GROWING A FOCUSED, SUSTAINABLE AND DEVELOPMENTAL DBSA

TRANSPORT ENERGY ICT WATER

DBSA

Development Bank of Southern Africa

CORPORATE PLAN

2019/20 – 2021/22

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ACCRONYMS 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
ASIDI	Accelerated Schools Infrastructure Development Initiative
Bank	Development Bank of Southern Africa (DBSA)
COMESA	Common Market for Eastern and Southern Africa. A free trade area with twenty member states stretching from Libya to eSwatini.
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
DEA	Department of Environmental Affairs
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

NDP	National Development Plan of South Africa
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 the State of the Nation Address presented in the South African National Assembly on 20 February 2018, the South African President, Cyril Ramaphosa, outlined the need for accelerated Economic Growth for the country, in which infrastructure development is a key imperative. The President has taken a lead in rebuilding confidence in the South African economy and in creating policy certainty by appointing a team to establish an Infrastructure Fund focused on attracting investment.

The many challenges in infrastructure development continue to point to the inefficiency of spending by the state and the lack of capacity to executive major infrastructure projects. According to the South African National Budget Review of 2018, between 1998/99 and 2016/17, the public sector spent more than R2.7 trillion on infrastructure. The amount spent increased from R48 billion in 1998/99 to R249.9 billion in 2016/17, resulting in an average annual increase of 5.2% after discounting for inflation. South Africa's expenditure on GFCF as a percentage of GDP has declined during the period. Yet the World Poverty Clock[1] estimates that about 13.8 million people live in extreme poverty in South Africa and that about two people move into this category every hour. Clearly therefore the growth in infrastructure investment is not resulting in sustained economic growth, job creation and poverty reduction. This may be due to poorly planned and executed infrastructure spending, which ultimately does not deliver the expected development impact. Therefore, what matters is not merely the quantity of infrastructure spend but the quality thereof. The picture for Africa is more concerning – apart from Ghana, Mauritania and Ethiopia, the rest of the countries on the continent are either off track in terms of SDG targets or their levels of poverty are rising.

This calls for a much greater determination to fight poverty and inequality. The Medium-Term Budget Policy Statement (MTBPS) on 24 October 2018, presented by the Minister of Finance, highlights the need for faster and more inclusive growth as well as the strengthening of private and public sector investment. The DBSA's strategic ambition to unlock infrastructure to the value of R100 billion per annum in the medium term, is fitting. The DBSA's focus to provide a suite of solutions throughout the infrastructure value chain, from planning, programme development, project preparation to innovative financial solutions and infrastructure delivery capacity. We believe these suite of solutions will improve the quality of infrastructure delivered, while our focus on catalysation will also add to the quantity of investment from the public and private sectors.

[1] World Poverty Clock by World Data Lab. www.worldpoverty.io (accessed 30 October 2018)

The 2019/20 to 2021/22 Corporate Plan is developed within this context and seeks to work towards reimagining and remodelling the way the DBSA invests in projects for greater impact. The need to accelerate development and to drastically reduce poverty and inequality requires the DBSA to develop a breakthrough thinking capacity and capability to solve persistent developmental challenges. Opportunities exist in Africa to invest in the formation of new industries that will facilitate leapfrogging technologies and by-passing legacy platforms that perpetuate poverty and under-development.

To this end, while maintaining focus on the traditional business, the DBSA will in the next three years:

- Develop new investment platforms that will bring innovation into private and public sector infrastructure investment to accelerate development;
- Develop facilities at the DBSA campus to showcase and demonstrate new technologies to drive greater investment in energy, water and waste technologies of the future;
- Set aside funding and implement mechanisms to support greater investment in SMMEs, black enterprises and women-led businesses across the value chain of the DBSA's activities;
- Develop mechanisms to drive greater investment in the development of engineering and technology skills to prepare the youth for the 4th industrial revolution and address their chronic unemployment;
- Invest in equipping the management team in the Bank towards capabilities to lead within the context of breakthrough thinking.

The Medium-Term Budget Policy Statement has emphasized the necessity to increase investment in social and economic infrastructure as a basis of the economic recovery over the medium term. The DBSA will continue to play a crucial role in this regards and will, in 2019/20:

- Grow total disbursements from the current forecast of between R10 and R12 billion to R13.5 billion, to reach R17 billion at the end of 2021/22;
- By the end of 2021/22, to achieve R100 billion total infrastructure unlocked through project preparation and commitment, disbursements, infrastructure delivered and funds catalysed from third parties;
- Maintain financial stability and good governance; and
- Increase Black Economic Empowerment throughout the value chain of our activities.

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 four 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.

- *Sustainability innovations*
  Instigate the formation of a new generation of special purpose vehicles and structured financial instruments that will facilitate and catalyze the mobilisation of complementary investments in development projects.

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

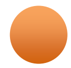
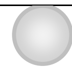
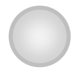
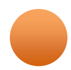
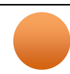
- Mobilise financial and other resources from the private and public sectors, national or international, on a wholesale basis,;
- Appraise, plan and monitor the implementation of development projects and programmes;
- Facilitate the participation of the private sector and community organisations in development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

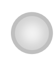
Ancillary objectives are to meet the developmental requirements of the region by:
- Assisting other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development; and
- Assisting other institutions in the national or international, public and private sectors with the management of specific funds.

b) National Development Plan

The mandate and the strategy of the DBSA are 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 currently being implemented.

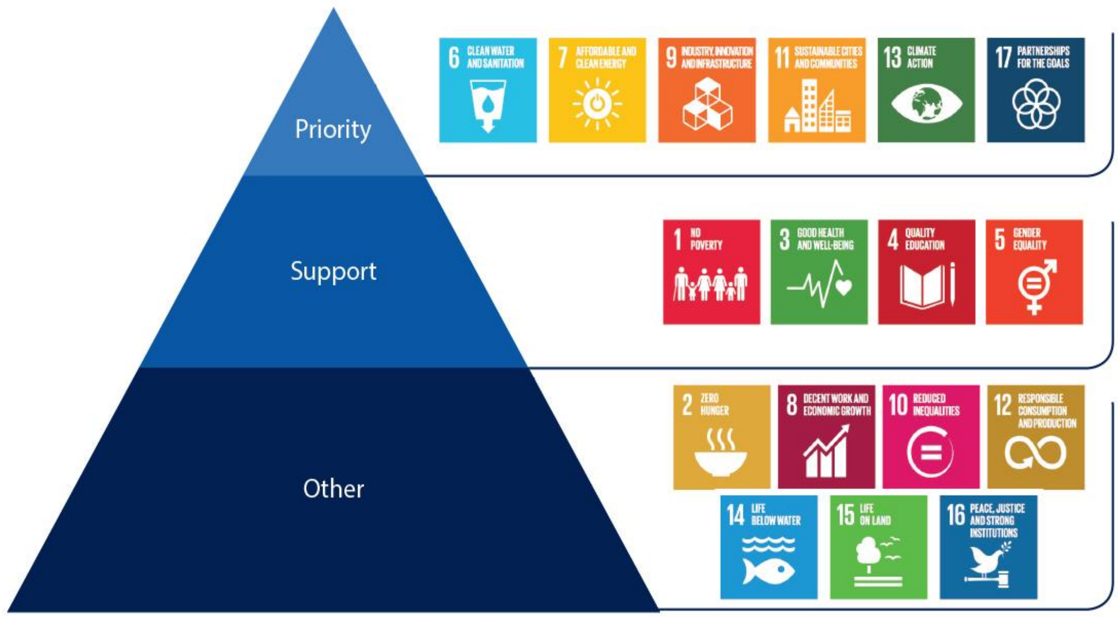
NDP outcome	DBSA's role	Examples
Create an economy that will create more jobs		• IDD: ASIDI and Eastern Cape Rural Housing • Funding of various energy, transport and ICT projects o Automotive Industry Development Centre's (AIDC) Micro-Grid Solar PV and Storage Project • Providing planning and implementation support to under-resourced municipalities: o Approvals for capacity building support to under-resourced (M2/M3) Municipalities o Commitments on capacity building support to under-resourced (M2/M3) Municipalities o Completed capacity building support to under-resourced Municipalities
Investing in economic infrastructure		• Funding of various energy, transport and ICT projects
Environmentally sustainable and resilient: Transition to a low carbon-economy		• Preparation and funding of renewable energy programmes • Funding of water, sanitation and mass transit projects • Providing planning and implementation support to under-resourced municipalities
An inclusive and integrated rural economy		• Funding of bulk water supply and transport networks across the country. • Eastern Cape Rural Housing Programme • Support for small towns and rural areas as part of the local government activities
South Africa in the region and the world		• Funding of projects in SADC e.g. o Namibia: cities programme approval to support three key municipalities in Namibia - Windhoek, Walvis Bay and Swakopmund. o Imaloto power plant • Funding of projects outside SADC o Kenya: Lamu-Isiolo Road o Ghana Burkina Faso energy interconnector
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 o Student accommodation programme

NDP outcome	DBSA's role	Examples
		○ Student housing infrastructure programme (SHIP)
Quality health care for all		• IDD: refurbishment of health clinics and construction of doctors' rooms ○ Umtshezi private hospital project ○ Dr. Nthato Motlana general hospital project
Social protection		
Building safer communities		• Build a new set of institutional configurations for catalysing and leveraging • Vigilante attentiveness to good governance and anti-corruption in order to continue to be a model of good governance for other SOCs
Building a capable and developmental state		• Provision of technical support in the planning and implementation of projects ○ KZN pedestrian bridge project
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 Sustainable Development Goals

On the back of the outcomes achieved in the implementation of the Millennium Development Goals (MDGs), the United Nations 17 Sustainable Development Goals (SDGs) were set in 2015 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	●	• Funding of bulk water, reticulation and sanitations infrastructure • Post implementation reviews
SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all	●	Preparation and funding of IPPs
SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation	●	Funding of various water, sanitation, renewable energy and mass transit projects
SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable	●	• IDD: Eastern Cape rural housing • Financing of municipal infrastructure
SDG 13: Take urgent action to combat climate change and its impacts	●	• Green Fund • Funding of IPPs
SDG 17: Strengthen the means of implementation and revitalise the global partnership for sustainable development	●	Partnerships with • Global and regional DFIs • Association for African Development Finance Institutions
SDG1: Reduce poverty	◐	IDD: DBSA supports the emerging contactors in rural areas
SDG3: Quality education	◐	IDD: Implementation work on behalf of DoE i.e. ASIDI Programme
SDG 4: Good health	◐	IDD: Infrastructure implementation work on behalf of the Department of Health
SDG 5: Gender equality	◐	An emphasis on gender mainstreaming in DBSA's BBBEE and economic transformation initiatives

● **Direct** ◐ **Indirect**

d) 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 and the 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. It 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.

The DBSA, by virtue of its operations in South Africa and rest of Africa, engages with the private sector regularly on social and economic infrastructure projects. Through the DBSA's strategic ambition of catalyzing R 100 billion and unlocking third party funds, the Bank involves the private sector to boost its investment and the impact of projects. There are currently a number of projects on the DBSA loan book with private sector participation and this will increase with the development of the new innovation platforms that are specifically targeted to work with the private sector for greater impact.

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.

1 Plan	2 Prepare	3 Finance	4 Build	5 Maintain/ Improve
▪ Establish programmes ▪ Partner and stakeholder engagement ▪ Memorandums of understanding	▪ Feasibility assessments ▪ Financial structuring ▪ Project preparation ▪ Lead Arranger	▪ Senior debt- term loans ▪ Balance sheet loans ▪ Limited/non-recourse lending –Currency ▪ Mezzanine finance/subordinated debt ▪ 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

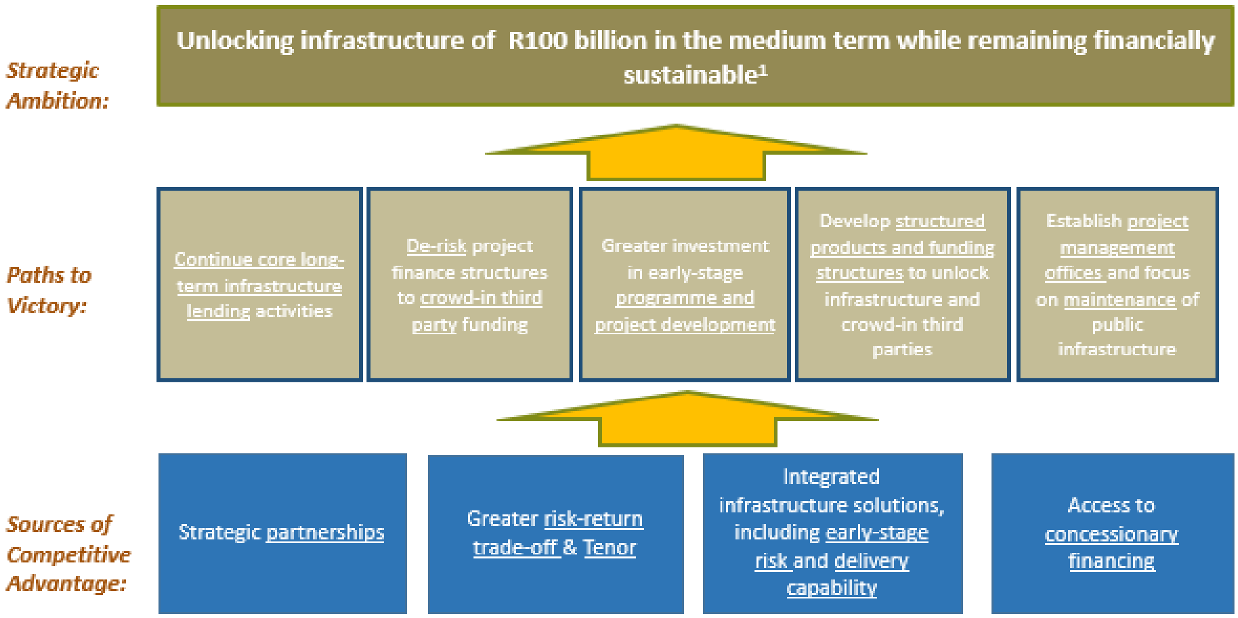
The DBSA's strategy was developed in 2016 in response to a number of factors that were impacting its performance, especially its growth and development impact. The factors included:

- A lingering, difficult macro-economic environment in South Africa and most African countries, characterized by slow growth and fall in commodity prices which impacts GDP growth and slows down infrastructure investment;
- The increasing and critical need for infrastructure investment, with SDGs, COP21, Agenda 2063, SADC RIDMP and RSA's NDP, emphasising 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;
- The risk of South Africa's sovereign ratings' downgrade that would significantly increase borrowing costs further; and
- The limitation of the growth path from which the DBSA has historically derived strong developmental and financial performance.

A number of opportunities were identified to bolster our strategy:

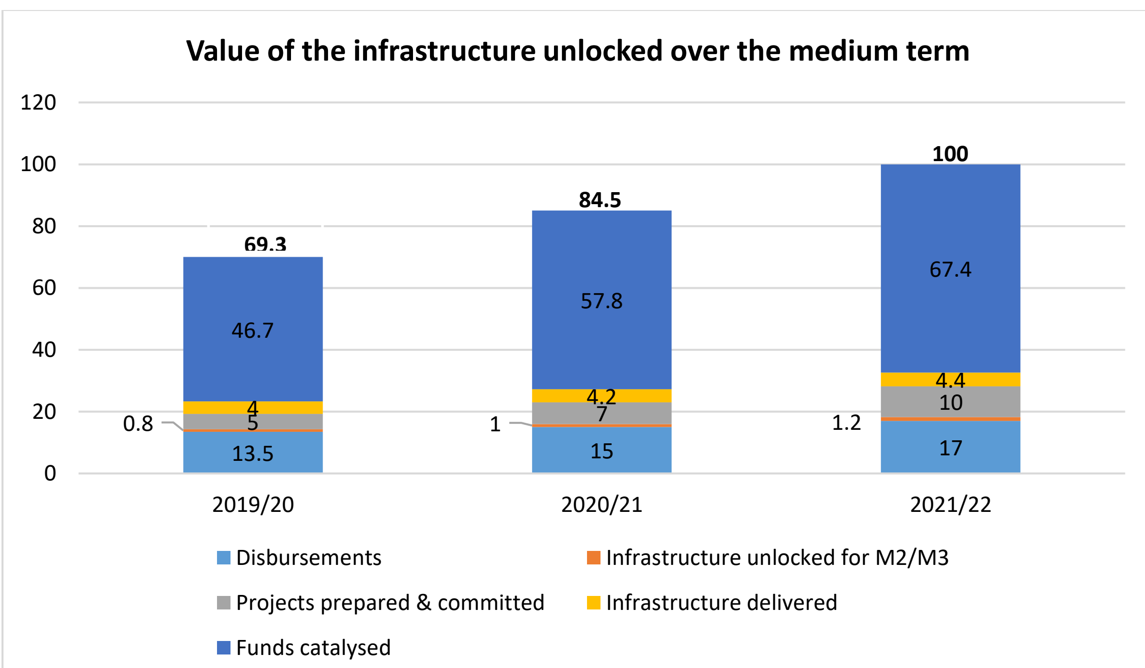
- New businesses in project preparation and infrastructure delivery were launched to grow impact;
- Falling costs in renewable energy were driving new investment opportunities and significant sources of concessional capital were being set aside for sustainable infrastructure;
- New opportunities across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

Going forward, the DBSA strategy seeks to augment disbursements by increasingly focusing on the 'catalytic' role of enabling sustainable infrastructure development. This will be done through 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 might not be sufficient to address the needs of South Africa and the rest of the continent. Core to the strategy is the mobilisation of capital from third party investors, especially private parties and commercial finance institutions.



[1] R100 billion of infrastructure unlocked consist of loan disbursements, value of projects prepared and committed by PPD, infrastructure delivered through IDD and funds catalyzed from projects

The diagram below shows how the DBSA will reach its target of unlocking infrastructure valued at R100 billion by end 2021/22.



3. Operating Environment

3.1 Economic Overview

A global, continental and country macroeconomic analysis was conducted to obtain a holistic perspective of the current macroeconomic environment.

Domestic economic outlook

Data released in the October 2018 MTBPS reveal that National Treasury's latest economic projections depart sharply from the optimism reflected in the February budget, halving expected real growth for 2018 from 1.5% to 0.7%, increasing to 1.7% in 2019 and gradually strengthening to 2.5% in 2021. The extended period of subdued investment arising from weak demand and policy uncertainty is expected to recover and grow steadily to 2.9% in 2021. The MTBPS revealed significant fiscal slippage, and a wider fiscal deficit will push government debt as a share of GDP upwards, to stabilise at just under 60% by 2023/24.

South Africa's weakened fiscal position has been treated as credit negative by financial markets and the credit ratings agencies, raising the prospect that Moody's could downgrade the country again. Attention will now shift to the February 2019 budget for a ratings review.

The annual inflation rate in South Africa fell to 4.5% in December 2018, reaching the mid-point of the central bank's target range of 3% to 6%, from 5.2% in the previous month. It is the lowest annual inflation since May, as cost of transport slowed sharply due to a stronger rand and lower crude oil prices. CPI inflation is projected to stay within the Reserve Bank's inflation target, but well above the mid-point focus of the monetary policy authorities. Interest rates are expected to rise by 0.25% by the end of 2019.

The outlook for the rand has worsened in wake of the MTBPS. As a country with twin deficits underlying domestic factors weakening the currency include rising input costs going into tradables, poor fiscal outlook and weak growth suppressing inflows into the capital account. The rand exchange rate is thus expected to trend weaker over the medium term.

Public sector capital programmes are core parts of policy tools for growth, employment and transformation of the South African economy. In practice government finance is unable to provide a stimulus on its own. Over the MTEF period the nominal growth of general government capital programmes is only 4.1% (i.e. declining in real terms). This, combined with the strained balance sheets of state-owned companies, suggests that overall public-sector infrastructure investment is expected to contract in real terms over the medium term as competing policy priorities continue to crowd out capital spending. The declining amount of public sector funding for infrastructure underscores the importance of moving away from a traditional model that defines the public sector as solely responsible for infrastructure investments. DFIs, in this context, have a particularly significant role to play in ensuring that private sector funding is catalyzed and blended with public sector infrastructure funding.

Attention is shifting to complementing budget financing with interventions to stimulate the economy, by crowing in private sector finance and creating an Infrastructure Fund to tap funding from development finance institutions, multilateral development banks, commercial banks and institutional fund managers. In this respect, DBSA is playing a key role to stimulate economic growth and revive the economy.

<u>Outlook for the global and sub-Saharan African economy</u>

		Forecast	
y-o-y % change	**2012-17**	**2018-19**	**2020-23**
World	3.5	3.7	3.6
Advanced countries	**1.9**	**2.2**	**1.6**
US	2.3	2.7	1.6
Euro area	1.2	2.0	1.5
Japan	1.3	1.0	0.5
Emerging countries	**4.8**	**4.7**	**4.9**
China	7.3	6.4	5.9
India	6.9	7.4	7.7
Brazil	0.1	1.9	2.2
Russia	1.0	1.8	1.5
sub-Saharan Africa	**3.6**	**3.4**	**4.0**
Botswana	4.2	4.1	4.5
Mozambique	5.6	3.8	5.8
Namibia	3.4	2.1	3.5
Zambia	4.5	4.1	4.5
Zimbabwe	4.4	3.9	4.9
Nigeria	3.0	2.1	2.5
Angola	2.3	1.5	3.5
South Africa	**1.6**	**1.2**	**2.6**

Source: IMF World Economic Outlook, BER calculations

Overview and outlook for SADC

A preliminary estimate of regional GDP revealed that sub-Saharan Africa's (SSA) recovery kept pace in the second quarter, as the economy revives after the slump triggered by low commodity prices. Regional GDP expanded 2.8% year-on-year in the second quarter, matching the previous quarter's results and one of the best readings seen since 2015. Tailwinds from firmer commodity prices, favourable weather and a solid global economy supported activity in the quarter, although dynamics were uneven across economies, with major-players Nigeria and South Africa both languishing.

New data revealed a better-than-expected performance in Kenya in the second quarter, which grew at the fastest pace since Q4 2016 as heavy rainfall buoyed the agricultural sector and hydro-electrical output. Meanwhile, growth also gained steam in Botswana and Mozambique: Botswana's economy was underpinned by stronger domestic demand, which saw investment grow at the fastest pace in nearly three years; while Mozambique's dynamics were boosted by faster growth in the mining and agricultural sectors.

The South African economy advanced 1.1% year-on-year in the third quarter of 2018, after expanding 0.4% in the prior period and above market consensus of 0.5% growth. It was the strongest growth rate since the last quarter of 2017, mostly boosted by a rebound in agriculture and transport, storage and communication sectors. South Africa is experiencing an upturn in foreign direct investments.

Oil pipeline disruptions dented Nigeria's economic performance, with firmer energy prices only providing a small buffer.

Sub-Saharan African growth is expected to rise modestly from 3.4% over 2018/19 to 4.0% for 2020/23, held back by the lower growth rates of economic heavyweights Nigeria, South Africa and Angola. Amidst slowing global growth a softening of oil prices are expected which would increase the headwinds faced by SSA's oil exporting countries, but provide relief to oil importers impacted by the combined effects of a strong dollar and higher oil prices.

Rising commodity prices have benefited the SADC region but now prices are expected to soften over the medium term. This relatively benign position could turn negative. Price trends for South Africa's metals dominated commodity exports will be strongly influenced by infrastructure demand and softer prices if China materially reduces infrastructure investment.

Weather forecasts for the SADC region in 2019 expect normal to below normal rainfall, suggesting unsatisfactory overall agricultural production despite the variability of local weather conditions. Obstacles to higher growth across the region are rising debt-to-GDP levels accumulated during the years of low commodity prices and cheap borrowing costs. The fiscal position of a number of SADC countries has worsened since 2016, compounded by currency weakness which has created liquidity problems.

Namibia's close to 4% real growth over the last decade has run its course and the outlook for growth is expected to settle around 2% over the medium term, as mining makes a smaller contribution to output. Zambia has experienced a rapid rise in borrowing costs over 2018 as structural fiscal weaknesses have been exposed and the country now faces a severe 2018 H2 liquidity problem. Good performance from the mining sector will keep real growth above 3% but weak agriculture and services performance is slowing the economy.

Botswana's economic diversification efforts will be supported by good mining production and the fiscal space to encourage the construction, manufacturing and commerce sectors, pushing real growth above 4%. Angola's longer term economic prospects are weakened by the conspicuous trend that the country's oil production is on the decline with little progress being made to diversify away from its oil dependency. After an economic contraction in 2017, growth of 1.5% in 2018 and 2.3% in 2019 is expected.

Zimbabwe's prospects have improved following new political leadership, yet the deep structural problems with the economy mean a broad based recovery will require difficult and more protracted re-engagement with multi-lateral institutions to access capital markets.

<u>Global growth strong but running into headwinds</u>

Global economic growth slowed in the third quarter in annual terms following Quarter 2's strong showing. A preliminary GDP estimate for the global economy put year-on-year growth at 3.3% for Quarter 3. This was driven in part by weaker dynamics in global powerhouse China, which saw growth fall short of expectations according to recent figures, amid rising trade disputes with the U.S. and subdued industrial production and investment. In order to shore up flagging activity, the Chinese authorities have loosened credit conditions, relaxed anti-pollution measures and unveiled plans to reduce taxes in recent weeks, with the impact of changes likely to be felt from Quarter 4 onwards. Moreover, growth in the Eurozone dimmed in annual terms, despite remaining robust, due to a tough base effect arising from a stellar performance in 2017.

In contrast, monthly indicators suggest the U.S. economy continued to forge ahead in Quarter 3, buoyed by fiscal stimulus measures, low unemployment and elevated consumer confidence. The UK economy also performed well, partly due to warm weather buoying consumer spending; momentum is set to ebb in Quarter 4.

In emerging markets, economic dynamics in ASEAN and East and South Asia stayed robust, supported by solid domestic demand and strong labor markets. Most economies in Eastern Europe also chalked up healthy growth, buoyed by strong demand from the EU, although a rapid deterioration of economic conditions in Turkey dragged on the region's performance. Economic activity in Latin America continued to be hindered by political and financial instability in key economies such as Argentina, Brazil and Venezuela, while the Middle East and North Africa, and sub-Saharan Africa regions benefited from higher prices for their key commodity exports.

Although global economic growth should remain resilient in the next twelve months, escalating trade tensions between the U.S. and the rest of the world—especially China—represent the main downside risk to the global economic outlook. Moreover, economic momentum in the U.S. is set to ebb due to the fading impact of tax cuts, which could have a knock-on effect on other countries which rely heavily on the U.S. for trade. Moreover, the Federal Reserve is expected to continue to tighten its monetary stance to keep inflation in check, which will tighten global financial conditions and could trigger further emerging market capital outflows and currency depreciation.

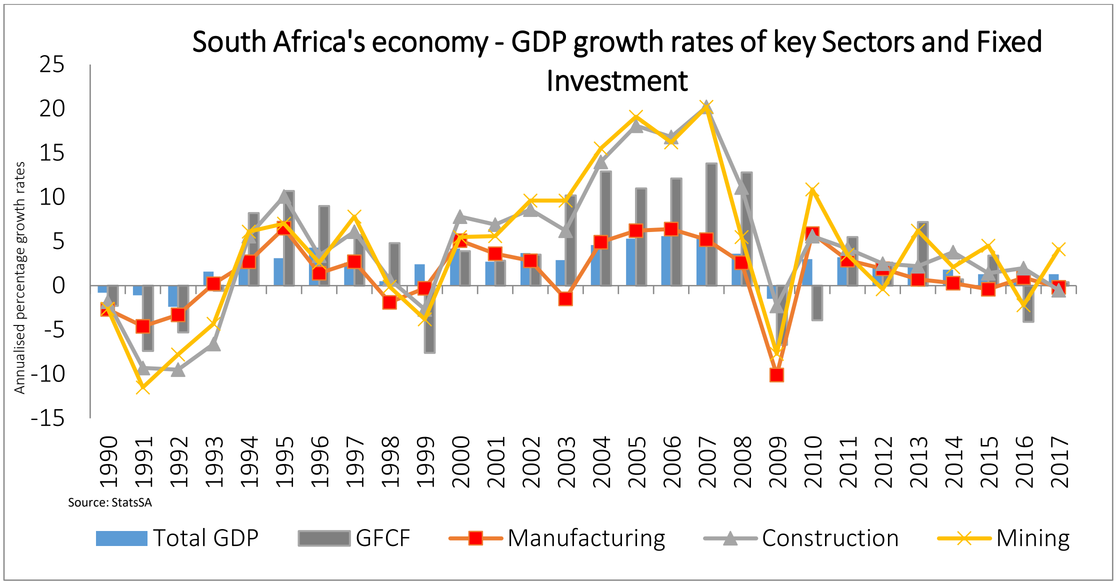
In Europe, political risks remain elevated, such as the rising possibility of a no-deal Brexit, a populist government in Italy and weakened German leadership following Bavarian elections in October. Meanwhile, debt levels in China are another key uncertainty, which will only be heightened given recent government measures to reduce reserve requirement ratios.

3.2 Infrastructure overview

The International Monetary Fund (IMF)[2] has identified a strong link between public infrastructure spending and economic growth in the short and in the long term. The study found that: "*In many emerging market economies, including Brazil, Russia, India and South Africa, infrastructure bottlenecks are not just a medium-term worry, but have been flagged as a constraint even on near-term growth. In low-income countries, deficiencies in the availability of infrastructure remain glaring and are often cited as impediment to long term development*". The study concludes that, if properly formulated and executed, increased public infrastructure investment may enhance, rather than weaken, the fiscal positions of countries in which it is implemented.

[2] IMF World Economic Outlook: legacies, clouds, uncertainties, Chapter 3, October 2014

In the case of South Africa, GDP growth rates' trends reveal a very close correlation between infrastructure investment and GDP growth rates.



Source: South African Reserve Bank

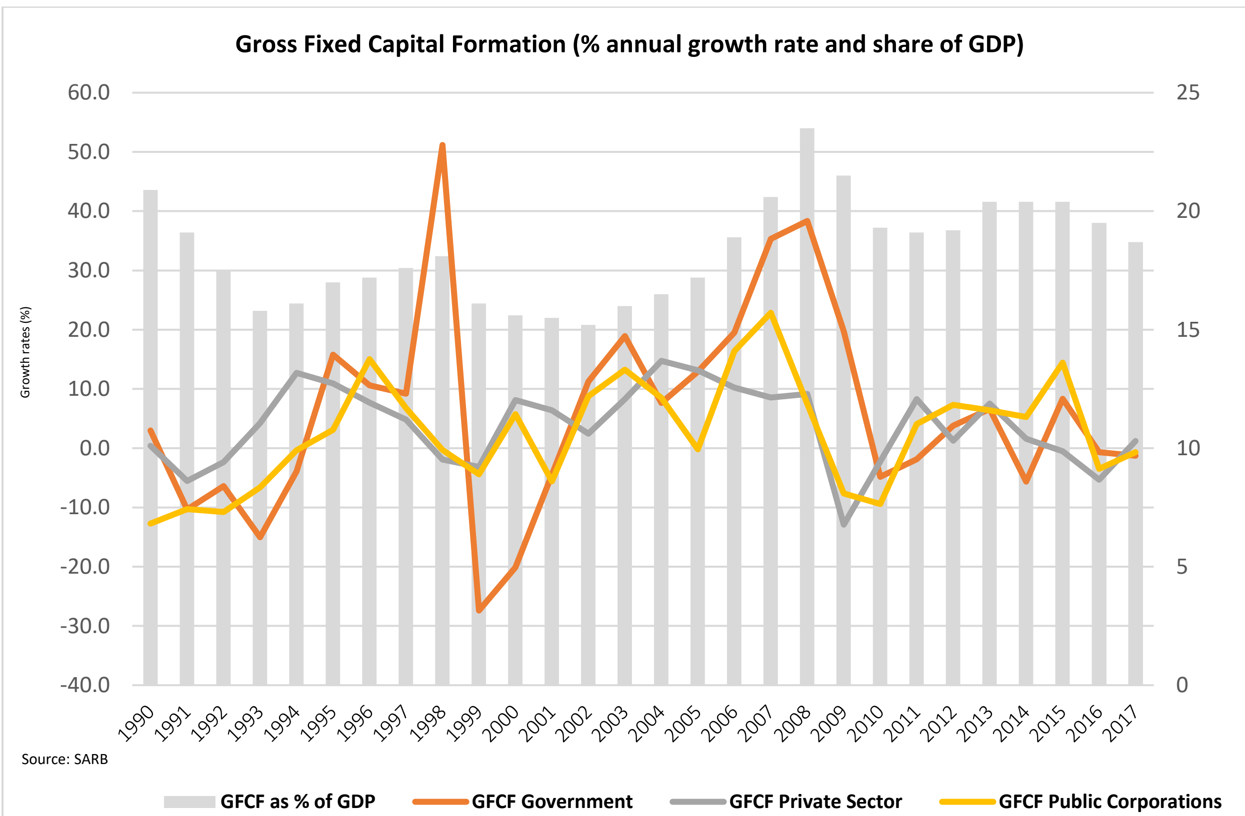
As depicted in the graph above, between 2004 and 2008, South Africa drove massive infrastructure investments in energy, roads and stadium construction for the Soccer World Cup 2010 and Gautrain development. The construction sector's GDP grew at an average of 11% during the period, reaching a peak of 15% in 2007, while fixed invest grew by almost 12% on average. Business confidence levels were also relatively high and stimulated growth in the key manufacturing and mining sectors. The overall economy grew at an average of 5%, levels which have not been reached in recent years as infrastructure investment activities have reduced.

State of infrastructure in South Africa

One of the concerns in South Africa is the government's ambitious, but slow, infrastructure spending programme to unlock the country's economic growth potential. In a developing country like South Africa, millions of people migrate to urban areas, where jobs, schools, and opportunities are often easier to find. With this migration, the need for basic services — water, power and transport — increases, increasing demand for infrastructure.

The South African Government has promised to accelerate the implementation of the NDP especially in relation to infrastructure investment.

The South African Reserve Bank has estimated that with the current economic infrastructure, the economy's potential for growth is probably capped at around 3.5%, which is clearly insufficient if South Africa is to adequately address unemployment, inequality or widespread poverty. Furthermore, the prioritisation of key strategic infrastructure projects will undoubtedly have a much-needed positive impact on foreign perceptions of risk in South Africa. A more efficient, quick and cost-effective delivery on infrastructure will enable the private sector to expand capacity, employ more people and produce more goods and services, thereby creating a larger taxpayer base, which will help to reduce the fiscal deficit and allow for more room to deliver on key social services. However, as depicted below, fixed investment, which is a direct measure of infrastructure investment, has been below 20% of GDP in South Africa, which is below par, compared to other emerging economies of above 40% of GDP.



Source: South African Reserve Bank

The graph above demonstrates that South Africa has experienced a decline in the growth rate of fixed investment from both government, private sector and public corporations since 2015 and this has also filtered into the country's GDP growth rates decline.

A total of R834.1 billion has been budgeted for public infrastructure spending for the next three years. State-owned companies continue to be the single largest contributor to capital investment, spending a projected R368.2 billion over the next three years.

Provinces are expected to spend R165.3 billion on infrastructure over the same period, while municipalities are forecast to spend R183.8 billion.

Economic infrastructure spending, mainly by state-owned companies, accounts for 76.2% of total public-sector infrastructure spending. These funds are used to expand power generation capacity, upgrade and expand the transport network, and improve sanitation and water services. Social services infrastructure accounts for 20% of total public sector infrastructure spending. Of this, education and health account for 6% and 4% respectively.

In order to improve infrastructure development for South Africa, the President outlined the need to improve budget and monitoring systems, while also improving the integration of projects and building a broad compact with business and organised labour. This is where the DBSA plays a crucial role.

PUBLIC SECTOR INFRASTRUCTURE EXPENDITURE

	2018/19	**2019/20**	**2020/21**	**MTEF**
Rand Billion				**Total**
Energy	74.1	81.1	63.6	**218.8**
Water and sanitation	36.9	38.5	42.8	**118.2**
Transport and logistics	86.9	93.7	107.6	**288.2**
Other economic services	4.6	3.2	3.0	**10.8**
Health	10.4	10.8	11.4	**32.6**
Education	15.5	15.6	15.8	**46.9**
Human settlements[1]	18.2	18.8	20.1	**57.1**
Other social services	10.0	10.0	10.6	**30.6**
Administration services[2]	9.5	10.5	10.9	**31.0**
Total	266.0	282.3	285.8	**834.1**
National departments	15.3	15.5	15.8	**46.6**
Provincial departments	53.5	54.9	56.9	**165.3**
Local government	59.7	60.4	63.7	**183.8**
Public entities[3]	16.2	17.4	18.1	**51.7**
Public-private partnerships	5.9	6.1	6.4	**18.5**
State-owned companies[3]	115.4	128.0	124.8	**368.2**
Total	**266.0**	**282.3**	**285.8**	**834.1**

Source: National Treasury Budget Review 2018

In the MTBPS of October 2018, government announced interventions to increase the efficiency of existing public infrastructure spending, amongst others:

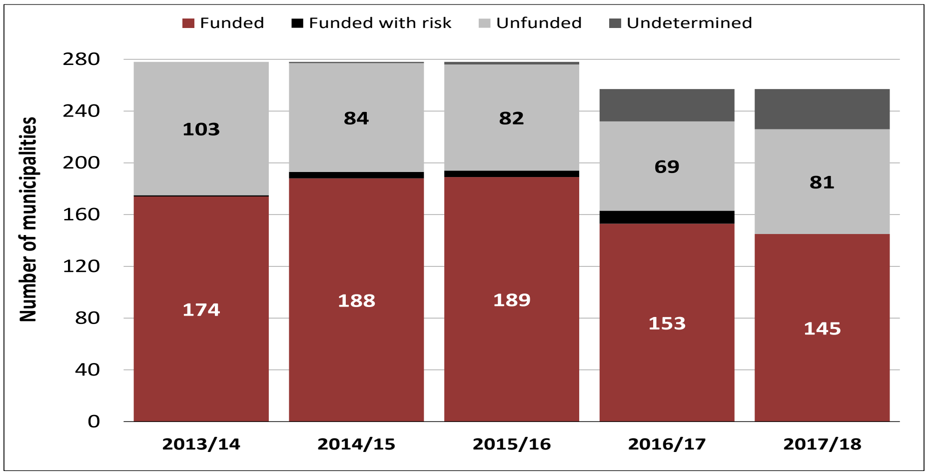
- To address weaknesses in infrastructure planning, government, development finance institutions and private-sector partners;
- Funding over the medium term to the DBSA, the Government Technical Advisory Centre and the Presidential Infrastructure Coordinating Commission, of up to R625 million, to prepare projects and support implementation;
- Establishment of an Infrastructure Fund using capital from the public and private sectors to identify innovative financing mechanisms to speed up infrastructure delivery.

To support these reforms within a constrained fiscal framework, government is proposing reprioritisation of R32.4 billion over the next three years. Of this amount, R15.9 billion towards accelerated infrastructure programmes (including R3.4 billion for school infrastructure and eradicating pit latrines), clothing and textile incentives, and the Expanded Public Works Programme.

Municipal financial management

According to National Budget review of 2018, many municipalities continue to face financial and institutional problems that result in breakdowns in service delivery and mounting debts. At end September 2017, the 20 municipalities with the largest outstanding commitments owed creditors (mainly Eskom and water Boards) R17.4 billion, but had only R1.7 billion cash on hand. Protracted non-payment undermines the financial sustainability of these state-owned entities. National and provincial departments also owe municipalities, and the Department of Public Works is working to verify and settle these debts. To date, debts totaling R4 billion have been verified and departments have paid R1.6 billion owed.

Non-payment of creditors is a symptom of deeper underlying problems such as weaknesses in revenue collection, and under investment in maintenance and renewal, which compromises the reliability of basic services. Too many municipalities also fail to adopt credible budgets, meaning that even if they adhere to their budgeted plans, they will not be financially sustainable. In 2017/18, 81 municipal councils voted to adopt budgets that they knew were not funded, making some form of financial distress inevitable. Because local government is autonomous, elected councils are responsible for determining and budgeting for municipal priorities. Neither national nor provincial government can force local governments to adopt different budgets, despite advising them that their proposed budgets are unfunded.



Government has committed to a conditional grant in the later years of the 2018 MTEF to help municipalities facing financial crises. It will only be available to local governments that have demonstrated the political will to implement reforms necessary to turn themselves around. The grant, accompanying support and intervention measures under section 139 of the Constitution, will be designed and consulted on during 2019.

3.3 Progress against the strategy

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

To achieve this strategy, a number of paths to victories were identified:

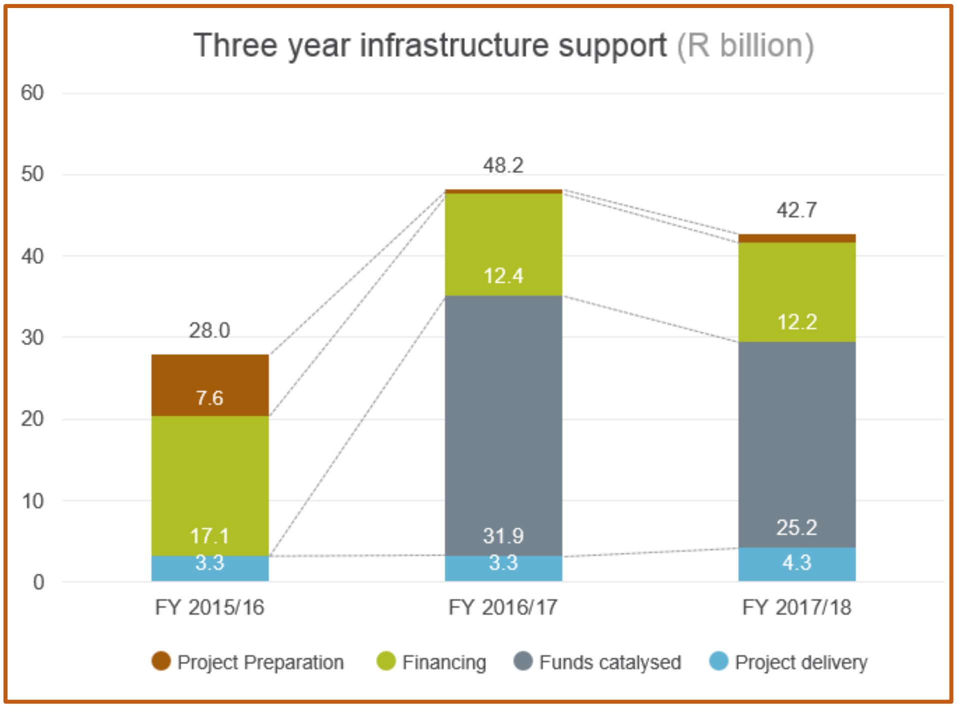
- Continue core long term infrastructure lending activities;
- De-risk project finance structures to crowd in third party funding;
- Greater investment in early stage programme and project development;

- Develop structured products and funding structures to unlock infrastructure development; and
- Establish project management offices and focus on maintenance of public infrastructure.

The progress against this strategy is summarised in the 2017/18 performance highlights below.

2017/18 Performance Highlights

DBSA Infrastructure Support Achieved	FY2017/18	FY2016/17
Total approvals	R14.5 billion	R15.8 billion
Total commitments	R9.2 billion	R13.3 billion
Disbursements **(Largely driven by:** ▪ **R3.0 billion disbursed to metros,** ▪ **R5.5 billion economic infrastructure** ▪ **R3.2 billion to outside South Africa).**	R12.2 billion	R12.4 billion
Infrastructure Delivery division (Funds under management)	R4.3 billion	
Project Preparation unlocked for funding	R954 million	R600 million
Total infrastructure development support (72% increase)	R42.7 billion	R48.2 billion



Three year infrastructure support (R billion)
60
50
40
30
20
10
0
48.2
42.7
28.0
7.6
12.4
12.2
17.1
31.9
25.2
3.3
3.3
4.3
FY 2015/16
FY 2016/17
FY 2017/18
Project Preparation
Financing
Funds catalysed
Project delivery

PART B: THREE-YEAR STRATEGIC OUTLOOK

4. Project Preparation

The demand for infrastructure development in Africa is extensive and was highlighted again in the Infrastructure Consortium for Africa Report (2016)[3]. The need for the DBSA to continue investing in building a highly skilled, 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 aims to grow the DBSA project pipeline 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 bankability;
- 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;
- Aligning project preparation activities to key policy frameworks such as the NDP and BBBEE.

As part of its 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 which make it possible for the DBSA to improve developmental impact include IIPSA, SADC PPDF, Green Fund, and the SADC Water Fund.

National Treasury Grant for Project Preparation

The National Treasury will provide R400 million grant to DBSA to facilitate public sector project preparation and planning. The main purpose is to facilitate the development of a strong pipeline of well-prepared, bankable projects, which could attract private sector investment and alternative sources of blended financing (i.e. Multilateral Development Banks (MDB) and Development Finance Institutions (DFI) funding). The allocation

[3] Infrastructure Consortium for Africa Report 2016. www.icafrica.org accessed 22 Oct 2017

signals government's interest in improving project proposals and its willingness to collaborate with key institutions in strengthening infrastructure planning.

Infrastructure Investment Programme South Africa Grant

A contribution of R13 million from the National Treasury to IIPSA was received and will be utilised for project preparation funding under the same parameters as set out in the PIG, with preference for projects that support urban development.

These funds, however, will be considered as repayable and will be reallocated on a revolving basis for project preparation purposes If the project is financially viable. If the project is found not to be viable, the funding will be considered as a non-recoverable grant.

The DBSA has a project preparation pipeline with an estimated investment value of R86 billion and a potential debt requirement of R46 billion, of which the Bank can participate in R23 billion. The balance will be derived from catalysing other debt funding sources. The current forecast indicates that only about R6 billion will be committed by the end of 2018/19, and the balance over the subsequent two financial years.

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. The DBSA currently manages third party funds which have been mobilised for project preparation and concessionary capital, including the following funds:

    - Infrastructure Investment Programme for South Africa (IIPSA): €100 million with a mandate to promote essential infrastructure investments in South Africa and the SADC region within energy, transport, water & environment, ICT and social services.
    - AFD/DBSA Project Preparation and Feasibility Studies (PPFS) is a legacy fund established in 2003 with contributions of R110 million from AFD and the DBSA. The Fund is currently winding down. Its main focus was to support NEPAD initiatives, including in geographic jurisdictions in which the DBSA did not previously have authorisation to invest. The DBSA's lending divisions could not support the majority of projects supported by PPFS because of different mandates.
    - SADC Project Preparation Development Fund (PPDF) mandated to provide Project preparation grants for SADC Infrastructure Master Plan projects within the Energy, Transport, Water & Environment and ICT sectors:
        - Phase 1: EU : €9,75m & KfW €4.5 m
        - Phase 2: KfW € 5.6 m

- 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 five every year for the next three years, as well as those owned by majority black women to three every year.

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 the 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 South African government policies and other prescripts, including the NDP , SADC, etc. To this end, planning is centred 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. These municipalities have a number of challenges in common that constrain their ability to develop and maintain infrastructure, including limited capacity to plan and execute capital projects (as shown by their capex underspending), as well as financial and other governance inefficiencies. They 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. This compels the DBSA to provide innovative solutions for this market for greater developmental impact in the country.

Municipalities are a key market for the Bank and have been benefiting from its extensive expertise in the sector. The DBSA's role 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. The DBSA 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 has historically segmented the municipal market into metros, secondary cities and under-resourced municipalities and although the lines dividing the segments are blurred, the move is towards differentiating them in terms of their ability to borrow in the short, medium or long term.

<u>Metros</u>

The metros are the biggest borrowers in the municipal sector. They have better planning capacity and attract the highest level of competition amongst financial institutions. In the last five years, the DBSA has decreased its exposure to metros as a result of their decreasing appetite to borrow and intensified competition.

In the next three years, the DBSA will:

- Continue to actively participate in this sector by offering innovative, differentiated solutions that package both financing and non-financing services;
- Concentrate on the preparation of catalytic/economic projects in conjunction with the private sector.

<u>Secondary Municipalities</u>

The DBSA's investments in secondary municipalities over the last few years have been fairly low with a relatively low number of non-performing loans.

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

- 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.

Under-resourced municipalities

Under-resourced municipalities are characterised by a limited revenue base, high dependence on grants and very little opportunity to obtain debt funding. The DBSA will continue to provide services to this sector, such as infrastructure planning project preparation support, project implementation support and institutional capacity building.

The Bank's involvement has been refocused to facilitate an even greater emphasis on development planning, to address the lending challenges.. Support will also take the form of unlocking the Municipal Infrastructure Grant as a pledge for the implementation of selected infrastructure projects.

In the next three years, the DBSA plans to increase the value of infrastructure unlocked for these municipalities from R600 million in 2019/20 to R1.8 billion in 2021/22.

5.2 Energy

South African Overview

South Africa's energy challenges are marked by under-capacity, under-investment and inefficiency. The WEF's Energy Transitions' Index found that South Africa currently meets more than 90% of its electricity demand through coal, which results in high per capita greenhouse gas emission levels. This highlighted the need for immediate further diversification of the generation mix, as well as the creation of a positive environment for more investment to meet the energy infrastructure demands[4].

In 2003, the South African government resolved to introduce private sector participation with a further resolution in 2007 to adopt the single buyer model; and designated Eskom as the single buyer. Independent Power Producer Procurement programmes have since introduced ~3.7GW of renewable energy and 1GW from two open cycle gas turbine peaking power plants onto the grid.

The Department of Energy's revised integrated resourced plan (IRP) which is expected to be approved during 2019, will guide the DBSA's involvement in this sector.

[4] https://m.fin24.com/Economy/south-africa-comes-second-last-on-energy-transition-index-20180316, accessed on 18 March 2018

Renewable Energy

To date 112 projects have been procured, 62 are in operation and were generating approximately 3.7 GW by end of December 2017. Twenty-seven large RE projects from the latest bid submission windows (BW 3.5 and BW 4) have been signed.

Globally, there is a move to renewable energy and DBSA will take advantage of the green economy.

Coal Generation Capacity

The first phase of the Coal Baseload IPP procurement programme allocated approximately 900 MW to two preferred bidders utilising fluidized bed combustion technology. Factors that influenced the technology selection are the contracted capacity requirement (≤ 600MW), the tariff cap (0.82R/kWh) and allowed primary fuel (include low rank discard coal). Implementation of these two projects stalled due to Eskom's refusal to conclude PPAs with IPPs owing to the current generation surplus. The Paris Agreement and the associated pathways to limit the global temperature increase to 1.5°C above pre-industrial levels may lead to uncertainty regarding the inclusion of coal in the future generation mix.

Gas Generation

Save for the 1 005MW of diesel OCGT generation capacity, no gas generation capacity utilising gas as a primary fuel has been built to date. The Minister of Energy issued a determination to procure 3 126MW of new IPP gas fired generation capacityfrom a variety of gas sources. The revised IRP of 2019 calls for 3 000MW electricity.

The Department of Energy plans to initiate an LNG to Power IPP Procurement Programme of electrical capacity as a stimulant to supplying gas into a nascent gas market. It is envisaged that the LNG-to-Power IPP procurement programme will be designed to provide imported LNG as a base to trigger exploration as well as upstream development and the re-industrialisation of the economy. It is expected to build significant anchor gas demand in the South African economy, while indigenous and/or more regional gas supply is being developed to supplement the imported LNG over time.

Transmission Development Plan

The latest Eskom Transmission Development Plan for 2018 to 2027 indicates that the investment required over the period is estimated at R174 billion. Of this, R18 billion will facilitate the integration of additional RE and conventional IPP projects.

Strategic Grid Plan

The 2040 Transmission Network Study, undertaken to determine the development requirements of the future transmission grid, identified five main power corridors used as input into the DEA strategic environmental assessment. This culminated in the identification and gazetting of eight renewable energy development zones as part of the SIP 8 initiative. DEA is currently busy with SEA Phase 2 to identify additional REDZ.

Assessing the risks and opportunities of a low-carbon transition in South Africa

CPI, in partnership with AFD, is implementing a project called "Assessing the risks and opportunities of a low-carbon transition in South Africa". It is addressing the implications (including financial risks) for South Africa of potential future "stranded assets" in the coal, platinum and iron ore mining, power generation, rail and port infrastructure, liquid fuels refining and distribution sectors due to the transition to a low carbon economy. The CPI/AFD has engaged with the DBSA regarding how the Bank is taking these risks into account in investment decisions and in portfolio risk assessments. The DBSA, CPI and AFD have developed an agreed scope of work to implement the project and to share the preliminary CPI/AFD study results.

Energy - looking ahead

Although the DBSA has focused on renewable energy IPP projects in the last few years, a number of opportunities will be explored in the next three years to drive further growth and impact, in line with the revised IRP of 2019, including:

- Continue to leverage renewable energy expansion opportunities with increased focus on participation of black industrialists; and to support a higher market growth for renewable energy, in particular wind and solar PV;
- Develop products to support the gas to power IPP programme and the industrialisation of the gas market;
- Develop products to support the DEA with strategic environmental assessment to facilitate implementation of wind and solar PV energy development;

- Develop products to support infrastructure development projects within identified REDZ;
- Proceed cautiously with products for non-sovereign backed coal programmes;
- Develop products to address the transmission backlog and expansion plans in areas with unbundled transmission operations and to crowd in private investors in the process;
- Develop products to support non-sovereign backed IPP programmes and co-generation opportunities;
- Develop innovative financing products for decentralised systems such as distributed generation from renewable sources (e.g. rooftop solar PV), distributed storage and possibly micro-grids.

Rest of Africa

Although the energy sector in Africa is improving, it needs critical development if the continent is to address successfully, the regional economic and socio-economic imperatives of achieving universal access to energy, and thereby promoting economic development.

The African continent has abundant energy resources, with reserves of coal, natural gas and oil representing 3.6%, 7.5% and 7.6% of global reserves, respectively. The renewable energy resources are diverse, unevenly distributed and enormous in quantity. The quantum of the estimated potential power generation capacity from solar, hydro, wind and geothermal energy sources is 10TW, 350GW, 110GW and 15GW, respectively[5]. Despite this enormous resource potential, the regional population growth has outpaced infrastructure development. More than 600 million people in sub-Saharan Africa had no access to electricity in 2014 compared to around 400 million people without electricity in 1990[6].

Primary energy sources of power supply in Africa broadly reflect each sub-region's energy resource endowment. Oil and gas reserves are concentrated in North and West Africa, while East Africa and Central Africa are dominated by hydroelectric power and coal is dominant in South Africa.

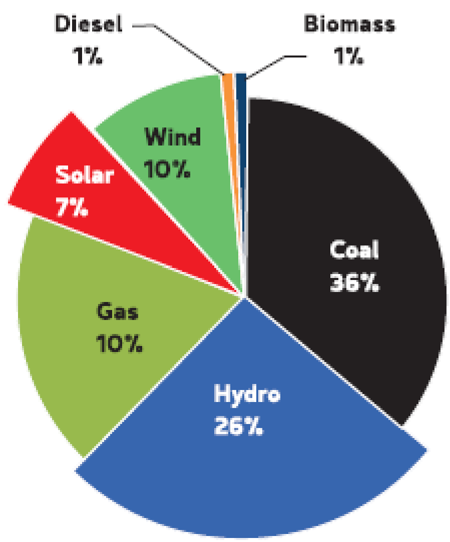
[5] Atlas of Africa Energy Resources, Infrastructure Consortium for Africa (ICA), Callixte Kambanda

[6] A policy report: Towards universal electricity access in sub-Saharan Africa - A quantitative analysis of technology and investment requirements

The SAPP region has plans to commission up to 26 108 MW of new generation capacity between 2018 and 2022. The generation mix for this is depicted in the figure below, demonstrating the increasing penetration of renewable energy technologies.

The DBSA's investments in the energy sector outside of South Africa will be driven by regional and national master plans.

New generation capacity MW (2018 -2022)



The Programme for Infrastructure Development in Africa forecasts power demand to increase annually by an average of nearly 6% up to 2040, with installed generation capacity expected to rise to almost 700GW for the period. The annual capex investment requirement is estimated to be US$43 billion for generation and US$5.4 billion for regional interconnectors. A full implementation of the identified PIDA energy sector regional integration projects will result in electricity production cost savings of about US$33 billion per annum[7].

Looking ahead, a number of opportunities in the rest of Africa will be explored to drive further growth and impact in the next three years, including:

- Development of products and institutions to support renewable energy (wind, solar PV and hydroelectricity) projects in Africa.

[7] The PIDA: Transforming Africa through Modern Infrastructure – The PIDA Energy Vision (www.afdb.org)

- Development of products to support the development of gas transmission infrastructure from SADC region into South Africa;
- Fast tracking of regional electricity interconnectors as one of the strategies for increased access to electricity in Africa;
- Continued support of project finance deals for gas and wind;
- Development of an impactful and sustainable off or semi grid programme recognising that more than 65% of sub-Saharan Africa's population will never be connected to a transmission line and formal electricity distribution system;
- The development of long term competitively priced funding structures that use blended finance, namely concessional and private sector funding to support the role out of transmission, and in particular, the inter-connector projects being planned by SAPP members;
- Replication of the REIPPP model in other countries in the region;
- Support primarily for renewables and hydro-carbons.

5.3 ICT

The South African government has identified the need to invest in ICT (including broadband infrastructure) to support economic growth, increase competitiveness, create decent work, and improve nation-building and social cohesion for local, national and regional integration.

The Presidential Infrastructure Coordinating Commission has launched SIP 15 which aims to provide universal service and access to reliable, affordable and secure broadband services for all citizens. SIP 15 provides for broadband coverage to all households by 2020 by establishing core Points of Presence (POPs) in district municipalities; extending new fibre networks across provinces, linking districts; establishing POPs and fibre connectivity at local level; and further expanding the coverage or footprint of the network into deep rural areas. Although this is a noble idea for the country, it did not consider all challenges related to this policy with regards to specific provincial challenges and practical implementation, for example, the need for acquiring devices in households that are too poor, and ability of municipalities to manage such programmes.

Because the country is capital constrained and has many urgent priorities, the need to get private and public investors to work together to realise the ideal of access to all, has become very important. Major companies tend to be resistant to broadband infrastructure roll-out in sparsely populated areas, due to high execution and maintenance costs.

In the next three years the DBSA will drive opportunity through a number of projects, including:

- Internet 4All programme in Africa
- Municipal Broadband Programme (Tshwane), EThekwini Broadband, Dr Kenneth Kaunda in North West, Gert Sibanda in Mpumalanga, OR Tambo in the Eastern Cape, Pixley ka Seme in the Northern Cape, Thabo Mofutsanyane in the Free State, UMgungundlovu and UMzinyathi in KZN, and Vhembe in Limpopo;
- Smart utility meters for municipalities;
- National districts' networks Phase 1 (Broadband Infraco, Intersite, SETA);
- Support and funding for SA Connect and municipal collection;
- ICT Regional Integration programme.

5.4 Transport

The transport sector remains highly fragmented since apartheid era spatial planning and historically 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 centres and regional trade is hindered by rising transport costs and cross-border challenges. Furthermore, recurring traffic congestion in urban metropolitan areas is due to a lack of high quality, reliable public transport services as an alternative to private car use.

The NATMAP 2050 provides 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 representing 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.

State-owned companies (SOCs) play a central part in government's infrastructure development programme in the areas of transportation, logistics and bulk water, and although significant funding has been allocated to the sector, the DBSA's impact is limited by SOC activities. Government intends to spend R288 billion on transport and logistics over the medium term. This accounts for 34.5% of total public-sector infrastructure expenditure during this period. These investments will improve the national transport infrastructure network, enhance the mobility of people and services, reduce transport costs and facilitate regional trade. Revenue from services provided by SOCs will help fund infrastructure investment, complemented by national and provincial allocations for road construction and maintenance of the non-toll network.

In the next three years, focus will be on initiatives to fund the following programmes:

- Implementation of the Urban Passenger Programme in the municipal space;
- Implementation of logistic mass transit systems linked with ICT to drive Smart Cities - effective transport planning, road usage, and development of public-transport systems for cities (buses BRT, Gautrain);
- The development of commuted systems along transport nodes;
- Investment in the implementation of innovative urban mass transit projects;
- Development of innovative infrastructure finance for roads under provincial jurisdiction, as current legislation prohibits provinces from borrowing;
- Freight, logistics and Operation Phakisa to unlock the ocean economy's full potential through infrastructure. Hence engaging with SAMSA for infrastructure projects such as ports, harbours, jetties and storage facilities in South Africa.

5.5 Social

Social infrastructure broadly covers the construction, refurbishment and maintenance of facilities largely in healthcare, education and human settlements, and includes water and sanitation. Extensive collaboration is required across national, provincial and local government to deliver against government priorities in this sector.

A significant portion of government funding has been re-prioritized 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.

Government is implementing key national programmes within the social sector which the DBSA continues to support, including the following:

- The ASIDI – eradication of inappropriate school structures.; National Health Insurance and Ideal clinic programme;
- National human settlements programmes (informal settlements upgrading, community residential units, social housing, catalytic/mega human settlements projects and human settlement projects within the mining towns programme);
- Student accommodation programme.

In the next three years, focus will be on:

- Increased focus on infrastructure maintenance to maximize the use of assets;
- Acceleration of the delivery of student housing for the Department of Higher Education. Feasibility studies underway on six universities using a R30 million grant facility from IIPSA;
- The packaging of low cost, semi-private schools in under-served areas, co-funded by government through DBSA and the private sector;
- Packaging of low cost semi-private primary health care facilities, acute semi-private hospital facilities in under-served areas.

5.6 International

Infrastructure development in sub-Saharan Africa remains critical to socio-economic transformation of the region. The DBSA has made significant investment in the region, and notably, these investments are skewed towards the energy sector, followed by the transport and logistics sector, which is indicative of the regional growth sectors with large associated deal activity. The ICT, water and sanitation sectors, whilst lagging in terms of investment, show promise for the future.

The sub-Saharan market faces several challenges and constraints that hinder its borrowing capacity, and thus infrastructure development, as follows:

- Limited or no access to project development capital required to conduct feasibility studies in order to suitably package projects so as to access market financing;
- Inherently high levels of debt to GDP, hence the inability, or very restricted capacity, to take on more debt;

- Weak state-owned entity balance sheets, hence heavy reliance on the sovereign for direct or indirect borrowing, which in turn imposes capped borrowing capacity limited to DBSA’s single obligor limit to the sovereign;
- The lack of or the under-development of regulatory and legislative frameworks e.g. PPP, which typically facilitate project procurement and FDI in infrastructure.

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

- Establish and/or enhance bilateral relations between the South Africa and other African countries;
- Diversify the DBSA investment portfolio by geography and sector as well as exploit alternative high growth African markets;
- Support and facilitate regional integration across Africa in order to enhance continental trade and investment and ensure socio-economic growth and prosperity for all;
- Promote and support cross border trade, service provision and investment by South African companies, including local content (ownership, procurement, financing etc.) incorporation;
- Assist with developing and/or expanding capital markets in underdeveloped African economies;
- Ensure sustainable technical, legal and financial skills training and development across the African continent.

The DBSA go-to-market strategy for the African region is multi-pronged as follows:

- Ensure early stage participation in projects via the provision of project preparation funding that can be leveraged to secure project equity rights and/or a MLA role in transactions;
- Leverage existing or establish new relationships with governments, parastatals and the private sector across Africa and internationally for deal origination and/or co-financing opportunities. For example, the Afreximbank partnership is yielding results where a number of transactions are now co-led by Afreximbank and the Bank. The DBSA is part of the "Group of Four” initiative pioneered by the DBSA, and has membership of Afreximbank, TDB with information sharing on deal flow;
- Promote and support cross border trade, service provision and investment by South African companies across sub-Saharan Africa;
- Implementation of a programmatic approach to ensure the development of a sustainable pipeline, driven by project preparation and structured products (inclusive of credit enhancement e.g. export credit agency insurance);

- Strategic partnership model that will specifically focus on economic corridor development, namely North-South Corridor, Central Corridor, Trans-Kalahari Corridor, Lobito Corridor and the Beira-Nacala Multimodal Corridors.

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 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	Central Africa Republic
Uganda	Ghana	Eritrea
	Nigeria	Gabon
	Senegal	Togo
	Sierra Leone	

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.

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

- Provide efficient and effective planning and procurement to enable accelerated programme/project initiation and execution;
- Provide client-centric infrastructure delivery, including planning, design, construction and maintenance solutions through a multi-disciplinary team of professionals and technical specialists;
- Exercise effective project controls, monitoring and reporting, in line with applicable norms and standards.

The role of the 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 and municipalities face challenges of poor programme planning, slow project kick-off, slow procurement processes, poor project management capabilities and lack of sufficient or adequately skilled technical and design professionals. The IDD provides a response to enhance the capacity of the state to plan, design, construct, maintain and manage social and economic infrastructure.

In the next three years, the Bank will continue to provide implementing agent and programme management services, delivering infrastructure valued at R4 billion in 2019/20 to reach a cumulative total of R12.6 billion by 2021/22.

The key programmes for the next three years will focus on the following sectors:

- **Education Infrastructure** (R4.45 billion) - refurbishing and repairing current infrastructure and building new school facilities;
- **Health Facilities** (R930 million) - refurbishing and repairs to clinics and hospitals;
- **Human Settlements** (R2.53 billion) - providing social housing for metros;
- **Municipal infrastructure** (R4.40 billion) - aimed at enhancing service delivery, including water and sanitation, roads, municipal facilities and parks;
- **State Facilities** (R2.88 billion) - managed by National Public Works (Defence, Police facilities).

The IDD will deepen its development impact, ensuring the beneficiaries are provided with quality assets on time and within budget. Increasing labour-intensive technologies in the construction projects will be emphasised to promote employment creation for the people in the sphere of influence of the projects. At least 30% of expenditure will go towards SMMEs and subcontractors, in line with government’s BBBEE codes of practice.

7. Strategic Projects

7.1 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 the DBSA uses its mandate and value chain of activities to effect the change in the society, in line with national policy frameworks. The DBSA uses a number of levers 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 clients;
- Gender mainstreaming.

The DBSA was rated level 2 at the last BBBEE audit concluded in September 2018, using the Financial Services Sector Code - improving by two levels from level 4 in 2017.

Element of the BBBEE Scorecard	2017/2018 comments	Target	2017 Scores	2018 Scores	Compared to 2017
Management Control	• While the **60%** target for proportion of **black people** in executive management was **exceeded** by **3%**, the proportion of **black females** was only **13%**, far **below** the **30% target**	20	16.83	16.89	↑
Skills Development	• The total number of **black people and people living with disabilities** on **learnerships** attained was **68** • There were 3 graduates on a **graduate programme**	25	16.51	22.17	↑
Preferential Procurement	• **IDD procurement targets** were approved by EXCO • Evaluation of **legal firms** – Law Society (LS) and Black Lawyers Association (BLA) • **Supplier development initiative**: funding was given to increase manufacturing and quality of operations • **Enterprise Development Initiatives** include the **Coffee Women's Initiative** and **Garden Services** • **The Black Asset Management Programme** allocated almost **R475 mil** to **three black-owned asset management companies** – Argon, Aluwani Capital Partners and Mazi Capital	30	22.30	27.93	↑
Supplier Development		15	15.00	13.00	↓
Enterprise Development		5	5.00	7.00	↑
Socio Economic Development	• Skills and enterprise development in partnership with the **Deaf Empowerment Firm** • **Outreach** included a programmes at **Olivenhoustbosch secondary School** and an **orphanage in Alexandra**	5	4.82	2.69	↓

In the last year, a number of initiatives to drive preferential procurement to black-owned businesses were completed, including the selection and onboarding of black asset managers, as well as the supplier development programme for refreshment services. In the next year, the BBBEE programme will see the selection and onboarding of additional professional services that include audit and legal firms.

Opportunities for even greater economic transformation impact, however, is in increasing lending to projects that are majority owned and owned by black people and women. To drive this programme in the next three years, the DBSA will:

- Set aside capital dedicated to funding for black-owned companies – and define appropriate risk appetite and prudential limits;
- Find appropriate mechanisms to collateralise the debt;
- Crowd in other funders with the same objective and provide project preparation and operation support;
- Align the initiatives to the need to solve developmental challenges through products and services that support break-through thinking.

7.2 Driving innovation and breakthrough thinking for greater impact

Significant growth in development is possible in Africa particularly if investments are focused on driving projects that dramatically increase adoption of a new generation of technologies that directly address poverty and inequality. The World Bank[8] suggests that leapfrogging, especially in Africa, is not a possibility, but rather a necessary process to drive development:

> *"Africa's large infrastructure, technology, and policy gaps require disruptive solutions and thinking outside of the box. Yet, development policies have often been primarily programmatic and mostly incremental. This book argues that it is time to go back to basics of development, think big, and foster the environment for more innovation and technology adoption, to provide the chance for Africa to experience major positive transformations."*

The DBSA, as a DFI, is well-positioned to take leadership in accelerating development and inclusive growth in South Africa and the rest of the continent through directing investments towards project that enable the best course towards shared prosperity.

Within this context, the DBSA has considered a number of concepts that will be implemented in the next three years, including:

- Develop new investment platforms to drive public-private joint ventures to accelerate investments in South Africa;

[8] Leapfrogging: The key to Africa's development? From Constraints to Investment Opportunities

- Development laboratories (D-Labs) to help bridge the science, technology, engineering and maths (stem) skills gap and prepare the youth for the 4th industrial revolution (including Digilabs and Biolabs);
- Create enterprise development incubators to support SMMEs and women-led businesses across the value chain of DBSA's services;
- Pioneer the development of skills that build resilience and enable human capacity to deal with the changing world;
- Ensure the DBSA uses scarce resources efficiently to showcase water, energy and waste technologies of the future.

The need to develop a breakthrough thinking capacity and capability, especially amongst management and leadership, is critical. In the next year, work will commence to develop the mechanism to evaluate this capability; it will help identify development areas to ensure that an appropriate culture is sustained for this change.

PART C: FINANCIAL PLAN

8. Financial Plan

8.1 Financial Overview

In preparing the three-year financial plan of the DBSA, 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, were all considered.

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 DBSA and National Treasury are engaging on an ongoing basis concerning the use of callable capital in the Bank's gearing ratio. Should the need arise to utilise the callable capital, this will be discussed with National Treasury and is 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 as part of income diversification.

8.2 3-year Financial Plan

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, were done;

	2019/20	2020/21	2021/22
DBSA internal inflation	5.26%	5.11%	5.27%
Economic inflation [9]	5.6%	5.4%	5.4%

- Budgeted foreign exchange rates for:
  - 2019/20: R13.35/$,
  - 2020/21: R13.87/$,
  - 2021/22: R14.53/$.

  The base rates were based on an Econometrix forecast report, except for the government rate linked debt which was forecast by the DBSA Treasury Unit. The Bank engaged Econometrix to forecast key parameters used for the financial planning/budgeting process;

- R111 million set aside in 2018/19 in favour of secondary and under-resourced municipalities for development expenditure, including interest subsidy and funds for planning and implementation support. The budgeted amount is increased by R15 million in the next year and decreased between R1 million to R18 million over the next two years;
- Full cost recovery in the non-lending business;
- Funding rates:

	2018/19	2019/20	2020/21	2021/22
Jibar 6M	7,25%	7,60%	8.00%	8,21%
Gov't rate 10 to 13 years	8,20%	9.05%	9.61%	9.85%
Libor	2,30%	3.29%	4.38%	4.13%

[9] Source – National Treasury, Medium Term Budget Policy Statement, October 2018

- Funding Mix (new borrowings):

	2019/20	2020/21	2021/22
Jibar 6M	50%	50%	50%
Capital Market debt	50%	50%	50%
Total	**100%**	**100%**	**100%**

The salient features of the plan for the financial years 2019/20 to 2020/22 include:

- Targeted annual infrastructure disbursements of R13.5 billion, R15 billion and R17 billion for the respective financial years;
- Net interest income of R4.5 billion (2019/20) is expected to increase to R6 billion by 2021/22, based on the projected loan book, capital repayments and disbursements, taking additional liquidity requirements into account. The net interest margin is projected to increase from 5.2% in 2019/20 to 6.1% in 2021/22, mainly attributable to the increase 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 23.1% in 2019/20 to 19.6% in 2021/22, mainly as a consequence of the growth in the net interest income;
- Developmental loans are projected to grow to R96.9 billion by 2021/22. The table below 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 by the implementation team and significant changes will be communicated accordingly.

R' million	2017/18	2018/19	2019/20	2020/21	2021/22
South Africa Financing					
Gross loan book	68 361	63 121	67 862	74 685	78 318
Provision	(1 644)	(1 489)	(1 625)	(1 862)	(2 122)
Net loan book	66 717	61 633	66 237	72 824	76 196
International Financing					
Gross loan book	13 825	22 342	23 888	24 568	25 705
Provision	(2 806)	(3 509)	(3 831)	(4 388)	(5 001)
Net loan book	11 020	18 833	20 058	20 180	20 704
Total DBSA	77 737	80 466	86 294	93 004	96 900

- The Bank targets to maintain a gross non-performing loan ratio of less than 6%;
- Return on average equity (sustainable earnings) is projected to be maintained between 7.1% 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 2019/20	Projection 2020/21	Projection 2021/22
Building	R66.3 mil	R72.9 mil	R80.2 mil
Computer equipment	R5.0 mil	R5.5 mil	R6.1 mil
Intangible assets	R53.9 mil	R59.3 mil	R65.2 mil
Total	**R125.2 mil**	**R137.7 mil**	**R151.5 mil**

8.4 3-year Financial Plan

BALANCE SHEET

	2017/18 Actual R mil	2018/19 Forecast R mil	2019/20 Budget R mil	2020/21 Projection R mil	2021/22 Projection R mil
Cash & cash equivalents	3 742	1 068	1 195	1 432	1 724
Financial market assets	2 707	2 099	2 053	1 991	1 932
Equity investments	5 535	6 284	5 945	5 864	5 766
Project preparation	-	-	-	-	-
Development loans	75 048	80 466	86 294	93 004	96 900
Development bonds	1 290	1 290	1 290	1 289	1 289
Fixed assets	490	511	607	714	832
Other assets	400	426	147	152	157
Total assets	**89 212**	**92 146**	**97 531**	**104 445**	**108 601**
Medium- to long term debt	53 573	53 067	55 609	59 118	59 401
Deferred income	-	-	76	147	216
Other liabilities	1 351	1 265	1 543	1 673	1 813
Liabilities	54 924	54 332	57 228	60 938	61 430
Shareholders' equity	200	200	200	200	200
Retained earnings	19 439	23 480	25 969	29 174	32 838
Other reserves	14 648	14 133	14 133	14 133	14 133
Equity	34 287	37 814	40 302	43 507	47 171
Total equity & liabilities	**89 212**	**92 146**	**97 531**	**104 445**	**108 601**
Balance sheet ratios:					
Debt / equity (excl. callable capital)	156%	140.3%	138.2%	136.2%	126.4%
Debt / equity (incl. R20 billion callable capital)	99%	92%	92%	93%	89%
Return on average equity – Net profit	6.88%	10.39%	6.37%	7.65%	8.08%

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	2017/18	2018/19	2019/20	2020/21	2021/22
(Amounts in R mill)	**Actual**	**Forecast**	**Budget**	**Projection**	**Projection**
Interest income	7 751	8 344	8 601	9 590	10 434
Interest expense	(3 905)	(3 957)	(4 073)	(4 248)	(4 479)
Net interest income	**3 845**	**4 387**	**4 529**	**5 341**	**5 956**
Net fee income	211	247	307	337	372
Other income	222	129	55	50	75
Operating income	4 278	4 762	4 891	5 728	6 403
Impairment	(623)	(580)	(458)	(794)	(873)
Operating expenses	(906)	(1 100)	(1 288)	(1 362)	(1 441)
Financing					
Personnel cost	(596)	(664)	(781)	(828)	(878)
Other expenses	(148)	(226)	(266)	(280)	(294)
Depreciation	(24)	(23)	(29)	(30)	(32)
IDD					
Personnel cost	(107)	(132)	(152)	(161)	(171)
Other expenses	(30)	(54)	(58)	(62)	(65)
Depreciation	(2)	(2)	(1)	(1)	(1)
Project preparation costs	(7)	(4)	(128)	(130)	(140)
Corporate Social Investment	-	(10)	(23)	(24)	(25)
Development expenditure: interest subsidy	(15)	(13)	(67)	(42)	(39)
Development expenditure planning and capacity support	-	(30)	(60)	(66)	(71)
Revaluation on equity investments	51	174	68	58	54
Strategic initiatives (moonshots)	-	-	(160)	(210)	(275)
Stakeholder relations cost	(10)	(17)	(15)	(16)	(17)
Sustainable earnings	**2 767**	**3 182**	**2 760**	**3 142**	**3 576**
Revaluation (loss) / gain on other financial instruments	(182)	(0.4)	59	67	67
Foreign exchange gain / (loss)	(302)	603	(330)	(3)	20
Net profit	**2 283**	**3 747**	**2 489**	**3 205**	**3 663**

<u>Income statement ratios</u>

Net interest margin	4.9%	5.4%	5.2%	5.7%	6.1%
Cost to income ratio: Total	21.9%	24.7%	35.6%	32.3%	31.4%
Cost to income ratio: IDD	82%	97.9%	96.0%	96.1%	96.0%
Cost to income ratio: (including lending and project preparation)	19%	21.6%%	32.7%	29.6%	28.8%

Cost to income (DBSA) – excluding project preparation, development expenditure and grants	21%	23.1%	26.3%	23.8%	22.5%
Cost to income (excl. IDD) – excluding project preparation, development expenditure and grants	19%	20.0%	23.1%	20.7%	19.6%

Note 1: Net interest margin formula changed to align to industry definition.

Note 2: 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	2017/18 Actual R' million	2018/19 Forecast R' million	2019/20 Budget R' million	2020/21 Projection R' million	2021/22 Projection R' million
Profit/(loss) for the year	**2 283**	**3 747**	**2 489**	**3 205**	**3 663**
Adjusted for:	**(2 167)**	**(4 421)**	**(3 636)**	**(4 371)**	**(4 883)**
Depreciation	26	25	30	31	33
Grants	32	74	198	250	317
Dividends	(16)	(112)	(55)	(50)	(75)
Loss on asset disposals	16	(0)	-	-	-
Fees accrued (development loans)	354	27	-	-	-
Equity gain	(226)	(14)	(68)	(58)	(54)
Revaluation gains / (losses)	138	(162)	-	-	-
Foreign exchange (gains) / losses equity investments	748	(452)	(818)	497	680
Forex (gains) / losses on USD assets	-	-	1 706	(754)	(1 065)
Forex (gains) / losses on USD funding	-	-	(558)	260	364
Impairments	623	580	458	794	873
Net interest income	(3 845)	(4 387)	(4 529)	(5 341)	(5 956)
Subtotal	**(115)**	**(674)**	**(1 147)**	**(1 166)**	**(1 220)**
Change in other assets	9	7	280	(5)	(5)
Change in other payables	(53)	(141)	355	200	209
Interest & dividends received	7 514	8 109	8 656	9 640	10 510
Interest paid	(3 545)	(3 564)	(4 073)	(4 248)	(4 479)
Net cash from operating activities	**4 039**	**3 737**	**4 072**	**4 420**	**5 015**
Cash flows from development activities	**(5 606)**	**(2 892)**	**(6 965)**	**(7 357)**	**(4 549)**
Development loan disbursements	(11 923)	(12 861)	(13 500)	(15 000)	(17 000)
Development loan principal repayments	5 981	10 081	6 593	7 639	12 490
Net increase in equity investments	398	11	140	254	278
Grant paid	(17)	(31)	(198)	(250)	(317)
Net advances to National Mandates	(46)	(93)	-	-	-
Cash flows from investing activities	**(444)**	**501**	**(80)**	**(76)**	**(93)**
Purchase of PPE & intangibles	(28)	(46)	(125)	(138)	(151)
Proceeds from PPE	0.1	1	-	-	-
Movement in financial market assets	(417)	546	46	62	59
Cash flows from financing activities	**3 544**	**(4 078)**	**3 099**	**3 249**	**(81)**
Capital raised	-	-	-	-	-
Financial market liabilities repaid	(15 505)	(15 763)	(15 882)	(5 458)	(8 802)
Financial market liabilities raised	19 048	11 685	18 981	8 707	8 723

Movement in cash & cash equivalents	**1 443**	**(2 673)**	**126**	**237**	**292**
Effect of exchange rate movements	(90)	59	-	-	-
Opening cash & cash equivalents	2 299	3 742	1 068	1 195	1 432
Closing cash & cash equivalents	**3 742**	**1 068**	**1 195**	**1 432**	**1 724**
Liquidity per IFRS	**5 208**	**2 394**	**2 475**	**2 650**	**2 883**
Cash and cash equivalents	**3 742**	**1 068**	**1 195**	**1 432**	**1 724**
Financial market assets 10	**1 114**	**1 326**	**1 280**	**1 218**	**1 159**

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

8.5 Funding and Borrowing Programme

Covered in section 15 (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. It is currently rated as a Level 2 contributor in terms of the Broad Based Black Empowerment Act and has plans to maintain the level 2 rating whilst improving management control sub element by the end of 2019/20 financial year.

8.8 Materiality and Significance framework

	Proposed Framework	Resulting figures for 2017/18[11]	Underlying principles
Material for Section 55 (2)(b)– Disclosure, in the Annual Report, of: • Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure. • Particulars of any criminal or disciplinary steps taken as a consequence of such losses, irregular expenditure or fruitless and wasteful expenditure. • Particulars of any losses recovered or written off other than in the ordinary course of business. • Particulars of any financial assistance received from the State and commitments made by the State on behalf of the DBSA.	**<u>Quantitative</u>:** 0.5% 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.	R38.8 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.

[11] Based on the 2017/18 audited financial statements (latest available).

	Proposed Framework	Resulting figures for 2017/18[11]	Underlying principles
Significant for Section 54 – Information and approval by the Minister of "qualifying transactions", i.e.: • Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement. • Acquisition or disposal of a significant shareholding in a company. • Acquisition or disposal of a significant asset. • Commencement or cessation of a significant business activity. • A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.	**<u>Quantitative</u>:** Approval from the Executive Authority is required for the following equity transactions: • Direct equity investments resulting in a shareholding of at least 20% in a company. • Regardless of the percentage holding, a direct equity investment exceeding 7.5% of total assets (as per the 2017/18 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 2017/18 financial year) of the Bank.	 R6.7 billion R892 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.

PART D: THE BALANCED SCORECARD

9. Key factors considered in developing the scorecard

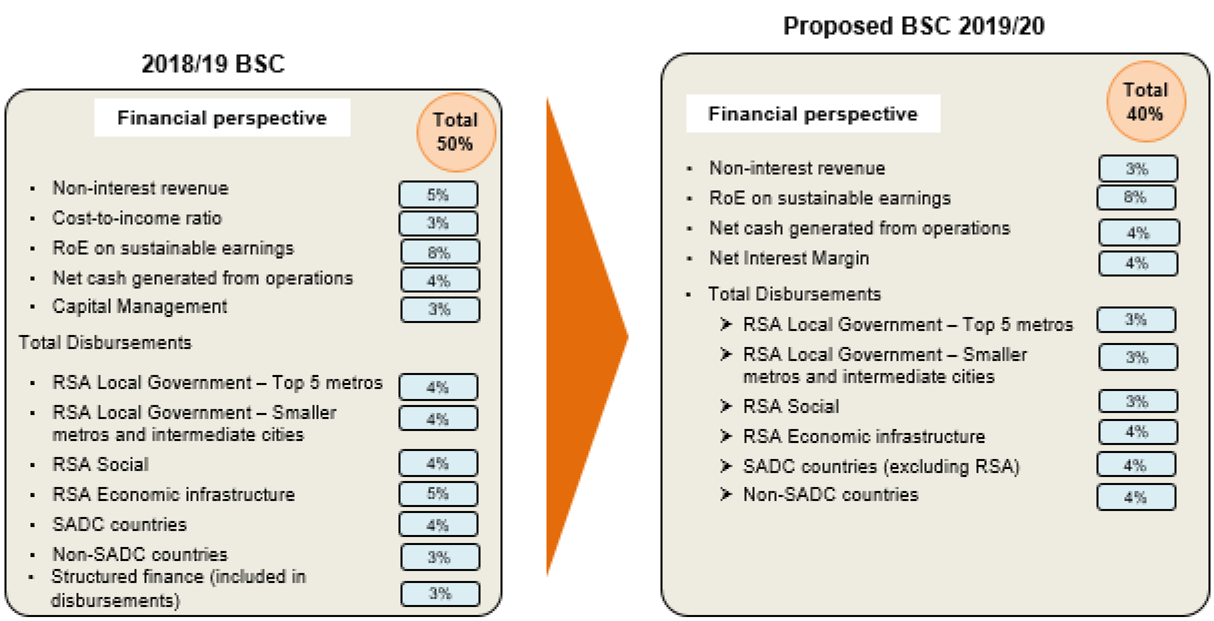
The DBSA is primarily a state owned bank subject to performance measures that prevail in the banking industry as well as to the prescripts that apply to SOEs. The DBSA is further required to be sustainable and must generate revenue in order to continue to operate without significant support from the shareholder. It is within this context that the Balanced Scorecard is developed and, particularly for the period 2019/20 to 2021/22, a number of factors were considered:

- The need to track more indicators in line with the strategic focus on driving innovation for greater development impact;
- The requirement to elevate transformative activities as key measures of success;
- The requirement to incorporate governance indicators.

10. Changes to the balanced scorecard

The changes that were applied to the balanced scorecard include indicators, targets and weightings within the four pillars of the scorecard. The most significant change is in the Financial Pillar where additional key performance indicators in innovation were added.

10.1 <u>Financial Perspective</u>



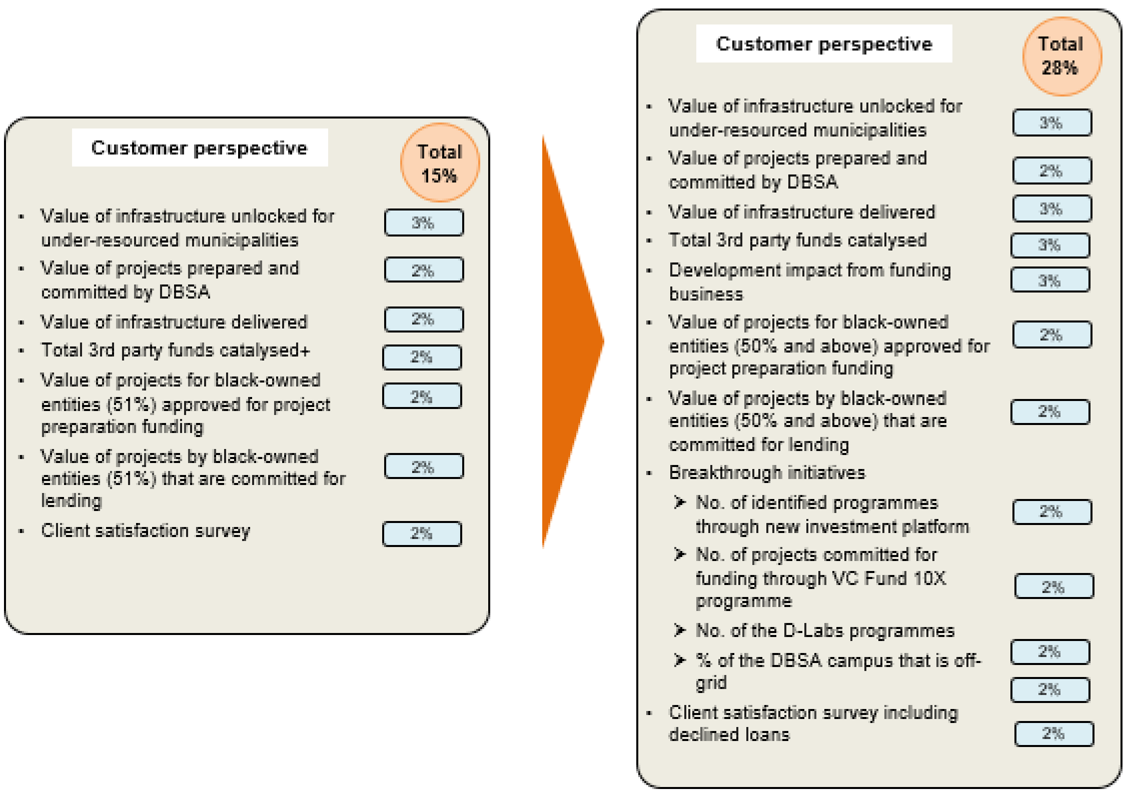
The overall weighting assigned to the financials has been reduced to 40% and the components of the perspective have changed to guide effort and focus as follows:

- The weighting on disbursements, as proxy for developmental impact, have reduced from 24% in the previous financial year to 21%;
- Net interest margin is a new indicator to track net margin – calculated using interest income as a percentage of Interest bearing assets.

To accommodate these changes, weightings on most financial indicators have been revised down.

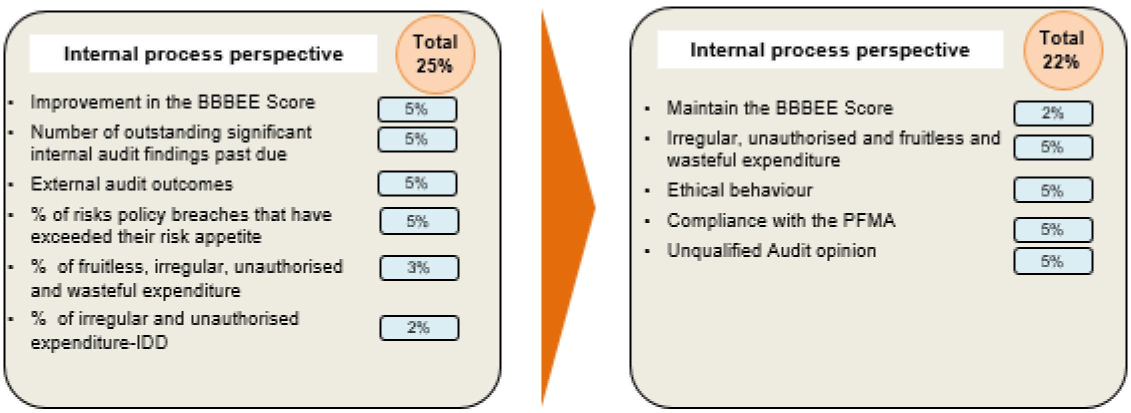
10.2 Customer Perspective

The overall weighting assigned to the customer perspective was increased to 28% to accommodate the new indicators in breakthrough activities (8%) that represent future growth in disbursements and the development impact indicator from business activities (4%) to ensure long term sustained effect of our interventions on people's lives.



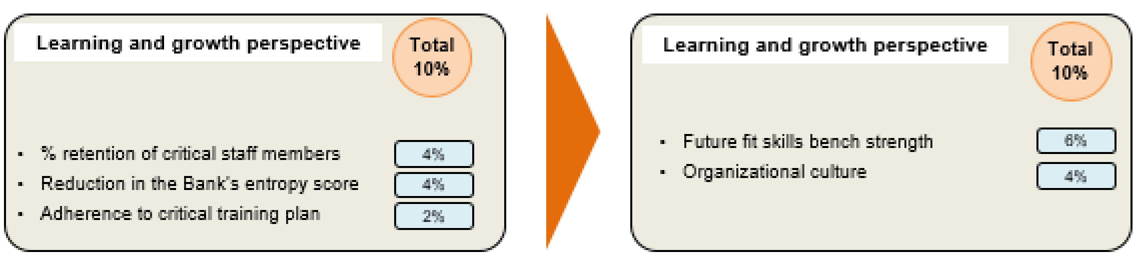
10.3 Internal Business Perspective

The overall weighting assigned to the internal business perspective was decreased from 25% to 22% to accommodate the higher weighting in the customer perspective. The governance indicators still account for 20% of the overall scorecard but the indicator on internal audit findings is amended to focus on management actions.



10.4 Learning and Growth Perspective

The weighting assigned to the learning and growth perspective was maintained at 10% and incorporates a new management/leadership culture survey which will measure the capacity of management to lead within the context of breakthrough thinking. The outcomes of the survey will determine any developmental areas and gaps to close, to sustain an appropriate culture.



11. The Balanced Scorecard

The following table reflects the Balanced Scorecard for 2019/20 to 2021/22 and reflects 2018/18 forecasts as baseline.

Objective	Key performance indicator	Owner	Weighting	Forecast 2018/19	Target 2019/20	Target 2020/21	Target 2021/22
FINANCIAL PERSPECTIVE (40%)							
Maintain financial sustainability	Financial						
	• Non-interest Revenue (excluding IDD and equity)	CIO	3% (5%)	R275 million	R300 million	R315 million	R325 million
	• ROE (calculated on sustainable earnings)	CFO	8% (8%)	8.8%	7.0%	7.0%	7.0%
	• Net Cash Generated from Operations	CFO	4% (4%)	R3.7 billion	R4.1 billion	R4.4 billion	R5.0 billion
	• Net Interest Margin	CFO	4% (0%)	5.4%	5.0%	5.0%	5.0%
	Disbursements						
	• Total Disbursements	CIO	21% (31%)	R 12.9 billion	R13.5 billion	R15.0 billion	R17.0 billion
	○ Top 5 Metropolitan cities	GE: Coverage; GE Transacting	3% (5%)	R4.5 billion	R3.0 billion	R3.5 billion	R4.0 billion
	○ Small metros and intermediate cities	GE: Coverage; GE Transacting	3% (5%)	R0.6 billion	R0.5 billion	R0.6 billion	R0.7 billion
	○ Other social infrastructure (excl. municipalities)	GE: Coverage; GE Transacting	3% (5%)	R0.4 billion	R0.5 billion	R0.6 billion	R0.7 billion
	○ Economic infrastructure	GE: Coverage; GE Transacting	4% (5%)	R4.7 billion	R4.5 billion	R4.8 billion	R5.5 billion
	○ SADC Countries	GE: Coverage; GE Transacting	4% (4%)	R1.2 billion	R2.75 billion	R2.9 billion	R3.3 billion
	○ Non-SADC Countries	GE: Coverage; GE Transacting	4% (3%)	R1.5 billion	R2.25 billion	R2.6 billion	R2.8 billion

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

Balanced scorecard (continued)

Objective	Key performance indicator	Owner	Weighting	Forecast 2018/19	Target 2019/20	Target 2020/21	Target 2021/22
CUSTOMER PERSPECTIVE (28%)							
Sustained growth in development impact	**Under-resourced Municipalities**						
	• Value of infrastructure unlocked for under-resourced municipalities	GE: Coverage GE: Project Prep	3% (3%)	R0.8 billion	R0.8 billion	R1.0 billion	R1.2 billion
	Project Preparation						
	• Value of projects prepared and committed	GE: Project Prep	2% (2%)	R10.4 billion	R5.0 billion	R7.0 billion	R10.0 billion
	Infrastructure Delivered						
	• Value of infrastructure delivered	GE: IDD	3% (2%)	R3.4 billion	R4.0 billion	R4.2 billion	R4.4 billion
	Total funds catalysed						
	• Total 3rd party funds catalysed+	GE: Coverage GE: Transacting GE: IDD GE: Project Prep	3% (2%)	R22.5 billion	R46.7 billion	R57.3 billion	R66.8 billion
	Development impact						
	• Development impact from funding business	GE: Transacting	3% (0%)	R0 billion	Board approval of the implementation plan at Q1 review, full execution of the plan by Financial year end	TBC	TBC
	Economic Transformation						
	• Value of projects for black-owned entities (50% and above) approved for project preparation funding	GE: Project Prep GE: Coverage	2% (2%)	R0.7 billion	R1.0 billion	R1.2 billion	R1.5 billion
	• Value of projects by black-owned entities (50% and above) that are committed for lending	GE: Coverage GE: Coverage	2% (2%)	R0 billion	R1.0 billion	R1.2 billion	R1.5 billion

+ Third party funds catalyzed = 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)

* Achievement of a 3.5 rating is equivalent to a 3 performance

Balanced scorecard (continued)

Objective	Key performance indicator	Owner	Weighting	Forecast 2018/19	Target 2019/20	Target 2020/21	Target 2021/22
CUSTOMER PERSPECTIVE (28%)							
Integrated infrastructure solutions provider	**Breakthrough initiatives**						
	○ Number of identified programmes through the New Investment Platform	CIO	2% (0%)	-	3	5	7
	○ Number of programmes committed for funding through VC 10X Fund	CIO	2% (0%)	-	3	5	7
	○ Number of the D-Labs programmes	CIO	2% (0%)	-	5	7	10
	○ % of the DBSA campus that is off-grid (to showcase energy, water and waste technologies)	CIO	2% (0%)	-	Implementation Plan approved by Board	50% off-grid	80% off-grid
	Client satisfaction survey						
	• Client satisfaction survey	GE: Coverage GE: Transacting GE: Project Prep GE: IDD	2% (2%)	4 .0	3.5 *	3.5	3.5

Balanced scorecard (continued)

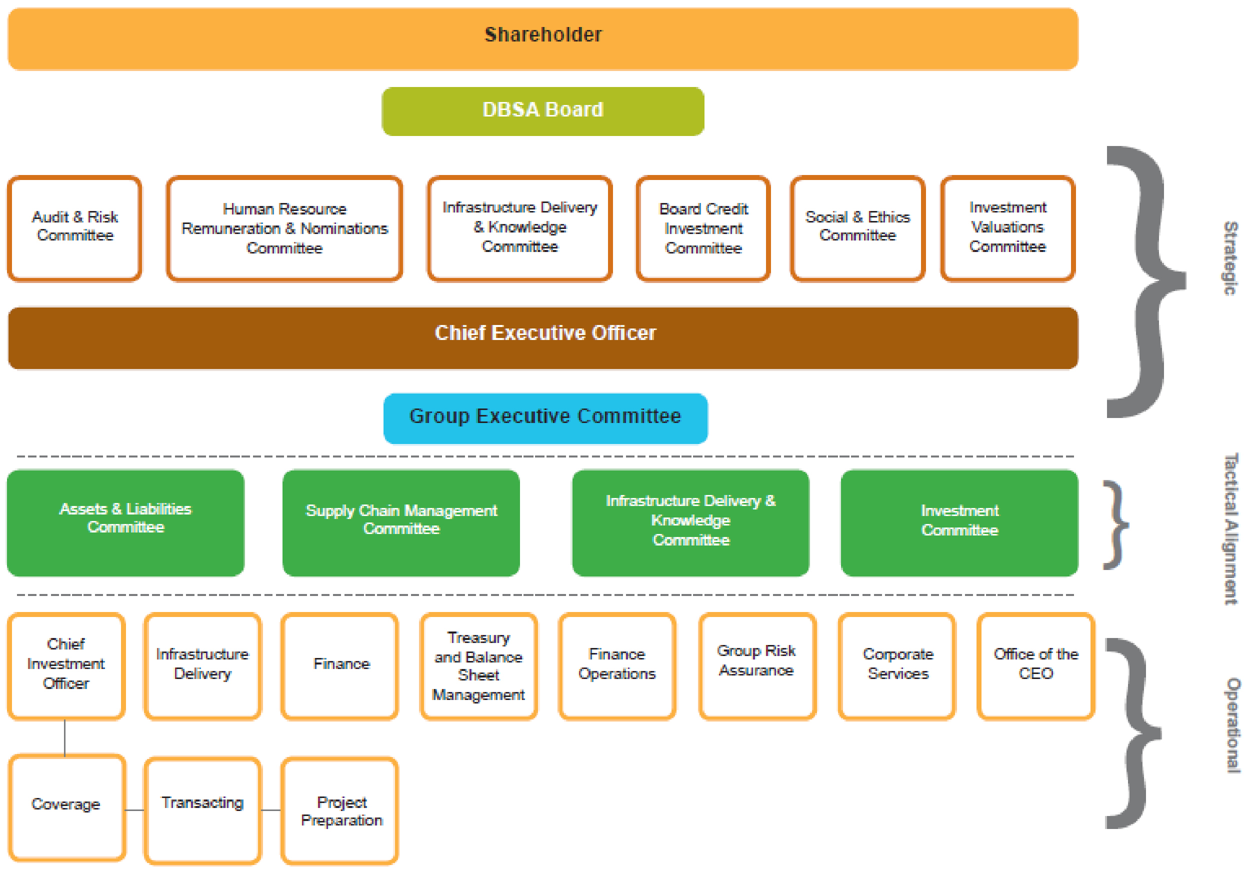
Objective	Key performance indicator	Owner	Weighting	Forecast 2018/19	Target 2019/20	Target 2020/21	Target 2021/22
LEARNING AND GROWTH PERSPECTIVE (10%)							
Create and maintain a high performance culture	• Future fit skills bench strength	GE: Corporate Services	6% (0%)	-	1. Determine future skills bench strength = 3 2. Design targeted skills development plans and toolkits = 3,5 3. Execution against development skills project plan = 4	% improvement relative to the skills measured	% improvement relative to the baseline
	• Organisational culture	GE: Corporate Services	4% (0%)	-	3 = CVA results stay the same or deviation up or down of 2 % 80% execution of implementation plan	3=conduct Assessments and Establish baseline for current Leadership (Leadership Values Assessment) % and target. 80% execution of implementation plan	3 = CVA results stay the same or deviation up or down of 2 % Minimum of 10% execution of implementation plan
INTERNAL PROCESS PERSPECTIVE (22%)							
Continuous improvement of internal systems and processes	• Maintain the BBBEE score	GE: Coverage GE: Transacting GE: Project Prep	2% (5%)	Maintain level 2 BBBEE score	Increase the management control sub- element score by 5% and Maintain Level 2	Increase the management control sub-element score by 2.5% and Maintain Level 2	Increase the management control sub-element score by 2.5% and Maintain Level 2
	Governance						
	• Irregular, unauthorised and fruitless and wasteful expenditure	Chief Financial Officer	5% (3%)	0% of total expenditure	Classify 0.0% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure	Classify 0.0% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure	Classify 0.0% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure
	• Ethical behaviour	Chief Risk Officer	5% (0%)	-	No findings on unethical behaviour by any staff member	No findings on unethical behaviour by any staff member	No findings on unethical behaviour by any staff member
	• Compliance with the PFMA	Chief Risk Officer	5% (0%)	-	Submit all PFMA submissions within the stipulated deadline	Submit all PFMA submissions within the stipulated deadline	Submit all PFMA submissions within the stipulated deadline
	• Unqualified Audit opinion	Chief Financial Officer	5% (5%)	Clean audit	Achieve unqualified audit opinion without matter of emphasis	Achieve unqualified audit opinion without matter of emphasis	Achieve unqualified audit opinion without matter of emphasis

[$$] For Procurement effected though DBSA processes
[++] Risks within control of the DBSA
[+] In 2020/21 the ordinary Barret survey will be conduct

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 its governance framework.



The DBSA has embraced King IV Code on Corporate Governance and has completed an assessment of its practices against the 16 applicable principles. The 2017/18 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 11 directors, 9 of whom are independent non-executives and one is a National Treasury shareholder representative. The chief executive and chief financial officers are the only executive directors. The Board charter does not distinguish fiduciary responsibilities of shareholder representatives from that of non-executive directors.

The Board is the focal point of corporate governance in the DBSA as it is ultimately accountable and responsible for the performance, affairs and behaviour of the Bank.

Board of Directors

			
Ms. Zanele Monnakgotla (47) *Director of companies*	**Mr. Lufuno Nematswerani (49)** *Director of companies*	**Ms. Patience Nosipho Nqeto (61)** *Director of companies*	**Ms. Gugu Mtetwa (39)** *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 Khanyisa – Non- Executive Chairman of Sasol Khanyisa Public Limited. SASOL South Africa – Non- Executive Director. Small Enterprise Development Agency (SEDA) – Non-executive director of SEDA. BMFI - Non- Executive Director. Polyslit (Pty) Ltd - Non- Executive Director. Member of Rhodes University Board of Governors	DBSA Non-Executive & Independent Director as from: 1 August 2017 **Expertise** Human Resource Management, Strategic Management **Academic qualifications:** MBA, MANCOSA Postgraduate Diploma (Management) MANCOSA Honours (Human Resources Development) Southern Business School **Other directorships:** Lelo Systems : Director LN Trading enterprise : Director NLSA: Non-executive Director and Chairperson of REMCO GFC Board member and Chairperson of REMCO	DBSA Non-executive & Independent Director as from: 1 August 2017 **Expertise** Business management, strategic management, peoples 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	DBSA Non-executive Director as from: 1 August 2014 **Expertise** Business Management, auditing and 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 (59) *Distinguished Professor of Sustainable Development, Co-Director of the Centre for Complex Systems in Transition, University of Stellenbosch*	**Mr. Patrick Dlamini (49)** *Chief Executive and Managing Director: DBSA*	**Ms Boitumelo Mosako (40)** Chief Financial Officer	**Ms. Anuradha Sing (47)** *Executive: Strategic Business Operations MTN Group*
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:** Member of the International Resource Panel (IRP) and Convenor of the Cities Working Group of the IRP, convened by the United Nations Environment Programme Fellow of the World Academy of Arts and Science One Climate Club (Germany): Non-executive Director Co-Ordinator of the State Cape Research Group Academic Director of the Sustainability Institute	DBSA Staff member and CEO as from: 1 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	DBSA Group Executive as of 1 April 2018 and Executive Director as of 1 June 2018 Expertise: Auditing and financial management Academic qualifications: • Chartered Accountant (SA) • Higher Diploma in Auditing, Postgraduate Diploma in Accounting, University of Cape Town BCom Accounting, University of Cape Town Directorships: None	DBSA Non-executive Director as from: 1 August 2014. **Expertise** Finance and business investment **Academic qualifications:** MBA, Wits Business School BSc Eng. (Mechanical), University of Natal (Durban) **Other directorships:** MTN South Sudan: Non-executive Director MTN Guinea: Non-executive Director MTN BISSAU: Non-executive Director

Board of Directors (continued)

		
Dr. Blessing Mudavanhu (47) Founder and President of Dura Capital Ltd	**Ms. Letlhogonolo Noge-Tungamirai (36)** *Strategic Advisor – Human Capital Solutions*	**Ms. Bulelwa Ndamase (48)** *Managing Director of Ndamase Incorporated*
DBSA Non-executive Director as from: 1 August 2017 **Expertise:** Banking, risk management, business management and 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:** Dura Capital): Executive director CBZ Holdings Limited: Executive director	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 Levels, International School Of South Africa (ISSA) **Other directorships:** Boxing South Africa (BSA)	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** *Durban Inte. Convention Centre* *Chairperson of appeals Board of Cooperative Banks*

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 and/or administration. The Human Resources, Remuneration and Nominations Committee of the Board considers nominations for appointments, and proposes a list to the Board, after which 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 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 charter, is summarised as follows:

- Ensure that the Bank achieves its mandate as defined by the shareholder through the Bank’s founding statute (the DBSA Act);
- Responsible to the broader stakeholders, which includes the present and potential beneficiaries of the DBSA’s 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 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 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 the 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 Board and promulgate policies consistent with the Bank's legitimate interests and good business practices.

<u>Board Committees</u>

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 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 this committee are regulated by the PFMA and King IV Report. Currently it 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.

It 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

This 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

This committee supports the Board in the execution of its duties with respect to implementation of the human capital strategy, nomination of directors, governance, executive remuneration and Board affairs. It 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.

Social and Ethics Committee

The role of this committee is oversight and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships. It governs the ethics in a way that supports the establishment of an ethical culture.

Investment Valuation Committee

This committee is constituted in terms of Section 10 of the DBSA Act, No 13 of 1997. It reviews and recommends 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 its 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. Patrick Dlamini (CEO)		X	X			X
Ms. Gugu Mtetwa	Chair	X		X	X	Chair
Prof Mark Swilling		Interim chair	X	X	X	
Ms. Zanele Monnakgotla	X	X	Interim chair			X
Mr. Lufuno Motsherane			X	X	X	
Ms. Bulelwa Ndamase	X	X				X
Ms. Pinkie Nqeto	X			Interim chair	Interim chair	
Ms. Letlhogonolo Noge-Tungamirai			X	X	X	
Dr. Blessing Mudavanhu	X	X				X
Ms. Anu Sing	X					X
Ms Boitumelo Mosako (CFO)		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 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 this 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. This 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 programme during which 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

The DBSA has implemented a combined assurance function which is coordinated and managed by internal audit. King III describes this 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 model reflects the key risks facing the DBSA coupled with the key processes and controls in place to ensure the mitigation and/or minimisation of these risks. Along with the five levels of defense strategy the DBSA has adopted, the model seeks to identify the assurance providers of the identified key risks. The assurance providers are delineated in the Combined Assurance Policy and report the consolidated outcomes of their assurance activities to the Audit and Risk Committee through the combined assurance working committee (CAWC).

Additionally, internal audit issues a written assessment annually to the Audit and Risk Finance Committee providing assurance on the overall control environment, taking cognisance of the governance, IT, risk management and operational/financial risk areas. Such assurance 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.

The Bank acknowledges that in today's business environment, fraud is prevalent and all business organisations are susceptible to the risk of fraud. The fraud prevention plan which is updated annually 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 Part G, page xx for the fraud prevention plan.

14. Executive Committee

Mr. Patrick Dlamini (49)

Chief Executive and Managing Director: DBSA

DBSA Staff member and CEO as from:1 September 2012

Expertise

Strategic leadership, human capital development and finance

Academic qualifications:

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 Boitumelo Mosako (40)

Chief Financial Officer

DBSA Group Executive as of 1 April 2018 and Executive Director as of 1 June 2018

Expertise:

Auditing and financial management

Academic qualifications:

- Chartered Accountant (SA)
- Higher Diploma in Auditing, Postgraduate Diploma in Accounting, University of Cape Town
- BCom Accounting, University of Cape Town

Directorships:

None

Ms Bathobile Sowazi (46)

Company Secretary

DBSA Company Secretary from 1 May 2010

Academic qualifications

- LLB, Rhodes University
- BA Law, University of Swaziland
- Advanced Banking Law, University of Johannesburg

Mr. Ernest Dietrich (55)

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

Mr. Paul Currie (57)

Chief Investment Officer

Acting Group Executive: Human Capital

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)

Mr. Chuene Ramphele (44)

Group Executive: Infrastructure Delivery

DBSA Staff Member as from: 1 June 2010

Group Executive as from: 1 November 2018

Academic qualifications:

MBL, UNISA Graduate School of Business Leadership

Baccalaureus Technologiae: Public Management, UNISA

Advanced Management Development Programme, University of Pretoria

National Diploma: Public Management and Administration, Technikon Northern Transvaal

Directorships:

Supplier Development Facility (Pty) Ltd

Ecocars Traders (Pty) Ltd

Executive Management (continued)

Ms. Zodwa Mbele (47)

Group Executive: Transacting

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 Advanced 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 : Non-Exec Director

Vergenoeg Mining (Pty) Ltd: Non-Executive Director

Merchant West (Pty) Ltd: Non-Executive Director

Mr. Michael Hillary (48)

Group Executive: Financing Operations

DBSA Staff member and Group Executive as from 1 October 2012

Academic qualifications:

MBA, University of Witwatersrand.

BCom Hons, University of Witwatersrand

CAIB (SA), Institute of Bankers

Directorships:

None

Mr. Mohan Vivekanandan (45)

Group Executive: Coverage

DBSA Staff member and Group Executive as from 24 March 2014

Academic qualifications:

MBA, Kellogg 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:

One and Only (Cape Town –DBSA nominee)

Executive Management (continued)

Mohale Rakgate (45)

Group Executive: Project Preparation

DBSA staff member from 01 December 2007

Group Executive as from 01 October 2017

Academic qualifications:

Advanced Management Programme, Harvard Business School

Post-Graduate Certificate in International Management, University of London

Bachelor of Commerce (Accounting),University of Limpopo

Directorships:

Investment Committee Member: Green Fund (DBSA Nominee)

Director: Proparco: (DBSA Nominee)

Mpho Kubelo (41)

Group Chief Risk Officer

DBSA Staff member as from 1 November 2007 and Group Executive as from 6 October 2017

Academic qualifications:

Executive Development Programme, GIBS (2015)

MBA, University of Witwatersrand: Business School (2013)

CFA Charter (2009)

Post Graduate Diploma in Business Administration, University of KwaZulu Natal (2003)

BSC Electrical Engineering, University of Witwatersrand (1999)

Directorships:

Development Bank of Zambia (Non-Executive)

Trustee: Pan Infrastructure Development Fund: (DBSA nominee)

PART F: OTHER SUPPORTING PLANS

15. Funding Plan and Borrowing Programme

The purpose of this annexure is to outline the DBSA's borrowing programme for the 2019/20 financial year.

Key points on the DBSA funding strategy

The focus continues to be on:

- The diversification and optimisation of the Bank's funding sources to achieve an optimal funding mix at the lowest cost possible in order to promote financial sustainability of the Bank;
- Continue to expand the investor base.

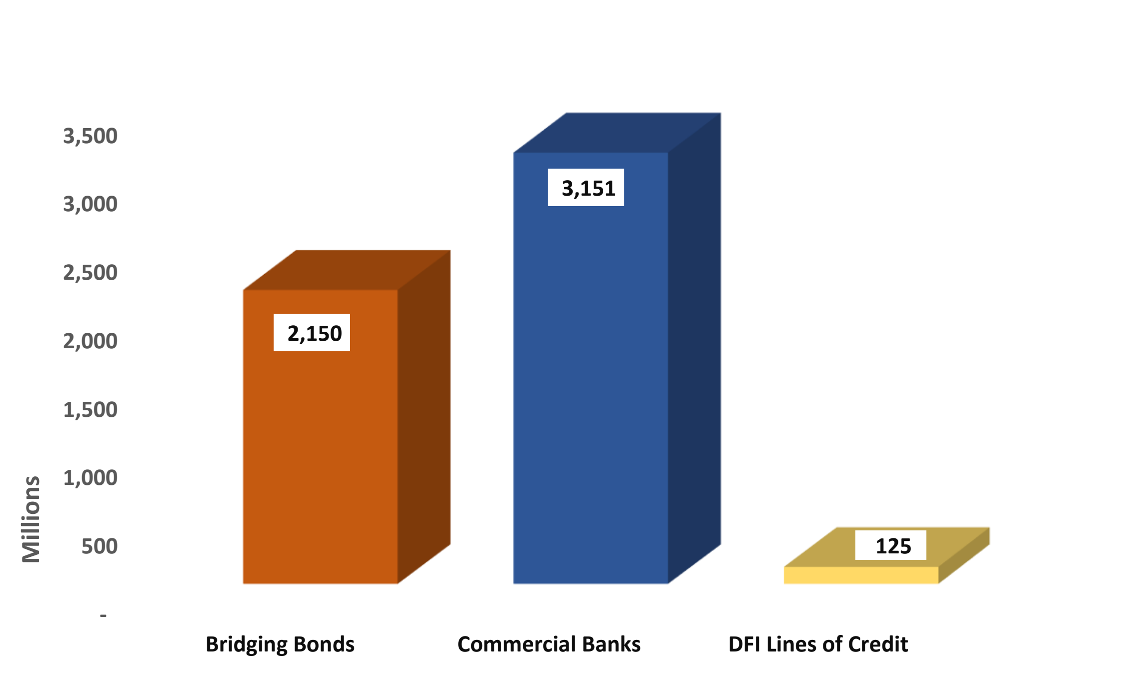
Funding strategies

- The execution of the funding strategy includes sourcing appropriate DFI lines of credit, banking facilities, bonds and commercial paper issuances and private placements;
- Actual funding and final split between the different funding sources to which the Bank has access is driven by expected disbursement outcomes, market demand for the DBSA's paper and pricing considerations;
- Continuous monitoring of markets both domestic and offshore enable treasury to identify opportunities to optimise and lower the Bank's borrowing cost whilst at the same time expanding the investor and lender base;
- Ensuring that liquidity is maintained within policy guidelines;
- 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;
- Smooth and extend the banks liability maturity profile.

Funding raised April – October 2018

The aggregate gross borrowings of all debt rolled and raised amounted to gross borrowings of R5.426 billion vs net borrowings of R3.975 billion**.** The aggregate borrowings are within the Board approved borrowing limit of R9.2 billion. The bulk of the funding was sourced from lines of credit with commercial banks and bridging bonds.

Graph 1: Funding sources April to 30 October 2018



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 LMA.

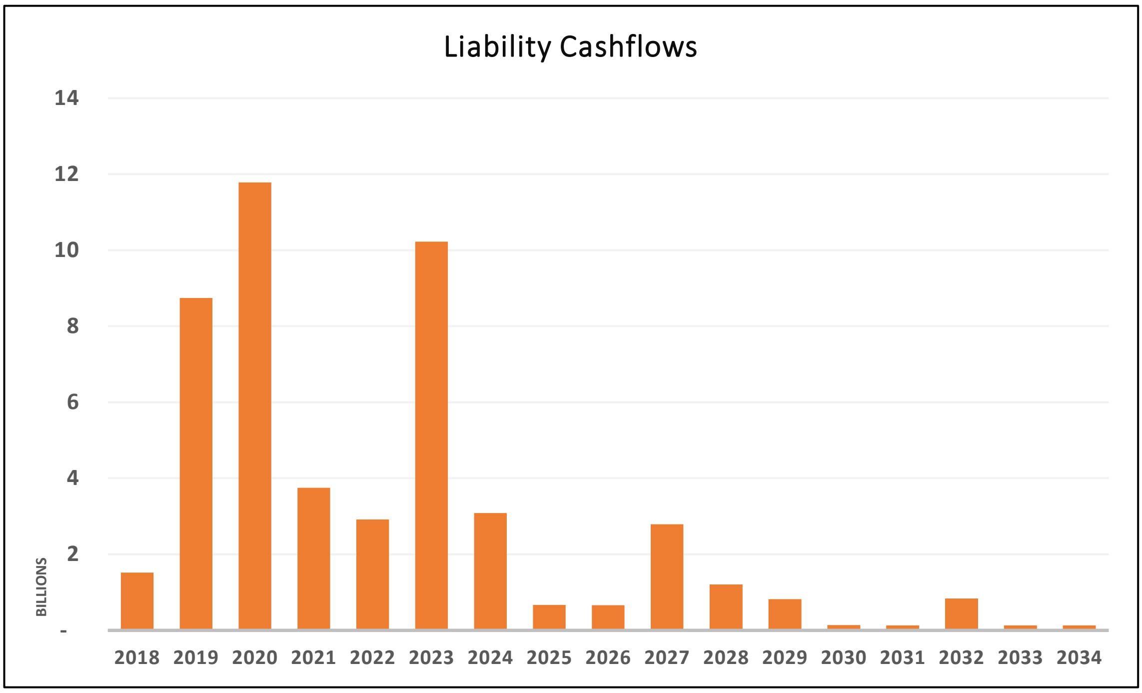
Some of the conditions include:

- The requirement that the SA government retains control and ownership of the Bank;
- Compliance with the Bank's leverage ratio (debt-equity ratio of 250%).

Current liability maturity profile

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

Graph 2: Debt Maturity Profile as at October 2018



The maturity profile set out in graph 2 reflects the actual maturity profile and excludes any assumptions which were made in producing the forecast set out in Table 3 below. The DBSA will be looking at reducing any repayment risk by using switch auctions over the next 2 years, specifically for debt maturing 2020 (DV22) and 2023 (DV23).

Proposed borrowing programme for the 2019/20 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 table below.

Table 1 - Borrowing Plan for FY 2020 to 2022

BORROWING PLAN PROJECTIONS			
R million	**FY2020**	**FY2021**	**FY2022**
Beginning liquidity	**2,433**	**1,180**	**1,476**
Loan capital asset receipts	6,593	7,639	12,490
Capital injection	-	-	-
Loan interest receipts	8,656	9,640	10,510
Fee & other income	220	233	247
Cash inflows	**16,538**	**18,707**	**24,679**
Debt capital repayments	(15,882)	(5,458)	(8,809)
Debt interest repayments	(4,073)	(4,250)	(4,487)
Operational expenses	(1,288)	(1,362)	(1,441)
Capital expenditure	(125)	(138)	(151)
Disbursements	(13,500)	(15,000)	(17,000)
Cash outflows	**(34,868)**	**(26,208)**	**(31,889)**
Net cash flows	(18,330)	(7,501)	(7,210)
Additional liquidity per policy	(1,500)	(1,500)	(1,500)
Liquidity per current policy	-	-	-
PROJECTED BORROWING REQUIREMENT	**(19,830)**	**(9,001)**	**(8,710)**

Foreign currency borrowing limit

The outstanding debt in foreign currency as at 30 October 2018 is summarised in the table below.

Table 2: Outstanding Debt in Foreign Currency

	EUR	**USD**	**Total**
Commercial Banks	**-**	**7,221,901,500**	**7,221,901,500**
DFI	**2,075,735,816**	**5,410,343,902**	**7,486,079,718**
Total	**2,075,735,816**	**12,632,245,402**	**14,707,981,218**

The exchange rates used as at 30 October 2018 were:

USD/ZAR = R14.5897 and EUR/ZAR = R16.5542

The Bank's a cumulative foreign currency borrowing limit of R26 billion for the 2019/20 financial year is summarised in Table 3.

Table 3: 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	1,984,402,891	2,420,716,833
Loan Capital 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**

Available funding

A total of R57 billion funding can still be accessed through both JSE issuances (R51 billion) and available facilities (R2.9 billion).

Table 4: Available facilities and JSE DMTN Headroom

Facility Provider	Description	Currency	Facility Amount	Utilised Amount	Available Amount
Local Bank	RCF	USD	200,000,000	-	200,000,000
International Bank	RCF	USD	50,000,000	50,000,000	-
Subtotal ZAR Equivalent at $1 / R14.5897			R 3,647,425,000.00	R 730,000,000.00	R 2,920,000,000.00
JSE DMTN Programme	Capital Markets	ZAR	80,000,000,000	28,965,000,000	51,035,000,000
Local Bank 1	Uncommitted headroom facility	ZAR	1,000,000,000	-	1,000,000,000
Local Bank 2	Uncommitted headroom facility	ZAR	500,000,000	-	500,000,000
Local Bank 3	Uncommitted headroom facility	ZAR	2,000,000,000	-	2,000,000,000
		TOTAL			R57,455,000,000.00

As at 30 October 2018

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 the Bank's funding requirements, pipeline of projects and agreement on key terms and pricing.

Potential sources of funding

The following table represents some additional funding sources to those mentioned in Table 4 above.

USD		Type of Loan	Amount
International Banks	**Commercial**	Syndicated Loan	200,000,000
		Long term loans	50,000,000
		Total	**250,000,000**
DFIs		Energy Efficiency Projects	300,000,000
		Rest of Africa Projects	200,000,000
		Total	**500,000,000**

Market risk management

When sourcing new funding, the Bank considers the inherent interest rate and currency risk exposures and manages them 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 this is not possible, hedging instruments - conducted in line with the Bank's hedging policies which limit the use of such instruments to risk management purposes only - are used to achieve the desired profiles. .

Credit rating

The credit rating reviews are conducted by Standard and Poor's (S&P's) and Moody's. Key considerations include financial sustainability, adequacy of impairments and provisioning and overall capitalisation which cushions the Bank in the event of severe financial distress.

Recommendation

The projected borrowing requirement for the 2019/20 financial year amounts to R18.3 billion (as set out in Table 1). As an added prudent measure to cater for prudential liquidity holdings, market volatility, client defaults, unforeseen borrowing requirements and other factors that may impact on the projections, it is recommended that the Board approve total new borrowings of R20 billion for the financial year 2019/20.

16. Employment Equity Plan

(Approved: 10 April 2018, Executive Committee)

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 the country.
The EE Plan has been developed and will be implemented to enhance the achievement of the EE vision.

This vision is in line with the DBSA's strategic objective of continuing transformation by employing staff in line with employment equity requirements. The vision will be realised by implementing the non-numerical goals contained in the Bank's EE Policy and the EE numeral target contained in this document.

<u>16.1 DBSA Three year EE plan for the period 2018 - 2021</u>

In establishing the numerical goals for the DBSA, the key challenges, lessons learnt, potential growth rate of the DBSA, benchmarks and the BBBEE scorecard were taken into consideration in setting the target for 2018/19 – 2020/21. The key focus is to ensure consistent improvement in shifting DBSA towards a demographically representative workforce, in line with SA Economically Active population profile.

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

Occupational Level	BBBEE TARGET (BLACK)	BLACK				BBBEE TARGET BLACK FEMALE	BLACK FEMALE			
		BASE	FY 2019	FY 2020	FY 2021		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 starts from a base of 75% black with natural attrition unlikely to significantly create opportunities for a major shift in the demographic profile. The DBSA will 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 this category, as per BBBEE targets, remains 2%.

17. Risk Management Framework

(Approved: 31 January 2018, Executive Committee)

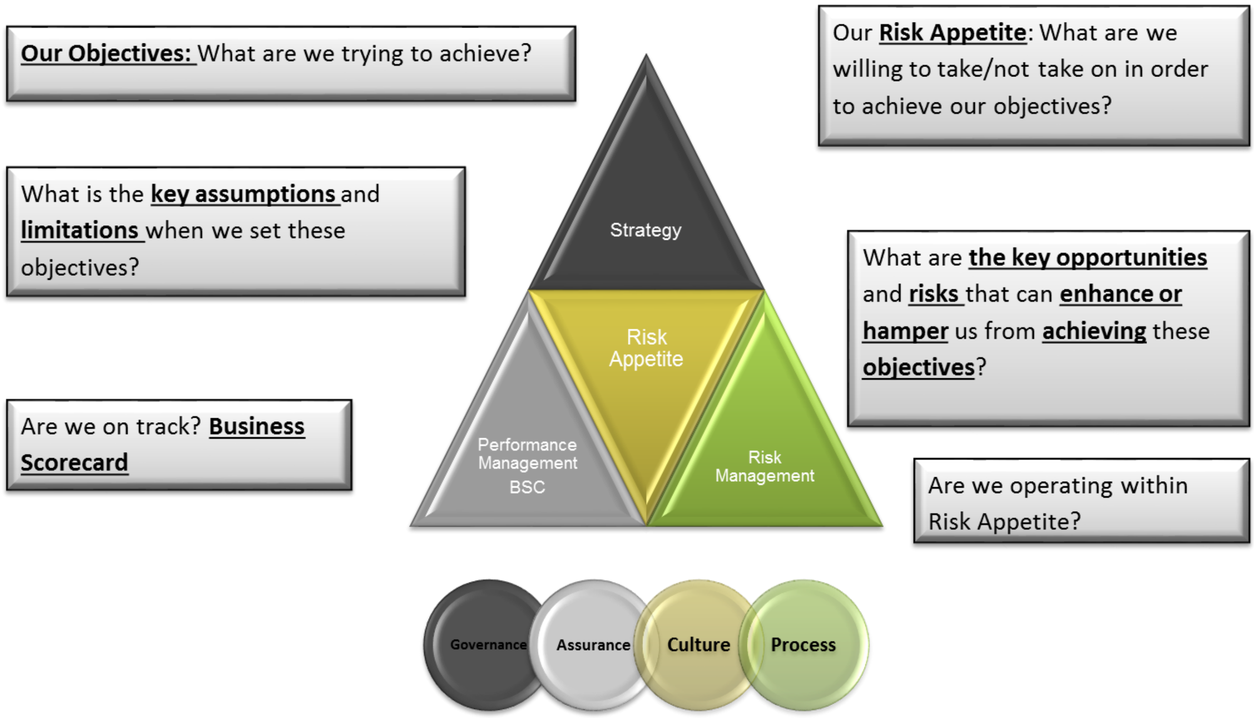
Purpose

To outline the ERM Framework as a coherent guide for the implementation of an integrated risk management system for the DBSA.

Background

For the DBSA to deliver successfully on its mandate and vision, risks that have a potential material impact on achieving its objectives need to be understood, anticipated and responded to in a proactive and coherent manner.

As a result, managing risk and opportunities is a fundamental part of delivering on this mandate on a sustainable basis. This linkage is depicted graphically below:



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

As the Board is ultimately accountable for the effective management of risks within the Bank, it has adopted an ERM system and framework to manage its material and key risk exposures.

This approach ensures that the DBSA takes a holistic view in the management of the key risks. to ensure that the management of risks is embedded into the mainstream planning, business and decision-making processes, as well as responsibility being cascaded effectively and appropriately within the business structures.

The Board approves the risk appetite statement used to monitor and measure risk exposures.

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 IV Report and Committee of Sponsoring Organisations (COSO) 2013 framework.

Risk is managed within four pillars, namely strategic, operational, financial and business.

Risk Pillar	Description
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 may 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.

Risk Pillar	Description
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 may 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 elements.

- The five lines of defense 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 control, which entails the planning, understanding and responding to risks inherent in the DBSA's strategy, operations and business processes.
- 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 Governance Framework

Risk Governance

ENTERPRISE WIDE RISK MANAGEMENT GOVERNANCE FRAMEWORK

BOARD OF DIRECTORS

BOARD SUB COMMITTEES

The Board's Audit & Risk Committee is mandated to oversee the implementation of the Banks enterprise wide risk management framework. The board and its sub committees are assisted by the Group Risk Assurance Division in the execution of this mandate.

- **Board Credit Investment Committee [BCIC]**
- **Infrastructure Delivery & Knowledge Management Committee (IDKC)**
- **Human Resources, and Nominations Committee (HRNC), Social and Ethics Committee (SEC)**
- **Audit & Risk Committee (ARC)**

CHIEF EXECUTIVE OFFICER

EXCO | **ALCO** | **IC**

Risk Assurance

RISK ASSURANCE

Financial Operations

Credit Lab
Develops models for the assessment of the Bank's credit risk. Assists the Bank determine the internal credit ratings.

Business Support
Reporting on defaulting borrowers in the DBSA's client base. Assists with the rehabilitation of defaulters. In seeking to turnaround the non performing loan book, it puts in place mechanisms to assist client's in turning around their business so that they are able to honour their repayment commitments to the Bank.

Chief Risk Officer

Legal Services
Provides professional legal advisory services to all of the Bank's processes, functions and operations. This is to ensure that business decisions are informed by sound legal principles and that all legal risk concerns are addressed.

Risk
Develops and implements tools to ensure the effective management of strategic and operational risks. Facilitate to minimise the Bank's exposure to risks by identifying, assessing, mitigating, monitoring and reporting on all risks exposures. Ensures that the Bank's Business continuity are managed and activities comply with legislative requirements and regulations to which the Bank is subjected to. Responsible for setting up systems of internal control to monitor and report on the level of compliance standards. Monitors the overall risk profile of the Bank's investment portfolio and operational risk within the credit process.

INTERNAL/EXTERNAL AUDIT

Divisional Executive Internal Audit
Responsible for assisting management in making improvements to the system of internal controls which contributes towards achieving the overall business objectives. Provides reasonable assurance as to whether or not risks within the DBSA are being managed

External Audit
Provides and independent opinion on the Bank's financial statements and whether they conform to generally accepted accounting principals and fairly represent the financial position of the Bank.

Risk Control

Business Review Meetings and Management Committees

Business Operations Management and Staff
(Executive Management)
The executive management has the authority and duty to plan, organise and monitor the implementation of risk management at divisional level. In addition effectively communicating expectations and setting functional standards for risk management.

Business Management
Management has the duty as a standing arrangement at unit level and on an ad hoc basis at a project level, to identify, assess and respond to risk within their areas of responsibility and competence. This is within the scope of changes under their management, including supervising staff and incentivizing ethical behavior as well as monitoring and reporting on risk management performance and results.

Risk Management Capacity
(Risk Champions)
The risk champion is responsible for the:
-Facilitation, implementation and maintenance of an effective risk management within their business area.
-Responsible for reporting and recording the risk profile of all other risk categories within the division
-Working with GE to propose risk appetite for respective risk category(s)
-Coordinate the risk profile for the division to align to approved Risk appetite for the Bank
-Challenge Business on their risks with and alignment to the strategy
-Facilitate the identification, assessment, monitoring and managing all Key risks in Business in line to Key risk policy.

The Bank has adopted the five lines of defense model in line with ERM best practice. The aim is to embed the model continuously and 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:

First	Business units, support functions, line management and all staff	Implement and manage 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 the DBSA's activities to ensure that they are consistent with business strategy and policies as approved by the Board
Fifth	Board	Oversee the activities of the DBSA and accountable to the shareholder for the Bank's strategy and performance

The ongoing effectiveness of ERM is supported by a robust and sustained commitment by the DBSA EXCO and management team. This is embedded and implemented through the rigorous strategic planning processes to gain commitment at all levels. In addition, management has:

- Defined and endorsed the risk management policy;
- Clear alignment with the Bank's culture and the risk management policy. Furthermore it takes into account that it is an SOE and incorporates the results of the culture survey into the risk management cycle. In addition the Bank is committed to design, develop, implement, monitor and track the risk culture mechanism and align it to the desired risk culture as set by the Board and executed by EXCO.
- Annually, the risk management performance indicators are determined by each division signing a divisional risk strategic plan that aligns with the performance indicators of the organisation;
- Align risk management objectives with the objectives and strategies of the organisation;
- Ensure legal and regulatory compliance through the assistance of the compliance unit within the risk and compliance unit;
- Assign accountabilities and responsibilities at appropriate levels within the organisation;
- Ensure that the necessary resources are allocated to risk management;
- Communicate the benefits of risk management to all stakeholders;
- Ensure that the framework for managing risk continues to remain appropriate by reviewing it at least once a year at EXCO.

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 Annexure C have been developed to provide an early warning signal for areas of concern.

19. Business Continuity Management

(Approved: 19 March 2018, Executive Committee)

This is a summarised version – the detailed plan is available on request.

Background

The DBSA is committed to a structured systematic and integrated approach to BCM in accordance with the current approved BCM Policy, industry standards and best practice.

The BCM reports into the risk governance structures to provide assurance to the Board. All group executives have joint accountability for the implementation of BCM in their divisions.

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 is to provide ongoing management, coordination and governance to ensure that all BCM activities are conducted and implemented to achieve the BCM and crisis management objectives.

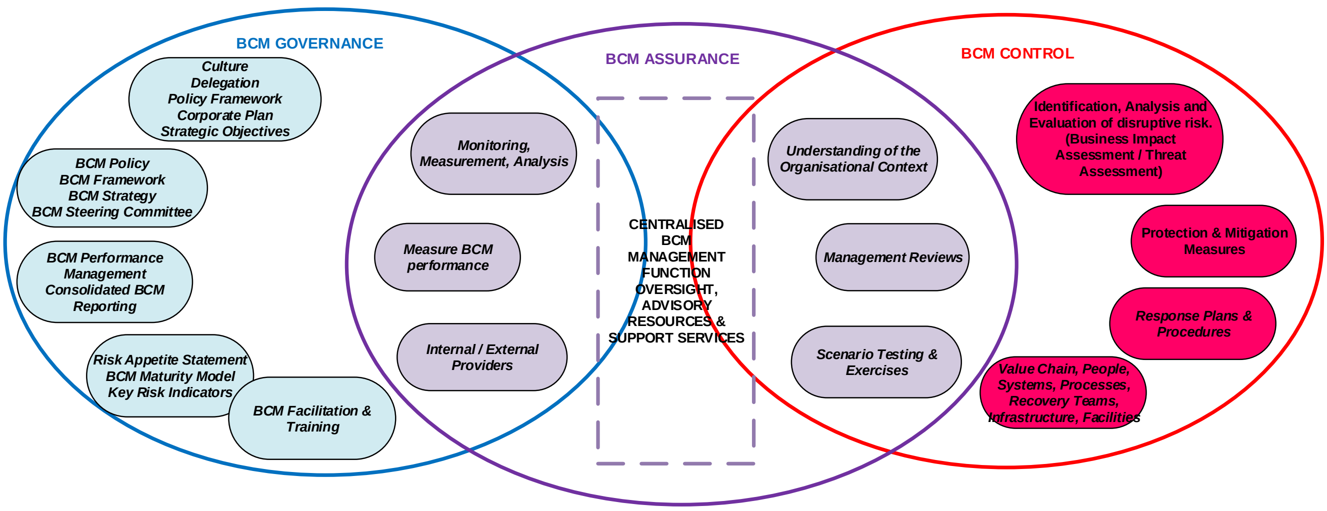
Objective of the BCM Framework

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

- 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);
- Introduce highly structured co-ordination arrangements ensure that all planning and systems, from the initial business response to recovery and full functionality, are aligned, well understood and well communicated, with roles and responsibilities clearly defined and documented;

- Develop workforce capability and competencies through plans, skills training and role rehearsals, and adequate provision of technical equipment and committed resources;
- Ensure inter-operability of planning and operational activities taking into account inter- and intra-dependencies.
- Uphold a resilience philosophy in which the business continuity capability always reflects the needs, technology, structure and culture..

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 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 CAF. They ensure that the Bank has the ability to adequately respond., This framework enables effective measurement and reporting on the BCM capability.

Continuity Assurance Framework

Continuity Assurance Framework

Objective: A State of Readiness to face any challenge

PEOPLE; FACILITIES; PROCESSES AND TECHNOLOGY

PREVENTION

Understanding the Organisation & its context
- Gap Analysis
- Leadership Committment
- ERM Strategy
- Threat and Vulnerability Risk Assessment (TRVA)
- Business Impact Assessment (BIA)
- Mangement Review
- Monitoring, Measurements, Metrics and BCM Dashboard, Policy
- Methodology, Standards, Regulation, Best practise
- Continuous Improvement

MITIGATION
Education, Information, & Communication

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
- Crisis Management Plan
- Communication Protocol
- Emergency Response Plan
- Testing, Exercising
- BCM Procedures

RESPONSE
Immediate Reaction / Survival

Activating the Plans
- Disaster Declaration / Communication Protocol
- Crisis Management & Incident Response Management
- Supplier Management
- Stakeholder Management
- Emergency Response Plan
- Business Continuity Plan - Business Recovery for core business
- IT Continuity Plan
- DRM Continuity Plan
- Crisis Management Team
- Emergency Response Team
- Damage Assessments

RECOVERY

BCM Processes
- Salvage and Restoration Team
- Altenative Site IT, WAR, Facilities, People
- Minimum Service levels
- Resumption of all operations
- Resumption of all IT systems
- Manage business area recovery
- People Coordination
- Transport / Travel
- Additional Budgetary Expenses
- Business Resumptions

RESTORATION

BCM Processes
- Normalisation to pre disaster conditions
- Transition
- Restore original site or alternative site
- Facilities
- ICT
- Business Restoration

20. DBSA Environmental and Social Framework

(Approved: 8 November 2018, Social and Ethics Committee)

This is a summarised version – the complete document is available on request.

The DBSA recognises the centrality of poverty eradication and achievement of sustainable development in its development agenda. It 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.

Environmental and Social Sustainability Policy Statement

The DBSA environmental and social sustainability policy is aligned to its mission and mandate.

The Bank regards sustainable development as a fundamental aspect of sound business practice. It recognizes that economic development needs to be compatible with human welfare and a healthy environment and that the sustainable development agenda is inter-linked with humanitarian, environmental justice and social equity. The DBSA acknowledges that the financial sector must play a critical enabling role to limit global warming and address the impacts associated with increased climate change. It is committed to supporting the SDGs and is committed to:

- Improving financial services;
- Adopting a precautionary approach to environmental and social issues;;
- Striving for positive social and environmental sustainable development outcomes ;
- Promoting strategies and practices to address climate considerations;
- Complying with all environmental legislation;
- Identifying and quantifying environmental and social risks;
- Regularly monitoring progress and reviewing environmental performance;
- Ensuring that clients apply the DBSA social and environmental safeguard standards;
- Pursuing global good practice in environmental management (in the Bank's asset management and operational funding activities;
- Forming business relations with customers, suppliers and subcontractors who follow similarly environmental and social standards;
- Communicating social and environmental aims and objectives;
- Linking environmental and social policies to related DBSA policies;
- Continuously raising awareness;
- Sharing relevant information with clients, stakeholders and partners;
- Continuously striving to improve environmental performance.

Documentation

Environmental and social sustainability considerations at the DBSA are founded on the following key documents: the DBSA Environmental Sustainability Strategy, the DBSA Environmental and Social Sustainability Policy, the DBSA Environmental and Social Safeguard Standards and the DBSA Climate Change Policy Framework. These documents combine to form the DBSA *Environmental and Social Management Framework which ensures that the DBSA's operations, programmes and projects are socially responsible, environmentally sound, financially sustainable and in line with government requirements.

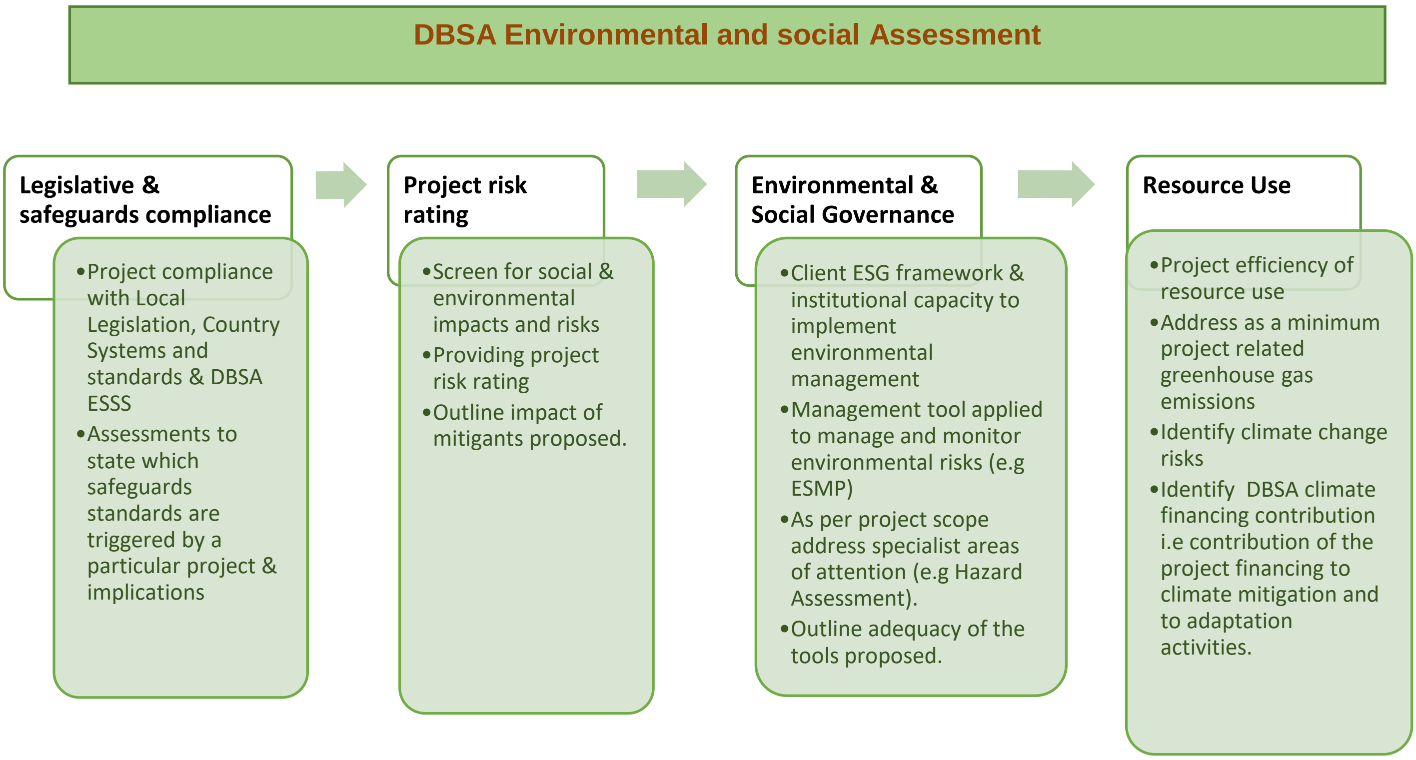
Integrated Reporting, Global Reporting Initiative and United Nations Global Compact (UNGC)

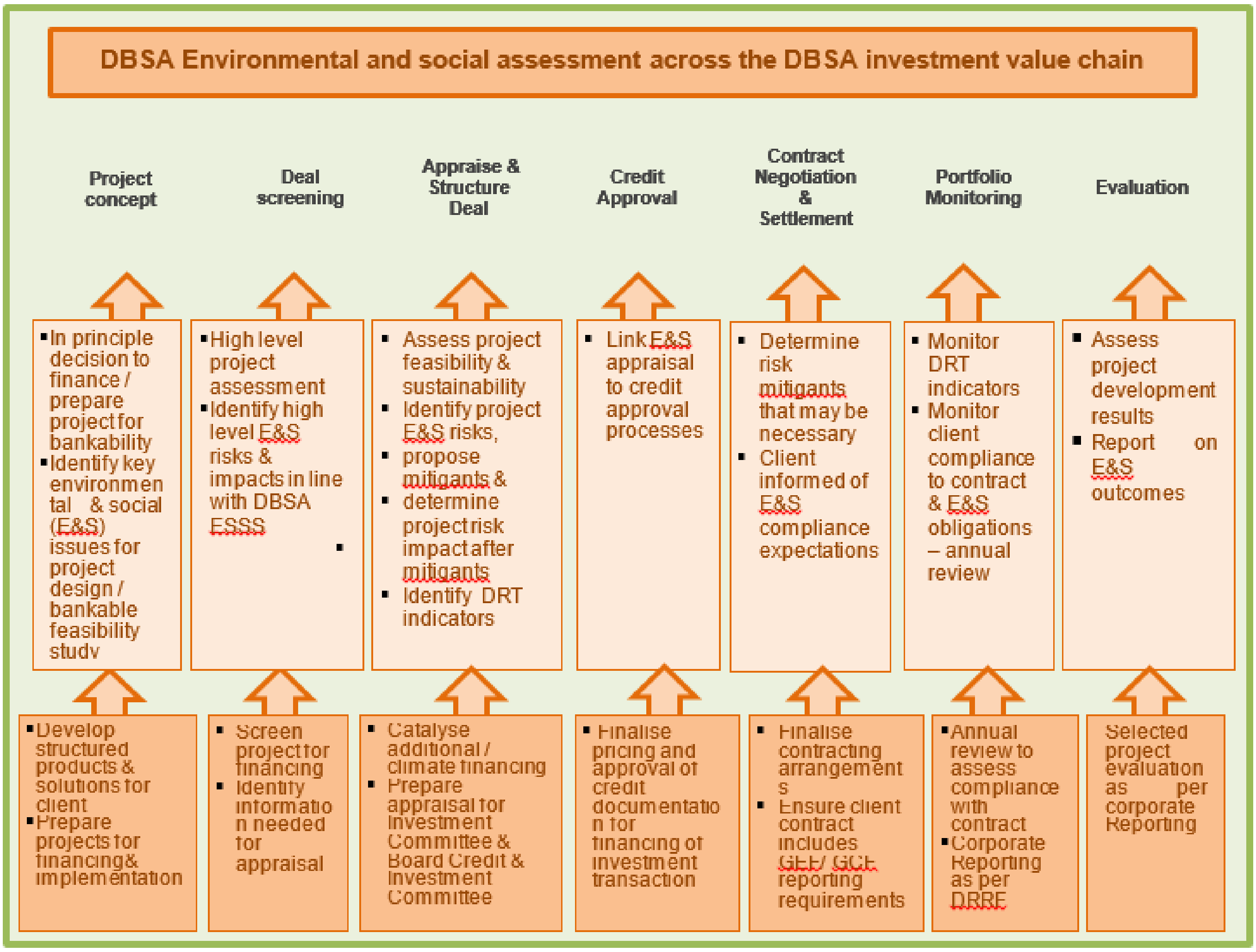
The DBSA reports on, and effectively considers, its economics, ethical, governance, social and environmental performance.

The DBSA has adopted integrated and sustainable reporting principles. During 2013 the DBSA became a member of the United Nations Global Compact (UNGC) which is is the world's largest corporate citizenship initiative that addresses and integrates CSR requirements with the integrated reporting requirements. As a result, the DBSA annual report (as of 2014-2015) was compiled to align with both the integrated and sustainability reporting requirements of the GRI Sustainable Reporting Guidelines, as well as the UNGC universally accepted ten principles that address the areas of human rights, labour, environment and anti-corruption.

DBSA Environmental and Social Management Framework

All programmes and projects considered for funding undergo a rigorous environmental and social appraisal as part of the broader investment appraisal process. This approach enables the DBSA to embed sustainability principles into every step of the investment value chain.





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 a greener economy and sustainable green infrastructure across its mandate areas. In particular, it is working with the DEA and the NT to facilitate and ensure greener infrastructure and sustainable development across the region. The Bank is involved in the following environment and sustainable development related initiatives:

Support to the Department of Water Affairs: Water Resource Commission MOU

- DBSA partnership with UNEP-FI involves an international initiative undertaken by the NCFA, led by UNEP-FI, entitled "Advancing Environmental Risk Management Project". The aim is to better determine how natural capital is addressed in environmental appraisal and credit risk assessments.
- Annual International Development Finance Club Partnership - input into the IDFC Green Finance Mapping Survey. This report outlines the contribution of the DBSA loan book in the to supporting climate mitigation and adaptation activities.
- DBSA also provides inputs into the Climate Action for Finance Institution's initiative which comprises over 30 international banks and coordinates lessons learnt and promotes climate action in finance institutions.

- CPI AFD and DBSA Partnership - implementing a project addressing the implications (including financial risks) for South Africa of potential future “stranded assets” in the coal, platinum and iron ore mining, power generation, rail and port infrastructure, liquid fuels refining and distribution sectors due to the transition to a low carbon economy.The partnership has developed an agreed scope of work to implement the project and to share the preliminary study results.
- Managing and Implementing the Green Fund, on behalf of the South African government, to support green initiatives with project finance, research and capacity building grants to assist a transition to a more resource-efficient and sustainable development society.
- DBSA was accredited as a GEF Implementing Agent in 2014. The DBSA management team has held discussions with the GEF to consider possible pipeline opportunities under the GEF 7, particularly where they align with the DBSA’s focal areas and sectors.
- DBSA was accredited to the GCF in March 2016, to implement micro to large projects nationally and within sub-Saharan Africa.

As financial costs for implementing agencies are covered by the GCF, the DBSA is currently working on a pipeline of projects (nationally and within sub-Saharan Africa) earmarked for GCF Board consideration.

The DBSA CFF which was approved by the GCF in 2018, is a lending facility intended to increase climate related investment in the Southern African region by addressing market constraints and playing a catalytic role with a blended finance approach. The CFF will be a first-of-its-kind application based on the Green Bank model, adapted for emerging market conditions. It offers globally significant proof-of-concept value to middle and lower income nations seeking to address market barriers and quickly scale up the high levels of private investment required by Paris climate commitments.

The CFF will use its capital to fill market gaps and crowd in private investment, targeting projects that are potentially viable, but cannot currently attract market-rate capital at scale without “credit enhancement”. It will focus on infrastructure projects that mitigate or adapt to climate change.

The CFF will invest responsibly as a self-sustaining financial institution that is break-even and structured to complete repayment of debt funding and the initial capitalisation, as provided by the GCF, the PIC, the DBSA and any participating DFIs.

The CFF will grow its funding base and corresponding portfolio. Following the initial round of CFF investments in climate change mitigation and adaptation projects, it is also envisaged that commercial banks would become more familiar with the nature of the risks for these type of projects and be interested in participating in new subsequent innovative projects, with other financial instruments for adaptation and mitigation projects. In addition, the DBSA would like to raise the possibility of continued capitalisation of the CFF via the re-financing of initial loans from the GCF (and supporting DFIs) to support additional rounds of continued financing via the CFF.

Environmentally sustainable operations

In line with the environmental rights in the Constitution of South Africa, the Bank is committed to providing an environmentally safe work place for its employees and to minimising its 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 EAF and ESS which outline the Bank's approach to environmental appraisal and due diligence. The EAF is aligned with national and international best practice for environmental assessment and is implemented by the Bank's environmental analysts. The EAF and ESS ensure that the Bank's environmental appraisals are consistent in supporting and enhancing the Bank's decision-making processes. They mitigate and manage environmental risk, while also ensuring increased development impact.

In The Bank is reducing the impact of its operations, including greening its site and buildings, in order of magnitude of impact by;

- Energy demand management and generation of energy from renewable energy sources;
- Business travel management including its carbon footprint through energy use and S&T emissions;
- Office paper use and recycling;
- Solid waste management and recycling;
- Water consumption reduction;
- Sustainable campus management (maintenance of the natural vegetation on the campus);
- Grassland and wetland biodiversity conservation.

These initiatives combine to reduce the Bank's carbon emissions, water use, waste generation and maintain a sustainable campus.

PART G: ANNEXURES

ANNEXURE A: COMPLIANCE CHECKLIST

No	Description	Reference
1	**Strategy**	Section 2
2	**Key Performance Indicators**	Part D
3	**Governance Structures** • Governance structures and roles/responsibilities • Structure of Board of Directors committees • Structure of Executive Management	Part E
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 15
8	**Risk Management Plan** • Description of risk management process • Key operational risks	Section 17 Section 18
9	**Fraud Prevention Plan**	Annexure B
10	**Materiality and Significance Framework**	Section 8.8
11	**Other Supporting Plans** • Employment Equity Plan (recommended) • Environmental Framework (recommended)	Part F

ANNEXURE B: FRAUD PREVENTION PLAN

(Approved: 24 May 2018, Audit and Risk Committee)

This is a summarised version – the detailed plan is available on request.

INTRODUCTION AND DEFINITIONS

Prevention of fraud in the 21st century is about understanding internal and external risks. Given the requirement to protect the DBSA's assets and to prevent wasteful expenditure, the EXCO must ensure that internal controls operate effectively. It is vital to identify and manage exposure to commercial crime in any nature or form.

The focus of this plan is to create a zero tolerance environment, 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. It gives effect to the DBSA Fraud and Corruption Prevention Policy.

The four pillars - of the plan:

- Create 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.

PURPOSE & SCOPE

Establishing a Zero Tolerance Environment

Zero-tolerance is a fundamental aspect of the plan and will be cemented through appropriate policy, procedures, management support and regular EXCO communication.

All instances of known or suspected fraud and corruption will be investigated, disciplinary processes followed and criminal charges initiated where appropriate, or as required by law.

The Bank shall actively promote the plan and involve all internal and external stakeholders. Communication includes 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; Recoveries of losses from acts of fraud and corruption.

The Bank will communicate to all employees the significance of adherence to the DBSA Code of Ethics and will conduct familiarisation workshops/training on the DBSA Code of Ethics, Conflict of Interest and Whistleblowing Policies.

The Bank will, on a regular basis, review the efficiency of the current whistle-blowing hotline and campaign.

All new appointees will receive induction training and all personnel will receive ongoing formal awareness training in fraud related topics.

The DBSA Fraud Response Plan, which is an essential annexure to the Fraud and Corruption Prevention Plan, provides detailed guidance for either the receipt of a report on suspicions of fraudulent/corrupt activity or 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 internal or external forensic auditors.

Annual fraud and corruption risk assessments will be undertaken, with the information and lessons learnt forming feedback into risk management models and processes.

Proactive Defence

The proactive procedures assist the Bank in identifying areas of risk and preventing incidents of fraud.

Data interrogation exercises are periodically carried out on the Bank's standing and transactional data, including HR and procurement records. The purpose 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 is a key policy tool.

The Bank ensures comprehensive background checking on prospective employees and potential service providers.

The Bank has a reporting database for the recording of all incidences and allegations of fraud, corruption and associated irregular conduct. It is also a tool in identifying any fraud and corruption trends, and assists in the formulation of lessons learnt.

Internal control policies, systems and 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 EXCO. Audits which test prevention measures are performed on a regular basis.

The "Tip Offs Anonymous" fraud reporting hotline (0800 204 933) is in place and advertised widely to employees, suppliers and business partners.

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;

- Regular assessments of all significant business processes for control, with remedies for procedural weaknesses. ;

- Strong culture of best practice corporate governance, including visible EXCO 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 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 protection of 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 best practice information from previous audits and investigations on how to avoid/mitigate areas of potential risk;

- Probity checks on suppliers/contractors/sub-contractors to determine whether there are conflicts of interests or other significant issues which may impact their ability to deliver on contractual obligations:

- The application of compliance database tools to identify any politically exposed person or prominent influential persons, which enable decision making committees to apply their minds during investment and other critical authorisation processes;
- A strong, independent and effective Board Audit and Risk Committee and internal audit, compliance and risk functions;

- Strong and independent external auditors;

- Ethical, equitable and thorough employment practices and policies.

GOVERNANCE AND MANAGEMENT

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 revised annually as required and fully reviewed every three years.

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.

ANNEXURE C: 2019/20 RISK REGISTER

Refer to a separate DBSA principal risks document to be incorporated into the Corporate Plan

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Inherent Rating 31 Dec 18	Mitigations and Action Plans	Residual Rating 31 Dec 18	Residual Rating 30 Sep 18
1.	**Changing operating environment** *The risk arising from failing to respond and innovate due to a challenging and rapidly changing operating and macroeconomic environment* *Risk Sponsor: CEO and 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. Opportunities exist in Africa to invest in the formation of new industries that will facilitate leapfrogging technologies and by-passing legacy platforms that perpetuate poverty and under-development. The global macro-economic environment is currently categorized by lower growth, and expected rise in US interest rates. This would have a direct impact on DBSA's existing client and possible clients. Escalating trade tensions between the United States and the rest of the world, especially China, represent the main downside risk to the global economic outlook. Given the volatility of growth, and South Africa having had a technical recession in 2018, and care needs to be taken in the future in this regard.	- Changing client needs. - Entry of new players, crowding in of third parties, including international DFIs. - Disruptive technology impacting DBSA and its clients. - Organisational culture / ineffective change management to drive innovation. - Insufficient upskilling to develop and nurture innovation, e.g. Sales Effectiveness skills etc. - Inefficient alignment of processes and systems/technology to support the delivery of an innovation strategy. - Volatility of the rand, interest rates, oil price and sovereign rating downgrades. - Policy uncertainty and the upcoming elections in South Africa.	- 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. - Lower development impact and future infrastructure investments. - Lower than anticipated disbursements to grow the book.	20 Critical II: = 4 (Major) IL= 5 (Almost certain)	Mitigations: - Changes in the external environment are taken into account when formulating strategy. - Pro-active monitoring of the credit portfolio to minimise possible impairments. - Strategies implemented in Treasury to manage both foreign exchange and interest rate risk. - Improved integrated infrastructure solutions to clients. - Bank's operating model reviewed to ensure more responsiveness and innovativeness to client's needs. - Project appraisal/investment processes cater for relevance of technology. - Innovation program underway. - Focus on partnerships, rather than competing, driven through the catalysation approach. - Ongoing implementation of culture initiatives based on areas highlighted in management/leadership culture surveys. Action Items: - Upskill staff with sales effectiveness skills, and innovative ways to procure new business etc. - Utilise technology to enhance and align processes to support strategy, e.g. CRM system etc. - Develop innovative financing products for decentralized systems such as distributed generation from renewable sources (e.g. rooftop solar PV), distributed storage and possibly microgrids.	12 High RI = 3 (Moderate) RL=4 (Probable)	12 High RI = 3 (Moderate) RL=4 (Probable)

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Risk No.	Principal Risk	Associated Strategic Objective / Context	- Key Drivers	Possible Impact	Inherent Rating 31 Dec 18	Mitigations and Action Plans	Residual Rating 31 Dec 18	Residual Rating 30 Sep 18
2.	**Credit risk:** *Risk arising from the potential failure of a borrower/client to perform fully on its obligations highlighted in credit facilities, and also the possibility of non-performance of a single large credit exposure or multiple exposures that are closely correlated.* *Risk Sponsor: CRO*	Sustained growth in development impact Financial sustainability. <u>Context:</u> 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. As a DFI, we will have concentration risk as we fulfil a niche in those markets that require assistance, for example Eskom.	- Deteriorating macro-economic environment. - Ineffective monitoring of the credit portfolio. - Poor deal selection. - High single name concentrations. - Weak client institutional capacity.	- Increase in potential defaults, impairments and write-offs, thus impacting sustainability.	16 High II = 4 (Major) IL =4 (Probable)	Mitigations: - 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.	9 Moderate RI = 3 (Moderate) RL =3 (Possible)	9 Moderate RI = 3 (Moderate) RL =3 (Possible)

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Risk No.	Principal Risk	Associated Strategic Objective/ Context	Key Drivers	Possible Impact	Inherent Rating 31 Dec 18	Mitigations and Action Plans	Residual Rating 31 Dec 18	Residual Rating 30 Sep 18
3.	***Country risk:*** *The risk arising from the possibility that changes in economic concentration, sovereign debt sustainability, 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 pressure, 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. - Upcoming elections in South and policy uncertainty.	- 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)	Mitigations: - 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. - ECIC political insurance risk cover.	9 Moderate RI = 3 (Moderate) RL =3 (Possible)	9 Moderate RI = 3 (Moderate) RL =3 (Possible)

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Inherent Rating 31 Dec 18	Mitigations and Action Plans	Residual Rating 31 Dec 18	Residual Rating 30 Sep 18
4.	**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. <u>Context</u>: 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. - Talent model not adequate to drive innovation for the Fourth Industrial Revolution. - Values and behaviours not fully embedded in business to drive organisational culture. - Insufficient background checks when recruiting potential employees, e.g. criminal checks	- Failure to deliver on the Bank's mandate and sustainable infrastructure goals. - Reputational risk	12 High II = 4 (Major) IL =3 (Possible)	Mitigations: - Retention strategy which includes inter alia performance incentives benchmarked with peers. - Performance management process. - Deployment into challenging engagements to improve retention. - Recruitment policy highlighting different background checks. Action Plans: - Growth through training and development opportunities: - Culture initiatives: - Upskill staff with sales effectiveness skills, and innovative ways to procure new business etc. - Perform criminal checks prior to onboarding employees. - Access the Register of Employees Dismissed database ("RED"), used by Banks prior to onboarding employees.	9 Moderate RI = 3 (Moderate) RL =3 (Possible)	6 Moderate RI = 3 (Moderate) RL =2 (Unlikely)
5.	**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. Continuous improvement of internal systems and processes <u>Context</u>: 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. Potential Conflicts of Interest exist during the Supply Chain Management process, and these risks need to be adequately managed to prevent reputational risks amongst other risks.	- 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. (contract management) - Lack of capacity to implement, monitor and close gaps pertaining to non-compliance matters on governance. - Lack of knowledge / awareness of supply chain policy and guidelines across the Bank. - Lack of Declarations of Interest on a sub-contractor level	- 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. - Breach of policy and guidelines. - Irregular, fruitless and wasteful expenditure. - Adverse audit findings. - Reputational risk	12 High II = 4 (Major) IL =3 (Possible)	Mitigations: - IDD operating model implemented. - 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. - Supply Chain policy for Infrastructure Procurement and Delivery Management. - Supply Chain Management Level 3 procedural manual Action Plans: - Supply Chain management process is being reviewed to enhance tender processes to cater for potential employee conflicts of interests that could occur on a sub-contractor level. A reputational risk gap analysis has been done in this regard.	6 Moderate RI = 3 (Moderate) RL =2 (Unlikely)	6 Moderate RI = 3 (Moderate) RL =2 (Unlikely)

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Inherent Rating 31 Dec 18	Mitigations and Action Plans	Residual Rating 31 Dec 18	Residual Rating 30 Sep 18
6.	**Reputational risk** *The risk arising of failing to reasonably meet internal and external stakeholders' expectations about the banks performance and behaviour, and also failing to manage reputational / conduct risks associated with such stakeholders.* *Risk Sponsor: CEO and CIO*	Sustained growth in development impact. Financial sustainability. Integrated infrastructure solutions provider. Continuous improvement in systems and processes. Context: The Bank recognizes that effective internal and external stakeholder management and collaboration is imperative to the success of achieving the Banks strategic and operational goals and objectives. The Bank is also cognisant of the risks associated with internal and external stakeholders, and therefore the onboarding and monitoring of such relationships is key to manage risks, in the main reputational risk. Core stakeholders include Communities, Employees, Board members, Suppliers, Treasury Counterparties, Strategic Partners, Clients-Financing, Clients-Infrastructure Delivery and National Treasury.	- Not effectively implementing stakeholder framework and brand and communication strategy. - Not proactively responding to complaints and grievances from stakeholders in a timeous manner, e.g. from advocacy groups, the community, adverse media etc. - Gaps in processes and systems to effectively onboard and monitor internal and external stakeholders in an integrated manner, across the value chain - Inadequate systems to declare conflicts of interests within the Bank - Not sufficiently addressing areas of improvement highlighted in annual customer satisfaction surveys - 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. - Emerging legislation are not identified and timeously actioned.	- 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. - Bad press reports/ adverse media - 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. - Fines, penalties and other sanctions	12 High II = 4 (Major) IL =3 (Possible)	Mitigations: - MOU management framework - DBSA Environmental and Social Safeguard Standards, caters for a community/consultation process for DBSA projects. - Monitoring of social media, e.g. LinkedIn, .Twitter, Facebook etc. - Ongoing media monitoring of various news articles impacting DBSA and its stakeholders. - Brand Refresh project approved. - Implementation of the Customer Relationship Management ("CRM") system - Delegations of Authority Matrices. - Project specific reviews for each of the deals we finance (due diligence). - Fraud prevention plan as well as a fraud hotline in place. - Governance and Ethics policies, e.g. Conflicts of Interest, Code of Ethics, Gift and Hospitality policy, Fruitless and Wasteful Expenditure policy, etc. - Compliance policy, DBSA Group Anti-Money Laundering Control Internal Rules - Annual employee declarations of interest, and declarations of interest on a project level and during the tender process. - Ongoing Ethics training and awareness - Regular emails from SABINET which identify emerging legislation and the status thereof. Action Plans: - Brand and communication marketing strategy. - Executing the recommendations of the "Know Your Stakeholder" Project, where a high level gap analysis and roadmap was done, on how internal and external stakeholders were onboarded across the value chain. The action plans that are in progress are: o Establish "Know Your Stakeholder" checklists, which amongst others, include sanction listing, PEP checks etc. when onboarding strategic mandates. These checklists will be implemented for new strategic mandates going forward. o Develop a Delinquent Register for entities restricted from doing business from the DBSA. o Perform criminal checks prior to onboarding employees. o Access the Register of Employees Dismissed database ("RED"), used by Banks prior to onboarding employees. o Enhance the tender process to manage employee conflicts of interest at a subcontractor level. o Approval of Counterparty Credit Risk level 2 policy, which incorporates KYC, PEP, sanction listing and adverse media checks. o Include metrics in the new risk appetite statement, to monitor the time it takes to acknowledge complaints and grievances. o Embed the actioning of areas for improvement, highlighted in the annual customer satisfaction survey. This will management client expectations. o Prior to onboarding IDD mandates, enhance the due diligence to assess whether the mandates are ready to be implemented. o Prior to onboarding IDD mandates, perform an institutional assessment on the capacity of government to pay DBSA on time. - Procuring of new online Declarations of Interest system. - Create a heightened awareness of the Banks social media policy and other behavioural policies. - Stakeholder Relations Quality Assessment is underway. - Media Strategy underway.	9 Moderate RI = 3 (Moderate) RL =3 (Possible)	4 Low II = 2 (Minor) IL =2 (Unlikely)

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Inherent Rating 31 Dec 18	Mitigations and Action Plans	Residual Rating 31 Dec 18	Residual Rating 30 Sep 18
7	**Development Impact and BBBEE risk** The risk of DBSA failing to participate in economic transformation within infrastructure development, resulting in lower than expected developmental impact. *Risk Sponsor (s): CIO, GE: Coverage; GE: Transacting; GE: Project Preparation*	Continuous improvement of internal systems and processes Sustained growth in development impact. Economic transformation Context: The Bank acknowledges that, 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. In addition, in line with the DBSA's strategic objective of continuing transformation, staff will be employed in line with employment equity requirements. The 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. In addition, to promote sustainable use of scarce resources.	- BBBEE requirements not integrated with all critical DBSA procurement processes/requirements. - Not preparing and participating in projects that contribute to economic transformation. - Inadequate gathering of potential development outputs and outcomes during the project appraisal process. - Inadequate tracking of development outputs during implementation of projects. - Failure to invest in deals that do not deliver on the requisite development outputs and outcomes.	- Reputational risk - Inability to maintain Level 2 BBBEE status. - 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)	**Mitigations:** - Integrated BBBEE requirements within all critical business process such as procurement and human capital initiatives. - Black asset managers were onboarded, as well as the supplier development programme for refreshment services. - The DBSA uses a number of levers to advance economic transformation within infrastructure development and these include: o The BBBEE rating, including preferential procurement, skills development, employment equity, and supplier/enterprise development; o Direct lending to the previously disadvantaged; o Direct impact through third party funds managed by the DBSA; o Indirect economic impact through guidelines and conditions set for our clients; and o Gender mainstreaming. - Development Results Template (DRT) completed by frontline during project appraisal process. - Developmental Results Reporting Framework (DRRF) has been rolled out within the Bank. **Action items** - Selection and onboarding of additional professional services that include audit and legal firms, per the BBBEE programme. - For greater economic transformation impact, there is an increased lending to projects that are majority owned and owned by black people and women. To drive this programme in the next three years the DBSA will: o Set aside capital dedicated to funding to black-owned companies – and define appropriate risk appetite and prudential limits; o Find appropriate mechanisms to collateralize the debt; o Crowd-in other funders with the same objective and provide project preparation and operation support; and o Align the initiatives to the need to solve developmental challenges through products and services that support break-through thinking. - Track the development impact that the DBSA has on addressing the job crisis and youth unemployment through implementing programmes to prepare them for the 4th industrial revolution.	4 Low II = 2 (Minor) IL =2 (Unlikely)	4 Low II = 2 (Minor) IL =2 (Unlikely)

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Inherent Rating 31 Dec 18	Mitigations and Action Plans	Residual Rating 31 Dec 18	Residual Rating 30 Sep 18
8.	**Cyber & Technology Risk:** *The risk arising from accidental or malicious breaches of information security, adversely impacting DBSA and clients.* *Risk Sponsor: GE: Finance*	Continuous improvement of internal systems and processes <u>Context</u>: In today's world, there is increasing sophistication of cyber-attack capabilities (external, insider threat or supplier breach), including related legislative requirements that requires focus from a risk perspective. There has been a global digital revolution, which increases cyber security risks.	- Ineffective cyber security controls and awareness programs. - Digital revolution in line with global trends. - Failure of Information Technology systems. - Poor systems integrity or other factors	- 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)	Mitigations: - Cyber security controls in place such as: - Execution of the approved ICT Information security 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)	4 Low RI = 2 (Minor) RL =2 (Unlikely)

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Inherent Rating 31 Dec 18	Mitigations and Action Plans	Residual Rating 31 Dec 18	Residual Rating 30 Sep 18
9.	**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. <u>Context</u>: If the Bank is to meet its infrastructure developmental targets, it requires adequate funding and access to capital markets. In 2018, S&P Global and Fitch have kept South Africa's credit rating to sub-investment grade, and Moody's did not publish a review as was scheduled in October. Taking this into consideration, this affects DBSA's credit rating, and has an impact when sourcing funds in the market. Furthermore, investors in the Bank's debt instruments require comfort that their money is on-lent to entities that practice good	- Adverse market conditions leading to sovereign and DBSA downgrades. - Governance concerns associated with DBSA as an SOE. - Not adequately exploring funding opportunities in the market to source low cost Rand funding - Client credit rating impacting on cost of funding (e.g. M2/M3, Water Boards etc.)	- Loss of competitiveness due to increased funding costs. - Lower growth in development impact. - Inability to maintain financial sustainability. - Loss of Rand deals - Failure to sustain business (financial sustainability). - Lower than anticipated Rand disbursements to grow the book.	8 Moderate II = 4 (Major) IL =2 (Unlikely)	Mitigations: - 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. Action plans: - Engage Treasury to explore low cost Rand funding in the market.	4 Low RI = 2 (Minor) RL =2 (Unlikely)	4 Low RI = 2 (Minor) RL =2 (Unlikely)

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Risk No.	Principal Risk	Associated Strategic Objective / Context	Key Drivers	Possible Impact	Inherent Rating 31 Dec 18	Mitigations and Action Plans	Residual Rating 31 Dec 18	Residual Rating 30 Sep 18
10.	**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. The DBSA is further required to be sustainable and must generate revenue in order to continue to operate without significant support from the shareholder.	- Environmental, Social and Institutional guidelines not adequately assessing sustainable development for DBSA projects. - Failing to fulfil DBSA's role as part of the Sustainable Development Goals, e.g. participating in sustainable infrastructure development. - Failing to maintain profitability and operational efficiency to enable growth in equity and fund developmental activities.	- 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. - Failure to maintain financial sustainability.	16 High II = 4 (Major) IL =4 (Probable)	Mitigations: - 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. - DBSA Environmental and Social Safeguard Standards. - Implementation of the Bank's capital management strategy. - Implementation of the Bank's financial plan/strategy.	4 Low RI = 2 (Minor) RL =2 (Unlikely)	4 Low RI = 2 (Minor) RL =2 (Unlikely)

ANNEXURE A: DBSA PRINCIPAL RISKS 2019/20

Legend

The table below summarises the legend used for Annexure A: DBSA Principal Risks 2019/20:

INHERENT AND RESIDIAL RISK RATINGS		**DEFINITIONS**	
II	Inherent Impact	**Inherent Risk**	The risk exposure if no controls or other mitigating factors are in place. It is therefore the gross risk.
IL	Inherent Likelihood		
RI	Residual Impact	**Residual Risk**	The risk that remains after controls are taken into account. It is therefore the net risk.
RL	Residual Likelihood		

KEY	
CONTROLS	
Existing Control NOT Effective	
Existing Control Partially Effective	
Existing Control Effective	
ACTION PLANS	
Action Plan on track	
Action Plan in Progress	
Action Plan Delayed/Overdue	

ANNEXURE D: INDICATOR PROFILES

20.1 Financial Perspective

Non-interest Revenue

Indicator title	**Non-interest revenue (excluding IDD and equity)**
Short definition	Non-interest income is derived primarily from fees income on loans and management fees for running mandates or programmes.
Purpose/importance	To augment funded income (net interest income) and to recover costs that are incurred in delivering selected services
Alternative indicator	Fee Income
Potential other uses of indicator	Indicates how the organisation is on loan assets/interest income
Source/collection of data	Annual Financial Statements
Lead/coordinating agency	Finance
Method of calculation	**See example in table below**
Baseline	2018/19 Forecast: R275 million
Target and target date for the indicator	R300 million in 2019/20 R315 million in 2020/21 R325 million in 2021/22
Data limitations	From an accounting perspective, fees are posted throughout the life of the loan but for the purposes of performance, these are declared during the year when the transaction is committed.
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-Cumulative (count starts from zero at the beginning of each year)
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Chief Financial Officer

Calculation Example

Name of income	Amount
Lending business fees	R77 342 218
Deferred income: up-front fees	R173 787 799
Management fees	R14 479 175
Non lending business fees	R742 856
Net fee income	**R266 352 048**
Plus: Disbursement recovery	R2 614 709
Development subsidy realised	R9 305 123
Dividends	R15 956 336
Sundry income	R15 328 535
Other operating income	**R43 204 703**
Sub-total	**R309 556 751**
Less: Dividends	(R15 956 336)
Non-interest income for the period	**R293 600 415**

Return on Equity (RoE)

Indicator title	**Return on Equity (calculated on sustainable earnings)**
Short definition	Return on equity (ROE) is a measure of the profitability of an organisation in relation to the book value of shareholder equity
Purpose/importance	ROE is a measure of how well the bank uses capital equity to generate shareholder value. When compared to inflation it indicates whether shareholder value is eroded or maintained.
Alternative indicator	Return on Assets (ROA) and Sustainable earnings
Potential other uses of indicator	Benchmarking with peer organisation
Source/collection of data	Financial System (SAP) and Management accounts
Lead/coordinating agency	Finance
Method of calculation	**Sustainable Earnings / Shareholder equity (average for year)**
Baseline	2018/19 forecast: 8.8%
Target and target date for the indicator	7.0% in 2019/20 7.0% in 2020/21 7.0% in 2021/22
Data limitations	None
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-Cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Chief Financial Officer

Net Interest Margin

Indicator title	**Net interest Margin**
Short definition	Net interest margin (NIM) is calculated as net interest income (interest income less interest expense), as a percent of interest-bearing assets.
Purpose/importance	NIM measures our margins from clients to see if the bank is making money or losing money and to see if the Bank's margins to clients are improving or deteriorating. Net interest margin is a ratio that measures how successful the organisation is at investing funds in comparison to our expenses on the same investments.
Alternative indicator	Gross profit Margin
Potential other uses of indicator	Benchmarking with peer organisation
Source/collection of data	Financial System (SAP) and Management accounts
Lead/coordinating agency	Finance
Method of calculation	Net interest income/ Average Interest bearing Assets(Opening plus closing divided by 2)
Baseline	5.4% in 2018/19 forecast
Target and target date for the indicator	5.0% in 2019/20 5.0% in 2020/21 5.0% in 2021/22
Data limitations	None
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-Cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	CFO

Net cash generated from operations

Indicator title	**Net cash generated from operations**
Short definition	The amount of cash generated from its operating activities, excluding costs associated with long term investment on capital items or investment in securities.
Purpose/importance	It indicates if the core business of the bank produces sufficient cash flow for the following: • Pay its operating expenses • Provide surplus cash for future growth (investment activities) • Meet the entity's interest and debt requirement
Alternative indicator	-
Potential other uses of indicator	It is also a measure of sustainability in the short to medium term
Source/collection of data	Financial System (SAP) and Management accounts
Lead/coordinating agency	Group Finance
Method of calculation	Absolute number from cash flow statements
Baseline	2018/19 forecast: R3.7 billion
Target and target date for the indicator	R4.1 billion in 2019/20 R4.4 billion in 2020/21 R5.0 billion in 2021/22
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Group Finance

Disbursements

Indicator title	**Disbursements**
Short definition	Disbursements for loans granted
Purpose/importance	The disbursement target indirectly measures the growth of the activities of the DBSA
Alternative indicator	-
Potential other uses of indicator	The indicator is sometimes used as proxy for impact of the organisation's activities
Source/collection of data	Financial System (SAP)
Lead/coordinating agency	Coverage Division
Method of calculation	**Absolute amount disbursed as reflected in the system** **Disbursements from Structured Finance Products are included in the target and will be shown separately for reporting purposes.**
Baseline	Forecast for 2018/19 : R12.9 billion
Target and target date for the indicator	R13.5 billion in 2019/20 R15.0 billion in 2020/21 R17.0 billion in 2021/22
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Group Executive: Coverage Group Executive: Transacting Chief Investment Officer

20.2 Customer Perspective

Value of Infrastructure unlocked for under-resourced municipalities

Indicator title	**Value of infrastructure unlocked in under-resourced municipalities**
Short definition	The value of infrastructure unlocked as a result of specific activities of the DBSA in the sector
Purpose/importance	The indicator prioritises, in line with the Corporate Strategy, the delivery of non-financial support activities in under-resourced municipalities to improve developmental impact
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	Schedule of projects that are tabled by a municipal for the next financial year(s)
Lead/coordinating agency	PPD and Coverage
Method of calculation	**Under-resourced refer to Market 2 and 3 municipalities** **For each non-financing project completed in the under-resourced municipality, the estimated value of infrastructure projects that are developed and approved as a direct consequence of DBSA's activity is included in the count. The projects will count if they are allocated in the municipal budget* for the new year and/or if the facility agreement has been signed.**
Baseline	2018/19 forecast: R0.8 billion
Target and target date for the indicator	R0.8 billion in 2019/20 R1.0 billion in 2020/21 R1.2 billion in 2021/22
Data limitations	Dependency on internal processes of the municipality.
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative (the count is zero at the beginning of each year)
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Group Executive: Coverage

*Performance against this indicator will be recognised appropriately over multiple years where projects from the same plan are allocated in budgets over a number of years

Value of projects prepared and committed

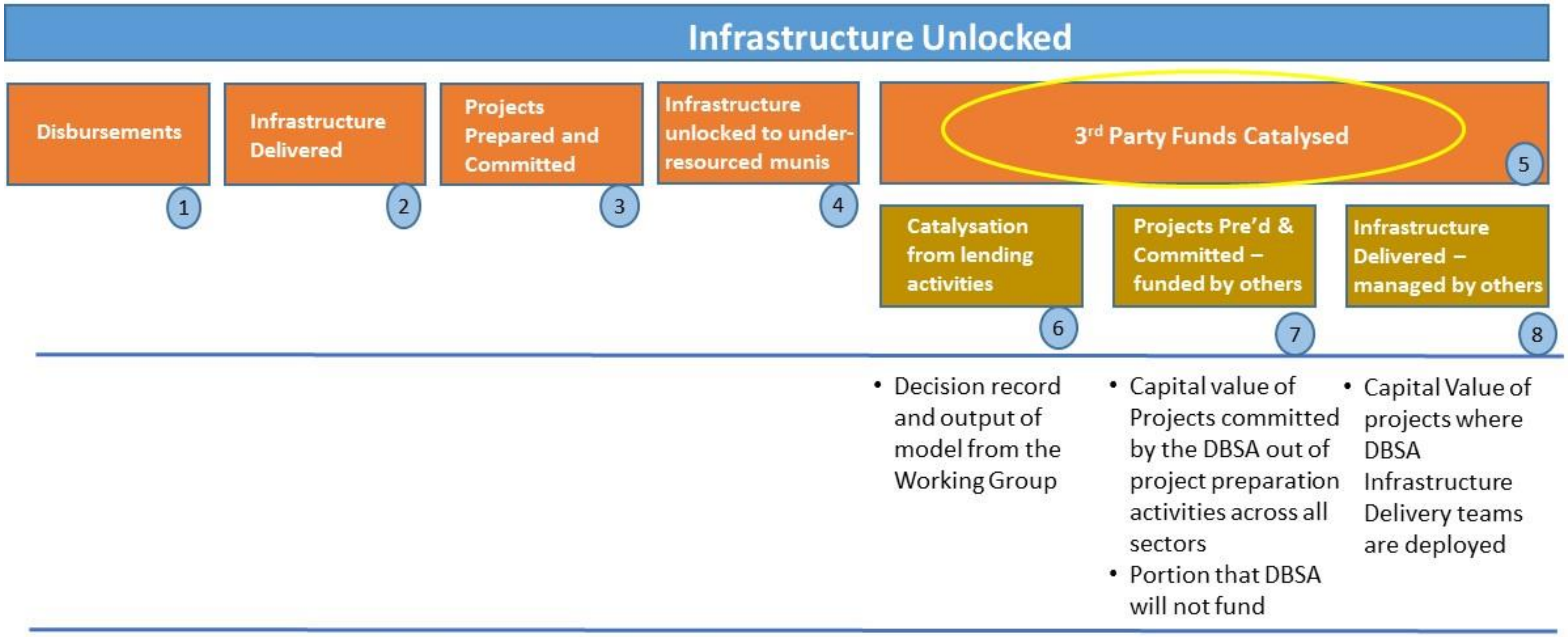
Indicator title	**Value of projects prepared and committed**
Short definition	Value of Projects committed out of the project preparation activities across all sectors.
Purpose/importance	Elevates the importance of infrastructure planning support services within the value chain to create project pipeline and to unlock funding for infrastructure development
Alternative indicator	-
Potential other uses of indicator	Provides an indication of project pipeline for Lending
Source/collection of data	Signed facility agreements Evidence of the capital value of project
Lead/coordinating agency	PPD
Method of calculation	**Only projects whose preparation was completed during the year under review will count (and that have signed facility agreements)**
Baseline	2018/19 Forecast: R10.4 billion
Target and target date for the indicator	R5.0 billion in 2019/20 R7.0billion in 2020/21 R10.0 billion in 2021/22
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Group Executive: PPD

Value of infrastructure Delivered

Indicator title	**Value of infrastructure delivered**
Short definition	The total rand value of expenditure spent on infrastructure construction projects that are delivered by IDD
Purpose/importance	Measure the extent to which impact is achieved through eradicating infrastructure backlog for government
Alternative indicator	-
Potential other uses of indicator	Measure of the growth in DBSA's contribution as an implementing agent
Source/collection of data	IDD signed-off Progress Reports; Financial System
Lead/coordinating agency	IDD
Method of calculation	**Expenditure amount as reflected in the system for all projects that are being executed**
Baseline	2018/19 forecast: R3.4 billion
Target and target date for the indicator	R4.0 billion in 2019/20 R4.2 billion in 2020/21 R4.4 billion in 2021/22
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	Yes
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	IDD

Total third party funds catalysed

Indicator title	**Total 3rd party funds catalysed**
Short definition	Value of funds committed by 3rd parties primarily as a result of the DBSA's catalytic role in the transaction
Purpose/importance	Crowding in of 3rd party funding especially from the private sector allows the DBSA to grow its developmental impact
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	• **Decision records from the Catalysation Working Group for catalysation from lending activities (6 below) as well as signed contract/facility agreement** • **Signed facility agreements for Project Preparation (7)** • **Evidence of project resources allocated to projects managed by others (8); Evidence of capital value of project.** • **Evidence that 3rd party funders have committed (PPD and lending)**
Lead/coordinating agency	Corporate Strategy
Method of calculation	Refer to diagram below for context
Baseline	Estimated target: R22.5 billion
Target and target date for the indicator	R46.7 billion in 2019/20 R57.8 billion in 2020/21 R67.4 billion in 2021/22
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Group Executives for Coverage, Transacting, PPD and IDD



To avoid double-counting, the following principles apply:

- Projects can count in 3 and 7 at the same time. Projects in 3 are contract values of projects prepared and committed by DBSA. Third party funds catalyzed is the capital value of the project less the value committed by DBSA.
- The output of the financing model in 6 accounts for catalysation based on the financial position taken, e.g. MLA, mezzanine, debt, BBBEE, equity etc. and does not calculate project prep or infrastructure delivered. These are accounted outside of the model. This means that a project can be counted in 1, 3 and 6 and 7 concurrently, BUT the infrastructure unlocked by DBSA (at organizational level) should not exceed the capital value of the project.

Development impact

Indicator title	**Development impact from funding business**
Short definition	The development impact of DFIs is based on driving structural economic changes, which are a necessary pre-condition for widespread and sustainable development impacts. Ensure that the structural changes can be divided into outcomes such as enterprise growth, competitiveness boosts, positive employment impacts and (positive) shifts in productivity patterns and incomes.
Purpose/importance	To carry out investments which are meant to have positive development impacts, harnessing the power of the private sector to promote growth and employment. Private sector enterprise growth results in both increased government revenues and the potential to directly and indirectly create more jobs in a country. In turn, employment creation can boost development by increasing living standards
Alternative indicator	None
Potential other uses of indicator	Benchmarking with peers in the industry
Source/collection of data	Monitoring and evaluation of investment projects
Lead/coordinating agency	Finance and Operations
Method of calculation	**DBSA's harmonized their development impact indicators to fall under the following categories. Data collected is used to classify the following impact Cross Sectoral: Direct Employment, payment to Governments, Agribusiness: Farmers reached, sales, Education: Enrolled students, Energy: Power Produced, Health: Patients served, Housing: New dwellings built, improved dwellings, Transportation: passenger use, Waste & Sanitation: Waste disposal, wastewater treated and Potable water produced**
Baseline	2018/19 forecast: -
Target and target date for the indicator	Board approval of the implementation plan at Q1 review, full execution of the plan by Financial year ending 2019/20 TBC in 2020/21 TBC in 2021/22
Data limitations	Lack of data and information and co-operations from the municipalities
Quality assurance strategy	First line assurance: Operations and evaluations unit Corporate strategy unit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Cumulative
New indicator	Yes
Reporting cycle	Monthly corporate performance report to Exco
Indicator responsibility	GE Finance and operations

Value of projects for black-owned entities approved for project preparation funding

Indicator title	**Value of projects for black-owned entities (51%) approved for project preparation funding**
Short definition	Capital value of projects that are approved for project preparation funding during the year under review.
Purpose/importance	To increase transformative impact of the activities of the bank
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	• Approval of the projects for preparation funding from the deal screening unit of the PPD • BBBEE Certificate of the entity
Lead/coordinating agency	Project Preparation Unit
Method of calculation	• **Count the capital value of projects that are approved by the deal screening unit for preparation funding** • **Capital value is counted irrespective of the amount of funding that DBSA will spend or will crowd in** • **Black ownership of the entity receiving project preparation funding will count from 50%+**
Baseline	2018/19 forecast: R 0.7 billion
Target and target date for the indicator	R1.0 billion in 2019/20 R1.2 billion in 2020/21 R1.5 billion in 2021/22
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	Yes
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Group Executive: Project Preparation Unit

Value of projects by black-owned entities that are committed for lending

Indicator title	**Value of projects by black-owned entities (51%) that are committed for lending**
Short definition	Capital value of lending projects that have reached commitment stage during the year under review.
Purpose/importance	To increase transformative impact of the activities of the bank
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	• Decision record from the Investment Committee • Signed contract between DBSA and entity • Evidence of the capital value of the project
Lead/coordinating agency	Coverage Division
Method of calculation	• **Count the capital value of projects by black-owned entities that have reached commitment stage i.e. with contracts signed with the DBSA** • **Capital value is counted irrespective of the amount of funding that DBSA will fund** • **Black ownership of the entity receiving funding will count when it is 50%+**
Baseline	2018/19 Forecast R0 billion
Target and target date for the indicator	R1.0 billion in 2019/20 R1.2 billion in 2020/21 R1.5 billion in 2021/22
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	Yes
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Group Executive: Coverage

Breakthrough initiatives

Indicator title	Number of identified programmes through the New Investment Platform
Short definition	The indicator tracks the number of transactions committed using the financial mechanisms introduced by the New Investment Platform
Purpose/importance	The purpose of creating a New Investment Platform is to accelerate the rate of infrastructure development through supporting national priority projects and programmes through converting planned programmes and mega projects into tangible operating infrastructure. The DBSA will play the leadership role in the creation of a transparent procurement, financing and implementation platforms in a public/private joint venture.
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	Signed facility agreements or contracts that originate from transaction created through the new investment platform
Lead/coordinating agency	CIO
Method of calculation	The identified programmes must be against a transaction that originates from the new ring-fenced investment platform. The transactions must be identified within the performance year (i.e. contract/facility agreement must be signed within the performance year)
Baseline	-
Target and target date for the indicator	**2019/20: 3** **2020/21: 5** **2021/22: 7**
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Chief Investment Officer

Breakthrough initiatives (continued)

Indicator title	Number of projects committed for funding through the VC 10X Fund programmes
Short definition	This indicator tracks the number of projects committed that have been funded through the VC funds 10X enterprise development incubators.
Purpose/importance	The purpose of this indicator is to track the development impact that the DBSA has on growing SMMEs and women-led enterprises to achieve sustainable development, especially in the start-up growth industries.
Alternative indicator	-
Potential other uses of indicator	
Source/collection of data	Signed facility agreements or contracts that originate from transaction created through the VC Fund 10X programme
Lead/coordinating agency	CIO
Method of calculation	Commitment must be against the ring-fenced venture capital fund. The transactions must be committed within the performance year (i.e. contract/facility agreement must be signed within the performance year)
Baseline	-
Target and target date for the indicator	**2019/20: 3** **2020/21: 5** **2021/22: 7**
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Chief Investment Officer

Breakthrough initiatives (continued)

Indicator title	Number of the in D-Labs programmes
Short definition	Number of participants who complete any one of the D-Labs programmes during the year under review.
Purpose/importance	The purpose of this indicator is to track the development impact that the DBSA has on addressing the job crisis and youth unemployment through implementing programmes to prepare them for the 4th industrial revolution.
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	Schedule of programme before the start; evidence that all requisites have been met at the end programme
Lead/coordinating agency	CIO
Method of calculation	Account for number of D Labs established
Baseline	-
Target and target date for the indicator	**2019/20: 5** **2020/21: 7** **2021/22: 10**
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Chief Investment Officer

Breakthrough initiatives (continued)

Indicator title	% of the DBSA campus that is off-grid
Short definition	The indicator tracks the % of the DBSA main campus that is off-grid in terms of electricity.
Purpose/importance	The purpose of this indicator is to provide to leadership to achieve greater impact through showcasing technologies and solutions that will accelerate the rate of development. Water and waste will be showcased as part of this initiative, but will not be used in the calculation of the %.
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	Energy usage reports (or electricity invoices)
Lead/coordinating agency	CIO
Method of calculation	• Determine baseline: calculate the average energy consumption from the national grid over the month before intervention • Measure final energy consumption of any month after the implementation and determine % off-grid • The final average consumption calculated must be from the any month within the performance year
Baseline	-
Target and target date for the indicator	**2019/20: Implementation plan approved by Board** **2020/21: 50% off grid** **2021/22: 80% off grid**
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	No
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Chief Investment Officer

Client Satisfaction Survey

Indicator title	**Client satisfaction survey**
Short definition	Level of satisfaction of clients as measured by the customer satisfaction survey
Purpose/importance	Measures perception of the organisation's service level to facilitate continuous improvement in service
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	Independent client satisfaction survey report
Lead/coordinating agency	Stakeholder and Strategic Partnerships Unit (SSPU)
Method of calculation	**Standard survey methodology**
Baseline	2018/19 Forecast: 4
Target and target date for the indicator	3.5 rating in 2019/20 3.5 rating in 2020/21 3.5 rating in 2021/22
Data limitations	Subject to sampling and analysis limitations as per any survey methodology, for example, availability of clients, identified for the survey
Quality assurance strategy	Reviews of methodology and process by SSPU
Calculation type	Non-cumulative
New indicator	No
Reporting cycle	Once off survey done at the end of the performance year
Indicator responsibility	Group Executives of Coverage, IDD, Transacting and PPD

20.3 Learning and Growth Perspective

Future fit skills bench strength

Indicator title	**Skills bench strength**
Short definition	It is a measure of the internal organisational skills bench strength to deliver against the strategy of the organisation
Purpose/importance	Measures the ability of the organisation to deliver against the future strategy
Alternative indicator	-
Potential other uses of indicator	Can be used to determine potential talent for the organisation
Source/collection of data	Skills assessment exercise
Lead/coordinating agency	Group Executive: Human Capital
Method of calculation	• Year 1 (2019/20) will measure the actual skills bench strength against the required future fit skills • Subsequent years will measure improvement of the bench strength • The target segment is professional level upwards • The target will be % skills aligned and developed in relation to future fit strategy
Baseline	2018/19 Forecast: 0
Target and target date for the indicator	**2019/20 Target** 1. Determine future fit skills required to execute strategy Ascertain organisational skills bench strength = 3 2. Determine and design targeted skills development plans and toolkits = 3,5 3. Execution against development skills project plan = 4 **2020/21 Target** % improvement relative to the baseline **2021/22 Target** % improvement relative to the baseline
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	Yes
Reporting cycle	Once off survey done at the beginning of the financial/performance year
Indicator responsibility	Group Executive: Human Capital

Organisational culture

Indicator title	**Organisational culture**
Short definition	Measurement of Organisational Culture and Leadership Culture
Purpose/importance	Organisational Culture drives the organisational values, behaviours and performance. As we move the organisation forward this measurement is our guide if we are on track and allows us to coarse correct where necessary.
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	Independent management survey report
Lead/coordinating agency	Human Capital
Method of calculation	• Year 1 (2019/20) Barrett Culture Values Assessment • Year 2.Leadership Values Assessment percentage measurement. • Year 3 Barrett Culture Values Assessment • Surveys to alternate
Baseline	-
Target and target date for the indicator	**(2019/20)** 3 = CVA results stay the same or deviation up or down of 2 %. 80% execution of implementation plan **2020/21** 3=conduct Assessments and Establish baseline for current Leadership (Leadership Values Assessment) % and target. 80% execution of implementation plan. **2021/22** 3 = CVA results stay the same or deviation up or down of 2 %. Minimum of 10% execution of implementation plan
Data limitations	Subject to sampling and analysis limitations as per any survey methodology
Quality assurance strategy	None. The report provided by the professional service provider is deemed Independent and final
Calculation type	Non-cumulative
New indicator	Yes
Reporting cycle	Once off survey done at the beginning of the performance year
Indicator responsibility	All Group Executives

20.4 Internal Business Process Perspective

Maintain the BBBEE Score

Indicator title	**Improvement in the B-BBEE Score and increase the management control**
Short definition	The level of Broad-based Economic Empowerment that the organisation achieves in line with the BBBEE Act of 2003, as amended by Act 46 of 2013
Purpose/importance	• The DBSA is required in terms of the act to annually determine its contribution towards BBBEE by undergoing an annual BBBEE audit • BBBEE score is an imperative as the DBSA is a service provider whose customers must also account on the level of BBBEE that they give business to
Alternative indicator	-
Potential other uses of indicator	A good BBBEE score provides the platform for the DBSA to participate in competitive bidding processes, when necessary
Source/collection of data	Portfolio of evidence for each sub-element as required for the audit
Lead/coordinating agency	Corporate Strategy Unit
Method of calculation	**Calculation as per Financial Services Charter Code for a Specialised Entity**
Baseline	In 2018/19: Management control score of 16.89 and achieve level 2 rating for BBBEE
Target and target date for the indicator	Increase the management control sub- element score by 5% and maintain level 2: 2019/20 Increase the management control sub- element score by 2.5% and maintain level 2: 2020/21 Increase the management control sub- element score by 2.5% and maintain level 2: 2021/22
Data limitations	-
Quality assurance strategy	None. The report provided by the independent verification agent is deemed Independent and final.
Calculation type	Non-cumulative
New indicator	Yes
Reporting cycle	Once off audit done by the independent verification agent during the course of the performance year
Indicator responsibility	All Group Executives

Irregular, unauthorised and wasteful expenditure

Indicator title	**Irregular, unauthorised and wasteful expenditure**
Short definition	Unauthorized, fruitless or wasteful expenditure as a percentage of total expenditure
Purpose/importance	To safeguard against the reckless use of state resources
Alternative indicator	-
Potential other uses of indicator	Minimising unauthorised, fruitless and wasteful expenditure facilities the development of good controls that will ensure the organisation maintains good governance and sustains a clean audit
Source/collection of data	Expenditure as reflected in the financial system (SAP)
Lead/coordinating agency	Group Finance
Method of calculation	• **Fruitless, wasteful and unauthorized expenditure for the DBSA will be calculated as a total of all operating expenditure, including employee benefit costs** • **Third party funds management by IDD are excluded from the calculation**
Baseline	2018/19 forecast should be 0% of total expenditure
Target and target date for the indicator	Classify 0.0% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure 2019/20 Classify 0.0% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure 2020/21 Classify 0.0% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure in 2021/22
Data limitations	For Procurement effected though DBSA processes
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	Yes
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Chief Financial Officer

Unqualified audit opinion

Indicator title	Unqualified audit opinion
Short definition	The audit opinion that is given to the organisation by external auditors at the of an annual audit
Purpose/importance	To provide assurance that financial, performance and other information that the organisation reports is a fair reflection
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	Audit report by the Auditor-General
Lead/coordinating agency	Finance Division
Method of calculation	External audit process as per Auditor-General's framework and methodology
Baseline	Clean Audit (2018/19)
Target and target date for the indicator	Achieve unqualified audit opinion without matter of emphasis in 2019/20 Achieve unqualified audit opinion without matter of emphasis in in 2020/21 Achieve unqualified audit opinion without matter of emphasis in in 2021/22
Data limitations	-
Quality assurance strategy	None. The audit report provided by the Auditor-General will be deemed final
Calculation type	Non-cumulative
New indicator	Yes
Reporting cycle	Annual
Indicator responsibility	Finance Division

Ethical behaviour

Indicator title	**Ethical Behaviour**
Short definition	Code of Ethics is to promote an ethical culture within the bank.
Purpose/importance	To conduct our operations with honesty, integrity and openness and with respect for the human rights and interests of our employees; Employees shall similarly respect the legitimate interests of those with whom; serve DBSA and employees are required to comply with the laws and regulations of South Africa; DBSA is committed to diversity in a working environment, where employees are required to have mutual trust and respect; and also where everyone feels responsible for the performance and reputation of the bank
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	Quarterly audit report that is presented at Exco
Lead/coordinating agency	Internal Audit
Method of calculation	• Acting consistently with values of doing the right in every situation public or private even when it may be inconvenient • Taking ownership and being accountable for actions and omissions • Uphold DBSA Values with integrity
Baseline	0
Target and target date for the indicator	No findings on unethical behaviour by any staff member in 2019/20 No findings on unethical behaviour by any staff member in 2020/21 No findings on unethical behaviour by any staff member in 2021/22
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Annual audit- external auditors
Calculation type	Cumulative
New indicator	Yes
Reporting cycle	Monthly corporate performance report to Exco Quarterly performance report to National Treasury and to the Board
Indicator responsibility	Group Executives

Compliance with PFMA

Indicator title	Compliance with PFMA
Short definition	The entity's compliance with legal and regulatory provisions The activities of the internal audit function, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and Where relevant, the independence and objectivity of the external auditors
Purpose/importance	To assesses the conformity of the institution with PFMA compliance obligations. The adequacy, reliability and accuracy of financial information provided to National Treasury and other users of such information
Alternative indicator	-
Potential other uses of indicator	-
Source/collection of data	Quarterly Risk Management report that will be table and deliberated at Audit and Risk and where this performance indicator will be tracked.
Lead/coordinating agency	Enterprise Risk Management
Method of calculation	• The internal audit function must assist the accounting officer in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement. The controls subject to evaluation include compliance with laws, regulations and controls. • Follow risk process • Apply internal controls and responses • Adhere to the risk management framework of the bank
Baseline	-
Target and target date for the indicator	No findings on unethical behaviour by any staff member in 2019/20 No findings on unethical behaviour by any staff member in 2020/21 No findings on unethical behaviour by any staff member in 2021/22
Data limitations	-
Quality assurance strategy	First line assurance: Corporate Strategy Unit Internal audit assurance as per internal audit plan, if applicable Annual audit- external auditors
Calculation type	Non-cumulative
New indicator	Yes
Reporting cycle	Quarterly at Exco, Board and National Treasury
Indicator responsibility	Enterprise risk management

Definitions

Loan Commitment for Performance Purpose	A loan commitment is a signed financing agreement between the Development Bank of Southern Africa (Lender) and a borrower for a specified loan facility.
Unethical behaviour	Actions of an individual(s) that do not conform to the acceptable standards of business practices, by breaching/violating the organisational/industry values, policies, processes, procedures and legislation; resulting in fraud, corruption, corporate crime and impropriety. Behaving unethically may occur when one is in pursuit of a benefit or reward of some sort. These unethical business practices include defrauding customers, deliberately circumventing laws, withholding of or misrepresenting financial results for financial gain, benefits in the form of goods or services, the opportunity to benefit oneself, family or friends.