



## Chairperson's Report

## CHAIRPERSON'S REPORT

I AM PROUD OF THE RESULTS THAT WE HAVE ACHIEVED ON THE BACK OF A VERY CHALLENGING YEAR- A YEAR IN WHICH THE SOUTH AFRICAN ECONOMY EXPERIENCED ITS FIRST RECESSION IN 17 YEARS. WHILE THE NUMBERS ARE IMPRESSIVE, NOTHING SPEAKS TO ME AS CLEARLY AS THE PICTURES OF BENEFICIARIES IN THIS REPORT AND THE PERSONAL FEEDBACK WE RECEIVE WHEN WE HAVE A CHANCE TO GO OUT INTO RURAL AREAS AND MEET RHLF BORROWERS AND THEIR FAMILIES.



The photographs in this report are a true representation of our end user customers. These are proud, independent, hard working individuals, who are taking matters into their own hands and are determined to make a better life for themselves and their children. These people can make it without hand-outs. A small loan from RHLF provides the encouragement to keep striving towards their dreams, and it may get our clients to their housing goal a little faster and with more dignity.

loans averaging R4,865 after disbursing over forty thousand loans the year before. It is obvious that low-income households prioritise putting food on the table and providing essentials over making housing investments in times of economic hardship. The last thing we would want is to push loans on people that they cannot afford and make them poorer in the process. As incomes recover from the recession this year and beyond, so will our housing microfinance business.

The small improvements in people's homes and lives are what motivates me, my colleagues on the RHLF board and our very talented and dedicated staff at the Rural Housing Loan Fund. This is why we stuck by our mission and continued to make thousands of new housing microloans even under the difficult economic conditions that we experienced throughout the 2009/2010 fiscal year.

Because the rural low-income families we serve were particularly impacted by retrenchments and shrinking disposable incomes, we had to slow down the pace of new lending to just 33,112

I commend the Executive Leadership under the stewardship of Jabulani Fakazi, our Acting Chief Executive Officer, and the team for the prudent management of the RHLF retail partner network during this difficult period. They kept additional impairments of our wholesale portfolio to a minimum and delivered another excellent set of financial results. The operating profit came in above prior year results at R13,7 million. This is a remarkable achievement against the backdrop of a major recession, falling market interest rates and a slow-down in disbursements. In this environment, cost control is very important, and RHLF



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## CHAIRPERSON'S REPORT *(Continued)*

is indeed a very lean operation with only 10 staff and a tight lid on general operating cost. As the highlight of the 2010 financial statements, I am absolutely elated to announce the successful sale of our stake in Bayport Financial Services that delivered an exceptional profit of R20.6 million. This is welcome fresh funding that will allow us to scale up outreach into deep rural areas.

Over the course of the current business year, RHLF's balance sheet will be further strengthened by a R49,5 million capital increase from our owners, the Department of Human Settlements. We see this investment as an endorsement of RHLF's contribution to human settlements delivery and the relevance of our housing microfinance methodology to the rural target market. We will do everything in our power to turn this additional capital into greater rural human settlements impact.

The Board and staff of RHLF are proud to serve under the energetic leadership of the new Minister of Human Settlements Mr. Tokyo Sexwale. We share his vision of making human settlements delivery a national priority. This would be a challenge not unlike that of the World Cup, which will galvanise our collective efforts and give us the momentum to tackle this formidable task. The urbanisation challenge that government faces is daunting indeed as evidenced by the mushrooming of informal settlements around urban areas of South Africa. We fully support

the government in its efforts to address the informal settlements households' needs. Over the years, RHLF has assisted borrowers in many informal settlements around small towns to incrementally improve their housing conditions. However, in supporting government's informal settlements eradication efforts, RHLF will continue to play a critical role in addressing the needs of rural households, especially on communal land and prioritised rural nodes.

Of course, RHLF is but one element in the national housing and human settlements delivery effort. Most of the credit is due to our current network of ten retail lenders who intermediate the wholesale funding provided by RHLF to the individual end borrowers in all nine provinces. On behalf of the entire Board, I would like to thank all of our retail partners for their dedication and skill in enabling RHLF to deliver on its mandate.

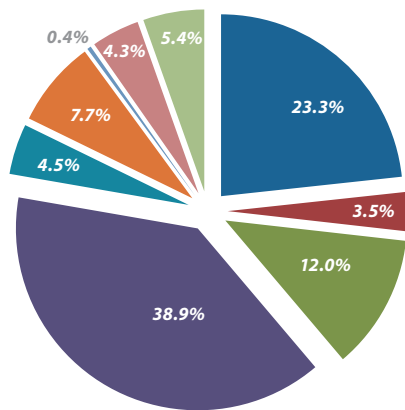
After many years of service, Board members Mr. JH de V Botha, Mr. L Mashaba and Ms. G. Mthethwa resigned over the course of the reporting year. We are greatly indebted to them for their competent strategic guidance and lasting contribution to the success of RHLF.

Our important work in the rural housing space is made possible only by the dedicated support of our stakeholders: the National Department of Human Settlement as the owner of RHLF, the German Government who contributed

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# CHAIRPERSON'S REPORT *(Continued)*

Number Loans Disbursed as %



- Eastern Cape
- Free State
- Gauteng
- Kwa-Zulu Natal
- Limpopo
- Mpumalanga
- Northern Cape
- Northwest
- Western Cape

the original equity endowment of the Fund, as well as KfW and DBSA who provided concessionary debt funding. This year we also received the commitment for a second €500,000 accompanying grant from the German Government via KfW. RHLF stands to benefit greatly from this generous grant once the South African government fulfils the KfW requirements in order to enable RHLF to access the grant. We are very grateful for the continued generous support from our stakeholders and will use these resources wisely for strategic initiatives that directly contribute to resolving the housing backlog in rural communities.

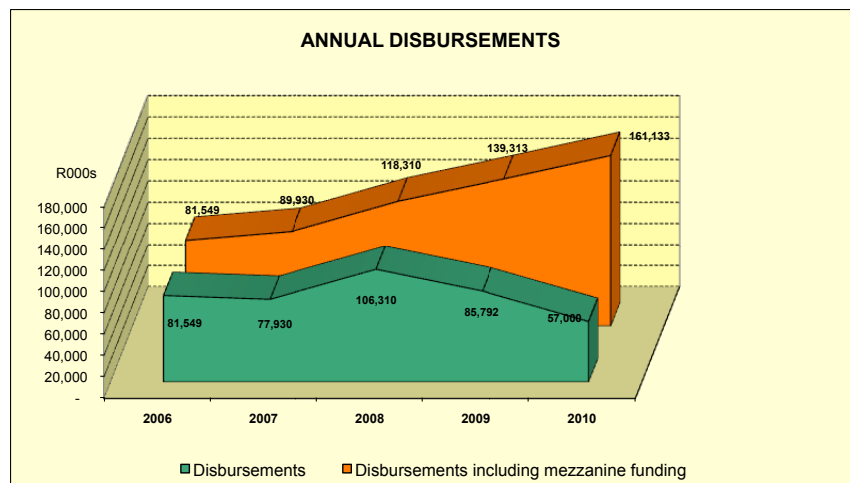
We look forward to working even more closely this year with the Minister of Human Settlements and the Deputy Minister who provide us with very valuable guidance on strategic issues. On behalf of the Board, I would like to welcome the new Director-General of Human Settlements, Mr Thabane Zulu; and we at RHLF pledge our full support to him in his task of providing

leadership in the delivery of human settlements.

Furthermore, the RHLF Board fully appreciates the oversight role that the Parliamentary Portfolio Committee on Human Settlements exercises on RHLF as a public entity. In this regard, we as the RHLF Board appreciate this role as it keeps our organisation focused on achieving its mandate.

On behalf of the Board, I would like to thank each and every member of the RHLF staff for their commitment to the course of rural development and the impressive professionalism they bring to the task. Together with the entrepreneurial talents of our retail partners, you are the ones who keep RHLF going and make it possible to deliver on the promise of rural housing finance, year after year.

**Totsie Memela-Khambule**  
Chairperson





# Chief Executive Officer's Report

# CHIEF EXECUTIVE OFFICER'S REPORT

RHLF'S MANDATE IS TO FACILITATE HOUSING MICROFINANCE FOR THE RURAL WORKING POOR. THE BUSINESS ENVIRONMENT FOR RURAL MICRO-LENDING IN SOUTH AFRICA REMAINS EXTREMELY CHALLENGING, AS THE DISPOSABLE INCOME OF THE LOW INCOME HOUSEHOLDS IS SEVERELY STRETCHED. HOW TO EFFICIENTLY REACH THE RURAL WORKING POOR IN ALL PROVINCES WITH SMALL LOANS ON TERMS THAT THEY CAN AFFORD, WHILE APPROPRIATELY PROVIDING FOR RISK AND EXPENSES, IS THE CENTRAL CHALLENGE THAT RHLF FACE ON AN ONGOING BASIS.



As a wholesale finance institution, RHLF has a national network of intermediary retail lenders through which we are able to achieve our mandate. We take great pride in support we receive from our retail partners. However, we concede that more still needs to be done to increase lending in provinces where there are currently less RHLF loans.

selected sites with a vision of creating vibrant rural communities. RHLF is well positioned to play a critical role in enhancing human settlements conditions of people in these targeted rural areas.

## GOVERNMENT POLICY ENVIRONMENT

The new government was elected in April 2009, and pursuant to this a new Ministry of Human Settlements was announced by the State President. Accordingly, the Department of Housing was changed to Human Settlements and this entails that the mandate goes beyond just housing. Likewise, RHLF as a Human Settlements Development Finance Institution (DFI) has to think beyond just housing and make a concerted effort to make a broader contribution to the creation of vibrant and sustainable rural human settlements. In this regard, the new Comprehensive Rural Development Programme is being piloted in

## BUSINESS ENVIRONMENT

Economically speaking, the year under review was the toughest year since the advent of democracy in South Africa in 1994 as the economy entered into a recession early in the 2009/10 financial year – the first since 1992. In 2009 alone close to 1 million job losses were reported, and a little over 171 000 job losses were further reported in the first quarter of 2010. Of particular concern to RHLF is the fact that the core of its target market constitutes people at the low end of the market, who in most instances are vulnerable to economic shocks.

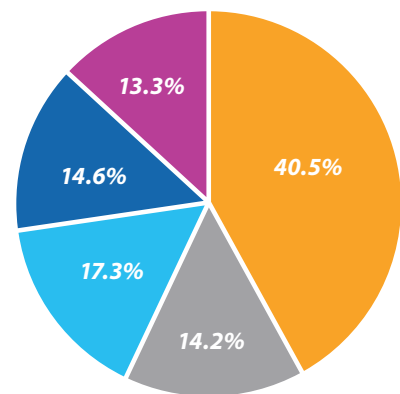
When South Africa entered recession, the South African Reserve Bank responded by aggressively reducing interest rates and this reduced interest

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# CHIEF EXECUTIVE OFFICER'S REPORT *(Continued)*

income that RHLF earns on new loans extended to clients and importantly on surplus funds that RHLF is required to maintain in compliance with the liquidity covenant of its funders. The net result was lower than budgeted interest income for the year.

The liquidity crunch, brought on by the worldwide economic downturn was a major challenge during the year under review. The limited funding in the capital markets had a detrimental effect on at least three of our retail intermediaries in their efforts to diversify their sources of funding. Inevitably the lack of funding had a negative impact on the quality of their loan books. This resulted in RHLF exceeding its budgeted impairment provision for the year.



- Judgement and administration orders
- Adverse listings
- 3+ months in arrears
- 1-2 months in arrears
- Current

**Credit Standing of South African Consumers, Dec 2009. Source NCR Credit Bureau Monitor.**

The “CR Credit Bureau Monitor” published by the National Credit Regulator offers a grim view of how difficult the lending climate has become: By December 2009 only 40.5% of the over 18 million credit active consumers in South Africa were current on their accounts. The rest were in various stages of arrears on their instalments or had adverse entries including judgments and administration orders against their name. The proportion of borrowers in good standing has been in consistent decline since the height of the consumer boom in mid 2007.

These numbers also illustrate the complexity of our mandate: the job of RHLF and our retail lenders is to facilitate small incremental housing credit for the rural low income market. But we have to do so responsibly and affordably, without pushing already overstretched households over the financial edge.

## LENDING ACTIVITIES AND FINANCIAL RESULTS

Given the tough economic conditions during the year under review, it came as no surprise that budget cash disbursements fell below the set target. RHLF budgeted to disburse R75,9 million during the year, but only made cash disbursements of R57 million. However, including mezzanine funding to less risky clients, total disbursements of R161 million was achieved. RHLF retail partners turned these funds into 33, 112 loans (40, 537: 2009).

The gross loan book grew marginally by 0, 8% (29%: 2009) from R227 million in 2009 to R230 million. This was largely a result of the stagnant economic conditions that resulted in significant job losses in our target market. These realities resulted in clients being prudent in their credit assessment since many people were already over exposed to debt due to shrinking disposable incomes – a phenomenon that began to show even in the last financial year. It was therefore inevitable that growth of the book would be modest as our clients reject large proportions of loan applications in efforts to ensure quality of the new loans.

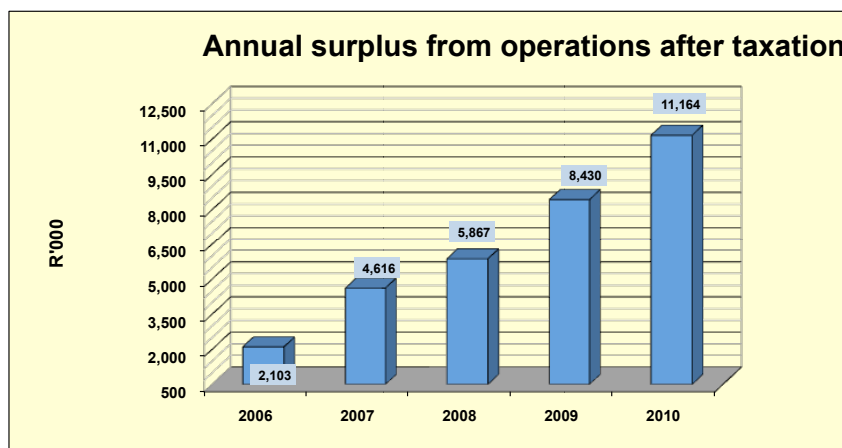
During the 2009/2010 financial year RHLF received the final drawdown of R 20,1 million on its loan facility with Development Bank of Southern Africa (DBSA) and Kreditanstalt für Wiederaufbau (KfW).

I am pleased to report that despite the adverse market conditions during year 2009/10, RHLF achieved a record surplus for the year. RHLF recorded a net surplus after tax of R28,9 million (R8.3 million: 2009). This exponential growth in the surplus is attributed to the profit RHLF realised on the disposal of its shares in Bayport Financial Services (Pty) Ltd, which was approved by the Minister of Human Settlements in January 2010. However, even without this additional profit of R20,6 million, RHLF’s net surplus after tax attributable to operations still reached a record level of R11.1 million. The surplus RHLF achieves is re-invested

## CHIEF EXECUTIVE OFFICER'S REPORT (Continued)



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in the business as we do not distribute profits to the shareholder.

Another key factor in RHLF's profitability is that RHLF has consistently kept operating costs at relatively low levels. Over a five year period, operating costs have remained below R10 million per annum. This is largely enhanced by the RHLF wholesale model, which enables RHLF to have a national footprint via its retail intermediary partners who use various distribution channels to achieve the RHLF impact.

The share of earnings on investments in associates was significantly down from the prior year to R0,7 million (2009: R1,6 million). This is due to the fact that RHLF currently has only two associates and of these only one is profitable.

As mentioned above the difficult economic conditions, resulted in a deterioration in the quality of the underlying loan book at three of RHLF's clients. This forced RHLF to raise R10,5 million of additional impairment

provisions during the year under review.

This has increased the total impairment provision to R47,6 million (2009: R37,1 million) or 21% (2009: 16%) of gross advances.

No other assets or investments were impaired during the 2009/10 financial year.

### DEVELOPMENT IMPACT

The effect of difficult economic conditions can also be seen in the decrease in the number of end user loans extended by RHLF intermediaries. The total number of end user loans financed with RHLF funding amounted to 33,112 down from the record number of 40,537 reported in 2009.

Despite the decrease in the number of loans, RHLF is pleased to report that the impact quality of the loans remained at satisfactory levels. Please refer to the Sustainability report for further details on the RHLF's development impact for the year.

### THE YEAR AHEAD

In foreseeable future, we expect to see a slow but steady improvement in the economy. However, economic improvement is unlikely to lead to an immediate and significant increase in employment since, in general, employment lags economic growth. Therefore, while we expect to achieve higher levels of loans disbursed in 2010/11 fiscal year, it is still appropriate to exercise caution during this fragile economic recovery.

RHLF plans to make greater strides in reaching markets in those provinces where it currently lends very little such as the Northern Cape and Free State. Such provinces present RHLF and its intermediary retail partners with a base from which to improve loan disbursements and growth. The additional government funding of R49.5 million will give RHLF sufficient financial resources to scale up housing microfinance in general and in such provinces in particular. The challenge,

# CHIEF EXECUTIVE OFFICER'S REPORT *(Continued)*



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therefore, is to work with our retail partners to establish loan distribution channels in these provinces.

The RHLF team will intensify its efforts to identify alternative business channels in efforts to achieve higher development impact. In this regard, we will target community based organisations and rural based employers such as farming operations, who are able and willing to contribute to the improvement of quality of life of their employees. For these types of channels, the impact is high, albeit at a small scale. However, this is RHLF's concerted effort to address housing needs of the rural employees, who currently find it difficult to access housing finance.

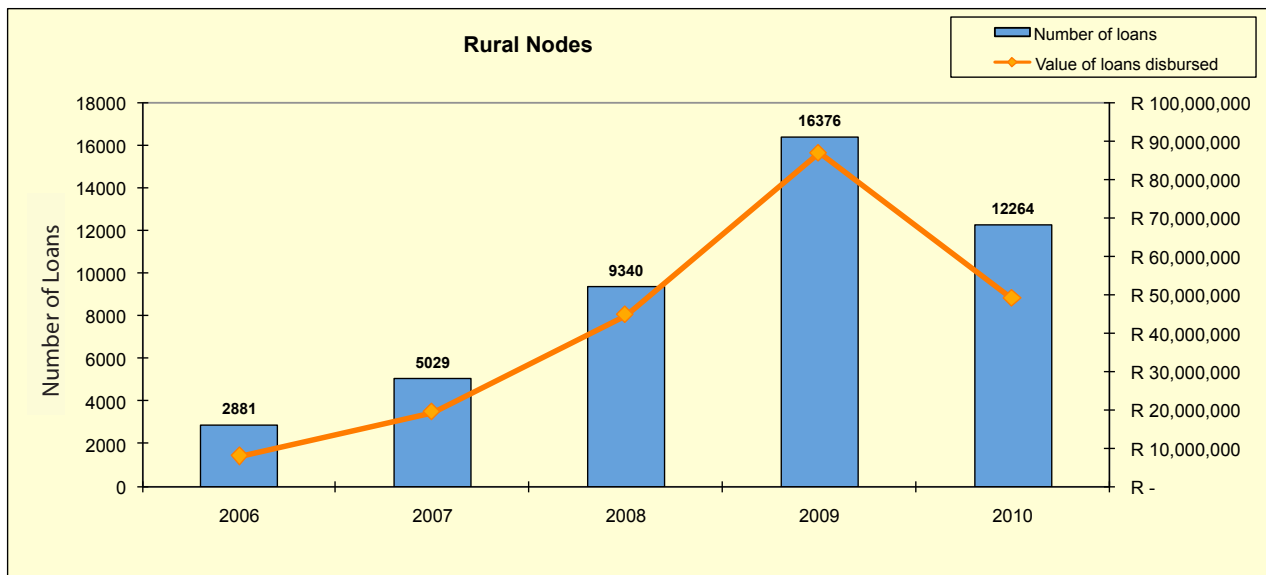
### APPRECIATION

We are grateful for the support we continue to receive from the Ministry and the Department of

Human Settlements. We appreciate the oversight role played by the Parliamentary Portfolio Committee on Human Settlements over RHLF and we take cognisance of the Committee's support to the RHLF mission—that of enabling the rural working poor in all provinces to access finance so that they can improve their housing conditions.

I also would like to convey our sincere gratitude to our funding partners, KfW and the DBSA. RHLF is immensely grateful to these partners and look forward to a continued partnership in addressing development needs of the working poor.

I am thankful to our retail intermediary partners who enable RHLF to be a truly national finance institution by ensuring that RHLF funding reaches all nine provinces of South Africa. Together, we can do more to have more impact in the provinces where we currently lend



## CHIEF EXECUTIVE OFFICER'S REPORT *(Continued)*



less such as the Northern Cape and Free State Provinces.

It will be a remiss if I do not thank the RHLF Board of Directors for the support they have given to management over the year in review. The RHLF team as a whole is able to focus on RHLF's core business precisely because of the support and encouragement that it gets from the Board. I greatly appreciate the wise counsel and support that I have personally received from the Chairperson of the Board.

Lastly, but not least, I would like to thank the RHLF team that I am privileged to lead. The common thread that runs through the team is passion for development and professionalism in what we do. With these attributes of the team, RHLF can only go from strength to strength.

**J. J. Fakazi**

Acting Chief Executive Officer