DBSA

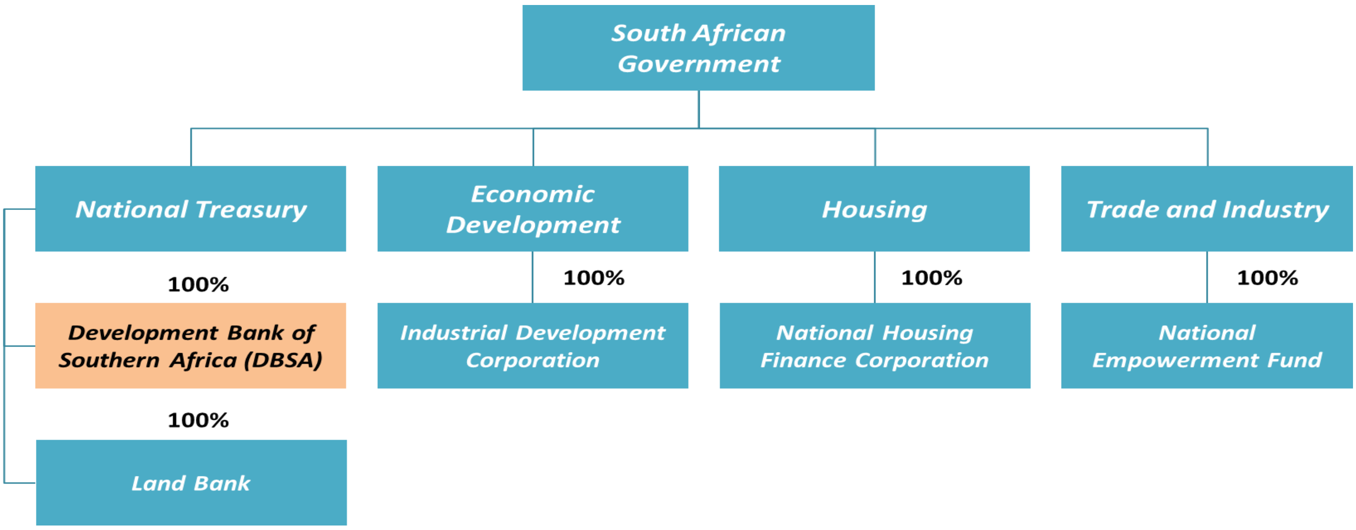
DBSA is the Development Bank of Southern Africa that focuses on boosting economic growth, human resource development and institutional capacity by mobilizing funding capacity and other resources inside and outside the country in order to support sustainable economic development in Southern Africa and surrounding regions.

The Southern African Government strengthened DBSA's position as one of the financial institutions for development in Southern Africa by issuing a special Act, namely DBSA Act No. 13 Year 1997. Under this Act:

- DBSA has a mandate to support the development programs and projects in Southern Africa and surrounding regions.
- DBSA has a focus to encourage infrastructure sector financing, including economic, social, and institutional infrastructure as well as to stimulate the establishment of synergies with private investors.

In terms of institutional structure, DBSA is one of the five development finance institutions owned by the South Africa Government. Besides DBSA, Southern Africa also has other financial institutions for development, namely Land Bank, Industrial Development Corporation, National Housing Finance Corporation, and National Empowerment Fund. DBSA is 100% owned by the Government of South Africa under the supervision of the Ministry of Finance. Besides DBSA Act, DBSA also refers to the Public Finance Management Act, but is not subjected to the Bank Act.

Figure 1. DBSA is a Development Bank 100% owned by the Government of South Africa under the Minister of Finance



Source: DBSA Annual Report

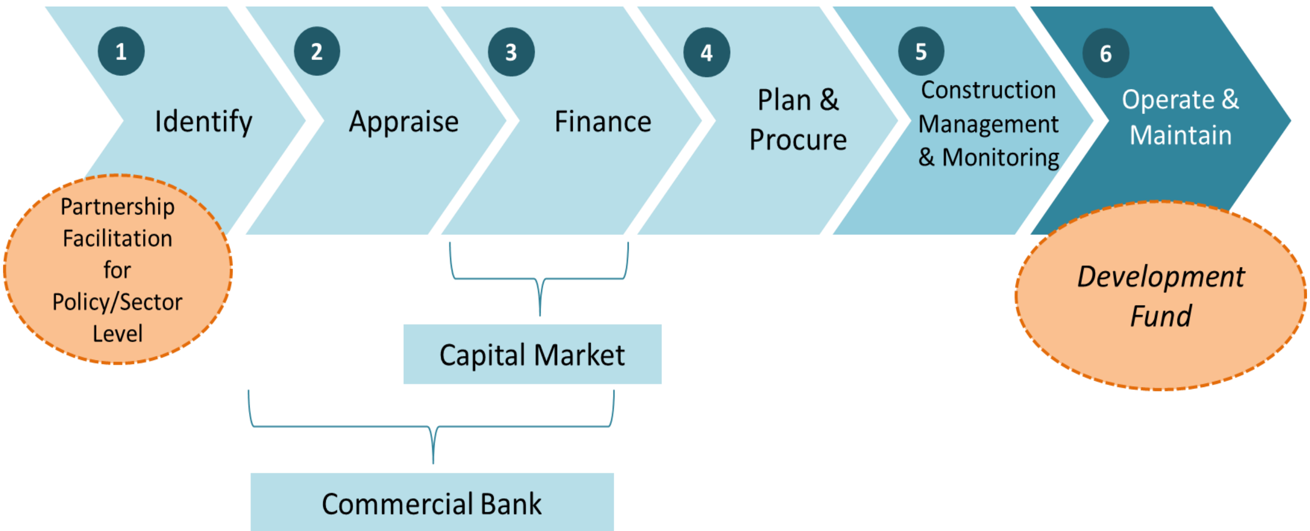
DBSA's Roles As a Development Bank

These are DBSA's roles as a Development Bank:

1) **Financier.** As a Development Bank, DBSA will function as a financial institution that encourages basic infrastructure financing and promotes economic growth through infrastructure financing;
2) **Partners.** DBSA also acts as a partner for the engagement between public, private, and community investment in infrastructure development;
3) **Advisors.** DBSA acts as a party that encourages development by providing training or capacity development for other parties (the Central or Local Government) in terms of institutional, financial, technical and knowledge improvements related to the development;
4) **Implementer.** DBSA acts as a mediator that connects various initiatives of different stakeholders related to the decision-making in order to encourage sustainable economic development;
5) **Integrator.** DBSA acts as originator, facilitator, and participant in various strategic initiatives within the framework of capacity building and solution provider for development acceleration.

In carrying out its role as a Development Bank, especially in infrastructure sector, DBSA performs the entire process of infrastructure development chain starting from helping the Government in the project identification process until establishing the partnership with other parties in operational and maintenance phases. These are DBSA's value-added points which are not possessed by any commercial banks and other conventional development banks. DBSA is not intended to be a competitor for commercial banks, but its nature is to serve as a complementary bank to already existing banking products in order to establish the synergies in financing infrastructure projects.

Figure 2. One of the value-added natures owned by DBSA compared to other commercial banks is DBSA's involvement not only in the stage of financing, but also in the stages of project preparation and operation.



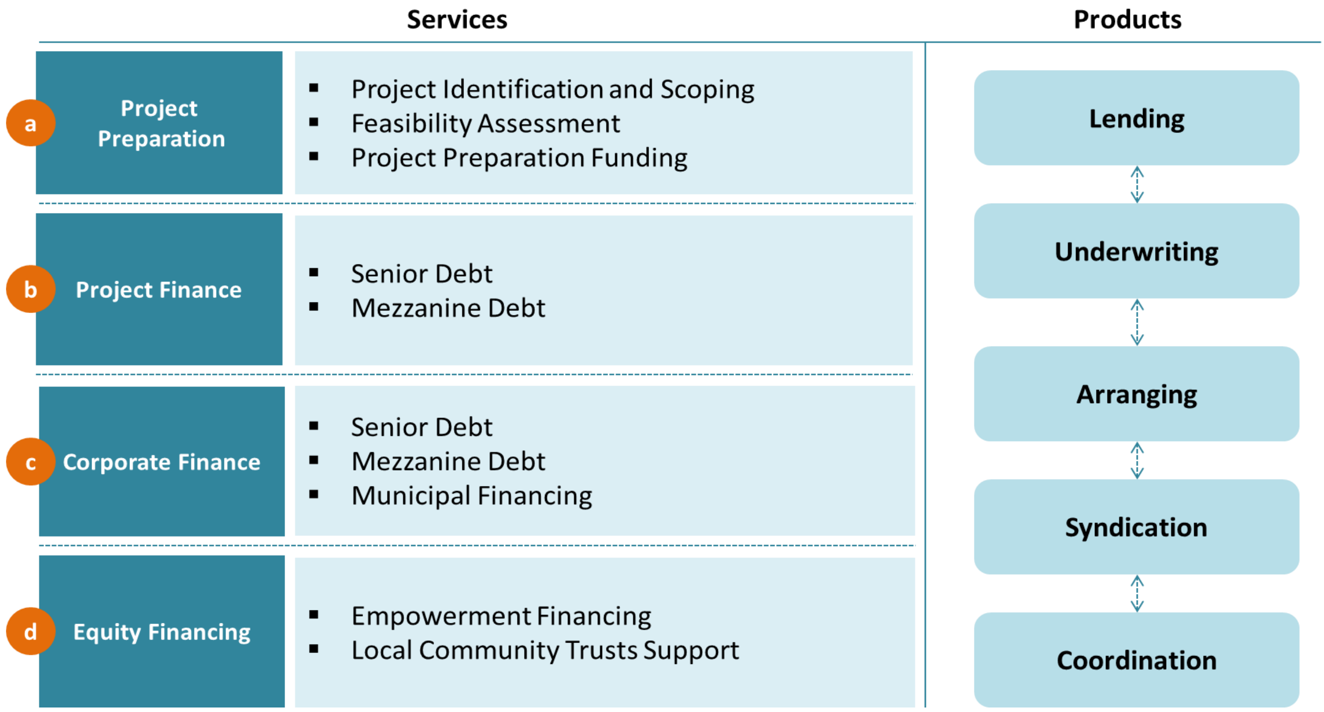
Source: DBSA Annual Report, processed

DBSA Products and Financing Sectors

Financing products offered by DBSA are not intended to compete with those of commercial banks, but its functions are emphasized to be complements to the existing products. The products and services offered by DBSA are always improved from time to time to keep up with many factors:

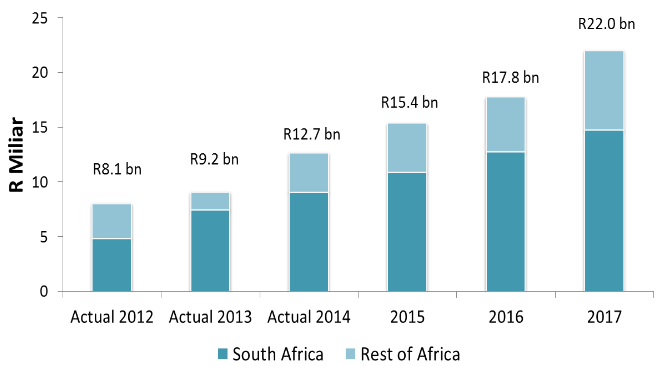
- Expansion of existing products by targeting new and untouched markets
- In line with the financing needs for priority programs at national and provincial levels
- Collaboration with other banks or financial institutions
- Improvement of social economic impact of financing by offering financing for social infrastructures (health, education, and housing)

Figure 3. DBSA's products and services are complementary to commercial banking products, including products for project preparation, loan products for the Local Government, and capital participation.



Source: DBSA Annual Report, processed

Figure 4. Total outstanding DBSA's financing based on CAGR of the last 3 years experienced a 25% growth for Southern Africa and 18% for the regions outside Southern Africa.



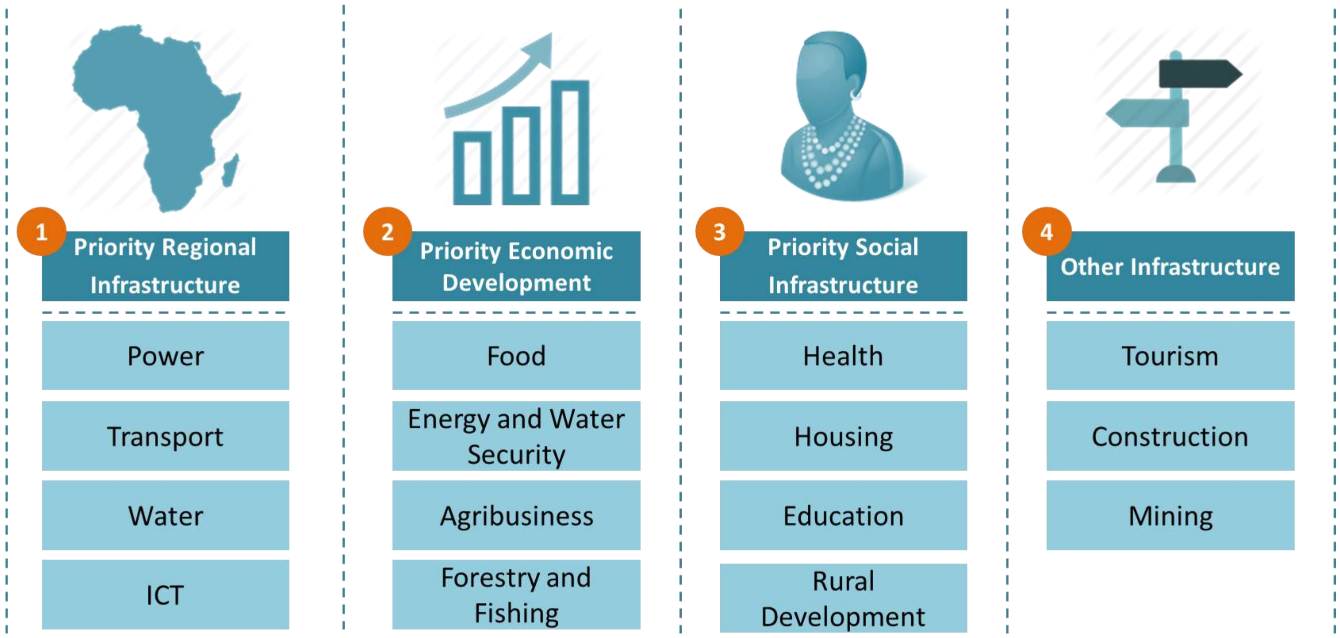
Source: DBSA Annual Report, processed

Over the past three years, DBSA financing growth showed a positive trend. If in 2012, the recorded outstanding financing was amounted to R8,1 billion (Rp7,3 trillion by assuming that the exchange rate of 1 Rand = 900 Rupiah); that amount rose to R12,7 billion (Rp11,4 trillion) in 2014.

In the next three years, DBSA's funding target is 20% annual average growth with a composition of 70% financing for Southern Africa and 30% for regions outside Southern Africa.

DBSA is aimed to serve as a catalyst for development. Therefore, DBSA's capacity is to fund the Government priority programs, both infrastructure and other sectors that can promote the economic growth of Southern Africa such as Agribusiness, Forestry and Fisheries, Energy Resilience, Tourism and Mining sectors. In addition, social infrastructure is also a sector that can be funded by DBSA. The social infrastructure sector includes health sectors in which there is funding for hospitals, housing sector, educational sector for school construction and rural-area development.

Figure 5. Sectors funded by DBSA should be those of Southern Africa development priorities, which not only include the basic infrastructures, but also other social and multi-sector infrastructures.



Source: DBSA Annual Report, processed

The Government Assignment Program

In addition to commercial programs, DBSA has also a mandate to support national and regional programs and policies for infrastructure provision acceleration, in the forms of:

- Programs to accelerate infrastructure development
- Priority sectors listed in the Government Medium-term Strategic Framework
- Implementation of priority programs that have enormous impact on the economy
- Capacity building program

The assignment to DBSA is based on two issues: Market failure, meaning that there are no commercial parties who are willing to fund the infrastructure projects and Institutional failure, meaning the lack of experience and capacity to carry out these activities whereas DBSA has such required experience and capacity. All services provided by the DBSA will be reimbursed by the Government by using the principle of full cost recovery.

In general, Southern Africa deals with three challenges in development areas, namely:

1) Social Transformation. Infrastructure development challenges in social transformation cover great needs for the development and investment in the provision of basic infrastructure such as housing, clean water, and sanitation.
2) Economic Stimulation. Infrastructure development challenges in this category are the needs to provide infrastructure that will be able to boost economic growth, reduce bottlenecking, attract investment, and promote sustainable development; examples of projects: Toll Road and mass- rapid transportation system.
3) Institutional Capacity Building. The development challenge is emphasized on institutional capacity (both government and private institution) to plan, implement, and manage large-scale infrastructure projects.

Figure 6. In the already arranged-framework of local government financing, the purpose of Regional Funding is to reduce poverty, housing backlog and high unemployment in Southern Africa.

Target	**6 Metros** 37% population, 18% backlogs, 23% poverty	**Secondary municipalities – 119** 33% population, 32% backlogs, 41% poverty	**Under resourced municipalities – 159** 30% population, 50% backlogs, 67% poverty
Drivers For Infrastructure Investments	**Poverty 40%, Backlogs 22%, Unemployment 20%**		
Infrastructure Investment Needs	**Social transformation :** Housing, Education Health, Municipal	**Enabling infrastructure:** Transport, water, energy, communications	**Economic infrastructure:** Agric, Tourism, Entrep. Mining, Manufacturing
Main Delivery Channels	Municipalities	SOEs	Private Sector
	Government / DFIs		
Constraints	**Market failure / weaknesses:** Funding gap / availability of finance	**Institutional failure / weaknesses:** Capacity and skills Absorption capacity - Revenue	

Source: DBSA Annual Report, processed

In answering these challenges, DBSA has one business line, namely the financing to local government. Here are the benefits of local government financing:

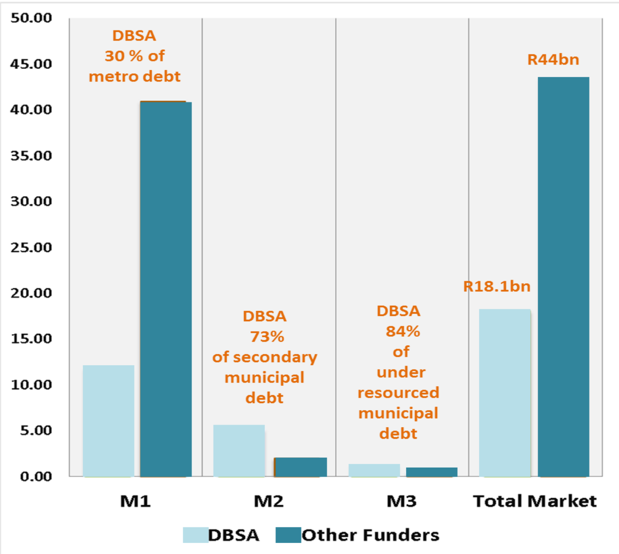
- Strengthening the capacity of Local Government having low-fiscal capacity or under the category of under-resourced municipalities in terms of project planning, project preparation and project packaging;
- Providing more focus on regions with large income gap through project origination initiatives;

- Providing low cost source of funds such as subsidy for development in the regions with moderate-fiscal capacity (secondary municipalities) and regions with low-fiscal capacity or under the category of under-resourced municipalities;
- Integrating financing activities and non-financial supports to achieve a greater development impact;
- Providing support for local government to increase the level of spending/capital expenditure for development by providing implementation support in terms of technical and other types of support

In carrying out the financing functions to Local Government, DBSA divides the market segmentation into below three categories:

1) **Market 1 (M1) Category** covers Big Cities (Metropolitan Cities), which have large-fiscal capacities and are able to plan, prepare, implement, and manage big infrastructures projects so that it becomes a magnet for banks or other financial institutions. Currently, there are only 6 metropolitan cities, including Ekurhuleni, City of Johannesburg, City of Thswane, eThekwini and City of Cape Town.
2) **Market 2 (M2) Category** covers the cities with moderate-fiscal capacities (Secondary Municipalities) of which total are 119 regions consisting of 19-metropolitan buffer cities (Secondary Cities), 27 large towns, and 73 districts. Regions under his category require support in identifying, planning and preparing projects to attract the banks or other financial institutions in financing infrastructure projects.
3) **Market 3 (M3) Category** covers cities with a low-fiscal capabilities (Under-resourced Municipalities) of which total are 159 regions (towns and villages). Regions under this category require support in all aspects of project management, from planning, project preparation, implementation and management as well as capability of managing funds coming from transfer fund/fiscal support from the Government.

Figure 7. DBSA portion is very large for Local Government under M3 category since the conventional banking has no interest in granting any loans.



Source: DBSA Annual Report, processed

DBA role is very significant for Regional financing under M3 category or under-resourced municipalities, namely 84% of the market share. As for category M2 has 73% and M1 has 30% of the market share.

Although in terms of market share, the percentages seems huge, but in terms of financing volume, the recorded total outstanding financing is the smallest, namely only 6% of the entire financing portfolio of DBSA regions. The recorded outstanding financing in regions under M1 category is 66% of the total portfolio.

From the shown data, DBSA's role as a catalyst for Local Government under M3 category is quite significant although the amount of financing is still relatively low. Going forward, DBSA plans to double its funding portion to the Local Government under M3 category.

Government Support

To support DBSA operational activities, the Government of Southern Africa provides supports as mandated by DBSA Act No. 13 Year 1997. The supports cover:

1) **Capital Support**. The DBSA Act stated that DBSA has a freedom to request for capital support in the form of callable capital. Callable capital is the difference of the commitment of Government deposits reduced by paid-in capital. Whenever the Board of Directors requests for additional paid-in capital through the General Meeting of Shareholders, the Government shall disburse the requested funding as an additional capital for DBSA.
2) **Tax Incentive Support**. In conducting its operational activities, DBSA is excluded from any taxation for companies as stated in DBSA Act No. 13 Year 1997 Article 21, Paragraph 1

DBSA's Key Success Factors

Here are five DBSA's keys to success in carrying out its activities as the Development Bank of Southern Africa:

1) **Project Preparation**. The activities and funding in the project preparation make the formation process of the pipeline project becomes faster and bigger in quantity. DBSA is also able to accommodate funds coming from Donation Institutions to be later distributed in the form of funding for project preparation activities;
2) **Partnership**. In the financing of a project, DBSA cannot stand alone because of the limited funds; hence, the partnership with other banks or financial institutions becomes a key to encourage more and more projects to be funded;
3) **Full Value Chain Offering**. DBSA offers products and services that are integrated from the origination to the operational phases;
4) **Employer of Choice**. DBSA is able to attract, maintain, and develop qualified and competent talents as human resources, especially in the engineering, project management, and finance fields.
5) **Innovative Infrastructure Solution**. DBSA is able to continually innovate in terms of offered products and services in accordance with the market needs and government priorities.

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