



Development Bank  
of Southern Africa

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Presentation to  
**MPUMALANGA BROAD BASED GROWTH &  
DEVELOPMENT PROGRAMME:**

**3<sup>RD</sup> SEPTEMBER, 2008**

# Introduction to the DBSA

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**The DBSA is one of the Development Finance Institutions (DFIs) in South Africa;**

**Wholly owned by the Government of South Africa;**

**Shareholder representative is the Minister of Finance, Trevor Manuel.**

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## **DBSA's Mandate:**

- **Promote development and economic growth in South Africa & the wider region;**
- **Primary focus on infrastructure;**
- **Secondary focus on human resource development;**
- **Regional focus on economic infrastructure and integration; and**
- **Strategic sensitivity to private sector development and participation.**

# DBSA's Approach

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- Invest in assets, hard (physical) and soft (human & institutional) that serve the poor, directly and indirectly, and that create broad-based wealth creation (physical, productive and institutional capital);
- Mobilise, develop, apply and manage knowledge in support of development effectiveness, innovation & generally an enabling developmental environment.
- Has a multi-pronged approach: financier, advisor, partner, implementer and integrator.



**DBSA**

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# DBSA's Definition of Infrastructure

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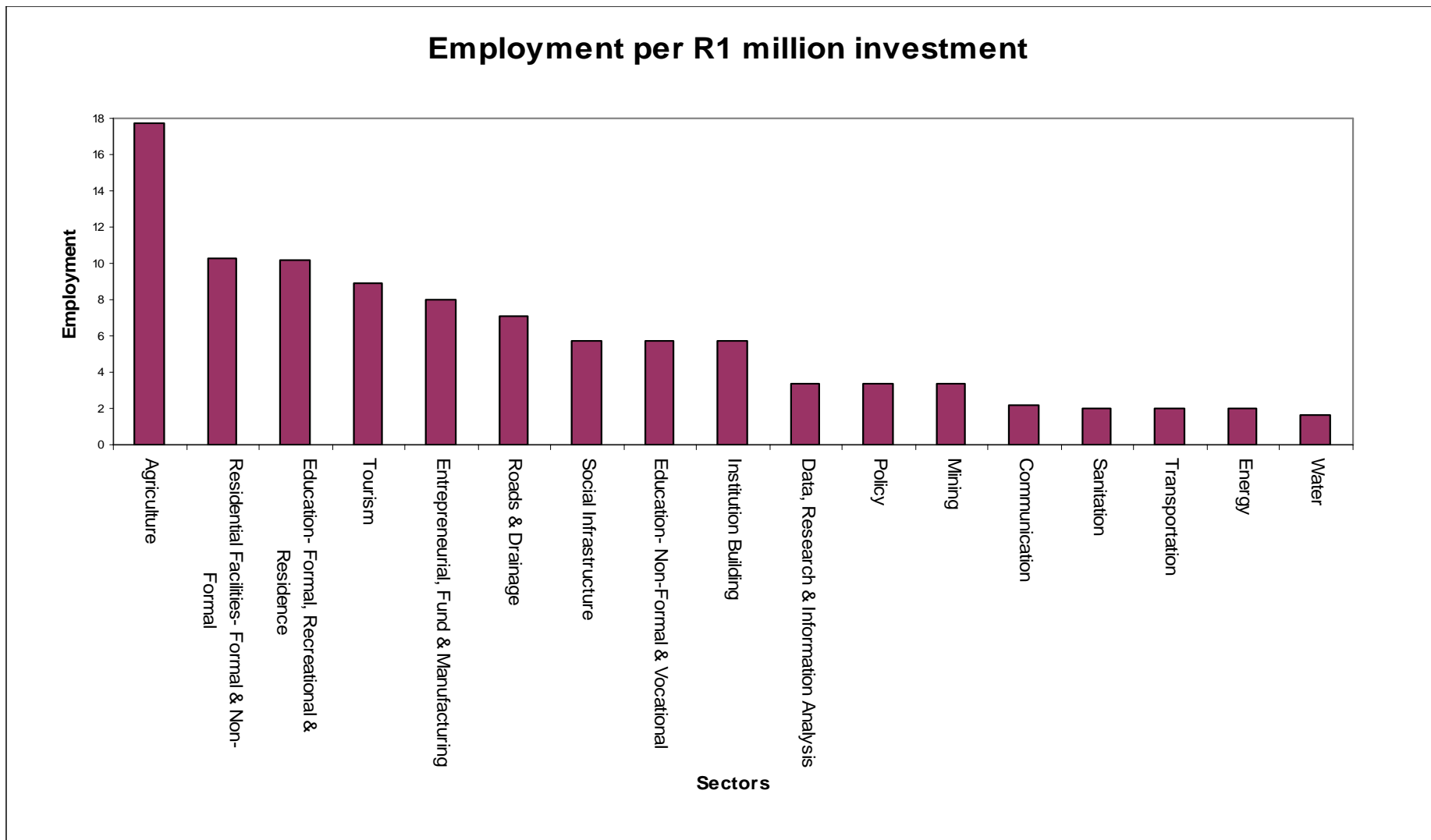
- ❑ **Economic Infrastructure:** capital stock that produces services to facilitate economic production and household consumption = electricity, roads, ports, water & waste, tourism, telecommunications, mining, etc.
- ❑ **Social Infrastructure:** provision of services such as health, education, etc. which increases economic activity (direct) and enhances broader developmental outcomes (indirect)

# 12 x Infrastructure Primary Focus Areas

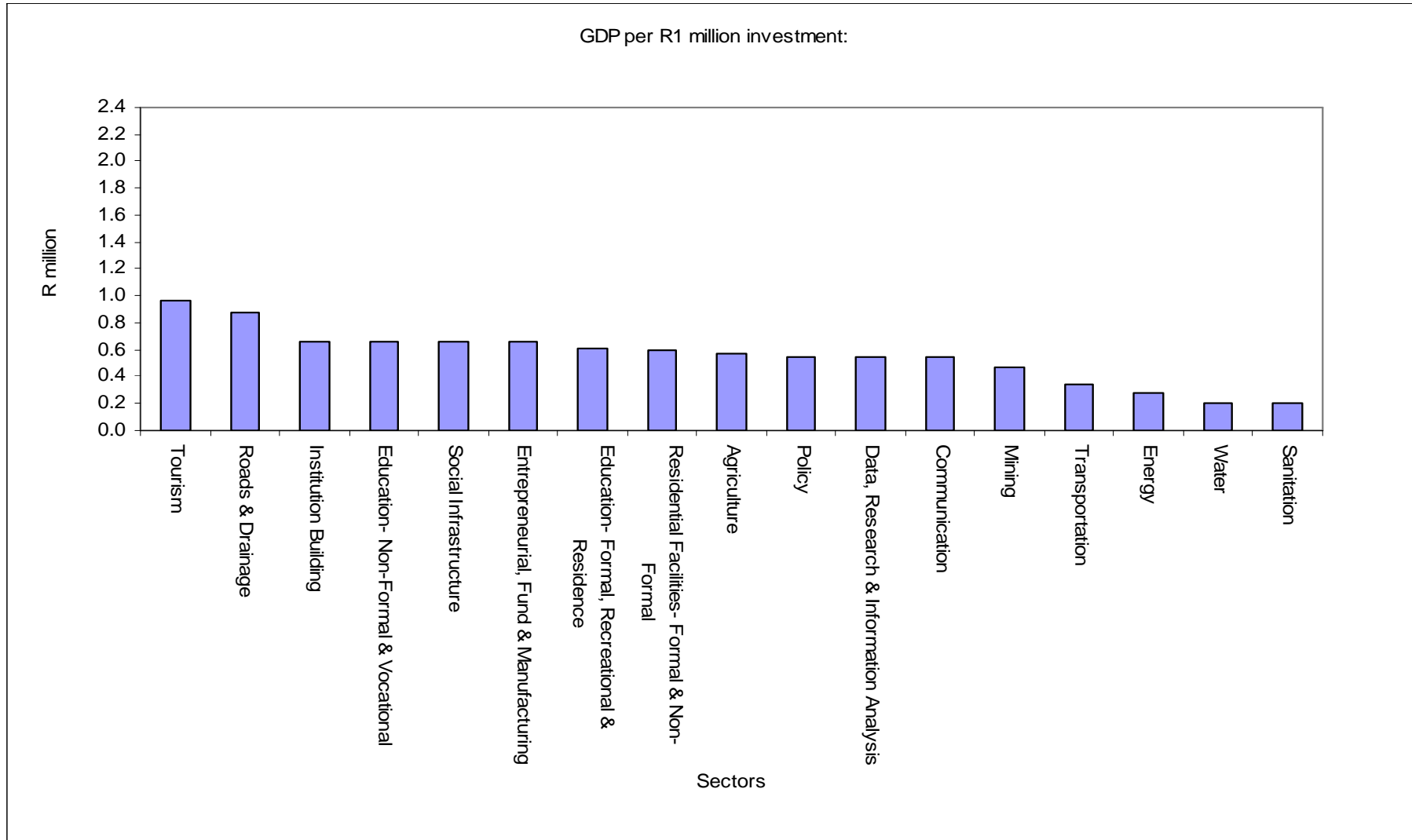
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<b>Water &amp; Waste</b>	<b>Urban Renewal</b>
<b>Social (Health &amp; Education)</b>	<b>Energy</b>
<b>Transportation</b>	<b>Tourism</b>
<b>Financial or Capital Market Development</b>	<b>Information &amp; Communication Technology</b>
<b>Rural, Agriculture, Fisheries &amp; Forestry</b>	<b>Manufacturing, Retail and Commercial</b>
<b>Environmental</b>	<b>Mining</b>

# Example : Employment Multipliers



# Example : GDP Multipliers





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## **Our Single Over-arching Goal is:**

To Improve the quality of life of the people of the region through expanding access to development finance and effectively integrating and implementing sustainable solutions.

## **Our Five Key Strategic Objectives are:**

- Co-deliver social & economic infrastructure;
- Build human & institutional capacity;
- Promote broad-based economic growth, job creation, cooperation, integration & prosperity;
- Serve as a centre of excellence from development financing, innovation & effectiveness; and
- Ensure internal financial sustainability.

# DBSA's Products & Services

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## Investments loans

- Senior and subordinated debt funding;
- Targeted infrastructure programme (soft loans);
- Guarantees;
- Equity through third party managed funds;
- BEE financing; and
- Public Private Partnerships (PPP).

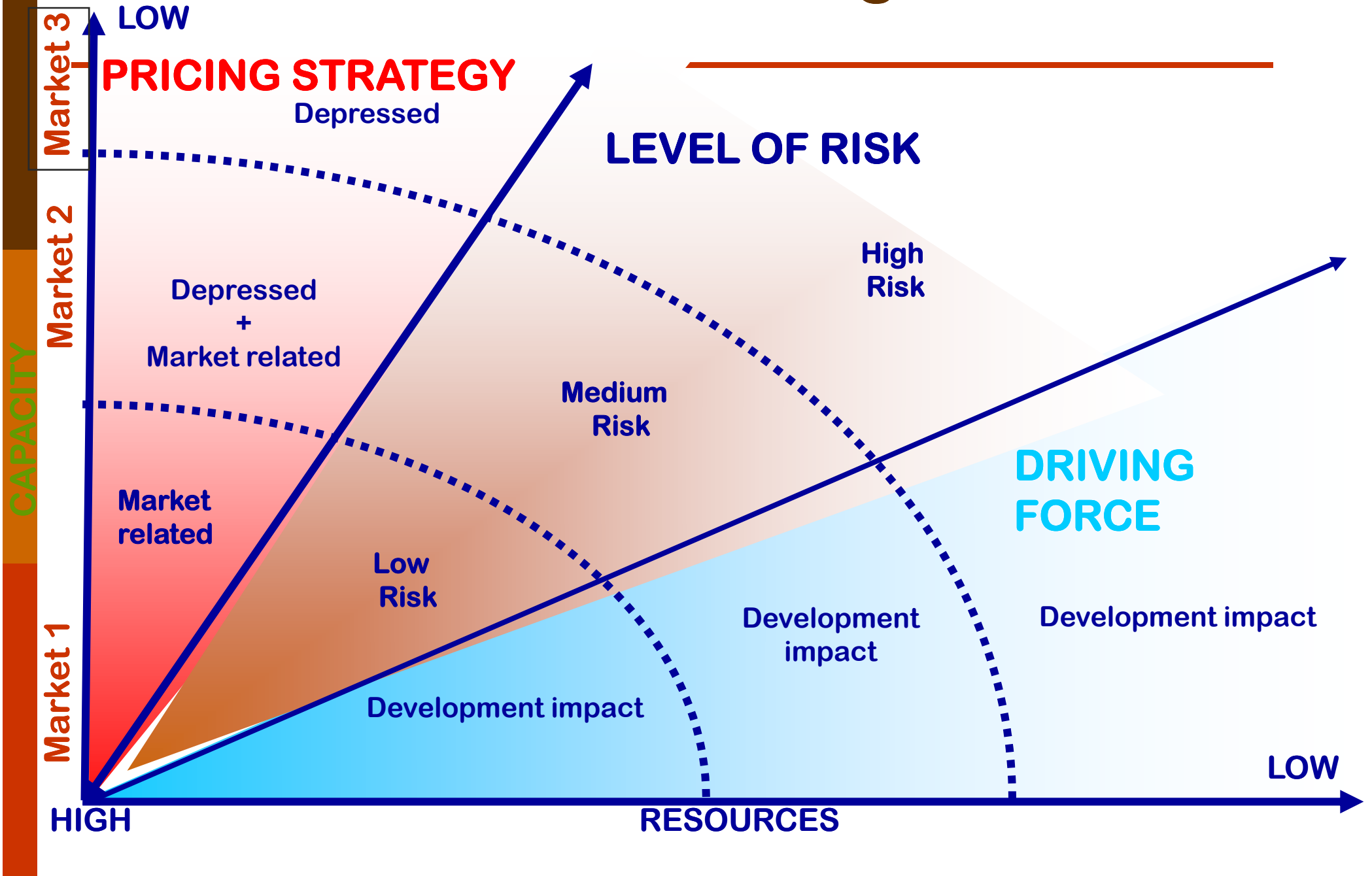
## Technical assistance and other non-lending products

- For planning and project preparation; and
- Advisory services and a range of knowledge products.

## Capacity building support

- Offered through the Development Fund, Knowledge Division and Operations Divisions; and  
For general capacity needs of institutions.

# The DBSA's Market Segmentation



# DBSA's Value Proposition

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- **Partnership approach**
  - Development impact enhancement
- **Technical assistance**
  - Planning/programming/packaging
  - Project preparation
  - Feasibility and research studies
- **Long term horizon**
  - Integrated approach
  - Finance with capacity building
- **Catalytic role**
  - Facilitate private sector participation
  - Co-funding
  - Arranging role

# Funding Options

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- **Term loan**
- **Bridging finance**
- **Bonds, e.g. City of Joburg**
- **Private Public Partnership**
- **Structured Finance**
- **Project Finance**

# LOAN REPAYMENT PERIOD

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- Linked to economic life of asset
- Structured to optimize positive impact on cash flow
- Normally from 5 years to a maximum of 20 years

# INTEREST RATE OPTIONS

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## □ Option 1: Fixed interest rate

Interest is calculated in arrears on the daily balance of the loan and compounded semi annually.

## Option 2: Floating interest rate

Interest is calculated on the daily balance of the loan and compounded quarterly.

Interest payments are made semi-annually in march and September.

Options to convert the floating rate under certain conditions to a fixed rate only once during loan period.

# Borrowing – Lender's Concerns

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1. **Sound borrower:**
  - Balance sheet, municipal accounts
  - Human & institutional capacity
  
2. **Sound project fundamentals:**
  - Certainty of throughput & income
  
3. **Predictable regulatory framework:**
  - Non-interference from central Govt or council
  - Clear remedies for default by any party.
  
4. **Achievable plans:**
  - Clear affordable LOS roll-out plan for all
  - A plan for the very poor (integrity, stability, votes)
  - Appropriate quality specification



# Borrowing – Lender's Concerns (cont )

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## 5. Financial modeling:

- Investment needs, Projected income
- Cash flow projection, Debt servicing (& dividends)
- Test Sensitivity - be clear on assumptions, what if too optimistic?
- Build in security for when things go wrong.

# Constraints for Infrastructure Delivery

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- Immense political pressure to deliver services;
- Constant battle for resources;
- Trade offs between political promises and available finance;
- External funding required to compliment available resources;
- Need for careful planning and integrated asset management (operations & maintenance)
- Limited institutional and capacity to plan, budget and deliver infrastructure

# Financial Planning for Municipal Infrastructure

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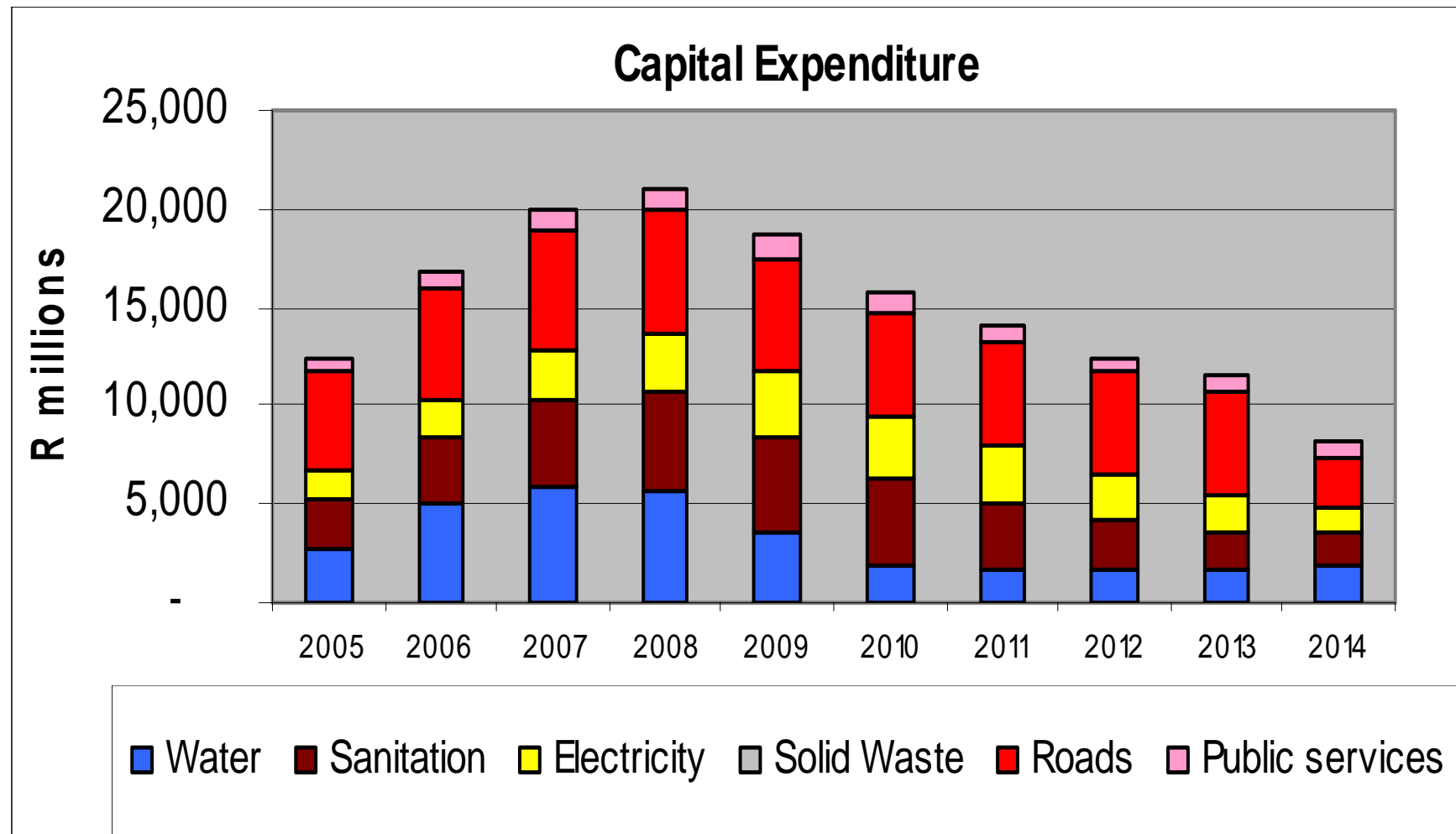
## Two Biggest Challenges:

**Rolling Out New Quality Services to Reduce the Backlog**

**and**

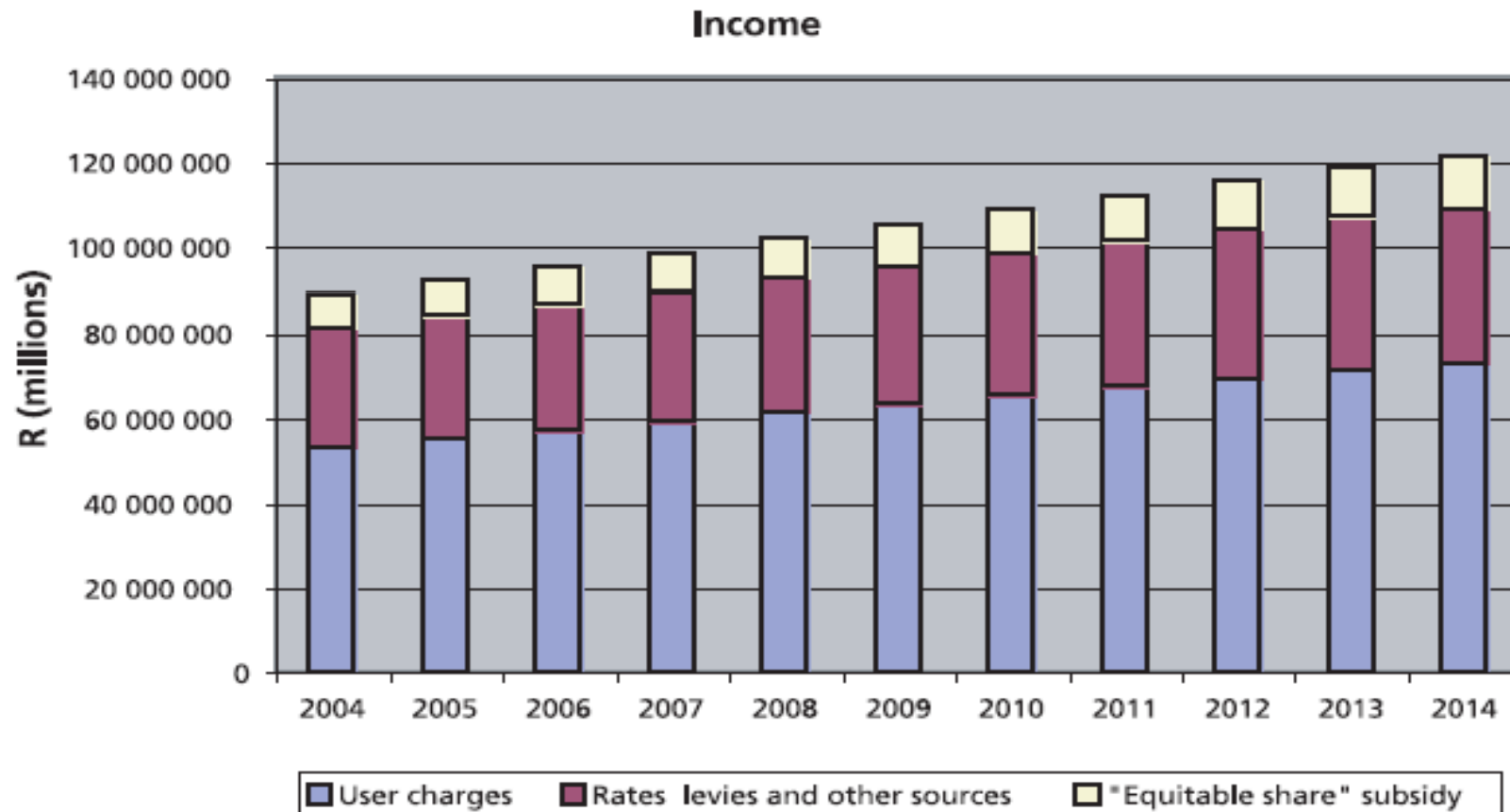
**Keeping Them Running – Delivering Sustainable Services**

# Municipal Infrastructure (DBSA Barometer 2006)

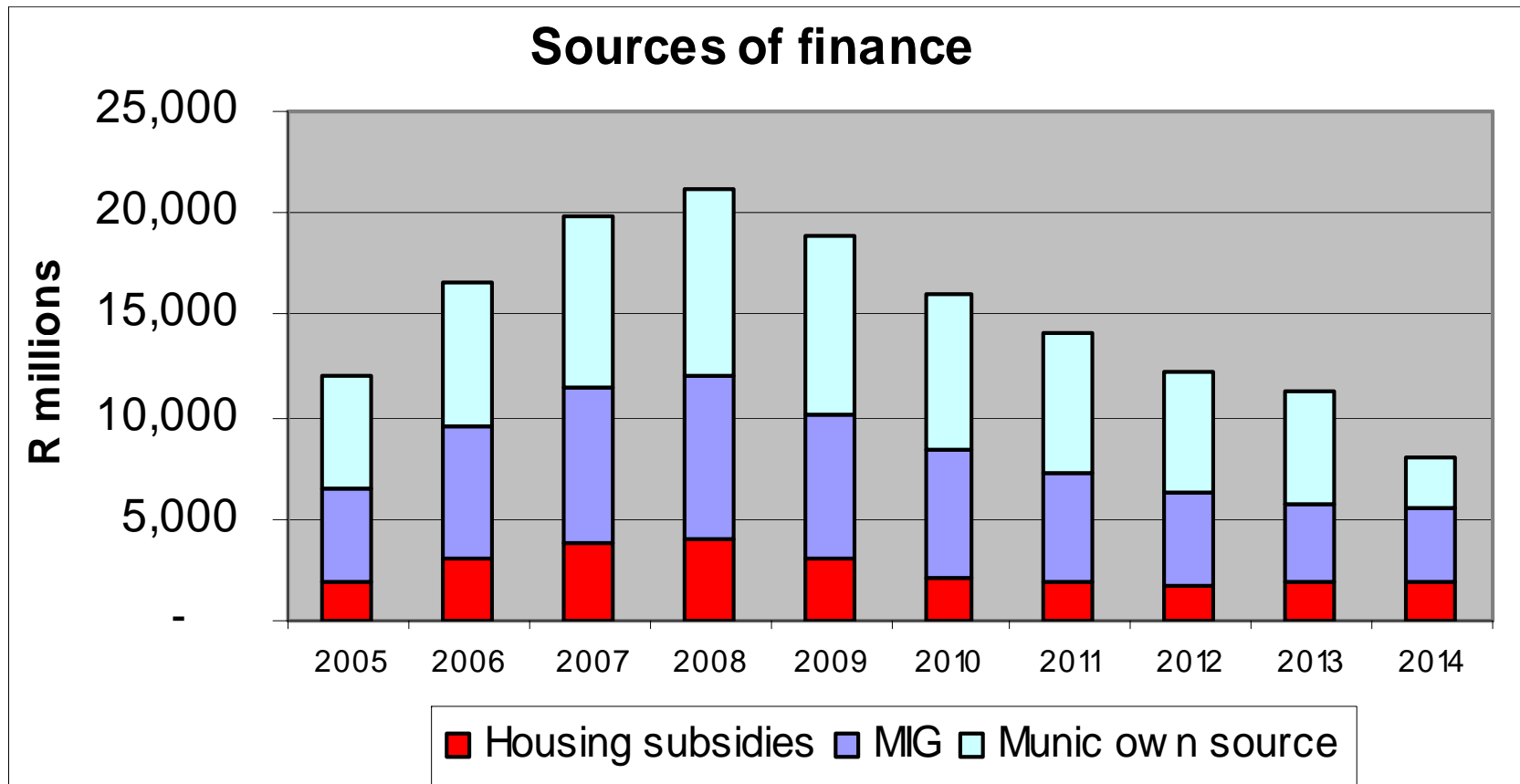


# Municipal Infrastructure (DBSA Barometer 2006)

Figure 61: Predicted sources of revenue for chosen scenario (constant 2004/05 prices)



# Municipal Infrastructure (DBSA Barometer 2006)



# Going Forward – Key Strategic Initiatives

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- Support the province and its municipalities towards the implementation of the Growth & Development Strategies;
- Support the 2010 Soccer World Cup infrastructure;
- Fulfilling the DBSA mandate of addressing infrastructure backlogs;
- Support the implementation of the Flagship projects;
- Develop funding instruments to encourage investment in infrastructure (Growth Fund).

# Provincial Priority projects

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- ❑ Flagships: Moloto rail, Maputo corridor
- ❑ 2010 world Cup infrastructure: Stadium
- ❑ Road network rehabilitation (Coal haulage)
- ❑ Establishment of the Growth Fund
- ❑ Establishment of IDZ around the KMIA
- ❑ Tourism support (Loskop and Songivelo)
- ❑ Nkomazi 24 hour border post
- ❑ Municipal infrastructure support for water provision



# WHOM TO CONTACT

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# **Deepening and broadening development impact**

## **Thank You**