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## **Overview of the Development Bank of Southern Africa’s Financial and Non-Financial Performance**

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## 1. Introduction

The COVID-19 pandemic, which necessitated various mitigation measures at the initial stages, such as stringent lockdowns, travel restrictions and closure of schools and non-essential business, negatively affected global economic activity and external demand. Whilst these measures assisted in reining in the public-health crisis, the extent of the damage to the global and domestic economy has been significant.

Given the critical role that Development Finance Institutions (DFIs) such as the Development Bank of Southern Africa (DBSA/Bank) play in creating jobs, raising shared economic growth and enabling pro-poor expansion of infrastructure, they can contribute meaningfully towards the economic recovery of the country by assisting in financing and implementing vital infrastructure projects. However, the key challenge is that due to the pandemic, the cost of funding has increased because of the changes in the financial markets. It has also meant a loss or reduction of several lines of liquidity and an increase in non-performing loans and expected credit losses (ECL) for the Bank<sup>1</sup>.

This paper briefly highlights DBSA's response to the COVID-19 pandemic. It also provides an overview of the financial and non-financial performance of DBSA. It does so by providing an analysis of audit outcomes and financial management indicators as well as the 2020 annual report.

## 2. Mandate of DBSA

DBSA is constituted in terms of the Development Bank of Southern Africa, Act No. 13 of 1997 (Amended Act No.41 of 2014). The Bank is further guided by the King Code of Governance Principles for South Africa 2016 (King IV), the Protocol on Corporate Governance in the Public Sector, as well as the Public Finance Management Act (Act No.1 of 1999) (PFMA)<sup>2</sup>.

At the core of its mandate, the Bank aims to play a significant role in delivering developmental infrastructure in South Africa and the rest of the African continent. In particular, DBSA is mandated with the primary purpose of "promoting economic development and growth, human resource development and institutional capacity building by mobilising financial and other resources from the national and international private and public sectors for sustainable development projects and programmes in South Africa and the wider African continent"<sup>3</sup>.

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<sup>1</sup> DBSA (2020a).

<sup>2</sup> Ibid.

<sup>3</sup> DBSA (2020a).



### 3. DBSA’s Role in the Time of COVID-19

In response to the COVID-19 pandemic, DBSA has been involved in short and long-term interventions that generally align with the Bank’s strategy<sup>4</sup> The short-term interventions were intended to counter the impact of the pandemic on vulnerable communities in identified hot spot areas while the long-term initiatives aim to serve as a stimulus as the country embarks on an effort to rebuild the economy as well as help build Africa’s prosperity<sup>5</sup>. Table 1 below outlines these interventions and the allocations that have been directed to them.

**Table 1. COVID-19 Response Short-term and Long-term Programmes**

<b>Intervention</b>	<b>Allocation (Rands)</b>
<b>Basic services interventions:</b> <ul style="list-style-type: none"> <li>• provision of potable water (solar powered boreholes), water tankers and restoration of existing boreholes and repairs of pump stations</li> </ul>	R41.4 million
<ul style="list-style-type: none"> <li>• Staffing and software at the National Disaster Management Centre</li> </ul>	R15 million
<ul style="list-style-type: none"> <li>• Isolation Pods, mobile prefabricated testing units and associated Personal protective equipment (PPE)</li> </ul>	R26.2 million
<ul style="list-style-type: none"> <li>• PPE to Southern African Development Community (SADC) countries</li> </ul>	R 30.5 million
<ul style="list-style-type: none"> <li>• Solidarity Fund</li> </ul>	R0.9 million
<b>Committed to a DBSA and Council for Scientific and Industrial Research (CSIR) collaboration in building capacity of the health ecosystem and economy through two initiatives:</b> <ul style="list-style-type: none"> <li>• Provide equipment and testing kits for molecular diagnostics and testing for COVID-19 critical testing</li> <li>• Develop CSIR’s COVID-19 Continuous Positive Airway Pressure (CPAP) non-invasive ventilators</li> </ul>	R35 million

Source: DBSA (2020a)

<sup>4</sup> DBSA’s strategy includes the infrastructure fund, non-financial support under-resourced municipalities, District Development Model and High-impact investment fund.

<sup>5</sup> DBSA (2020a).



## 4. Overview of Audit Outcomes and Financial Management Indicators

### 4.1. Audit Outcomes

Table 2 below shows a five-year review of audit outcomes for DBSA for the period 2015/16 to 2019/20. It reveals that except for 2018/19, DBSA has consistently achieved a clean audit opinion for the period under review. The reason the bank did not achieve a clean audit status in 2018/19 was due to material non-compliance with the provisions of the Preferential Procurement Regulations as well as National Treasury instruction notes, with regards to the requirements of Local Content provisions, in the Infrastructure Delivery Division (IDD), <sup>6</sup>.

**Table 2. Five-Year Audit Outcome Trend, 2015/16 – 2019/20**

Auditee	2015/16	2016/17	2017/18	2018/19	2019/20
<b>DBSA</b>	Unqualified with no findings <b>(clean audit opinion)</b>	Unqualified with no findings <b>(clean audit opinion)</b>	Unqualified with no findings <b>(clean audit opinion )</b>	Unqualified with findings	Unqualified with no findings <b>(clean audit opinion)</b>

Source: AGSA (2016-2020)

### 4.2. Irregular, Fruitless and Wasteful Expenditure

Table 3 below provides a three-year (2017/19-2019/20) review of irregular, fruitless and wasteful expenditure for DBSA. It shows that irregular expenditure increased between 2018/19 and 2019/20 from R0.4 million to R2.7 million. This irregular expenditure was a result of the contravention of procurement and contract management legislative prescripts for DBSA, where contract payments continued post their expiry date, and contract price variations were not approved by the delegated authority<sup>7</sup>. By contrast, fruitless and wasteful expenditure was not incurred for the past two years, where the R7000 that was incurred in 2017/8 was as a result of interest on late payments and theft of foreign currency used on an international travel trip<sup>8</sup>.

<sup>6</sup> AGSA (2021).

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.



**Table 3. Three-Year Review of Irregular, Fruitless and Wasteful Expenditure,**

	2017/18	2018/19	2019/20	
<b>Irregular Expenditure</b>	R nil.	R0.4 million	R 2.7 million	
<b>Fruitless and Wasteful Expenditure</b>	R 7000	R nil.	R nil.	

Source: AGSA (2021)

## 5. Analysis of Annual Report

### 5.1. Key performance indicators and targets

Table 4 below compares the targeted or planned performance with the actual performance. The performance indicators are based on the key strategic objectives for 2020, namely achieving i) sustained growth in developmental impact, ii) providing integrated infrastructure solutions across the value chain and iii) maintaining financial sustainability. These performance indicators show how the DBSA assesses its effectiveness in the infrastructure development value chain.

Across all the key strategic objectives, there is evidence of underperformance of some indicators, as shown by the 50% of the targets not being met. The targets were not met owing to the following reasons<sup>9</sup>:

- The underperformance of value of projects prepared and committed is attributable to delays in regional projects being complex and the time it takes to reach financial close. This indicator also underperformed in 2019.
- The underperformance of the value of third-party funds catalysed is due to f projects taking longer than anticipated to conclude. As a result, this indicator also underperformed in 2019.
- The underperformance of the indicators relating to financial sustainability is due to increased expected credit losses in the DBSA's development loan book associated with the difficult economic conditions, volatile commodity prices and the anticipated impact of COVID-19 on some of the Bank's key clients.

<sup>9</sup> DBSA (2020b).



**Table 4. Financial Key Performance Indicators, 2020**

Strategic Objective	Key Performance Indicator	Target	Actual	Achieved/Not Achieved
Sustained growth in developmental impact;  Providing Integrated infrastructure solutions	<b>Secondary and under-resourced municipalities:</b> Value of infrastructure unlocked	R0.8 billion	R1.4 billion	Achieved
	<b>Project preparation:</b> Value of projects prepared and committed	R5 billion	R2.4 billion	Not achieved (target also not achieved in 2019)
	<b>Infrastructure financing:</b> Total disbursement	R13.5 billion	R15.4 billion	Achieved
	<b>Third party funds catalysed:</b> Value of funds catalysed	R46.7 billion	R 43.1 billion	Not achieved (target also not achieved in 2019)
	<b>Infrastructure delivery:</b> Value of infrastructure delivered	R4 billion	R4.1 billion	Achieved
Financial Sustainability	Sustainable earnings	R2.8 billion	(R0.6 billion)	Not achieved (target also not achieved in 2019)
	Net profit	R2.5 billion	R0.5billion	Not Achieved
	Cost to income ratio (financing business)	33%	28%	Not Achieved
	Net income margin	5%	5.1%	Achieved
	Debt/equity ratio (excluding callable capital/the authorised but unissued share capital )	138%	165%	Achieved
	Non-performing loans ratio	6%	7.2%	Achieved
	Cash generated from operations	R4.1 billion	R3.6 Billion	Not Achieved
<i>Total performance indicators met = 6 (50%) ; Total performance indicators not met = 6 (50%)</i>				

Source: DBSA 2020 Integrated Annual Report



## 6. Conclusion

Notwithstanding the adverse effects associated with the COVID-19 pandemic, which have impacted the Bank's operations, DBSA was able to allocate R150 million towards COVID-19 response programmes in South Africa and the SADC region.

Over a five-year period, between 2015/16 and 2019/20, DBSA has maintained a clean audit opinion apart from 2018/19, where it received an unqualified audit opinion with findings.

An area of concern is that between 2018/19 and 2019/20, irregular expenditure increased from R0.4 million to R2.7 million. The DBSA should be commended for not incurring fruitless and wasteful expenditure during this period.

Across all the key strategic objectives, there is evidence of underperformance of some indicators, with 50% of the targets not being met. Notably, the "Value of projects prepared and committed", "Value of funds catalysed", and "Sustainable earnings" performance indicators have consistently underachieved between 2019 and 2020.

## 7. Issues for Consideration

### Post-COVID-19 pandemic economic recovery

- With respect to the short-term and long term interventions in response to the COVID-19 pandemic, to what extent did the interventions focus on rural municipalities? Or were the interventions typically urban focused?
- Is the impact of these short-term and long-term interventions being monitored? Have the interventions had the intended consequences thus far?
- What is the role of the District Development Model in facilitating the COVID-19 response programmes?

### Increasing irregular expenditure

- DSBA's irregular expenditure has increased between 2018/19 and 2019/20 owing to contract payments that continued post their expiry date and due to contract price variations that were not approved by the delegated authority. How did this happen and what is being done to strengthen internal controls?

### The energy crisis and the role of DBSA's green bond

- Earlier this year, the DBSA announced the launch of its green bond. What type of projects will the green bond apply to? And typically what type of projects would qualify?
- How does the Green Bond Framework respond to the energy crisis being faced by the country?
- In 2020, DBSA committed project funding to Ignite Mozambique, a rural off-grid energy provider that was established with the purpose deploying solar home systems in rural



Mozambique. In the context of the electricity challenges being faced by the South Africa, is DBSA also funding similar rural projects in the country?

## 8. References

Auditor-General of South Africa, (2021). SCOPA briefing note on the Development Bank of Southern Africa(DBSA). Parliament of the Republic of South Africa: Cape Town

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