STRATEGIC PLAN

For the fiscal years 2014/15 to 2018/19

The Department of Human Settlements

human settlements

Department:
Human Settlements
REPUBLIC OF SOUTH AFRICA

RHLF
RURAL HOUSING LOAN FUND

Rural Housing Loan Fund SOC NPC
10 South Boulevard, Bruma, 2198

Phone: **011-621-2500**
Fax: **011-621-2520**

Approved by the Board

RURAL HOUSING LOAN FUND

STRATEGIC PLAN FOR THE FISCAL YEARS 2015-2019

OFFICIAL SIGN-OFF

It is hereby certified that:

- The Strategic Plan was developed by the management of the Rural Housing Loan Fund under the guidance of the Board of Directors and the National Department of Human Settlements.
- The Strategic Plan takes into account all relevant policies, legislation and other mandates for which the Rural Housing Loan Fund is responsible
- The Strategic Plan accurately reflects the strategic outcome oriented goals and objectives which the Rural Housing Loan Fund will endeavour to achieve over the period 2014/15 to 2018/19.

Approved by the RHLF Board on 13 January 2015

Mr Jabulani Fakazi
Chief Executive Officer — **Signature:** ____________

Mr Bruce Gordon
Chief Financial Officer — **Signature:** ____________

Ms T Chiliza
Chairperson: RHLF Board — **Signature:** ____________

Approved by:

Ms LN Sisulu
Minister of Human Settlements — **Signature:** ________________

Table of Contents

Executive Summary

This five year strategic plan has been prepared to align RHLF's strategic planning processes to the term of the current government, Medium Term Strategic Framework (MTSF).

As a development finance institution providing incremental housing loans to low income earners in the broadly defined rural areas of South Africa through commercial intermediaries, RHLF has noted the effect that the long period of slow economic growth has had on the bad debt situation at its clients. That being said, the demand for housing loans is there and there are no problems with the actual loans being requested.

In this strategic plan RHLF shows how it plans to make the following contribution to the 1.5 million housing opportunities the government plans to deliver during its term.

	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	
	Actual	Budget	Forecast	Budget	Budget	Budget	Budget	Total
Housing loans disbursed #	44,610	49,667	41,542	43,457	43,187	51,135	54,315	233,636

Apart from the tough market conditions, the main constraint on RHLF exceeding these targets is the limited funding available. Applications have been made to KFW, the German Development Bank, for additional loan funding and to the Department of Human Settlements for additional capital funding. The Department of Human Settlements has indicated that it will provide R50 million in the 4th year of this plan. An answer is still awaited from KFW.

A further area on which RHLF awaits a conclusion is that of the Voucher Programme in which RHLF will administer the implementation of the Programme which is designed to enable rural beneficiaries to access government housing subsidy funds to build their houses on communal land.

Further, while RHLF recognises that the consolidation of human settlements Development Finance Institutions (DFIs) is underway, this strategic plan assumes that RHLF will continue in its current form. Once the consolidation process has been concluded, the strategic plan will have to be updated to reflect the necessary changes.

PART A: STRATEGIC OVERVIEW

1. Vision

The Rural Housing Loan Fund (RHLF) 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.

2. Mission

To empower people in rural areas to maximise their housing choices and improve their living conditions through access to housing credit.

3. Our Values

RHLF team subscribes to the following values:

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

4. Legislative Mandates

4.1 Constitutional Mandate

The Constitution of the Republic of South Africa in section 26, sub-sections (1) and (2) provides as follows:

(1) Everyone has the right to have access to adequate housing;
(2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

Therefore, from a constitutional perspective RHLF's mandate is to enable citizens in rural areas to progressively realise their right to adequate housing through access to housing finance.

4.2 Legislative and Policy Mandates

RHLF is a public entity, listed under Schedule 3A of the Public Finance Management Act (PFMA). It was established by South African National Government and reports to Parliament of the Republic of South Africa through the Minister of Human Settlements.

It is registered as an NPC in terms of the Companies Act 2008.

While RHLF was established through a national Cabinet Memorandum, RHLF also derives its mandate from the **Housing Act 107 of 1997**, which provides at **Section 3(4)(h)** that:

> ***The Minister may establish and finance national institutions for the purposes of housing development, and supervise the execution of their mandates***

Therefore, the RHLF mandate is in line with the Housing Act of 1997, as amended.

RHLF's primary mandate can be summarised as follows:

> ***To facilitate access to housing finance for low income rural households in order to enable them to improve their housing and living conditions.***

The implementation of the RHLF mandate entails compliance with the following **three requirements:**

1) **Loan usage:** RHLF funding can only be used to build new houses, house extensions and to effect improvements to a house, connecting to utilities, water harvesting, fencing, productive housing, purchasing of land by individuals or groups for residential purposes.

2) **Rural areas**: RHLF funding should only be used for a housing purpose in rural areas that broadly defined to include tribal/communal land, farm areas, rural and small towns.

3) **Low income:** Eligible borrowers are those that are classified as low income earners and for which the upper income limit is currently set R15, 000 p.m., effective 1 April 2014.

To the extent that many people living on communal land find it difficult to access adequate housing due to the challenges in implementing housing projects on communal land, the Department of Human Settlements is in the process of mandating RHLF to assist intended beneficiaries to access government subsidy funds for the construction of their own houses on communal land. To implement this initiative, the **Individual Rural Housing Voucher Programme** has been approved by the Human Settlements MINMEC and authority for the running of a pilot implementation of the Programme is expected during the course of 2015/16. The Voucher Programme holds a promise to, among others:

- Enhance delivery of housing in rural areas where housing projects have taken time to be implemented.
- Assist many elderly people who have waited for years to access adequate housing and currently live in bad housing conditions. Through this Programme, they will also enjoy the fruits of our freedom.
- Contribute to active citizenry that the National Development Plan encourages as beneficiaries of the Programme will take active role in building of their houses.

RHLF is the only human settlements DFI mandated to provide loans in rural areas. Therefore, the original mandate as well as the extension of the mandate to include administering the Voucher Programme means broadly that RHLF, on behalf of the Department of Human Settlements, "**supports the implementation of the government's rural development programme from a human settlements perspective**"

RHLF is set up as a wholesale Development Finance Institution (DFI) and achieves its mandate through its intermediary partners who access funding from RHLF and on-lend to individual borrowers for incremental housing purpose.

5. Situational Analysis

RHLF has been in existence since 1996 and in its years of existence has gained experience and built expertise in delivering incremental housing finance in line with its mandate. Since inception, RHLF has contributed by enabling qualifying individuals to access housing finance in order to incrementally build their houses and improve their living environments. More than 415 000 housing loans, valued at more than R1.2 billion, have been delivered by RHLF since its inception. This with only R132 million in direct funding from the Department.

5.1 Performance Environment

The environment in which RHLF conducts its business in order to deliver on its mandate is largely influenced by government policies, and various economic and market conditions. In the development of this Five Year Strategic Plan, therefore, these environmental aspects have been taken into account. In this section, various relevant government policies and priorities that have a bearing on RHLF are discussed. Similarly, economic and market factors that affect RHLF business are also discussed.

5.1.1 A Diagnostic Overview of Development Challenges Facing South Africa

In 2011, the National Planning Commission (NPC) published a Diagnostic Overview report which detailed main challenges confronting the country as well an examination of the underlying causes. This was done with a view to enabling the crafting of sensible and achievable solutions to the country's challenges[1]. The NPC noted the widespread poverty and extreme inequality which still persist in South Africa. In addition the challenge of unemployment was also highlighted in the Report, with the key concern being that high unemployment results in widespread poverty. Poverty is more evident in rural areas, especially in former homelands, as well as in cities—a result of rural-urban migration in search of work. Inequality is found to be more prevalent within the African population in particular. In a nutshell, the triple challenges facing South Africa are: poverty, inequality and unemployment. Lack of infrastructure development, education deficits and refugee numbers are other challenges facing the country.

In addition to the triple challenges, spatial challenges—a legacy of apartheid—continue to marginalise the poor: Poorest people live in remote rural areas and in the cities the poorest live far from places of work and economic activity.

Rural Housing Loan Fund is a development finance institution established by government to carry out the mandate outlined above. As an implementing agent of government, RHLF has to, in the process of fulfilling its mandate, also contribute in the implementation of various

[1] The National Planning Commission (June 2011): Diagnostic Overview.

government policy priorities that seek to address the very same challenges that the NPC has highlighted. The gains that the NPC recognised in its Diagnostic Report have been achieved precisely because of the implementation of various policies that the government has been implementing since 1994. The National Development Plan (NDP) is the current overall framework guiding government policies and programmes towards the realisation of the Vision 2030 articulated in the NDP.

5.1.2 The RHLF Market

In this section we highlight the size of the market that RHLF has to service in terms of its mandate. It is abundantly clear the market that RHLF has to service is huge, and the challenge is to scale up delivery of incremental housing loans to the market during the Medium Term Strategic Framework.

Rural Households

Using Census 2011 statistics, RHLF has analysed the size of its core target market, namely households living on tribal/traditional and farm areas. Close to 20 million people or 40% of the South African population still live in rural areas as defined by Statistics SA, and this equates to about 4.7 million households. The provincial distribution of rural households is shown in the table below. Three most rural provinces are Limpopo, KwaZulu-Natal and Eastern Cape, in that order.

Table 1: Number of total households in rural areas vs RHLF Loans, 2013/14

Province	Number of Rural Households	RHLF Loans 2013/14	Market penetration
Eastern Cape	819 492	11 713	1,4%
Free State	129 142	1 367	1,1%
Gauteng	95 581	5 510	5,8%
KwaZulu-Natal	1 130 294	17 217	1,5%
Limpopo	1 140 439	1 273	0,1%
Mpumalanga	579 040	3 496	0,6%
North West	575 505	2 793	0,5%
Northern Cape	82 928	95	0,1%
Western Cape	115 914	1 146	1,0%
Total	**4 668 335**	**44 610**	1,0%

Table 1 compares total loans granted by RHLF in 2013/14 fiscal year in each province against the number of rural households. While the table shows that loans granted by RHLF in 2013/14 amount to 1% of the total rural households nationally, the reality is that RHLF only reached 0.7% of rural households since 30 percent of the loans are repeat loans that were accessed by the same households as they took repeat loans to incrementally build or improve their housing conditions due to their low affordability levels. This is a method supported by RHLF because it is line with the incremental housing loan process as borrowers take loans they can afford as they progressively improve their housing conditions.

Household income distribution constructed using the Income-Expenditure Survey for 2011 shows that only 4% of rural households earn above the RHLF upper income limit of R15, 000[2]. A large majority of rural households earn within the RHLF's earnings mandate. All in all, slightly more than 2.5 million households earn between R1 140 and R15 000 per month.

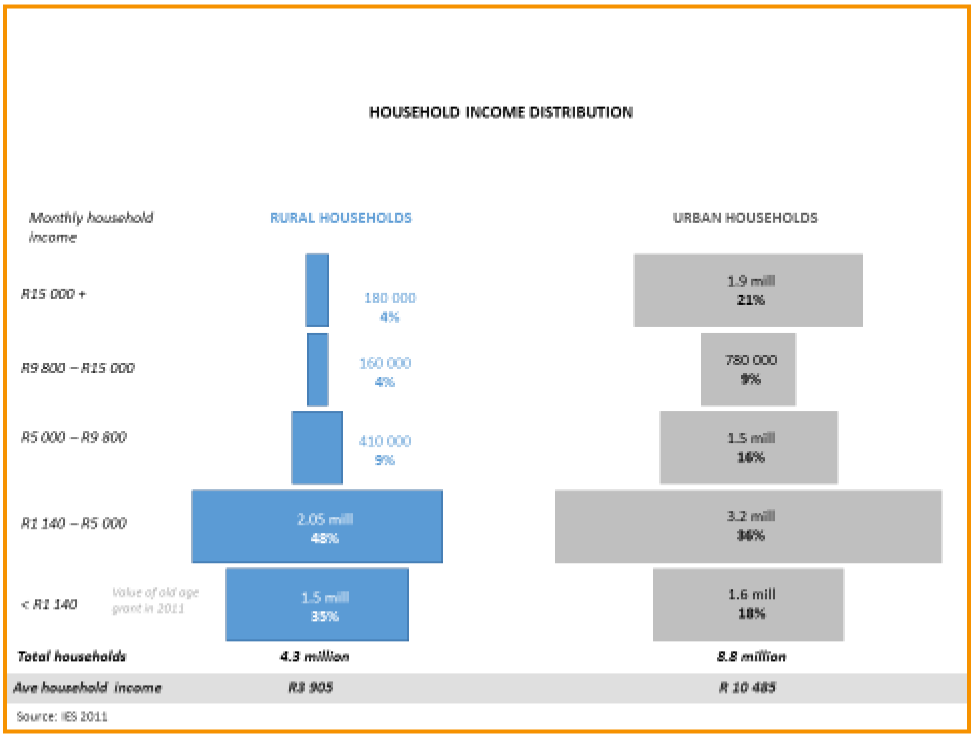


Figure 1: Household income distribution, IES 2011

Non-metropolitan households

While the analysis above shows the number of strictly rural households, the RHLF's mandate is broadly defined and includes areas outside of Metropolitan areas such as small towns. Census 2011 shows that there were 8.3 million households living in non-metropolitan areas in 2011. Table 2 below compares RHLF loans granted per province against the number of households in each province. The table shows that RHLF loans reached only 0.5% of the total non-metropolitan households—again an overstatement since 30% of loans facilitated by RHLF are repeat loans accessed by same households.

[2] RHLF commissioned Eighty20 to conduct a market analysis of its target market.

Table 2: Non-metropolitan areas vs RHLF loans by Province, 2013/14

Province	Number of Non-metro Households	RHLF Loans 2013/14	Market penetration
Eastern Cape	1 139 525	11 713	1,0%
Free State	591 395	1 367	0,2%
Gauteng	547 165	5 510	1,0%
KwaZulu-Natal	1 582 717	17 217	1,1%
Limpopo	1 418 102	1 273	0,1%
Mpumalanga	1 075 488	3 496	0,3%
North West	1 062 015	95	0,0%
Northern Cape	301 405	2 793	0,9%
Western Cape	565 428	1 146	0,2%
Total	**8 283 240**	**44 610**	0,5%

Figure 2 below shows that a vast number of households in non-metros fall within the RHLF market as defined by borrower income, which entails borrowers earning below R15 000 per month. If we assume that people whose income is lower than R800 per month cannot afford to take a loan, then we can see that the proportion of RHLF's core target market is at least 62% (5.2 million) of the 8.3 million households. To this we can add a percentage of 450 000 households whose income is between R12 818 and R25 633[3].

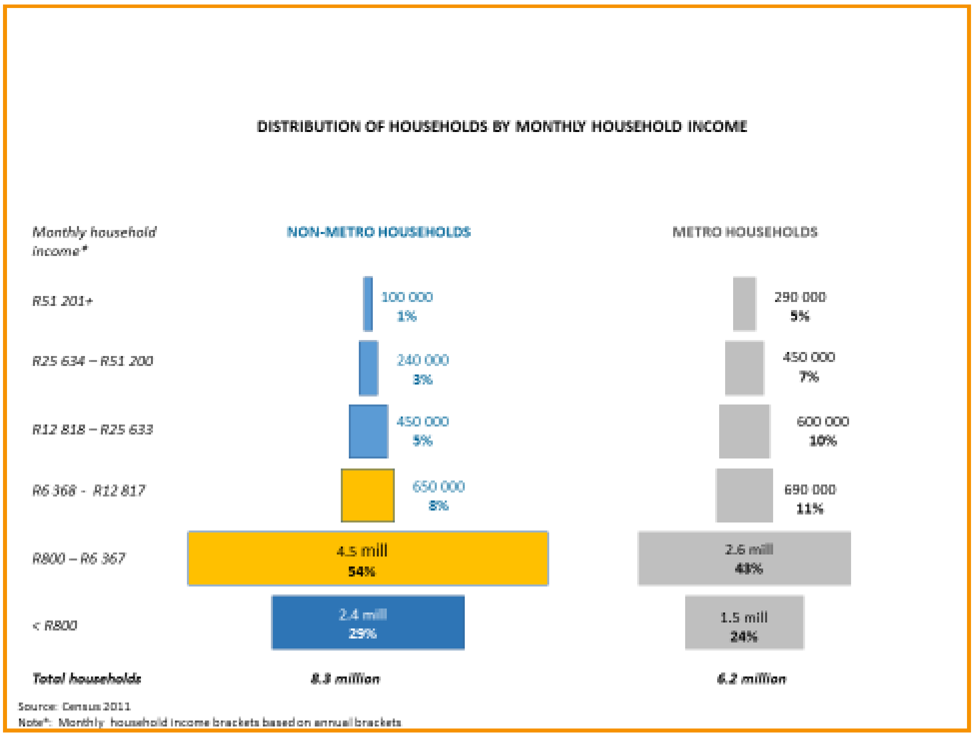


Figure 2: Distribution of Households by Monthly Income

The upshot of the analysis of both rural households and non-metropolitan households is that in both cases, RHLF's market is huge and RHLF has not sufficiently penetrated its market.

[3] RHLF's upper income limit is R15 000 with effect from 1 April 2014. Therefore a proportion of these households would qualify for RHLF loans. This number cannot be determined since StatsSA does not use income bands up to R15 000.

RHLF's Delivery Track Record since Inception

As shown in Table 3 below, from inception to the end of December 2014, RHLF had cumulatively delivered **446,420** loans valued at over **R1.3 billion**. This table shows what RHLF has been able to deliver in the market within the constraints of its funding resources. However, the cumulative number of loans (446,420) delivered since inception as a percentage of the number of rural households (4.7 million) is 9%. Taking into account that on average, annually, around 30% of loans are repeat loans taken by same households, the reality is that less than 6% of rural households that have accessed loans from RHLF since it was established. Clearly, there is a huge gap between the size of the market and what RHLF can deliver during the horizon of this strategic plan, given its funding constraints. Performance from both cumulative and annual perspectives shows that RHLF has a long way to go in creating an environment where a significant proportion of rural households can be enabled to access loans to improve their housing situations. The realisation of this enablement does require additional funding.

Table 3: RHLF's Track Record in Delivering Housing Loans

Mandate achievement: Housing Impact Monitoring Reports	YEAR	ANNUAL FIGURES 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Q3 2015	TOTAL
A. New Number of Loans Per Annum		17992	11122	5 553	10 536	8 006	15 202	26 648	32 028	37 644	40 537	33 112	40 289	47 043	44 812	44 610	31 286	**446 420**
Loan Usage																		
New House		10%	12%	12%	11%	12%	8%	2%	2%	6%	8%	3%	4%	4%	3%	3%	1%	**5%**
House Extension		29%	18%	19%	19%	18%	14%	7%	10%	8%	17%	8%	10%	12%	11%	8%	6%	**12%**
Home Improvement		48%	54%	54%	52%	53%	49%	49%	48%	56%	50%	71%	68%	71%	76%	81%	74%	**63%**
Services (water, electricity, sanitation)		7%	8%	7%	7%	8%	12%	16%	10%	4%	3%	2%	3%	3%	2%	2%	16%	**6%**
Total Housing Usage		94%	92%	92%	89%	91%	83%	74%	70%	74%	78%	84%	85%	90%	92%	94%	97%	**85%**
Other (mainly education)		6%	8%	8%	11%	9%	17%	26%	30%	26%	22%	16%	15%	10%	8%	6%	3%	**15%**
		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	**100%**
B. Number of loans used for:	**YEAR**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**YTD 2014**		**Cum Total**
Build a new house		1 799	1 335	666	1 159	929	1 216	533	641	2 259	3 243	993	1 612	1 882	1 344	1 338	245	**21 194**
Extend an Existing Houses		5 218	2 002	1 055	2 002	1 473	2 128	1 865	3 203	3 012	6 891	2 649	4 029	5 645	4 929	3 569	1 890	**51 560**
Home Improvements/renovations		8 636	6 006	2 999	5 479	4 243	7 449	13 058	15 373	21 081	20 269	23 510	27 397	33 401	34 057	36 134	23 022	**282 112**
Connecting to Services		1 259	890	389	738	640	1 824	4 264	3 203	1 506	1 216	662	1 209	1 411	896	892	5 045	**26 044**
Total number of loans used for a mandated purpose		**16 912**	**10 232**	**5 109**	**9 377**	**7 285**	**12 618**	**19 720**	**22 420**	**27 857**	**31 619**	**27 814**	**34 246**	**42 339**	**41 227**	**41 933**	**30 203**	**380 910**

There are a number of restraints that contribute to RHLF being unable to penetrate its market as deeply as needed. Primary amongst these is insufficient funding. In addition a few big lenders operating in the housing sector are reluctant to conform to the fairly rigorous post borrowing reporting requirements of RHLF. Finally many people in rural areas are unemployed and those who are employed face high dependency ratio as they have to support many unemployed family members. Some people in rural areas are self-employed. These last are being addressed by RHLF's continued efforts to increase its penetration of the CBO market.

To obtain additional capital injection in order to scale up the delivery of loans RHLF has taken the following actions:

- Applied for an additional R300m in funding from government (the RHLF shareholder) over the MTEF period to be transferred in tranches of R100m per annum.. However, RHLF was advised that it will only receive R50m in 2017/18.
- Applied for a new loan of $20 million from KFW. At this stage KFW has conducted due diligence on RHLF to ascertain whether it can lend to RHLF directly given that RHLF's balance sheet is smaller than KFW's policies allow. They have indicated a willingness to obtain permission to make a special case for RHLF as one of their best performing projects. The second option to access this loan was via NHFC and it is being considered despite KFW indicating that NHFC's balance sheet is also too small to meet KFW's qualifying criteria for direct lending. At this stage, we are also participating in the package that includes NHLFC and International Housing Solutions (IHS) in order to diversify approaches of accessing this loan. It is not clear at this stage which approach will be successful. Either way, the challenge for RHLF is that a loan will come at an interest rate that may exceed some of the concessional rates RHLF provides clients who provide loans in our target market at lower than the maximum allowed by the National Credit Act.

If RHLF receives additional funding, it will be able to increase the number of loans it disburses per annum to the market. In the current environment these can be calculated at a rate of 15,000 loans in year one and an average of 7,500 loans per annum thereafter for every R100 million in additional funding. This will also enable RHLF to further intensify efforts to sign up new intermediaries (both start-ups and well established), particularly those from previously disadvantaged backgrounds, who are positioned to reach under serviced areas of the market. In the interim, RHLF has been signing up small intermediaries, some of which are start-ups, and the strategy is to help these small partners to grow organically in order to build capacity to absorb large amount of RHLF funding in order to scale up delivery of loans in the long term.

5.1.3 The National Development Plan 2030 Vision

"… Now in 2030 we live in a country which we have remade. Therefore, in 2030, we experience daily how: We participate fully in efforts to liberate ourselves from conditions that hinder the flowering of our talents…."

At the core of the National Development Plan (NDP) is the strategic objective of reducing poverty and inequality. While the NDP as a whole intends to achieve overall development of the country, two chapters are closely relevant to the RHLF Mandate and these are:

- Integrated and inclusive rural economy; and
- Transforming human settlements and national space economy.

a) An Integrated and Inclusive Rural Economy

From a rural development perspective, the 2030 vision is that:

> *"By 2030, South Africa's rural communities should have greater opportunities to participate fully in the economic, social and political life of the country. People should be able to access high-quality basic services that enable them to be well nourished, healthy and increasingly skilled. Rural economies will be supported by agriculture, and where possible by mining, tourism, agro-processing and fisheries"*

The target of 1 million jobs in the rural economy by 2030—mainly in agricultural value chain as well as in other key industries such as tourism and fisheries—present an opportunity to improve income levels of communities in rural areas. This will enable households in rural areas to access the credit that they need to improve their general living environments and quality of life.

The implication for RHLF is that as part of its strategy to go deeper into rural areas, it must continue to closely align with government and private sector (especially commercial farmers) partners who are focusing on the achievement of rural economic development goal. RHLF particularly needs to explore opportunities to support housing initiatives for mine workers where mining is the driver for rural development. Accordingly, RHLF needs to participate in various forums championing rural economic development in order to identify business opportunities on one hand, and make substantive contribution to the general discourse on and the actions driving rural development.
In its previous strategic plan, RHLF undertook to have a focus on cooperatives and other CBOs to get housing finance to rural households. It has spent time developing this part of the market but has realised that this is a difficult area to operate in as many of these entities are not able to provide the necessary administration for a lending programme. RHLF is working with a number of these clients to improve their systems.

b) Transforming Human Settlements and the National Space Economy

This chapter spells out '*Human Settlements vision 2030, on the road to 2050'.* Part of the vision is that:

> "By 2050, South Africa will no longer have: poverty traps in rural areas and urban township; workers isolated on the periphery of cities; inner cities controlled by slumlords and crime; … or rural communities dying as local production collapses. … By 2030, most South Africans will have affordable access to services and quality environments. New developments will break away from old patterns and significant progress will be made in

retrofitting existing settlements. In rural areas, targeted investment and institutional reform will drive revival of rural South Africa towards 2050"

On rural areas, a note is made that despite population shifts from rural areas to urban areas, rural areas are still important in terms of providing goods and services. Rural areas are still home to 40% of the country's population.

As regards to 'Transforming spatial arrangements and spatial governance", a number of issues are raised and we herein highlight only a few:

- Rural restructuring zones (as part of national spatial framework)—to be designated after careful consideration against set criteria and these are mainly characterised by population dynamism and sufficient numbers of people to provide the basis for viable markets. This includes mainly densely populated parts of former homelands.
- Bolder measures to make sustainable human settlements—such as a need for housing and land policies that accommodate diverse household types and equitable circumstances. Of importance here is that the state should over time shift its role from providing a direct housing subsidy to being a facilitator.

Among the steps in the five years (2014-2019), to which RHLF is having to pay particular attention are the following:

- Radical revision of the housing finance regime.
- Revision of the regulations and incentives for housing and land use management (especially the idea of reviewing the restrictions on the sale of government provided houses and *giving consideration to alternatives to fixed location subsidies such as housing vouchers or grants for purchasing building materials).*
- Investigation and response to shifting settlement patterns—such as densification along transport corridors within previous homelands.
- Small town development strategy—mainly to enhance the developmental role of small towns in rural economies, which will be critical in managing migration to larger cities.

In summary, on the NDP's programme of transforming human settlements, RHLF is best positioned to work with its intermediaries to contribute in addressing the needs of rural human settlements.

The table below highlights some of the NDP elements in which RHLF within its mandate should play a role. As this strategic plan is implemented the details of these interventions will be planned and implemented.

NDP	RHLF	How
Productive farms	Funding housing in agricultural areas and adjoining settlements	Piloting a housing loan model for a livestock association and members of agricultural cooperatives.
Land reform beneficiaries	Financing housing for beneficiaries who want to resettle on land successfully claimed	Collaborating with the Department of Rural Development and Land Reform to target Community Property Associations who need housing finance
Development of new towns as a result of development of rural development (agricultural and non-agricultural activities)	Funding housing for households/individuals who do not qualify for housing subsidy programmes or mortgage finance in these areas	Liaison with the Department of Rural Development and Land Reform to identify new lending opportunities.
Secure water and other services	Funding for connecting to utilities (water, sewerage and electricity)	RHLF end users connect to services using RHLF funding—enhance delivery of other government programmes.
A mix of housing types	Funding self-built or owner specified homes—maximising housing choices	Borrowers use loans according to their housing needs and using appropriate preferred building technology
Energy efficient homes (contributes to transition to low carbon economy)	Funding for solar energy, insulation, alternative building technologies, etc.	These are being purchased by RHLF beneficiaries using RHLF funding.
Rural areas fully integrated into the economy	Funding productive housing, local building industry activity, increased activity for local building merchants	RHLF funding and business model supports local economic development and minimise financial leakage from rural areas
There are few examples of communities mobilising to initiate their own planning and problem solving but many have become dependent and have become passive recipients of government delivery.	By funding individuals who are required to repay loans and identifying CBOs, NGOs and broad based community structures that can deliver housing. RHLF encourages rural communities to help themselves thus encouraging independence in the spirit of Vukuzenzele.	RHLF works continually on growing the number community based clients. The RHLF business model promotes active citizenry—from individual level to a community level
Renewed effort is needed to ensure that national provincial and local government work together in reshaping the built environment	As a national SOE, RHLF makes a point of interacting with a broad range of players in the housing delivery market in rural areas, meeting with representatives of all 3 tiers of government	RHLF trains councillors and municipal officials on its model through DoHS training programme, meets with provinces to find communities in need of

NDP	RHLF	How
		funding and regularly interacts at national level.
Rural restructuring zones—e.g. new settlements formation	Funding housing for households/individuals who cannot access subsidy programmes or mortgage finance	This type of funding is currently provided. Once the voucher scheme is in place this delivery will be enhanced on communal land

While the table above shows what role RHLF can play within its current mandate, the entity is well positioned to play even a bigger role in contributing to rural development. The following examples are some of the areas where RHLF can contribute:

- Exploring non-housing products that RHLF can delivery to the rural market in order to contribute to sustainable rural human settlements. We need to define radical solutions that enhance rural development.
- Collaborate with the Department of Rural Development and Land Reform (DRDLR) in delivering some services on agency basis on behalf of the DRDLR. In this regard, RHLF needs to engage with this department to explore its needs so that a package of what RHLF can offer can be put together and necessary approval be obtained from the RHLF's Executive Authority.

5.1.4 Outcome 8: Sustainable Human Settlements and Improved Quality of Household Life (Medium Term Strategic Framework)

At the core of the 2014-19 MTSF is the challenge to transform human settlements and the workings of the space economy and therefore, in order to achieve this transformation, the Department of Human Settlements will focus on three **Sub-outcomes** during the MTSF period (2014/15 to 2018/19):

- Adequate housing and improved quality of living environments.
- A functionally equitable residential property market.
- Enhanced institutional capacities for effective coordination of spatial investment decisions

To achieve the vision of sustainable human settlements and an improved quality of household life, the priorities for 2014-2019 include:

1) Adequate housing and improved quality living environments, with 1.495 million more households living in new or improved housing conditions by 2019.
2) Informal settlements upgrading will be expanded to cover 750 000 households, ensuring basic services and infrastructure in some 2 200 informal settlements.

3) A functional and equitable residential property market with target of 110 000 (70 000 FLISP and 40 000 DFI supported) new housing units delivered in the affordable gap market by 2019.
4) Enhanced institutional capacity for effective coordination of spatial investment decisions, with a target of 49 municipalities assigned or accredited with the housing subsidy function.
5) Transfer of title deeds for 560 000 new subsidy units and the backlog of 900 000 tittle deeds in the integrated residential housing programme will be done during the MTSF period.

RHLF is aligned with priorities mentioned in (1) and (2) above:

- RHLF will contribute to the delivery of adequate housing and improved quality living environments in line with its mandate—enabling low income earners to access loans in order to incrementally improve their living conditions.
- The implementation of the Voucher Programme will enable qualifying people living on communal land to be adequately housed and thus improving their living environments.
- Informal settlements present an opportunity for RHLF to facilitate access to housing loans for top structure for those households who do not qualify for subsidy or mortgage finance but only in small towns and rural areas.
- RHLF is also positioned to help address housing in mining towns and labour sending areas by facilitating housing loans targeting the rural areas. It has to be noted that RHLF intermediaries are already lending is such areas, and will be willing to partner employers who want ring-fenced housing finance facilities for their employees.

Sub-outcome: A functionally equitable residential market has relevancy for RHLF based on the following actions under this sub-outcome:

- Consolidation of the three DFIs (RHLF, NURCHA and NHFC) is planned to be concluded during the 2015/16 financial year.
- Intensify homeownership education programme for the affordable housing market and the target is that 2 million consumers should have been reached by 2019.

5.1.5 Other Government Policy Priorities

Without discussing in detail other government priorities that have a bearing on RHLF's executing its mandate, we hereunder highlight policies or government priorities that RHLF contribute to in its efforts to contribute to the development agenda of the country.

a) SMME Development

It is now common cause that when RHLF was established there were no private sector entities operating in the market for housing microfinance. RHLF had to identify entrepreneurs who were willing and able to play a key role in this market. RHLF takes pride in that, since inception, it has identified and financially supported start-up SMMEs to enter the housing microfinance market. Some of these have grown significantly and have become sustainable. These include, for example the Lendcor, Norufin, Bayport and Izwe Loans companies.

In the 2014/15 financial year RHLF also signed up four new emerging small enterprises, including one start-up, with an intention to support these to become sustainable in delivering housing microfinance to the RHLF market. RHLF plans to intensify its efforts during the MTSF period to sign up new small enterprises and support their growth in order to scale up delivery of housing loans in line with the mandate.

a) Focus on Community based organisations

Although RHLF has traditionally relied on its commercial intermediaries to deliver on its mandate, this model has not sufficiently reached the informally or self-employed borrowers. This has been largely as a result of the latter group of potential borrowers being unable to meet stringent requirements that commercial lenders implement in credit assessment to adhere to the provisions of the National Credit Act—such as proof of regular income, banking track record and so on. To reach the self and informally employed market, RHLF will continue during the MTEF period to identify further community based organisations such as Cooperatives, stokvels, associations and the like that wish to become involved in the improvement of the homes of their members.

When the Subsidy Voucher Programme is implemented, RHLF is confident that the successful implementation of this Programme will lead to entrepreneurial opportunities for rural business entities such as Co-operatives in the building materials manufacturing and supply arena. It will also lead to the growth of local construction companies.

b) Job Creation and Local Economic Development

The scourge of unemployment persists in South Africa, despite active government intervention over the last 20 years. Through various policy interventions, government is committed to the creation of job opportunities. The current intermediaries within the RHLF stable employ more than 5000 people who support at least 20,000 people if a conservative figure of 4 persons per household (in addition to an employee) is assumed.

Furthermore, borrowers in rural areas in many instances employ local labour to help in the building process. These local builders earn income which they, in turn, spend in the local economy. To a large extent and at a small scale, this minimises financial leakage and in the process contributes to local economic development. Money for building materials is used mainly to purchase building materials from local building merchants and in the process this supports the local economy.

When implemented, the Voucher Programme will further fuel local economic development and job creation through participation of local building merchants in the Voucher Programme and through employment of local artisans to assist beneficiaries in building their houses as defined in the approved Voucher Programme. This Programme can potentially unleash opportunities for entrepreneurs who want to embark in building materials production such as bricks and blocks as well as in cartage services, and so on—thus creating more job opportunities.

5.1.6 Economic and Market Environment

The performance of RHLF is greatly affected by the state of the economy at any point in time. The fact that RHLF's target market is made up of low income earners makes our market more susceptible to economic shocks and volatility. The following factors in the external environment have a major impact on RHLF, its intermediaries and the end users:

a) South African economy

The state of the economy is a critical success factor for RHLF's business as it affects the level of borrowing by the target market. The domestic economy is intertwined with the global economy.

- **Economic Growth Outlook**

  There is a general concern that the domestic economy is not growing fast enough and there are many explanations for this sluggish growth such as slow global economic growth, structural issues of the economy such as low skills levels, labour strikes, and so on. The domestic GDP contracted by -0.6% in the first quarter of 2014, grew by 0.6% in the second quarter and by 1.6% in the third quarter. Protracted strikes in the platinum sector were cited as the main driver of contraction in the first quarter; these were then followed by strikes in the steel and engineering sector, adversely affecting the manufacturing sector in July 2014.

  The Reserve Bank has had to further revise the GDP growth for 2014 to 1.4% at its November meeting, from 1.5%. . The Bank's assessment points to risk being on the downside. In its MPC Statement following the November 2014 MPC meeting, the Bank forecasts growth rate for 2015 at 2.5% and 2.9%for 2016. At these low levels of economic growth, it will be difficult for South Africa during the MTSF period to generate jobs that are so desperately required in order to address poverty and inequality. It is not helping South Africa that global growth recovery remains mixed although some countries such as US and UK show sustained improvements, while deteriorating prospects remain in the Eurozone and Japan. The growth of the Chinese economy has moderated in 2014, growing in single digits after enjoying double digits growth rates for many years. South Africa needs economies of its trading partners to grow as this can serve to propel domestic growth.

- **Unemployment**

With a sluggish economy, inevitably unemployment will continue to remain high. Unemployment has been hovering around 25% for quite some time and will remain at these levels for the better part of the MTSF period, unless government interventions such as the infrastructure development programme lead to employment opportunities to the millions of South Africans who are unemployed. High unemployment adversely affects RHLF business because it leads to the reduction of the number of borrowers demanding housing loans. Further, high unemployment means the few people who work face high dependency ratio as they have too many mouths to feed in their households, thus easily postponing decisions to take housing loans as they prioritise putting food on the table.

- **Exchange rate**

The rand has depreciated marginally against the dollar but somewhat appreciated against the euro and sterling. It is difficult to project how the exchange rate of the rand will behave against major currencies during 2015/16 as the rand is not only susceptible to domestic factors, but is also susceptible to sudden shifts in sentiment regarding changes to monetary policy stances in advanced economies. However, the weak exchange rate should boost the domestic export sector and create employment, provided that there is sufficient demand from SA's trading partners. With the decline in oil price in 2014 due to structural changes in the industry, the weaker rand has not resulted in inflationary pressures—thus creating a positive inflation outlook in the year. It is difficult to determine how the exchange rate will behave during the MTSF period, but it is plausible to expect that the exchange rate of the rand will remain volatile in the foreseeable future.

- **Inflation**

In 2014 inflation breached the 6% upper limit before falling back to within the set band. This led RHLF to believe that South Africa had entered an upward cycle in interest rates, although this may be somewhat tamed by the persistent slow economic growth. The adverse effect of high inflation on RHLF's market is that a large proportion of the income of the rural people in this market goes towards buying food and to transport costs—thus leaving very little disposable income that people can use to afford housing loans. A respite in 2015 will occur if oil and food prices remain at lower levels as we have seen during the second half of 2014. After peaking around $115 per barrel in June 2014, international oil prices have declined markedly to levels below $55 per barrel in January 2015. It is not clear how low the price of oil will move.

While CPI is for urban areas, RHLF's concern is that rural areas inflation is higher that CPI and that food inflation is in most cases higher than CPI. The effect of inflation on RHLF's target market is that it erodes disposable income, thus adversely affecting affordability of the borrowers. Therefore, it will be good for the RHLF market if the inflation outlook remains good for the rest of the MTSF period

- **Interest rates**

Interest rate is another key variable in RHLF's business. RHLF's Pricing Policy is linked to Prime Rate. If interest rates reach higher levels too quickly, this can adversely affect affordability of loans. It is in this context that RHLF gives concessional loans to its intermediaries so that they can pass the benefit of lower interest rates to make unsecured housing loans affordable. To a very large degree the changes in the interest rate will be influenced by the inflation outlook as well as the economic growth outlook.

b) Unsecured Credit Industry

- **Credit extension**

The increase of credit extension to households has moderated in line with the weakness in consumer expenditure. This moderation has mainly come as a result of tightening of credit criteria for unsecured lending. It can be added that the consumers themselves are overextended and loan affordability levels have been compromised following the easy granting of unsecured credit in recent years. The situation is unlikely to change soon but could improve in the second half of the MTSF period as borrowers successfully settle old debt.

- **The Challenges Facing Unsecured Lenders**

The unsecured credit industry grew astronomically in recent times, especially after the financial meltdown of 2008 and as SA commercial banks entered this industry to compensate for a decline in mortgage loans. Similarly, the big micro lenders became even more aggressive in granting loans in order to maintain their competitiveness in the face of competition from the big banks. Some granted unsecured loans as high as R250 000. There were fears from many quarters, including regulatory authorities and industry experts, that a bubble was building up, which would come back to haunt the industry As a result, for the last year or so, commercial banks and many other lenders became more prudent and tightened credit criteria.

It would appear now that prudency returned too late for some lenders—the damage had already been done. The recent collapse of the African Bank which required the intervention of the SA Reserve Bank typifies what has been wrong in the industry—even though the ABIL story could have been exacerbated by other internal factors. Full story will emerge once investigation of the ABIL saga is completed. The reality though is that the reputation of the microfinance industry has been dented. On the back of ABIL failure another big lender which was planning to list on the JSE, Bridge Loans, had to apply for business rescue as it battled to remain afloat after institutional funding transactions from a SA asset manager and UK based financier fell through. However, in the case of Bridge the media made reports of how Bridge has conducted its business to the detriment of consumers—another example of how the image of the microfinance industry is dented by questionable business practices of the industry players.

Apart from these two examples portraying challenges facing the industry, it appears that many small lenders have closed shop—especially since the Marikana disaster, which raised various issues about practices of the lenders that harm the borrowers. This drew the attention of regulatory authorities to clamp down on such practices. Clearly, under such scrutiny bad players will not survive for too long.

The implication of this microfinance industry situation is that there is a need to differentiate housing microfinance as distinct from general microfinance industry and efforts to draw responsible lenders to the developmental lending space be intensified. This is the challenge that RHLF needs to focus on during the MTSF period. As RHLF we need intermediaries whose mission complements RHLF vision in order to scale up delivery on the mandate on sustainable basis. This limits the possible clients and makes it necessary for RHLF to build up some small lenders into national housing lenders.

5.2 Organisational environment

While the external performance environment is critical success factor for RHLF to deliver on its mandate, RHLF has to take into account its internal situation in the strategic planning process, and this includes the funding situation and human resource capacity. The following internal factors are noted:

- **Funding:**

  As argued earlier, in the context of the huge market that RHLF has to serve, the issue of funding is critical to meet market demand. Since inception, RHLF funding has come from the following sources:

- R154.7 million capital grant from KFW that was initial capitalisation of RHLF;

- R136.6 million loan from KFW, accessed via DBSA. This loan is now in the process of being repaid – the balance was R133.2 million at 31 March 2014;
- R132 million capital grant from Department of Human Settlements; and
- Retained earnings amounting to about R99 million.

The following table shows RHLF's sources of funding since the financial year 2004/5 to the end of March 2014:

Table 4: RHLF Funding by Source since 2005

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
KFW Grant Cumulative	R'000s	154 763	154 763	154 763	154 763	154 763	154 763	154 763	154 763	154 763	154 763
KFW / DBSA Loan	R'000s		50 030		118 946	119 627	139 642	139 642	139 642	139 646	139 645
DHS grant cumulative	R'000s							49 500	99 000	130 975	130 975
Profits	R'000s	- 24 404	- 20 244	- 11 614	- 4 138	4 166	33 110	51 362	66 806	79 378	99 325
Total capital		**130 359**	**184 549**	**143 149**	**269 571**	**278 556**	**327 515**	**395 267**	**460 211**	**504 762**	**524 708**

This table shows that the South African government has to date provided only 24.96% of RHLF's funding. As is clearly shown in this document this is insufficient to enable RHLF to:

(1) Scale up delivery of housing loans to the rural housing market and
(2) Aggressively lower the interest rate that the borrowers in the market face. In this regard, if additional funding is obtained via accessing loan funding, steps to lower the cost of credit for the benefit of the targeted borrowers will need to be far less ambitious.

In the following graph, we show how growth of RHLF capital has contributed to the increase of the number of loans that RHLF has delivered per annum:

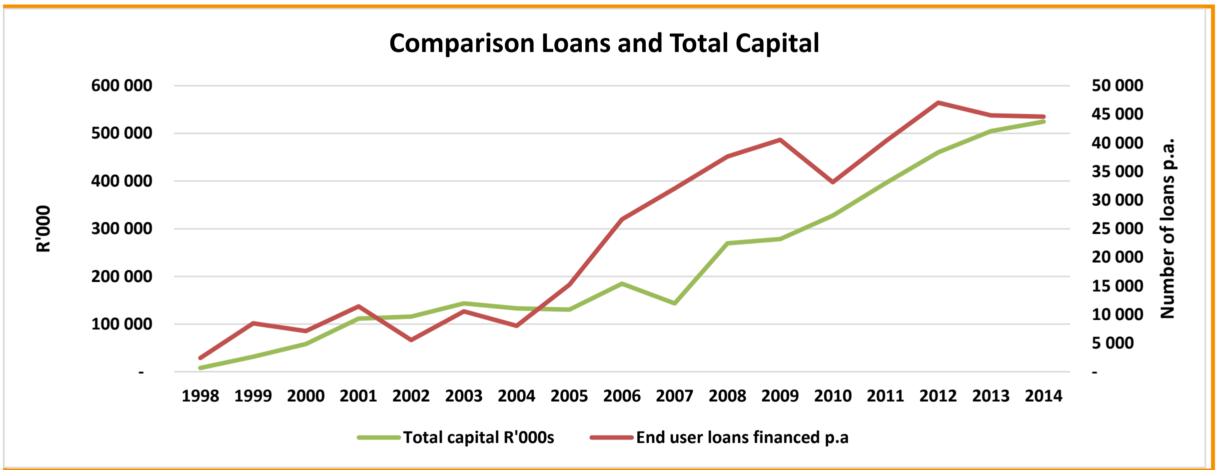


Figure 3: Comparison: loans and total capital

This graph shows that when RHLF started to get additional capital in 2005/06 (DBSA/KFW), the number of loans delivered started to show a sharp increase. Similarly, the SA Government direct transfers to RHLF in 2010/11 led to another sharp increase in the number of loans delivered per year.

It is abundantly clear that there is a huge demand for housing loans from the rural housing market. In the last government term the demand for RHLF loan facilities outstripped supply resulting in a shortfall of about R60 million at the end of 2012/13 financial year. This was eventually resolved through a relaxation of the DBSA/KFW covenant.Despite tough market conditions as explained above, RHLF would prefer to have money in the bank ready to respond to the demand for housing loans when the economic situation improves during the MTSF period. Accordingly, RHLF has undertaken the following actions:

- Made application for additional capital injection (R300 million) from the Department of Human Settlements and asked for R100 million for each year starting from 2015/16 to 2017/18 (MTEF period). Of this request an amount of R50 million has been approved for 2017/18, with nothing in the earlier years.
- Made an application for a loan facility from KFW and at the time of this draft KFW was considering loaning to RHLF an amount of US $20 million. The delay in concluding the process has been caused by the fact that RHLF is no longer able to access this loan via DBSA following the restructuring of its mandate to exclude involvement in housing finance.

Of concern for RHLF is that accessing additional loan funding compromises its strategic effort to lower cost of credit of its targeted low income borrowers. RHLF will be unable to aggressively push down cost of credit by offering concessional loans to its intermediaries; and may therefore have to request government to subsidise the interest it has to pay for the KFW loan facility if it materialises. This point was included in the formal application for grant capital from government. No response has been received to this request.

If and when the Voucher Programme is implemented, RHLF will receive 5% of the subsidy quantum it disburses as an administration and financial management fee. However, these receipts will be used to cover costs associated with various service providers that RHLF will use in implementing the Programme.

- **Loans receivable portfolio**

RHLF is registered as a non-profit Company in terms of the Companies Act. It operates as a social venture capital fund utilising a wholesale model to distribute funding to its retail intermediaries. The retail intermediaries in turn lend these funds to end users for incremental housing purpose in line with the RHLF mandate.

RHLF has a diverse loans receivable portfolio varying significantly by size and risk. The loan receivable portfolio may be stratified as follows.

Financial risk category	Balance due	% of book	Security value	Provision	Net book
	R000	%	R000	R000	R000
Good for all debts	330,467.5	80.7%	330,467.5	-	330,467.5
Manageable risk	142.0	0.0%	127.8	14.2	127.8
Risk monitoring	18,006.0	4.4%	12,469.8	5,536.2	12,469.8
Watch list	30,361.0	7.4%	16,206.5	14,838.5	15,522.5
Potentially bad	203.0	0.0%	50.8	152.3	50.8
Bad	16,076.0	3.9%	-	16,076.0	-
Total	**395,255.5**	**96.5%**	**359,322.4**	**36,617.2**	**358,638.4**

- **Human Resources:**

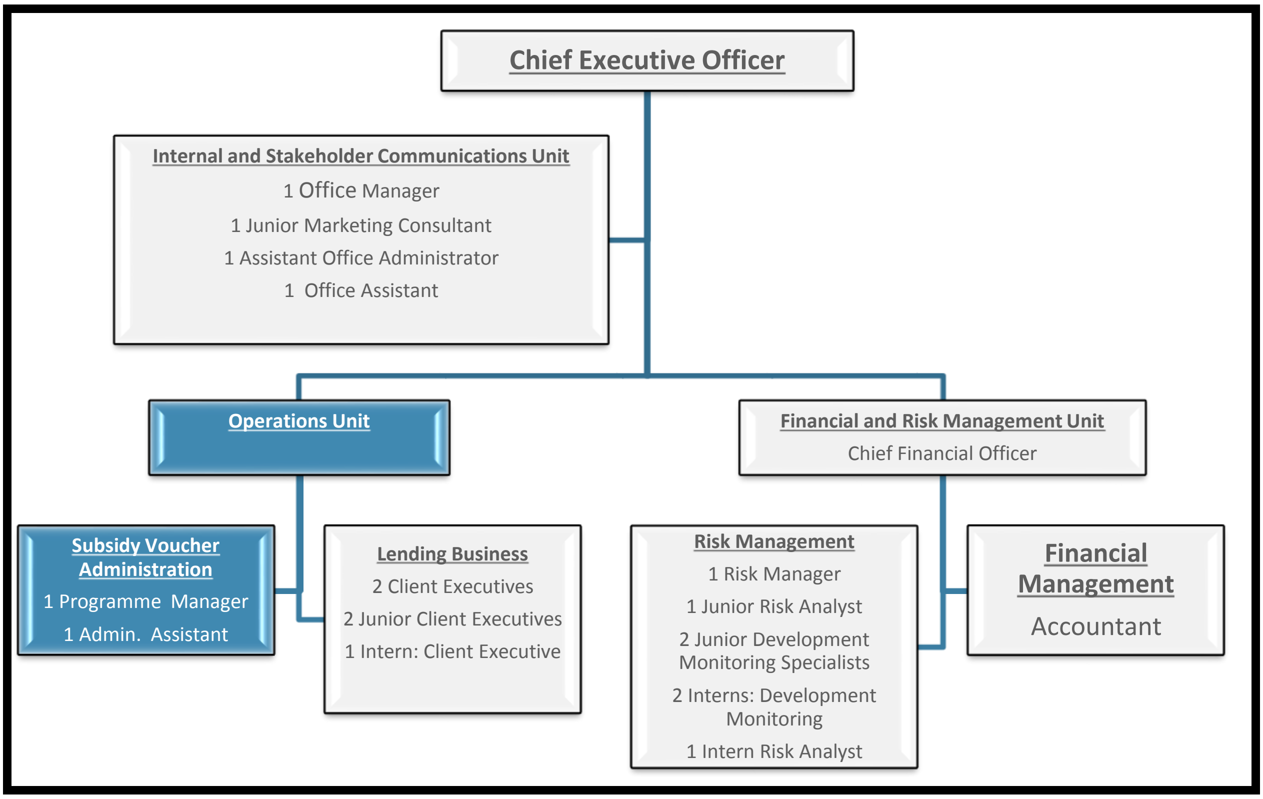
Operating as a wholesale financial institution enables RHLF to maintain a lean team of professional staff, while relying on the intermediaries to achieve the RHLF mandate. These intermediaries, however, need to be closely managed by the RHLF team. The plan is to sign up new intermediaries both commercial as well as alternative channels such as community based organisations and membership based organisations. In addition RHLF carries out risk reviews on all its intermediaries and performs on site loan usage verification on sampled borrowers as part of ensuring mandate compliance. These factors, therefore, necessitate that RHLF continually assess its human resource capacity in order to ensure its adequacy to meet delivery targets and appropriately manage risk at intermediary level.

With regard to the Individual Subsidy Voucher Programme, plans to recruit Voucher Programme Manager and an Administration Assistant are still on hold until MINMEC approves piloting the implementation of the Voucher Programme.

The Table below depicts RHLF's planned employment situation during the MTSF period.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Budget	Budget	Budget	Budget	Budget
Full time posts	10	12	14	14	18	20	22	24
Interns	1	2	0	2	2	2	2	0

High level organisation chart for 2014/15 financial year is as follows:



- **DFI Review and Consolidation Process**

The draft Strategic Plan has been prepared with knowledge that the Department of Human Settlements is in the process of consolidating its three DFIs. According to the MTSF (Outcome 8 Chapter) government is planning to have one consolidated human settlement DFI by September 2015. Our understanding is that this consolidation will not adversely affect RHLF's mandate to facilitate and enable low income earners in rural areas to access housing loans. RHLF supports the principle that says the DFI integration should protect the expertise that has been built by entities over the years in order to ensure that delivery capacity is maintained. In RHLF's view, a single entity focusing on facilitating incremental housing finance will be a desirable outcome given the need for this product in both urban and rural areas. However, targets for each geographic area will have to be well managed in order to ensure that rural households are not disadvantaged by this restructuring.

The DFI consolidation has not been taken into account in setting targets for the five year period. When the consolidation of the DFIs is concluded, the Strategic Plan will need to be updated to take into account the implications of consolidation and in addition the following key points need to be noted:

- Care must be taken that RHLF's mandate of focusing on rural areas is not in any way compromised given the fact that rural development remains one of the key government priorities.
- RHLF is currently exempted from income tax. If it is merged into an entity that is not exempted, it will need to either revise its targets downwards or received additional funding to make up for the taxation on its profits. If RHLF, as expected, is to be responsible for incremental housing finance in urban areas as well, there will be an urgent need to inject additional funding so that RHLF can also scale up delivery to the urban market as well. We argue that while the rural housing market is huge, the urban market is even bigger taking into account the number of government subsidised houses that have been delivered as well as the large number of households living in informal settlements. Many people who are receiving or have received service sites and cannot access government subsidy or mortgage finance will certainly rely on the incremental housing finance in their efforts to build permanent houses and improve their housing conditions. This clearly indicates the total size of the market that RHLF has to service in both rural and urban areas as part of a consolidated human settlements DFI and no doubt, additional funding resources will be critical to meet the demand of this huge market.

Implications for RHLF Strategic Planning

RHLF anticipates economic recovery to continue to be sluggish at least during the first three years of the MTSF period; therefore not contributing much to employment creation. However, it is expected that as implementation of the National Development Plan begin to gain traction, there could be a positive impact on the state of the economy. The state of the microfinance industry currently raise a number of concerns especially emanating from some questionable business practices by some micro-lenders, but it is anticipated that with appropriate regulatory interventions, the industry will be sound for the better part of the MTSF period. Consumer indebtedness levels also need to improve in order to ensure that borrowers who want to improve their housing conditions can afford to take housing loans. This means that the funding situation of RHLF needs to improve during the MTSF period so that RHLF can be in a position to respond to the demand for housing loans.

Below are the specific strategies that RHLF plans to implement in order to address the external and internal factors listed above:

- ✓ The normal exposure limit of RHLF to any one client is 15% of the loan book. However, the Board has approved the extension of the limit to 25%to certain low risk intermediaries. In the short term, RHLF will need to consider further extension of exposure limit for low risk intermediaries, provided they fully comply with the mandate. However, financial risk concentration is a reality and these intermediaries will need even closer risk monitoring.

- ✓ Whenever possible RHLF will look at extending facilities to clients that can provide additional guarantees with a view to limiting losses to RHLF.
- ✓ RHLF will continue to identify emerging developmental lenders who are strategically positioned in markets/provinces in which RHLF wants to scale up its delivery such as Limpopo, Free State, North West, Northern Cape and in certain other areas. In the long term, RHLF will be better able to deliver on its mandate if it can have its intermediaries competing to absorb larger amount of funding and being able to reach the mandated borrowers without leakage.
- ✓ To continue exploring the expansion of alternative business channels to distribute loans to specifically ring fenced end users such as community based organisations; union members; Community Trusts. However, a note has to be made that these entities are resource intensive and it normally takes time to reach deal making stage with them. The challenging state of the economy has also adversely affected the levels of affordability in this segment and it may also take time to see significant improvement in this intermediary category.

5.3 The Strategic Planning Process

The Rural Housing Loan Fund uses the balanced scorecard approach as its strategic planning tool.
The strategic planning process involves key staff and the Board participation. The draft is also submitted to the Department of Human Settlements for inputs which are incorporate in subsequent drafts. Furthermore, the draft strategic plan is also presented to RHLF's key stakeholders at the Annual RHLF-Client Workshop before the final strategic plan is approved by the Board for submission to the Department of Human Settlements in January 2015.

The balanced scorecard approach looks at a business in terms of perspectives. RHLF as a development finance institution in the public-sector has the following perspectives:

- Stakeholders and Clients
- Financial
- Business Processes
- Learning and Growth

The balanced scorecard requires that strategic planning takes place within these perspectives. Within each perspective, strategic objectives are set. These strategic objectives require measurements or indicators. Measurements are defined for these objectives, against which targets are then set. In addition to these targets, the scorecard identifies strategic initiatives that enhance the implementation of the strategy and the broader corporate objective.

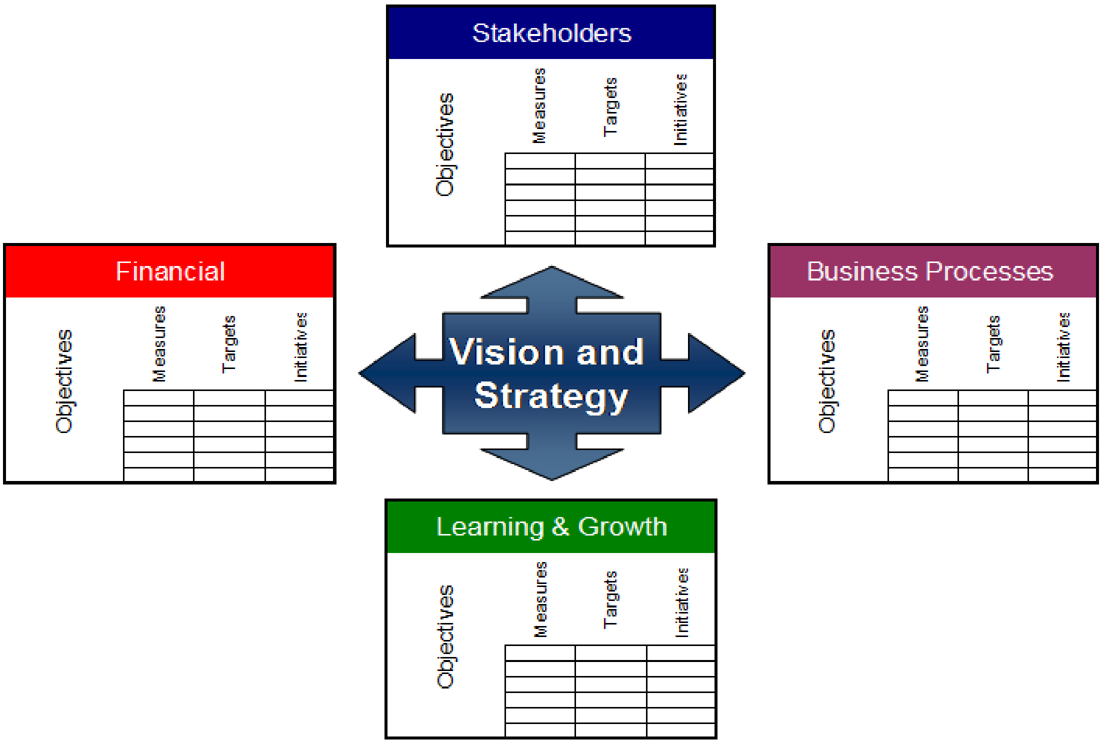
The perspectives are weighted in terms of importance as well as the measures used for each corporate objective.

As opposed to a commercial entity, the overall objective for RHLF is not necessarily to maximise only shareholder value. Rather, development impact to the benefit of more broadly defined **stakeholders and clients is the ultimate objective of a development finance institution is prioritised.** The *Financial, Business Process and Learning and Growth perspectives are enabling factors to this primary objective.*

6. Balanced Scorecard - Strategic Outcome Oriented Goals

The financial objectives for a DFI are about the optimal utilization of limited resources in pursuing development impact as opposed to representing a goal in themselves. The importance of sound business processes and human capital development are necessary conditions of achieving the organizations goals and implementing the strategies devised and therefore as relevant as in any commercial business:

The RHLF balanced scorecard is presented on the pages that follow:



RHLF's strategic outcome orientated goals are divided in the following aspects:

6.1 Stakeholder / Client Goals

Stakeholder / Client goals refer to RHLF's performance impact in terms of its mandate. This is divided into the following aspects:

- **Broaden and deepen the reach of rural housing finance**. This measures the RHLF impact as set out in its mandate. This is measured by looking at the following:

  - Number of end user loans extended by RHLF intermediaries to end users using RHLF loan funding
  - The % of end users using their loans for housing. This measure is important as it indicates RHLF's risk to leakage in loan usage.
  - The income level of the end users. RHLF's mandate is to assist the working poor. In this regard we limit the % of loans to households earning more than R15 000 per month to 20% and RHLF sets a target of 60% of loans to households earning R3 500 and less per month.

- **Grow the Loan book and enhance RHLF's ability to attract commercial co-funders and development partners for rural housing delivery**. This is measured by looking at the following:
  - Total disbursements (cash and mezzanine funding) to intermediaries.

- **Build lending capacity and competitiveness of the retail intermediary network**.
  - Number of commercial retail intermediaries: Part of RHLF's strategy is to diversify its portfolio of clients by adding new retail intermediaries with suitable risk profiles and acceptable loan distribution channels. Part of the strategy is to focus on intermediaries in provinces where the current RHLF intermediaries are not as active as would be optimal.
  - Number of Community Based intermediaries: RHLF's strategy also includes focusing on adding suitable community based organisations to act as delivery channels.

6.2 Financial Goals

As a DFI one of RHLF's most critical goals is to be self-sustaining in terms of financial performance. This goal is achieved by ensuring RHLF **preserves its real capital base**. Key indicators used for this strategic objective are:

- Operating expenditure:
- Operating Surplus: Ensuring that the company reports a suitable surplus.

6.3 Business Process

The strategic objectives and indicators aligned to this perspective are as follows:

- **Sharpen portfolio risk management and enhance early warning system**.
  - Number of Loan verification visits at borrower level
  - Clean audit
- **Accelerate client acquisition process**. The goal here is to take suitable proposals to the Board Credit Committee.

  - Approved value of credit proposals
- Limit bad debt write off.

6.4 Learning and Growth

In order to ensure that RHLF continues to fulfil its mandate it is important that goals are set for learning and growth. In this regard the following goals have been set.

- **Equip all staff with the skills necessary for their roles and encourage continued skills development.** This is achieved by hosting and attending workshops, both internally and externally. All staff members are encouraged to attend relevant training and developmental courses. These goals are broken down by individual staff member and form part of the staff member's annual performance plan. This is also measured by the total rand spent on training.
  - Staff training expense per capita

Key Performance Indicators and Five Year Targets:

Key Performance Indicators	2013/14 Actual	2014/15 Budget	2014/15 Forecast	2015/16 Budget	2016/17 Budget	2017/18 Budget	2018/19 Budget
Housing loans disbursed #	44,61	49,667	41,542	43,457	43,187	51,135	54,315
Qualifying housing use target (% of loan instances)	94.0%	80.0%	90.0%	88.0%	88.0%	88.0%	88.0%
Percentage of loans to households earning R15,000 or more per month	12.7%	20.0%	12.8%	20.0%	20%	20%	20%
Percentage of loans to households earning R3,500 or less per month	65.8%	60.0%	66.0%	60.0%	60.0%	60.0%	60.0%
Loan verification visits #	8	10	11	10	12	14	14
Disbursements to retail intermediaries including moratoria R000	246,257	298	298,067	258,329	224,92	274,639	325,893
Training expenses R000	279	138	138	152	167	184	202

PART B: STRATEGIC OBJECTIVES

7. RHLF Programmes

7.1 Programme 1: Rural Housing Finance

Strategic Objective	Broaden and deepen the reach of rural housing finance
Objective Statement	To increase the number of loans granted to qualifying borrowers and used for a mandated purpose
Baseline	Increase number of loans from 44 610 in 2013/14 to 54 135 in 2019 to ensure that at least 80% / 88% of loans are used for housing. In addition 90% must be utilised in rural areas and 90% by people earning below the required income level.

Strategic Objective	Achieve visibility for RHLF and enhance its ability to attract commercial lenders and developmental partners for rural housing delivery
Objective Statement	To grow RHLF loan book by increasing disbursements to intermediaries in order for them to have more funds to lend and grow their loan book
Baseline	Increase disbursements from R298 million in 2014/15 in order to grow the loan book to R334 million in 2018/19

7.2 Programme 2: Administration

Strategic Objective	Real capital preservation
Objective Statement	Ensuring that RHLF remains sustainable
Baseline	Profitability to be maintained

Strategic Objective	Sharpen portfolio risk management
Objective Statement	Conduct loan usage verification of all clients every year
Baseline	The current requirement is that all clients are visited.

Strategic Objective	Equip all staff with the skills necessary for their roles and encourage continued skills development
Objective Statement	Enhance human resources delivery capacity by ensuring that all employees receive training each year
Baseline	R7 600 to be spent on average per employee.

These are considered the major strategic goals of RHLF. To achieve these goals there are a number of management processes that are critical. These are not however strategic in nature and are therefore not set out in this plan.

8. Resource Considerations

8.1 Employment trends

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Budget	Budget	Budget	Budget	Budget
Full time posts	10	12	14	14	18	20	22	24
Interns	1	2	0	2	2	2	2	0

8.2 Expense trends

	2013/14 R000 Actual	2014/15 R000 Budget	2014/15 R000 Forecast	2015/16 R000 Budget	2016/17 R000 Budget	2017/18 R000 Budget	2018/19 R000 Budget
Interest paid	(10,280)	(10,479)	(10,479)	(10,073)	(9,570)	(9,067)	(8,591)
Operating expenses	(13,728)	(15,754)	(22,524)	(26,054)	(26,006)	(28,350)	(30,034)
Accommodation	(919)	(1,541)	(1,164)	(1,257)	(1,357)	(1,466)	(1,583)
Consulting, legal and audit	(1,043)	(1,038)	(1,199)	(1,271)	(1,347)	(1,428)	(1,514)
Debtors provisions	334	1,764	(5,773)	(6,849)	(5,043)	(5,727)	(6,025)
Communication and IT	(418)	(579)	(565)	(599)	(635)	(673)	(713)
Depreciation	(96)	(262)	(262)	(850)	(878)	(878)	(930)
Employee costs	(9,459)	(10,679)	(10,372)	(11,848)	(13,163)	(14,380)	(15,243)
Marketing and workshops	(482)	(594)	(661)	(701)	(743)	(788)	(835)
Printing and stationery	(308)	(240)	(399)	(423)	(449)	(475)	(504)
Travel and entertainment	(912)	(2,088)	(1,580)	(1,675)	(1,775)	(1,882)	(1,995)
Other	(425)	(497)	(548)	(581)	(616)	(653)	(692)

9. Risk Management

The accounting authority of Rural Housing Loan Fund 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.

The Board delegates its responsibility for overseeing the management of risks pertaining to the company's business to the Audit and Risk 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 and the internal auditors independently audit 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 and Risk Committee.

9.1 Key Risk Categories

9.1.1 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:

- **Corporate strategy risk:**
  Corporate strategy risk is the risk associated with RHLF achieving both financial performance and development goals.

- **Business strategy risk:**
  Business strategy risk is the risk associated with translating the agreed plan between board and management into concrete objectives and strategies.

- **Functional strategy risk:**
  Functional strategy risk is the risk associated with corporate strategies not being adequately devolved to functional areas for implementation.

The strategy and objectives are aligned with the RHLF mandate and included in this Strategic Plan and the Annual Performance Plan, which are approved by the Executive Authority. RHLF has strong governance and reporting structures in place to monitor performance against it plans.

9.1.2 Credit Risk

Credit risk arises when counterparty to a financial transaction fails to meet its obligations in terms of the agreed terms and conditions of the loan agreement. 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 the most material of the company's risks and is managed in accordance with comprehensive 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:

Product	**RHLF's maximum exposure**	**Maximum exposure per intermediary**	**Exceptions / Notes**
Structured loans	100% of portfolio	25% of RHLF's total capital for each of RPH, Bayport, Izwe and Lendcor. 15% of RHLF's total capital for any other clients. .	The Board may approve further extension of maximum beyond 25% exposure in order to ensure delivery where mandate demands are not compromised.
Equity	10% of portfolio	2% of portfolio and < 49% of intermediary's voting capital	Material equity investments require the approval of the Minister of Human Settlements
Subordinated loan	10% of portfolio	2% of portfolio	To be approved by Board

The RHLF Board has appointed a Credit and Development Committee (CDC) made up of a majority 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 CDC, except in the case of Community Based facilities in which case the CDC has delegated to the Chief Executive Officer the approval of facilities not exceeding R1 million.

Transactions relating to equity investments are approved by the RHLF Board, subject to final approval by the Executive Authority, when this is required by the Public Finance Management Act.

Credit risk relating to cash and short term deposits are managed by the RHLF executive management. Treasury Regulations require that RHLF places any unused funds with the Corporation for Public Deposits. As this reduces RHLF's income from these deposits, we will reapply for an exemption from this requirement. Should this exemption be granted then counter party risk will be 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 a recognised rating agencies.

9.1.3 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:

- **Interest rate risk.**

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 charged to clients are determined through the RHLF Pricing Policy which is linked to Prime rate.

The company's loans and receivables include older loans with fixed rates of interest and new loans which have a variable margin based on the prime lending rate. The rates applicable to the loans with a variable margin are adjusted when the prime rate changes. The rates applicable to fixed interest rate loans are set based on agreed market rates at the date of the disbursement remain fixed for the full term of each disbursement. RHLF is moving from a fixed interest regime to a variable rate one.

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.

9.1.4 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 sufficient cash and short term investments to honour its commitments, but not its mandate.

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 10% of total capital employed.

RHLF’s liquidity management process is based on short and long term cash flow forecast.

9.1.5 Compliance Risk

Compliance risk relates to negative impact resulting from noncompliance with applicable legislation and regulations.

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.
Both internal and external auditors are involved in monitoring of compliance issues.

9.1.6 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 and Risk 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 report directly to the chairperson of the Audit and Risk Committee.

The Audit and Risk 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 internal audit.

RHLF has a fraud prevention plan in place. This plan is reviewed and approved by the Board as part of the Annual Performance Plan.

RHLF has 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 off-site on a weekly basis. The integrity of back-ups is verified weekly.

9.1.7 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:

- Reviews of the lending policies of potential clients for ethical and compliant behaviour
- Annual reviews of client lending practices for ethical and compliant behaviour
- Maintaining a strong focus on external stakeholders.
- Effective management of media and public queries.
- On-going evaluation and management of significant risk types highlighted above.

9.1.8 Fraud Prevention Plan

The RHLF is a public entity and as such is subject to the scrutiny of numerous interested parties. The utilization of public funds for fraudulent activities has wide reaching consequences. It is in this light that the RHLF management adopts this plan to assist it in preventing the occurrence of fraud at the organization.

In South Africa fraud is legally defined as the unlawful and intentional making of a misrepresentation which causes actual prejudice or which is potentially prejudicial to another.

9.1.9 Risk Areas

The RHLF business is that of wholesale financial intermediary. By its nature this means that RHLF has large transactions which while usually not exceeding its materiality levels individually, are substantial in nature.

It is therefore accepted that due to the scale of these transactions and the resultant large monetary cash flows the RHLF is susceptible to fraud when making disbursements and receiving payment to and from clients.

The RHLF management therefore agrees that:

a. All disbursements to clients shall be in terms of facilities that are valid and have been authorized by the Board Credit Committee.
b. It shall not use cheques for disbursements to clients.
c. It shall obtain the electronic banking software from its bankers and make all disbursements utilizing this payment methodology.
d. Disbursements shall by authorised and released by two responsible officials and wherever possible this should be performed by both the CEO and the CFO. In all instances, the CEO or the CFO must be one of the authorizing and releasing officials.
e. RHLF should wherever possible discourage the payment of amounts due by clients through the issue of cheques.

RHLF management therefore agrees that:

- No payments will be made by cheque save for the issue of petty cash cheques, which shall never exceed an amount of R5 000 and shall be issued no more than once a month.
- No reconciling items will be allowed and the cashbook balance shall agree to the bank statement.

Fraud may also occur by the fraudulent submission of travel and expense claims by staff members.

RHLF management therefore agrees that:

a. The CEO will always authorise staff travel claims. The CFO will authorise all claims by the CEO.
b. The immediate superior of staff members and the CFO will authorise expense claims. The CFO will authorise all claims by the CEO.

A comprehensive system of procurement is in place to ensure that all procurement by RHLF is valid and required. Failure to comply with this system is a disciplinary matter.

An effective methodology in preventing and detecting fraud is whistle-blowing.

The RHLF management therefore agrees that:

a. All employees have free access to report any activities which they may consider as fraudulent to the Chairperson of the Audit and Risk Committee, or any other member of the committee if necessary.

RHLF management and Board relies on internal controls to ensure effective information systems, reliable financial information, effective operations, the proper safeguarding of assets and compliance with all laws and regulations.

Where fraud is suspected it will be fully investigated, either internally or by the internal auditors and if the suspicion is confirmed the disciplinary process and criminal charges will follow. Disciplinary and criminal processes will be undertaken independently.

PART C: LINKS TO OTHER PLANS

Public – Private Partnerships

The RHLF business model is based on RHLF operating as a wholesale funder extending loan facilities to private companies (intermediaries) who, in turn, extend loans to qualifying end users. As such RHLF has various on-going public – private partnerships.

These partnerships are mainly based on recurring loan facilities extended to the various intermediaries. RHLF also invests capital in appropriate intermediaries during their start-up phase to ensure sustainability.

In order for RHLF to continue meeting its mandate targets, it needs to continue disbursing loans to its portfolio of intermediaries while at the same time making efforts to identify new suitable intermediaries.

In all cases the purpose of the loan facility is the same i.e. the loan facility must be used by the intermediary to extend "housing" loans to qualifying borrowers in the rural parts of South Africa—in line with the RHLF mandate.

The required outputs are the same for each intermediary i.e. the number / value of housing loans extended to qualifying borrowers in line with the mandate. In this regard each intermediary must submit a "Housing Mandate Compliance Report" to RHLF on a monthly basis.

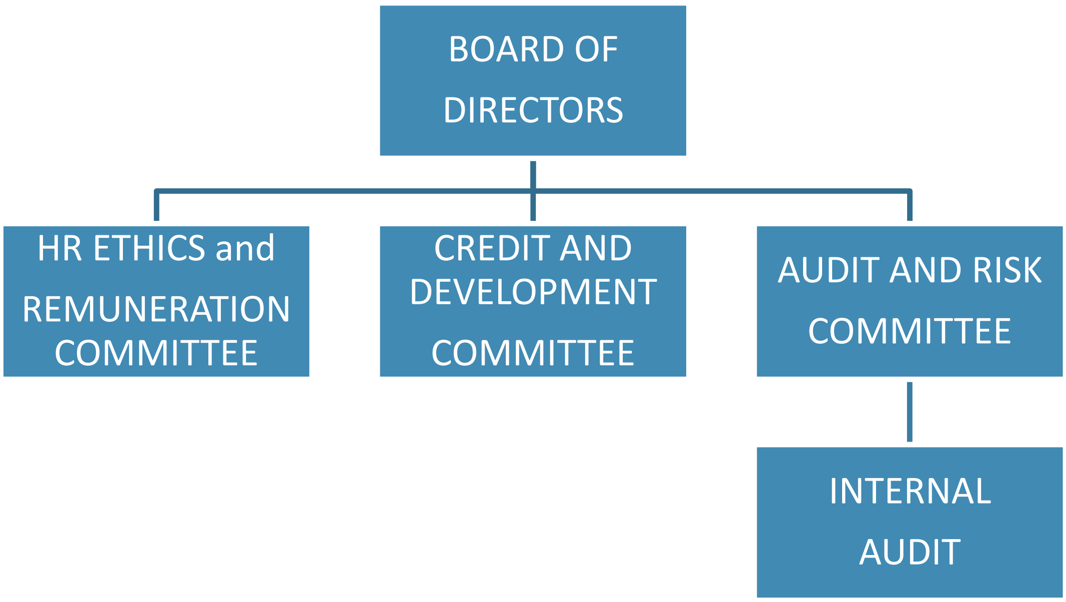
Although various loan facilities expire from time to time and loans are repaid to RHLF over the agreed term of the facility, it is neither RHLF's nor the intermediaries' best interest to end the relationship. As such RHLF is not expecting any of the current partnerships to end during the MTSF period years, subject to the following conditions:

- The intermediary continues to serve RHLF's mandate
- The intermediary remains financially sound,
- The credit risk associated with the intermediary does not deteriorate.

ANNEXURES

ANNEXURE A: GOVERNANCE

BOARD OF DIRECTORS and COMMITTEES



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 RHLF CEO is the only Executive Director on the Board. The RHLF CFO 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.

Committees established by the Board:

<u>Audit and Risk Committee</u>

- Meets at least 4 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
- Evaluates the company's enterprise risk management strategy.

Credit and Development Committee

- Meets as needed but usually 6 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 RHLF's development delivery.

Human Resources, Ethics and Remuneration Committee

- Meets 3 times per annum.

Responsible for:

- the management of human resources;
- the provision of guidance and monitoring with regard to ethical issues;
- the review of employee remuneration and
- acting as a Nomination Committee for the appointment of new directors.

RHLF substantially complies with King III and fully complies with the Public Finance Management Act of 1999, as amended.

ANNEXURE B: TECHNICAL INDICATOR DESCRIPTION

Technical Indicator Description RHLF

Stakeholder / Client Goals

Indicator title	Housing loans disbursed
Short definition	Number of housing loans granted by intermediaries to retail clients in rural areas
Purpose/importance	Mandate
Method of calculation	Monthly submissions from clients, verified on test basis by RHLF
Data limitation	Nil
Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	Higher number of loans issued
Indicator responsibility	Chief Executive Officer

Indicator title	Qualifying housing use
Short definition	Percentage of housing loans that are used for housing
Purpose/importance	Mandate compliance
Method of calculation	Monthly submissions from clients, verified on test basis by RHLF
Data limitation	Nil
Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	The higher the percentage the better
Indicator responsibility	Chief Executive Officer

Indicator title	Percentage of loans to borrowers earning R15,000 or more

Short definition	The percentage of loans that are disbursed to people outside of RHLF's mandate
Purpose/importance	Mandate compliance
Method of calculation	Monthly submissions from clients, verified on test basis by RHLF
Data limitation	Nil
Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	The lower the percentage the better
Indicator responsibility	Chief Executive Officer

Indicator title	Percentage of loans disbursed to borrowers earning R3 500 or less per month
Short definition	The percentage of housing loans granted by intermediaries to low income people that are prioritised by government
Purpose/importance	Mandate
Method of calculation	Monthly submissions from clients, verified on test basis by RHLF
Data limitation	Nil
Type of indicator	Outcome
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	Higher number of loans issued
Indicator responsibility	Chief Executive Officer

Financial Goals

Indicator title	Expenditure before bad debts
Short definition	Total operating expenditure and interest other than bad debts
Purpose/importance	Capital preservation by ensuring profitability
Method of calculation	Income statement
Data limitation	Nil
Type of indicator	Input
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	The lower expenses are the better
Indicator responsibility	Chief Financial Officer

Indicator title	Operating surplus
Short definition	Profit made after accounting for all income and expenditure on an accrual basis
Purpose/importance	Capital preservation by ensuring profitability
Method of calculation	Income statement
Data limitation	Nil
Type of indicator	Input
Reporting cycle	Quarterly
New indicator	Since RHLF has received an exemption from income tax the Indicator has changed to no longer state "after taxation
Desired performance	Higher profit is desirable
Indicator responsibility	Chief Financial Officer

Business process

Indicator title	Loan verification visits
Short definition	Number of on-site physical assessments of loan usage
Purpose/importance	Ensuring mandate compliance
Method of calculation	Count of number of reports presented to the Credit and Development Committee
Data limitation	Nil
Type of indicator	Input
Reporting cycle	Quarterly
New indicator	This is a new indicator reflecting a continual improvement in RHLF's ability to ensure mandate compliance
Desired performance	The higher the number of visits the better
Indicator responsibility	Chief Financial Officer

Indicator title	Disbursements
Short definition	The value of funds disbursed to retail intermediaries combined with the value of funds collectable but not collected due to a moratorium being granted
Purpose/importance	Adequate use of funds in line with mandate requirements
Method of calculation	Total funds disbursed to clients combined with moratoria granted on funds due for repayment during the year.
Data limitation	Nil
Type of indicator	Output
Reporting cycle	Quarterly
New indicator	Continues without change
Desired performance	Increased loans to current clients and sourcing of new clients
Indicator responsibility	Chief Executive Officer

Learning and growth

Indicator title	Training expenses
Short definition	Rand amount spent on training before deducting the SETA rebate
Purpose/importance	To ensure constant improvement in the ability of employees to deliver
Method of calculation	Income statement
Data limitation	Nil
Type of indicator	Input
Reporting cycle	Quarterly
New indicator	No change
Desired performance	The higher this amount the better
Indicator responsibility	Chief Executive Officer

ANNEXURE C: FIVE YEAR FINANCIAL PROJECTIONS

Income Statement

	2013/14 R000 Actual	2014/15 R000 Budget	2014/15 R000 Forecast	2015/16 R000 Budget	2016/17 R000 Budget	2017/18 R000 Budget	2018/19 R000 Budget
Revenue	41,068	44,383	42,250	44,209	42,174	45,281	42,080
Other income	12,192	338	8,323	4,929	5,842	5,098	2,143
Interest paid	(10,280)	(10,479)	(10,479)	(10,073)	(9,570)	(9,067)	(8,591)
Operating expenses	(13,728)	(15,754)	(22,524)	(26,054)	(26,006)	(28,350)	(30,034)
Accommodation	(919)	(1,541)	(1,164)	(1,257)	(1,357)	(1,466)	(1,583)
Consulting, legal and audit	(1,043)	(1,038)	(1,199)	(1,271)	(1,347)	(1,428)	(1,514)
Debtors provisions	334	1,764	(5,773)	(6,849)	(5,043)	(5,727)	(6,025)
Communication and IT	(418)	(579)	(565)	(599)	(635)	(673)	(713)
Depreciation	(96)	(262)	(262)	(850)	(878)	(878)	(930)
Employee costs	(9,459)	(10,679)	(10,372)	(11,848)	(13,163)	(14,380)	(15,243)
Marketing and workshops	(482)	(594)	(661)	(701)	(743)	(788)	(835)
Printing and stationery	(308)	(240)	(399)	(423)	(449)	(475)	(504)
Travel and entertainment	(912)	(2,088)	(1,580)	(1,675)	(1,775)	(1,882)	(1,995)
Other	(425)	(497)	(548)	(581)	(616)	(653)	(692)
Profit before taxation	29,252	18,487	17,571	13,010	12,440	12,962	5,598
Taxation	(9,305)	(5,214)	29,584				
Profit after taxation	19,947	13,273	47,154	13,010	12,440	12,962	5,598

Balance sheet

	2013/14 R000 Actual	2014/15 R000 Budget	2014/15 R000 Forecast	2015/16 R000 Budget	2016/17 R000 Budget	2017/18 R000 Budget	2018/19 R000 Budget
Current assets	**260,103**	**285,653**	**263,276**	**270,392**	**262,961**	**300,922**	**276,901**
Cash and cash equivalents	119,914	125,957	123,905	131,848	129,089	125,230	99,562
Receivables	137,182	158,014	138,440	138,426	133,754	175,575	177,222
Prepayments	1,141	931	931	118	118	118	118
Taxation	1,866	751					
Non-current assets	**268,866**	**244,729**	**313,260**	**313,817**	**327,500**	**346,750**	**371,753**
Receivables	252,019	239,741	307,602	302,760	317,670	337,103	362,107
Investments	9,564	4,875	4,875	9,564	9,564	9,564	9,564
Property, plant and equipment	210	114	784	1,494	266	82	82
Total assets	**528,969**	**530,382**	**576,536**	**584,209**	**590,461**	**647,672**	**648,654**
Liabilities							
Current liabilities	**9,022**	**8,123**	**8,200**	**8,676**	**8,302**	**8,366**	**8,302**
Payables	818	845	845	1,411	1,019	1,041	1,041
Current portion of long term borrowings	6,402	5,814	5,814	5,814	5,814	5,814	5,814
Provisions	1,546	1,250	1,327	1,194	1,218	1,267	1,204
Employee benefits	256	214	214	257	250	244	244
Non-current liabilities	**134,885**	**136,119**	**136,120**	**130,306**	**124,492**	**118,678**	**112,864**
Borrowings	133,243	136,119	136,120	130,306	124,492	118,678	112,864
Total liabilities	**143,907**	**144,242**	**144,320**	**138,982**	**132,794**	**127,043**	**121,166**
Net assets	**385,062**	**386,140**	**432,216**	**445,226**	**457,666**	**520,628**	**527,488**
Net assets							
Grant capital	**285,738**	**285,738**	**285,738**	**285,738**	**285,738**	**335,738**	**335,738**
Retained earnings	**99,324**	**100,402**	**146,478**	**159,489**	**171,928**	**184,891**	**190,489**
Total net assets	**385,062**	**386,140**	**432,216**	**445,226**	**457,666**	**520,628**	**526,227**