29 January 2017

development bank of south africa – brief summary of 2017 annual report

1. **BACKGROUND**

The Development Bank of South Africa (DBSA) is constituted in terms of the Development Bank of Southern Africa Act, No 13 of 1997 (Amended Act No 41 of 2014) as a development finance institution wholly owned by the South African government. The geographic mandate of the Bank has been extended beyond the Southern African Development Community (SADC) to any country on the African continent and its oceanic islands.

The Bank aims to deepen its development impact in South Africa and the rest of the African continent by expanding access to development finance while effectively integrating and implementing sustainable development solutions. Since its founding in 1983, the DBSA has expanded its role to serve as financier, advisor, partner, implementer and integrator to the benefit of its clients.

The bank is further regulated by the Public Finance Management Act, No 1 of 1999 (PFMA), the principles of the King Code of Governance Principles for South Africa 2016 (King IV) and the Protocol on Corporate Governance in the Public Sector. The DBSA’s mandate is defined in section 3 of the DBSA Act.

1. **MANDATE**

At the core of their mandate, the DBSA seeks to play a pivotal role in delivering developmental infrastructure in South Africa. DBSA’s strategy is driven by the need to create world-class infrastructure catalysing capabilities in an ever increasing competitive environment. The DBSA has refined its strategic objectives to support its transformation journey consisting of sustained growth in developmental impact, providing integrated infrastructure solutions and maintain financial sustainability.

1. **KEY PERFORMANCE INDICATORS AND TARGETS**

The table below compares the planned and related actual performance on the high-level corporate strategic objectives for 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Objective** | **Key Performance Indicator** | **Target** | **Actual** | **Achieved/Not Achieved** |
| CUSTOMER PERSPECTIVE (47%) | | | | |
| Sustained growth in development impact  Providing integrated infrastructure solutions | Project Preparation | | | |
| Gross value of bankable projects prepared | R9.0 billion | R0.6 billion | Not achieved |
| Infrastructure financing | | | |
| Total value of infrastructure unlocked | R35.2 billion | R48.2 billion | Achieved |
| Value of third party funds catalysed by the DBSA | R5.6 billion | R31.9 billion | Achieved |
| Value of infrastructure disbursements | R16.4 billion | R12.4 billion | Not achieved |
|  | Implementation and delivery support programmes | | | |
|  | Total funds under management and catalysed | R4.2 billion | R3.3 billion | Not achieved |
| FINANCIAL PERSPECTIVE | | | | |
| Maintain financial sustainability | Sustainable | R1.1 billion | R3.6 billion | Achieved |
| Non-interest revenue (excluding IDD) | R250 million | R278 million | Achieved |
| Net-interest margin | 40.9% | 49.8% | Achieved |
| INTERNAL PERSPECTIVE | | | | |
| Continuous improvement of internal systems and processes | Cost-to-income ratio: Financing business | 35% | 15% | Not achieved |
| Cost-to-income ratio of IDD1 95% 128% Balance sheet capacity: Capital management Capital | 95% | 128% | Achieved |
| Balance sheet capacity: Capital management | Capital management strategy and framework approved | Capital management strategy and framework approved | Achieved |
| Innovation | Approval of an innovative concept/ product | Four innovative concepts approved | Achieved |
| LEARNING AND GROWTH | | | | |
| Create and maintain high performance environment | Development and retention of key skills | 85% of critical skills retained | 89% | Achieved |
| Reduction in entropy score | 3% reduction | 5% reduction from 2016 results | Achieved |

**Source: DBSA 2017 Annual Report**

The Bank continued to achieve good results for the year under review, meeting more than half of its strategic objectives whilst the targets for the following key performance indicators were not met:

* Disbursements to metro and secondary municipalities: The underperformance was largely attributed to municipalities not coming to the market to seek funding. The ability to convert the approved bridging projects remains a challenge.
* Disbursement to fund social and economic infrastructure: The underperformance was largely attributed to the non-materialisation of various planned infrastructure projects and a strong competition in the market.
* Disbursement to the SADC region (excluding South Africa): Infrastructure development and financing in the region is complex and time-consuming and can take a number of years to reach financial close, thus impacting the ability to disburse. The conversion of approval to disbursements took longer than anticipated. The challenging macro-economic conditions impact the ability to provide cost-effective funding.
* Value of projects prepared and committed by DBSA: The underperformance was mainly as the result of the delay in concluding the Power Purchase Agreements for the IPP programme and delays in procurement of rolling stock for Gautrain Phase 1 extension which will reach financial closure during 2018.
* Value of funds under management: The underperformance was mainly as a result of the delays from government departments in releasing funds of the programmes that the DBSA is managing as per the agreed project schedule.
* Cost-to-income for Infrastructure Delivery Division: The main reason for the underperformance was as a result of expenses remaining high as the Infrastructure Delivery Division struggled to raise sufficient income to cover its costs for the last four months of the financial year (DBSA, 2017)

1. **CORPORATE GOVERNANCE**

* **External Audit Report**

The financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa as at 31 March 2017. There were no material findings on the usefulness and reliability of the reported performance information for the following objectives: sustained growth in development impact; maintain financial sustainability and create and maintain a high performance culture.

* **Internal Control**

The internal control relevant to the audit of the financial statements, annual performance report and compliance with legislation did not identify any significant deficiencies in internal control.

1. **FINANCIAL PERFORMANCE**

Sustainable earnings rose to 3.7 billion (2016: R3.2 billion) on the back of an increase in the net interest income. DBSA achieved a net profit of R2.8 billion (2016: R2.6 billion).

Development loans, development bonds and equity investments disbursed decreased by 27% to R12.4 billion (2016: R17.1 billion). Despite the increase of impairment provision of 10% to R4.2 billion, the quality of loan book remains healthy. This is further contributed by 3.3% of non-performing loans in relation to the entire book. Debt-to-equity ratio improved to 158.1% (2016: 177.8%).

* **Dividend**

No dividend has been declared for the current and previous financial years. The DBSA does not have a dividend policy as part of its contract with the shareholder. The benefits of reinvesting in the mandate of the DBSA far outweigh the benefit of a dividend to the shareholder.

# References

Development Bank of South Africa (2017) Annual Report 2017