

AFRICAN DECISIONS



BUILDING ON HOPES

KUTOANE KUTOANE

CEO at the Gauteng Partnership Fund

Degrees of importance_Tackling climate change
Ground-breaking efforts_Organic farming
Deep impact_Mining and the community
Pure and simple_Refining safe drinking water
Learning curve_Oil and gas training programmes



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Kutoane Kutoane of the Gauteng Partnership Fund is driving a bold strategy for the low-cost social housing programme. By KERRY DIMMER

The company Kutoane Kutoane

joined in 2007 did not compare in any way to his previous corporate employers.

For one thing, the Gauteng Partnership Fund (GPF) was a relatively small, provincial business; its funding by government was drying up; and it would take him out of his comfort zone of 'high' finance into 'low' finance.

What really attracted Kutoane, aside from the challenge of being CEO, was the GPF's mandate to drive its strategy for low-cost social housing programmes. 'That was exactly what I was looking for,' he says. 'Here was a business that was very passive, literally operating on a day-to-day basis. It needed an injection of activism with strategies that would drive and promote its unique offerings to the market.'

The concept of the GPF was formalised in 2002 by the Gauteng Department of Housing. It wanted to create a bridging mechanism that would link low-cost housing developers to the then-nervous financial institutions. The GPF was slow to evolve, given the uncertain political times and the process of building a democracy in 2004.

'Banks were cautious then, pulling back on financing low-end housing

because they could not appraise the risks,' says Kutoane. 'The margin of return was so low that it's easy to understand why they would not want to be involved in what, in essence, was a new market segment, of which they had little knowledge or experience.'

This all changed when the government introduced a public risk capital strategy: it would assume the first-risk position, in the guise of GPF-funded projects. This meant that any funding provided by a financial institution on a low-cost housing development would not exceed 70% in the senior debt. The GPF would fund the balance, so if the project went belly-up, the senior debt financier would be cushioned.

'By doing this, the instrument with which we funded would have a character of equity but in a form of subordinated debt,' explains Kutoane. 'Not only was this an attractive model, it also created a blended rate scenario that translated into a debt that would cost less and therefore be more affordable.'

Local banks were very interested (particularly Standard Bank and Absa), so much so that they have been enticed to provide some US\$293 million to date, resulting in over 18 000 housing units

being provided to the GPF's target beneficiary group, which is households earning between US\$200 to US\$1 600 per month. This has an impact on a far higher percentage of people, given that one can expect a household in this sector to be between four and five members. 'You do the figures,' says Kutoane.

Such properties are purely residential and for rental, not for sale, given that anyone earning more than US\$1 600 per month is more likely to be in a position to qualify for a home loan.

Included in the group that would find such housing projects enticing are individuals who may be able to afford a rental property, but because there are simply too many people (particularly close to industrial and commercial areas), may be forced into squatter camps.

There is also a large percentage of civil servants needing accommodation and, as Kutoane points out, there's a huge migratory workforce in Gauteng (an area he considers to be 'the economic hub of almost the whole of Africa') that has no incentive to own property, given that they will return to their homeland.

'Gauteng is actually a tricky province,' explains Kutoane. 'The more we build, the more we need to build, as it seems

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to attract more people. It sometimes feels as though we're chasing a moving target. But that's all good, not just for business but in satisfying the demand for housing which, as we know, is part of the government's agenda in addressing basic needs.'

Viable developments have to be evaluated by a GPF project officer whose prime directive is to ensure that the project makes sense technically and financially, before the GPF's board can determine whether it really is attractive enough for a senior funder. The sponsor/developer must also be able to provide some equity in order to demonstrate their willingness to take some of the risk.

But this does not mean that the GPF only looks at existing developers. It recently launched a programme to attract emerging entrepreneurs into the property sector by relaxing some of its criteria. But this comes at a cost, says Kutoane.

'They have to do intensive training in property management, proving to us that they are serious about getting into this market.'

As a qualified economist, Kutoane knows all about showing serious intent. He boasts degrees from the University of Manchester and Harvard Business School, and he's worked for some of

the top financial institutions, including Nedbank, Future Bank, International Finance Corporation and the Industrial Development Corporation.

He also bought into a business that was refreshed by his business acumen for four years before he sold his shares to Absa so that he could pursue his passion for social transformation in a development-related environment.

The GPF ticked all his boxes. In his role as CEO of the GPF what Kutoane had in mind was to drive the organisation to maximum achievement, which meant, he says jokingly, 'sometimes needing to be a slave driver'.

But it is obvious that his passion for social transformation has directed and motivated the GPF to perform, and he's far from done.

Given that the GPF has not received any funding from the government since 2003 and has depended on repayments for its survival – and that such repayments are way below market interest rates – its capital base is eroding.

'This is not a sustainable business model so what we need to do now is to raise funding from organisations other than banks,' says Kutoane. 'We'll be looking at pension funds, also corporates with substantial social investment budgets and institutions that have large resources, and this will not be limited to

South Africa. However, this is quite a tricky thing to achieve as the GPF is limited to one province.

'This brings me to my next mission: I will be making a proposal to central government for the GPF's model to extend beyond the province, whether that means we need to transform or create a new entity doesn't matter. What we have is a successful blueprint that proves the GPF is economically viable, so why not roll it out across the country?'

It's a business model that could work anywhere in Africa, particularly in developing countries where industrial and commercial development is attracting informal housing societies at a faster rate than governments and local municipalities can cope with.

Kutoane's energy and enthusiasm is not limited to the GPF. Here is a man who walks his talk by being actively involved, in his leisure time, in local community programmes that advance the development of education, health and social issues.

'It's a hard thing to ensure empowerment and even harder to get people to buy into your vision of that. How do you measure that kind of commitment?' he asks. But it's a rhetorical question: 'When people see your passion, see that you are determined, they follow.' **AD**