

# SUSTAINABILITY REPORT

## SOCIO-ECONOMIC DEVELOPMENT IMPACT

### DEVELOPMENT IMPACT

During the year under review RHLF disbursed a total of 33, 112 (40, 537: 2009) loans in all nine provinces of South Africa and the total value of these loans was at R161 million. The government announced Rural Nodes in 2001 which served as pilot for the implementation of Integrated Rural Development Programme. Since 2005, RHLF began to track loans disbursed to these areas of high need. During the year under review, 12 264 (16 376: 2009) loans were disbursed to Rural Nodes with a total value of R49 million (R87m: 2009). The decline in both the number and value of loans can be attributable to adverse market conditions during the year under review.

RHLF monitors impact of these loans through the housing impact monitoring reports that are submitted by intermediary lenders on a monthly basis. Key variables that are monitored include loan usage, gender of borrowers and borrowers' income levels. Of the 33, 112 loans disbursed, 84% (78%: 2009) was used for a housing related purpose, including buying a new house, extension of an existing house, home improvement and connecting to services (water and electricity). 59% (54%: 2009) of loans went to females—an indication that RHLF consistently

enables women to have access to finance so that they can improve living conditions of their households. A significant majority of loans, 62% (59%: 2009) went to borrowers earning R3, 500 and below. Although the income upper limit was R7, 500 during the year, RHLF and its retail partners continue to focus on the lowest end of the market and this goes a long way in enabling financial inclusion of the working poor.

### BUILDING ADVICE HANDBOOK

As a DFI, RHLF produces the Building Advice Handbook which intermediary

partners have to make available to borrowers at no cost. Because the borrowers are mainly in self-help housing extensions and home improvements, the Handbook is designed to enable our borrowers to avoid common building problems. In addition, the Handbook provides advice about energy efficiency housing. Importantly, the Handbook also provides sound advice on household budgeting. RHLF would like to see borrowers taking incremental loans that they can afford to repay, and in that regard understanding a family budget is critical.

### JOB CREATION

RHLF contributes to job creation at two levels: First at retail intermediary level and at the community level. Retail intermediaries that RHLF supports currently employ permanent staff of 2927, with 1054 being female. Over and above these permanent employees, a total of 2060 field agents are employed by the two big RHLF clients and this make a total of 4987 at the RHLF client level. Second at the borrower level, it is difficult to get correct



# SUSTAINABILITY REPORT *(Continued)*



employment figures. However, at this level employment will be temporary as borrowers normally hire local builders to assist in the building process of their homes.

## CORPORATE SOCIAL RESPONSIBILITY

RHLF supports various initiatives by the government, both national and provincial, which are not necessarily related to its lending business. In addition, RHLF annually support Rally-to-Read, an initiative by Financial Mail and McCarthy that coordinates distribution of library boxes to rural schools across South Africa. This project goes a long way in enhancing literacy and reading of learners in rural schools. RHLF sponsors one or two library boxes for rural schools in order to contribute to the general improvement to the quality of life in rural areas.

## PROCUREMENT

RHLF's procurement policy is compliant with the Preferential Procurement Framework Act and BEE requirements.

As a consequence, the majority of RHLF suppliers comply with the prescripts of these two pieces of legislation.

## ENVIRONMENT IMPACT

Since inception, RHLF made it clear that it does not fund asbestos products—a non issue today because asbestos products are legally prohibited in South Africa. In general, RHLF business entails enabling access to housing finance to people who want to improve housing conditions where they currently live, including communal land. In the process of improving living conditions, RHLF promotes energy efficient housing. RHLF funding does not discriminate against innovative building technologies that are energy efficient. In fact, RHLF encourages its clients to fund these products such as solar sources of energy and solar geysers. During the past year RHLF has started a paper recycling project in the office where all scrap paper and newspapers are collected for recycling.

## ECONOMIC IMPACT

RHLF takes pride in that it supports development of Small Medium Micro

Enterprises (SMMEs). A number of RHLF clients were supported by RHLF from establishment and infancy stages of business development; and the support has entailed more than just funding. RHLF actively supported these entities by taking part in their Board meetings and providing meaningful business support.

With regards to funding support, RHLF support some of its intermediaries by providing mezzanine funding to them. This has enabled them to attract other senior funders who are willing and able to provide additional funding for business growth, in order to enhance the development of the housing microfinance in South Africa. This is in addition to structured loan facility that RHLF makes available to its retail partners whose core business is housing microfinance or incremental housing finance.

At a borrower level, we know that borrowers employ local builders to help them build houses or effect various improvements to their houses. This enhances local economic development

# SUSTAINABILITY REPORT *(Continued)*

as money received locally gets spent locally, all else being equal. Accordingly, RHLF can justifiably claim that it contributes to enhancing job creation and local economic development.

## HUMAN RESOURCES

RHLF is a very lean organisation with a very small, but motivated team of 10 professionals (2009: 8). These professionals bring unparalleled passion and dedication in the pursuit of the achievement of the RHLF mandate.

### INTERNSHIP PROGRAMME

During the year under review, RHLF recruited two interns: a Marketing Consultant Intern and a Risk Analyst Intern. These two young ladies (each is below 35 years old) brought a lot of energy to the team and showed a great interest to learning more about the organisation in order to enhance their contribution to RHLF.

### EMPLOYEE MOVEMENT

RHLF strives to recruit and retain well qualified and motivated staff. RHLF's remuneration package is competitive and designed partly to ensure retention of staff. It is pleasing to note that the turnover rate during the year under review as 0%.

### HUMAN CAPITAL DEVELOPMENT

RHLF takes skills development of its small team seriously. All RHLF staff (100%), including newly recruited interns, underwent training during the year under review. In the future, RHLF will implement a Career Development Matrix, which will entail further skills development in order to enable personnel in the core function of RHLF to, over a period of time, perform at a more strategic level.

### EMPLOYEE RELATIONS

RHLF staff operates as a team and the

frequent exchange of information is strongly encouraged. The team meets weekly to take stock of organisation performance and this enhances performance of each team member.

### HEALTH AND SAFETY

In compliance to the Occupational and Safety Act of 1993, RHLF provides a work environment that is safe and without risk to the health of its workers. No incidents were reported during the past year.

### EMPLOYMENT EQUITY

RHLF has a total of 10 employees and the ratio of female to male is currently 60%: 40% and that of Blacks (African) to Whites is currently 80%: 20%. RHLF does not have employees who are classified as Coloureds or Indians.





# RISK MANAGEMENT REPORT

## RISK MANAGEMENT GOVERNANCE STRUCTURES AND ACCOUNTABILITY

The accounting authority of the Rural Housing Loan Fund (RHLF) is its Board of Directors. The control of the business and management of risk is exercised through the risk management framework of the company. The Board annually reviews and approves the risk management framework, as part of the Corporate and Strategic Plans submitted to the Executive Authority.



The Board delegates its responsibility for overseeing the management of risks pertaining to the company's business to the Audit Committee.

The RHLF executive management team is responsible for identifying and managing risks inherent to the operations of the company. The executive management reports quarterly to the Audit Committee on all key risks identified and any actions taken to address these risks.

The internal audit function is outsourced to ORCA, who independently audits the adequacy and effectiveness of the company's risk management, internal controls and corporate governance processes. The internal auditors report their findings directly to the Audit Committee.

## KEY RISK CATEGORIES

### 1. STRATEGIC RISK

Strategic risk relates to the risk that the company fails to deliver on its mandate. This risk can be broken down into the following:

#### 1.1 CORPORATE STRATEGY RISK:

Corporate strategy risk revolves around the processes to ensure that the company achieves both financial performance and non-financial goals.

#### 1.2 BUSINESS STRATEGY RISK:

Business strategy risk revolves around the processes that ensure management translates the statement of direction and intent generated at the board level into concrete objectives and strategies.

#### 1.3 FUNCTIONAL STRATEGY RISK:

Functional strategy risk revolves around the processes that ensure that the annual objectives and short-term strategies are developed in their related functional areas.

Control of these risks is managed directly by the RHLF Board. The strategy and objectives are aligned with the RHLF mandate via the annual Corporate and Strategic Plan. The Corporate and Strategic Plan is approved by the Executive Authority and RHLF has strong governance and reporting structures in place to monitor performance against it.

### 2. CREDIT RISK

Credit risk arises when a counterparty to a financial transaction fails to meet its obligations in terms of the agreed terms and conditions of the contract. This can happen either because the counterparty is experiencing financial distress or there is a decrease in the fair value of the ceded securities. RHLF incurs credit risk in its lending and investing activities.

Credit risk is one of the company's most material risks and is managed in accordance with comprehensive

# RISK MANAGEMENT REPORT *(Continued)*

policies and procedures that ensure adequate identification, measurement, monitoring, control and reporting of credit exposure.

The RHLF Board has approved the following credit / investment limits:

- Equity investments may not exceed 10% of total capital
- No single equity exposure may exceed 2% of total capital
- Pilot loans may not exceed 15% of total capital
- No single debt exposure may exceed 15% of total capital

The RHLF Board has appointed a Credit Committee (BCC) made up of non executive directors, to manage the credit risk associated with loans and advances. All transactions relating to new loans and advances facilities must be approved by the BCC.

Transactions relating to equity investments are approved by the RHLF Board, subject to final approval by the Executive Authority in terms of the Public Finance Management Act.

Credit risk relating to cash and short term deposits are managed by the RHLF executive management. Counterparty risk is managed by ensuring that the company's cash equivalents and short-term deposits are placed with high credit quality financial institutions rated as at least A1 or better in terms of short-term credit ratings by at least two recognised rating agencies.

## THE CREDIT RISK MANAGEMENT PROCESS

The credit risk management process starts at the company's Corporate and Strategic planning phase, when the company's risk appetite is reviewed in line with the company's developmental mandate. Key considerations are:

- RHLF's ability to continue to deliver impact in terms of its mandate
- Retain strategic flexibility
- Avoid losses that could materially affect delivery in terms of the mandate
- Current and future economic outlook that affects RHLF and its intermediaries.

RHLF has implemented a thorough risk acceptance process for all potential new intermediaries to ensure that they have an acceptable credit risk relative to the risk / reward inherent in the transaction. All new clients are subjected to a detailed due diligence prior to submitting the request to the BCC.

RHLF takes a consistent approach in identifying, measuring, recording, monitoring and managing credit risk in its portfolio of intermediaries. The approach can be summarised as follows:

## ACCOUNT MANAGEMENT:

- All intermediaries who are accepted into the portfolio are subjected to continuous monitoring and analysis.
- Ongoing account management, via the client executives, is aligned to clear credit policies and to inform

the RHLF of changes in credit profiles of the various intermediaries.

## INTERNAL RISK CATEGORISATION:

RHLF applies an internally developed risk categorisation process to provide early warnings of unacceptable credit risk. The process uses both objective and subjective measures to classify intermediaries into various risk categories. It also reviews the fair value of the ceded securities by evaluating relevant information supplied by the intermediary on a monthly basis.

## RISK REVIEWS:

RHLF 's risk manager performs various risk reviews, ranging from general risk reviews to reviews of specific issues, at all the intermediaries in the RHLF portfolio.

## PORTFOLIO MANAGEMENT:

On a monthly basis the RHLF executive management meet with the client executives and the risk manager to review the performance of all the intermediaries in the RHLF portfolio. At these meetings the internal risk categorisation is discussed and update with the latest available information. This meeting also reviews and discusses potential threats to current clients and the market as a whole.

## BOARD CREDIT COMMITTEE:

The internal risk categorisation report combined with a summary of each intermediaries performance is presented and discussed at every BCC meeting.

# RISK MANAGEMENT REPORT *(Continued)*

## BOARD AUDIT COMMITTEE:

The internal risk categorisation report is reviewed and discussed at each meeting of the RHLF Audit Committee.

Loans and receivables are stated as net of specific impairments. An impairment of loans and receivables is made if there is objective evidence that the company will be unable to collect all amounts due on a claim according to the original contractual terms. Loans and receivables are subjected to regular evaluations that take cognizance of, inter alia, past experience, the customer's overall risk profile and payment record and the realizable value of any collateral.

Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and advances and its estimated recoverable amount. The estimated recoverable amount is the present value of expected future cash flows excluding those which may result from restructuring, liquidation or collateral held.

All impaired loans and receivables are reviewed on a regular basis and any changes to the amount and timing of the expected future cash flows compared with previous estimates can result in a change to the charge for impairment of loans and receivables in the statement of comprehensive income.

The carrying value of impaired financial assets is reduced directly only when

a write off takes place. In all other circumstances an allowance account is used for movement of carrying value.

No amounts are ever written off directly against the allowance account

## 3. MARKET RISK

Market risk is the risk of a decrease in the fair value of a portfolio of financial instruments caused by an adverse movement in market values. This would include the following:

- Foreign exchange rate risk
- Interest rate risk.

RHLF has a limited exposure to Euro / Rand exchange rate. This is as a result of a small Euro balance in an offshore bank account. The balance imitated from Euro payments received from Kreditanstalt für Wiederaufbau (KfW) as part of their funding arrangement.

Loan receivables are made to clients to fund end user loans. The repayment term of loan advances are linked to the repayment term of the underlying end user loans. Interest rates are determined by the Bond Exchange of South Africa yield curve for the same maturity plus a risk margin.

The company's loans and receivables include loans with fixed rates of interest and loans which have an underlying reviewable margin above a fixed rate. The rates applicable to the loans with a reviewable margin are adjusted when such a review deems this necessary. The rates applicable to fixed interest rate loans are based on agreed market rates

at the date of the disbursements and remain fixed for the full term of the loan.

The company is neither exposed to significant interest rate risk nor is it exposed to significant cash flow risk. This arises from the manner in which disbursements are priced to clients. The interest rate on each disbursement is fixed for the period of the loan but each disbursement is priced according to prevailing market interest rates thereby tracking the yield curve.

RHLF currently has only one long term interest bearing loan from the Development Bank of Southern Africa. The interest rate on this loan is fixed for the term of the loan.

## 4. LIQUIDITY RISK

Liquidity risk is the risk that RHLF may have insufficient funds or marketable assets available to fulfil future cash flow obligations on time.

RHLF currently has a strong capital base and sufficient cash and short term investments.

In terms of the loan agreement with the Development Bank of Southern Africa, RHLF is also subject to a liquidity requirement to hold liquid funds amounting to the maximum of 6 months of disbursements and 6 months of operating expenditure or 30% of total capital. RHLF's liquidity management process is based on short and long term cash flow forecast.

# RISK MANAGEMENT REPORT *(Continued)*

## 5. COMPLIANCE RISK

Compliance risk relates to negative impact resulting from non compliance with applicable legislation and regulations. This risk further exposes RHLF to fines, civil claims, loss of authorisation to operate and inability to enforce contracts.

Compliance risk is managed through identifying, assessing, advising, monitoring and reporting on regulatory compliance risk at both executive management and Board levels.

Training is provided to staff and management to ensure that there is compliance with all prevailing laws and company procedures.

## 6. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal process, people or systems.

The risk is managed mainly through the systems of internal control, based on approved policies and procedures, and

adequate segregation of duties and delegated authorities.

Operational risk includes fraud and financial misconduct, as well as risk pertaining to legal, human resources, information technology and business continuity.

The Audit Committee assists the RHLF Board by ensuring that the company maintains adequate accounting records, internal controls and systems that provide reasonable assurance on the integrity and reliability of the financial information and to safeguard the company's assets.

The effectiveness of these internal controls and systems is monitored by internal audits.

The internal audit function is provided by an independent service provider. The internal audit is performed in terms of the company's internal audit charter that is reviewed annually. The internal auditors reports directly to the chairperson of the Audit Committee.

The Audit Committee conducts its own assessment of the effectiveness of the internal audit function.

The Audit Committee approves the annual internal audit plan. The plan is based on the key risks identified in the review of enterprise wide risk. All business activities are subjected to the internal audit.

RHLF has a fraud prevention plan in place. This plan is reviewed and approved by the Board as part of the annual Corporate and Strategic Plan. During the year under review no incidents of fraud, financial misconduct or irregular activities were reported.

RHLF does have a disaster recovery plan in place to ensure that the company will be able to function in the event of a disaster. All electronic data is backed up every day and a copy of backed up data is stored of site on a weekly basis.

## 7. REPUTATIONAL RISK

Reputational risk relates to the risk that RHLF's image could be damaged. Any such damage could impair the company's ability to retain and generate future business.

RHLF manages this risk through the following:

- Always maintaining a strong focus on external stakeholders.
- Effective management of media and public queries.
- Ongoing evaluation and management of significant risk types highlighted above.



# RHLF DEVELOPMENT IMPACT IN ISRDS

## LOANS IN RURAL NODES AND OTHER RURAL DISTRICT MUNICIPALITIES

	2006	2007	2008	2009	2010
Number of loans	2881	5029	9340	16376	12264
Value of loans disbursed	R 7,881,000	R 19,313,524	R 44,660,375	R 86,990,118	R 48,939,462



