1 Bn	R4.4 Bn
	SA Financing						
	• Total disbursements		21% (15%)	R11.3 Bn	R13.0 Bn	R14.0 Bn	R15.0 Bn
	○ Metropolitan cities	GE: SAF	5% (4%)	R4.5 Bn	R4.3 Bn	R4.4 Bn	R4.8 Bn
	○ Secondary municipalities	GE: SAF	4% (3%)	R1.2 Bn	R1.1 Bn	R1.2 Bn	R1.2 Bn
	○ Under-resourced municipalities	GE: SAF	4% (3%)	R293 M	R200 M	R200 M	R200 M
	○ Value of social infrastructure disbursements (education, health, housing & water)	GE: SAF	4% (3%)	R1.3 Bn	R1.8 Bn	R2.5 Bn	R3.2 Bn
	○ Value of economic infrastructure disbursements (transport, energy & ICT)	GE: SAF	4% (4%)	R4.0 Bn	R5.6 Bn	R5.7 Bn	R5.6 Bn
	International Financing						
	Total disbursements		4% (4%)				
	• African continent (including SADC, excluding RSA)	GE: IF	4% (1%)	R6.6 Bn	R5.0 Bn	R5.5 Bn	R6.0 Bn
	Of which SADC (excluding RSA)	*GE: IF*	*3% (3%)*	*R3.9 Bn*	*R3.5 Bn*	*R3.9 Bn*	*R4.2 Bn*
	Structured Finance						
	• Value of funds disbursed	CRO	2% (n/a)	-	R2.0 Bn	R4.0 Bn	R10.0 Bn

Balanced scorecard for 2017/2018 (continued)

Objective	Key performance indicator	Owner	Weighting	Forecast 2016/17	Target 2017/18	Target 2018/19	Target 2019/20
CUSTOMER PERSPECTIVE (20%)							
Sustained growth in development impact	**Project preparation**						
	• Value of projects prepared and committed by DBSA	GM: PPU	2% (5%)	R3.2 Bn	R10.0 Bn	R11.0 Bn	R12.5 Bn
	• Value of projects prepared but funded by other funders	GM: PPU	2% (0%)	R12.3 Bn	R10.0 Bn	R11.0 Bn	R12.5 Bn
	Third party funds catalysed						
	• Value of third party funds catalysed for DBSA in SA	GE: SAF	2% (7%)	R6.8 Bn	R2.6 Bn	R2.2 Bn	R2.3 Bn
	• Value of third party funds catalysed in SADC	GE: IF	2% (3%)	R3.6 Bn	R5.0 Bn	R7.4 billion	R7.9 Bn
	Structured Products						
	Value of funds catalysed for innovation project [3rd Party Funders]	CRO	4% (0%)	-	R5.0 Bn	R10.0 Bn	R20.0 Bn
	Implementation and Delivery (IDD)						
	• Value of funds under management	GE: IDD	2% (5%)	R3.7 Bn	R3.9 Bn	R4.4 Bn	R4.8 Bn
	• Value of funds catalysed for IDD	GE: IDD	2% (0%)	TBC	R3.0 Bn	R6.0 Bn	R13.1 Bn
Integrated infrastructure solutions provider	**Client satisfaction survey**						
	• Client satisfaction survey	GE: Strategy	4% (4%)	Rating of 4	Rating of 4	Rating of 4	Rating of 4

Balanced scorecard for 2017/2018 (continued)

Objective	Key performance indicator	Owner	Weighting	Forecast 2016/17	Target 2017/18	Target 2018/19	Target 2019/20
LEARNING AND GROWTH PERSPECTIVE (10%)							
Create and maintain a high performance culture	• % Retention of critical staff members	GE: HC	4% (5%)	5% (Sep 2016)	Lose less than 5% of critical skills list	Lose less than 5% of critical skills list	Lose less than 5% of critical skills list
	• Reduction in the Bank's entropy score	GE: HC	4% (5%)	2% reduction on the entropy score	2% reduction on the entropy score	2% reduction on the entropy score	2% reduction on the entropy score
	• Adherence to critical training plan	GE:HC	2% (0)	-	80% of milestones completed [per project plan]	80% of milestones completed [per project plan]	80% of milestones completed [per project plan]
INTERNAL PROCESS PERSPECTIVE (10%)							
Continuous improvement of internal systems and processes	• Balance sheet capacity: Capital management	CFO	4% (2%)	Capital management strategy / framework approved	Target to be determined post finalisation of strategy	Target to be determined post finalisation of strategy	Target to be determined post finalisation of strategy
	• Implementation of the operating model	GE: CS & Strategy	4% (0%)	N/A	Implementation of operating model	TBC	TBC
	• Transaction pipeline execution efficiencies	GE SAF, IF, FO, CRO	2% (0%)	N/A	TBC	TBC	TBC

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: 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.

6 ANNEXURES INDEX FOR PFMA COMPLIANCE PURPOSES

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6.2 DBSA Fraud prevention plan

6.3 DBSA corporate structure

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6.5 Enterprise risk management framework

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6.9 DBSA employment equity plan

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6.1 Annexure: 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*

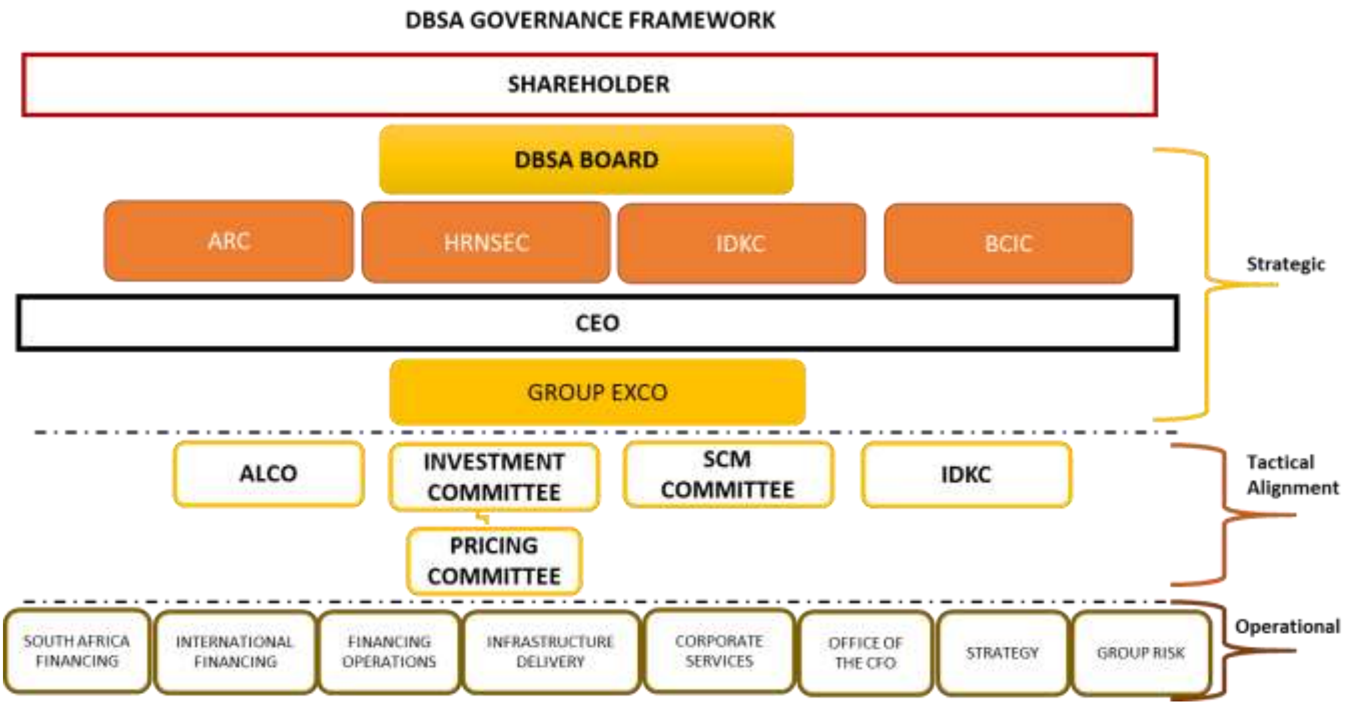
b) *to assist other institutions in the national or international, public and private sectors with the management of specific funds;*

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 Busisiwe Mabuza (Chair)	Mr Frans Baleni (Chair)	Ms Dawn Marole (Chair)
Mr Frans Baleni (D/Chair)	Ms Martie J van Rensburg	Mr Patrick Dlamini	Dr Lungile Bhengu-Baloyi	Mr Frans Baleni
Mr Patrick Dlamini (CE & MD)	Ms Dawn Marole	Mr Jabu Moleketi	Mr Patrick Dlamini	Dr Lungile Bhengu-Baloyi
Dr Lungile Bhengu-Baloyi	Mr Arthur Moloto	Mr Arthur Moloto	Mr Jabu Moleketi	Ms Busisiwe Mabuza
Ms Martie J van Rensburg		Ms Gugu Mtetwa	Ms Anu Sing	Mr Jabu Moleketi
Ms Busisiwe Mabuza		Ms Kameshni Naidoo	Prof Mark Swilling	Ms Gugu Mtetwa
Ms Dawn Marole		Ms Anu Sing	Ms Malijeng Ngqaleni	Prof Mark Swilling
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 risks 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 Internal Audit function, 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 assurance function which is coordinated and managed by the Internal Audit activity. 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’s 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 defense 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 Policy and report the consolidated outcomes of their assurance activities to the Audit and Risk Committee through the Combined Assurance Working Committee (CAWC).

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, corruption and related irregular behaviour is prevalent and all business organisations are susceptible to the risk thereof. In this regard, a Fraud Prevention Plan is in place, is updated regularly, sets out and reinforces the Bank’s policy of zero tolerance towards fraud in its many guises, as well as Management’s commitment to combating all forms of fraud inherent in the Bank's operational environment. Refer to Annexure 6.2 for the Bank's fraud prevention 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.

6.2 Annexure: 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[13], 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[14].

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

[13] Section 27.2.1 of the Treasury Regulations

[14] Section 29.1.1 (e) of the Treasury Regulations

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 misappropriation forms an element.

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 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**

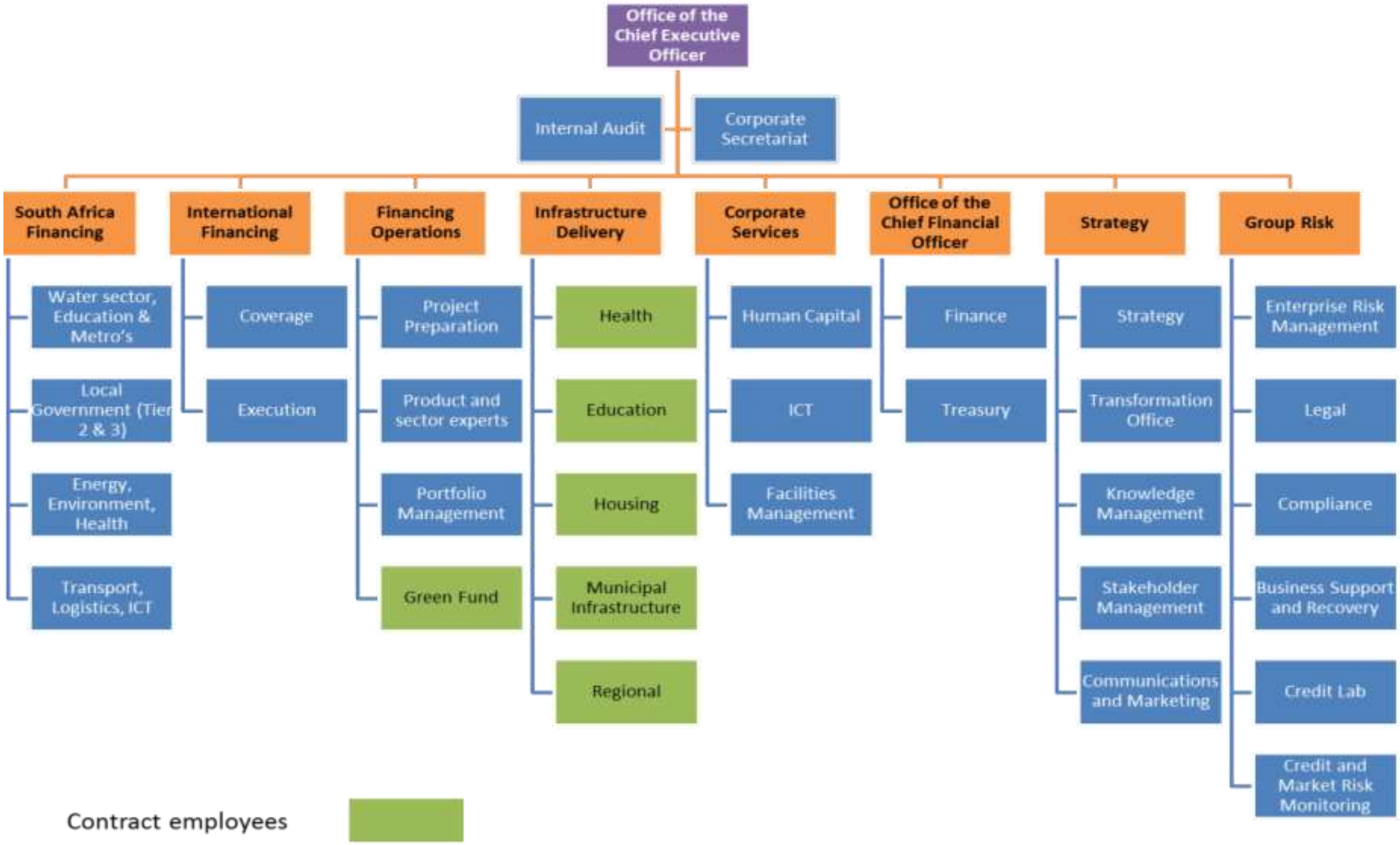
  The Bank should conduct a review of the Fraud Prevention Plan annually to determine the effectiveness thereof.

- **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.

6.3 Annexure: DBSA Corporate structure



6.4 Annexure: Composition: Board of Directors & Executive Management Team

Board of Directors [15]

Mr Phillip Jabulani Moleketi (60)
Director of Companies

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

Chairman of the DBSA Board as from: 1 September 2011

Expertise
Financial economist, strategic leadership

Academic qualifications:
Advanced Management Programme (AMP), Harvard Business School, USA
Masters of Science in Financial Economics, University of London, UK
Post-graduate diploma in Economic Principles, University of London, UK

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
Aluwani Capital: None-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 (57)
Director of Companies

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:
University of Johannesburg: Deputy Chairman of Council (Non-executive)
Jolinkomo Family Trust: Trustee
(Non-executive)
Petro SA: Non-executive Director
Energy and Water Sector Education and Training Authority (EWSETA)
F11 Management Consulting (Pty) Ltd: Non-executive Director
ADC Cables (Pty) Limited: Non-executive Director

Dr Lungile Bhengu-Baloyi (61)
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)

Ms Busisiwe Mabuza (54)
Director of companies

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

Expertise
Finance, business and investment analysis
Academic qualifications:
MBA, Stern School of Business, New York University
BA (Mathematics), City University of New York (Hunter College)
Other directorships:
Afgri Limited: Non-executive Director
Izitsalo (Pty) Limited: Non- executive Director
Afgri Charitable Trust: Trustee
Afri Employee Employment Trust: Trustee
ABSA Financial Services: 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
Averda (Wasteman): Non-executive Director
Dr George Mokhari Academic Hospital
JHB Philharmonic Orchestr

Board of Directors (continued)

[15] Ages as at 31 January 2017

Ms Dawn Marole (57)

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:

South African Post Office: Non-executive Director

Richards Bay Minerals (Pty) Limited: Non-executive Director

MTN International (Pty) Limited: Non- executive Director

MTN Group Limited: Non- executive Director

Santam (Ltd): Non-executive Director

Resilient Property Income Fund: Non-executive Director

Ms Martie J van Rensburg (60)

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 (47)

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, USA

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 (43)

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

Ms Gugu Mtetwa (38)

Director of companies

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

ACS (Aviation Coordination Service): Non-executive Director

Rakgwadi Energy Consortium: Non-executive Director

Specpharm Holdings: Non-executive Director

Board of Directors (continued)

Prof Mark Swilling (57)

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, UK

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 (49)

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, UK

Postgraduate Diploma in Economic Principles, University of London, UK

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 (46)

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:

MTN South Sudan: Non-executive Director

MTN Guinea: Non-executive Director

BISSAU: Non-executive Director

Ms Malijeng Ngqaleni (58)

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 (54)

Group Executive: South Africa Financing

DBSA staff member as from: 2 January 2001

Group Executive as 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 (55)

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 (49)

Group Executive: Corporate Services

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

Academic qualifications:

General Management Programme, Harvard Business School, USA

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:

Institute for People Management: Deputy Chairman

Mr Mohammed Bhabha (57)

Acting Group Executive: Infrastructure Delivery

DBSA Staff Member as from: 1 October 2006

Academic qualifications:

B Proc (UNISA)

Admitted as Attorney at Law Advanced Executive Programme, University of Western Cape

Finance for Non-Financial Managers (Certificate)

Directorships:

Alexlcor Rehabilitation Trust: Non-Executive Director

In Transformation Initiative

Yammin Hammond and Partners

MOE Consulting (PTY) LTD

Executive Management (continued)

Mr Rieaz (Moe) Shaik (58)

Group Executive: International Financing

DBSA staff member and Group Executive as from 13 August 2012

Academic qualifications:

AMP, Harvard Business School, Boston, USA

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:

None

Mr Michael Hillary (47)

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 (44)

Group Executive: Strategy

DBSA Staff member and Group Executive as from 24 March 2014

Academic qualifications:

MBA, Kellog School of Management, USA

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

Project and Infrastructure Finance Programme, London Business School

Directorships:

None

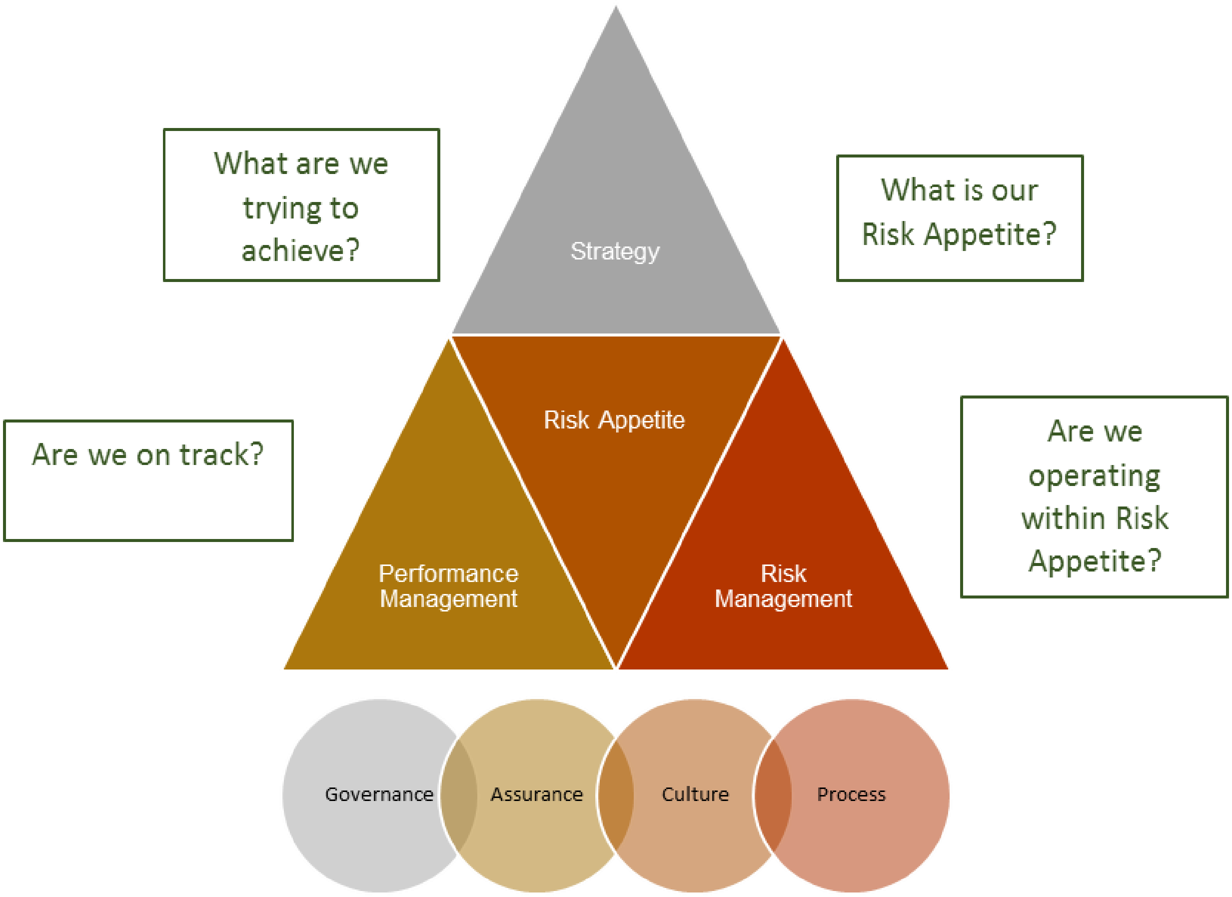
6.5 Annexure: Enterprise Risk Management Framework

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 following four pillars, 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.

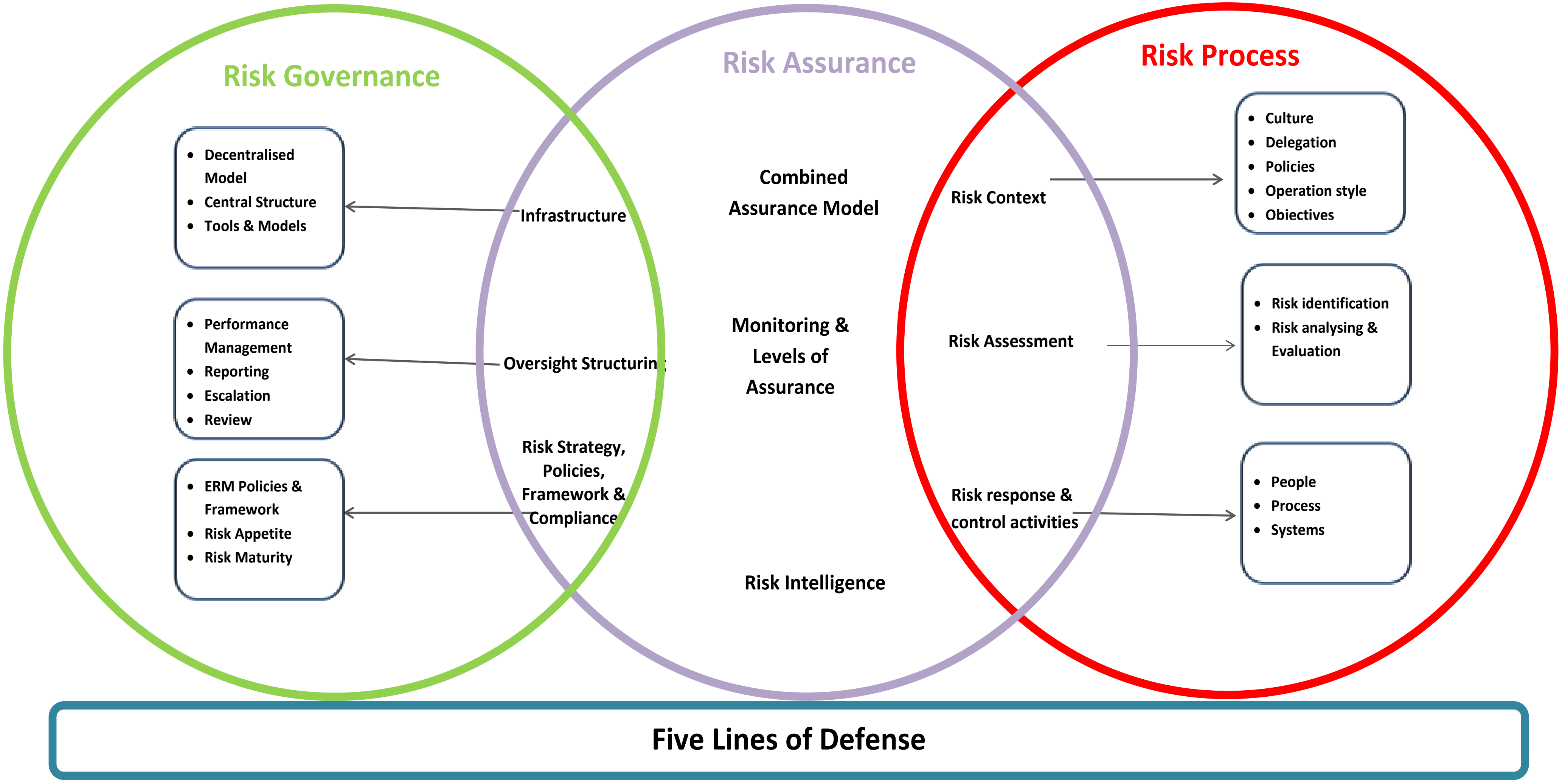
- Business risk

  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

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.

6.6 Annexure: 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. These risks summarised below are as currently approved and are under review looking into 2017/18, targeted approval is January 2017 by ARC.

Principal Risk	Associated Strategic Objective	Context	Specific Risks We Face	Possible Impact	Risk Sponsor	Impact x Likelihood	Inherent Risk Rating	Mitigation	Impact x Likelihood	Residual Risk Rating
1 **Human Capital/People** **Related Risk Types:** Human Capital *[Link to previous strategic risks – 8]*	Create and maintain a high performance culture	People are DBSA's most valuable resource and the leadership is committed to attracting, developing, retaining and rewarding the best people. The DBSA Leadership recognizes that a positive culture would support a high performance outcome.	Organizational Culture	Failure to deliver on the Bank's mandate and sustainable infrastructure goals	Chief Executive Officer	Major (4) Possible (3)	High	Culture change programme currently being implemented - [Q4 2016/17]	Major (4) Unlikely (2)	Moderate
			Inappropriate skill to support an agile and innovative strategy Failure to retain recruit, develop and retain the best people.	Lower long term sustainable growth	GE: Corporate Services	Major (4) Possible (3)	High	Retention strategy which includes inter alia performance incentives benchmarked with peers, enhancement of the performance management process, talent management and succession plan reviewed regularly. [Ongoing]	Major (4) Unlikely (2)	Moderate
2 **Changing Competitor landscape** **Related Risk Types:** Strategy and operating model Credit *[Link to previous strategic risks – 1, 2,3, 5]*	Sustained growth in development impact Integrated infrastructure solutions provider	The developmental finance landscape is constantly evolving with the emergence of new players (e.g. BRICS Bank). Competition is also increasing with commercial banks investing in sectors that the DBSA has traditionally focused on e.g. second tier	Failure to innovate and adapt timely in a rapidly changing and volatile operating environment [Innovation, Adaptability and Agility] Failure to develop and continue to improve DBSA's brand proposition to stakeholders	Lower growth and financial sustainability Market positions under pressure impacting sustainable returns and future infrastructure investments	GE: SA Financing and GE: International Financing	Critical (5) Almost Certain (5)	Critical	- Innovation has been prioritized as a strategic imperative [Q4 2016/17] -Ongoing analyses of economic and global market conditions [Ongoing] -Board review and challenge of strategy [Ongoing] -Improving service offering to stakeholders through providing enhanced infrastructure solutions through the value chain (e.g. project preparation and collaboration between IDD and SAF) [Ongoing] -Project preparation function to support the development of the project pipeline. -Provision of planning and implementation support to under capacitated municipalities.	Major (4) Probable (4)	High

Principal Risk	Associated Strategic Objective	Context	Specific Risks We Face	Possible Impact	Risk Sponsor	Impact x Likelihood	Inherent Risk Rating	Mitigation	Impact x Likelihood	Residual Risk Rating
		Metros and M2 municipalities. Competition landscape is thus becoming more complex.								
3 **Macroeconomic Environment** **Related Risk Types:** Strategy and operating model Credit Market Liquidity *[Link to previous strategic risks – 1, 2,3,4, 5]*	Sustained growth in development impact Integrated infrastructure solutions provider Maintain financial sustainability	The global macro-economic environment has increasingly become more volatile to note a few examples significant drop in commodity prices notably oil price, rise in interest rates and strengthening of the US dollar impacting emerging markets, slowdown in the China. Locally the risk of a potential downgrade of South Africa to sub-investment grade has increased in probability. Further the continued volatility of the rand and economic growth slowdown are	Decreased infrastructure financing opportunities leading to decreased market size and pipeline (Locally and regionally). Potential countercyclical opportunity assuming funding is available. Potential increase in credit impairments above the Bank's appetite due to economic pressure on DBSA's clients. Increase in cost of funding placing pressure on margins and sustainability on future deals	Inability to meet infrastructure financing targets Lower growth and financial sustainability	GE: Strategy	Critical (5) Almost Certain (5)	Critical	-Dedicated market analysis. [Ongoing] -Continuous assessment of alternative sources of funding. [Ongoing] -Review and improvements of pricing model [Ongoing] -Pro-active monitoring of the credit portfolio. [Ongoing]	Major (4) Almost Certain (5)	Critical

Principal Risk	Associated Strategic Objective	Context	Specific Risks We Face	Possible Impact	Risk Sponsor	Impact x Likelihood	Inherent Risk Rating	Mitigation	Impact x Likelihood	Residual Risk Rating
		seen as exacerbating this risk in the short to medium term.								
4 **Country Risk** **Related Risk Types:** Country Risk *[Link to previous strategic risks – 1, 2,3, and 5]*	Sustained growth in development impact Integrated infrastructure solutions provider	There has been an increasing number of geopolitical events globally. Within the region that we operate in political events have a bearing on infrastructure opportunities we pursue These create additional uncertainty and turbulence in the markets and sectors that DBSA operates in.	Failure to timely anticipate and respond to global market moves impacting cost of funding and financial sustainability. Changes in government or decisions impacting opportunities and projects that the DBSA is pursuing or is invested in.	Lower growth and financial sustainability Loss of stakeholder goodwill and reputation	GE: International Financing / GE: Finance Operations	Critical (5) Probable (4)	Critical	- Country risk management framework and model is in place, limits are applied at a country level based on risk profile - Deal specific mitigants considered e.g. Political risk insurance, effective deal structuring, investing in projects of strategic importance to target country minimizing impact when there is change politically - Inter governmental relations are developed and maintained in partnership with Department of International Relations [Ongoing] -Ongoing Stakeholder management [Ongoing] -Developing and Leveraging identified key Strategic Partnerships - [Q4 2016/17]	Major (4) Possible (3)	High
5 **Development Impact** **Related Risk Types:** Development Results Implementation *[Link to previous strategic risk – 4]*	Sustained growth in development impact	DBSA's mission is to advance development impact in the region and effectively integrate and implement solutions to improve the quality of lives and support economic growth through investment and development of	Lower than expected Developmental impact/ results in projects financed and implemented Social and environmental sustainability risks - investing and developing projects that impact the social and environmental negatively	Failure to meet our shareholder mandate and targets. Lower than expected development results Loss of stakeholder goodwill and reputation Breaches of legislation leading to fines and penalties	GE: Finance and Operations / GE: international Finance and GE:SA Finance	Major (4) Possible (3)	High	-Project Level Risk management controls such as contractual and risk financing mechanism. [Ongoing] -Rigorous social and environmental appraisal. [Ongoing]	Moderate (3) Possible (3)	Moderate

Principal Risk	Associated Strategic Objective	Context	Specific Risks We Face	Possible Impact	Risk Sponsor	Impact x Likelihood	Inherent Risk Rating	Mitigation	Impact x Likelihood	Residual Risk Rating
		infrastructure. South Africa is a signatory to the sustainable development goals and DBSA is one of the key vehicles to assist the country deliver on its aspiration.								
6 **Delivery and Execution** **Related Risk Types:** Strategy and Operating Model Process *[Link to previous strategic risk – 7]*	Continuous improvement of internal systems and processes	We strive for operational excellence through creating an operating model, structure, skills and processes that enable efficient provision of innovative finance for development and enhanced project execution capabilities.	Inefficient collaboration and alignment internally and external impacting efficiencies and targets Failing to derive expected benefits from initiatives currently underway	Failure to meet our shareholder mandate and targets. Loss of stakeholder and client goodwill and reputation	All Group Executives	Major (4) Probable (4)	High	-Various initiatives identified and implemented to improve process efficiencies [Ongoing] -Continuous improvement initiative in line with high performance value [Ongoing] -Improve internal collaboration through value-chain to improve client services and products e.g. Large Urban Catalytic Project - [Q4 2016/17]	Moderate (3) Probable (3)	Moderate
7 **Infrastructure Implementation** **Related Risk Types:** Strategy and Operating Model Implementation Capital	Provide innovative infrastructure solutions	The DBSA is recognised as a critical component of the national infrastructure system with a mandate to contribute meaningfully towards national infrastructure priorities.	Failure to align strategic operating model to industry and market [e.g. Dynamic versus static business model in relation with IDD vs. financing business] Construction and safety risks Pipeline Risk	Lower growth and financial sustainability Lower than expected development impact Loss of stakeholder and client goodwill and reputation	GE: Infrastructure Delivery	Major (4) Probable (4)	High	-Construction Risk Framework work in progress - [Q4 2016/17] -Dedicated legal skills to review contracts and MOA's [Ongoing] -Pricing model has been developed to determine the true costs of implementing these mandates. All projects implemented on a direct cost recovery basis [Ongoing]	Moderate (3) Possible (3)	Moderate

Principal Risk	Associated Strategic Objective	Context	Specific Risks We Face	Possible Impact	Risk Sponsor	Impact x Likelihood	Inherent Risk Rating	Mitigation	Impact x Likelihood	Residual Risk Rating
[Link to previous strategic risks – 4, 7 and 5]		The risk relates to risks associated with the actual delivery of infrastructure which are not the same as the lending operations of the DBSA.	Contractor management risk	Breaches of legislation leading to fines and penalties				-Principal Agents appointed to coordinate and monitor the logistics plan in all contracts. [Ongoing]		
8 **Capital and Funding** **Related Risk Types:** Capital Cost Recovery Market Liquidity *[Link to previous strategic risks – 3 and 6]*	Sustained growth in development impact Maintain financial sustainability	The DBSA has capital restrictions through the maximum gearing ratio. However if the Bank is to meet its infrastructure developmental targets over the next couple of years it requires appropriate level capital and funding to sustainably meet its objectives.	Increased cost of funding due external events impacting competitiveness Inadequate capital levels to support developmental growth targets Treasury Risks - Market and Liquidity risks	Loss of competitive advantage Lower growth and financial sustainability	Chief Financial Officer	Critical (5) Probable (4)	Critical	-Continuous review of alternative sources of funding by treasury and strategy [Ongoing] -Capital Management Project is in progress [Q4 2017/18] -Strategy, financial plan and three year financial forecast annually reviewed and approved by Board. [Ongoing] -Cost recovery principles incorporated in memorandum of agreements. [Ongoing] -Treasury Strategy and Risk Framework implemented [Ongoing]	Major (4) Possible (3)	High

Principal Risk	Associated Strategic Objective	Context	Specific Risks We Face	Possible Impact	Risk Sponsor	Impact x Likelihood	Inherent Risk Rating	Mitigation	Impact x Likelihood	Residual Risk Rating
9 Cybersecurity Information and Communication Technology **Related Risk Types:** ICT *[Link to previous strategic risks – 10 and 7]*	Continuous improvement of internal systems and processes	In today's world ICT is a key enabler in unlocking operational effectiveness to continue to deliver on DBSA's mandate. In addition increasing sophistication of cyber-attack capabilities including related legislative requirements does require focus from a risk perspective.	Cyber Security Adequacy and availability of Information Communications Technology Systems To Effectively Support Strategy and Operations	Operational effectiveness to enable delivery of services to clients impacted Business disruption Loss of goodwill and reputation Breaches of legislation leading to fines and penalties	GE: Corporate Services	Major (4) Probable (4)	High	- Execution of the approved ICT strategy [Ongoing]	Moderate (3) Possible (3)	Moderate
10 **Compliance and Governance** **Related Risk Types:** Compliance Legal Conduct Risk *[Link to previous strategic risks – 9 and 11]*	Continuous improvement of internal systems and processes	There has been increasing regulation within the financial services sector and focus on conduct risk by regulators in the since the 2008 financial crisis and DBSA is not immune these growing requirements especially with growth into the rest of the continent.	Failure to comply with legislation Fraud and corruption Risk that DBSA's staff and officers act or behave in manner that treats stakeholders unfairly or unethically [Conduct Risk]	Breaches of legislation leading to fines and penalties Loss of goodwill and reputation	GE: Risk Corporate Secretariat	Major (4) Possible (3)	High	-Internal controls reviewed on a regular basis. [Ongoing] - Fraud prevention plan as well as a fraud hotline in place. [Ongoing] -Dedicated compliance and legal functions [Ongoing] -Project specific reviews for each of the deals we finance [Ongoing]	Moderate (3) Unlikely (2)	Low

Principal Risk	Associated Strategic Objective	Context	Specific Risks We Face	Possible Impact	Risk Sponsor	Impact x Likelihood	Inherent Risk Rating	Mitigation	Impact x Likelihood	Residual Risk Rating
11 **Reputational** **Related Risk Types:** Reputational *[Link to previous strategic risk – none]*	Integrated infrastructure solutions provider	Management acknowledges the importance of upholding a good reputation to the Bank's stakeholders	Failure to prevent and respond to reputational risk events impacting on DBSA's goodwill and reputation.	Loss of goodwill and reputation Breaches of legislation leading to fines and penalties	GE: Strategy	Major (4) Probable (4)	High	-Implementation of Reputational Risk Management framework. [Ongoing] -Brand and communication and marketing strategy [Ongoing]	Moderate (3) Unlikely (2)	Low

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

Introduction

The purpose of this annexure is to outline the DBSA borrowing programme for the 2017/18 financial year.

Key points

The focus continues to be on:

- The diversification of the Bank's funding sources to achieve an optimal funding mix at the lowest cost to promote financial sustainability of the Bank.
- Optimise the cost of funding by entering into bi-laterals with offshore commercial banks and continue to expand the investor base.
- Conclude MIGA backed facilities to enhance foreign borrowing capacity.

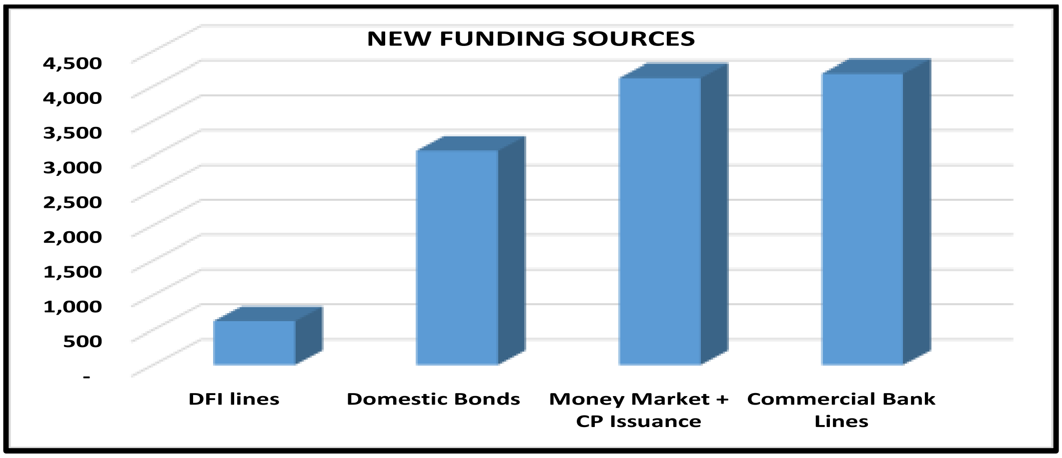
Tactical funding strategies

- The execution of the funding strategy includes draw down on DFI lines of credit, bank facilities, bonds and commercial paper issuances and private placements.
- Actual funding and final split between the different funding sources that the Bank has access to is driven by expected disbursement outcomes, market demand for DBSA paper and pricing considerations.
- Continuous monitoring of markets both domestic and offshore enable Treasury to identify opportunities to optimise the Bank's borrowing cost whilst at the same time expanding the investor and lender base.
- Specific tenors and pricing (fixed vs. floating) of new bond and commercial paper issuance will be driven by investor demand, market conditions and pricing along the bank's funding curve.

Funding raised from April to December 2016

The aggregate gross borrowings of all debt that was rolled and raised amounted to **R11.99bn**. The aggregate borrowings are within the Board approved borrowing limit of **R16 billion**. The bulk of the funding was sourced from lines of credit with commercial banks and debt capital markets. The Bank was active in the capital markets and conducted 7 auctions. During the year, the bank issued 1, 3 and 5 year notes. The bank also issued a 3 year structured stepped rate note as part of the Bank's diversification funding strategy.

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



Borrowing terms and conditions

The Bank's domestic bonds / commercial paper are issued under the JSE listed DMTN Programme which captures the terms and conditions of the bond funding. Bilateral facilities both from DFIs and commercial banks 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).

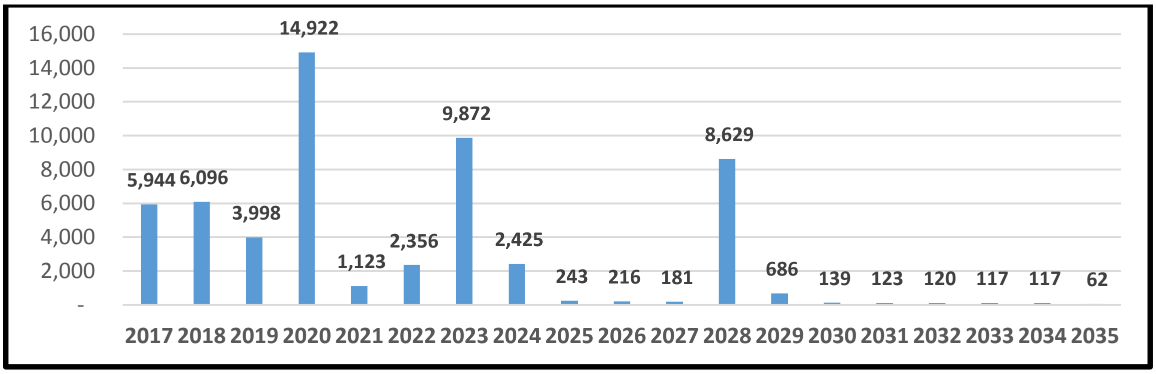
Some of the conditions include:

- The requirement that the SA government through National Treasury retains control and ownership of the Bank.
- Compliance with the Bank's leverage ratio (debt-equity ratio of 250%).
- Retaining of the investment grade credit rating.

Current liability maturity profile

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

Chart 2: Debt Maturity Profile



The maturity profile set out in Chart 2 reflects the actual maturity profile and excludes any assumptions which were made in producing the forecast set out in Table 3 below. The large increase in debt repayments in 2020 is primarily due to the maturity of the DV22, however the DBSA will be looking at reducing this repayment risk by using switch auctions over the next 2 years.

Proposed borrowing programme for the 2017/18 financial year

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.
- The projected prudential liquidity level required.
- Interest income and interest expense, with floating-rate interest receipts and payments are projected based on expected market interest rate changes and yield curve movements.
- Available liquidity at the start of the new financial year.

The preliminary projected borrowing requirement for the next three financial years is shown in the table below.

Table 1: Borrowing Plan for 2018 to 2020

BORROWING PLAN			
R million	**FY2018**	**FY2019**	**FY2020**
Beginning liquidity	**1,406**	**881**	**1,153**
Loan capital asset receipts	5,759	8,316	10,985
Capital injection	-	-	-
Loan interest receipts	8,251	9,464	10,685
Fee & other income	268	303	328
Cash inflows	**15,684**	**18,964**	**23,151**
Debt capital repayments	(4,350)	(6,622)	(17,700)
Debt interest repayments	(4,456)	(5,322)	(6,214)
Operational expenses	(1,308)	(1,418)	(1,513)
Capital expenditure	(35)	(35)	(35)
Disbursements	(20,100)	(23,600)	(31,000)
Cash outflows	**(30,249)**	**(36,996)**	**(56,462)**
Net cash flows	(14,565)	(18,033)	(33,311)
Additional liquidity per policy	(1,456.53)	(1,803.26)	(3,331.08)
Currency volatility buffer	(1,456.53)	(1,803.26)	(3,331.08)
Projected Borrowing requirement	**(17,478)**	**(21,639)**	**(39,973)**

Debt: Equity (FY2017) 206% (without callable capital)

Debt: Equity (FY2017) 127% (including R20 billion callable capital)

Foreign currency borrowing limit

The outstanding debt in foreign currency as at 31 December 2016 is summarised in Table 2.

Table 2: Outstanding debt in Foreign Currency

	EUR	**USD**	**Total**
Commercial Banks	**-**	**6,107,970,000.00**	**6,107,970,000.00**
DFI	**2,015,955,619.24**	**6,374,052,603.26**	**8,390,008,222.49**
			14,497,978,222.49

The exchange rates used as at 31 December 2016 were:

USD/ZAR = R13.69 and EUR/ZAR = R14.45

The Bank's foreign currency borrowing limit of R29 billion will expire on 31 March 2017. The Bank is required in terms of section 66 (7) b of the PFMA to apply to the Minister of Finance for approval for a **R26.035 billion** Foreign Currency Borrowing Limit for the financial planning cycle of 2017/18 to 2019/20 (refer Table 5). To avoid a breach, a letter seeking approval will be sent to the Minister of Finance once the Board has approved.

Table 3: Foreign currency borrowing limit

Foreign Currency Borrowing Limit		Actual outstanding liabilities as at 31/12/2016	2017/18	2018/19	2019/20
Disbursements - Total International		3,360,378,075	5,000,000,000	5,500,000,000	6,000,000,000
Interest Expense		213,838,461	383,371,073	407,923,560	465,985,237
Liability Capital Repayments		9,430,943,918	2,157,045,700	1,984,402,891	2,420,716,833
Loan Capital Repayments (receipts)		(2,022,757,062)	(2,574,976,215)	(3,522,172,710)	(4,518,863,621)
Interest Income		(849,711,016)	(1,441,904,990)	(1,617,457,048)	(1,768,936,854)
Total			3,523,535,569	2,752,696,694	2,598,901,595
Total Plus 30% Buffer			4,580,596,240	3,578,505,702	3,378,572,074
Total cumulative foreign borrowing for the next 3 years (including a foreign exchange volatility buffer of 30%)		**14,497,978,222**	**19,078,574,462**	**22,657,080,165**	**26,035,652,239**

Available funding

A total of R 51.9 billion funding can be accessed through both JSE issuances (R 49.9 billion) and available facilities (R 2.046 billion).

Table 4: Available facilities and JSE DMTN Headroom

Facility Provider	Purpose	Currency	Original Amount	Utlised Amount	Available Amount
KFW	Project Specific Loan	USD	29,000,000	24,000,000	5,000,000
KFW	Project Specific Loan	USD	24,000,000	-	24,000,000
ABSA	General Corporate Facility	USD	100,000,000	92,000,000	8,000,000
Standard Bank (Isle of Man)	General Corporate Facility	USD	200,000,000	124,000,000	76,000,000
Subtotal ZAR equivalent at R13.69			**R 4,832,570,000**	**R 3,285,600,000**	**R 1,546,970,000**
Standard Bank RCF	General Corporate Facility	ZAR	800,000,000	800,000,000	-
ABSA	Uncommitted Headroom Facility	ZAR	1,000,000,000	500,000,000	500,000,000
Subtotal ZAR					**R 2,046,970,000**
JSE Updated and Amended DMTN Programme	General Corporate Facility	ZAR	80,000,000,000	30,099,000,000	49,901,000,000
TOTAL ZAR					**R 51,947,970,000**

As at 31 December 2016

Potential funding source

The following potential new facilities with DFIs and commercial banks are currently under negotiation and are subject to agreement on key terms and pricing.

Table 5: Potential sources of funding

USD	Lender	Amount
International Commercial Banks		
	MIGA Backed Facility	200,000,000
	Syndicated Loan	150,000,000
	Short Term Loan	20,000,000
	Total	**370,000,000**
DFI		
	Line for M2 / M3 Projects	100,000,000
	International Finance Projects	100,000,000
	Total	**200,000,000**

ZAR	Lender	Amount
	Project / Green Bonds	TBA
	Credit Guarantteed Bonds	TBA
	Structured Products	1,200,000,000
	Total	**1,200,000,000**
Private Placements	Fund managers	1,000,000,000
	International Investors	
	Banks	1,000,000,000
	Total	**2,000,000,000**

Market risk management

When sourcing new funding, the Bank takes into consideration the inherent interest rate and currency risk exposures. The Bank manages these risks in line with the Board approved risk management policies. Where possible, new funding is structured so as to achieve the desired interest rate and currency and maturity profiles. Where not possible, hedging instruments are used to achieve the desired profiles. Use of hedging instruments is conducted in line with the Bank's hedging policies which limit the use of such instruments to risk management purposes only.

Credit ratings

The credit rating reviews are conducted by Standard and Poor's (S&P's), Fitch and Moody's. All three rating agencies maintained the DBSA's rating as at 8 December 2016. Key considerations taken into account include financial sustainability, adequacy of impairments and provisioning and overall capitalisation which cushions the bank in the event of severe financial distress.

Recommendation

The projected borrowing requirement for the 2017/18 financial year amounts to **R 14.565 billion (**as set out in **Table 3)**. As an added prudent measure to cater for prudential liquidity holdings, market volatility, client defaults, unforeseen borrowing requirements and other factors that may impact on the projections, it is recommended that the Board approve total new borrowings of **R17.5 billion** for the financial year 2017/18.

6.8 Annexure: 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 2016/17[16]	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.	R19.6 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.

[16] Based on the 2015/16 audited financial statements (latest available).

	Proposed Framework	Resulting figures for 2016/17[16]	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 2015/16 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.	R6.2 billion R823 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.

6.9 Annexure: 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%	80%	80%	80%	80%	42.9%	45.0%	47.0%	48.0%	49.0%	50.0%
Senior management	51.7%	57%	58%	59%	60%	60%	21.5%	25.0%	28.0%	30.0%	35.0%	40.0%
Mid management professionally qualified	88.1%	70%	71%	73%	74%	75%	40.3%	40.0%	40.0%	40.0%	40.0%	40.0%
Jnr management, skilled technical	65.8%	70%	73%	75%	78%	80%	36.7%	37.0%	38.0%	40.0%	43.0%	45.0%
Semi-skilled	93.0%	94%	94%	94%	94%	94%	53.5%	41.0%	44.0%	47.0%	50.0%	55.0%
Unskilled	10.0%	100%	100%	100%	100%	100%	92.3%	92.0%	92.0%	92.0%	92.0%	92.0%
TOTAL	76.0%	77%	78%	79%	80%	80%	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.

6.10 Annexure: 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[17], 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.

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

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 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 until 2015, to assist a transition to a sustainable society.
- Accreditation with the Global Environment Facility (GEF) 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. The DBSA is presently preparing a number of projects for investment through this Fund.
- Accreditation with the Green Climate Fund, (GCF) to upscale investment in climate change and adaptation. The Fund is set to make $US100 billion available globally for this important environmental initiative. The DBSA is working on a pipeline of projects for financing by the GCF.
- 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.

6.11 Annexure: 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 DBSA 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

Corporate Services Division (BC function)	Risk Division (ERM & Compliance)	CE's Office (Internal Audit)
• BCM Implementation (Project) • Development (BAU) • Maintenance & Support (BAU) • BC Management Assurance & Capability Reporting • Executive Coordinators (BCP Owners) • *BCM: Maintain key business operations during business disruptions*	• BCM Monitoring • Risk Reporting • *ERM: Manages risks & opportunities to ensure achievement of corporate objectives.*	• BCM Audit • BCM Assurance • *Audit: Combined Assurance*

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 DBSA's BCM and Crisis Management objectives.

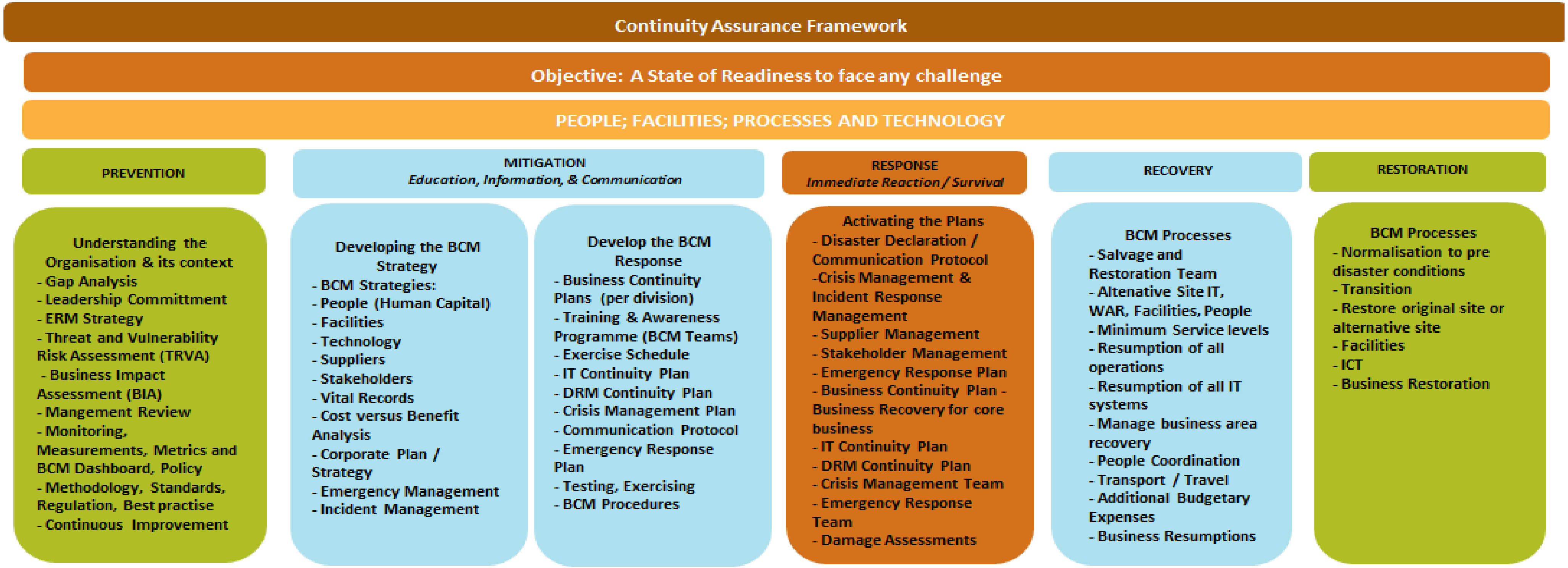
Continuity assurance framework

The BCM function aims to ensure that the DBSA 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



7 OTHER SUPPORTING ANNEXURES

7.1 Vision, Mission and strategic objectives

7.2 Detailed mandate statement

7.3 Overview of the Operating Environment

7.1 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.

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.

7.2 Annexure: Detailed Mandate statement

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 has positioned 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 is exploring municipal infrastructure bonds, municipal bond 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 mandate18 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.

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

[18] Government Gazette No 37178 of 18 December 2013

Tanzania (included in SADC)	Ghana	Republic of Congo
Uganda	Nigeria	

- **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.

7.3 Annexure: Detailed reviews of the operating environment

7.3.1 Economic review

South Africa's story: in step with the world with its own twists

The current outlook for South Africa's economy is shaped by a convergence of long-term structural trends, decline in the terms of trade for commodity producers, and a vulnerability to new shocks. Profound uncertainty exists about future economic prospects. 2016 has been dominated by the prospect of a ratings agency downgrade which will continue to be a key marker into the future because it encapsulates the core problems confronting the economy, namely growth that is too low raise living standards and reverse the effective exclusion of one third of the working population, the capacity to implement structural reform, removing infrastructure bottlenecks and government's commitment to fiscal consolidation.

The currency has strengthened over 2016 since its precipitous decline in November 2015. Growth enhancing conditions are to be found in modest prospects for mineral exports, coexisting with off-setting negative outcomes from policy uncertainty and political shocks. Such conditions reduce growth, defer investment and amplify noise in information on leading indicators for economic conditions. At a global level somewhat different factors are in play that indicate growth will be muted but the domestic and international outlook both share substantial uncertainty about future economic prospects.

The U.K. vote in favour of leaving the European Union was the main unforeseen development in mid 2016, whose ramifications for mutual trade and financial flows will probably take several years to clarify, has heightened uncertainty. Knock on effects of Brexit are a fillip to global political pressure in favour of populist, inward-looking policies.

The International Monetary Fund baseline scenario projects global growth to decline to 3.1 percent in 2016, and to recover in 2017 to 3.4 percent.[19] Aggregate growth numbers disguise sharp differences in prospects across countries and regions, with emerging Asia in general and India in particular showing robust growth and sub-Saharan Africa experiencing a slowdown. In advanced economies, a subdued outlook subject to sizable uncertainty and downside risks may fuel further political discontent, with anti-integration policy platforms gaining more traction.

Growth forecast for advanced economies in 2016 is 1.6 percent, rising to 1.8 percent in 2017, which will work to keep interest rates low in those economies and support capital flows to South Africa and other emerging markets. The U.S. economy is expected to regain some momentum, with a fading drag from inventories and a recovery in investment. Longer-term prospects for advanced economies remain muted in view of their aging populations, labour market trends and a protracted slowdown in productivity. This moderately positive forecast is predicated upon an improvement in the condition of economies under stress, stable Chinese rebalancing and good growth elsewhere from emerging economies. Two major risks exist, however.

[19] International Monetary Fund. 2016. World Economic Outlook: Subdued Demand: Symptoms and Remedies. Washington, October.

The first is political discord and inward-looking policies. The Brexit vote and the ongoing U.S. presidential election campaign have highlighted a fraying consensus about the benefits of cross-border economic integration. Concerns about the impact of foreign competition on jobs and wages in a context of weak growth have enhanced the appeal of protectionist policy approaches, with potential ramifications for global trade flows and integration more broadly in both North America and the Eurozone. Concerns about unequal (and widening) income distribution are rising, fuelled by weak income growth as productivity dynamics remain disappointing. The ramifications of who wins the November 2016 U.S. presidential election will spread around the world. A Hillary Clinton victory would preserve a continuity of US policy that is favourable to developing countries and South Africa. The fractiousness of the 2016 campaigns, however, suggest that the eventual winner will be hampered by the social and political polarisation it has revealed. A Donald Trump victory creates uncertainty for South Africa and other developing economies, however the intemperance shown in the campaign would be blunted by the limits to power of the presidential office. Uncertainty about the evolution of these trends may lead firms to defer investment and hiring decisions, thus slowing near-term activity, while an inward-looking policy shift could also stoke further cross border political discord.

A second risk is stagnation in advanced economies. As global growth remains sluggish, the prospect of an extended shortfall in private demand leading to permanently lower growth and low inflation becomes ever more tangible, particularly in some advanced economies where balance sheets remain impaired. At the same time, a protracted period of weak inflation in advanced economies risks unmooring inflation expectations, causing expected real interest rates to rise and spending to decline, eventually feeding back to even weaker overall growth and inflation.

The Chinese economy’s transition away from reliance on investment, industry, and exports in favour of greater dependence on consumption and services could cause perturbations, with important implications for commodity and machinery exporters as well as for countries indirectly exposed to China through financial contagion channels. The authorities aim to maintain growth at around 6% through growth-promoting measures which increases the risk of a disruptive adjustment shock emanating from rising credit-to-GDP ratio and lack of decisive progress in addressing corporate debt and governance concerns in state-owned enterprises.

Emerging and developing economies are expected to strengthen slightly in 2016 to 4.2 percent and 4.6 percent in 2017 after five consecutive years of decline. The dynamism of these economies will underpin three-quarters of projected world growth for 2016, however their outlook is uneven and generally weaker than in the past. Brazil and Russia continue to face challenging macroeconomic conditions, although lessened by some recent improvements. Growth in emerging Asia and especially India are the highlights of the emerging markets.

Sub Saharan Africa has been hard hit by the decline in commodity prices, compounded by a drought in Eastern and Southern Africa. Spillovers from persistently weak demand in advanced economies, adjustment to lower revenues pushing government deficits higher have triggered various negative shocks including domestic strife, political discord, population displacements and geopolitical tensions in several regions. Widely different prospects exist for different countries and regions. The three big economies are weighing down continental growth. Nigeria is experiencing a full blown recession this year, contracting 1.7 percent and only weak growth of 0.6 percent forecast for 2017. Angola’s growth rate has been subdued, is expected to be flat in 2016 and only weakly positive in 2017. South Africa’s outlook is similar, although arising from a broader range of factors referred to previously. IMF forecasts for South Africa are 0.1 percent for 2016 and 0.8 percent for 2017. The South African Reserve Bank forecasts are higher, at 0.6 percent for 2016 rising to 1.2 percent and 1.8 percent for 2017 and 2018 respectively, low rates that fall short of the rate of population growth of 1.7 percent. Markedly better prospects exist for non-resource exporting countries, beneficiaries of lower oil prices. Côte d'Ivoire, Ethiopia, Kenya, and Senegal, are forecast to grow above 5 percent for 2016 spurred by healthy private consumption and investment growth rates.

What the ratings reviews reveal

Possible downgrading of South Africa's foreign and domestic debt to below investment grade by the major ratings agencies has, and continues to be the most watched indicator of fiscal credibility and confidence in the countries' economic governance through 2016 and into the future. As South Africa's budget deficit has risen while pursuing a counter cyclical fiscal stance in response to the 2009 crisis, ratings agencies have, since 2012, successively downgraded debt ratings, the last being S&P in December 2015. Tellingly, the key factors considered by the ratings agencies have been infrastructure constraints, especially in the power sector, unstable labour relations, high rates of unemployment, slow economic growth rates, risks to fiscal consolidation given the large share that the public sector wage bill makes of recurrent expenditure, escalating contingent liabilities accumulated by State owned Enterprise as well as governance failures among same.

A mid-year review by Fitch and S&P left their ratings unchanged, basing their decision on stabilisation of power supplies (albeit at lower levels than that of 2012 due to cutbacks in mineral processing offtake), progress with fiscal consolidation, stable labour relations and collective efforts by government, business and labour to mitigate economic bottlenecks. The outcome of future reviews were explicitly linked the country making material progress with fiscal consolidation, reform of state owned enterprises and improvements of the investment environment. Moody's announced it was putting several major SOEs, including the DBSA, on review in July. Foreign and local debt ratings currently stand at Baa2 by Moody's (two levels above sub-investment grade) BBB- by Fitch (one level above sub-investment grade). S&P rate foreign currency debt at BBB- and local currency BBB+.

Predicted effect of a downgrade

In a world of low growth, deteriorating public finances increase the probability of credit rating downgrades. What provisional effects on short term government borrowing costs that can be deduced from country studies are set out in a June 2016 paper by the World Bank and South African Reserve Bank staff.[20] It finds that a downgrade to sub-investment grade on the foreign currency rating is associated with an average increase of 138 basis point in Treasury bill rates. A second downgrade appears to increase Treasury bill rates only by another 56 basis points (not statistically significant). Importantly for the DBSA, this finding does not does not take into account the effect on the yield curve. Risk premia play more of a role for longer maturity debt, hence the effect for longer-term government debt (and notably DFI funding) is thus likely to be even larger.

The efficient market hypothesis avers markets price-in the expectations of a downgrade to sub investment grade, in which case there would be no significant impact on borrowing costs when the country is eventually downgraded. Pricing of South African credit default swap contracts has converged with that of Russia and Brazil, major economies that have been downgraded to sub-

[20] Hanusch, Marek; Hassan, Shakill; Algu, Yashvir; Soobyah, Luchelle; Kranz, Alexander. 2016. The Ghost of a Rating Downgrade: What happens to Borrowing Costs When a Government Loses its Investment Grade Credit Rating? MFM Discussion Paper; No. 13. World Bank, Washington, DC. © World Bank.

investment grade, indeed over 2016 the CDS price spread between investment grade South Africa and junk status Russia and Brazil has progressively narrowed. Such data provides support for the observed trend that uncertainty leads to increased yields prior to the date of the actual ratings downgrade and further that downgrades rarely produce net capital outflows. Assumptions that the impact of a downgrade would be softened by small proportion of public sector debt that is foreign currency denominated underestimate the likely effect of currency depreciation in the short term as well as the political conclusion the a downgrade would signal, namely that economic governance in South Africa is inimical to sustainable capital accumulation. A downgrade would cause bond yields to spike along with sharp currency depreciation as the rand is highly sensitive to political shocks.

Economic impacts of a downgrade scenario would include materially higher borrowing costs for the DBSA and higher capital costs for public and private entities. Public finances would be further strained by higher debt service costs as well as calls on the extensive credit guarantees already extended to struggling SOEs. The more profound damage of such an eventuality could be prolonged economic stagnation as neither government nor firms would have the resources or confidence for fixed investments.

Probability of ratings downgrade

The most recent major ratings review was completed by Moody's, S&P and Fitch in December 2016. While no downgrades were made their outlook was revised downward to "negative". The Medium Term Budget Policy Statement that was released in October clarified actual revenue collection, mid fiscal year spending and the how government will manage the variance from the fiscal deficit target of 3.2 percent over the rest of the budget to March 2017. More significant for the outlook for the South African economy and the operating environment for the DBSA are the interlinked questions of whether there is tangible progress to clear the structural issues facing the economy.

South Africa's economic outlook for the near term is dominated by political activity, is volatile, and reacts to events while the longer term outlook must be read off the strength and direction of trends. A political struggle is taking place over the way that the public sector deploys its resources. Outwardly this is manifest in political contestation over the putative beneficiaries of state capture and their adversaries; as well as the university student protests over tuition costs in 2015 and again in 2016.

What will ultimately transpire regarding the country's downgrade is uncertain. Moderately improved prospects for commodity prices support forecasts for better growth in the years ahead but will fall short of the levels needed to reach target set in the National Development Plan.

Critical factors influencing the outlook for infrastructure in Africa

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, rapid urbanization 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[21], 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.

The African continent is urbanising fast, twice as fast as did Europe. The share of urban residents has increased from 14% in 1950 to 40% today. By the mid-2030s, 50% of Africans are expected to become urban dwellers. This structural transformation represent immense opportunities and challenges for human development. As the 2016 African Economic[22] outlook sets out, two-thirds of the investments in urban infrastructure to 2050 have yet to be made, the scope is large for new, wide-ranging urban policies to turn African cities and towns into engines of sustainable structural transformation. Sustainably financing the development of Africa cities will remain a core focus for development finance institutions and their development partners for decades to come.

Furthermore, 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.

7.3.2 Socio-political review

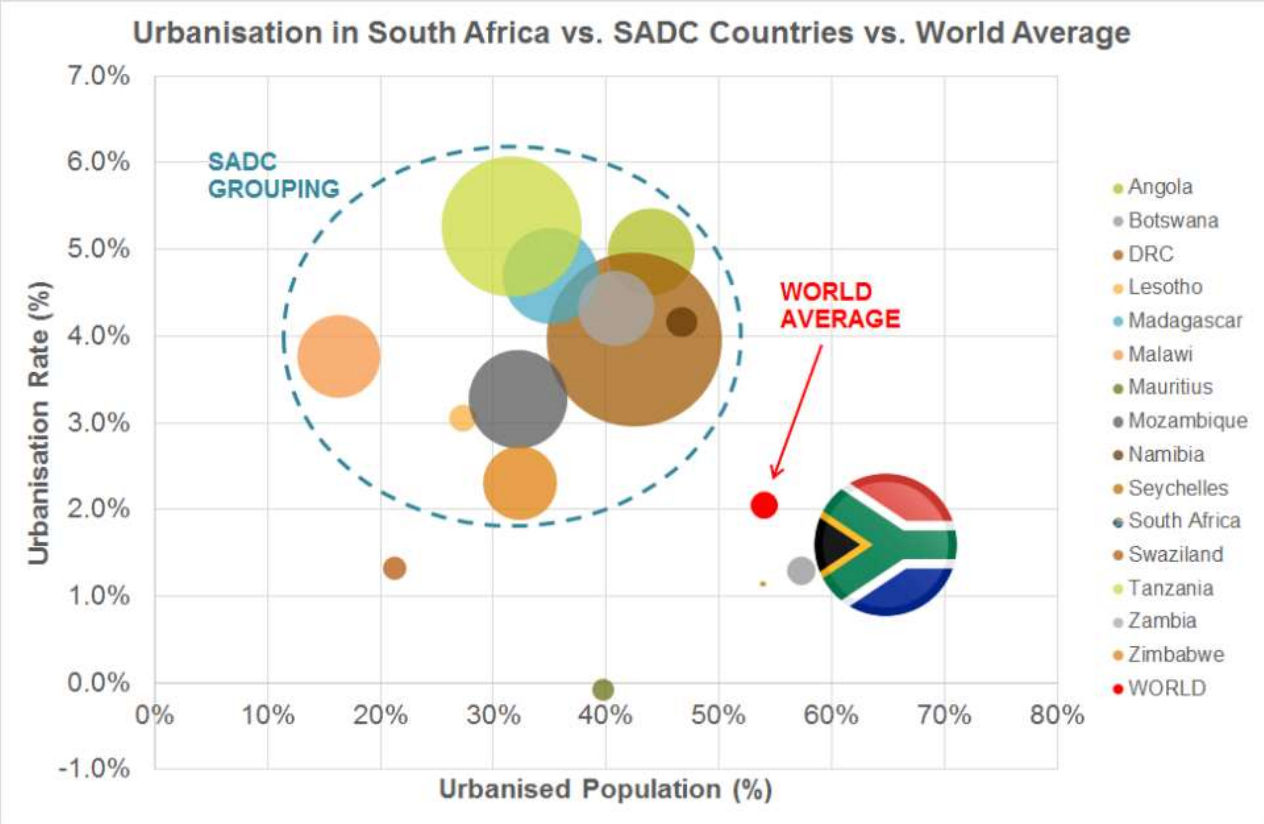
In addition to the abovementioned economic issue, South Africa faces a number of socio-political factors that are creating uncertainty and impacting on investments in infrastructure. These include, buit are not limited to: rapid urbanisation, high rates of unemployed youth; and high levels of disparity.

Urbanisation

South Africa has a very high urbanisation rate: significantly higher than the SADC peers and higher than the world average, and it continues continues to urbanise. **This is placing strain – and will continue to place strain – on both the economic and social infrastructure of metros and municipalities**.

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

[22] African Economic Outlook 2016, 15th edition. African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme.

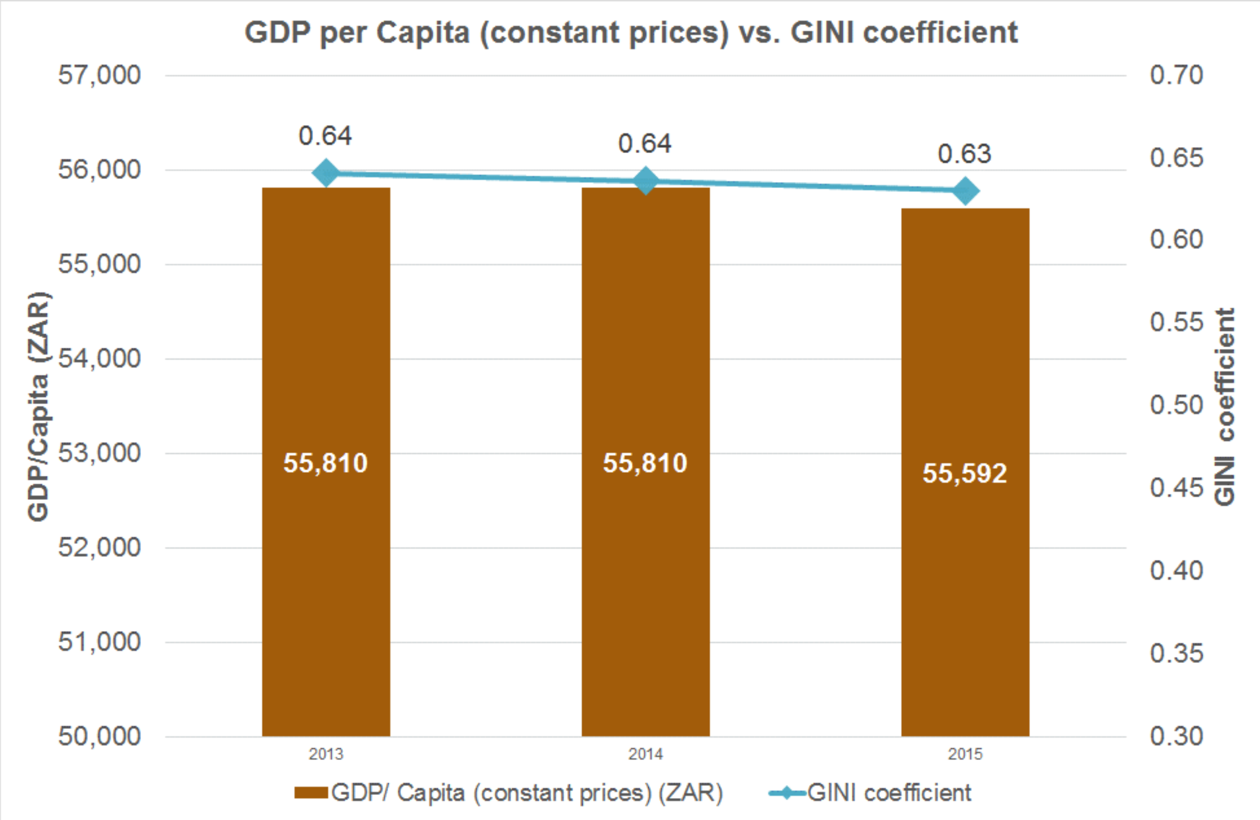


Unemployed Youth

More young South Africans are completing their secondary education (Matric) but unemployment continues to grow. **This creates a higher risk for protest and social conflict.**

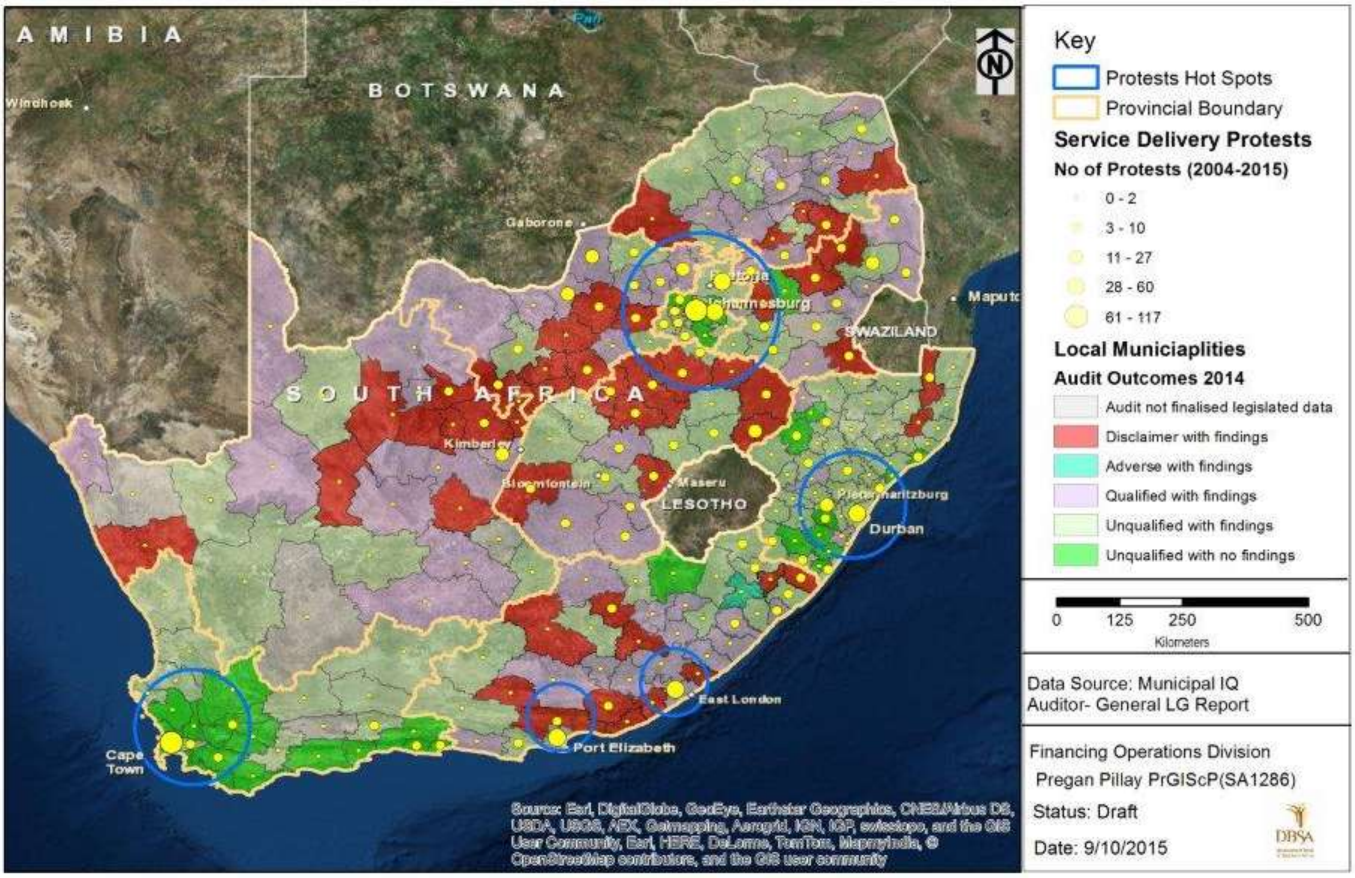
An unequal society with eroding prosperity

The structural limitations in the economy is apparent when viewing the drop in GDP per capita, which is a good measure of relative prosperity. Against the backdrop of an already unequal society, this places significant strain on that segment of the population living in poverty, and draws more people below the poverty line.



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.

Distribution of Service Delivery Protests and Audit Outcomes (2014) (Source: Municipal IQ)



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.

7.3.3 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.

7.4 Annexure: 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 DBSA's investments are informed by the SDGs, and the Bank has identified goals 6,7, 8, 11, 13 and 17 as its main priorities.

United Nations 17 Sustainable Development Goals

SDG outcome	DBSA's role	Example
SDG 6: Ensure availability and sustainable management of water and sanitation for all		• Funding of bulk water, reticulation and sanitations infrastructure • Post implementation reviews
SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all		Preparation and funding of IPPs
SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation		Funding of various water, sanitation, renewable energy and mass transit projects
SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable		• IDD: Eastern Cape Rural Housing • Financing of municipal infrastructure
SDG 13: Take urgent action to combat climate change and its impacts		• Green Fund • Funding of IPPs
SDG 17: Strengthen the means of implementation and revitalise the global partnership for sustainable development		Partnerships with • Global and regional DFIs • Association for African Development Finance Institutions

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

7.5 Annexure: Potential disruptors to the execution of the Bank's strategy

The DBSA continues to scan the market to identify potential disruptors that could provide either an opportunity or a threat to the DBSA's business. These major disruptive risks that have been identified and integrated into the DBSA's enterprise risk management framework. Where possible, mitigating steps have been identified.

Disruptor	Description	Potential impact on DBSA
Change in political parties managing key RSA metros	▪ During the August 2016 local government elections a number of municipalities changed hands from the ANC to the DA (or coalitions led by the DA). Service delivery protests have not abated either ▪ Major Metros now under the control the DA-led coalitions are Johannesburg, Tshwane, Nelson Mandela Bay, Cape Town. A number of M2 municipalities have also changed hands. Therefore, new relationships will have to be made with Municipal Management. ▪ The DBSA has struggled to provide financing to Cape Town, though has been more successful with smaller DA-run municipalities ▪ DBSA will need to engage closely with new municipal leadership and develop innovative solutions to remain relevant	**Threat**
RSA political tension – impact on rating/cost of capital	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	**Threat**
Subdued economic outlook; lower commodity prices	▪ Real world GDP growth remains subdued and is likely to remain so over the medium term. Brexit could trigger further global and regional economic losses. ▪ Persistent weak oil and commodity prices are supressing growth on emerging economies, including South Africa. ▪ This downturn in commodity prices and export revenues places additional pressures on the South Africa's already constrained fiscus ▪ That being said, according to analysts, oil and commodity process are expected to improve moderately in the short to medium term.	**Threat**
New entrants – changing competitive landscape	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	**Opportunity & Threat**

Disruptor	Description	Potential impact on DBSA
	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)	
Climate change and SDGs – new financing opportunities and sources of funding	▪ The country's rising vulnerability to climate change is stressed by the severe El Niño drought conditions in 2016, giving way to "boom-bust" cycles in the current account, GDP, food prices, and interest rates. ▪ Environmental sustainability will be key DBSA's strategy operations across the infrastructure value chain; and the Bank will work to develop its sustainability policy, measures and toolbox. ▪ DBSA plans to effectively leverage its accreditations and associations to advance its green agenda through COP 21, Green Climate Fund and the Global Environment Facility.	**Opportunity & Threat**
Technology advances in key sectors (e.g. renewables)	▪ Renewable energy is becoming a more established means of energy generation due to ▪ its low costs relative to most other sources of electricity, the increasing focus on ▪ environmental issues (pollution/water stress) and the evolution of the industry (better policy, more developers, easier financing). ▪ The DBSA's experience in the renewable energy sector as well as its accreditations with GCF and GEF present significant opportunities for further investments.	**Opportunity**
Urbanization	▪ **The United Nations estimates that by 2030 71.3% of South Africa's population will live in urban areas, and by 2050 this figure will rise to 80%.** ▪ Gauteng, Western Cape and KwaZulu-Natal will attract the highest rates of immigration from rural areas ▪ This represents significant infrastructure investment opportunities for the DBSA in: mass transit, water and sanitation, as well as energy generation and transmission.	**Opportunity**
Fall in price of LNG	▪ South Africa is expected to face an emerging energy supply gap after 2020 as aging coal power plants are decommissioned. ▪ Gas power is expected to play an increasingly important role in securing South Africa's energy needs between 2020 and 2030- while diversifying the economy's energy mix even further. ▪ Declining LNG prices (on the back of lower oil prices) make it an increasingly attractive energy alternative. ▪ It is estimated that up to R708 billion capital is required to fund the required pipelines and new power plants - presenting significant opportunities for investment by the DBSA	**Opportunity**

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