Making Change Happen

CORPORATE PLAN

2018/19 - 2020/21

DBSA

Development Bank of Southern Africa

DEVELOPMENT BANK OF SOUTHERN AFRICA
CORPORATE PLAN
2018/19 - 2020/21

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Acronyms and Abbreviations

Agenda 2063	A vision and an action plan adopted by the heads of state and government of the African Union at their 24th Ordinary Assembly held in Addis Ababa in January 2015
COMESA	Common Market for Eastern and Southern Africa. A free trade area with twenty member states stretching from Libya to Swaziland.
COP	Conference of Parties. 'Parties' are countries that ratified the UN Framework Convention on Climate Change (UNFCCC) in 1992 at the Earth Summit in Rio de Janeiro
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
ECOWAS	Economic Community of West African States, a regional economic union of fifteen countries located in West Africa
FDI	Foreign Direct Investment
GDFI	Gross Domestic Fixed Investment
IIPSA	Infrastructure and Investment Programme for South Africa, a joint European Union National Treasury initiative, administered by the DBSA that seeks to enhance sustainable economic growth and the delivery of key services affecting development in South Africa and in the SADC Region
IMF	International Monetary Fund
ITMAP	Integrated Transport Master Plan
IUDF	Integrated Urban Development Framework
MOU	Memorandum of understanding
NATMAP	The National Transport Master Plan
PSP	Private Sector Participation – a framework used to govern the relationship between Schedule 2 state-owned companies (SOCs) and the private sector when jointly undertaking projects
REIPPP	Renewable Energy Independent Power Producer Programme
RIDMP	Regional Infrastructural Development Master Plan – a SADC initiative
SADC	Southern African Development Community
SAPP	The Southern African Power Pool - a cooperation of the national electricity companies in Southern Africa created in August 1995 in Kempton Park, South Africa, under the auspices of the Southern African Development Community (SADC)
SDG	Sustainable Development Goals - a set of 17 global developmental goals with 169 targets among them, spearheaded by the United Nations through a deliberative process with its 193 member states
SOC	State-owned Company
SOE	State-owned Entity
SSA	Sub-Saharan Africa

Executive Summary

In response to a number of factors that were impacting performance in terms of growth and development impact, amongst them a difficult macro-economic environment, slow growth in infrastructure investment by the government and increasing need for infrastructure development, the DBSA implemented a strategy in 2016/17 designed to enable growth through emphasising the catalytic role of the Bank to enable sustainable infrastructure development. Through this strategy, the Bank targets infrastructure unlocked of R100 billion per annum by 2019/20 while remaining sustainable and is focused on intensifying activities that will facilitate the crowding in of third party funding to deepen development impact.

The 2018/19 to 2020/21 Corporate Plan is developed against the context of this new strategy and serves as an early refining mechanism to ensure that the organisation is set to achieve the growth and development impact that was envisioned. This Corporate Plan is also developed against a backdrop of a domestic economy that is weak even though growth is forecast from the current 0.6% to 1.5% over the next three years. Private sector investment is set to decrease amid policy uncertainty and low business sentiment; and public sector spending is not growing. Yet the need to develop and maintain infrastructure both in South Africa and across the continent is on the rise. These factors compel the DBSA more than before to develop innovative products and solutions, in line with the strategy, to attract private capital into infrastructure development.

The initial review of progress against the strategy has shown that the organisation has made good progress in some elements, including financial indicators and the implementation of key strategic projects such as the new operating model. However, key indicators on disbursements, funds catalysed and projects prepared are missing the ambitious targets that were developed to drive the organisation towards high performance an innovation.

In 2018/19, disbursements are planned to grow from the current forecast of R14.9 billion to 16.0 billion and are projected to reach R20.0 billion at the end of 2021 while value of 3rd party funds catalyzed will grow from R39.0 billion to reach R65.0 billion within the same period. This will require continued alignment of effort across all the divisions (especially front-line) to improve customer centricity, increase innovation and become more competitive in the targeted sectors.

In Local Government, focus will be on developing unique financing solutions that have higher catalytic value and that maximise the use of DBSA's sources of competitive advantage such as longer tenor. Effort will also be placed on significantly increasing project planning and preparation services to municipalities that have limited borrowing capacity.

The DBSA has, over the years, played a leading role in the renewable energy sector but in the next three years, focus will shift towards other energy services to grow impact in the sector. This will however, be subject to the development of a framework that will guide investment decisions especially as they relate to renewable versus non-renewable energy investments within the context of sharp declines in costs and rapid improvements in technology, amongst others.

Economic corridor development is one of the sources of growth in International Financing, especially as Transport attracts the most investment amongst the sectors in the region. Over the next three years, focus is on developing smart partnerships as well as new structured products in response to the sector's specific cross-border requirements.

The DBSA, like other organisations, operates within the context of the greater society and in response to the need for driving inclusive growth in South Africa, there has been growing demand for the DBSA to formally demonstrate developmental and transformative impact of financing and other activities of the Bank. In the next three years, focus will also be on implementing the Economic Transformation Plan as presented and to improve the Bank's BBBEE rating in the process.

PART A
OVERVIEW

1. Organisational Overview

1.1 Vision, Mission and Strategic Objectives

The DBSA seeks to play a pivotal role in delivering developmental infrastructure in South Africa and the continent, and has adopted the vision and mission as articulated below.

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 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.

1.2 Legislative mandate and other key national imperatives

a) DBSA Act

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.

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) with sharp focus on infrastructure development, especially in Southern Africa. In terms of the DBSA Act No. 13 of 1997 (section 3), the main objects of the Bank are to:

- Mobilise financial and other resources from the private and public sectors, national or international, on a wholesale basis, as determined in the regulations
- Appraise, plan and monitor the implementation of development projects and programmes
- Facilitate the participation of the private sector and community organisations in development projects and programmes
- Provide 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
- Fund or mobilise wholesale funding, as determined in the regulations, for initiatives to minimise or mitigate the environmental impact of development projects or programmes

Ancillary objects of the Bank are to meet the developmental requirements of the region by:

- Assisting other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development
- Assisting other institutions in the national or international, public and private sectors with the management of specific funds

b) National Development Plan

The mandate and the strategy of the DBSA is linked to the objectives of the National Development Plan. The diagram below illustrates the role of the DBSA in the implementation of the NDP as a policy imperative and illustrates activities that are currently implemented in direct support.

NDP outcome	DBSA's role	Examples
Create an economy that will create more jobs		• IDD: ASIDI and Eastern Cape Rural Housing • Funding of various energy, transport and ICT projects • Providing planning and implementation support to under- resourced municipalities
Investing in economic infrastructure		• Funding of various energy, transport and ICT projects
Environmentally sustainable and resil-ient: 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 • Funding of higher education institutions
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		• Implementation of the DBSA Fraud Hotline • Consequence management and effective risk management processes • Sound governance processes to manage procurement and investment
Transforming society and uniting the country		• Supporting development impact through investment in social and economic infrastructure

Direct

Indirect

Limited

c) United Nations 17 Sustainable Development Goals

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. Goals 1, 3, 4 and 5 are indirectly support by DBSA's core activities.

SDG outcome	DBSA's role	Example
SDG 6: Ensure availability and sustainable management of water and sanitation for all	Direct	• Funding of bulk water, reticulation and sanitations infrastructure • Post implementation reviews
SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all	Direct	Preparation and funding of IPPs
SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation	Direct	Funding of various water, sanitation, renewable energy and mass transit projects
SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable	Direct	• IDD: Eastern Cape Rural Housing • Financing of municipal infrastructure
SDG 13: Take urgent action to combat climate change and its impacts	Direct	• Green Fund • Funding of IPPs
SDG 17: Strengthen the means of implementation and revitalise the global partnership for sustainable development	Direct	Partnerships with • Global and regional DFIs • Association for African Development Finance Institutions
SDG1: Reduce Poverty	Indirect	IDD: DBSA supports the emerging contactors in rural areas
SDG3: Quality Education	Indirect	IDD: Implementation work on behalf of DoE i.e. ASIDI Programme
SDG 4: Good Health	Indirect	IDD: Infrastructure Implementation work on behalf of the Department of Health
SDG 5: Gender Equality	Indirect	An emphasis on Gender Mainstreaming in DBSA's BBBEE and Economic Transformation Initiatives

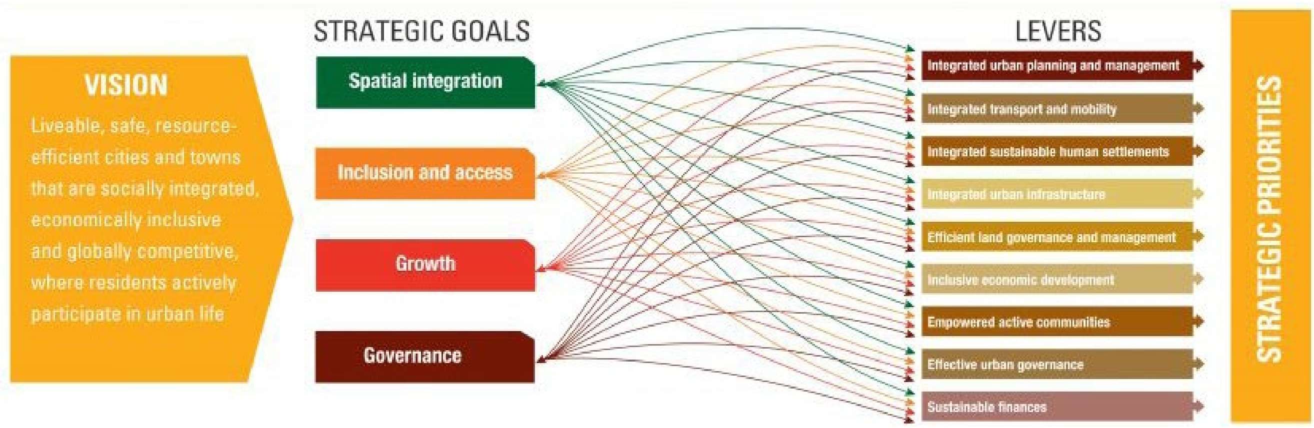
● Direct
● Indirect

d) Integrated Urban Development Framework

The IUDF is a policy that guides development by addressing the unique conditions and challenges facing towns and cities in South Africa. The framework recognises that the current patterns of urban development are inefficient and that investing in development that propagate such patterns is an inefficient use of capital. The IUDF is aligned to Chapter 8 of the NDP and seeks to facilitate the development synergy that comes from coordinated investment in people and places in the interest of developing inclusive, resilient and liveable cities and towns. Key policy levers include integrated urban planning and management, integrated transport and mobility, integrated sustainable human settlements, integrated infrastructure planning, inclusive economic development, efficient land governance and management, empowered active communities and effective urban governance.

The DBSA will develop mechanisms to integrate the principles of the framework into lending and non-lending activities in the municipal space.

Core Elements of the IUDF



Source: www.cogta.gov.za

e) Private Sector Participation Framework

The Private Sector Participation (PSP) Framework was developed by National Treasury to govern the relationship between state-owned companies (SOCs) and the private sector when jointly undertaking projects. Because the current Public Private Partnership Framework (PPP) regulations apply to government departments, constitutional institutions and public entities listed under schedule 3 of the Public Finance Management Act (PFMA), this framework was designed to close the gap created for Schedule 2 SOCs such as Eskom, Transnet, DBSA that are critical to the economic infrastructure roll out of the government.

The PSP framework recognises the limited capacity of SOCs to increase the level of investment required to achieve targeted infrastructure growth rates whilst maintaining sustainable levels of borrowing and seeks to facilitate processes that will leverage private sector participation in economic infrastructure projects that were traditionally exclusive to the SOCs. This framework is aligned to the DBSA's strategy and its effective application to the organisation's activities to improve greater developmental impact will be fully investigated.

1.3) Principal Activities

DBSA primarily plays across the spectrum of the infrastructure development value chain and offers services as shown below across the key sectors.

Plan	Prepare	Finance	Build	Maintain
• Develop sector and regional master plans for clients, to enable project development and financing • In-house capability to support under resourced municipalities	• Set up infrastructure programmes (e.g. REIPPP, student housing) • Finance project preparation activities (technical studies) using DBSA and third-party funds (e.g. IIPSA, PPDF)	• Balance sheet (recourse) loans • Limited/non-recourse lending • Mezzanine finance/ subordinated debt • Structured financing solutions • Equity (historical book) • Guarantees	• Manage design and construction of key projects • Project management support • DBSA municipal funded project implementation support	• Deliver & support the development, maintenance, improvement of key infrastructure projects

2) Corporate Strategy

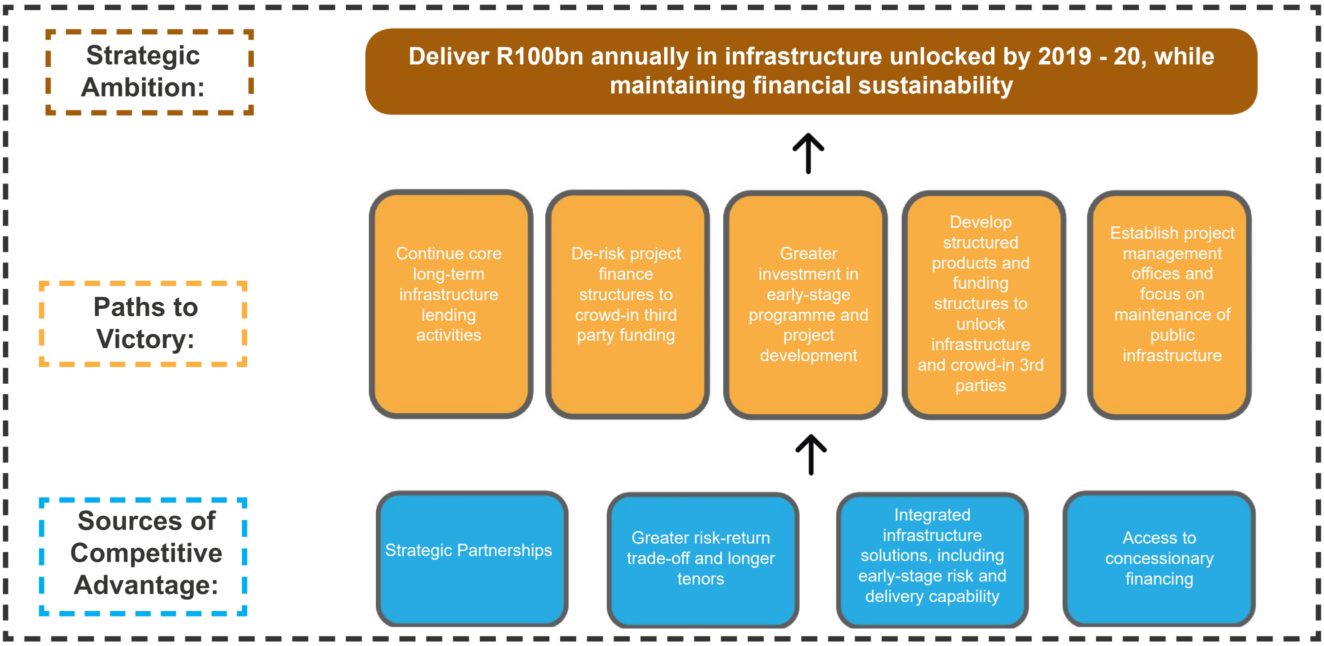
The DBSA's strategy was developed in 2016 in response to a number of factors that were impacting performance of the organisation especially in terms of growth and development impact. The factors included:

- A lingering, difficult macro-economic environment in South Africa and most African countries, characterised by slow growth and falls in commodity prices, impacting GDP growth and slowing down infrastructure investment
- The increasing and critical need for infrastructure investment, with SDGs, COP21, Agenda 2063, SADC RIDMP and RSA's NDP emphasizing sustainable infrastructure development at their core
- The weakening competitive position of the DBSA due to the entrance of new development financiers and the increasing cost of capital
- Risk of South Africa's sovereign ratings downgrade that would significantly increase borrowing costs further
- The limitation of the growth path from which the DBSA has historically derived strong developmental and financial performance

On the positive side:

- New businesses in project preparation and infrastructure delivery were launched by the DBSA to grow impact
- Falling costs in renewable energy drove new investment opportunities and significant sources of concessional capital were set aside for sustainable infrastructure
- New opportunities were introduced across a number of sectors in South Africa such as gas IPP programmes
- East African economies and other key markets became increasingly robust

The strategy of the DBSA seeks to augment disbursements by increasingly focusing on the 'catalytic' role of enabling sustainable infrastructure development. This will be done by taking early-stage risk, deploying guarantees, expanding loan syndication and developing new structured products to increase developmental impact. The strategy recognises that lending from the DBSA's balance sheet is limited and will limit the development that the organisation can impact. The core of the strategy is the mobilisation of capital from 3rd party investors, especially from private parties and commercial finance institutions.



The strategy to deliver R100 billion in infrastructure unlocked by 2019/20 while maintaining financial stability (RoE > 4.5%) is underpinned by sources of competitive advantage that include strategic partnerships, ability to take longer tenors, early stage investment and access to concessionary capital.

3) Operating Environment

3.1) Economic Overview

Global economic conditions appear to be more positive since the global financial crisis of 2008/09. In South Africa, economic growth is expected to rise from 0.3% recorded in 2016, to 1.5% projected in 2019. This increase is assisted by an improvement in agricultural output, an increase in mining output prompted by a moderate rebound in commodity prices, as well as the inflation rate that remains below the upper target limit[1].

	GDP Growth	Projected Growth
2016	0.3%	
2017		0.6%
2018		1.3%
2019		1.5%

Source: South African Reserve Bank Monetary Policy Review, October 2017

Leading indicators seen in the last quarter of 2017 suggests that the final GDP growth number for 2017 might settle above the South African Reserve Bank forecast at around 1% due to positive growth, albeit low, seen in the services sector. Private consumption growth is projected to stay at about 1% while households and firms continue to reduce debt levels.

Private investment flows, which fell sharply in 2016, will probably show a slight contraction as the high levels of policy uncertainty and low business confidence throughout 2017 have continued to choke investment.

Budgeted public sector investment will help to cushion domestic fixed investment contraction in 2017, however SOEs face financing constraints and therefore limited head room for investment expansion. Maintaining public finance stability and managing the risk of a widening fiscal deficit rules out expanding the public sector investment role.

In November 2017, Standard and Poor downgraded South Africa's domestic and foreign credit rating, along with several SOEs. Simultaneously, Moody's maintained their ratings (investment grade Baa3 on a negative outlook), stating that, if fiscal management is seen to be weakening, a downgrade would be triggered in early 2018.

1 South African Reserve Bank Monetary Policy Review, October 2017

Debt market movements before and after this news lend support to the interpretation that:

- A downgrade has been priced into South African bonds
- The search for yield will draw capital into South African bonds under the prevailing global conditions
- Real interest rates will have to maintain a positive differential over developed markets, and so too hurdle rates, for financing for any project via debt

Global economic conditions are now more favourable than any time since the economic crisis with the IMF revising growth forecasts upwards to 3.6% for 2017 and 3.7% for 2018, growth that is being driven by both developed and emerging markets[2]. Low inflation continues to keep interest rates down in developed markets and sustains the expansionary policy pursued by central banks, aided by low levels of volatility.

In the USA, good growth continues despite the Trump administration's evident inability to deliver a campaign promise of meaningful fiscal stimulus. A return to good growth in the Eurozone region indicates it has stabilised and China's maintenance of its growth momentum appears to be managing its structural transition towards consumption. Commodity price recovery has helped to boost growth in emerging markets as has improved positive sentiment towards them on global financial markets, resulting in the strengthening of their currencies. Such favourable global conditions have assisted in limiting the impact of domestic problems on South African financial markets.

Since 1994, the South African economy has significantly increased its trade and financial integration with sub-Saharan Africa (SSA), which is a key part of the DBSA mandate. In this period, SSA has grown to become the largest regional market for South African exports; 28% of total goods exports in 2016[3]. Over this period, FDI integration almost quadrupled as a share of GDP. Growing interdependence carries positive and negative impacts across borders. South Africa directly experienced the decline in commodity prices as well as indirectly through a slowdown in other commodity-exporting trading partners. Similarly, a growth slowdown in South Africa adversely affects its regional partners.

South Africa has, for some time, been returning lower growth than its emerging market peers, as well as being below its historical trend of around 3% GDP growth. The low growth trend that the country is mired in indicates that the historically strong relationship between global and domestic growth is weakening. The data shows that investment in South Africa is highly responsive to political uncertainty. Analysis by the Reserve Bank[4] shows that in the post crisis period, the composition of GDP has changed:

- Between 2010 and 2013, stimulatory fiscal and monetary policies bolstered demand, consumption and investment expanded as a share of total output, while net exports contracted as imports boomed, pushing current account and fiscal deficits to unsustainable levels
- From 2013 to 2016, weakening capital inflows and currency depreciation severely depressed confidence levels, fueled by leadership changes at the Ministry of Finance and other shocks. In response, the composition of output shifted back towards lower shares for domestic consumption and investment, as well as higher net exports. This trajectory away from investment has kept the current account deficit down, albeit at the cost of reducing future output capacity. As a consequence of this adjustment, restoring confidence and, with it, higher investment, is a vitally necessary condition, but insufficient to reach the target of 5% set out in the National Development Plan.

Over the course of 2017, domestic investment decisions have taken place in a context shaped by protracted domestic policy uncertainty and continued deterioration in perceptions of the quality of governance in public institutions but balanced by confidence in constitutional institutions, notably the judiciary.

Medium term economic forecasts for the domestic economy from a range of models[5] caution that the outlook for a tepid recovery over the medium term is vulnerable to reversals of the currently favorable global economic conditions. More critically, even the most optimistic forecasts for growth are still below the rate of population growth which makes the rise in unemployment and falling per capita income unavoidable, exacerbating the hardships of widespread poverty and dulling the hopes of a better future for many people. Negative shocks could come from several prevailing risk sources such as breaches to fiscal consolidation (such as a costly public wage settlement in 2018, or the materialisation of contingent liabilities from SOEs). Positive shocks also feature in the outlook for South Africa through the election of Cyril Ramaphosa as president of the African National Congress in December 2017 campaigning for a new deal for the economy.

As challenging as this outlook is, it further reinforces the importance of the role the DBSA needs to play to raise investment levels through innovative catalytic mechanisms. That role can only sustainably take place in concert with a wide range of complimentary economic and social reforms that will progressively reduce poverty, unemployment and inequality on an ecologically sustainable basis.

2 World Economic Outlook, October 2017. International Monetary Fund
3 South Africa, IMF Country Report No. 17/189, July 2017
4 South African Reserve Bank Monetary Policy Review, October 2017
5 Bureau for Economic Research, South African Reserve Bank, Econometrix

3.2) Infrastructure Overview

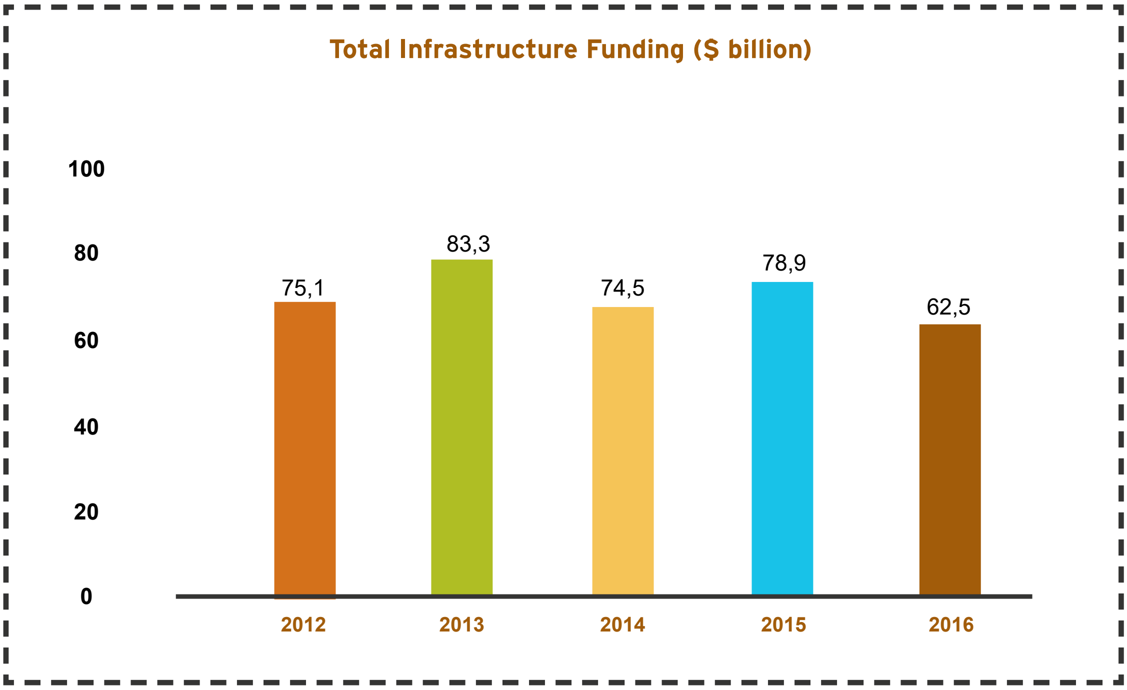
Amongst the many factors that contribute to low growth in developing countries is inadequate infrastructure, which not only poses long term development issues but also affects economic growth in the near term. All the 5 Sub-Saharan African countries that improved the most in the annual World Economic Forum Global Competitiveness report 2016-17 have an improved infrastructure outcome in common.

The need to develop infrastructure in South Africa and the rest of the continent is growing and yet infrastructure spending, due to various factors, is slowing down. The International Monetary Fund[6] recognizes the strong link between public infrastructure spending and economic growth and so the slow growth in public infrastructure spending is a factor that will impact development in the emerging economies.

South Africa is also affected by the slow growth in infrastructure spending as it maintains fiscal consolidation, but is focusing on improving the planning and execution of megaprojects, delivery of quality infrastructure, asset management and procurement processes in order to maximize economic and developmental impact.

African Infrastructure Spending

According to the Infrastructure Financing Trends in Africa Report 2016[7], total committed funding for infrastructure projects on the continent decreased by 21% year-on-year to $62.5 billion, lowest investment since 2012, mainly on the back of reduced investment by China as well as by the private sector.



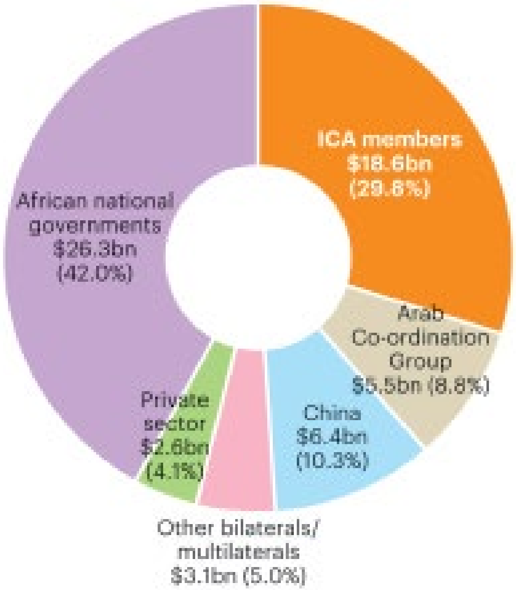
Source: www.icafrica.org

African national governments accounted for 42% or $26.3 billion of the investment (34.1%, $28.4 billion in 2015). The sector that benefitted the most was Transport (31.2%) followed by Energy (31.9%) and water (16.9%). The gap between nfrastructure projections and investment need in the region is estimated at $43 billion in 2017 and is projected to increase to $51 billion in 2021[8]. The foremost driver of the increasing infrastructure gap across sectors is cited as a lack of bankable projects rather than a lack of funds; with the possible exception of the Transport and Water sectors which experience funding gaps.

Investment in early stage project financing is still a challenge in the region and furthermore, alternative funding types such as blended finance need to be developed and deployed.

6 International Monetary Fund, World Economic Outlook 2014
7 Infrastructure Consortium for Africa Report 2016. www.icafrica.org accessed 22 Oct 2017
8 Global Infrastructure Outlook report by Global Infrastructure Hub, a G20 initiative

The Investors



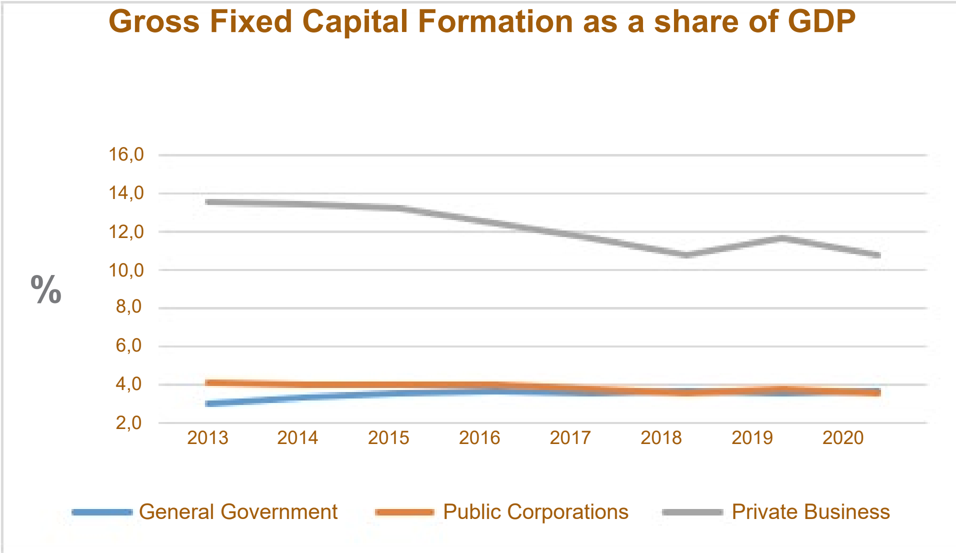
The Regions

The Sectors

Source: Infrastructure Consortium for Africa Report 2016, www.icafrica.org
*ICA members: G8, EU, RSA, World Bank, RSA, AfDB, EIB and DBSA

South African Public Spending

South African public sector entities have an important role to play in driving economic growth and development in line with their mandates. Capital spending by public corporations has slowed to under 4% of GDP from 2013 to 2016 mainly due to weaker demand for services and inability to execute capital plans by major state-owned entities. Private business enterprises, which makes up 60% of Gross Domestic Fixed Investment has materially slowed investment, mainly due to declining business confidence. Over the forecast period to 2020 public investment is expected to hold stable at slightly below its current (2016) levels. Private GDFI is expected to continue slowing through 2017 and 2018 with a weak recovery in 2019. A recovery in business confidence could hopefully turn this negative outlook around.



Source: South African Reserve Bank/Quantec

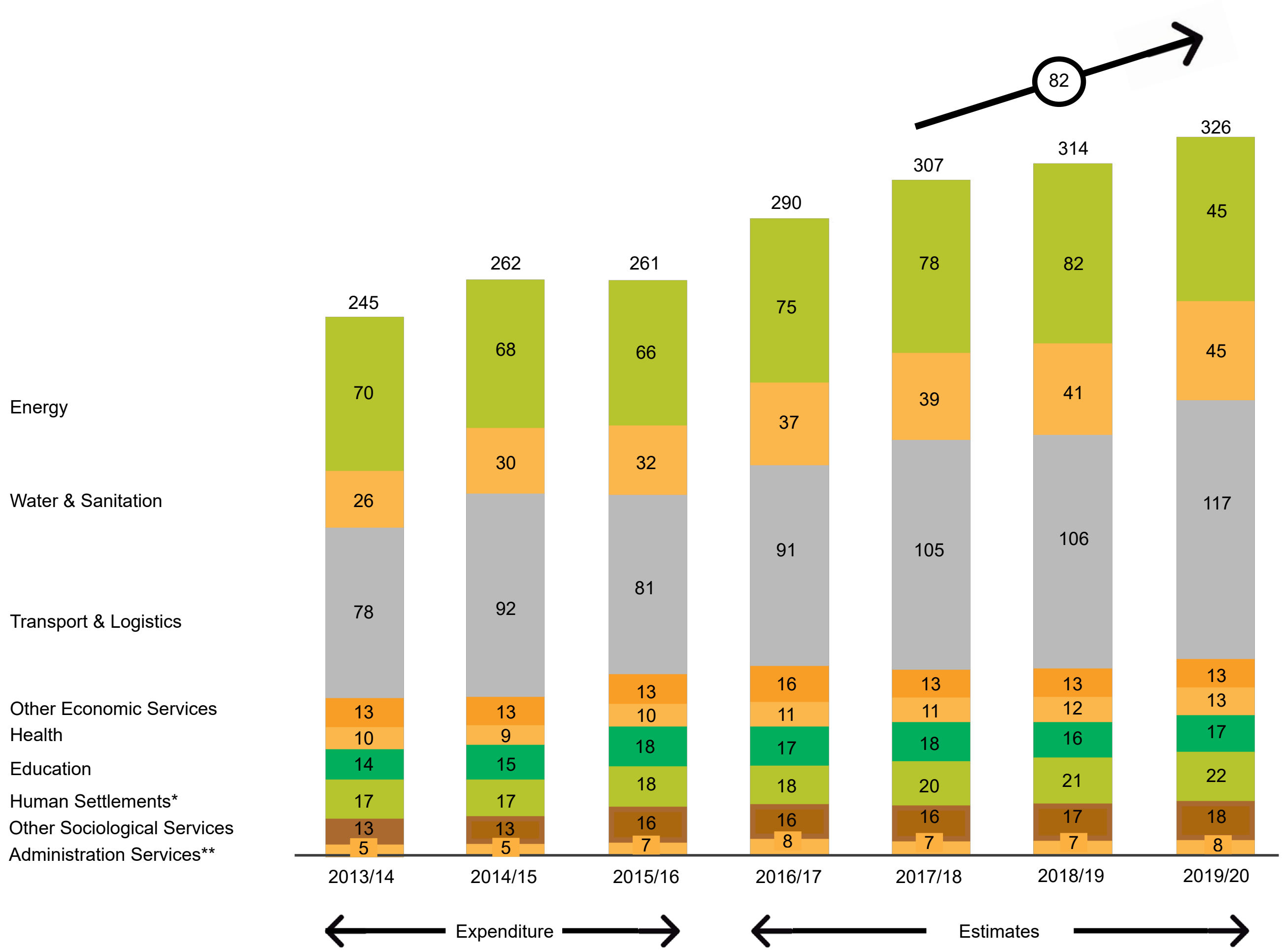
South African Infrastructure Spending

Public sector spending on infrastructure by the South African government has been growing by an average of 6.8% from 48 billion in 1998/1999 to R261 billion in 2015/16 with state-owned entities contributing the most to the expenditure estimated at R2.5 trillion over the period. Within the same period, municipal and provincial departments have increased their spending estimated at R500 billion and R580 billion respectively.

From 2017/18 to 2019/20, however, the National Treasury has budgeted a total of R947 billion on infrastructure and this represents about 3% growth over the period. The marginal growth, after adjusting for inflation, is consistent with the fiscal consolidation and the necessary prioritization of certain capital expenditure that the government has adopted to curb public debt. Over the next three years, National Treasury estimates that public borrowing, including that by central and provincial government, state entities and municipalities, reached R254.4 billion in 2015/16, which is 5.8% of GDP and R38 billion higher than projections.

In line with the spending on the continent, the Transport and Logistics has the largest share of the infrastructure budget over the period 2017/18 to 2019/20 and has the highest growth (12%) after Water and Sanitation (14%). Investments in Transport over the next three years are in the rail and road networks and include regional integration. Water and Sanitation budget of R125.3 billion over the three years from 2017/18 to 2019/20 includes the Regional Bulk Infrastructure and Water Services Infrastructure Grants of R18.4 billion over the period. The Water Services Infrastructure Grants will be used to implement water and sanitation projects in over 170 impoverished municipalities. Growth in spending on Education infrastructure over the period is flat (R50.1 billion over the three years) but has prioritized student accommodation amongst other objectives. The spending of R234 billion in energy over the next three years represents 25% of the infrastructure spend over the period, the majority (87%) of which will go to Eskom.

Public Sector Infrastructure Expenditure and Estimates, R bn



Source: Budget Review, National Treasury, 22 February 2017

Included in the National Treasury's Budget Review of February 2017 are a number of capital projects that are at various stages of preparation, from feasibility to design across all sectors to the estimated value of R830 billion. The projects are publicly funded (except Independent Power Producers in Energy) and where the implementing agents are state-owned entities, the funding is from their balance sheets and where necessary government guarantees are provided.

Sector	Number of projects	Estimated Value (R Bn)
Energy	7	520
Health	5	7
Telecommunications	2	7
Transport	6	67
Liquid Fuels	2	202
Water	5	27

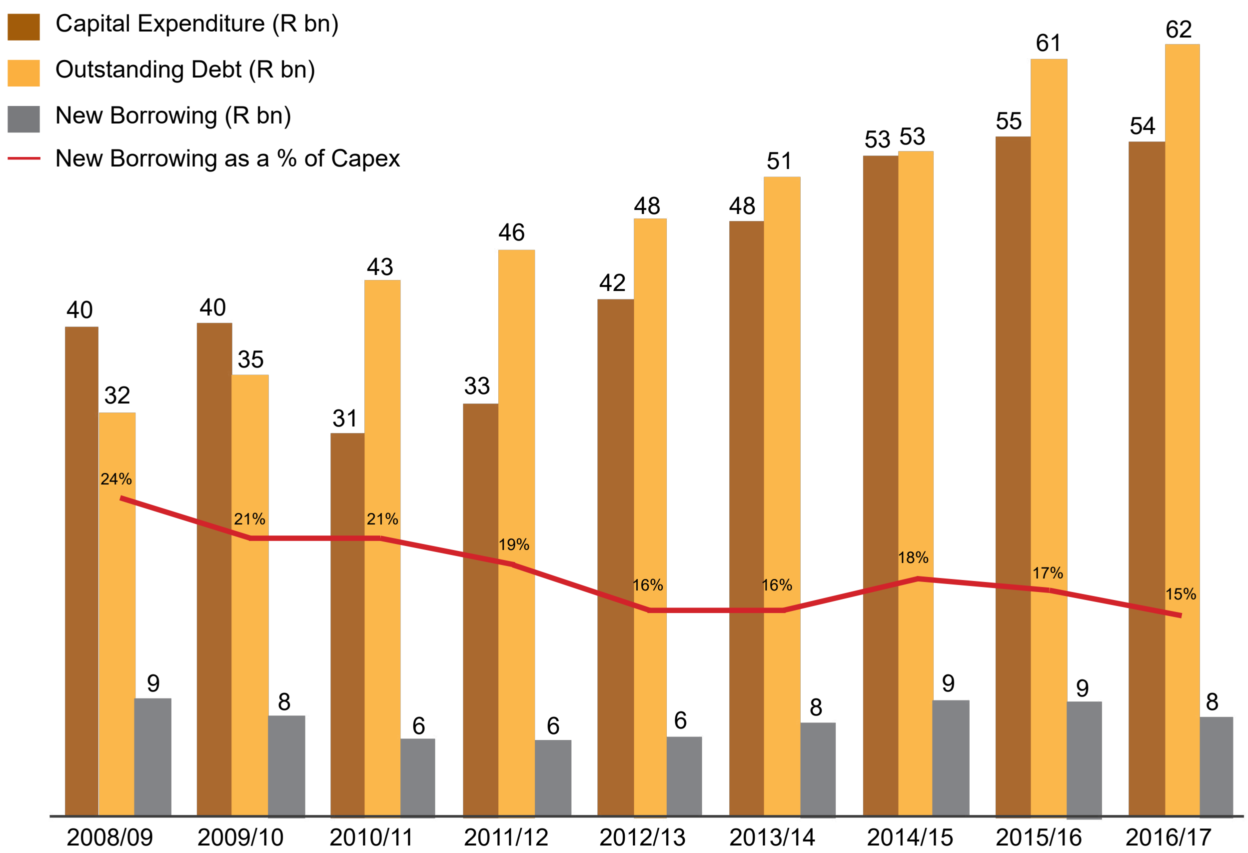
Source: Budget Review, National Treasury, 22 February 2017

Municipal spending and borrowing trends

Municipalities are faced with a constant pressure to keep up with the growing need to build infrastructure as the rate of urbanization increases, facilities age and as the population grows. They have the means to collect revenue and are expected to borrow against their balance sheets, where necessary, in line with their capital expenditure plans. Given that the borrowing is for investment in assets that have long life spans, the tenor of the loans provided to municipalities should be between 5 and 10 years; and longer where necessary. The DBSA has dominated the municipal borrowing market over many years but has, together with commercial banks, are decreasing their share of the exposure in 2016/17[9].

Municipalities that borrow have been, over the years, decreasing their reliance on debt to finance their capital expenditure as shown by the decreasing ratio of new borrowing to capital expenditure8. This, however, does not pose any significant threat to the DBSA's lending activities as their outstanding debt and capital expenditure has been growing within the same period.

Municipal New Borrowing as a % of CAPEX



Source: National Treasury

Of the R947 billion from which the National Treasury has budgeted for infrastructure spending, local government spending accounts for a total of R180 billion over the period 2017/18 to 2019/20.

State of infrastructure in South Africa

In 2017 the South African Institution of Civil Engineering (SAICE) published their third Infrastructure Report Card for South Africa that provides a condition assessment of water, sanitation, solid waste management, roads, airports, ports, rail, electricity, health care and education using a five grade scale. SAICE awarded South Africa's public infrastructure an overall grade of D+.

"Although much of South Africa's built environment infrastructure is of high quality, the below-average grade reflects the continuing low maintenance levels, and even neglect in many areas, that is taking a toll on its resilience. A lack of commitment to long-term planning, adequate dedicated funding, proper management systems, data collection and skill deployment and collaboration are major contributing factors."[10]

9 National Treasury, Municipal Borrowing Bulletin, Issue 6, September 2017
10 SAICE 2017 Infrastructure Report Card for South Africa. South African Institution of Civil Engineering, August 2017.

In 2011, the overall grade was C- which indicates a deterioration in the condition of infrastructure. Matters of importance addressed in the Report Card define an action agenda for improving South Africa's infrastructure services. These include the neglect of maintenance, social responsibility for public infrastructure, accountability of institutions entrusted with infrastructure provision and maintenance, capacity and collaboration to direct resources (especially skills) where needed and managing data for infrastructure monitoring. None of the challenges are simple but none are insurmountable.

3.3) Progress against the strategy

In 2016, DBSA formulated and tabled a growth strategy designed to respond to changing client needs, increasing demands to improve developmental impact, persistently difficult economic conditions and an increasing competitive environment. The strategy, which was approved by the Board in November 2016, has repositioned the Bank from an emphasis on traditional lending towards improved developmental impact by unlocking R100 billion by 2019/20 in sustainable infrastructure development using catalysation.

To give effect to this strategy, a number of paths to victory were identified. These are:

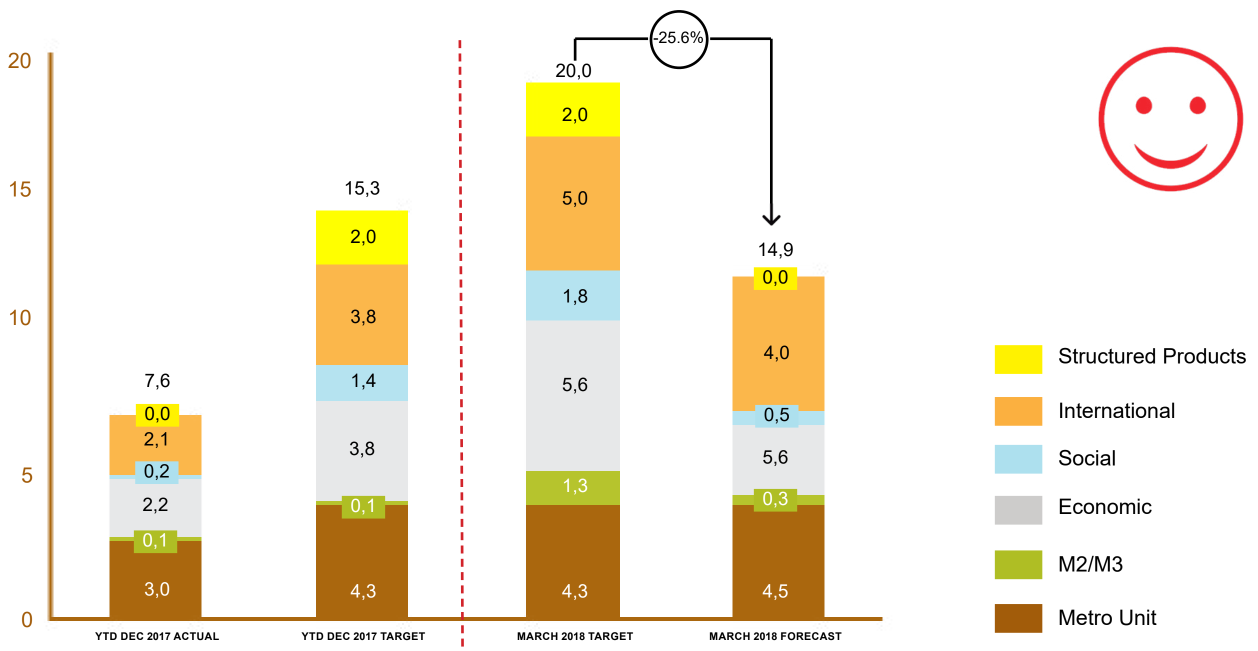
- Continue core, long term infrastructure lending activities
- De-risk project finance structures to crown in third party funding
- Greater investment in early stage programme and project development
- Development of structured products and funding structures to unlock infrastructure development
- Establishment of project management offices and focus on maintenance of public infrastructure

With a track record of less than 1 year in execution, the initial outcomes, although encouraging, have highlighted some aspects of the strategy that need sharper focus. The review of the strategy is summarised below.

Infrastructure unlocked and third party funds crowded in

For the period ended 31 December 2017, disbursements reached R7.6 billion against the year-to-date target of R15.8 billion. This represents a 52% variance from target and is attributed to a number of factors, including the unexpected delays in some key projects such as IPPs, Gautrain Phase 1 expansion and a few projects at the Water Boards. Disbursement indicators were set fairly high and their stretch reflected the aspiration to drive high performance and innovation across the organisation.

Annual Disbursements by Sector, Rbn



Apart from the delays in the signing of the IPP power purchase agreements, Project Preparation Unit was further impacted by unexpected regulatory hurdles on some of the projects and for the year to date, no project has been committed.

The implementation of the new operating model also took some attention away from disbursements and catalysation as the perceived uncertainty related to its outcome impacted employee morale negatively. The new operating model seeks to address the very declines in disbursements and catalyzation through greater client-centricity, increased innovation and better collaboration across the entire organization.

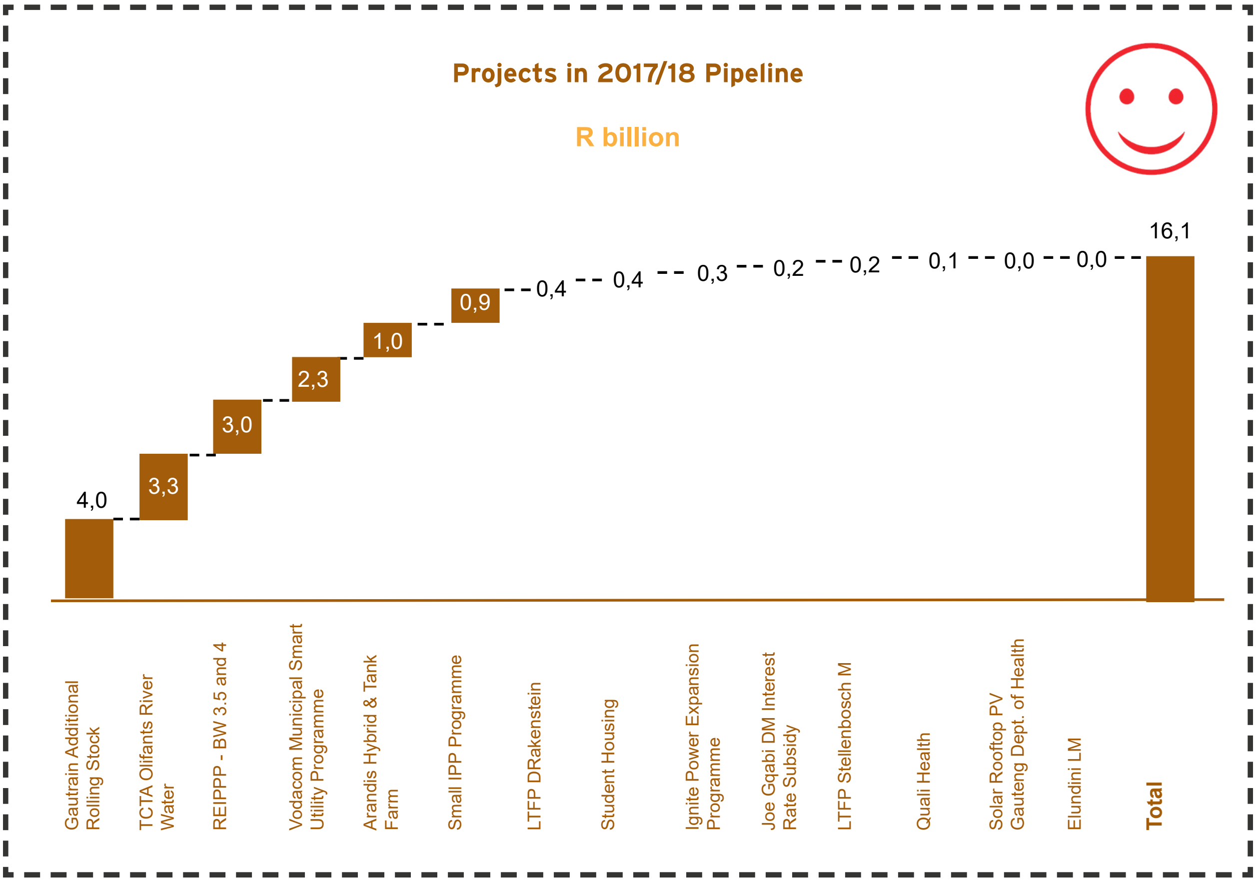
Funds under management by IDD reached R2.7 billion for the quarter ending 31 December 2017 against a target of R2.7 billion and has implemented a number of projects, including 3 schools, 112 houses and 57 and 24 storm damaged schools respectively in KwaZulu Natal and Limpopo.

Financial Stability (RoE > 4.5%)

RoE on sustainable earnings amounted to 9.5% against a target of 4.7% and is on target to reach the annual target. Other financial indicators that include cost-to-income ratio and non-interest revenue have also exceeded their targets for the quarter ending 31 December 2017 and are on track to achieve annual targets.

Investment in early stage project development

Project Preparation has a project pipeline to the value of R16.1 billion but only a fraction will be committed in the current year (March 2018 forecast: R5.9 billion). Project preparation has processes that have long cycles and have dependencies that result in delays that the DBSA cannot avoid.



Development of structured products

Progress was made in the development of a number of structured products across all service lines to unlock infrastructure development, amongst others:

- A solution/mechanism to ensure that the socio-economic benefits of the IPP Programme materialise by accelerating cash flows to community trusts
- A model to build student accommodation given the high demand from students with limited financial resources
- Direct Current Go - a solution for the electrification of informal settlements, peri-urban and rural areas

Although products developed by Structured Finance are integrated into the rest of the existing sectors, the organisation will continue to measure disbursements for structured finance products as a means to elevate and give focus to this key function.

Establishment of project management offices

Three project management offices are operational at the National Department of Public Works, Limpopo Department of Public Works and the National Department of Health and in the next year, there is a plan to increase the number by at least one on behalf of the Department of Higher Education's student accommodation programme.

Strategic Initiatives

Progress was also made against a number of strategic initiatives that were identified as key to the successful implementation of the strategy:

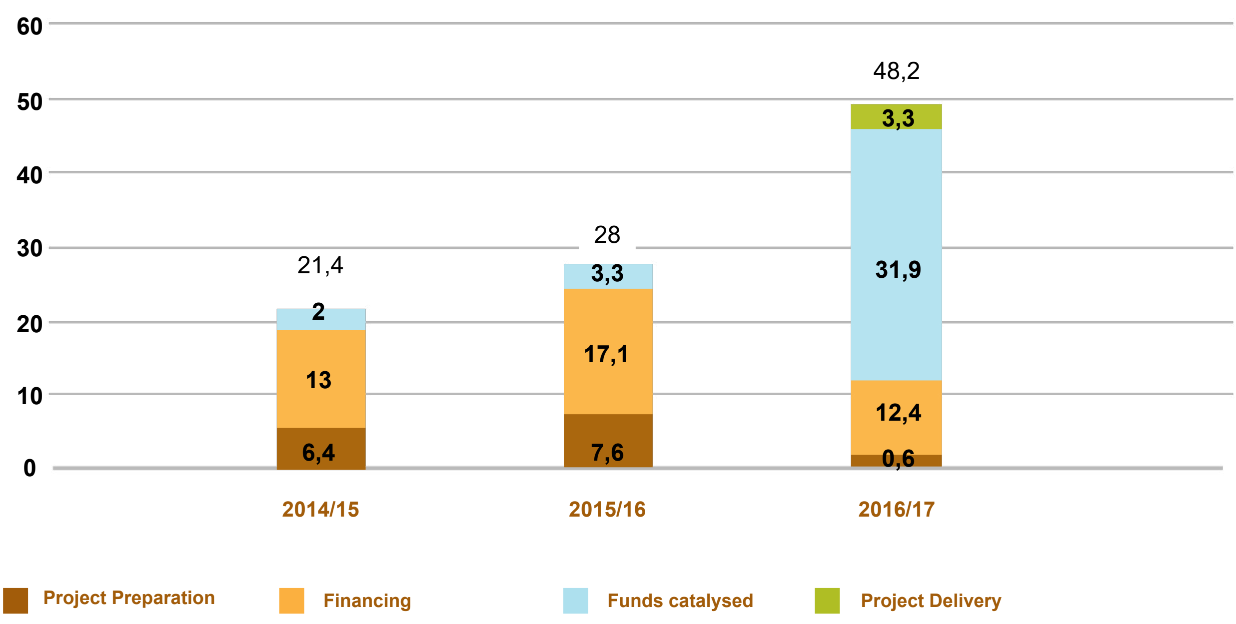
- The implementation of the new operating model (Project Evolution) is completed
- The Capital Management project was implemented as planned – the output of the models is planned for review at the committees in November
- The Catalysation framework and model were reviewed at BCIC and are being implemented. A number of catalysation transactions have been reviewed at the Investment Committee and the Board Credit and Investment Committee.

2016/17 Performance Highlights

For the 2016/17 financial year the DBSA delivered a strong set of development and financial results:

DBSA Infrastructure Support Achieved	FY2016/17	FY2015/16
Total approvals	R15.3 billion	R24.6 billion
Total commitments	R13.3 billion	R18.3 billion
Disbursements (Largely driven by: R4.5 billion disbursed to metros, R2.7 billion economic infrastructure R3.7 billion to outside South Africa).	R12.4 billion	R17.1 billion
Infrastructure Delivery division (Funds under management)	R3.3 billion	R3.3 billion
Project Preparation unlocked for funding	R0.6 billion	R7.6 billion
Total infrastructure development support (72% increase)	R48.2 billion	R28.0 billion

Three Year Infrastructure Support



Highlights:

- International Finance disbursed R3.7 billion in the rest of Africa (excluding South Africa) against a target of R3.6 billion
- Value of projects prepared reached R0.585 billion against a target of R 9 billion (2016: R7.6 billion). The underperformance was mainly as a result of delays in the implementation of key projects.
- Planning and implementation support to under-resourced municipalities yielded the following (amongst others): 17 projects completed – five in sanitation, seven in energy sector and five in roads and storm water. A total of 1 178 job opportunities were created from the implementation of projects and a total of 7 545 households received access to new and improved services from the municipal projects supported by the infrastructure planning and support unit of the Bank.
- The Bank produced strong financial performance with net profit of R2.8 billion (2016: R2.6 billion), sustainable earnings of R3.6 billion (2016: R1.4 billion) and cost-to-income ratio (financing) of 15% (2016: 25%). The Infrastructure Delivery division is managed on a full cost recovery basis and achieved a net loss of R39 million for the year (2016: R27 million), representing a cost recovery ratio of 128%.
- Total assets grew by 1% to R83.7 billion (2016: R82.3 billion). The total development assets increased by 2% to R78.8 billion (2016: R77.1 billion), with the non-performing loan book after specific impairments at only 0.8% (2016: 1.1%). The debt/equity ratio of 158.1% remained well below the 250% statutory threshold.

A number of targets were not achieved in 2016/17 and a number of measures have been put in place to turn them around:

- Total Disbursements – with the implementation of the new operating model completed, the benefit of a more customer-centric frontline is expected to grow disbursements and meet targets in the next year
- Value of Projects Committed - the reorganisation will similarly benefit project preparation activities as the front-line has moved towards offering the full value chain of infrastructure solutions (and no longer in silos or in isolation)
- Cost-to-income Ratio (IDD) - while the target was missed in 2016/17, in the last year the measures that were implemented have already borne fruit as the forecast for 2017/18 exceeds full cost recovery (90%)

PART B
THREE YEAR STRATEGIC OUTLOOK

4) Project Preparation

The demand for infrastructure development in Africa is extensive and this was highlighted again in the latest Infrastructure Consortium for Africa Report (2016)[11]. The need 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 is therefore critical.

Through project preparation, the Bank is aims to grow the DBSA project pipeline in order to deliver projects with significant economic and developmental impact. Project preparation activities include:

- Supporting public and private sector project sponsors to prepare projects from inception to bankable;
- Consulting with government entities across all spheres to review national/sector plans to identify projects that fit the DBSA mandate for preparation;
- Specifically supporting under-resourced municipalities in unlocking key infrastructure programmes and projects;
- Advancing catalysation by facilitating the crowding in of private sector funders through syndication arrangements for financing projects and programmes; and
- Aligning to key policy frameworks such as the NDP and BBBEE in project preparation activities.

As part of the Bank's project preparation activities, the DBSA manages a number of programmes and funds on behalf of agencies or entities such as the European Union, National Treasury and SADC. These programmes make it possible for the DBSA to improve developmental impact and they include IIPSA, SADC PPDF, Green Fund, and the SADC Water Fund.

Although the DBSA has a pipeline of projects to the value of R16 billion currently under preparation, the current forecast indicates that only about R5.9 billion of that will be committed by the end of 2017/18. Project Preparation has, in addition, various projects to the value of R29 billion under preparation that are targeted for commitment from 2018/19 to 2019/20.

In the next three years, priority will be on:

- Leveraging strategic partnerships in local, regional and international partners to increase programmes that can provide access to concessionary capital using programme and fund management
- Increase value of projects prepared from R7 billion in 2018/19 to R10 billion in 2020/21
- Increase focus on economic transformation by preparing projects that are majority owned by black people to 5 every year for the next three years as well as those majority owned by black women

5) Infrastructure Financing

Infrastructure financing in the DBSA is primarily geared towards the development of social and economic infrastructure and mainly targets projects in the primary sectors of energy, water, transport and ICT. Bulk infrastructure projects are mostly funded through local government and DBSA continues to maintain its position as a market leader in this space. The DBSA further serves both domestic and regional funding requirements and is fully aligned to regional integration in line with the South African government policies and other prescripts, including the National Development Plan, SADC, etc. To this end, planning is centered on key sectors that include local government, energy, transport and ICT, social infrastructure as well as international finance.

5.1) Local Government

Local government in South Africa is made up of metropolitan, district and local municipalities with varying requirements in terms of infrastructure development and financing. They have a number of challenges in common that constrain their ability to develop and maintain infrastructure and these include limited capacity to plan and execute capital projects (as shown by their underspending in capex), as well as financial and other governance inefficiencies. The municipalities are further challenged by, amongst others, increasing urbanisation on the one end of the spectrum and limited economic base to collect revenue and indebtedness to utilities on the other hand and this compels the DBSA to provide innovative solutions for this market for greater developmental impact in the country.

Municipalities in South Africa are a key market for the Bank and have been benefiting from the extensive expertise that the Bank has built around the sector. The role that the DBSA plays in the infrastructure development value chain for municipalities puts the Bank in a position to address some of the structural and historical challenges that hinder developmental impact in the country.

11 Infrastructure Consortium for Africa Report 2016. www.icafrica.org accessed 22 Oct 2017

The DBSA, through its financing and implementation role in infrastructure development, must seek to align with policy guidelines provided by the Integrated Urban Development Framework (IUDF) in order to ensure successful investment in economic infrastructure projects that drive effective urbanisation and economic growth.

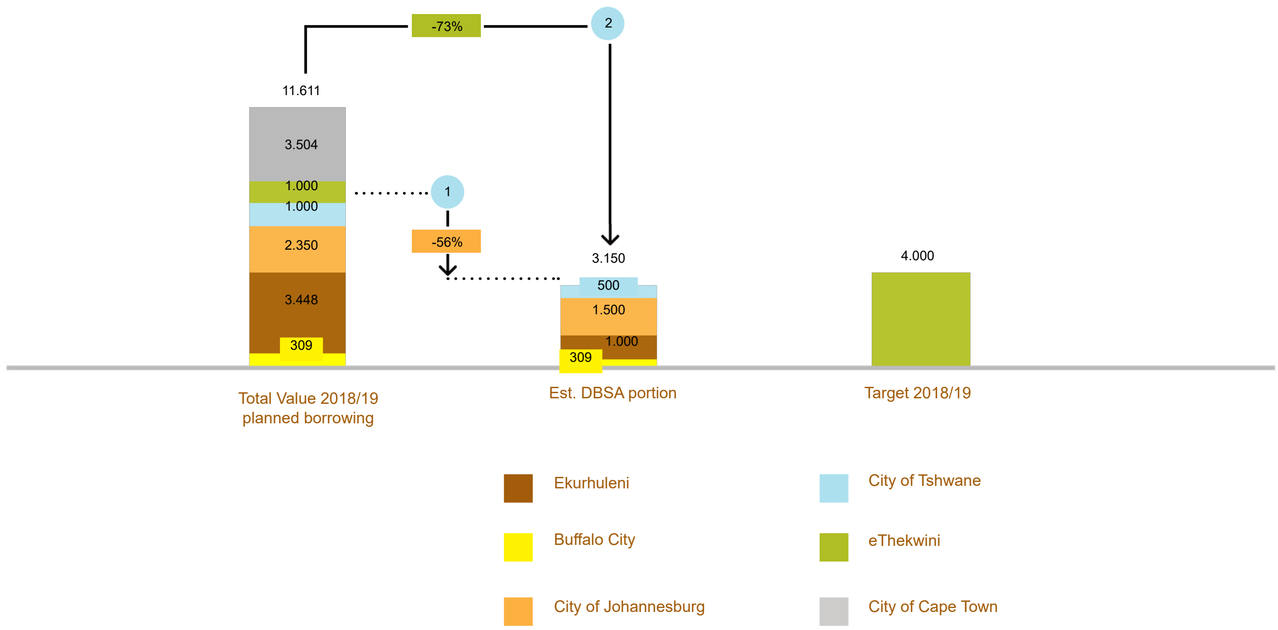
The DBSA's has historically segmented the municipal market into metros, secondary cities and under-resourced municipalities and although the lines divide the segments are blurred, the move is towards differentiating them in terms of their ability to borrow in the short, medium or long term.

Metros

The metros are the biggest borrowers in the municipal sector. According to National Treasury's Municipal Borrowing Bulletin (September 2017), the 8 metros accounted for 88% of the R62 billion of outstanding long term debt across all municipalities as at 30 June 2017. They have better planning capacity and attract the highest level of competition amongst financial institutions.

In the last 5 years, the DBSA has decreased its exposure to metros as a result of decreasing appetite to borrow and intensified competition. The disbursements grew from R3.6 billion in 2014/15 to R7.5 billion in 2015/16 (the highest point) but have been decreasing ever since to reach a 2017/18 forecast of R4.5 billion.

Prospective Projects in the Metropolitan City Sector
R million



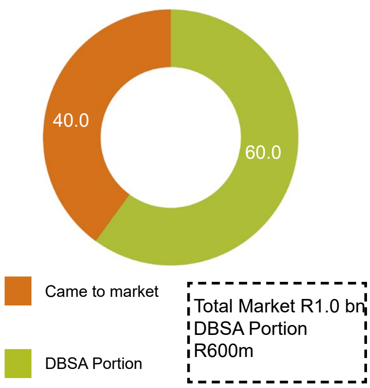
In the next three years, the DBSA will:

- Continue to actively participate in financing the sector and will target to disburse R4.0 billion in 2018/19 to reach R4.8 billion in 2021
- Offer differentiated Financing Solutions to the sector, including
  - Credit Enhancements structures: e.g. Guarantees
  - Securitisation
- Concentrate on the preparation of catalytic/economic projects in conjunction with the private sector

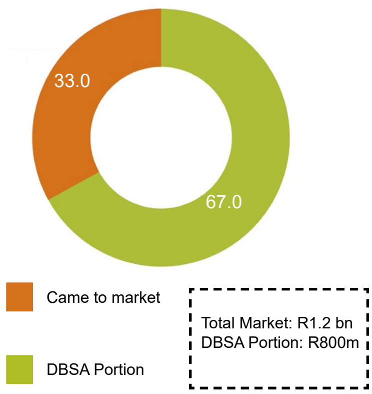
Secondary Municipalities

DBSA's investments in secondary municipalities over the last few years have been fairly low and have presented with relatively low number of non-performing loans. As shown below, net borrowings by secondary cities are not growing and the DBSA's share of financing in this market is declining. As at the third quarter of 2017/18, disbursements to secondary cities amounted to R94m and are forecast to reach R274 million at the end of March 2018, against a target of R1.1 billion.

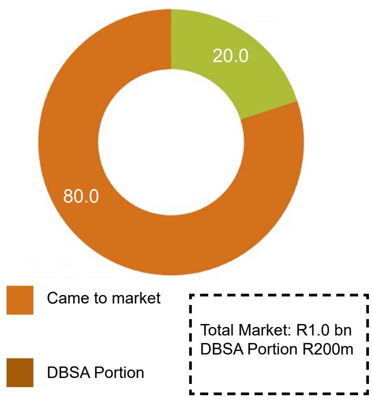
Secondary Cities Actual Borrowing and DBSA Portion - 2014/15 (%)



Secondary Cities Actual Borrowing and DBSA Portion - 2015/16 (%)



Secondary Cities Actual Borrowing and DBSA Portion - 2016/17 (%)



Source: National Treasury

In the next three years, focus in this sector will be on:

- Participating in the financing of the sector, albeit at lowered targets, to reach a disbursement of R0.7 billion in 2018/19 and reaching R1.1 billion in 2021
- Developing tailored municipal solutions to improve municipal creditworthiness and long term financial strategies for the targeted municipalities that do not borrow
- Sourcing competitively priced credit lines and prioritising their projects at IIPSA
- Seeking growth strategies with the private sector (e.g. opportunities through the Housing Development Agency on the rehabilitation of distressed mining towns)

Under-resourced municipalities

Under-resourced municipalities are characterized by a limited revenue base, high dependence on grants and have very little opportunities to get debt funding. The DBSA will continue to provide services to this sector such as infrastructure planning project preparation support, project implementation support for projects funded by government and institutional capacity building.

A disbursement focus for this sector has been eliminated to facilitate an even greater emphasis on development planning to address the challenges that will enable under-resourced municipality towards lending. Support will also take the form of unlocking Municipal Infrastructure Grant as a pledge for the implementation of selected infrastructure projects.

In the next three years, DBSA plans to increase the value of infrastructure unlocked for under-resourced municipalities from R500 million in 2018/19 to R1.5 billion in 2020/21.

Innovation in the sector

In response to the growing need to develop and implement innovative products and services to address market failures and to increase developmental impact, the DBSA has designed a number of structured projects that are in various stages of development for the local government sector.

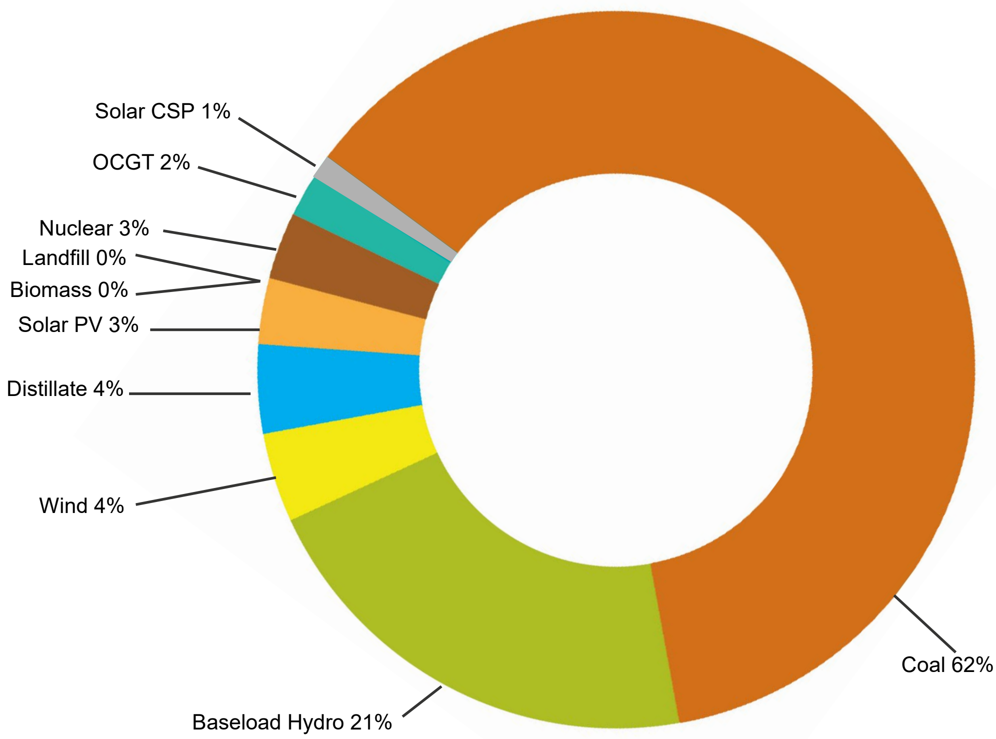
These products include:

- The Secondary Municipal Funding Initiative (M2 Securitisation) that aims to crowd in private sector long term funding at competitive pricing to develop infrastructure projects in the municipal sectors that are sustainable and have socio-economic benefits for the municipalities
- Project Amanzi that is developed to address water and sanitation infrastructure and service delivery challenges in under-resourced municipalities, potentially enabling a significant lending opportunity in the municipal environment and the water sector
- Project Vumela to finance bulk and link infrastructure which is considered the main bottleneck in property development. The solution is aimed at addressing the municipal bulk and link infrastructure components/services within Metros and Secondary Cities to unlock private sector investment in property developments
- Vodacom Municipal Metering to fund approximately R2.3bn over the next three financial years for Vodacom to roll out its end to end smart metering (pre and post-paid) solution / service to municipalities.

5.2) Energy

According to the *Status and Opportunity Report of the Energy Sector in Southern Africa,*[12] the global trend on the energy mix is strongly developing towards higher penetration of renewables and is dominated by wind and solar photo voltaic (PV) power. In 2015, renewables were estimated to account for more than 60% of net additions to global power generating capacity.

South African Power Pool Installed



The implementation of renewable energy projects in South Africa has contributed positively to the stability of Eskom's grid over the last few years by increasing generating capacity and managing peak demand. At the regional level, Eskom remains the dominant supplier within the South African Power Pool (SAPP); its nominal generation capacity of 44 034 MW constitutes almost three quarters of the installed capacity of 61,859 MW in the SAPP. Yet, of the R234.5 billion that will be spent on developing energy infrastructure by the South African government over the 2017/18 to 2019/20 MTEF period, 87% will be on Eskom and cut across a number of projects on the build as well as transmission programmes.

12 Skrander. (2017). Status and Opportunity Report of the Energy Sector in Southern Africa. Development Bank of Southern Africa, Johannesburg.

While South Africa currently has an excess in power generated, the SADC market is approximately 65% under-served. Almost 180 million people in the region are without access to electricity, either due to unaffordability or a lack of access.[1] This presents a unique opportunity to provide power to the SADC region.

Over the last few years, DBSA has played a crucial role the establishment of the REIPPP Program and has provided local debt funding to the projects mainly for BEE and community participation. The DBSA is on track to disburse a total of R3.3 billion worth of renewable energy project to exceed the R3.5 billion target for 2017/18. In addition, a robust pipeline to the value of R21.2 billion in South Africa and in the region exist that will see disbursement in the sector reach about R3.0 billion in 2018/19 and R3.5 billion in 2020/21.

Although the DBSA's focus area was in the renewable energy IPP, a number of opportunities exist that will be explored in the next three years to drive growth and impact, including:

- Development of products to address the transmission backlog and to crowd in private investors in the process
- Participation in BioGas and other energy resources
- Development of products to support non-sovereign backed IPP programmes and co-generation opportunities

The DBSA will continue to support government initiatives aimed at developing energy infrastructure that will deliver the capacity to drive economic growth. However, a number of factors have surfaced that will inform the DBSA's specific financial activities in the sector, and these include:

- The growth in the development and implementation of off-grid solutions, especially as they relate to the municipal energy requirements
- The trend towards "decentralisation" of energy production (small, medium and large enterprises opting to go off-grid
- The exponential decrease in the price of renewable energy to the extent that a very high-penetration renewables future is now technically feasible[13]. The recent announcement by the Minister of Energy that Bid Window 4 may enter into PPAs at a "ceiling" tariff of 77c/kWh is testament to this improved efficiency especially that the majority of bidders were able to take the tariff.
- The rapid improvement in battery storage technology and the resulting price decreases that will make investment in renewable energy even more viable
- The lack of a regional Energy Resource Plan or similar framework to guide investment decisions in countries outside of South Africa

In the next year, focus will also be on developing definitive standards, limits and guidelines on energy resources at the Bank level to better inform investment decisions.

Amongst new products and services that are being developed to increase growth and developmental impact are:

- A joint initiative with a university to harness the energy found in water transfer schemes and water distribution systems conduits
- A Rooftop Solar initiative for a large organization with viable physical infrastructure
- An affordable DC solution for the electrification of informal settlements, peri-urban and rural areas comprising generation, storage and installation of DC appliances

13 Skrander, 2017

5.3) Transport

The Transport and Logistics sector is made up of 5 modal nodes, namely road, rail, air, pipelines and sea. These nodes service industries which span across the continent and international markets. The transport sector remains highly fragmented since apartheid era spatial planning and historical fragmented development patterns have hindered consistent as well as integrated rural and urban transportation system. The result has been that much of the population is disconnected from economic centers and regional trade is hindered by rising transport costs and cross-border challenges. Furthermore, recurring traffic congestion in urban metropolitan areas are due to a lack of high-quality, reliable public transport services as an alternative to private car use.

The National Transport Master Plan (NATMAP) 2050 and the 25 Year Gauteng Integrated Transport Master Plan (ITMP) provide a policy blueprint for the development of passenger and freight transport infrastructure in South Africa. For the period 2018/19 to 2019/20, government has allocated a budget of R328 billion for transport infrastructure and this represents 34% of the total infrastructure allocation of R947 billion over the period. The sector is a crucial driver for economic growth and social development, as well as a fundamental component of the country's competitiveness in global markets.

The DBSA is developing innovative funding mechanism to unlock infrastructure development in the transport sector and has a number of products under development that will grow impact over the next three years, including the Provincial Roads Funding Product that aims to assist provincial governments to finance and implement provincial roads infrastructure in their areas of jurisdiction as current legislation prohibits provinces from borrowing. Successes so far in product innovation in this sector includes the development and implementation of a structured lease debt facility for a client by enabling a competitive advantage in securing contracts for the supply of railway rolling stock in targeted southern and sub-Saharan African countries.

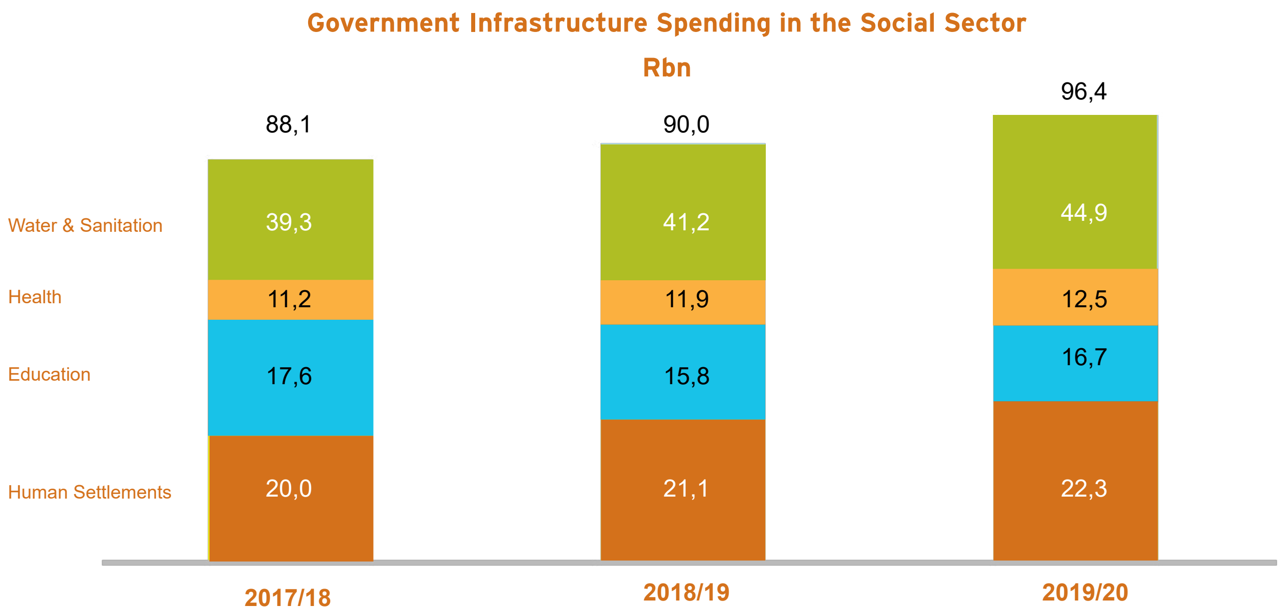
5.4) Social Infrastructure

Social infrastructure broadly covers the construction, refurbishment and maintenance of facilities largely in the healthcare, education and human settlements and water and sanitation. Extensive collaboration is required across national, provincial and local government to deliver against government priorities in this sector. Delivery in social infrastructure has not been keeping up with the demand of the economy for various reasons, key amongst others:

- Weak long-term infrastructure planning capacity which leads to inadequate spatial planning, budgeting and under-expenditure
- Limited skills in the execution of large projects

A significant portion of government funding has been re-prioritised to accelerate the provision of social services, bolster public health programmes, mitigate the increasing costs of higher education for students from low- and middle income households and maintain infrastructure investment.

For the period 2018/19 to 2019/20, government has allocated a budget of R274.5 billion to health, water and sanitation, education and human settlement infrastructure and this represents 29% of the total infrastructure allocation of R947 billion over the period. The construction and refurbishment of higher education infrastructure is one of the areas that was prioritized. It has been allocated an amount of R11.08 billion for student accommodation as well as associated facilities for the three year period ending 2019/20.



The following are services provided by DBSA in this sector:

- Construction, maintenance and the establishment of programme management offices (though IDD)
- Project preparation and long support for long term planning
- Lending
- Expansion of preparation, lending and construction and maintenance of student accommodation facilities

In 2017/18, value of funds under management in IDD is forecast to reach R3.5 billion and this is set to grow to R3.8 billion, R3.9 billion and R4.3 billion respectively over 2018/19, 2019/20 and 2020.

In the next three years, a number of opportunities to grow impact will be explored, amongst others:

- The Packaging of low cost semi-private schools in underserved areas co-funded by government through DBSA and the private sector
- The Expansion into other provinces where DBSA's infrastructure delivery has no footprint. Implementation and agent services are delivered in Eastern Cape, KwaZulu –Natal and Limpopo.
- Packaging of low cost semi- private Primary Health Care Facilities, Acute semi-private Hospitals facilities in underserved areas
- Forging strategic partnerships key agencies in the sector such as the Housing Development Agency

Project preparation activities in the sector that will commit in 2017/18 include:

- QualiHealth that will see the rolling out of efficient low-cost health care to the employed but medically uninsured. The investment is estimated at up to R100m.
- The Student Accommodation Programme through the Department of Higher Education (DHET) that will address acute shortages in student accommodation. To increase capacity and accelerate delivery, the DBSA will also establish a PMO.

Disbursements in the social sector are forecast to reach R495 million at the end of 2017/18 against the target of R1.8 billion. This outcome was impacted by excessive delays in key projects, especially at the water boards, that faced capacity issues and had to be stopped. In 2018/19, the DBSA plans to disburse R1.4 billion and this includes the TCTA's Olifants River Water Resources Development, Lesotho Highlands Water Project as well as private student accommodation. The disbursement are set to grow to R1.9 billion by 2020/21.

The DBSA is looking at developing and implementing a number of products and services to grow impact and to address market failure, amongst others:

- An insurance product that will support developing contractors in the sector
- A solution/mechanism to ensure that the socio-economic benefits of the IPP Programme materialise by accelerating cash flows to community trusts
- A model to build student accommodation given the high demand from student with limited financial resources

5.5) International

The DBSA has a strong record of supporting the Southern African Development Community (SADC) region's transformation. In the last three years, the DBSA has made investments exceeding R9 billion to the African continent and has provide project preparation, financing and other advisory support to entities across the region.

Governments and international development finance institutions are the main sources of funding for infrastructure in the ontinent. West Africa, followed closely by Southern Africa leads with the highest nominal value of projects at US$119.8 billion[14]. Despite the challenging environment on the continent, new investors are emerging from UAE, Namibia, Lebanon, Italy, and Switzerland. South Africa leads in the number of regional infrastructure projects in Southern Africa with 41 projects out of the 85.

Disbursements are forecast to reach R4.0 billion at the end of 2017/18 against a target of R5.6 billion and this was impacted by the extended time to move some of the key projects from commitment to disbursement that was unexpected. The DBSA is working on a number of projects under preparation to achieve a target of R5.4 billion in 2018/19 and is projected to increase disbursements in the sector to about R6.8 billion.

In the next three years, focus on improving developmental impact and regional integration will be achieved through:

- An enhanced strategic partnership model that will specifically focus on economic corridor development, African DFIs, other financial instructions and SA Inc.
- Increased product innovation to respond to specific dynamism of infrastructure investment on the continent
- Implementation of a programmatic approach to a sustainable pipeline development driven by project preparation and structured products

DBSA's cost of funding is high relative to that of a number of other Triple A rated DFI's that operate in the region. Access to concessionary financing will enable the DBSA to remain competitive in the region.

Although the DBSA's regional development and integration strategy is largely aimed at SADC, it broadly includes countries outside of SADC for selected regional economic communities, for example the tripartite free trade area linking SADC, COMESA and EAC as well corridor development. Outside of SADC therefore, investment opportunities will be considered in countries listed below – and will consider others only on authorisation from National Treasury.

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

14 Africa Construction Trends Report 2016, Deloitte

Economic Corridor Development

Central corridor: DBSA recently successfully packaged 23 transnational priority infrastructure projects for the Central Corridor and is now engaging on project financing opportunities. This relates to the construction of a 2.561 kilometre standard gauge railway that will ease transportation of goods from landlocked countries such Tanzania, Uganda, Rwanda, Burundi and Democratic Republic of Congo (DRC). The total project costs estimated at US$18 billion.

Beira-Nacala Multimodal Corridors that will rehabilitate the transport infrastructure in the Beira corridor within Mozambique, including the rehabilitation of the Sena railway line and the restoration of the Beira port access channel to its original specification. The total project costs are estimated at US$1.8 billion.

North-South Corridor (NSC) is a multi-modal (road, rail and ports) trans-continental interconnector that will ultimately connect the ports of Durban and Dar-es-Salaam and will extend to Cairo. This includes road, rail, bridge, a border post and energy projects. In the short term, 1,041 km of road must be upgraded, with another 5,156 kilometer due for upgrade in the next two to five years. The transport sector estimated costs of the project is estimated at US$10.9 billion.

Innovation

The development of innovative funding mechanism to unlock infrastructure development on the content is key to driving impact. A number of structured products are under development including a credit enhancement facility in Nigeria created to provide guarantees that enhance the credit quality of the local currency debt instruments which are primarily issued to finance infrastructure assets in African countries. The InfraCredit corporate bonds will be issued by eligible institutions to finance creditworthy infrastructure projects.

6) Infrastructure Delivery

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.

In the next three years, the Bank will continue to provide implementing agent and programme management services managing funds and will target Value of Infrastructure Delivered of R3.8 billion in 2018/19 to reach R4.3 billion in 2020/21.

The key programmes for 2017/18 include:

- Construction of new infrastructure
- Refreshment, upgrades and maintenance
- Programme Management Support

Focus in the next three years will also be on aligning infrastructure delivery to greater DBSA's preparation and funding business. This client-centric approach will deepen impact and accelerate delivery.

7) Economic Transformation

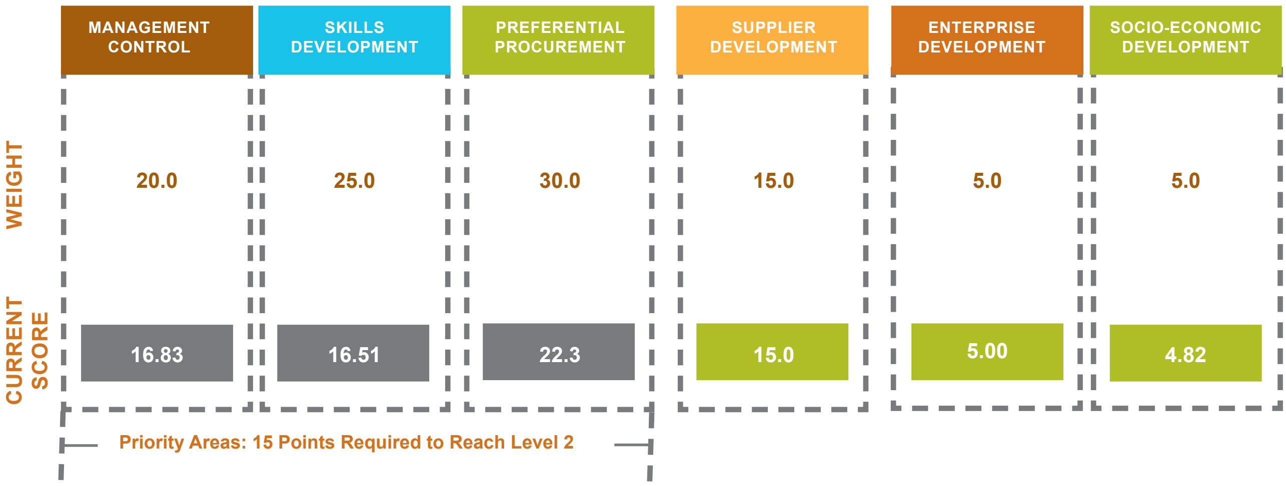
South Africa has a number of prescripts and frameworks that have been designed to guide the economic transformation of the country while creating new jobs, improving skill levels and strengthening the delivery of basic services. While the economic transformation of the country and the development finance mandate of the DBSA are fully aligned, there has never been a requirement to specifically integrate all of the Bank's transformative activities to demonstrate greater impact.

Economic Transformation as a strategic initiative seeks to significantly improve the level at which DBSA uses its mandate and value chain of activities to effect the change in the society in line with national policy frameworks.

The DBSA has identified 5 levers that will be utilised to advance economic transformation within infrastructure development and these include:

- The BBBEE rating, including preferential procurement, skills development, employment equity, and supplier/enterprise development
- Direct lending to the previously disadvantaged
- Direct impact through third party funds managed by the DBSA
- Indirect economic impact through guidelines and conditions set for our clients
- Gender mainstreaming

The DBSA was rated level 4 at the last BBBEE audit that was concluded in September 2017, improving by two levels from level 6 in 2016.



Although the DBSA is technically a Bank and falls, in principle, within the scope of the Financial Services Charter, it is not rated against the Financial Services Code as, like other developmental financial institutions, is not party to the developmental and banking access targets that were agreed to by the members of the Financial Services Charter Council. There is an initiative to look at addressing this misalignment through the BBBEE commission, but in the meantime, improving the BBBEE is an imperative especially in the municipal sector where BBBEE rating is one of the factors considered in awarding lending opportunities.

The DBSA has also been advancing economic transformation through lending activities and in the management of third party funds but did not have consolidated targets that were visible across all units of the organisation. Economic transformation activities across the enterprise, lending and management of third party funds will be monitored more closely to ultimately provide opportunities for improvement and even greater impact.

In the next three years, focus is on improving economic transformation through a number of initiatives that will be measured through the indicators shown below.

Element	Performance indicators	2017/18 Forecast	2018/19	2019/20	2020/21
BBBEE					
All elements of the scorecard	DBSA BBBEE Rating	4	3	2	1
Skills Development	Skills development expenditure for black people as a % of leviable amount	3.4%	4.5%	5%	5%
	Number of black people and people living with disabilities on learnerships	68	70	70	70*
	Number of graduates on a graduate programme	3	20 over a period of 3 years		
Increase proportion of black people in senior management	% Black executive management as a percentage of other executive management	42%	50%	55%	60%
Increase proportion of black women at Senior level	% Black female employees in Senior Management as a percentage of all senior management	20%	23%	26%	30%
DBSA Preferential procurement	Procurement spend on Blacked owned companies	26%	30%	35%	40%
	Procurement spend on Qualifying Small Enterprises	6.5%	10%	12%	15%
Procurement of Lender Professional Advisors for Transactions	% of transaction spend on black professional service providers	20%	30%	40%	50%
Lending to the previously disadvantaged					
Increase traditional infrastructure lending to black-owned entities	No. of black-owned projects (51%) approved for project preparation funding	2	2	3	3
	Value of projects for black-owned entities (51%) approved for project preparation funding	1	2	3	4
	No. of black-owned entities (51%) whose projects are committed for lending (target is cumulative over the 3 year period)	R76.4 m	R100 m	R120 m	R140 m
	Value of projects by black-owned entities (51%) that are committed for lending	R0.76 bn	R0.9 bn	R1.1 bn	R1.3 bn

* At any given year, the DBSA will have 70 learners – but not all 70 learners will be new each year

Direct impact through third party funds managed by the DBSA					
Develop, train and procure services from black-owned companies	Annual procurement spend on black suppliers and contractors (IDD contracts)	50%	60%	70%	80%
Gender Mainstreaming					
Increase traditional infrastructure lending to black women-owned entities	Number of projects approved majority owned by black women (lending and project preparation)	2	3	3	3
Develop, train and procure services from black women-owned companies	Annual procurement spend on black women suppliers and contractors (IDD contracts)	< 50%	50%	60%	70%
Increase proportion of black women at Senior level	% Black female employees in Senior Management as a percentage of all senior management	20%	23%	26%	30%

PART C
FINANCIAL PLAN

8) Financial Plan

8.1) Financial Overview

In preparing the three-year financial plan of the DBSA, the context that was considered includes 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.

The financial plan incorporates the financial outcomes of the business strategy outlined previously with the objective of demonstrating financial sustainability and meeting the Bank's goal of generating and sustaining inflation-linked growth in equity. The current scenario does not include the inclusion of callable capital - The DBSA and National Treasury are engaging on an ongoing basis 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)

8.2) 3-year Financial Plan (including callable capital)

The financial projections in this plan 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. This constitutes the general factor used to grow expenses, except where specific adjustments or a budget for specific non-recurring expenditure was done.

	2018/19	2019/20	2020/21
DBSA internal inflation	6.0%	6.0%	6.0%
Economic inflation[15]	5.5%	5.5%	5.5%

- Budgeted foreign exchange rates for:
    - 2018/19: R12/$,
    - 2019/20: R11.5/$
    - 2020/21: R11.5/$

Exchange rates were determined by benchmarking forecasts by economic research institutions. A table showing the exchange rate forecast by three economic research institutions is shown below:

	2018/19	2019/20	2020/21
RMB	12.00	13.00	13.35
Long Forecast	10.96	10.67	12.87
Average	11.48	11.84	13.11

15 Source – National Treasury, Medium Term Budget Policy Statement, October 2017

- R130 million set aside in 2017/18 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 between R4 million to R6 million over the three years.
- Full cost recovery in the non-lending business
- Funding rates

	2017/18	2018/19	2019/20	2020/21
Jibar 6M	7,50%	7,25%	7,50%	8,00%
Gov't rate 10 to 13 years	8,30%	8,20%	8,15%	8,50%
Direct lending & LOC	7,50%	7,25%	7,50%	8,00%
Libor	1,90%	2,30%	2,50%	2,75%

- Funding Mix (new borrowings)

	2018/19	2019/20	2020/21
Jibar 6M	30%	30%	30%
Gov't rate 10 to 13 years	50%	50%	50%
Direct lending & LOC	20%	20%	20%
Total	100%	100%	100%

The salient features of the plan for the financial years 2018/19 to 2020/21 includes:

- Targeted annual infrastructure disbursements of R16 billion, R18 billion and R20 billion for the respective financial years
- Net interest income of R4.1 billion (2018/19) is expected to increase to R4.9 billion by 2020/21, 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 50.1% in 2018/19 to 48.8% in 2020/21, 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 excluding IDD, development expenditure, project preparation and grants) is projected to improve from 23.8% in 2018/19 to 23.2% in 2020/21, mainly as a consequence of the growth in the net interest income. These ratios are well below the internally set threshold of 30%.
- Developmental loans are projected to grow to R105 billion by 2020/21. The table on the following page reflects the budgeted gross loan book and impairment provision over the medium term. The impaired amount reflected in the Financial Plan is based on preliminary IFRS9 impairment numbers. The full extent of the impact is currently being assessed and significant changes will be communicated accordingly. An implementation team is currently assessing this impact and any significant change will be communicated accordingly.

R'million	2016/17	2017/18	2018/19	2019/20	2020/21
South Africa Financing					
Gross loan book	58 057	68 361	70 794	78 324	86 353
Provision	(1 598)	(1 644)	(2 116)	(2 643)	(3 242)
Net loan book	56 459	66 717	68 678	75 681	83 110
International Financing					
Gross loan book	17 610	13 825	19 100	22 163	25 857
Provision	(2 564)	(2 806)	(3 060)	(3 359)	(3 708)
Net loan book	15 046	11 020	16 040	18 805	22 149
Total DBSA	**71 505**	**77 737**	**84 718**	**94 485**	**105 260**

- 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 7.7% and 7.9%

8.3) 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 2018/19	Projection 2019/20	Projection 2020/21
Building	R28.0 mil	-	-
Computer equipment	R14.0 mil	R15.0 mil	R16.0 mil
Intangible assets	R56.5 mil	R60.0 mil	R65.0 mil
Total	**R98.5 mil**	**R75.0 mil**	**R81.0 mil**

8.4) 3-year Financial Plan

BALANCE SHEET	2016/17 Actual R mil	2017/18 Forecast R mil	2018/19 Budget R mil	2019/20 Projection R mil	2020/21 Projection R mil
Cash & cash equivalents	2 299	2 513	1 024	1 323	1 618
Financial market assets	1 960	2 574	2 520	2 455	2 393
Equity investments	5 973	5 601	5 331	5 070	4 892
Project preparation	-	-	-	-	-
Development loans	71 505	77 737	84 718	94 485	105 260
Development bonds	1 290	1 290	1 290	1 289	1 288
Fixed assets	503	534	559	551	540
Other assets	121	495	147	152	157
Total assets	**83 652**	**90 743**	**95 589**	**105 324**	**116 148**
Medium- to long-term debt	50 613	54 851	56 749	63 484	70 837
Deferred income	-	-	81	159	233
Other liabilities	1 008	1 400	1 543	1 673	1 814
Liabilities	51 621	56 251	58 374	65 316	72 884
Shareholders' equity	200	200	200	200	200
Retained earnings	17 515	19 847	22 571	25 364	28 620
Other reserves	14 317	14 444	14 444	14 444	14 444
Equity	32 031	34 492	37 215	40 008	43 264
Total equity & liabilities	**83 652**	**90 743**	**95 589**	**105 324**	**116 148**
Balance sheet ratios:					
Debt / equity (excl. callable capital)	158%	159%	152.7%	159.1%	164.3%
Debt / equity (incl. R20 billion callable capital)	97%	101%	99%	106%	112%
Return on average equity – Net profit	8.81%	7.35%	7.60%	7.23%	7.82%

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	2016/17	2017/18	2018/19	2019/20	2020/21
(Amounts in R mill)	**Actual**	**Forecast**	**Budget**	**Projection**	**Projection**
Interest income	7 373	7 706	8 119	8 949	10 063
Interest expense	(3 704)	(3 931)	(4 048)	(4 496)	(5 148)
Net interest income	**3 669**	**3 775**	**4 071**	**4 453**	**4 914**
Net fee income	346	249	294	330	372
Other income	707	185	62	65	88
Operating income	4 722	4 209	4 427	4 848	5 374
Impairment	(339)	(335)	(341)	(539)	(540)
Operating expenses	(837)	(1 017)	(1 217)	(1 349)	(1 425)
Financing					
Personnel cost	(490)	(629)	(698)	(805)	(854)
Other expenses	(138)	(178)	(271)	(287)	(304)
Depreciation	(29)	(24)	(30)	(30)	(32)
IDD					
Personnel cost	(113)	(116)	(148)	(154)	(160)
Other expenses	(64)	(67)	(68)	(71)	(73)
Depreciation	(2)	(2)	(2)	(2)	(2)
Innovation					
Personnel cost	-	-	-	-	-
Other expenses	-	-	-	-	-
Depreciation	-	-	-	-	-
Project preparation costs	(24)	(25)	(50)	(50)	(50)
Corporate Social Investment	-	(5)	(10)	(11)	(12)
Development expenditure: interest subsidy	(27)	(21)	(81)	(100)	(111)
Development expenditure planning and capacity support	-	(30)	(30)	(30)	(30)
Revaluation on equity investments	81	32	73	81	78
Stakeholder relations cost	(11)	(8)	(17)	(17)	(17)
Sustainable earnings	**3 564**	**2 800**	**2 755**	**2 833**	**3 267**
Revaluation (loss) / gain on other financial instruments	(125)	(58)	-	-	-
Foreign exchange gain / (loss)	(619)	(298)	(32)	(39)	(11)
Net profit	**2 821**	**2 445**	**2 723**	**2 793**	**3 256**
Income statement ratios					
Net interest margin	49.8%	49.0%	50.1%	49.8%	48.8%
Cost to income ratio: Total	18.8%	26.3%	31.7%	32.1%	30.6%
Cost to income ratio: IDD	128%	92.7%	96%	95.4%	92.5%
Cost to income ratio: (including lending and project preparation)	15%	23%	28.2%	28.8%	27.5%
Cost to income (DBSA) – excluding project preparation, development expenditure and grants	18%	24.2%	27.5%	27.8%	26.5%
Cost to income (excl IDD) – excluding project preparation, development expenditure and grants	14%	20.7%	23.8%	24.3%	23.2%

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	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual R' million	**Forecast R' million**	**Budget R' million**	**Projection R' million**	**Projection R' million**
Profit/(loss) for the year	**2 821**	**2 445**	**2 723**	**2 793**	**3 256**
Adjusted for:	**(2 179)**	**(2 162)**	**(3 775)**	**(3 961)**	**(4 466)**
Depreciation	31	26	31	32	34
Grants	62	88	27	28	29
Dividends	(16)	(20)	(62)	(65)	(88)
Loss on asset disposals	(1)	(0)	-	-	-
Fees accrued (development loans)	1	202	-	-	-
Equity gain	(746)	(150)	(73)	(81)	(77)
Revaluation gains / (losses)	145	(17)	-	-	-
Foreign exchange (gains) / losses equity investments	1 676	1 148	(424)	(203)	11
Forex (gains) / losses on USD assets	-	-	1 231	653	-
Forex (gains) / losses on USD funding	-	-	(775)	(410)	-
Impairments	339	335	341	539	540
Net interest income	(3 669)	(3 775)	(4 071)	(4 453)	(4 914)
Subtotal	**(642)**	**(282)**	**(1 113)**	**(1 168)**	**(1 210)**
Change in other assets	33	(26)	(348)	(5)	(5)
Change in other payables	(343)	(91)	224	208	215
Interest & dividends received	6 881	6 983	8 181	9 014	10 150
Interest paid	(3 446)	(3 413)	(4 048)	(4 496)	(5 148)
Net cash from operating activities	**3 767**	**3 735**	**3 654**	**3 553**	**4 001**
Cash flows from development activities	**(2 831)**	**(7 250)**	**(7 813)**	**(10 440)**	**(11 099)**
Development loan disbursements	(12 104)	(12 760)	(16 000)	(18 000)	(20 000)
Development loan principal repayments	8 572	5 292	8 189	7 441	8 753
Net increase in equity investments	733	378	(25)	147	177
Grant paid	(35)	(66)	(27)	(28)	(29)
Net advances to National Mandates	2	(93)	-	-	-
Cash flows from investing activities	**(858)**	**(825)**	**(3)**	**(42)**	**(39)**
Purchase of PPE & intangibles	(25)	(56)	(57)	(23)	(23)
Proceeds from PPE	1	-	-	-	-
Movement in financial market assets	833	(769)	54	65	62
Cash flows from financing activities	**156**	**4 611**	**2 674**	**7 144**	**7 354**
Capital raised	-	-	-	-	-
Financial market liabilities repaid	(27 051)	(10 573)	(5 403)	(15 660)	(6 916)
Financial market liabilities raised	27 207	15 185	8 077	22 805	14 286
Movement in cash & cash equivalents	**215**	**214**	**(1 489)**	**298**	**295**
Effect of exchange rate movements	(19)	(57)	-	-	-
Opening cash & cash equivalents	2 085	2 299	2 513	1 024	1 323
Closing cash & cash equivalents	**2 299**	**2 513**	**1 024**	**1 323**	**1 618**
Liquidity per IFRS	**3 414**	**3 909**	**2 367**	**2 600**	**2 833**
Cash and cash equivalents	**2 299**	**2 513**	**1 024**	**1 323**	**1 618**
Financial market assets[16]	**1 114**	**1 396**	**1 342**	**1 277**	**1 216**

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

8.5) Funding and Borrowing Programme

Funding and Borrowing Programme is covered in section 14 (Other Supporting Plans).

8.6) Dividend Policy

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

8.7) Procurement Plan

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 practices. The DBSA is currently rated as a Level 4 contributor in terms of the Broad based Black Empowerment Act and has put plans together to reach Level 2 by 2020 as outlined in section 7.

8.8) Materiality and Significance framework

	Proposed Framework	Limit[17]	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.	**Quantitative:** 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.	R22.1 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.
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.	**Quantitative:** 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 2016/17 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 2016/17 financial year) of the Bank.	R6.3 billion R837 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.

[17]Based on the 2016/17 audited Financial Statements (latest available)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PART D
THE BALANCED SCORECARD

9) Key factors considered in developing the scorecard

The DBSA is primarily a bank that is state-owned and is subject to performance measures that prevail in the banking industry as well as to the prescripts that apply to SOEs. The DBSA is further required to be sustainable and must generate revenue in order to continue to operate without significant support from the shareholder. It is within this context that the Balanced Score-card is developed and particularly for the period 2018/19 to 2020/21, a number of factors were considered:

- The implementation of the new operating model necessitated the development of targets that were no longer aligned to divisions in the old operating model
- The need to track more indicators that are in line with the new strategy, for example the focus on providing more non-financial services to under-resourced municipalities
- The requirement to elevate developmental and transformative activities of the Bank as key measures of success
- The requirement to incorporate new governance indicators
- Closer alignment to government programmes

The DBSA is in the process of formulating Developmental Impact indicators that will be reviewed, signed-off and base-lined during 2018/19. The Balanced Scorecard in the next Corporate Plan will feature more of these indicators to facilitate an effec-tive evaluation of the organisation's developmental mandate.

10) Changes to the balanced scorecard

The changes that were applied to the balanced scorecard cover indicators, targets as well as weightings within the 4 pillars of the scorecard. The most significant change is the addition of new KPIs on governance. This has resulted in the reduction of weighting in Financial and Customer perspectives.

10.1) Financial Perspective

The overall weighting assigned to the financial was reduced to 50% and the components of the perspective have changed to guide effort and focus as follows:

- Financial indicators that include cash flow from operations, RoE, non-interest income, cost-to-income ratio and capital management have their overall weighting reduced from 33% to 23%
- Disbursement targets, as proxy for developmental impact, have been kept the same at from 27%
- Under-resourced municipalities no longer have a disbursement only target

2017/18 BSC

Financial Perspective	**TOTAL 60%**
• ROE on sustainable earnings	17%
• Non-interest revenue	3%
• Cost-to-income ratio	3%
• Net operating cash generated from operations	10%
SA Financing (disbursements)	21%
• Metropolitan cities	5%
• Secondary municipalities	4%
• Under-resourced municipalities	4%
• Social infrastructure	4%
• Economic infrastructure	4%
International Finance (disbursements)	4%
• SADC only	3%
• Rest of Africa (incl. SADC)	1%
	2%
Value of structured finance products dis-bursed	2%

Proposed BSC 2018/19

Financial Perspective	**TOTAL 50%**
• Non-interest revenue	5%
• Cost-to-income ratio (core banking)	3%
• RoE (on sustainable earnings)	8%
• Net cash generated from operations	4%
• Capital management	3%
• Total disbursements	24%
– RSA Local Government: Top 5 Metros	4%
– RSA Local Government: Secondary cities	4%
– RSA Social	4%
– RSA Economic	5%
– SADC Countries	4%
– Non-SADC Countries	3%
• Structured Finance	3%

10.2) Customer Perspective

The overall weighting assigned to the customer perspective was reduced to 15% and new measures were introduced in line with increased focus on economic transformation and the requirement to increase non-financial services delivered to under-resourced municipalities. To accommodate these three new measures:

- Value of 3rd party funds catalysed from RSA, SADC, IDD, Structured Products and Project Prep were consolidated into one indicator
- Value of Funds under Management and funds catalysed by IDD was replaced by Value of infrastructure delivered as this provides a better measure of impact

2017/18 BSC

Customer Perspective	TOTAL 20%
• Value of projects prepared and committed by DBSA	2%
• Value of projects prepared but funded by other funders	2%
• Value of third-party funds catalysed for DBSA in SA	2%
• Value of third-party funds catalysed in SADC	2%
• Value of funds catalysed for innovation project [third-party funders]	4%
• Value of funds catalysed for Infrastructure Development	2%
• Client satisfaction survey	4%

Proposed BSC 2018/19

Customer Perspective	TOTAL 15%
• Value of infrastructure unlocked for under-resourced municipalities	3%
• Value of projects prepared and committed	2%
• Value of infrastructure delivered	2%
• Total third-party funds catalysed	2%
• Value of projects by black-owned entities (51%) approved for project preparation funding	2%
• Value of projects by black-owned entities (51%) that are committed for lending	2%
• Client satisfaction survey	2%

10.3) Internal Business Perspective

The overall weighting assigned to the internal Business perspective was increased to 25% to accommodate the new governance indicators. The implementation of the operating model falls away as this was a strategic 2017/18 project and is replaced by an economic transformation indicator. The governance indicators include:

- Effective management of risk and internal audit findings
- Effective management of supply chain processes
- A clean audit outcome

Internal Process Perspective	TOTAL 10%
• Balance sheet capacity: Capital management	4%
• Implementation of the operating model	4%
• Transaction pipeline execution efficiencies	2%

Internal Process Perspective	TOTAL 25%
• Improvement in the BBBEE score	5%
• Governance	20%
– Clean audit outcome	5%
– Number of outstanding, significant internal audit findings past due	5%
– % of unremediated risk policy breaches that have exceeded their risk appetite	5%
– % of irregular, unauthorised, fruitless and wasteful expenditure - DBSA	3%
– % of irregular, unauthorised, fruitless and wasteful expenditure - IDD	2%

10.4) Learning and Growth Perspective

The overall weighting assigned to the Learning and Growth perspective was maintained at 10% and the key indicators were kept the same.

Learning and growth perspective TOTAL 10%

- % retention of critical staff members 4%
- Reduction in the bank's entropy score 4%
- Adherence to critical training plan 2%

Learning and growth perspective TOTAL 10%

- % retention of critical staff 4%
- Reduction in the Bank's entropy score 4%
- Adherence to critical training plan 2%

11) The Balanced Scorecard

The following table reflects the Balanced Scorecard for 2018/19 to 2020/21 and reflects 2017/18 forecasts as baseline.

Objective	Key performance indicator	Owner	Weighting	Forecast 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
FINANCIAL PERSPECTIVE (50%)							
Maintain financial sustainability	**Financial**						
	Non-interest revenue (excluding IDD and equity)	CIO	5% (3%)	R250 million	R275 million	R285 million	R300 million
	Cost-to-Income ratio (Financing business, excl. IDD)*	CFO	3% (3%)	23.0%	30%	30%	30%
	ROE (calculated on sustainable earnings)	CFO	8% (17%)	7.70%	6.0%	6.0%	6.0%
	Net cash generated from operations	CFO	4% (10%)	R4.1 billion	R3.4 billion	R3.5 billion	R4.1 billion
	Capital management	GE: Treasury and Capital Management	3% (4%)	100% completion of signed off capital management project plan	Board approval of the Capital Management strategy at Q1 review; Full execution of strategy by financial year end	Exceed approved quantititive capital management targets	Exceed approved quantititive capital management targets
	Disbursements						
	Total disbursements	CIO	24% (21%)	R14.9 billion	R16.0 billion	R18.0 billion	R20.0 billion
	RSA Local Government – Top 5 Metros	GE: Coverage; GE Transacting	4% (5%)	R4.5 billion	R4.0 billion	R4.4 billion	R4.8 billion
	RSA Local Government – Smaller Metros and Intermediate Cities**	GE: Coverage; GE Transacting	4% (4%)	R0.3 billion	R0.7 billion	R0.9 billion	R1.1 billion
	RSA Social	GE: Coverage; GE Transacting	4% (4%)	R0.5 billion	R1.4 billion	R1.8 billion	R1.9 billion
	RSA Economic	GE: Coverage; GE Transacting	5% (4%)	R5.6 billion	R4.5 billion	R4.8 billion	R5.4 billion
	SADC Countries	GE: Coverage; GE Transacting	4% (3%)	R1.5 billion	R3.2 billion	R3.5 billion	R4.0 billion
	Non-SADC Countries	GE: Coverage; GE Transacting	3% (1%)	R2.5 billion	R 2.2 billion	R2.6 billion	R2.8 billion
	Structured Finance (included in disbursements)						
	Structured Finance	CIO	3% (2%)	R0.0 billion	R 2.0 billion	R 4.0 billion	R 6.0 billion

* Ratio excludes IDD and includes developmental expenditure, PPU and grants. Where developmental expenditure is underspent, this ratio will be calculated using the budgeted expenditure

**Smaller Metros are Mangaung, Nelson Mandela Bay and Buffalo City

Balanced scorecard (continued)

Objective	Key performance indicator	Owner	Weighting	Forecast 2017/18	2018/19 Target	Target 2019/20	Target 2020/21
CUSTOMER PERSPECTIVE (15%)							
Sustained growth in development impact	**Under-resourced Municipalities**						
	• Value of infrastructure unlocked for under-resourced municipalities	GE: Coverage GE: Project Prep	3% (0%)	R0.1 billion	R0.5 billion	R1.0 billion	R1.5 billion
	Project Preparation						
	• Value of projects prepared and committed	GE: Project Prep	2% (2%)	R5.9 billion	R7.0 billion	R8.5 billion	R10.0 billion
	Infrastructure Delivered						
	• Value of infrastructure delivered	GE: IDD	2% (0%)	R3.6 billion	R3.8 billion	R3.9 billion	R4.3 billion
	Total funds catalysed						
	• Total 3rd party funds catalysed+	GE: Coverage GE: Transacting GE: IDD GE: Project Prep	2% (0%)	R 14.1 billion++	R27.7 billion	R38.6 billion	R49.2 billion
	Economic Transformation						
	• Value of projects for black-owned entities (51%) approved for project preparation funding	GE: Project Prep GE: Coverage	2% (0%)	R76.4 million	R400 million∞	R500 million	R600 million
	• Value of projects by black-owned entities (51%) that are committed for lending	GE: Coverage GE: Coverage	2% (0%)	R0.76 billion	R0.8 billion	R1.0 billion	R1.2 billion
Integrated infrastructure solutions provider	**Client satisfaction survey**						
	• Client satisfaction survey	GE: Coverage GE: Transacting GE: Project Prep GE: IDD	2% (4%)	3.8	3.0	3.0	3.0

+ Third party funds catalysed = Target for total infrastructure unlocked for the year less (value of infrastructure delivered + value of projects prepared and committed + value of infrastructure unlocked for under-resourced municipalities + disbursements)

++Made up of SA Finance forecast 3rd party catalysed of R3.5 billion, IDD of R4.6 billion and PPU R6.0 billion

∞Half of the target (value of project prep funding) must be to small and medium enterprises

Balanced scorecard (continued)

Objective	Key performance indicator	Owner	Weighting	Forecast 2017/18	Target 2018/19	Target 2019/20	Target 2020/21
LEARNING AND GROWTH PERSPECTIVE (10%)							
Create and maintain a high performance culture	• % Retention of critical staff members	GE: Corporate Services	4% (4%)	90% (Anticipated to lose less than 10% of critical skills)	Lose less than 10% of critical skills list	Lose less than 10% of critical skills list	Lose less than 10% of critical skills list
	• Reduction in the Bank's entropy score$	GE: Corporate Services	4% (4%)	100% (Anticipate 2% reduction on the entropy score)	1% reduction on the entropy score$	1% reduction on the entropy score	1% reduction on the entropy score
	• Adherence to critical training plan aligned to the talent plan	GE: Corporate Services	2% (2%)	80% of milestones completed	90% of milestones completed [per project plan]	90% of mile-stones complet-ed [per project plan]	90% of milestones completed [per project plan]
INTERNAL PROCESS PERSPECTIVE (25%)							
Continuous improvement of internal systems and processes	• Improvement in the BBBEE Score	GE: Coverage GE: Transacting GE: Project Prep	5% (0%)	Level 4	Level 3	Level 3	Level 3
	Governance						
	• Number of outstanding sig-nificant internal audit findings past due	Chief Risk Officer	5% (0%)	5	0	0	0
	• External audit outcomes	Chief Financial Officer	5% (0%)	Clean Audit	Clean Audit	Clean Audit	Clean Audit
	• Percentage of un-remedied risk policy breaches that have exceeded their risk appetite +++	Chief Risk Officer	5% (0%)	0%	0%	0%	0%
	• % of fruitless, irregular, unauthorised and wasteful expenditure $$	Chief Financial Officer	3% (0%)	<1% of total expenditure	0% of total expenditure	0% of total expenditure	0% of total expenditure
	• % of fruitless, irregular, un-authorised and wasteful expen-diture - IDD $$	Chief Financial Officer	2% (0%)	~7.5% of total expenditure	0% of total expenditure	0% of total expenditure	0% of total expenditure

$ If Entropy score in March 2018 reaches 20% or lower, the targets for 2018/19 and onwards are to maintain that score year-on-year

$$ For Procurement effected though DBSA processes

+++ Risks within control of the DBSA


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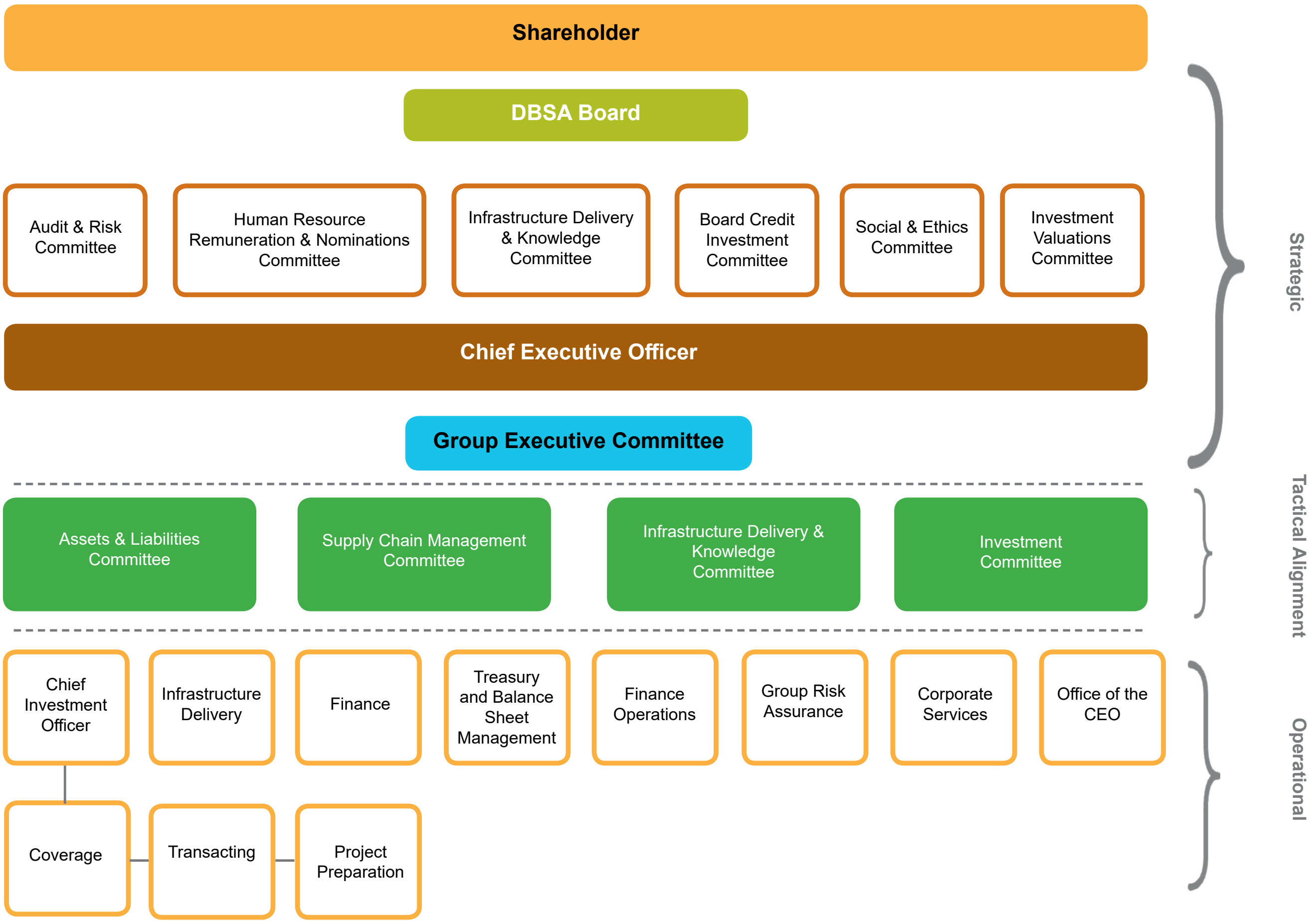
Avuxeni Ndaa
Sawubona Lotjhani Molo
Dumela Sawubona Avuxeni

PART E
CORPORATE GOVERNANCE

12) Governance Structures

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.



The DBSA has embraced King IV and has in the last financial year completed an assessment of its practices against the 16 applicable principles. The 2016/17 DBSA Annual Integrated Report provides details of the measures that were taken to meet the prescribed governance outcomes.

13) The DBSA Board

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 14 directors, 13 of whom are non-executive. The Chief Executive and Chief Financial Officers are the only executive directors and a member from the National Treasury serves on the Board as a shareholder representative. The he Board Charter does not distinguish fiduciary responsibilities of Shareholder representatives from that of non-executive directors.

Board of Directors

Mr Phillip Jabulani Moleketi (61)
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: Non-executive Director
- Newshelf 1078 (Pty) Limited: Non-executive Director
- Centre for Education in Economics and Finance Africa (NPO): Non-executive Director
- Vodacom Group Limited: Non-executive Director

Mr Frans Msokoli Baleni (58)
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, Bishop's Stortford, UK

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): Non-executive Director
- F11 Management Consulting (Pty) Ltd: Non-executive Director
- ADC Cables (Pty) Limited: Non-executive Director

Ms Patience Nosipho Nqeto (60)
Director of companies

DBSA Non-executive & Independent Director as from: 1 August 2017

Expertise

- Business Management
- Strategic Management
- People Management
- Financial Management
- Policy Management and
- Administration

Academic qualifications:

- MBA, University of Charles Sturt, Australia Honours (Economics)
- University of South Africa BCom, University of Transkei

Other directorships:

- Bongo Strategic Compass (Pty) Ltd

Mr Lufuno Motsherane (48)
Director of companies

DBSA Non-Executive & Independent Director as from: 1 August 2017

Expertise

- Human Resource
- Management
- Strategic Management

Academic qualifications:

- Postgraduate Diploma (Management) MANCOSA
- Honours (Human Resources Development) Southern Business School

Other directorships:

- Lelo Systems: Director
- LN Trading enterprise: Director
- LN Tobacco House: Director

Board of Directors (continued)

Ms Zanele Monnakgotla (46)
Director of companies

DBSA Non-Executive
& Independent Director
as from: 1 August 2017

Expertise

- Business Management
- Project Finance
- Development Finance
- Legal
- Corporate Finance and Risk Management

Academic qualifications:

- Masters in Finance, Wits Business School
- Management Advanced Programme, Wits University
- LLM in Tax, Wits University
- LLB, Rhodes University
- BCom, Rhodes University

Other directorships:

- SASOL Inzalo – Non-executive Chairman of Sasol Inzalo Public Limited
- Small Enterprise Development Agency (SEDA) - Non executive Director of SEDA
- South African Bureau of Standards (SABS) - Non-executive Director - Chairman of the Financial Investments Committee
- Companies and Intellectual Property Commission - Member of audit committee
- Department of Public Enterprises - Member of audit committee
- National Advisory Council on Innovation - Council Member

Ms Martie J van Rensburg (61)
Director of companies

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

Expertise

- Finance
- Treasury
- Project Finance
- Infrastructure Delivery and Strategy

Academic qualifications:

- Executive Programme in Strategy and Organisation, Stanford University Business
- CA(SA)
- B Compt Hons, UNISA
- B Com, University of the Free State

Other directorships:

- Firstrand Limited: Non-executive member - Africa and Specialised Finance Credit Committee
- Sephaku Holdings Limited: Non-executive Director and Chairman of the Audit and Risk Committee
- Ashburton: Non-executive member of Investment Credit Committee
- SaveTNet Cyber Safety NPC (non-profit company): Non-executive Chairman

Mr Patrick Dlamini (48)
Chief Executive and Managing Director: DBSA

DBSA Staff member and CEO as from1 September 2012

Expertise

- Strategic Leadership
- Human
- Capital Development and Finance

Academic qualifications:

- Master of Science in Global Finance (MSGF), HKUST-NYU Stern
- 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 Gugu Mtetwa (38)
Director of companies

DBSA Non-executive Director as from: 1 August 2014

Expertise

- Business Management
- Auditing
- Financial Management

Academic qualifications:

- CA (SA)
- Partner development programme, GIBS
- Executive Leadership Development Programme, USB
- Post Graduate Diploma in
- Accounting, University of Cape Town
- Bachelor of Commerce (Accounting), University of Cape Town

Other directorships:

- Equites Property Fund Limited: Non-executive Director
- Italtile Limited: Non-executive Director
- Santam Limited: Non-executive Director
- Land Bank: Non-executive Director;
- Sasfin Holdings: Non-executive Director

Board of Directors (continued)

			
Prof Mark Swilling (58) Divisional Head: Sustainable Development, University of Stellenbosch	**Ms Letlhogonolo Meko (35)** Strategic Advisor – Human Capital Solutions	**Ms Anuradha Sing (47)** General Manager: Infrastructure at MTN Group Limited	**Ms Malijeng Ngqaleni (59)** Deputy Director General: Intergovernmental Relations (IGR), National Treasury
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	DBSA Non-executive Director as from: 1 August 2017 **Expertise** • ICT • Human Capital Solutions • Business Strategic Management **Academic qualifications:** • MBA (Business Administration), Wits Business School • Postgraduate Diploma in Management, Wits Business School • Management Advancement Programme, • Wits Business School • Master Network Engineering Diploma, Torque-IT • IT Programming Diploma, CTU Training Solutions **Other directorships:** • Boxing South Africa (BSA)	DBSA Non-executive Director as from: 1 August 2014 **Expertise** • Finance • 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 • MTN BISSAU: Non-executive Director	DBSA Non-Executive 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

Board of Directors (continued)

Ms Bulelwa Ndamase (47)
Managing Director of Ndamase Incorporated

DBSA Non-executive Director as from: 1 August 2017

Expertise:

- Legal Business Management
- Strategic Management and Development

Academic qualifications:

- Masters in Law, Georgetown University, USA
- LLB, University of Natal, BA, University of Cape Town

Other directorships:

None

Dr Blessing Mudavanhu (46)
Founder and President of Dura Capital Ltd

DBSA Non-executive Director as from: 1 August 2017

Expertise:

- Banking
- Risk Management
- Business Management
- Development Finance

Academic qualifications:

- Ph.D. Mathematics, University of Washington, USA
- M.S. Financial Engineering, University of California at Berkeley, USA
- M.S. Applied Mathematics, University of Washington, USA
- B.S. Honors Mathematics, University of Zimbabwe

Other directorships:

- African Banking Corporation (Zimbabwe)

Directors' appointment and induction

Appointment and nomination of directors to the DBSA Board is regulated by the DBSA Act in terms of which the Shareholder is charged with appointing the directors based on their abilities in relation to socio-economic development, finance, business, banking or administration. The Human Resources, Remuneration and Nominations Committee of the Board considers nominations for appointments, and proposes a list to the Board of Directors where recommendations are made 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. A board induction is conducted for all new board members.

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, is 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 IV 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 six committees: The Audit Committee; Board Credit and Investment Committee; Human Resources, Remuneration and Nominations Committee; Social and Ethics Committee; Investment Valuations Committee as well as the Infrastructure Delivery and Knowledge Committee.

Audit and Risk Committee

The functions of the Audit and Risk Committee are regulated by the PFMA and King IV 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 information technology. 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 and Investment Committee

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

	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	All	All	
	MS1-MS10	**MS11-MS13**	**Above MS13**
Rest of Africa			
SADC: Low risk countries	> US$50 million	> US$20 million	All
SADC: Medium risk countries	> US$20 million	> US$10 million	All
SADC: High risk and post conflict countries	> US$10 million	All	All
SADC: Private sector clients	All	All	All
Rest of Africa (excluding SADC)	All	All	All

Human Resources, Remuneration and Nominations Committee

The Board of Directors has established the Human Resources, Remuneration & Nominations Committee (HRNC) 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. 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 behavior of the Bank. The HRNC has the responsibility to ensure that there are adequate processes, policies systems and procedures to ensure sound corporate governance.

Infrastructure Delivery and 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.

Social and Ethics Committee

The role of the Social and Ethics Committee is oversight and reporting on organizational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships. The Committee governs the ethics of the organization in a way that supports the establishment of an ethical culture.

Investment Valuation Committee

The DBSA Investment Valuations Committee is constituted in terms of Section 10 of the DBSA Act, No 13 of 1997. The committee's function is to review and recommend for approval the Bank's investment valuations and impairments; Equity Valuations Report; Non-Performing Loan Book Report; Credit Portfolio Report; and Bank's Finance Assets and Liabilities Portfolio Report.

Composition of DBSA Board and Board Committees

The table below presents the composition of the DBSA Board and Board Committees.

DBSA Board	Audit and Risk Committee	Board Credit and Investment Committee	Infrastructure Delivery and Knowledge Committee	Human Resources Remuneration and Nominations Committee	Social and Ethics Committee	Investment Evaluation Committee
Mr Jabu Moleketi (Board Chair)		X	X	X	X	X
Mr Frans Baleni (Deputy Chair)		X	X	Chair	Chair	X
Mr Patrick Dlamini (CEO)		X	X			X
Ms Martie J van Rensburg	X	X	Chair			X
Ms Gugu Mtetwa	Chair	X		X	X	Chair
Ms Malijeng Ngqaleni			X			
Prof Mark Swilling			X	X	X	
Ms Zanele Monnakgotla	X	X				X
Mr Lufuno Motsherane			X	X	X	
Ms Bulelwa Ndamase	X	X				X
Ms Pinkie Nqeto	X			X	X	
Ms Letlhogonolo Noge-Tungamirai			X	X	X	
Dr Blessing Mudavanhu	X	X				X
Ms Anu Sing	X	Chair				X

Corporate Secretariat

The Bank through its Corporate Secretariat function facilitates 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 recommended by King II. 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.

Combined assurance

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 which 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. 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 also has an ethics management programme to ensure that ethics is managed comprehensively.

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 section 13 for the Bank's fraud prevention plan.

14) Executive Committee

		
Mr Ernest Dietrich (55)	**Mr Paul Currie (56)**	**Mr Mohammed Bhabha (59)**
Group Executive: Treasury 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	Chief Investment 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:** • Investment Committee member: Old Mutual • Housing Impact Fund: (DBSA nominee)	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:** • Alexcor Rehabilitation Trust: Non-Executive Director • In Transformation Initiative • Yammin Hammond and Partners • MOE Consulting (PTY) LTD

Executive Management (continued)

		
Ms Zodwa Mbele (46) Acting Chief Financial Officer and Group Executive: Transacting	Mr Michael Hillary (48) Group Executive: Financing Operations	Mr Mohan Vivekanandan (44) Group Executive: Coverage
DBSA Staff member as of 9 October 2016 Group Executive as from 1 October 2017 **Academic qualifications:** • Advanced Management Programme, Harvard Business School • Executive Development Programme, University of Stellenbosch Business School • Management Advancement Programme, WITS Business School • Certificate in International Treasury • Management ACT (UK) • CA (SA) • Bachelor of Accounting Science Honors, Unisa Baccalaureus Paedonomia • University of Zululalnd **Directorships:** • Stanlib Infrastructure Fund: Credit • Committee • Sentech SOC Limited • Vergenoeg Mining (Pty) Ltd • Merchant West (Pty) Ltd	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	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

Executive Management (continued)

	
Mohale Rakgate (43)	Mpho Kubelo (40)
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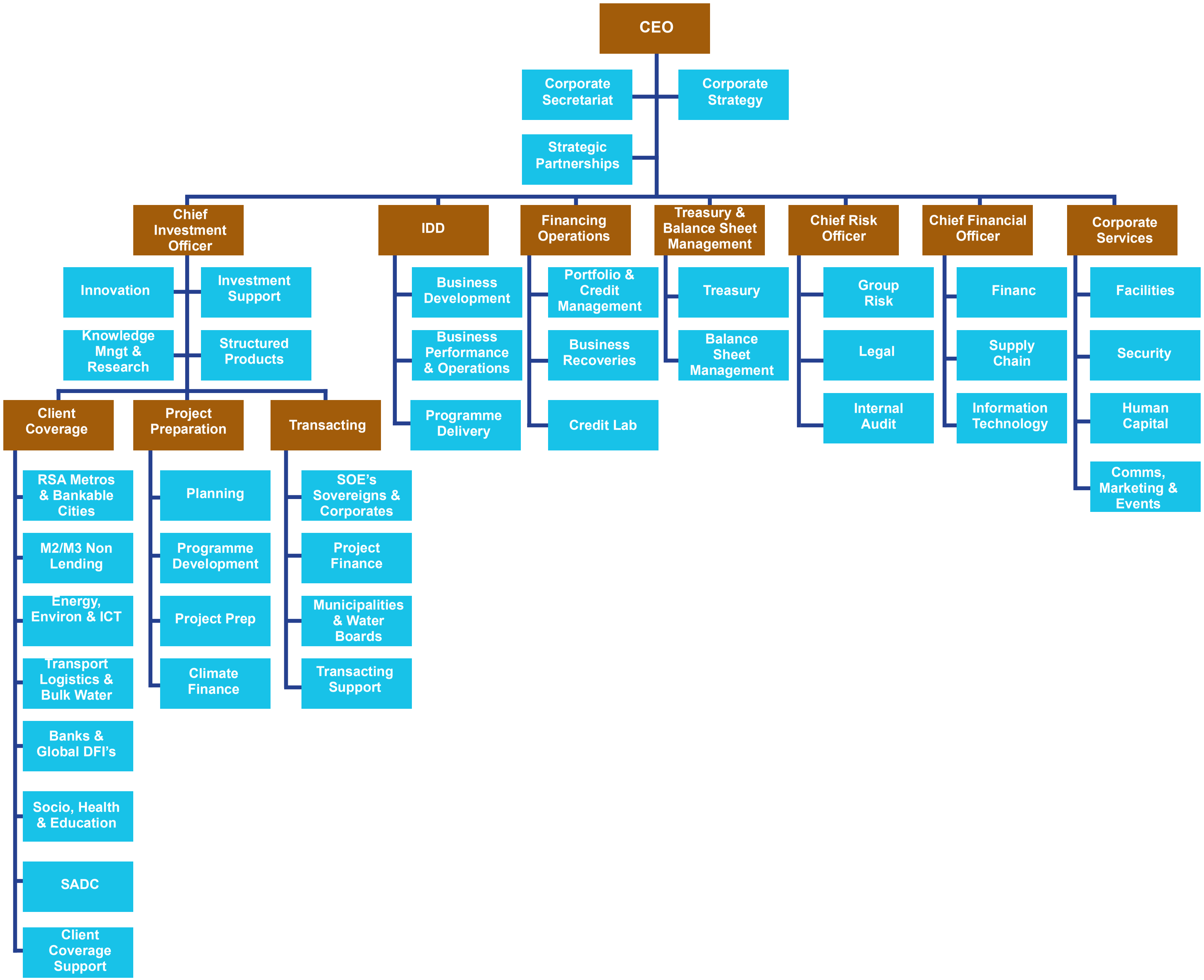
Organisational Structure

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PART F OTHER SUPPORTING PLANS

15) Funding Plan and Borrowing Programme

The section outlines the DBSA borrowing programme for the 2018/19 financial year.

Key points on the DBSA funding strategy is that 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
- Optimisation of the cost of funding by entering into bi-laterals with offshore commercial banks and continue to expand the investor base
- Reduction of the Net Open Position in line with Treasury Polices

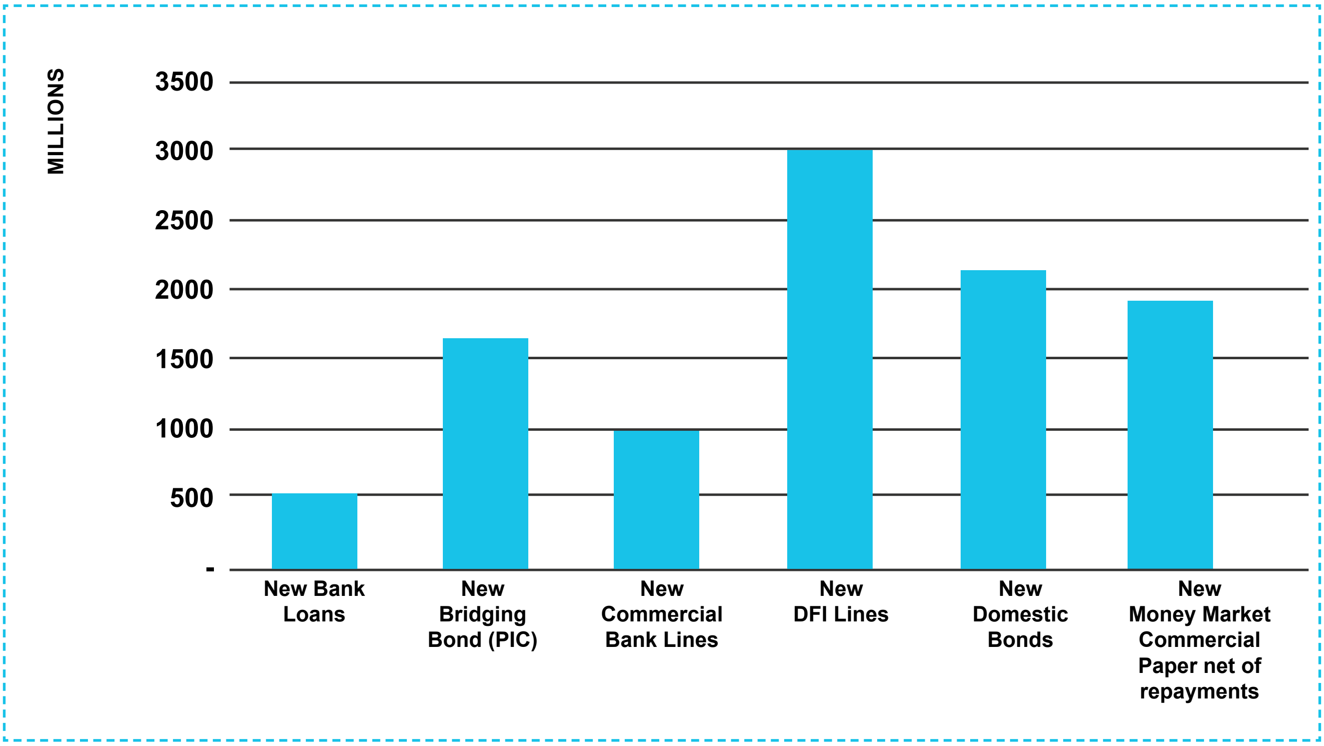
15.1) Tactical funding strategies

- The execution of the funding strategy includes drawing 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 enables 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

15.2) Funding raised April - November 2017

The aggregate gross borrowings of all debt that was rolled and raised amounted to **R10.94bn**. The aggregate borrowings are within the Board approved borrowing limit of **R17.5 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 4 auctions. During the year, the bank issued 1, 3, 5 and a new 7 year floating rate note. All 4 auctions were oversubscribed and pricing either came within the lower end of or below pricing guidance, indicating continued demand for DBSA paper.

Funding sources April to 30 November 2017



15.3) Borrowing terms and conditions

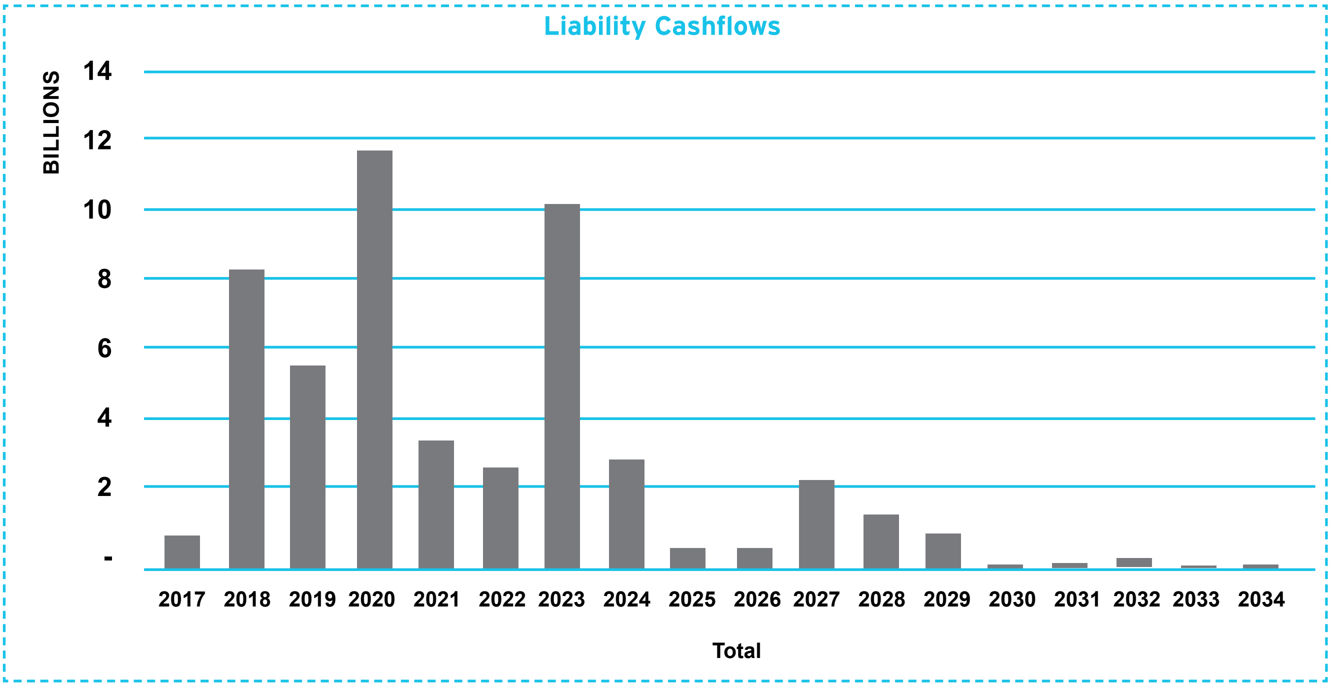
The Bank's domestic bonds / commercial paper are issued under the JSE listed DMTN Programme which captures the terms and conditions of the bond funding. Bilateral facilities both from DFIs and commercial banks are executed under terms and conditions typical of international loan agreements with many 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%)
- Restrictions on disposals / negative pledge with requisite exclusions

15.4) Current liability maturity profile

The maturity profile of the Bank's debt book is depicted in the table below:



The maturity profile set out in the table above reflects the actual maturity profile and excludes any assumptions which were made in producing the forecast set out in Table 3 below. The change in debt repayment from 2016 maturity profile vs. 2017 maturity profile can be attributed to the rollover of debt. The DBSA will be looking at reducing this repayment risk by using switch auctions over the next 2 years.

15.5) Proposed borrowing programme for the 2018/19 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

Borrowing Plan for 2018 to 2020

R million	FY 2019	FY 2020	FY 2021
Beginning liquidity	2,513	1.024	1,323
Loan capital asset receipts	8,189	7,441	8,753
Capital injection	-	-	-
Loan interest receipts	8,181	9,014	10,150
Fee & other income	227	238	254
Cash inflows	19,110	17,717	20,480
Debt capital repayments	(5,403)	(15,669)	(6,926)
Debt interest repayments	(4,052)	(4,502)	(5,155)
Operational expenses	(1,278)	(1,349)	(1,425)
Capital expenditure	(57)	(23)	(22)
Disbursements	(16,000)	(18,000)	(20,000)
Cash outflows	26,790	(39,544)	(33,528)
Net cash flows	(7,680)	(21,827)	(13,049)
Additional liquidity per policy	**(1,500)**	-	-
Projected Borrowing requirement	**(9,180)**	**(21,827)**	**(13,049)**
D : E	153%	160%	165%
Including callable	100%	106%	113%

15.6 Foreign currency borrowing limit

The outstanding debt in foreign currency as at 30 November 2017 is summarised in the table below.

	EUR	USD	Total
Commercial Banks	-	6,412,864,400	6,412,864,400
DFI	2,249,597,237	5,628,903,078	7,878,500,315
	2,249,597,237	12,041,767,478	4,291,364,715

The exchange rates used as at 30 November 2017 were: USD/ZAR = R13.6910 and EUR/ZAR = R16.3204

The Bank's revised foreign currency borrowing limit of R22 billion for the 2018/19 financial year was approved during May 2017.

Foreign currency borrowing limit

Foreign Currency Borrowing Limit	2017/18	2018/19	2019/20
Disbursements - Total International	**5,000,000,000**	**5,500,000,000**	**6,000,000,000**
Interest Expense	**383,371,073**	**407,923,560**	**465,985,237**
Liability Capital Repayments	**2,157,045,700**	**1,948,402,891**	**2,420,716,833**
Loan Captal Repayments (receipts)	**(2,574,976,215)**	**(3,522,172,710)**	**(4,518,863,621)**
Interest Income	**(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%)	**19,080,596,240**	**22,659,101,942**	**26,037,674,016**

15.7) Available funding

A total of R 52.3 billion funding can still be accessed through both JSE issuances (R 47.6 billion) and available facilities (R 3.7 billion).

Available Facilities and JSE DMTN Headroom

Facility Provider	Project/Pipeline	Currency	Original Amount	Utilised Amount	Available Amount
Local Bank 1	General Corporate Facility	USD	100,000,000		100,000,000
Local Bank 2	General Corporate Facility	USD	200,000,000	29,400,000	170,600,000
Subtotal ZAR equivalent at R13.69			**R 4,107,000,000**	**R 402,486,000**	**R 3,704,514,000**
JSE DMTN Programme	General Corporate Facility	ZAR	80,000,000,000	32,391,000,000	47,609,000,000
Local Bank	General Corporate Facility	ZAR	800,000,000	-	800,000,000
Local Bank	Uncommitted Headroom Facility	ZAR	1,000,000,000	-	1,000,000,000
					R 52,313,514,000

****As at 15 December 2017****

15.8) Potential funding sources

The following potential facilities with DFIs and commercial banks are currently under discussion and the conclusion of any new facilities will be subject to our funding requirements and agreement on key terms and pricing.

Potential sources of funding

USD	Type of Loan	Amount
International Commercial Bank	Syndicated Loan	150,000,000
	Short Term Loans	50,000,000
		200,000,000
DFI's	SADC Projects	400,000,000
		400,000,000

15.9) 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.

15.10) Credit ratings

The credit rating reviews are conducted by Standard and Poor's (S&P's), Fitch and Moody's. All three rating agencies reduced the DBSA's during 2017 in line with the change in the South African Sovereign Long Term Foreign Currency Ratings and Long Term Local Currency Ratings. 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.

15.11) Recommendation

The projected borrowing requirement for the 2017/18 financial year amounts to **R 7.7 billion** (as set out in the previous table: Borrowing Plan for 2018 to 2020). 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, total new borrowings for the financial year 2017/18 come to **R 9.2 billion**.

16) Employment Equity Plan

In support of the overall DBSA Vision, the EE vision is to build a transformed and high performing workforce that is representative of the demographics of our country.

The EE Plan is 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 target contained in this document.

16.1) DBSA Three year EE plan for the period 2018 - 2021

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 2018/19 – 2020/21. The key focus is to improve and or set realistic targets to ensure the DBSA has a representative workforce.

Proposed Summary of the 3-year EE Numerical Targets (2018- 2021)

		BLACK					BLACK FEMALE			
Occupational Level	BBBEE TARGET (BLACK)	BASE	FY 2019	FY 2020	FY 2021	BBBEE TARGET BLACK FEMALE	BASE	FY 2019	FY 2020	FY 2021
Top Management	60%	63%	73%	73%	73%	30%	13%	36%	36%	36%
Senior Management	60%	58%	57%	67%	67%	30%	17%	39%	39%	39%
Professionally Qual	75%	66%	69%	71%	71%	38%	30%	32%	32%	32%
Skilled Tech	88%	80%	80%	80%	80%	44%	58%	57%	57%	57%
Semi-Skilled	N/A	98%	98%	98%	98%	N/A	45%	45%	45%	45%
Unskilled and defined decision making		100%	100%	100%	100%		81%	81%	81%	81%
TOTAL		**75%**	**76%**	**77%**	**77%**		**42%**	**43%**	**43%**	**43%**

The Bank start from a base of 75% Black and natural attrition is unlikely to significantly create opportunities for a major shift in the demographic profile of the DBSA. The DBSA would however focus on interventions to create opportunities for development and enhancing the work environment to embrace Disability. As at December 2017 DBSA's percentage of black employees with Disabilities was 0.7%. The target for black employees living with disabilities remains 3%.

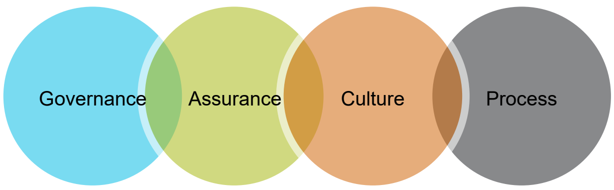
17) Risk Management Framework

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.

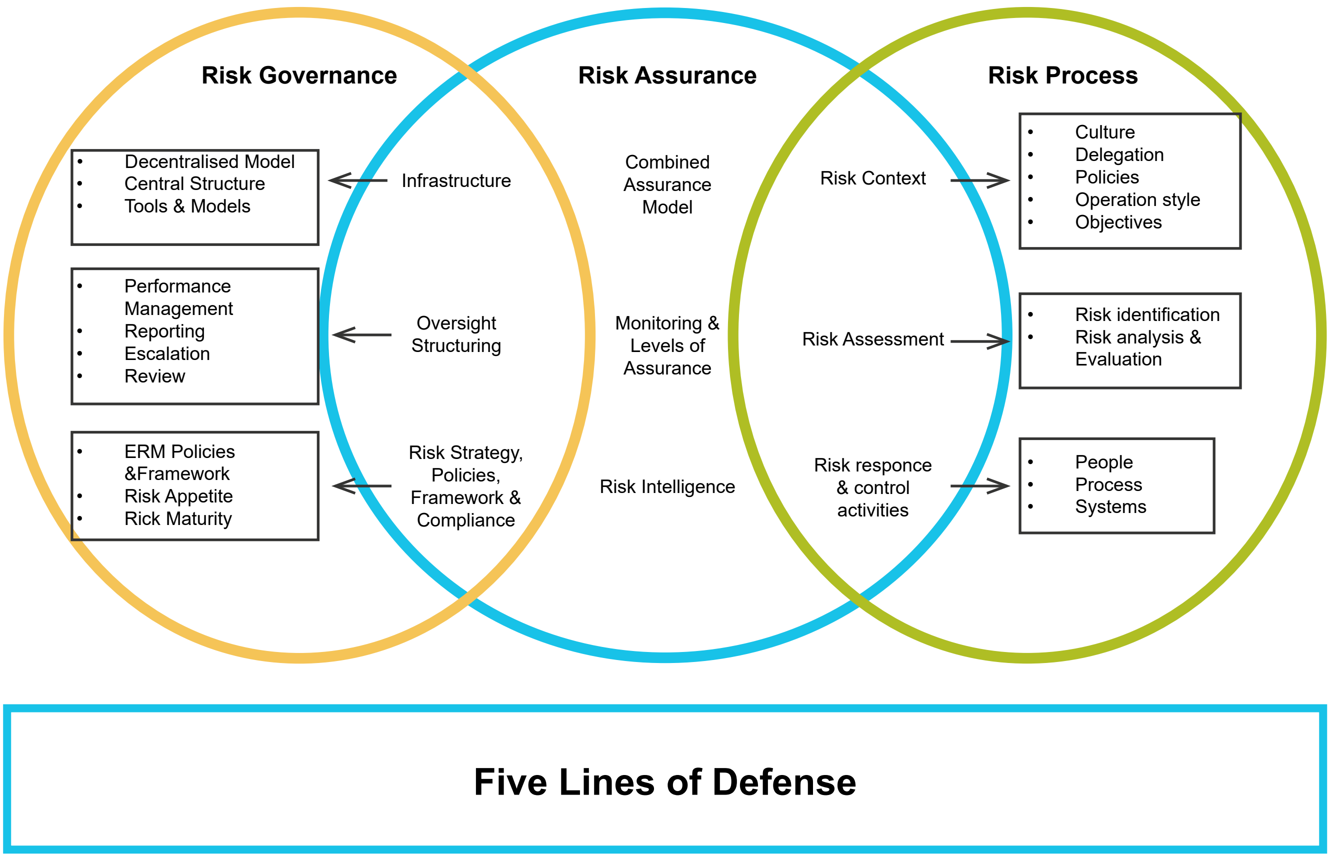
- Business risk

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 emphasizes 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.

18) 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 in the table below have been developed to provide an early warning signal for areas of concern.

Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Proposed Inherent Rating	Previous Submission	Mitigation	Proposed Residual Rating	Previous Submission
1.	Macroeconomic risk: The risk arising from challenging macroeconomic conditions, impacting DBSA's ability to achieve its strategic objectives. Risk Sponsor: CEO	Sustained growth in development impact. Integrated infrastructure solutions provider. Financial sustainability: Context: The global macro-economic environment is currently categorized by lower growth, reduced commodity prices notably oil price, and expected rise in US interest rates. This would have a direct impact on DBSA's existing clients and possible clients.	Sustained low commodity prices (e.g. oil and copper). Volatility of the rand, interest rates and sovereign rating downgrades. Economic growth slowdown.	Inability to meet infrastructure financing and implementation targets. Potential increase in credit impairments above the Bank's appetite. Increase in cost of funding placing pressure on margins and sustainability on future deals. Inability maintain financial sustainability. Potential for selecting countercyclical opportunities. Opportunities for DBSA to play a leading role in providing long term infrastructure funding due to pull back by other lenders. Reduced government spending and demand for infrastructure projects.	20 Critical II: = 4 (Major) IL= 5 (Almost certain)	25 Critical II: = 5 (Critical) IL= 5 (Almost certain)	Project Preparation to build sustainable pipeline for the Bank. Pro-active monitoring of the credit portfolio to minimise possible impairments. Strategies implemented in Treasury to manage both foreign exchange and interest rate risk.	12 High RI = 3 (Moderate) RL=4 (Probable)	15 High RI = 3 (Moderate) RL=5 (Almost Certain)
Risk No.	**Principal Risk**	**Associated Strategic Objective / Context**	**Key Drivers**	**Possible Impact**	**Proposed Inherent Rating**	**Previous Submission**	**Mitigation**	**Proposed Residual Rating**	**Previous Submission**
2.	Changing operating environment: The risk arising from failing to respond and innovate due to a rapidly changing operating environment. Risk Sponsor: CIO	Sustained growth in development impact. Integrated infrastructure solutions provider. Financial sustainability. Context: The DBSA's strategy requires unlocking infrastructure in a developmental finance landscape that is constantly evolving. The DBSA is responding to this via the Innovation Hub platform, by forging strategic partnerships, and developing structured products and funding structures to unlock infrastructure and crowd-in third parties.	Changing client needs. Entry of new players including international DFIs. Disruptive technology impacting DBSA and its clients.	Inability to maintain financial sustainability. Lower development impact and future infrastructure investments. Potential increase in impairments and potential defaults.	12 High II = 4 (Major) IL =3 (Possible)	25 Critical II: = 5 (Critical) IL= 5 (Almost certain)	Innovation program initiated. Changes in the external environment are taken into account when formulating strategy. Improved integrated infrastructure solutions to clients. Bank's operating model reviewed to ensure more responsiveness and innovativeness to client's needs. Focus on partnerships, rather than competing, driven through the catalysation approach. Project appraisal/investment processes cater for relevance of technology.	9 Moderate RI = 3 (Moderate) RL =3 (Possible)	3 Low RI = 1 (Low) RL =3 (Possible)

3.	Credit risk: The risk of loss due to bor-rowers/ clients defaulting on repayments. Risk Sponsor: CRO	Sustained growth in development impact Financial sustainability. Context: DBSA provides loans to clients which exposes the bank to credit risks. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial.	Deteriorating macro-economic environment. Ineffective monitoring of the credit portfolio. Poor deal selection. High single name concentrations.	Increase in potential defaults, impairments and write-offs, thus impacting sustainability.	16 High II = 4 (Major) IL =4 (Prob-able)	25 Critical II: = 5 (Critical) IL= 5 (Almost certain)	Proactive management of the portfolio including Watch Listing. Proactive Business Support and Recovery to minimise losses when there are defaults. Adequate governance and investment processes to ensure appropriate deal selection. Defined risk appetite including prudential limits to manage concentration risk.	6 Moderate RI = 3 (Moderate) RL =2 (Unlikely)	12 High RI = 3 (Moderate) RL =4 (Probable)
Risk No.	**Principal Risk**	**Associated Strategic Objective / Context**	**Key Drivers**	**Possible Impact**	**Proposed Inherent Rating**	**Previous Submission**	**Mitigation**	**Proposed Residual Rating**	**Previous Submission**
4. .	Country risk: The risk arising from the possi-bility that chang-es in economic concentration, sovereign debt sustainabili-ty, currency exchange and convertibility, may impact adversely on the quality of the assets, or ability to continue with Bank operations in a country. Risk Sponsor: CIO Political risk: The risk arising from changes in the local political landscape and political pres-sure, which may impact on the mandate and performance of the Bank. Risk Sponsor: CEO	Sustained growth in development impact Financial sustainability Integrated infrastructure solutions provider. Context: Within the region that we operate in, political events, social issues, sovereign debt sustainability, currency exchange and convertibility, have a bearing on infrastructure opportunities we pursue, and ability of clients to repay. South African political landscape continue to evolve and changes continue to impact the business environment. These create additional uncertainty and turbulence in the markets and sectors that DBSA operates in, including IDD's ability to achieve innovative infrastructure solutions.	Changes in government policy impacting opportunities and projects that DBSA is pursuing or invested in. Changes in macroeconomic environment leading to adverse changes in currency exchange rate convertibility and debt sustainability. Governance concerns associated with DBSA as an SOE. Potential changes in government or priorities.	Negative impact on financial sustainability due to increase in impairments. Loss of stakeholder goodwill and reputation. Increase in cost of funding, due to sovereign downgrades.	12 High II = 4 (Major) IL =3 (Possible)	20 Critical II = 5 (Critical) IL =4 (Probable)	Deal specific mitigants as well as investing in projects of strategic importance to target countries. Country risk management framework is in place, including Board approved prudential limits, which are applied on a country level based on risk profile. Ongoing analyses of economic and global market conditions. Proactive management of the portfolio including country risk. Adequate governance and investment processes to ensure appropriate deal selection. Ongoing stakeholder management.	9 Moderate RI = 3 (Moderate) RL =3 (Possible)	9 Moderate RI = 3 (Moderate) RL =3 (Possible)

.5.	Funding and Liquidity risk: The risks arising from the chance that the DBSA will be unable to meet its obligations as they become due as a result of an inability to obtain adequate funding or liquidate assets. Risk Sponsor: GE: Treasury and Balance Sheet Management	Sustained growth in development impact. Financial sustainability. Context: If the Bank is to meet its infrastructure developmental targets, it requires adequate funding and access to capital markets. The recent downgrade of South Africa's credit rating to sub-investment grade by S&P Global, and Moody's placing the country on review for a downgrade, impacts the credit rating of DBSA. Furthermore, investors in the Bank's debt instruments require comfort that their money is on-lent to entities that practice good governance.	Adverse market conditions leading to sovereign and DBSA downgrades. Governance concerns associated with DBSA as an SOE.	Loss of competitiveness due to increased funding costs. Lower growth in development impact. Inability to maintain financial sustainability.	8 Moderate II = 4 (Major) IL =2 (Unlikely)	20 Critical II = 5 (Critical) IL =4 (Probable)	Continuous review of alternative sources of funding. (Funding Strategy). Treasury Strategy and Risk Framework implemented. DBSA governance processes in place. Stakeholder management including ongoing interactions with current and potential investors in DBSA debt.	3 Low RI = 3 (Moderate) RL =1 (Remote)	9 Moderate RI = 3 (Moderate) RL =3 (Possible)
Risk No.	**Principal Risk**	**Associated Strategic Objective / Context**	**Key Drivers**	**Possible Impact**	**Proposed Inherent Rating**	**Previous Submission**	**Mitigation**	**Proposed Residual Rating**	**Previous Submission**
6.	Occupational Health and Safety: The risks arising from events in the workplace, especially in the implementation of DBSA projects that result in losses of life, injuries, legal and reputational damage. Risk Sponsor: CEO	Provide integrated infrastructure solutions. Context: The DBSA Leadership recognizes that people are the most valuable asset and as such want to ensure that reasonable practicable safe solutions are implemented during all our activities and operations. This risk is much higher in the Infrastructure Delivery Operations.	Inadequate monitoring of OHS matters at IDD project sites. Inadequate OHS induction, awareness and training. Reliance on third parties.	Losses of life. Onsite injuries. Legal and reputational damage.	16 High II = 4 (Major) IL =4 (Probable)	16 High II = 4 (Major) IL =4 (Probable)	Appointment of OHS Specialists to monitor OHS matters. OHS induction and awareness training. Continuous reporting to EXCO and Board on IDD projects status quo. Occupational health and safety management and audits of projects/ contractors. Professional service providers and principal contractors sign Section 37 (2) agreements with DBSA, which transfers a large part of the accountability to the said parties.	9 Moderate RI = 3 (Moderate) RL =3 (Possible)	9 Moderate RI = 3 (Moderate) RL =3 (Possible)

7.	Infrastructure Implementation: The risks arising from infrastructure delivery initiatives not delivering on the expected outcomes. Risk Sponsor: GE: Infrastructure Delivery	Provide integrated infrastructure solutions. Sustained growth in development impact. Context: The DBSA is recognized as a critical component of the national infrastructure system with a mandate to contribute meaningfully towards national infrastructure priorities. The risk relates to risks associated with the actual delivery of infrastructure which are not the same as the lending operations of the DBSA.	Misaligned operating model. Inadequate Supply Chain Management process for IDD business. Lack of dedicated legal skills to review IDD contracts and MOAs. Ineffective process to recover direct costs. Insufficient resources to coordinate and monitor IDD contracts.	Lower financial sustainability. Lower than expected development impact. Loss of stakeholder and client goodwill and reputation. Breaches of legislation leading to fines and penalties. Contracts and Legal Risk.	9 Moderate II = 3 (Moderate) IL =3 (Possible)	16 High II = 4 (Major) IL =4 (Probable)	IDD operating model implemented. Supply Chain management process has been reviewed and enhanced. Dedicated legal skills to review contracts and MOA's. All projects implemented on a direct cost recovery basis. Principal Agents appointed to coordinate and monitor the logistics plan in all contracts.	6 Moderate RI = 3 (Moderate) RL =2 (Unlikely)	12 High RI = 3 (Moderate) RL =4 (Probable)
8.	Human Capital / People: The risk of failure to recruit, develop and retain the best people. Risk Sponsor: CEO and GE: Corporate Services	Create and maintain a high performance environment. Context: To be able to execute our mandate, we need to be able to recruit, develop and retain the best people.	Limited opportunities for growth due to the flat structure of the DBSA. Mobility of highly skilled people. Competition for talent.	Failure to deliver on the Bank's mandate and sustainable infrastructure goals.	12 High II = 4 (Major) IL =3 (Possible)	12 High II = 4 (Major) IL =3 (Possible)	Retention strategy which includes inter alia performance incentives benchmarked with peers. Performance management process. Deployment into challenging engagements to improve retention. Growth through training and development opportunities. Culture initiatives.	6 Moderate RI = 3 (Moderate) RL = 2 (Unlikely)	6 Moderate RI = 3 (Moderate) RL = 2 (Unlikely)

9.	Developmental Impact: The risk of lower than expected developmen-tal impact in projects financed and implemented. Risk Sponsor: CIO and GE: Financing Operations	Sustained growth in development impact. Context: 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 infrastructure. The Bank acknowledge as a state-owned enterprise, it is important that the activities of the organisation are closely aligned to support key national imperative such as BBBEE. In the next three years, priority will be to increase focus on economic transformation by preparing projects that are majority owned by black people as well black women.	Inadequate gathering of potential development outputs and outcomes during the project appraisal process. Inadequate tracking of development outputs during implementation of projects. Not preparing projects that contribute to economic transformation. BBBEE requirements not integrated with all critical DBSA procurement processes/ requirements. Failure to invest in deals that do not deliver on the requisite development outputs and outcomes.	Failure to meet our mandate and targets. Lower than expected development results. Loss of stakeholder goodwill and reputation.	12 High II = 4 (Major) IL =3 (Possible)	12 High II = 4 (Major) IL =3 (Possible)	Development Results Template completed by frontline during project appraisal process. Developmental Results Reporting Framework (DRRF) has been rolled out within the Bank. Funding criteria requires demonstration of high development impact. Integrate BBBEE requirements within all critical business process such as procurement and human capital initiatives. Influence the BEE Commission to accurately reflect the contribution DBSA made to society as a DFI.	4 Low II = 2 (Minor) IL =2 (Unlikely)	6 Moderate II = 3 (Moderate) IL =2 (Unlikely)
10.	Cyber Risk: The risk arising from accidental or malicious breaches of information se-curity, adversely impacting DBSA and clients. Risk Sponsor: GE: Finance	Continuous improvement of internal systems and processes Context: In today's world, there is increasing sophistication of cyber-attack capa-bilities (external, insider threat or supplier breach), including related legislative requirements that requires focus from a risk perspective.	Ineffective cyber security controls and awareness programs	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. Negative impact to financial sustainability.	12 High II = 4 (Major) IL =3 (Possible)	12 High II = 4 (Major) IL =3 (Possible)	Cyber security controls in place such as: Execution of the approved ICT Information secu-rity management system. Cyber Security Forum & Enterprise architecture function fully operational. Cyber security awareness programs. Implementation of ICT business continuity plan, which is tested regularly.	4 Low RI = 2 (Minor) RL =2 (Unlikely)	6 Moderate II = 3 (Moderate) IL =2 (Unlikely)

Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Proposed Inherent Rating	Previous Submission	Mitigation	Proposed Residual Rating	Previous Submission
11.	Governance and Conduct: The risk of unethical conduct due to failure in governance processes (internally and with regard to our clients) Risk Sponsor: CEO and Corporate Secretariat	Continuous improvement of internal systems and processes. Context: 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. There has also been allegations of governance challenges and financial irregularities in SOEs and corpo-rates, such as for example Eskom, KPMG, Steinhoff etc.	Undue influence internally and externally. Staff are not adequately trained and aware of their compliance responsibilities relating to various pieces of legislation. Not implementing and monitoring the DBSA Code of Ethics and Fraud Prevention Plan.	Loss of goodwill and reputation. Breaches of legislation leading to fines and penalties. (e.g. POPI, OHS, Supply Chain etc.) Fraud and corruption. Conduct Risk. Financial loss.	9 Moderate II = 3 (Moderate) IL =3 (Pos-sible)	12 High II = 4 (Major) IL =3 (Possible)	Project specific reviews for each of the deals we finance (due diligence). Ethics training and awareness. Well defined delegations of authority matrices. Internal controls reviewed on a regular basis. Controls relate to Declarations of Interest on projects and various fraud detection strategies etc. Fraud prevention plan as well as a fraud hotline in place.	4 Low RI = 2 (Minor) RL =2 (Unlikely)	4 Low RI = 2 (Minor) RL =2 (Unlikely)
12.	Sustainability Risk: The risk arising of failing to remain economically, socially and environmentally sustainable. Risk Sponsor: CEO	Sustained growth in development impact. Financial sustainability. Integrated infrastructure solutions provider. Context: There is increased awareness in the market around environmental and social issues. Management continues to demonstrate embedding sustainability in everything we do, thus enhancing the sustainable development of the social, economic and ecological environment.	Environmental, Social and Institutional guidelines not assessing sustainable development for DBSA projects. Not being responsible when engaging with stakeholders and communities in the environment we operate in	Failure to remain a going concern. Loss of goodwill and reputation. Breaches of legislation leading to fines and penalties. Loss of support from the key stakeholders critical in assisting DBSA to fulfil its mandate. Loss of credibility, negative image and reputation.	16 High II = 4 (Major) IL =4 (Probable)	20 Critical II = 5 (Critical) IL =4 (Probable)	Managed mainly at a project level, where the environmental, social, institutional and economic guidelines consider sustainability factors to ensure that DBSA-supported programmes and projects remain functional over time. Draft Sustainability Framework is in place supported by corporate social responsibility, environmental and social policies.	4 Low RI = 2 (Minor) RL =2 (Unlikely)	6 Moderate RI = 2 (Minor) RL =3 (Possible)
Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Proposed Inherent Rating	Previous Submission	Mitigation	Proposed Residual Rating	Previous Submission
13.	Stakeholder Management: The risk of failing to align business practices with stakeholder expectations resulting in long term unsustainability. Risk Sponsor: CEO and CIO	Sustained growth in development impact. Financial sustainability. Integrated infrastructure solutions provider. Context: The Bank recognizes that effective stakeholder management and collaboration is imperative to the success of achieving the Banks strategic and operational goals and objectives.	Not effectively implementing stakeholder framework and brand and communication strategy.	Loss of support from the key stakeholders critical in assisting DBSA to fulfil its mandate. Loss of credibility, negative image and reputation. Breaches of leading to fines and penalties.	16 High II = 4 (Major) IL =4 (Probable)	16 High II = 4 (Major) IL =4 (Probable)	Managing stakeholder according to the approved stakeholder framework. Brand and communication marketing strategy. Enhanced Stakeholder management program initiated to incorporate lessons learnt from Future-growth incident.	4 Low RI = 2 (Minor) RL =2 (Unlikely)	4 Low RI = 2 (Minor) RL =2 (Unlikely)

Legend

The table below summarises the legend used for DBSA Principal Risks 2018/19 above:

<table>
<tr><th colspan="2">INHERENT AND RESIDIAL RISK RATINGS</th><th colspan="2">DEFINITIONS</th></tr>
<tr><td>II</td><td>Inherent Impact</td><td rowspan="2">Inherent Risk</td><td rowspan="2">The risk exposure if no controls or other mitigating factors are in place. It is therefore the gross risk.</td></tr>
<tr><td>IL</td><td>Inherent Likelihood</td></tr>
<tr><td>RI</td><td>Residual Impact</td><td rowspan="2">Residual Risk</td><td rowspan="2">The risk that remains after controls are taken into account. It is therefore the net risk.</td></tr>
<tr><td>RL</td><td>Residual Likelihood</td></tr>
</table>

19) Business Continuity Management

Background

The Development Bank of Southern Africa is committed to a structured systematic and integrated approach to Business Continuity Management (BCM) in accordance with the current approved BCM Policy, industry standards and best practice.

The Business Continuity Management (BCM) is a function that 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.

BCM is deemed to be a key process within the DBSA and is 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).

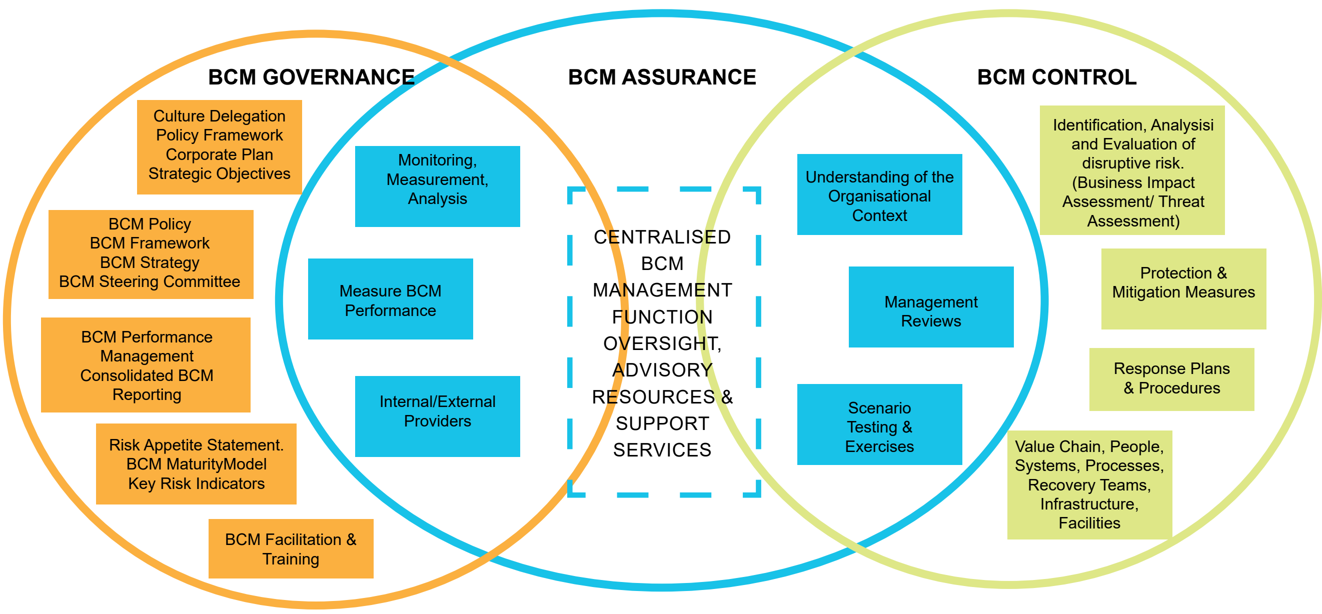
The objective of the Business Continuity Management Programme is to provide ongoing management, coordination and governance to ensure that all BCM activities are conducted and implemented in an agreed manner that achieves the DBSA's BCM and Crisis Management objectives.

Objective of the BCM Framework

The aim of this framework is to inform and drive continual, effective, cross functional, multi-level continuity planning through holistic, integrated risk management practice by;

- Establish a control environment to link corporate governance, risk management, business planning and operational performance to the DBSA's strategic direction (business continuity programme);
- Invest time, capital, tools and techniques to ensure BCM is a fully embedded, auditable business management process (business continuity planning);
- Structured co-ordination – highly structured co-ordination arrangements ensure that all planning and systems, from the initial business response to recovery and full functionality, are aligned and well understood and communicated, with roles and responsibilities clearly defined and documented;
- Capability building – develop workforce capability and competencies through plans, skills training and role rehearsals, and adequate provision of technical equipment and committed resources;
- Interoperability of plans – ensure interoperability of planning and operational activities taking into account inter and intra-dependencies.
- Uphold a resilience philosophy in which the DBSA business continuity capability always reflects the needs, technology, structure and culture of its business.

Overview of the BCM Framework



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 DBSA.

Continuity Assurance Framework

Continuity Assurance Framework

Objective: A State of Readiness to face any challenge

PEOPLE, FACILITIES, PROCESSES AND TECHNOLOGY

PREVENTION	MITIGATION Education, Information & Communciation		RESPONSE Immediate Reaction/ Survival	RECOVERY	RESTORATION
Understanding the Organisation & its context - Gap Analysis - Leadership Committment - ERM Strategy - Threat and Vulnerability Risk Assessment (BIA) - Management Review - Monitoring, Measurements, Metrics and BCM Dashboard,Policy - Methodology, Standards, Regulation, Best practice - Continuous Improvement	Developing the BCM Strategy - BCM Strategies: - People (Human Capital) - Facilities - Technology - Suppliers - Stakeholders - Vital Records - Cost versus Benefit Analysis - Corporate Plan/ Strategy - Emergency Management - Incident Management	Develop the BCM Response - Business Continuity Plans (per division) - Training & Awareness Programme (BCM Teams) - Exercise Schedule - IT Continuity Plan - DRM Continuity Plan - Communication Protocol - Emergency Response Plan - Testing, Exercising - BCM Procedures	Activating the Plans - Disaster Declaration/ Communication Protocol - Crisis Management & Incident Response Management - Supplier Management - Stakeholder Management - Emergency Response Plan - Business Recovery for core business - IT Continuity Plan - DRM Continuity Plan - Crisis Management Team - Emergency Response Team - Damage Assessments	BCM Processes - Salvage and Restoration Team - Alternative Site IT, WAR, Facilities, People - Minimum Service levels - Resumption of all IT systems - Manage business area recovery - People Coordination - Transport/Travel - Additional Budgetary Expenses - Business Resumptions	BCM Processes - Normalisation to pre disaster conditions - Transition - Restore original site or alternative site - Facilities - ICT - Business Restoration

20) 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[18], the DBSA Environmental Appraisal Framework and the DBSA Environmental and Social Safeguard Standards. These documents combine to form the DBSA environmental management framework. The DBSA environmental management framework serves as the structure that ensures the DBSA's operations, programmes and projects are socially responsible, environmentally sound, financially sustainable and in line with government requirements.

The DBSA environmental management framework serves to ensure on-going improvement of its environmental performance. To this end the DBSA management and staff take cognisance of the fact that their activities and operations have an impact on the environment and thus take full responsibility to not only address environmental risks and impacts related to their products and services, but also environmental impacts related to their in-house activities and operations. In order to do this the DBSA strengthens its environmental management framework and initiatives with integrated reporting and membership to the United Nations Global Compact.

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

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

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

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

- Support to the Department of Water Affairs: Water Resource Commission to develop priority focal clusters for a National Water Research and Development Initiative Roadmap in June 2017.
- Providing inputs to the United Nations Finance Sector Supplement to the Natural Capital Protocol.
- DBSA participated as a Supporting Institutions for the Climate Action in Financial Institutions Initiative and assisted develop five voluntary Principles for Mainstreaming Climate Action within Financial Institutions for COP 21 in Paris 2015. The

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

principles are currently supported by 30 finance institutions. The Principles highlight practical, operational approaches to integrate climate into financial institution core investments and advisory functions. DBSA is engaging in a series Work Streams' whose objectives are to facilitate cross-capitalization and dissemination of good practice and of new approaches amongst Supporting Institutions. DBSA is currently supporting the initiative to draft an Emerging Practices Paper which will illustrate, through examples and case studies, how institutions implement the above 5 Principles for Mainstreaming Climate Action.

- 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.
- 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 currently implementing six projects, under various stages of readiness through this Fund including:
    - An Equity Fund for the Small Projects Independent Power Producer Programme (SP-IPPP).
    - Building a resilient and resource efficient Johannesburg: Increased access to urban services and improved quality of life
    - Unlocking biodiversity benefits through development finance in critical catchments
    - Environmentally Sound Management and Disposal of Polychlorinated Biphenyls (PCBs).
    - To review and update the National Implementation Plan (NIP), and for Government to endorsed and submit it to the Stockholm Convention.
- 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 pipeline of projects supporting GCF financing include:
    - SCF Capital Solutions, incorporating a facility to use supply chain financing techniques to provide working capital to MSMEs involved in Renewable Energy and energy efficiency projects.
    - Renewable Energy - Solar Photovoltaic (PV) Programmatic Solutions for the South African Public Sector: Rail and Government Buildings Programme. Programme 1 involves developing Solar PV and other renewable energy solutions for the passenger rail assets of South Africa. Programme 2 addresses developing renewable energy interventions for government buildings of South Africa
    - Municipal Solid Waste Management Programme. This project aims to implement organic waste treatment solutions in 6 pilot municipalities in South Africa and upscale it to another 24 municipalities through a programmatic approach. .
- 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.
- 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. Research and publications related to the greening of the economy, green jobs, climate change and green infrastructure development.

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.

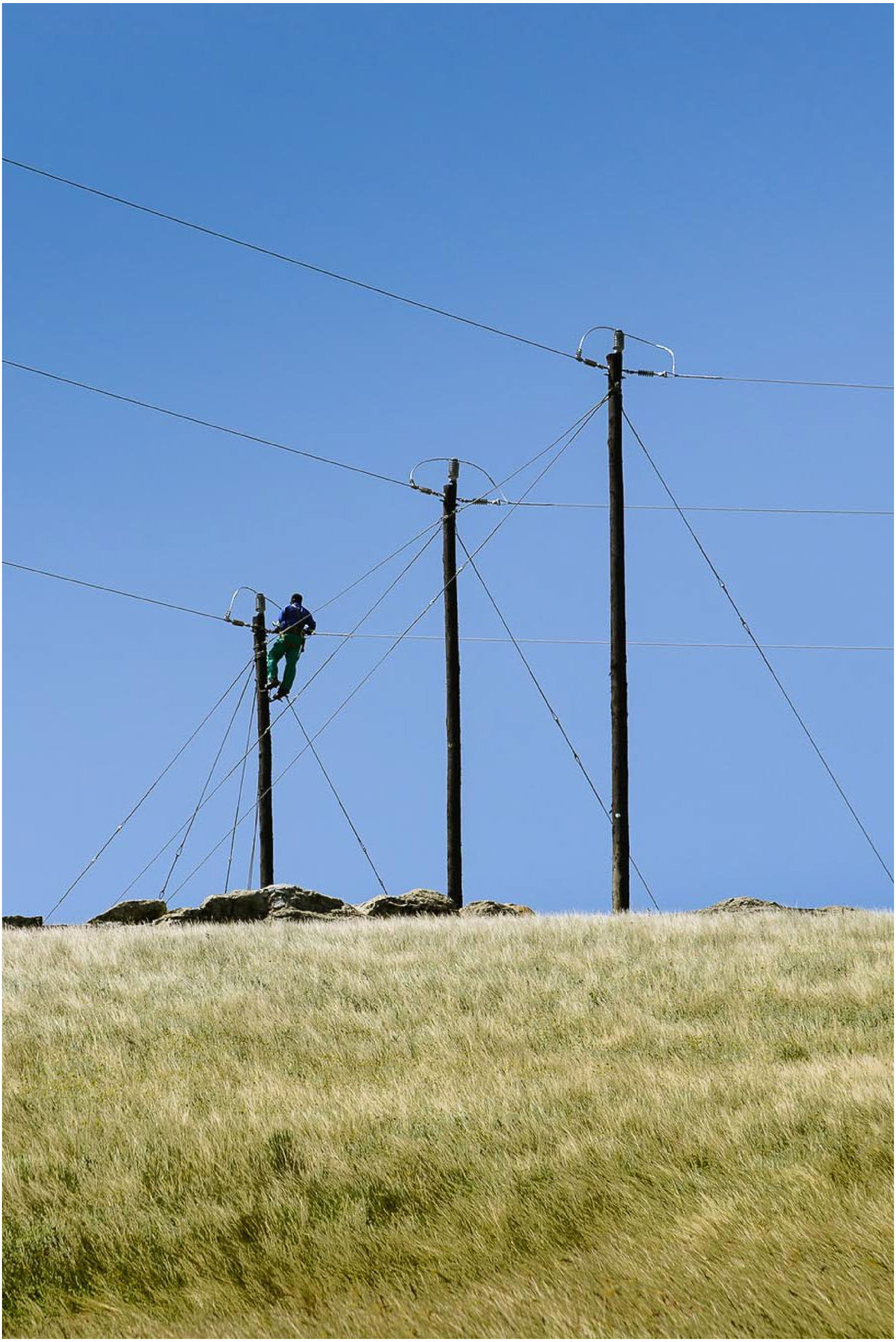
In line with the Constitution of the Republic of South Africa, particularly Section 24 –the environmental rights, the Bank is committed to providing an environmentally safe work place for its employees and to minimising environmental impact. Consequently, the Bank actively seeks to reduce its direct 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.



PART G
ANNEXURES

ANNEXURE A: COMPLIANCE CHECKLIST

No	Description	Reference
1	**Strategy**	Section 2
2	**Key Performance Indicators**	Section 11
3	**Governance Structures** • Governance structures and roles/responsibilities • Structure of Board of Directors committees • Structure of Executive Management	Section 12
4	**Financial Plan (covering the next three years) including:** • Projected income statement • Projected balance sheet • Projected cash flow statement	Section 8
5	**Dividend Policy**	Section 8.6
6	**Capital Expenditure Plan (covering the next three years)**	Section 8.3
7	**Borrowing Programme (covering the next three years)**	Section 14
8	**Risk Management Plan** • Description of risk management process • Key operational risks	Section 16 Section 17
9	**Fraud Prevention Plan**	Annexure B
10	**Materiality and Significance Framework**	Section 8.8
11	**Other Supporting Plans** • Employment Equity Plan • Environmental Framework	Part F

ANNEXURE B: FRAUD PREVENTION PLAN

INTRODUCTION AND DEFINITIONS

Prevention of fraud in the 21st century is about understanding risks, both internal and external, and in recognising that the environment created by an organisation is the most significant factor that determines how much of a target for fraud that organisation will be.

Given the requirement for every organisation to protect its assets and to prevent wasteful expenditure, there is a requirement for any Executive Management team to ensure that internal controls are operating effectively and it is therefore vital that entities take the necessary steps to identify and manage their exposure to commercial crime in any nature or form. The well-worn adage "prevention is better than cure" holds very true.

In this Fraud and Corruption Prevention Plan, and where the context lends itself thereto, the term "fraud" relates to include "white-collar crimes" which include fraud, corruption, theft in a corporate environment and other irregular behaviours involving dishonesty and deception.

The focus of the DBSA Fraud and Corruption Prevention Plan is to create a zero tolerance environment within the DBSA; a high level of awareness and a control environment that makes it as difficult as reasonably possible to misappropriate assets or to succumb to any form of fraud, corruption or associated dishonest irregular activity.

There are essentially four pillars to a world-class fraud prevention plan:

- Creation of a zero-tolerant environment;
- Understand and manage the risks;
- Be proactive in defence;
- React swiftly and efficiently to the appearance or allegations of crime and irregularities.

These pillars provide the framework of the DBSA Fraud and Corruption Prevention Plan ("the Plan").

This Plan gives effect to the preceding and overarching DBSA Fraud and Corruption Prevention Policy.

Any reference to the term employee should be read as to include all permanent, temporary and contract DBSA employees, DBSA Directors, DBSA Board members, independent contractors, consultants, contracted service providers and sub-contractors, all of whom are to comply with the DBSA Fraud & Corruption Policy and its underlying plans and directives.

PURPOSE & SCOPE

Establishing a Zero Tolerance Environment

Zero-tolerance is a fundamental aspect of the plan and will be cemented into place through appropriate policy, procedures and management support. This is inclusive of the proverbial "Tone at the Top" – which includes regular communication from the DBSA Executive confirming the Zero Tolerance stance.

Saying that we have adopted a policy of 'Zero Tolerance' towards Fraud & Corruption means that all instances of known or suspected Fraud & Corruption will be investigated, disciplinary processes followed if required and criminal charges initiated where appropriate, or as required by law.

The Bank shall actively promote the DBSA Fraud and Corruption Prevention Plan and involve all stakeholders (internal and external). We will continue this publicity in various forms, periodically, including giving exposure to:

- The DBSA Fraud and Corruption Policy;
- The DBSA Fraud and Corruption Prevention Plan and its initiatives;
- Disciplinary Actions and Prosecutions instituted and their outcomes; (in accordance with the DBSA Communicating on Fraud Policy)
- Recoveries of losses from acts of Fraud & Corruption

The Bank will assess the degree of publication required (internal and/or external) on a case by case basis, taking cognisance of confidentiality and privacy issues and in line with the approved DBSA Communicating on Fraud Policy.

The Bank will publicise the significance of adherence to the DBSA Code of Ethics and communicate this to all employees. The Bank will conduct familiarisation workshops/training on the DBSA Code of Ethics, Conflict of Interest and Whistleblowing Policies, as coordinated by the DBSA Corporate Secretariat.

The Bank will, on a regular basis, review the efficiency of the current whistle-blowing hotline and campaign to encourage use thereof. This includes highlighting the fact that it safeguards the identity of whistle blowers, encouraging employees and other stakeholders to report Fraud & Corruption without the fear of reprisal or victimisation.

Effective and efficient Fraud Risk Management starts with employees. For this reason, all personnel will receive ongoing formal awareness training in, amongst other fraud related topics, the following:

- The legal aspects of the crimes of Fraud and Corruption;
- The Prevention and Combating of Corrupt Activities Act, No 12 of 2004 ("the PCCA");
- "Lessons Learnt" through previous forensic investigations;
- Fraud risk indicators and "red flags";
- The DBSA Fraud and Corruption Prevention Policy;
- The DBSA Fraud and Corruption Prevention Plan;
- The reporting procedure an employee should follow in the event that he/she is solicited to take part in unethical or illegal act;
- The DBSA Whistleblowing Policy
- The DBSA Code of Ethics
- The DBSA Conflict of Interest and Declaration of Interest Policy;
- The Protected Disclosures Act, No 26 of 2000 ("the PDA")

All new appointees will be made aware of the Bank's Fraud and Corruption Prevention Policy, Plan and Response Plan as part of their induction course.

The DBSA Fraud Response Plan, which is an essential annexure to the Fraud & Corruption Prevention Plan, provides detailed guidance to the appropriate personnel once a crime has been uncovered, either upon receipt of a report on suspicions of fraudulent/corrupt activity or if there is an appearance/other indicator of the commission of a crime or fraudulent/corrupt activity

The Bank will ensure that it has the resources to investigate an actual or suspected crime, either through in-house forensic auditors or through the appointment of external forensic specialists, on an as required basis.

Understanding the Risks

The Bank has implemented an enterprise-wide risk management process, encompassing, inter alia, a risk framework and a risk responsibility matrix.

The risk management process within the Bank encompasses the identification of risks on a regular basis and maintaining awareness of relevant risks. This includes Fraud and Corruption risks. Fraud and Corruption risk assessments will be done on an annual basis, with the information from both the risk assessments and lessons learnt from various audits and investigations being feedback into risk management models and processes.

Proactive Defence

Being proactive is an essential principle in combating fraud and corruption. The procedures set out below assist the Bank in identifying areas of risk and prevention of incidents of Fraud & Corruption.

Data interrogation exercises are periodically carried out on the Corporations standing and transactional data, inclusive of HR records and procurement transactional data.

The purpose of data interrogation is to identify patterns of potentially fraudulent behaviour, internal control implementation weaknesses and possible conflict of interest situations.

The Bank also has a formal conflict of interest and declaration of interest policy which requires all employees to declare their external interests and potential conflicts of interests, at a minimum, annually. Given that conflicts of interest are often a precursor to incidences of Fraud & Corruption, this is a key policy tool.

The Bank ensures comprehensive background checking is carried out on prospective employees, including, at a minimum, verification of previous employment details, academic qualifications, identity confirmation and credit checks. With certain positions the existence or otherwise of a criminal record is also confirmed, with the Bank acting within the relevant legal pre scripts in this regard.

The DBSA has recently implemented procedures to ensure comprehensive background checking is carried out on potential service providers. The Bank embraces a “know your supplier” culture, which minimises fraud in the procurement environment and simultaneously makes the Bank’s zero tolerance culture towards fraud visible to service providers.

The Bank has a reporting database for the recording of all incidences and allegations of fraud, corruption and associated irregular conduct – whether losses occurred or not. At all times we consider the privacy and confidentiality of this information and access to the database is therefore on a limited and restricted basis. The database is also a tool which assists in identifying any Fraud and Corruption trends and assists in the formulation of lessons learnt activities.

Internal Control Policies, Systems & Procedures (Level 1 - 3) are actively monitored and in many instances reviewed by Internal Audit, reviewed/updated as required by the relevant Division/Department/Unit, and approved by DBSA EXCO. Furthermore, audits which test prevention measures are performed on a regular basis.

Where feasible, access to information and third party audit clauses are included in legal agreements with clients having approved facilities. This best practice promotes transparency and accountability in all business activities, as well as access to information (audit, technical and financial) to ensure compliance with contractual, regulatory, legislative and policy obligations.

DBSA Employees are encouraged to speak out when they have concerns. The “Tip Offs Anonymous” fraud reporting hotline (0800 204 933) is in place and advertised widely to employees, suppliers and business partners. Regular “Tip Off’s Anonymous” activities include guest speakers and the placement of topical articles in appropriate internal media.

Regular fraud awareness campaigns amongst DBSA employees and stakeholders.

The promotion of strong and ethical Corporate Culture through the various culture enhancement initiatives undertaken by Human Capital, encouraging employees to always act ethically, responsibly and in the best interests of the client and the DBSA.

DBSA Business Processes supporting the Prevention of Fraud and Corruption

The following aspects of the Bank’s operations are essential to the proper conduct of its affairs, but also support fraud prevention and promote a zero-tolerance environment:

- Strong and effective internal controls, including rigorous approval processes and the regular assessment of fraud and corruption risks, inclusive of appropriate remedial actions;

- Furthermore, the DBSA regularly assess all significant business processes for control and procedural weaknesses and implements remedies. Where absolutely necessary, the DBSA will consider implementing “forensic controls”, taking current legislation and regulations and policy into consideration;

- Strong culture of best practice corporate governance, driven by DBSA Corporate Secretariat, including visible Executive Management support for the anti-fraud initiatives;

- A strong Code of Business Ethics which is regularly communicated to all employees and clearly stipulates the Bank’s stance on Corporate Values, Compliance Issues, Conflicts of Interest, Business Gifts, Use of Corporate Resources and the consequences of dishonest behaviour;

- The implementation of a delinquent register to advise of Business Partners, former Employees/Contractors or Service Providers/Vendors/sub-contractors who have been implicated in acts of fraud/corruption/other irregular dishonest conduct;

- The implementation, where feasible, of a cool off period clause in employment contracts in order to protect the Bank’s intellectual property, critical business strategies and trade secrets from competitors and any entity or person/s who would seek to use such information to the detriment of the Bank;

- Lessons Learnt processes, providing investment officers and other employees with best practice information from previous audits and investigations on how to avoid/mitigate areas of potential risk;

- The implementation of probity checks on suppliers/contractors/sub-contractors to be appointed by the DBSA in order to determine their bona fides and whether there are any conflicts of interests or other significant issues which may impact on their ability to deliver on contractual obligations:

- The application of compliance database tools in order to identify any politically exposed person ("PEP") or prominent influential persons ("PIP") in accordance with relevant legislation, regulations and policy directives, which enable decision making committees to apply their minds during investment and other critical authorization processes;

- A strong, independent and effective Board Audit and Risk Committee that has been in existence for many years;

- Strong and independent internal audit, compliance and risk functions;

- Strong and independent external auditors;

- Ethical, equitable and thorough employment practices and policies.

GOVERNANCE AND MANAGEMENT

This Fraud & Corruption Prevention Plan acknowledges that Fraud & Corruption risks faced by the DBSA should be reviewed regularly. Cognizance is taken of Fraud & Corruption risks in all policy, systems and procedure implementations and changes, through reviews of internal controls in place to identify and manage fraud risk.

The custodian of this policy is the General Manager: Internal Audit, who is responsible for issuing, implementation, administration, revision, interpretation and application of this policy, which will be fully reviewed every three years and revised as required on an annual basis. This Fraud & Corruption Prevention Plan also forms an integral annexure to the annual Shareholder Compact.

Any alteration to this policy is subject to final approval by the DBSA Executive Committee and the DBSA Board Audit and Risk Committee.

POLICY ENFORCEMENT AND SANCTIONS

Failure by any DBSA employee to comply with this policy may result in disciplinary action being taken in terms of the DBSA Disciplinary Code. Without detracting from the general nature of this statement, misconduct involving dishonesty such as fraud, theft and corruption is a dismissible offence in terms of the DBSA Disciplinary Code.

APPENDICES

The DBSA Fraud & Corruption Response Plan is an annexure to the DBSA Fraud & Corruption Prevention Plan.

DEVELOPMENT BANK OF SOUTHERN AFRICA

CORPORATE PLAN

2018/19 - 2020/21