

## MANAGING DIRECTOR'S REPORT

*No one should negotiate their dreams. Dreams must be free to flee and fly high. No government, no legislature, has a right to limit your dreams. You should never agree to surrender your dreams.*

*Jesse Jackson.*



*Jabulani Fakazi  
Acting Managing Director*

**Our mandate is to facilitate housing credit for the rural low income market. The people we serve live mainly on communal land, in small towns, rural communities and in secondary regional centres. This housing finance market is huge and historically has been excluded from conventional mortgage style products. RHLF provides access to small unsecured housing loans for these households that help them improve their homes incrementally over time.**

Together with our retail intermediaries, RHLF has proved over the last decade

that this rural housing microfinance market exists and works for the benefit of the rural poor. If done right, housing microfinance delivers impressive housing outcomes and sustainable investment returns for our retail partners. The results we present in this annual report highlight again, that despite the complex challenges they face in their daily lives, the working poor do actively pursue a better life - better housing for themselves and their families. The way these aspirations become reality is incremental: one room, one improvement at a time and with the help of repeated access to small loans from the RHLF network of intermediaries.

As RHLF delivers on its mandate, we are pleased to play an increasing role in other key government policy imperatives in the rural and housing development space. By building up our relatively small non-bank retail partners, RHLF has made a significant contribution to small business development and job creation. We have supported some of these retail partners with financing and technical advice from start-up and helped others to scale up their business to a sustainable and profitable size that creates housing impact and employment on a national level.

With the most dynamic and successful retail partners, RHLF has subordinated its funding as a way to create a mezzanine

capital layer that leverages additional private sector finance into this market. The contribution RHLF can make with its relatively small balance sheet is thus translated into private sector investments many times the size of our funding. These additional resources go directly towards addressing the housing needs of the working poor.

Deep rural development remains a core focus of RHLF. In working with our retail intermediaries, we make sure that the bulk of our funding flows to the rural working poor and to prioritised rural nodes, in particular. Improving their living and housing conditions with appropriate housing microfinance products is the essence of our job.

Housing in South Africa remains a critical area of service delivery. According to the General Household Survey (2007), almost 60% of total households (13.26 million) appear to live in sub-standard housing. Inadequate housing in South Africa ranges from informal dwellings, such as shacks, backyard rooms and traditional huts, to formal licensed buildings. Inadequate formal dwellings are often overcrowded, structurally weak or lack essential services, such as a flush toilet in the house or at least on the site. This demonstrates the potential role for housing microfinance in augmenting housing delivery and improvement of inadequate housing conditions in South

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Africa. Government launched RHLF as a practical innovation that pioneered the housing microfinance approach in South Africa. Over the past decade, we have honed the necessary credit methodology and retail network. With the infrastructure in place, we stand ready to assist government in taking housing delivery for the rural poor to the next level.

## Business Environment

It is now old news that during the year under review, RHLF along with the rest of the country, faced some of the most difficult economic times that most of us have ever experienced in our professional lives. The economic crisis continues to engulf us as we present the 2009 financials, and much of the impact will likely not be fully visible until we compile the results for the new fiscal year underway.

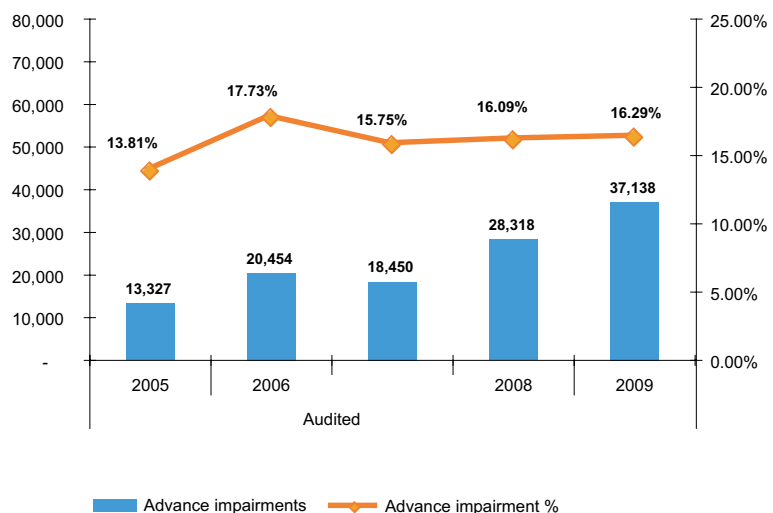
Unfortunately, the dire economic situation affects our target market disproportionately. Low-income earners on the fringe of the economy are particularly vulnerable to economic shocks and painful adjustments: higher food prices and transport costs take a disproportionate bite out of household budgets; and lower skill workers and labourers are often among the first to face redundancies and reduced work hours that result from recession.

Despite the obviously difficult economic situation, it is comforting that the government's prudent macroeconomic policies over the past decade meant that the South African economy was spared some of the most brutal economic reversals that the global recession inflicted on other emerging markets. Nonetheless, as the 2008/09 financial year drew to a close, the first signs of stress were beginning to show through in the portfolio, as RHLF was forced to increase its impairment provisions on some of the smaller clients. We are concerned that the full impact of the economic situation on our target market is yet to work its way through the books of our retail partners — a reality for RHLF's financial performance we have to face going forward.

Just as RHLF was closing its 2008/2009 financial year, the economic data releases from Statistics South Africa showed rising unemployment and gave official confirmation that the country entered recession in early 2009, the final quarter of our financial year. Consequently, the year underway will likely turn out to be even more difficult for RHLF than the last.

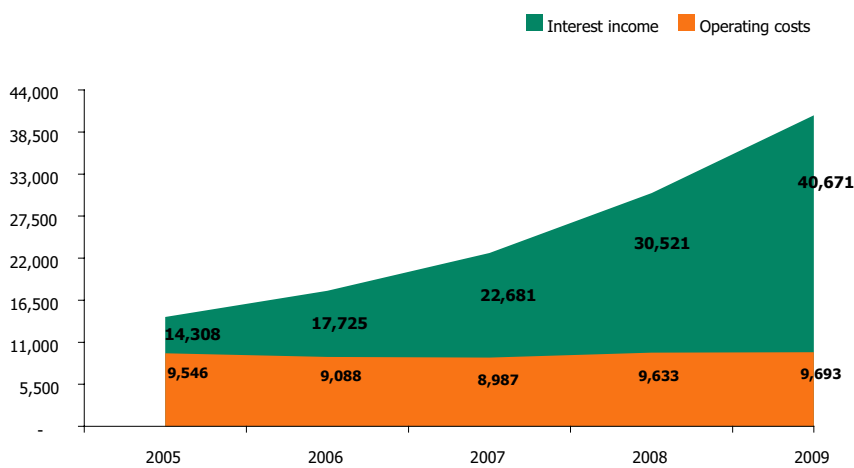


## Impairment on Advances



# MANAGING DIRECTOR'S REPORT (CONTINUED)

## Interest Income vs Operating Costs



## Financial Results and Lending Activities

Despite all of the macroeconomic challenges, the 2008/09 financial year still was the most profitable in the history of RHLF. We recorded a net surplus after tax for the year of R8.4 million (2008: R5.8 million). Given the economic headwinds we faced in the second half of the financial year, this truly is a remarkable achievement. With this surplus, we have finally been able to fully relinquish the accumulated deficit from prior years and are beginning to expand the capital base that will carry RHLF's future growth.

I am pleased to report that the gross loan book grew by 29% (2008: 50%) from 2008 to a total of R227 million (2008: R176 million). However, by the end of the year, RHLF's portfolio growth was becoming constrained by the conservative liquidity

covenants that require us to maintain a large portion of the balance sheet in highly liquid investments. Despite these liquidity limits, RHLF still disbursed R85 million in senior debt and R53 million in mezzanine finance during the year. Our retail partners turned these funds into 40,537 small housing loans to low-income individuals.

The share of earnings from investments in associates improved significantly from the prior year to R1.6 million (2008: -R0.1 million). RHLF converted its remaining ordinary shares in Norufin Housing (Pty) Ltd into preference shares.

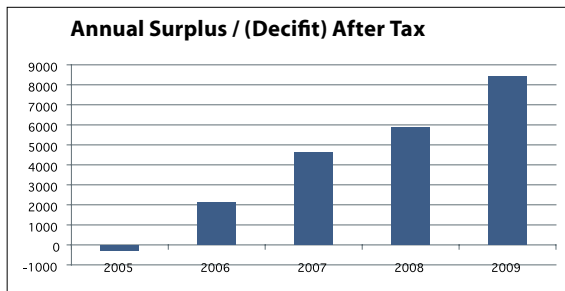
During the year, RHLF had to impair R1.9 million of its held-to-maturity financial assets and R268 thousand of its available-for-sale financial assets. This impairment is attributed to the effects of the current economic crisis on our smaller clients.

## Development Impact

RHLF uses a statistical Housing Impact Monitoring tool to track the development impact of its loans. This tool enables us to monitor various key variables that are important to RHLF as a development finance institution. During fiscal 2008/09, RHLF funded 40,537 (2008: 37,643) loans valued at R139 million (2008: R106 million). These loans were put to work directly for the improvement of living conditions in the low-income target market. Of the total number of loans, 78% (2008: 74%) went to immediate housing purposes, such as building or extending a house or connecting basic services. 54% (2008: 52%) of all loans were advanced to women borrowers. RHLF makes a specific effort to empower women, so that they can take charge of improving the housing conditions for their household.

One of the strategic challenges for RHLF is to ensure that credit is made available to the lowest end of the market as defined by the household income level - especially those borrowers earning less than R3,500 per month. Housing microfinance - rather than traditional mortgage credit - is often the only way to reach clients in the lowest income groups and encourage them to progressively improve their housing conditions. During the year under review, 59% of the total loans went to borrowers in the lowest income group of less than R3,500. 28% (2008: 27%) of all

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borrowers also had previously received a government housing subsidy. This demonstrates clearly that low-income households appreciate the basic housing asset received from government and are willing to build on it by making further investments into their home.

Lending deeper into the prioritised rural nodes is another critical, yet challenging, imperative. Our retail intermediaries use various distribution channels, including building material suppliers, the post office network, small satellite offices, and mobile branches, that give RHLF reach into the deep rural market. In fiscal 2009 alone, 16 376 loans were disbursed to the deep rural nodes valued at R87 million, compared to 9 340 disbursed in 2008, which were valued at R44.6 million. We note with pride that in areas characterised by severe poverty, the RHLF network has been able to assist the poor in accessing finance so that they, too, can realise the dream of building up their homes as an asset.

## Human Resources

The solid financial results that RHLF is reporting for the fiscal year 2008/09 are the product of a collective effort by all of our staff. As a small institution focusing on such an important mandate, RHLF benefits from a dedicated team of just 8 professionals (2008: 9) who are passionate about development and responding to the needs of our retail partners.

During the year, RHLF saw the departures of its founding Managing Director, Mr Willem van Emmenis, and the Chief Financial Officer, Mr Andrew Jager. RHLF is greatly indebted to both of them for their dedicated service and the value that they added to the team. We wish Willem and Andrew much success in their continuing careers. Later in the year, RHLF welcomed Mr Hennie Potgieter as the new CFO. During his brief tenure with RHLF, Hennie has hit the ground running and has already made important contributions towards shaping RHLF into

a world class organisation serving the housing needs of the rural poor.

## The Year Ahead

The continued subdued state of the economy might well make the financial year 2009/10 the most difficult operating environment in RHLF's entire 13 year history. However, our retail partners have proved their mettle in serving the challenging low-income market through previous downturns, and we believe that RHLF will continue to make a difference in improving the quality of life of the rural poor.

The challenge for all of us in the industry will be to tread cautiously and stick by our responsible lending practices developed over the years. We may see stagnant or more modestly growing portfolios next year, but we must not escalate the problem of over-indebtedness in these difficult times.





# RHLF DEVELOPMENT IMPACT IN PRESIDENTIAL RURAL NODES AND OTHER RURAL DISTRICT MUNICIPALITIES

	31 Mar 2009	31 Mar 2008	31 Mar 2007
Number of loans	16,376	9,340	5,029
Value of loans disbursed	R 86,990,118	R 44,660,375	R 19,313,524

 DPLG Listed Rural Nodes

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 Other Rural District

