



Rural Housing Loan Fund  
Quarterly Integrated Report  
Quarter 1 2015/16  
Period ended 30 June 2015

A handwritten signature in black ink, appearing to be 'R. Haman', written over a horizontal line.

**Mr R. Haman**  
Chairperson of Audit and Risk Committee

A handwritten signature in black ink, appearing to be 'J. J. Fakazi', written over a horizontal line.

**Mr J. J. Fakazi**  
Chief Executive Officer

A handwritten signature in black ink, appearing to be 'B.C. Gordon', written over a horizontal line.

**Mr B.C. Gordon**  
Chief Financial Officer



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**Mandate:** The mandate of Rural Housing Loan Fund is to facilitate funding to enable rural low income earners to better their living conditions through improving their housing situation

**Vision:** The Rural Housing Loan Fund is a world-class rural housing social venture capital fund that creates new financial arrangements and opportunities for rural families to improve their housing, economic and living environments

**Mission:** To empower people in rural areas to maximise their housing choices and improve their living conditions through access to housing credit and government housing subsidy funds.

## Values

We subscribe to the following values:

- Transparency
- Integrity and honesty
- Accountability and responsibility
- Passion for development
- Excellence
- Empowerment
- Respect



## Executive Summary

The 2016 first quarter report is presented in a different format from that of previous quarters. It is an integrated quarterly report and follows on from the Rural Housing Loan Fund's 2014/15 Annual Integrated Report, which is currently being finalised for submission by 31 August 2015.

In this report we highlight of our performance against quarterly targets set out in the 2015/16 Annual Performance Plan before providing a detailed integrated quarterly report to show the connections and continuity between our developmental, financial and other capitals. The governance compliance is included as an annexure to this report.

### Performance Information and report against quarterly targets

The domestic economy remained subdued in the first quarter of the financial year with slow economic growth and high unemployment being key areas of concern. Over indebtedness of borrowers remain a concern and lenders continued to reject high proportion of loan applications, in some instances as high as 90%.

The adverse impact of poor market conditions is reflected in below first quarter performance in key development indicators: number of loans and disbursements. The following tables present information on the Rural Housing Loan Fund's performance as at the end of the first quarter of 2016 financial year.

Stakeholder Perspective: Broaden and deepen the reach of rural housing delivery

	Budget for year	Actual	Budget	Variance	Commentary
End user loans disbursed (Units)	41,452	9,295	11,847	(2,552)	Poor economic conditions

	Budget for year	Actual	Budget	Variance	Commentary
Qualifying housing use target (% of loan instances) - higher is better	88.0%	99.7%	88.0%	11.7%	Despite raising the target from previous years RHLF is still exceeding its goals
Loans to households earning R15,000 or more (%) - lower is better	20.0%	5.0%	20.0%	15.0%	Target exceeded
Loans to households earning R3,500 or less (%) - higher is better	60.0%	77.3%	60.0%	17.3%	Target exceeded

Financial Perspective: Capital Preservation

	Budget for year	Actual	Budget	Variance	Commentary
Expenditure excluding debtors provision (R000)	(19,205)	(4,071)	(4,622)	551	Lower employee costs due to slow recruitment as well as lower depreciation due to delay in issuing IT tender
Operating surplus after taxation (R000)	13,010	4,976	3,525	1,451	Lower revenue than budgeted was offset by increased interest on cash holdings and lower expenses

## Business Process

	Budget for year	Actual	Budget	Variance	Commentary
Loan verification visits	10	4	3	1	Target exceeded

	Budget for year	Actual	Budget	Variance	Commentary
Disbursements to retail intermediaries including moratoria (R000)	258,329	24,193	70,425	(46,232)	The ongoing weakness in the credit market is leading to intermediaries not drawing as much as was budgeted.

## Learning and Growth Perspective

	Budget for year	Actual	Budget	Variance	Commentary
Training expense R000	152	10	29	-19	Timing difference

## Reporting against Medium Term Strategic Framework targets

Hereunder we report our performance against the MTSF targets that are set in our Five Strategic Plan

	Previous term targets	Previous term achieved	Current term targets	Year 1 current term	Q1 Year 2 current term	% achieved to date	
<b>Incremental rural housing loans (number)</b>	181,111	209,866	233,636	40,185	9,295	21.2%	Higher is better
<b>Percentage used for housing</b>	80.0%	94.0%	88.0%	96.0%	99.7%	NA	Higher is better
<b>Percentage to people earning over R15,000 (R9,800 in previous term)</b>	20.0%	12.7%	12.0%	2.0%	5.0%	NA	Lower is better
<b>Percentage to people earning under R3,500</b>	60.0%	72.0%	60.0%	75.0%	77.3%	NA	Higher is better

## Why an integrated report?

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This integrated report for the first quarter of 2015/16 follows on from the Rural Housing Loan Fund's Annual Integrated Report for the year ended 31 March 2015. By continuing the process started then we are able to highlight the connections, and continuity, between our developmental, financial and other performance. We believe that this shift holds both practical and symbolic importance, in that we are acknowledging the changes to our operating environment. This means we continue the process of making ongoing improvements to the information provided to evaluate the performance of the Company and the presentation thereof. The information provided previously did not adequately capture our ability to respond to today's challenges or how we create value. The company's future success hinges on how well the social, environmental, and economic contexts in which we operate are managed.



Strategy, risk,  
performance and  
sustainability have  
become inseparable,  
hence the phrase  
“integrated reporting”  
Mervyn King – King  
Report on Corporate  
Governance 2009



## About this Report

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### Reporting to stakeholders

The Rural Housing Loan Fund has a wide range of stakeholders with varied information needs. This quarterly integrated report is the main means of communication to our shareholder and is made available to all stakeholders.

### Integrated thinking

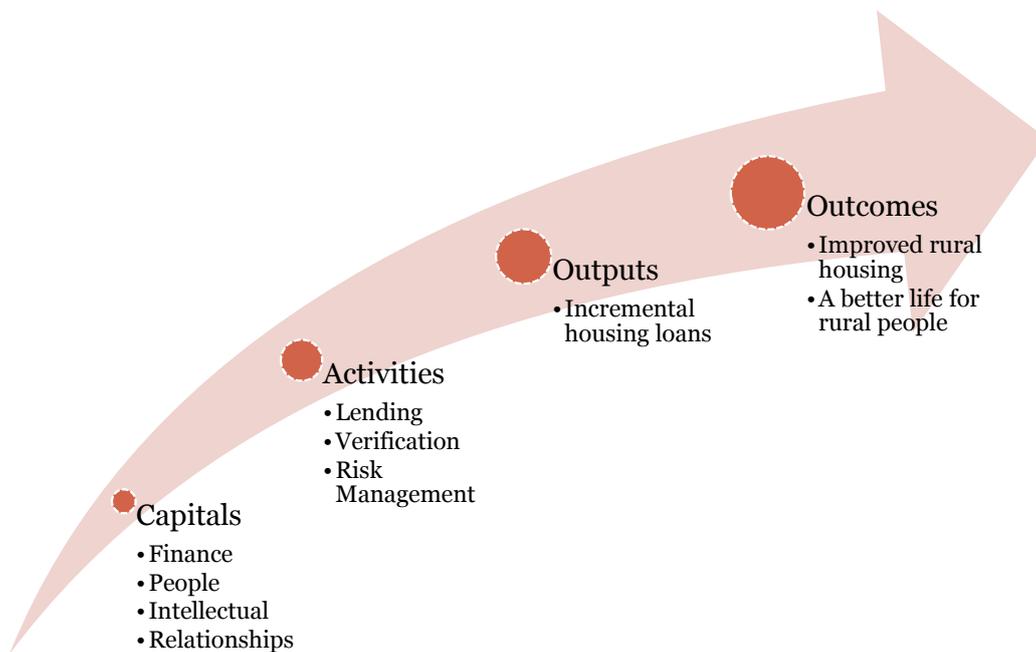
In preparing our first annual integrated report, we were guided by The International <IR> Framework issued by the International Integrated Reporting Committee (IIRC) in December 2013. Using the principles in this Framework we have embraced integrated thinking in our operations to improve both the delivery on our mandate and the supply information to our stakeholders.

The Rural Housing Loan Fund exists to create value for itself and its stakeholders and depends on various forms of capital to achieve this. The following are critical in the value creation of the Rural Housing Loan Fund and its stakeholders:

- **Financial capital:** This is the money that we have and use to finance all our business activities in the implementation of our mandate of enabling people in our target market to access housing loans. Sources of our financial capital include South African Government transfers, grant and loan finance from our funders (KFW – the German Development Bank and the Development Bank of Southern Africa) as well as retained earnings.
- **Human capital:** This refers to our human resources. We recruit and develop our people in order to enable them to enhance their competencies, capabilities and acquire the experience that enables them to provide excellent service in ensuring that we deliver on our mandate and add value to our various stakeholders. In recent years, including the year under review, we have recruited interns as part of our contribution to addressing the problem of unemployed youth. All our interns have subsequently been employed by us on a permanent basis on successful completion of their twelve month internships.
- **Intellectual capital:** As an organisation we have built a knowledge-based expertise in housing microfinance delivery that enables low income people in rural areas to fulfil their desire to improve their housing conditions through incremental building.
- **Social and relationships capital:** The co-operative relationships we have built with various stakeholders in government, commerce, communities and non-governmental organisations have enabled us to

consistently deliver on our mandate and deliver on value creation for various stakeholders.

- **Natural capital:** We support sustainable use of natural resources used to produce building materials that our money finance. In particular, we would like to see more borrowers using our money to access renewable sources of energy and other environmentally friendly alternative building technologies.





# Rural Housing Loan Fund Performance

## Development performance

Number of loans granted for the quarter under review<sup>1</sup>

Development mandate statistics compiled from monthly Housing Mandate Monitoring Reports		Quarter 1			
		Number	%	Value	%
Number of new loans	Budget	11,847			
	Actual	9,295		50,606,425	
	Variance	(2,552)			

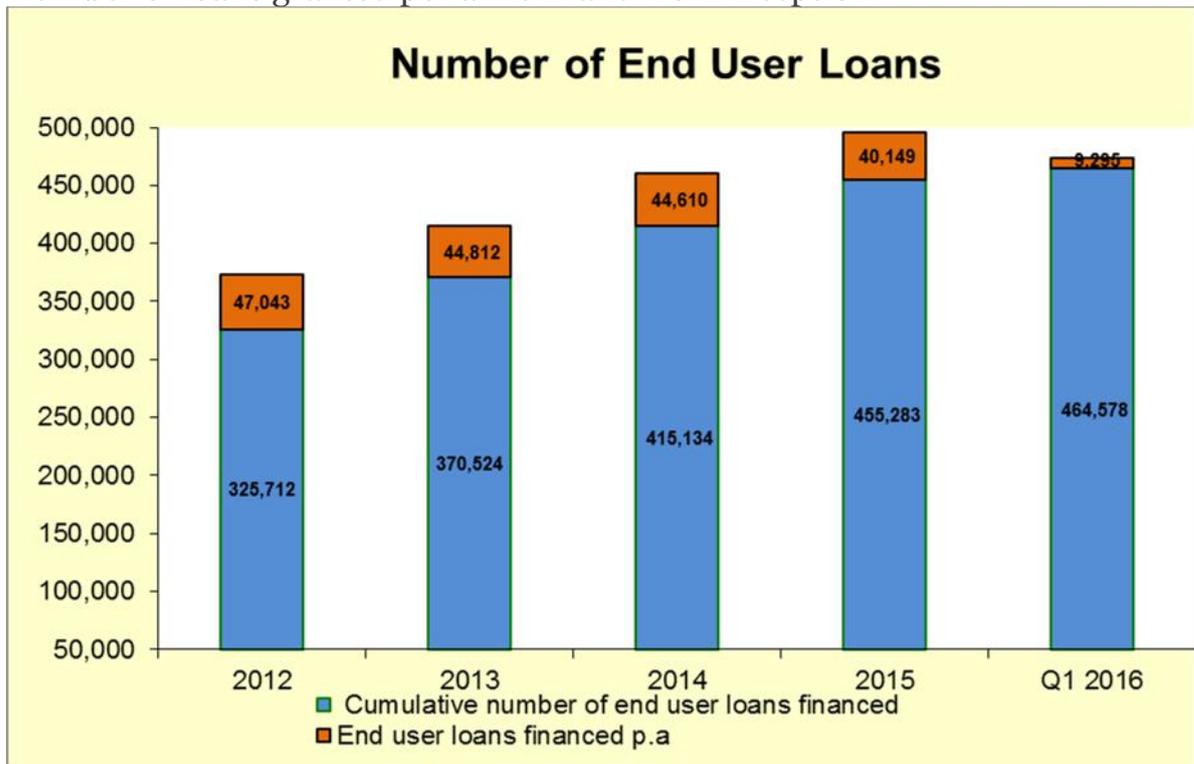
The economy remains under pressure, leading to fewer loans being disbursed than was expected during the budget cycle. Additional pressure has been placed on a number of the Rural Housing Loan Fund's intermediaries as a result of the recent Flemix judgement. The main issue here for our clients will be the slower process that will need to be followed in court as magistrates instead of clerks of the court must consider the affordability of Emolument Attachment Orders.

## Other key performance delivery indicators

	Budget for year	Actual	Budget	Variance	Commentary
Qualifying housing use target (% of loan instances) - higher is better	88.0%	99.7%	88.0%	11.7%	Despite raising the target from previous years RHLF is still exceeding its goals
Loans to households earning R15,000 or more (%) - lower is better	20.0%	5.0%	20.0%	15.0%	Target exceeded
Loans to households earning R3,500 or less (%) - higher is better	60.0%	77.3%	60.0%	17.3%	Target exceeded

<sup>1</sup>The value disbursed shown in this table is the amount disbursed by the intermediaries of the Rural Housing Loan Fund to retail borrowers. This is different to the amount disbursed the intermediaries shown elsewhere in this document.

Number of loans granted per annum and from inception



## Loans delivered per intermediary

Name		2015/16 Quarter 1	Share of Total	2014/15 Total Year	Share of Total
Bayport	Value (R)	-	-	44,322,060	17.3%
	Number #	-	-	2,621	6.5%
	Average	-	-	16,908	
Izwe	Value (R)	8,343,125	16%	17,080,155	6.7%
	Number #	579	6%	1,221	3.0%
	Average	14,409		13,990	
Kuyasa Fund	Value (R)	1,511,314	3%	3,373,139	1.3%
	Number #	238	3%	502	1.3%
	Average	19,021	1	6,715	
Lendcor	Value (R)	27,644,501	55%	93,778,666	36.6%
	Number #	7,508	81%	30,308	75.4%
	Average	3,682		3,094	
Moliko	Value (R)	79,000	0.2%	559,200	0.2%
	Number #	25	0.3%	138	0.3%
	Average	3,160		4,052	
Norufin	Value (R)	6,701,309	13%	24,059,970	9.4%
	Number #	541	6%	1,891	4.7%
	Average	12,387		12,723	
RPH	Value (R)	-	-	49,919,262	19.5%
	Number #	-	-	2,214	5.5%
	Average	-	-	22,547	
Thuthukani	Value (R)	5,755,223	11%	17,507,803	6.8%
	Number #	357	4%	1,214	3.0%
	Average	16,121		14,422	
Makoko	Value (R)	363,047	1%	276,555	0.1%
	Number #	28	0.3%	23	0.1%
	Average	12,966	-	12,024	
Lehae	Value (R)	208,906	0.4%	352,678	0.1%
	Number #	19	0.2%	25	0.1%
	Average	10,995		14,107	
Amajuba	Value (R)	-	-	22,000	0.0%
	Number #	-	-	8	0.0%
	Average	-	-	2,750	
Bomme le Batjha	Value (R)	-	-	40,000	0.0%
	Number #	-	-	7	0.0%
	Average	-	-	5,714	
Shiyendlele	Value (R)	-	-	160,913	0.1%
	Number #	-	-	12	0.0%
	Average	-	-	13,409	
Total	Value (R)	50,606,425	100%	256,488,210	100.0%
	Number #	9,295	100%	40,185	100.0%
	Average	5,444		6,383	

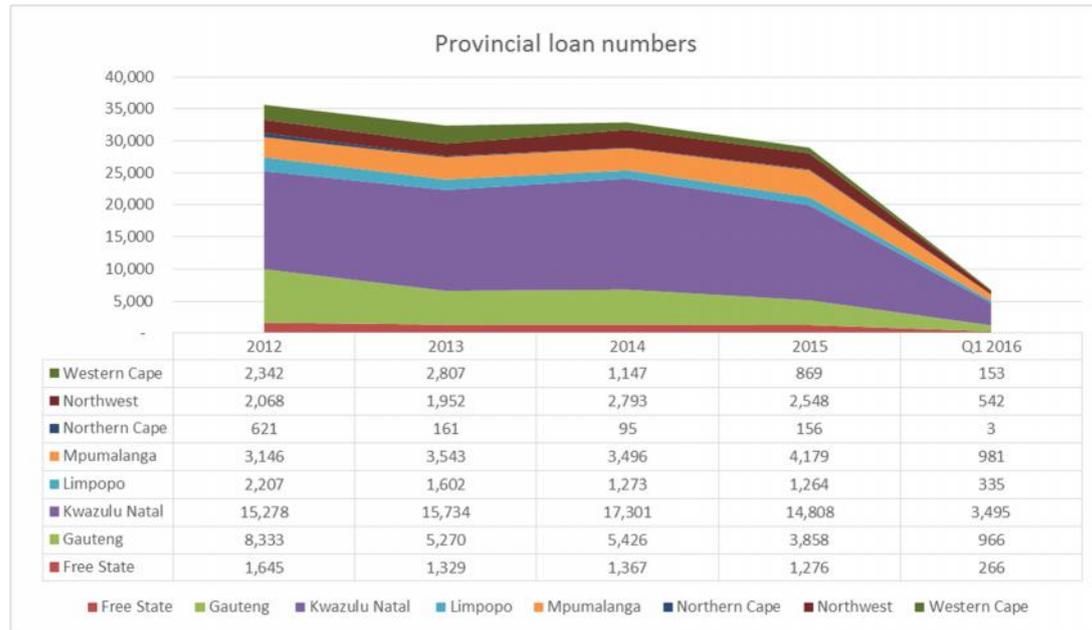
### Commentary:

- Bayport was repaying capital during Q1 2016, but the Credit and Development Committee extended capital moratorium from July 2015. So from Q2 2016, RHLF will report Bayport's contribution.
- Lendcor continues to be the leading contributor of loans reported by RHLF. This is a result of Lendcor's strategic choice to focus on lowest income group that take small loans to improve their living environments.
- RPH has a facility of R60 million approved from which they are planning to drawdown during the course of 2016. The loan agreement has still not been signed.

## Loan outcomes

<b>Mandate compliance information</b>				
Development mandate statistics compiled from monthly Housing Mandate Monitoring Reports	Quarter 1			
	Number	%	Value	%
Loan usage				
New House	153	1.6%	2,348,641	5%
Extension	584	6.3%	7,099,626	14%
Improvement	7,773	83.6%	38,169,603	75%
Basic Services	759	8.2%	2,873,472	6%
	9,269	99.7%	50,491,342	100%
Others	27	0.3%	115,083	0.2%
	<b>9,295</b>	<b>100.0%</b>	<b>50,606,425</b>	<b>100%</b>
Repeat loan borrowers	3,221	35%	13,015,866	26%
Borrowers using loan together with government subsidy	311	3%	2,000,752	4%
Gender of borrower				
Male	3,697	40%	25,788,760	51%
Female	5,599	60%	24,817,665	49%
Borrower's employment				
Private sector	2,658	29%	27,760,020	55%
Public sector	566	6%	7,662,766	15%
Self-employed, informal	237	3%	1,521,568	3%
State pension	5,814	63%	13,498,907	27%
Farm Workers	21	0.2%	163,163	0.3%
	<b>9,295</b>	<b>100%</b>	<b>50,606,425</b>	<b>100%</b>
Borrower's income				
less than R1 500	5,844	63%	13,000,908	26%
R1 501-R2 500	625	7%	3,735,061	7%
R2 501-R3 500	715	8%	5,035,199	10%
	7,184	77.3%	21,771,168	43%
R3 501-R6 000	712	8%	6,861,762	14%
R6 001-R9 800	475	5%	5,982,777	12%
R9 800-R15 000	456	5%	7,041,502	14%
>R15 000	469	5.0%	8,949,216	18%
	<b>9,295</b>	<b>100%</b>	<b>50,606,425</b>	<b>100%</b>

## Provincial distribution of loans



**Housing Loans Delivered in Prioritised Rural District Municipalities**  
 The data for this was not available in time for this quarterly report but will be included from quarter 2 onwards.

## Funds disbursed

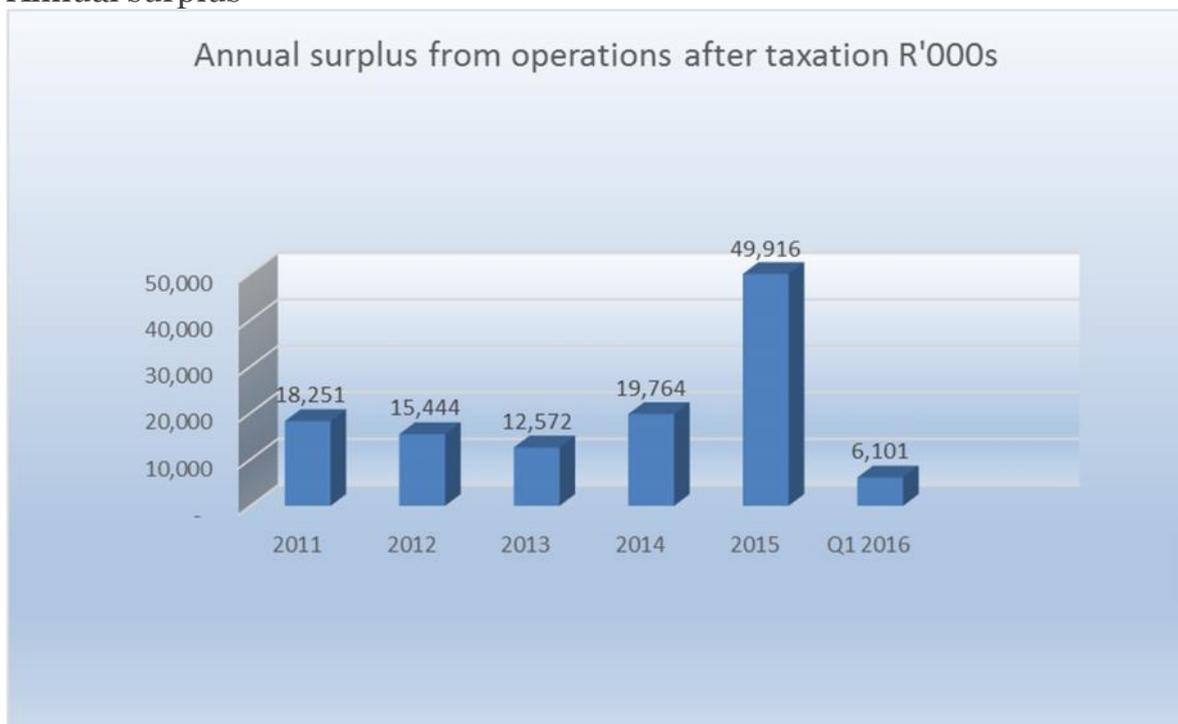
	Budget for year	Actual	Budget	Variance	Commentary
End user loans disbursed (Units)	41,452	9,295	11,847	(2,552)	Poor economic conditions

## Financial performance and capital preservation

	Budget for year	Actual	Budget	Variance	Commentary
Expenditure excluding debtors provision (R000)	(19,205)	(4,071)	(4,622)	551	Lower employee costs due to slow recruitment as well as lower depreciation due to delay in issuing IT tender
Operating surplus after taxation (R000)	13,010	4,976	3,525	1,451	Lower revenue than budgeted was offset by increased interest on cash holdings and lower expenses

The company revenue of R9,8 million is behind budget of R11,2 million as a consequence of the low demand for funding by intermediaries. This is slightly offset by earnings on cash retained in the bank. The rate here is significantly less than that earned on disbursed funds.

## Annual surplus





## Who are we?

### Ownership and operating structure

The Rural Housing Loan Fund SOC NPC is owned by the people of South Africa represented by the Minister of Human Settlements.

The business is registered as a Not For Profit company in terms of the Companies Act and is listed under Schedule 3A of the Public Finance Management Act. It operates as a not for profit organisation with an exemption from income tax.

### People

All the Rural Housing Loan Fund employees have full time employment contracts.

### Executives

<b>Jabulani Fakazi</b> <ul style="list-style-type: none"> <li>• Chief Executive Officer</li> <li>• Appointed March 2010</li> <li>• Joined the Rural Housing Loan Fund February 2002</li> <li>• Black male</li> </ul>	<b>Bruce Gordon</b> <ul style="list-style-type: none"> <li>• Chief Financial Officer</li> <li>• Appointed and joined the Rural Housing Loan Fund February 2012</li> <li>• White male</li> </ul>
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### Client Focus

<b>Tsaliko Ntoampe</b> <ul style="list-style-type: none"> <li>• Client Executive</li> <li>• Appointed 2003</li> <li>• Black female</li> </ul>	<b>William Malatji</b> <ul style="list-style-type: none"> <li>• Client Executive</li> <li>• Appointed 2003</li> <li>• Black male</li> </ul>	<b>Relebile Moeketsi</b> <ul style="list-style-type: none"> <li>• Junior Client Executive</li> <li>• Appointed 2010</li> <li>• Joined the Rural Housing Loan Fund 2009</li> <li>• Black female</li> </ul>	<b>Lindokuhle Ndlovu</b> <ul style="list-style-type: none"> <li>• Junior Client Executive</li> <li>• Appointed July 2013</li> <li>• Joined the Rural Housing Loan Fund July 2012</li> <li>• Black male</li> </ul>	<b>Motlalepule Mothobi</b> <ul style="list-style-type: none"> <li>• Junior Marketing Consultant</li> <li>• Appointed 2010</li> <li>• Joined the Rural Housing Loan Fund 2009</li> <li>• Black female</li> </ul>
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### Risk management

<b>Makgalaborwa Maila</b> <ul style="list-style-type: none"> <li>• Risk Manager</li> <li>• Joined the Rural Housing Loan Fund 2003</li> <li>• Black male</li> </ul>	<b>Caroline Ndlovu</b> <ul style="list-style-type: none"> <li>• Risk Analyst</li> <li>• Appointed February 2014</li> <li>• Black female</li> </ul>	<b>Klaas Motshabi</b> <ul style="list-style-type: none"> <li>• Junior Development Monitor</li> <li>• Appointed July 2013</li> <li>• Joined the Rural Housing Loan Fund July 2012</li> <li>• Black male</li> </ul>	<b>Mlungisi Hlabangani</b> <ul style="list-style-type: none"> <li>• Intern: Risk Analyst</li> <li>• Joined the Rural Housing Loan Fund June 2014</li> <li>• Black male</li> </ul>
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## Administration

<b>Myriam Kheza</b> <ul style="list-style-type: none"> <li>Office Manager</li> <li>Appointed 1996</li> <li>Black female</li> </ul>	<b>Porche Knauf</b> <ul style="list-style-type: none"> <li>Accountant</li> <li>Appointed 2002</li> <li>White female</li> </ul>	<b>Dipolelo Chuene</b> <ul style="list-style-type: none"> <li>Assistant Office Administrator</li> <li>Appointed and joined the Rural Housing Loan Fund 2010</li> <li>Black female</li> </ul>	<b>Rhona Mokhele</b> <ul style="list-style-type: none"> <li>Office Assistant</li> <li>Appointed and joined the Rural Housing Loan Fund 2005</li> <li>Black female</li> </ul>
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## Performance incentive bonus

The following table shows how the calculation of performance bonuses is made as well as the progress towards there so far this year.

Categories of performance	Weight	Target	Actual	Achievement	Result	Minimum achievement
1) Financial (50%) : Surplus after Taxation R000	50%	3,765	6,101	162%	50.0%	100%
2) Impact (50%):						
Annual Disbursements R000	30%	70,425	24,193	34%	0.0%	80%
Number of loans (20% of impact)	10%	11,847	9,295	78%	0.0%	80%
Percentage of reported housing loans	10%	88.0%	99.7%	113.3%	10.0%	75%
					60.0%	75%

Performance bonus is payable after the end of the financial year if minimum achievement has been met as shown in the table above.

## Training

While the Rural Housing Loan Fund has a small team the majority of employees have been promoted into their roles, reflecting on the success of the Rural Housing Loan Fund's policy to improve the skills base of its employees. It is expected that the 3<sup>rd</sup> and 4<sup>th</sup> quarters will see increased training expenditure.

	Quarter 1	Breakdown Client				
	2016	Board R	Executives R	Focus R	Risk R	Administration R
University fees	-					
Short courses	9,910	2,655	2,655			4,600
<b>Total</b>	<b>9,910</b>	<b>2,655</b>	<b>2,655</b>	-	-	<b>4,600</b>
Number of people	20	5	2	5	4	4
Budget	34,500					
Average spend per person	496	531	1,328	-	-	1,150
Budget as % of employee costs	1.29%					

A director and an executive attended a governance event at the Institute of Directors in Southern Africa. A member of the administration team attended an isiZulu course.

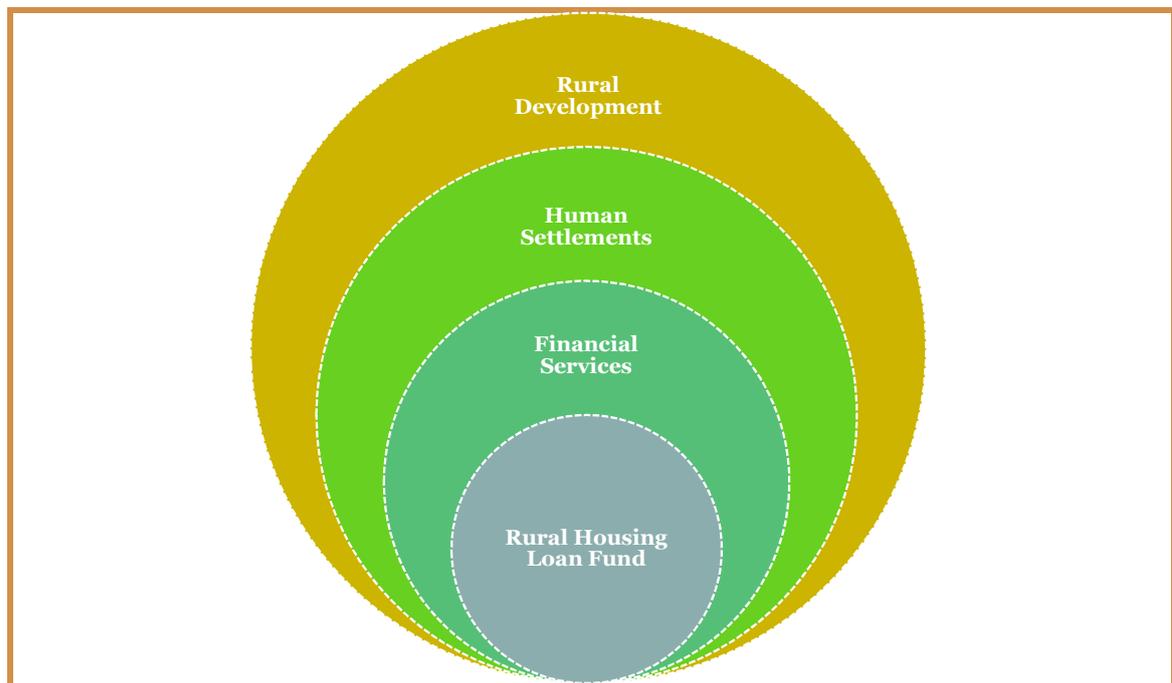
## Employment equity

Level	African female	Coloured female	Indian female	White female	Total female	African male	Coloured male	Indian male	White male	Total male	Total
Executive	-	-	-	-	-	1	-	-	1	2	2
Managers	2	-	-	1	3	2	-	-	-	2	5
Skilled	3	-	-	-	3	2	-	-	-	2	5
Trainees	2	-	-	-	2	1	-	-	-	1	3
Total	7	-	-	1	8	6	-	-	1	7	15

## What do we do?

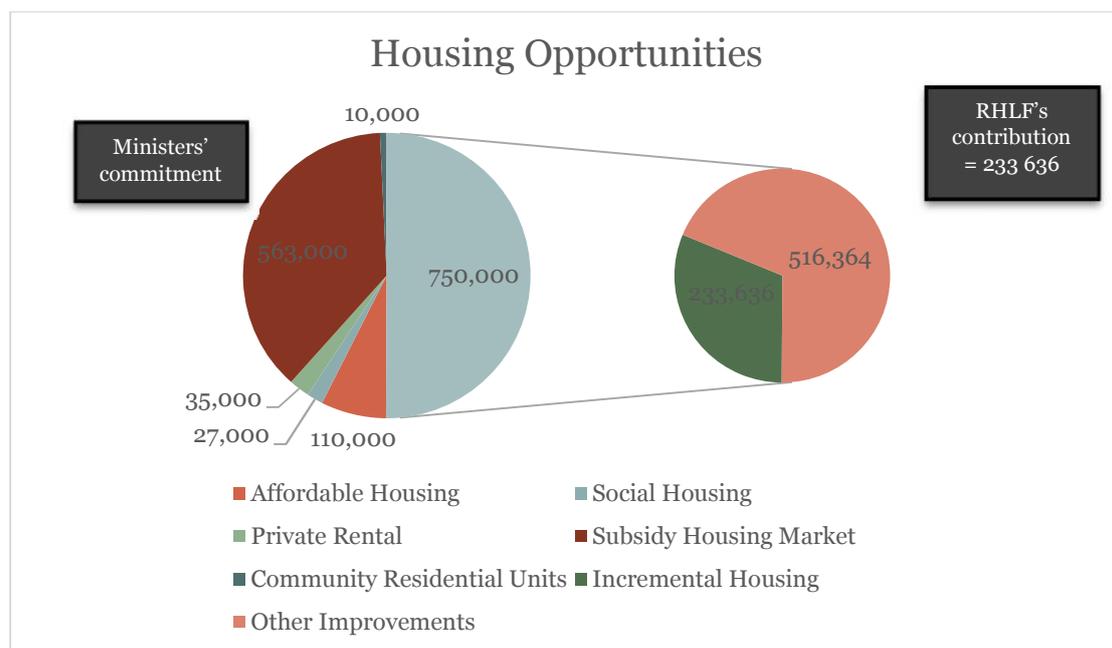
The Rural Housing Loan Fund adds value to its stakeholders by efficiently utilising its limited funding to improve the lives of rural South Africans by ensuring that they are able to access funding to improve their housing conditions. In essence, our operation is embedded in three sectors, namely: rural development, human settlements and financial services.

We are set up as a wholesale funder and have established a delivery mechanism through our intermediary partners who enable households in rural areas to access finance to improve their living conditions and in the process contribute to sustainable rural human settlements and rural development. The graph below summarises this relationship



## Commitments of the Minister of Human Settlements

The Minister of Human Settlements has committed to the delivery of 1,495,000 housing opportunities during the term of the current government. This delivery will be carried out by the Department of Human Settlements, the public entities that report to the Minister and the private sector. The following table shows the breakdown of these opportunities by type, indicating where Rural Housing Loan Fund delivers.



## Rural Housing Loan Fund's contribution

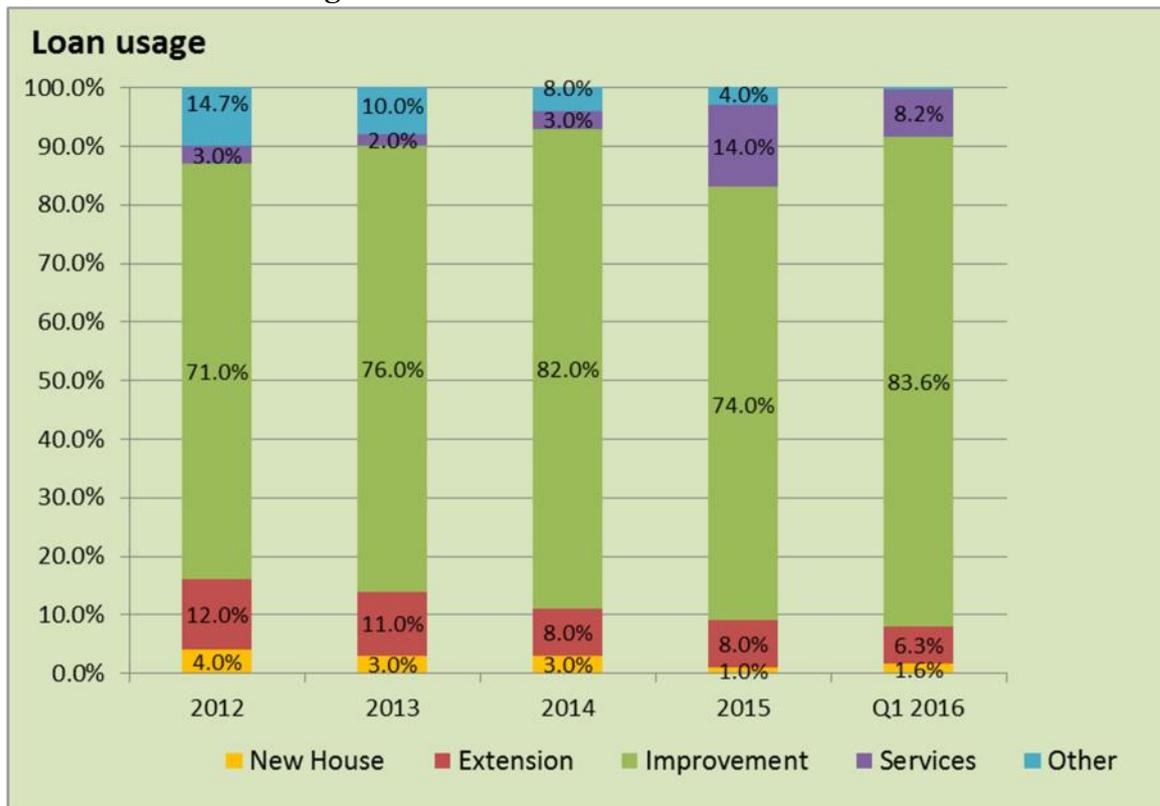
The Rural Housing Loan Fund offers unsecured loans through intermediaries to retail borrowers in rural areas and small towns who, currently, earn under R15,000 per month. However some of the borrowers in rural areas do earn slightly above this level.

The Rural Housing Loan Fund is committed to the delivery of 233 636 housing opportunities during the present term of Government. We will report quarterly and annually on our performance towards achieving the number of loans we have planned to deliver by the end of the Medium Term Strategic Framework period.

	Previous term targets	Previous term achieved	Current term targets	Year 1 current term	Q1 Year 2 current term	% achieved to date	
<b>Incremental rural housing loans (number)</b>	181,111	209,866	233,636	40,185	9,295	21.2%	Higher is better
<b>Percentage used for housing</b>	80.0%	94.0%	88.0%	96.0%	99.7%	NA	Higher is better
<b>Percentage to people earning over R15,000 (R9,800 in previous term)</b>	20.0%	12.7%	12.0%	2.0%	5.0%	NA	Lower is better
<b>Percentage to people earning under R3,500</b>	60.0%	72.0%	60.0%	75.0%	77.3%	NA	Higher is better

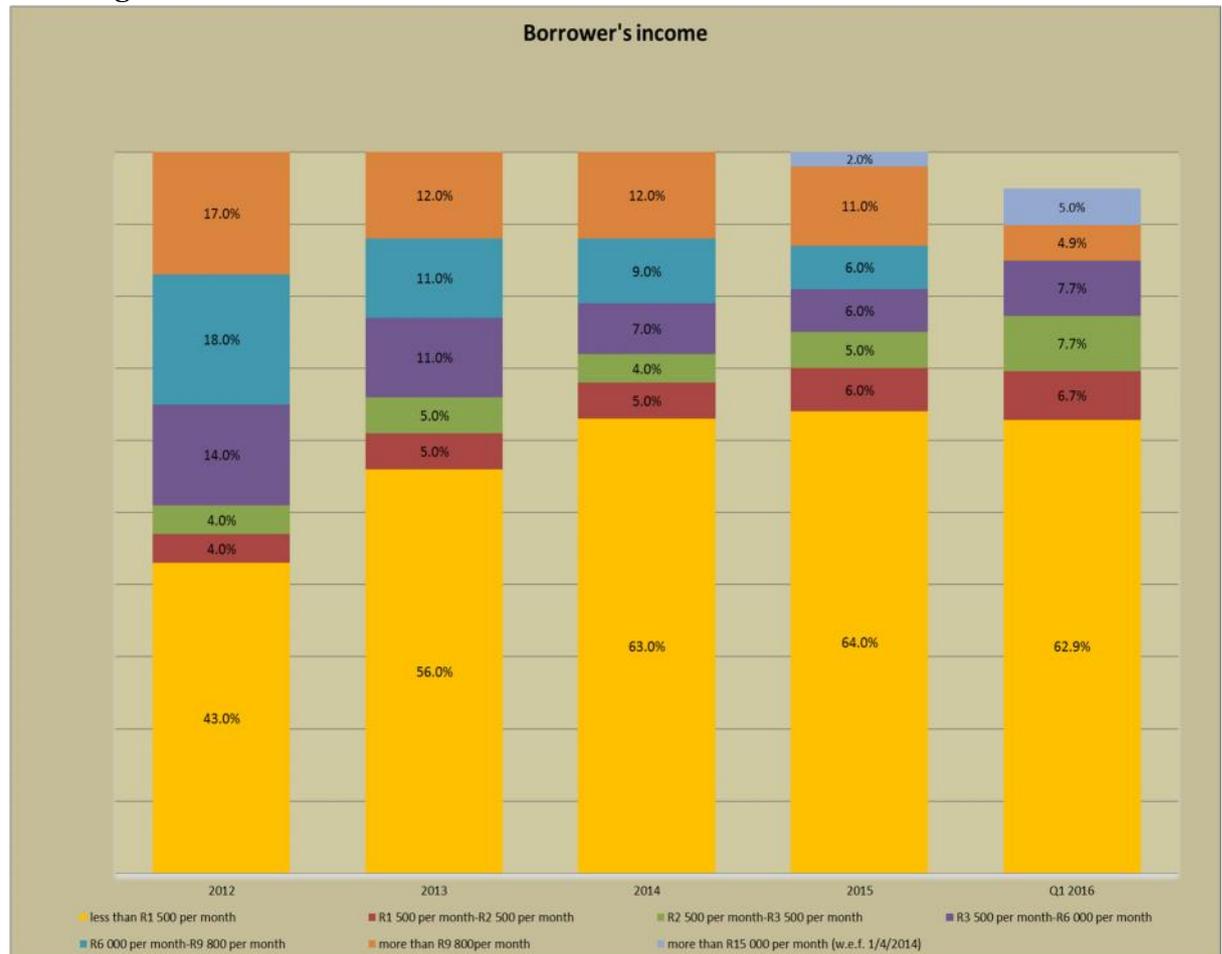
### Loan usage

The following graph shows how people use the loans that they receive from the Rural Housing Loan Funds intermediaries.



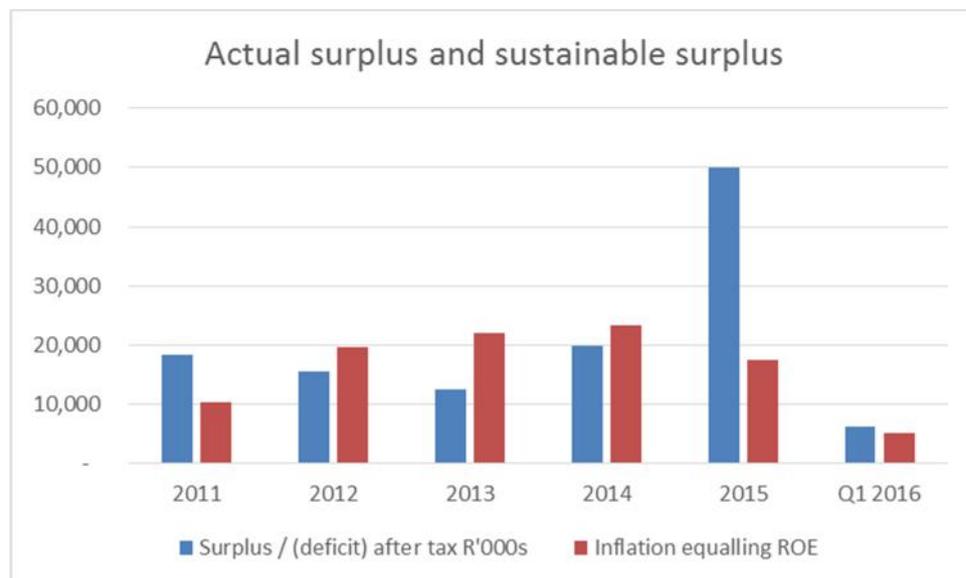
### Income category of borrowers

The following indicates the monthly income of people accessing the Rural Housing Loan Fund loans.



### Value added to remain sustainable

In order to remain financially stable it is necessary that the Rural Housing Loan Fund earns a return on its equity higher than the inflation rate.





The large spike in 2015 is a consequence of the company obtaining a back dated income tax exemption.

During the first quarter of the year the business earned a return sufficient to ensure its sustainability. Clearly this needs to be managed carefully as too high a return would mean that the beneficiaries would be paying more than was necessary.

## The environment in which we operate

The Rural Housing Loan Fund's delivery on its mandate is largely influenced by various factors in the external environment in which we operate. Some of these factors come from the government policy context, while others come from the business environment.

### Government development policy

As a government owned entity, we have to take into account the government development policy agenda. In this context the government priorities as enunciated in the National Development Plan and the governing party are taken into account in the delivery of our services to the target market:

- **Rural development:** This has been one of the government apex priorities for a long time. The National Development Plan also dedicates a chapter on building an Integrated and Inclusive Rural Economy. Therefore in our mandate delivery we ensure that loans that will facilitate reaching the rural nodes that are prioritised by government in terms of the Comprehensive Rural Development Programme.

**Sustainable human settlements:** We contribute to the transformation and creation of human settlements, which is chapter eight of the National Development Plan and also contribute to Outcome Eight of the Government's Medium term Strategic Framework. Our activities result in low income earners in the mandate accessing loans to achieve adequate housing.

- **Supporting the development of Small, Medium and Micro Enterprises (SMMEs):** Government has prioritised the development of SMMEs to the extent that a new Department of Small Business has been established after the May 2014 elections. We therefore continue to intensify our efforts to identify start-up commercial intermediaries who want to venture into incremental housing finance lending and provide support mechanisms to ensure they reach sustainability. Furthermore, we continue to identify community based organisations such as stokvels, co-operatives, building clubs and associations in order to ensure that we are able to deepen our reach to the informally and self-employed people.



- Our development focus will continue to be on supporting applicable aspects of the National Development Plan to ensure that people within our mandate are able to access housing loans so that they also experience the journey towards Vision 2030. To this end we expect to appoint a dedicated team to concentrate on this aspect of the business.

#### Economic growth and unemployment

The economic environment in which the Rural Housing Loan Fund operates remains challenging. Economic growth prospects are showing no signs of recovery with retrenchments in the mining industry continuing and Evraz Steel shutting some of its operations in Mpumalanga, as an example.

The fact is that the domestic economy is not growing fast enough to create jobs that are so desperately needed to make a dent on the dire unemployment situation.

#### Credit industry

Towards the end of 2014 the micro-lending environment was put under enormous pressure with the collapse of African Bank and the placing of Bridge Finance into business rescue. This has since seen a number of funders of these institutions reduce their exposure to the industry, making it more difficult to find investors interested in lending to micro-lenders. There was a noticeable tightening of the credit criteria by lenders, including the Rural Housing Loan Fund's intermediaries. There is no let up on this pressure in sight yet.

The over indebtedness in the market is such that the Rural Housing Loan Fund's intermediaries continue to decline between 45% to 90% of all applications received. Their provisions for bad debts can amount to as much as 70% of all loans outstanding by value.

The maximum legal lending rate permitted in terms of the National Credit Act for micro-lending is

$(\text{REPO Rate} \times 2.2) + 20\%$ .

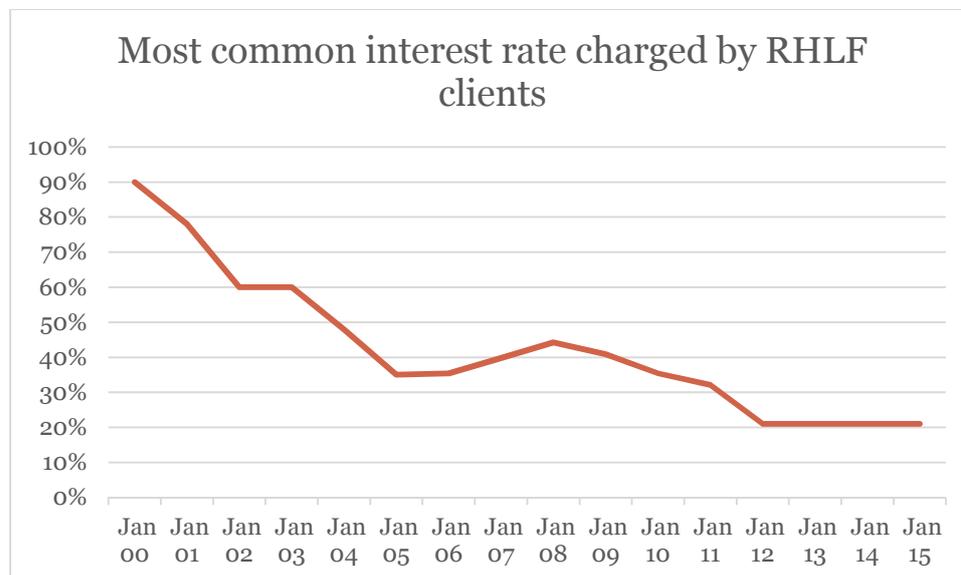
In practice this results in the maximum rate allowed increasing by 2.2% for every single percent that the REPO rate moves. The Rural Housing Loan Fund has as part of its mandate been instructed to find ways of reducing this interest burden on our borrowers who are the lowest income earners in the country. To this end the Rural Housing Loan Fund Pricing Policy sets the following rates on new lending, where no special conditions are attached (such as subordinations).



Rate charged to retail borrowers	Rate charged by the Rural Housing Loan Fund
REPO x 2.2 + >18 %	Prime + 4%
REPO x 2.2 + >16-18 %	Prime + 3%
REPO x 2.2 + >14-16 %	Prime + 2%
REPO x 2.2 + >12-14 %	Prime + 1%
REPO x 2.2 + >10-12 %	Prime %
REPO x 2.2 + 10 or less %	Prime - 1%

Effectively with this policy in place, the majority of our retail homeowners are currently able to borrow at 21% which is effectively 11.65% below the maximum allowed by the National Credit Act. The lowest rate at which retail borrowers are able to access funding at is 15%, less than half the current maximum.

Historically in South Africa interest on loans below R10, 000 were unregulated by Usury Act of 1968. During this time interest rate for such loans, which were granted under the Usury Act Exemption Notice, was not capped and as a result micro-lenders could charge interest as high as they wanted. Since 2007 all loan interest and fees have been regulated by the National Credit Act, resulting in significant reduction in the cost of credit that borrowers face. The following graph reflects the historical trends in interest rates charged on housing microloans facilitated by the Rural Housing Loan Fund.



### Effect of interest rates

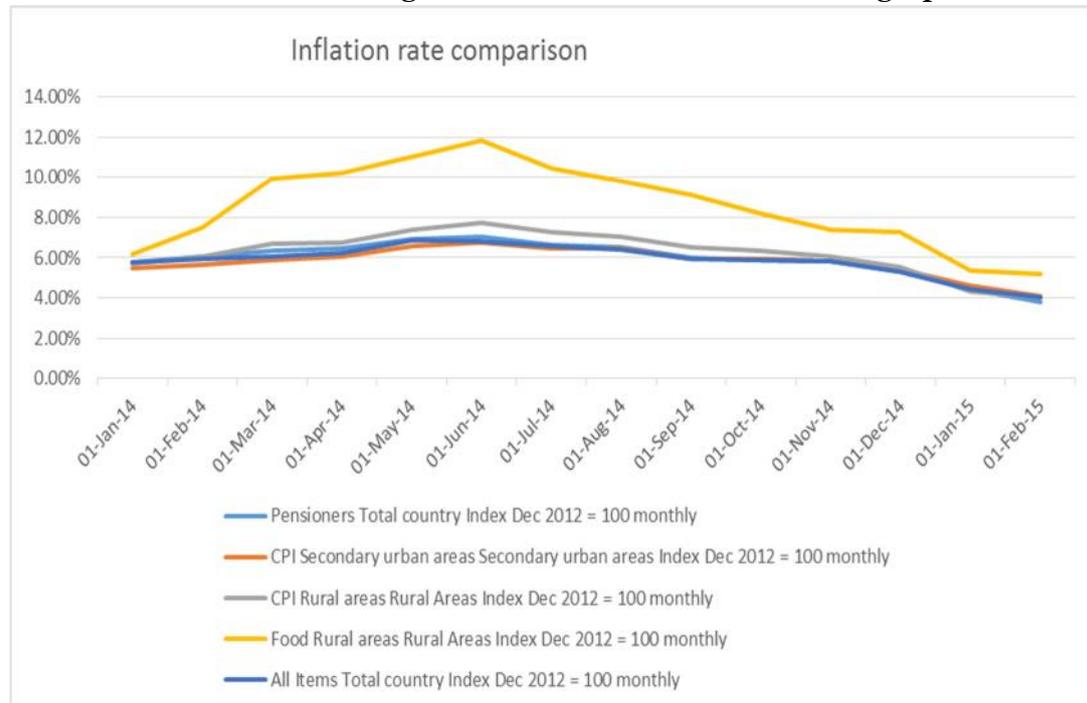
While the interest rates charged by the Rural Housing Loan Fund’s cheapest intermediaries still appear high when compared to those charged on secured debt the following points need to be considered:

- These loans are unsecured. If the retail borrower does not repay a loan, their house cannot be repossessed by the lender.

- These loans are small and require a large amount of administration in relation to the amount being borrowed.
- In general while micro-lenders have a bad reputation, the majority are struggling to survive. In the Rural Housing Loan Fund’s experience, this is because of bad debts not excessive pay or dividends to shareholders.
- We discount interest rate to our housing microfinance intermediaries and they in turn lower the cost of credit to their borrowers, thereby reducing even further the total cost of credit.

### Inflation

The Rural Housing Loan Fund’s target market resides in the rural areas of South Africa. While focus is often on the South African Reserve Bank’s CPI target range of an inflation rate that is targeted to lie between 3% and 6%, the Rural Housing Loan Fund’s retail borrowers in general experience higher inflation than this range as is clear from the graph below. <sup>2</sup>



Rural Housing Loan Fund’s clients are the lowest income earners in the country and a large portion of their income is spent on food. <sup>3</sup> It should be noted that StatsSA, in this document, considers the average income of “poor” consumers to be R32, 911 per annum.

<sup>2</sup> StatsSA

<sup>3</sup> StatsSA Poverty Trends in South Africa

Expenditure	Average % of total expenditure 2011
Food	33.5%
Housing	21.4%
Transport	10.2%
Other / miscellaneous	35.0%

## How we engage with our stakeholders

We maintain an open dialogue with all our stakeholders in the execution of our mandate. Our stakeholders are those entities or individuals who are greatly affected by the Rural Housing Loan Fund activities and that we also expect to have influence on our delivery of the organisational mandate. The manner in which we engage with our stakeholders and frequency of engagements vary by each stakeholder. Our engagement with each stakeholder is based on identified issues or matters of concern that may have impact on our stakeholders or our delivery on its mandate. During Quarter 1 of 2016 financial year, we engaged with the following stakeholders:

Stakeholders	Method of engagement	Purpose of engagement
Ministry and Department of Human Settlements	Meetings and presentations	<p>Presentation of Progress Report on the Voucher Programme to MINMEC</p> <p>Presentation of Rural Housing Loan Fund 2015 Quarter 4 performance. Participation in various committees and task teams of the department.</p> <p>Briefing to the Mining Towns Steering Committee on the role of Rural Housing Loan Fund in addressing housing issues in mining towns.</p> <p>Presentation on Repositioning the Housing Consumer Education—presentation made to national department and provincial departments.</p>
The Presidency: Department of Performance Monitoring and Evaluation	Meetings and presentation	Inputs into Strategy to address mineworker accommodation. (Strategy drafted by Shisaka).
Other government departments: <ul style="list-style-type: none"> <li>• National Treasury (NT)</li> <li>• Rural Development &amp; Land Reform (RDLR)</li> </ul>	Meetings and workshops	NT: Discuss RHLF application for funding from KFW and government; PFMA compliance related matters

		RDLR: Discuss areas of collaboration between RHLF and RDLR and extend invitation and extend presentation on rural development at the annual workshop
<b>Local Government (Municipalities):</b>	Briefings and presentations	Build capacity of councillors and municipal officials on incremental housing finance and the role of Rural Housing Loan in supporting incremental housing
<ul style="list-style-type: none"> <li>• Moses Kotane</li> <li>• Kgetleng</li> <li>• Kuruman</li> </ul>		
<b>Intermediaries (existing and potential, commercial and community based organisations)</b>	One-on-one meetings	Discuss funding requirements of our existing clients and potential clients; and doing appraisals on potential clients to assess suitability of them becoming our intermediary partners
<b>Funders (KFW)</b>	Written correspondence	Discussion on the outcome of the Ex post evaluation mission report
<b>Other Development Finance Institutions: NURCHA &amp; NHFC, SEFA &amp; CBDA</b>	<p>NURCHA &amp; NHFC: one on one and meetings among the three institutions</p> <p>Small Enterprise Finance Agency (SEFA): one on one meetings</p> <p>Co-operatives Bank Development Agency—one on one meeting</p>	<p>Discussions on the consolidation of the Development Finance Institutions</p> <p>Share information on risk issues identified on common client, Moliko.</p> <p>Discussion on partnership to support Co-operative Finance Institutions</p>
<b>National Credit Regulator</b>	Written communication and formal meetings	Follow up on issues pertaining to credit life insurance. Objective is to ensure all our intermediaries are compliant with regulatory requirements
<b>Borrowers (people who access housing loans from our intermediaries—Real People, Lendcor, Thuthukani and Norufin)</b>	Borrower interviews at their homes	To conduct verification of loan usage and other mandate compliance issues
<b>Employees</b>	Continuous staff engagement at various levels, staff meetings, training and development needs, internal workshops and performance reviews	Enhance operational performance of RHLF and enhance team performance
<b>Suppliers/service providers</b>	One-on-one meetings	Delivery of good and services



## How we are governed

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### The Board of Directors

The company has a maximum of 8 directors at any time. The composition of the board of directors provides for a majority of non-executive directors, including a non-executive chairperson. The Chief Executive Officer is the only Executive Director on the Board. The Chief Financial Officer acts as a Company Secretary and is therefore not a director.

The board of directors retains full and effective control over the company, monitors management and ensures that decisions on material matters are in the hands of the board.

During the last financial year, the entire Board was reappointed by the Minister to serve until 31 March 2016 or the conclusion of the consolidation of the three Human Settlements development finance institutions, whichever happens first.

At the end of the previous financial year there were two vacancies on the Board of Directors. Submissions to fill these were made to the Department of Human Settlements in September 2014. No formal response has been received on this submission. The existence of these vacancies has led to the postponement of two meetings of the Audit and Risk Committee as a quorum could not be achieved. Since then, Mr Knowles Oliver, the Chair of the Audit and Risk Committee has passed away. The Rural Housing Loan Fund is grateful for the many years of service that Mr Oliver provided to the entity. In view of the limited number of directors additional responsibilities have been taken on by all members of the Board to ensure that governance is maintained.

### Responsibility

This integrated report is prepared on behalf of the Board by the Executives of the Rural Housing Loan Fund. The Audit and Risk Committee is delegated with the responsibility of approving. The Board is however responsible for the systems and controls that are used to prepare this report. For this reason the Board acknowledges that final responsibility for this report, as well as the results it presents, rests with the Board of Directors.

### The Board Structure



## Board Committees

Committees established by the Board are the following

### Audit and Risk Committee

- Meets at least four times a year, with management and the external and internal auditors;
- Reviews the financial statements and accounting policies, the effectiveness of management information and other systems of internal control, quarterly financial reports, address the auditors' findings by ensuring that management take the necessary action to correct issues raised and
- Monitors and evaluates the company's enterprise risk management strategy and its implementation.

### Credit and Development Committee

- Meets as needed but usually six times per annum;
- Considers applications for new facilities to clients;
- Approves changes to existing facilities;
- Monitors credit and related risks in terms of the Risk Management Policy and
- Monitors the Rural Housing Loans Funds's development delivery.

### Human Resources, Ethics and Remuneration Committee

- Meets at least four times per annum.
- Is responsible for:
  - all human resources policies



- the management of human resources;
- the provision of guidance and monitoring with regard to ethical issues;
- the review of employee remuneration and
- recommending to the Minister of Human Settlements candidates for appointment as directors in its capacity of Nomination Committee in terms of the company's Memorandum of Incorporation.

The Rural Housing Loan Fund substantially complies with King III and fully complies with the Public Finance Management Act of 1999, as amended.

## Risks and opportunities

### Managed risks

The Rural Housing Loan Fund is in the business of being a wholesale provider of housing finance to micro-lenders as intermediaries. The two greatest risks it faces are:

- The failure of an intermediary to repay funds and
- The failure of an intermediary to perform according to the Rural Housing Loan Fund's mandate.

These risks are well managed through:

- Conducting of due diligences on retail lenders prior to them being approved as our intermediaries;
- Approval of loans by the Credit and Development Committee of the Board;
- A minimum of an annual risk review of each client with the results submitted to the Credit and Development Committee;
- Monthly reporting by clients on their development and financial performance and
- Mandate compliance reviews conducted on site by the Rural Housing Loan Fund's team.

### Business process

The following goal was achieved in the Rural Housing Loan Funds efforts to ensure that its mandate risk is minimised.

	Budget for year	Actual	Budget	Variance	Commentary
Loan verification visits	10	4	3	1	Target exceeded

The governance, financial and control risks of the business are well managed with an established internal audit process ensuring compliance with the Rural Housing Loan Fund's policies and procedures. Outsourced Internal Audit reports through the Audit and Risk Committee.



The Rural Housing Loan Fund also has a reputation risk that is generally managed through the above processes. However in order to increase its visibility the Rural Housing Loan Fund targets media for briefings, and training of municipal councillors and officials on our products and takes advertising in media targeting our retail borrowers. The Company also has an annual workshop where it interacts with current and potential intermediaries to discuss industry relevant issues.

The following are strategic objectives that are implemented to manage risks and opportunities. We report how we performed on these during the year under review in the performance information section.

- *Sharpen portfolio risk management and enhance early warning system:* This is achieved by measuring the number of client due diligences, risk reviews and loan verification reviews performed at RHLF’s intermediaries.
- *Accelerate client acquisition process.* The goal here is to develop our business by ensuring that we take suitable credit proposals to the Credit and Development Committee.
- *Targeted positioning and branding of the Rural Housing Loan Fund.* These goals are set to ensure our business model is presented to various stakeholders, including the general public. This is measured by number of media briefings, number of paid editorials and advertisements placed and the number of information briefings to various stakeholders.

### Emerging risks

The Rural Housing Loan Fund is faced with the following emerging risks.

Risk description	Cause	Mitigation	Going forward
<b>Development Financial Institution merger</b>	Policy decision	Ensuring that the Rural Housing Loan Fund’s mandate is protected	Selling of the benefits of the Rural Housing Loan Fund’s mandate
<b>Debt levels of retail borrowers</b>	Overenthusiastic lending by consumption lending businesses	Looking for intermediaries who can deliver in areas where indebtedness is lower	Educating consumers on the management of their finances

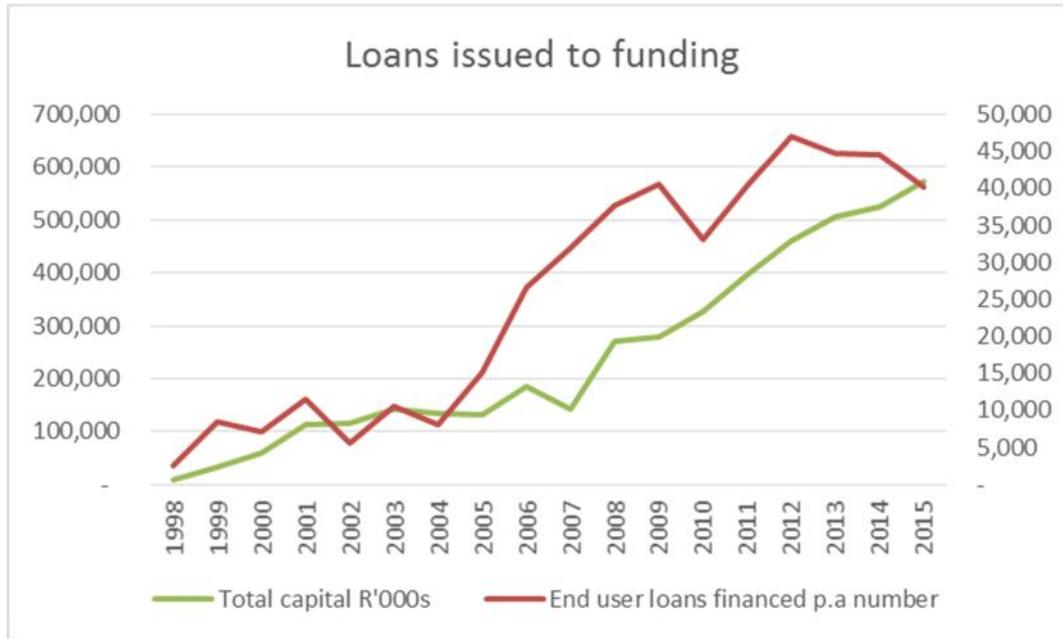
Risk description	Cause	Mitigation	Going forward
<b>Inability to earn an adequate Return on Equity</b>	The need to reduce interest rates to retail borrowers	Additional funding is required, ideally grant funds that can earn the Rural Housing Loan Fund additional funds  Income tax exemption  Relaxation of Development Bank of Southern Africa / KFW liquidity covenant	Further relaxation of covenant  Exemption from requirement to deposit spare funds with the Corporation for Public Deposits where interest rates are lower than the market.
<b>Inability to achieve success with community based organisations</b>	Lack of resources well skilled in successfully working with these organisations	Using Junior Clients Executives to manage these	KFW funds will be used to support community based organisations

## Looking forward

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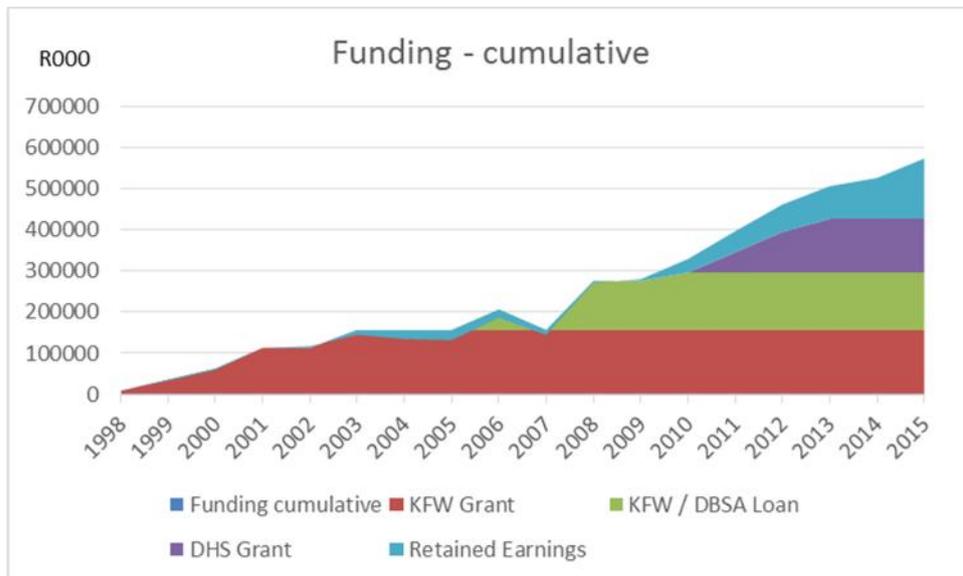
### Funding

Despite the challenges that the economy poses, the biggest constraint on the Rural Housing Loan Fund delivering to more of its potential retail borrowers has been inadequate funding. While the current cash situation belies this as a constraint, as the economy picks up so the need for additional funds rises exponentially. The entity needs to be funded to the extent that it is ready to meet the increased demand as it arises. During the last upturn we were unable to meet the demand. The following graph indicates how the Rural Housing Loan Fund’s delivery of housing loans tracks with the funding that is available.



The only time that housing loans do not grow with funding is during times of economic downturn and microfinance industry challenges. While the country is currently facing these challenges, the Rural Housing Loan Fund is confident that by obtaining funds now it will be in a position to meet the demand as it arises. A delay in receiving funding until the economy improves will lead to delays while the Rural Housing Loan Fund tries to build its intermediary capacity when the funds do become available.

The following table shows how we have been funded since starting operations in 1998.



### Planned projects

In order to assist the Rural Housing Loan Fund its funder KFW has provided an accompanying measure grant to be used for business development,



including research. Currently the Rural Housing Loan Fund is considering the following research projects.

Description	Purpose	Contribution to mandate
Capacity development for community based organisations and start up intermediaries	Develop capacity to enhance ability to absorb funding and scale up delivery	Enables wider spread of funding, lower interest rates and more self-employed borrowers
Joint marketing programmes with start-ups	Improve the competitiveness of the market and enable disadvantaged people to become intermediaries	Enables wider spread of funding and development of intermediaries by previously disadvantaged South Africans
Borrower location and affordability research	To provide new and existing intermediaries with market information	More competition and development of new markets
Impact assessment	Assessing whether the Rural Housing Loan Fund's lending model is improving the livelihoods of rural low income earners	Assess the actual improvement the Rural Housing Loan Fund's incremental housing programme provides to its retail borrowers
Research products the Rural Housing Loan Fund may add to enhance	Identify products, in addition to incremental lending, whereby the Rural Housing Loan Fund that can improve the lives of rural low income earners	Widening the scope of the Rural Housing Loan Fund's mandate in order to further improve the lives of rural people in South Africa
Quality assessment of houses	Assess the quality of improvement of housing conditions in rural human settlements as a result of the Rural Housing Loan Fund's funding	Assessment of the quality of houses built and extensions done with the Rural Housing Loan Fund funding

In addition to these KFW funded projects the Rural Housing Loan Fund:

- has budgeted for a computer system that can be provided as a service to its start-up and growing clients to enable them to grow without having to outlay large amounts of capital upfront;
- the Rural Housing Loan Fund is redesigning its Credit Policy to enable it to provide equity funding to developing businesses from previously disadvantaged communities.

## Individual Rural Housing Subsidy Voucher Programme

A factor that is expected to extend our mandate is the anticipated approval for Rural Housing Loan Fund to pilot the above programme. This is a programme that will enable qualifying individuals to obtain a voucher to buy the necessary materials to build a house, instead of being allocated a Breaking New Ground house. The Rural Housing Loan Fund has been appointed as the agent to implement this programme, once its implementation is approved. This will require a major modification of the company's structure as well as information

technology systems. Currently we are managing the process of building of two houses in different provinces to assess the cost of building in different areas to ensure that the quantum used for the programme is adequate for the beneficiaries without being unaffordable to the fiscus.

## Consolidation of the Human Settlements Development Finance Institutions

The process to consolidate the three Development Finance Institutions is currently underway and the target date to achieve this is December 2015. It is planned that in the consolidated entity there will be one unit delivering incremental loans in both rural and urban areas of South Africa. We have been mandated to focus in rural areas, while the National Housing Finance Corporation has focused on urban areas. This will result in a need to set targets for both areas and ensure that the rural housing market is not disadvantaged with this shift. In addition, a huge capital injection will be required to meet the demand for incremental housing loans in both market segments. To scale up delivery in both markets will further entail building adequate human resource capacity to fulfil this mandate.

## Basis of preparation and presentation

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### Stakeholders

The purpose of an integrated report is to ensure that while shareholders are being informed, all stakeholders having an interest in the organisation are able to understand the report prepared by the organisation. For this reason this document is prepared, as far as possible, without jargon or abbreviations.

The Rural Housing Loan Fund considers its stakeholders, among others, to be the following:

- Retail borrowers;
- The people of South Africa;
- Its employees;
- Its intermediaries and their employees;
- Other Development Finance Institutions;
- Its suppliers;
- The Minister of Human Settlements;
- The Department of Human Settlements;
- Provincial Departments of Human Settlements;
- Rural Municipalities;
- The Parliamentary Portfolio Committee on Human Settlements and
- The Parliament of the Republic of South Africa.

### Future view

The Rural Housing Loan Fund views a year as short term, the term of government as medium term and any period beyond that as long term. The



intention of the Board is that the company's mandate will continue to serve its stakeholders for as long as it adds value to the lives of the low income earners in rural areas who constitute our retail borrowers.

## Financial information

### Statement of financial position

	30 Apr 15	31 May 15	30 Jun 15
	R000 Actual	R000 Actual	R000 Actual
<b>Current assets</b>	<b>367,021</b>	<b>371,836</b>	<b>369,534</b>
Cash and cash equivalents	191,853	196,685	194,354
Receivables	138,181	138,176	138,171
Prepayments	106	93	127
Taxation	36,881	36,881	36,881
<b>Non-current assets</b>	<b>212,249</b>	<b>210,608</b>	<b>208,278</b>
Receivables	202,307	200,683	198,369
Investments	9,517	9,517	9,517
Property, plant and equipment	388	373	359
Intangible assets	36	35	34
<b>Total assets</b>	<b>579,270</b>	<b>582,443</b>	<b>577,813</b>
<b>Liabilities</b>			
<b>Current liabilities</b>	<b>7,517</b>	<b>7,916</b>	<b>9,432</b>
Payables	737	968	1,299
Current portion of long term borrowings	5,999	5,999	5,999
Provisions	530	692	1,975
Employee benefits	252	258	158
Taxation	-	-	-
<b>Non-current liabilities</b>	<b>133,341</b>	<b>134,173</b>	<b>128,443</b>
Borrowings	133,341	134,173	128,443
Deferred taxation	-	-	-
<b>Total liabilities</b>	<b>140,858</b>	<b>142,090</b>	<b>137,876</b>
<b>Net assets</b>	<b>438,412</b>	<b>440,354</b>	<b>439,937</b>
<b>Funding</b>			
Grant capital	285,738	285,738	285,738
Retained earnings	152,674	154,616	154,200
<b>Funding</b>	<b>438,412</b>	<b>440,354</b>	<b>439,937</b>

## Statement of comprehensive income

	Annual	30 Apr 15	31 May 15	30 Jun 15	Quarter 1		
	R000 Budget	R000 Actual	R000 Actual	R000 Actual	R000 Actual	R000 Budget	R000 Variance
Revenue	44,209	3,302.6	3,302.6	3,221.6	9,826.9	11,207.3	(1,380.4)
Other income	4,929	866.0	884.4	910.4	2,660.8	1,637.0	1,023.8
Interest paid	(10,073)	(837.1)	(837.1)	(832.4)	(2,506.6)	(2,571.0)	64.4
Operating expenses	(26,054)	(1,031.7)	(1,407.9)	(2,565.8)	(5,005.4)	(6,508.2)	1,502.8
Accommodation	(1,257)	(73.1)	(73.5)	(73.2)	(219.8)	(314.0)	94.3
Legal and audit	(1,271)	(41.5)	(28.2)	(473.6)	(543.3)	(318.0)	(225.3)
Debtors provisions	(6,849)	34.0	-	(968.4)	(934.4)	(1,794.0)	859.6
Communication and IT	(599)	(38.3)	(36.1)	(33.1)	(107.5)	(142.0)	34.5
Depreciation	(850)	(15.8)	(15.8)	(15.8)	(47.3)	(207.0)	159.7
Employee costs	(11,848)	(812.4)	(961.7)	(890.4)	(2,664.4)	(2,963.0)	298.6
Marketing, promotions and workshops	(701)	(7.0)	(24.0)	(1.2)	(32.2)	(121.0)	88.8
Printing and stationery	(423)	(17.2)	(5.8)	(22.8)	(45.9)	(105.0)	59.2
Travel and entertainment	(1,675)	(40.3)	(89.8)	(56.3)	(186.4)	(343.0)	156.6
Other	(581)	(20.1)	(173.1)	(31.1)	(224.3)	(201.0)	(23.2)
Net profit	13,011	2,299.9	1,942.1	733.8	4,975.8	3,765.2	1,210.6