S&P Global
Ratings

RatingsDirect®

Development Bank of Southern Africa Ltd.

Primary Credit Analyst:
Zahabia S Gupta, Dubai (971) 4-372-7154; zahabia.gupta@spglobal.com

Secondary Contacts:
Trevor Barsdorf, Johannesburg + 27 11 214 4852; trevor.barsdorf@spglobal.com
Ravi Bhatia, London + 44 20 7176 7113; ravi.bhatia@spglobal.com

Table Of Contents

Development Bank of Southern Africa Ltd.

Major Rating Factors

Issuer Credit Rating
Foreign Currency
BB-/Stable/B
Local Currency
BB/Stable/B

Strengths	Weaknesses
• Almost certain likelihood of support from the South African government. • Critical role in developing the South African government's infrastructure development and carbon transition plans. • Capital and earnings that support the bank's stand-alone credit profile.	• High single-obligor concentrations. • Volatile earnings, partly due to the bank's countercyclical nature and developmental mandate. • Some exposure to high-risk projects in sub-Saharan Africa.

Outlook

S&P Global Ratings' stable outlook on Development Bank of Southern Africa Ltd. (DBSA) mirrors that on South Africa. Our ratings on DBSA will move in conjunction with those on the sovereign as long as we assess the likelihood of extraordinary support for DBSA as almost certain.

Downside scenario

We could lower the ratings on DBSA if we downgraded South Africa. Pressure on the rating could also build if the bank's public policy role or link with the government were to weaken, in combination with a deterioration of its stand-alone credit metrics.

Upside scenario

We could raise the ratings on DBSA if we were to upgrade South Africa. We do not expect to rate DBSA higher than the sovereign.

Rationale

We equalize our ratings on DBSA with those on South Africa (foreign currency BB-/Stable/B, local currency BB/Stable/B). This reflects our opinion that there is an almost certain likelihood that the South African government would provide timely and sufficient extraordinary support to DBSA in the event of financial distress. Consistent with our criteria for government-related entities (GREs), our view of the likelihood of extraordinary government support stems from DBSA's:

- Critical role as one of the South African government's primary vehicles for promoting infrastructure development in the country's public and private sectors, and more recently, green financing; and
- Integral link with the South African government, through its 100% ownership of the bank, ongoing government supervision, and capital injections when required.

Our assessment of the strength and durability of the link between DBSA and the government remains integral to our ratings on DBSA. Between 2012 and 2015, the government injected South African rand (ZAR) 7.9 billion (about $0.5 billion) into DBSA (amounting to around 8% of the asset base), reinforcing the government's support for DBSA as the bank's full owner. DBSA also has callable capital of ZAR20 billion that can boost its capital base. In August 2021, the former DBSA Chairman, Enoch Godongwana, was appointed as the Minister of Finance, highlighting the close links between the two institutions. The finance minister is the governor of DBSA and responsible for appointing DBSA's board members.

Moreover, we recognize DBSA's role as one of the government's key vehicles for delivering infrastructure development and meeting strategic policy goals intended to support sustainable economic growth.

DBSA is mandated to promote economic development and growth, human resources development, institutional capacity building, and the support of development projects and programmes in the African continent. The bank finances infrastructure in the public and private sectors. The government's infrastructure fund to fast-track infrastructure and development projects and its implementation unit sits within DBSA. In 2020, the government announced an economic reconstruction plan to assist recovery from the COVID-19 pandemic, with 55 infrastructure projects across six sectors. However, the value of infrastructure delivered in the year ending on March 31, 2021 was lower than expected at ZAR2.6 billion ($176 million), relative to the target of ZAR3.5 billion ($237 million). This was partly because of reprioritized funding by clients toward COVID-19 initiatives and slower construction activity. During the pandemic, DBSA funded COVID-19 initiatives of about ZAR104 million ($6.8 million), including for testing capacity support and screening units. Although lending volumes were below our expectations in 2020, we expect DBSA to lend more actively in the future supporting green financing, infrastructure and other strategic priorities.

The bank plans to increase lending to poorer under-resourced municipalities and the water sector to help close infrastructure gaps. It is, however, limited by the availability and readiness of those entities to create viable, financeable projects. Consequently, DBSA's support to such municipalities often takes the form of technical-assistance grants, capacity-building initiatives, and overall project support.

In the context of South Africa's goal to reach net zero emissions by 2050, DBSA will play a key role in providing green financing. The bank launched its first green bond of €200 million in 2021 through a private placement with the Agence Française de Développement. In October, DBSA also raised a $207 million (ZAR3 billion) three-year loan from PIMCO under the Sustainable Development Goal Seven (SDG7) Programme by the United Nations Economic Commission for Africa. The issuance proceeds will go to refinance DBSA's renewable energy generation and transmission projects. DBSA intends to play a catalyst role as an investor in green and carbon transition projects across Africa, including embedded generation of renewable energy.

DBSA also has a mandate to develop the Southern African Development Community (SADC), primarily infrastructure finance projects that aim to link the region economically. In 2015, DBSA received an even wider mandate to provide lending and support across the rest of Africa. Despite this wider mandate, DBSA will remain mainly concentrated in South Africa, which will make up about 70% of the loan book, with projects outside limited to approximately 30%. DBSA has active exposure in 16 countries.

While trying to fulfil government policy initiatives, DBSA is also guided by commercial considerations, as required by its structure and its sole shareholder, the South African government. It tries to blend commercial viability with the wider goals of enhancing economic growth and regional integration.

We view DBSA's capital and earnings as the main factor supporting its 'bb-' stand-alone credit profile (SACP; which does not include government support and does not currently affect DBSA's ratings). We note the concentration within the loan portfolio and believe pressure could emerge on the SACP should the portfolio deteriorate. We assess DBSA's capital and earnings as very strong. On March 31, 2021, the risk-adjusted capital (RAC) ratio before adjustments was around 19%. We expect the RAC ratio to remain at 18%-19% in 2022-2023, balancing DBSA's counter-cyclical nature and developmental mandate. We consider the bank's earnings to be volatile.

We believe that DBSA's risk position remains under pressure, in line with challenges facing the broader South African economy. Nonperforming loans (NPLs) rose to 7.7% as of March 31, 2021, from 7.2% on March 31, 2020, breaching DBSA's 6% internal limit. We expect NPLs to rise further to remain above 8% in 2021-2022. Although NPLs outside of South Africa have improved, they remain high and make up the majority of DBSA's NPLs. We consider single-obligor concentrations to be high. The 20 largest loans accounted for nearly 69% of total loans and more than 150% of total adjusted capital (TAC) on March 31, 2021.

We recognize DBSA's role as a development bank is to act countercyclically, and note its improved risk management in recent periods, in terms of loan underwriting, surveillance, and recovery. Nevertheless, given the challenging macroeconomic environment in South Africa and the surrounding SADC, we expect asset-quality metrics will weaken. We forecast credit losses will rise to above 2.0% in 2022 and start to reduce in 2023.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

Related Research

- South Africa, Nov. 22, 2021
- South Africa, May 21, 2021
- Banking Industry Country Risk Assessment: South Africa, June 30, 2021

Ratings Detail (As Of November 29, 2021)*		
Development Bank of Southern Africa Ltd.		
Issuer Credit Rating		
Foreign Currency		BB-/Stable/B
Local Currency		BB/Stable/B
Senior Unsecured		BB
Issuer Credit Ratings History		
11-May-2020	*Foreign Currency*	BB-/Stable/B
26-Nov-2019		BB/Negative/B
29-Nov-2017		BB/Stable/B
06-Apr-2017		BB+/Negative/B
11-May-2020	*Local Currency*	BB/Stable/B
26-Nov-2019		BB+/Negative/B
29-Nov-2017		BB+/Stable/B
06-Apr-2017		BBB-/Negative/A-3
05-Dec-2016		BBB/Negative/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.