November 1999 CDE FOCUS

Occasional papers reflecting continuing research produced for the Centre for Development and Enterprise

Housing in South Africa

Significant government achievement based on public-private partnership

Dan Smit

HoW well has the South African housing sector performed since the new policy framework was inaugurated in 1994?

Government's stated goal was to increase the housing sector's share of the national budget from its current 1 % to 5% (to increase delivery incrementally to 350 000 units per annum within five years), and to produce at least one million houses for low-income people over five years. When the report cards on the new government's first term are drawn up, the housing sector may well be a star performer.

According to Department of Housing figures, by March 1999 a total of 745 717 units were either completed or under construction, not far short of the million units promised. After a very slow start, the delivery rate had escalated dramatically, averaging 200 000 per annum and in 1998 approached the 350 000 per annum target. By early 1999 1 034 161 subsidies had been approved.

This impressive delivery record has been achieved against a lukewarm government fiscal commitment to housing. The housing budget for 1998/1999 was 24% lower than the 1997/1998 allocation of R4,8 billion (which included a Rl,76 billion rollover). However, government's housing budgets for 1999/2000 and 2000/2001 are even greater cause for concern. The budget rose only marginally to R3,74 billion in 1999/2000, and will drop to R3,6 billion in 2000/200l.

Housing budgets should be growing at an increasing rate before slowing and stabilising. Failure to do so is already leading to the demobilisation of capacity, which has been so hard to build.

A reduced budget allocation is an indication that not all of those in government are satisfied with the housing delivery process. Less money means less faith. Criticism over the quality and size of homes delivered is affecting government's faith in the entire process.

On a more positive note, policy measures to mobilise private sector capital have had some success. The National Urban Reconstruction and Housing Agency (NURCHA) has provided guarantees contributing directly to mobilising capital for 45 318 houses in 123 projects. Moreover the Mortgage Indemnity Fund (MIF) accredited 15 banks between June 1995 and February 1998 and provided cover in 543 areas previously denied investment. Through such cover, 140 345 loans were facilitated at a value of RIO billion (the original MIF target). Of these, 77 996 loans (worth R4,2 billion) were for subsidy-eligible households.

Despite tension between government and financial institutions, significant progress is being made to link the urban poor to South Africa's finance sector. The Banking Council South Africa (formerly COSAB), confirms that almost 300 000 mortgage-based loans (worth R14 billion) were made in the townships between 1994 and April 1999. Most have gone to households earning over R3 500 per month. Further micro loans to the value of R3 billion secured against pension and provident funds have also been made.

Moreover, there has been major growth in provision of unsecured cash loans by non-traditional lenders. Retail lenders are making 15 000 cash loans monthly, with an average loan size of R3 000. Neither the secured micro-loans nor the unsecured cash loans are necessarily linked to housing investment, but substantial proportions probably are.

Government launched the Masakhane Campaign in 1995 to restore an ethic of payment for services, loans advanced and the redemption of capital. The campaign aims for housing funds to subsidise new housing starts, rather than for running costs of existing

This is an executive summary of a research paper commissioned by CDE. The views expressed are not necessarily those of CDE.

dwellings. The government has recognised that people cannot be expected to pay for poor quality services. Thus the Masakhane Campaign has been twinned with a major upgrading of township infrastructure. Weighed against the progress in mobilising end-user finance, the Masakhane Campaign has a long way to go. The Banking Council reports that in June 1999 it had approximately 33 000 non-performing township loans worth R1.8 billion. Another 20 000 are over three months in arrears. Since the late 1980s 18200 township homes have been repossessed, but usually the banks have not been able to evict defaulters.

International comparisons

In an international context, are these successes substantial or only moderate? The most frequently quoted instances of 'big' delivery successes are Singapore, Cuba and Sweden.

Country	Total houses built	Houses built in first 5 years
Singapore	585 000 in 26 years	55 430
Cuba	500 000 in 25 years	85 000
Sweden	1 000 000 in 10 years	250 000
South Africa	750 000 in 5 years	750 000

Whilst caution is wise (the quality and dimensions of housing stock provided in each case cannot be directly compared to South Africa's core houses), one must be impressed with what South Africa has achieved. "In comparing South Africa to the very best success stories over the last 30 years, one begins to feel less a sense of disappointment than a sense of awe at the task the new government set itself. Set alongside these examples, South Africa's delivery rate should look like a stunning achievement in anybody's books".l

Sweden devoted between 6% and 7,5% of GNP per annum to the housing sector over a ten-year period. At peak, the housing vote was nearly 20% of government's annual budget. By contrast, South Africa's 1998/1999 housing budget is only 1,9% of total government budget. Eighty percent of the R3,6 billion housing budget is allocated to subsidies (R2,8 billion or 1,6% of national budget). This compares unfavourably with other countries. Housing subsidies average 3,7% of government budgets in a 19 country World Bank study, with a range of between 1 % and 14%.2 At 16% of budget, South Africa is in the lowest quintile of the World Bank distribution, which is hard to understand or justify given existing backlogs and a supposed commitment to the poor.

No single international experience has had an overwhelming impact on the formulation and adoption of South Africa's housing policy. The use of capital subsidies as a cornerstone of incremental housing delivery resembles market-friendly systems in Thailand, Chile and Argentina. On the other hand, the use of institutional subsidies to allow the formation of the South African housing associations (e.g. Durban's First Metro Housing Company, the Johannesburg Housing Association etc.) is modelled on Dutch and British experience. Aspects of policy which allow communities to package projects and apply for subsidies along with measures aimed at providing wholesale finance to non-traditional lenders mimic development models in India and Sri Lanka.

South Africa's housing policy is often compared to Chile's. In 1975 Chile liberalised its economy and introduced structural adjustments following severe recession and the collapse of its savings and loan industry, due largely to high inflation and a stagnant housing sector. Housing shortages were acute, with most low-income housing delivered directly by government. Reforms involved moving from large, unmeasured, unpredictable, and poorly targeted state subsidies or direct housing provision, to highly targeted, demand-driven, direct, one-time lump sum subsidies, which allowed households to purchase stock on the open market. Households were required to save at a chosen financial institution, which also provided a mortgage loan. Savings and the loan were prerequisites for accessing subsidies, which could be used only to augment savings and credit lines in the purchase of a house. These reforms saw employment in the housing ministry drop from 30 000 to 3 000, whilst housing production rose from below 20 000 to 80 000 units annually.3

The Chilean approach has many advantages. It eliminates the 'projectising of development' by decentralising housing production and freeing government from responsibility for the quality of stock and overall environments produced (except through its planning and urban design regulatory frameworks). The quality of stock is also improved by allowing recipients to gear personal savings and loan capital towards improving their living circumstances.

When the report cards on the goverlJ,ment's first term are drawn up, the housing sector may well be a star performer

The Housing White Paper

The November 1994 White Paper, *A New Housing Policy and Strategy for South Africa* commits government to "the establishment of viable, socially and economically integrated communities situated in areas allowing convenient access to economic opportunities as well as health, educational and social amenities". All South Africa's people will have access to "a permanent residential structure with secure tenure, ensuring privacy and providing adequate protection against the elements; potable water; and sanitary facilities including waste disposal and domestic electricity supply".

Key challenges outlined in the Housing White Paper include:

The large scale of current and anticipated housing requirements (the backlog in 1994 was estimated at 1,5 million units).

Apartheid spatial engineering created inefficient settlement patterns for commuting and infrastructure provision.

Role confusion and inefficiency in a myriad of housing institutions.

Lack of clear policy direction.

Absence of end-user finance for lower-middle and low-income people, despite a world-class financial sector.

Complex, slow and frequently unsatisfactory tenure and land allocation procedures.

Constraints in the housing construction sector (monopolies, limited capacity, bottlenecks, and misfits between demand and supply capacity).

Complex socio-political issues such as high expectations, poor consumer education, nonpayment for services, lack of special-needs housing, and violation of women's housing rights.

National and provincial policy

The constitution identifies housing as the *concurrent* responsibility of both central and provincial government. Few provinces have formulated 'provincial' policy, but several have proposed (and implemented) modifications to central government policy. Partly because central government has failed to clearly distinguish national guidelines and parameters, there has been substantial conflict over fundamental matters of principle between the centre and provinces.

The Free State government, for example, rejected the notion of incremental housing and set a 40m^2 floor area minimum standard for top-structures as a prerequisite for approving subsidies. This meant that very poor people could simply not access housing subsidies. The Free State, Eastern Cape and Gauteng allowed local authorities to subsidise the provision of serviced sites whilst using central government housing subsidies for top-structures only. These 'hidden' or 'double subsidies' distorted the housing market and 'squeezed out' the private sector. Free State local authorities have also used subsidy money as bridging finance at zero interest rate. Such departures from national policy (which only permits this where the local authority is the developer and the private sector company is a contractor) make it -difficult for private sector companies to package and initiate projects in some provinces. This in turn burdens local authorities, who often lack the capacity to take the lead.

In 1996, two Ministerial task team reports examined ways of co-operating to accelerate delivery. The first suggests that provincial governments should be encouraged to formulate and take responsibility for provincial housing policies. It proposes that additional provincial or local government subsidies should be allowed, provided they are transparent, do not distort markets, and are applied responsibly. This is in line with the new Housing Act (Act 107, 1997) that allows policy to be devolved to local authority level where such capacity exists. The second report emphasises institutional arrangements, but focuses on accelerating implementation. It proposes joint ventures between the private sector and local and provincial authorities.

Partly because central government has failed to clearly distinguish national guidelines and parameters, there has been substantial conflict over fundamental matters of principle between the centre and provinces

National subsidy policy

A cornerstone of housing policy is the national subsidy policy. It is designed to take account of popular demands, enormous existing and projected backlogs, fiscal constraints, and to minimise housing and financial sector market distortions. It offers lump sum or one-off 'capital' subsidies, which are preferred over interest subsidies primarily because of South African 's high unemployment.

The three routes of accessing subsidies are individual, project linked and institutional (e.g. housing association). Subsidies are targeted at new housing starts, although top-up subsidies are available where previous state investment in projects is below the current subsidy amount. Current property owners are ineligible for subsidies.

The subsidy amount is graded by income. Households earning below R1 500 per month are entitled to R16 000. Those between R1 501 - R2 500 monthly are entitled to R10 000, and those earning R2 501 - R 3 500 can receive R5 500. The amount may be increased by up to 15% in circumstances of proven environmental difficulties. Due to recent policy shifts, the subsidy maximum now applies to *all* income categories below R3 500 per month, but for *institutional* subsidies only. This reflects government's conviction that this route will attract private sector enduser finance, through institutions accessing global loans and then repackaging and on-lending money through rental, rent-to-own, or instalment sales to endusers.

The lump sum subsidy represents a compromise between popular demands to deliver complete houses for all, and a concern to spread housing benefits widely. The maximum available to the very poor (R16 000) is insufficient to cover the costs of a serviced site and a 40m^2 top-structure (which typically costs R40 000). Households must augment subsidies with a loan or savings, or undertake an incremental approach to housing, beginning with a rudimentary shelter.

Policy attempts to ensure public and private delivery agents compete on 'level playing fields', with equal access to transparent subsidies. Both must apply to provincial housing boards for subsidies and are assessed by the same criteria.

Initially, developers provided substantial working capital up-front and could only access subsidies on the transfer of a site into an end-user's name. This contributed to developer efficiency, but it also raised the risks to developers, which few were willing to take. Under enormous pressure to accelerate delivery, government now permits developers to access project-linked and institutional subsidies on a staged drawdown basis.

Housing credit

South Africa's highly sophisticated finance sector has a strong, long-standing housing sub-sector functioning well in the established 'white' housing market. The challenge is to make these resources available to the majority, who are low-income and black. Financial institutions have shown substantial reluctance in lending to a market considered as high risk, with low profit margins.

Government has attempted to address this challenge by gaining the co-operation of finance institutions through assuming some of their risks and normalising the lending environment. In return, lending institutions in 1994 committed themselves to making 50 000 mortgages to lower-income earners within one year (the *Record of Understanding* between the Association of Mortgage Lenders (AML) and the government). Several subsequent initiatives have addressed private sector concerns:

The Mortgage Indemnity Fund (MIF): essentially a government-owned company providing a 'guarantee' scheme to financial institutions prevented from selling assets of those in loan arrears. Intended to be short-lived to normalise the lending environment, the scheme ran from June 1995 to May 1998.

Servcon Housing Solutions (launched June 1995), jointly owned by government and the AML, offers defaulters a special, one-off deal to ultimately regain properties or find 'right-sized' accommodation. Servcon 'manages out' properties in possession and non-performing loans. A special purpose institution called Thubelisha Homes (meaning 'new opportunity') has been operating since January 1999 to provide 'right-sized' stock based on income levels.

The Product Defect Warranty Scheme administered by the National Home Builders Registration Council (NHBRC), launched in 1995 compels housing developers/contractors to guarantee against defects. It provides additional cover to financial institutions, and protects consumers. There are plans to extend it into the incremental housing market in 2000.

The National Urban Reconstruction and Housing Agency (NURCHA) uses guarantee funds to mobilise both bridging and end-user finance for low-income housing purposes.

The National Housing Finance Corporation (NHFC) mobilises wholesale finance for the housing sector. It facilitates the non-traditional lending sector (stokvels and agencies making small non-bond loans) and helps kick-start the establishment of new financial 'institutions', which government considers the best way to get end-user financing to the poor at scale. Examples are the Khosela Housing Finance Company (Durban) and the Peulwana Housing Finance Company (Gauteng) targeted specifically at women.

The NHFC provides these institutions with start-up capital (so-called 'quasi-equity' or zero real interest loans) and wholesale funds, until they can access private sector capital. It also established the Social Housing Foundation in 1998, as a membership-based advocacy and support organisation for the incipient 'social housing movement', whereby individuals rent or rent-tobuy revamped or new properties. A Housing Institutions Development Fund was established to channel 'set-up' and global loans to the new housing institutions.

The NHFC has established 'Project Gateway' (officially launched March 1999), as a faster way to get credit to end-users. It creates a secondary mortgage market, providing a package of housing subsidy and credit from R20 000 to R50 000 to

Housing subsidies average 3,7% **of government budgets in a 19 country World Bank study. At 1,6% of budget, South Africa is in the lowest quintile**

low-income, regularly employed beneficiaries. Medium-term loans are provided at fixed interest rates over a five- to ten-year period. They are partially secured against pension funds, and payroll deductibility is also required. Accredited NHFC underwriters assess credit worthiness and conclude loan contracts knowing that approved loans will be purchased by the NHFC at the time of disbursement (i.e. at transfer).

Critiques of housing policy

The success of national housing policy has not been universally recognised, and has been criticised from several quarters, including orthodox Marxists, 'makethe-market-work' lobbyists, 'people-driven-process' or support advocates and built environment professionals.

Orthodox Marxist critique

Bond and Tait's (1997) orthodox Marxist critique attacks present housing policy as being too 'market-centred.' According to them, government's recent shifts have led to:

State withdrawal from housing provision.

Un affordable housing and inadequate subsidies.

Empowerment of large developers over com-munities through joint ventures.

Failure to protect the poor against 'downward raiding' (that is, a process whereby subsidies meant only for the poor are accessed by relatively wealthier individuals).

Absence of readily available land.

Reliance on the market for supply of construction and building materials.

In a later subsection of this paper, it will be argued that far from being 'market-driven' and leading to state withdrawal, housing policy is actually quite 'statist' in practice. Turning to the issue of inadequate subsidies, Bond and Tait argue that fiscal constraints are not so stringent as to disallow substantial increases to the housing vote. Arguments made previously in the paper about a disappointing allocation of the state budget to the housing sector support this view. Whether any additional allocation to housing should be used to 'deepen' subsidies or 'widen' reach remains a fundamental policy choice (notwithstanding Bond and Tait's assertion that the 'width-depth' debate is a false dichotomy).

Bond and Tait also reject up-front capital subsidies, as being vulnerable to 'downward raiding' and inflexible to changes in consumer affordability. Instead they propose blending subsidy money with market rate borrowings through a new national housing bank, at interest rates well below market rates. But this would diminish the chances of subsidies reaching intended beneficiaries, andsubsidised loans imply regular repayments, unlikely considering South Africa's high unemployment.

Interest rate subsidies are also notoriously difficult to administer. As cumulative costs they reduce budgetary flexibility and complicate planning. A national bank would have little incentive to efficiency because of its monopoly on lending to low-income earners, and is likely to squeeze the private sector out of this market. Interest rate subsidies allow higher income individuals to get higher absolute subsidies than poorer people do, because they take bigger loans. Crucially, interest rate subsidies might increase the very poor's vulnerability by binding them to a loan. Current capital subsidies give the poor access to an immediate asset rather than a longer-term liability.

Bond and Tait are unclear on mechanisms to circumvent 'downward raiding.' They call for 'non-speculative' subsidies that must be repaid on leaving or passed through into the stock of co-operatives (collective tenure options). The best bulwark against 'downward raiding' remains ensuring a generous supply in *all* sub-markets, while Bond and Tait argue that disproportionately large state funds are being utilised in the initiatives to entice banks to make long term loans to low-income people. Supply in the socalled 'starter market' (those earning R1500- R3 500) can make stock available to the poor through filtering processes.

Far from being 'marketdriven' and leading to state withdrawal, housing policy is actually quite 'statist' in practice

Market perspective critique

The World Bank critiques housing policy from a 'make-the-market-work' perspective. It focuses on subsidy design and linkages to financial markets that would make both the MIF and the national housing bank unnecessary. Going against the World Bank proposals, South African policy makers have subsequently implemented both measures"

The World Bank argues that housing subsidies should be committed up-front to all eligible households with matching savings contributions in a housing account. The very poor would have earlier maturation dates, reflecting the prioritisation of housing needs and allowing the state to manage its annual fiscal burden. The interest rate would be inflation-linked and taxfree, compensating people waiting to withdraw their entitlement. The savings requirement would filter out those not serious about accessing housing. With the security of a subsidy deposit, accumulated savings and a demonstrated savings record, financial institutions would be willing to make longer-term loans.

Advantages of the World Bank's up-front subsidy plan are:

- It promotes consumer choice regarding tenure, type of housing, and location.
- Immediate accessibility to subsidies for individuals without needing to wait for a housing 'project'.
- It allows government to make a credible fiscal commitment to housing and redistribution without having to take responsibility for housing projects.
- By rewarding savings efforts and patience, it provides a fair queuing system for accessing subsidies.
- It integrates poor people into the formal financial sector.

Despite the World Bank possibly overestimating the very poor's capacity to save, the scheme allows subsidy monies to be used in the private rental sub-market. This scheme's main weakness is that it emphasises demand-side intervention and underestimates supply-side constraints, and may thus prove highly inflationary. Moreover it depends on the provision of serviced sites by local authorities. Such reliance may be unrealistic given fiscal constraints. In December 1998, for example, 631 out of South Africa's 830 municipalities reported a combined total municipal debt of R12 540 904 414.[4]

Surprisingly, the World Bank proposals have been largely ignored by government, although Cape Town is implementing a variant thereof, the so-called 'Cobbett Initiative,' whereby the city tops up national government subsidy money only if individuals have savings as part of a deposit or surety. It may be time for South African policy makers to revisit the World Bank proposals.

Support paradigm critique

A third critique comes from the 'people-driven' or 'support' paradigm, represented by Bolnick (1996) of the People's Dialogue, an NGO supporting the Homeless People's Federation, the country's most influential community-based housing movement. Bolnick argues that new housing policy primarily serves private sector interests - particularly financial institutions - because of their disproportionate influence in the National Housing Forum. Policy also appears insensitive to people-driven development. However nothing precludes peoples' organisations from applying for project-based, institutional or individual subsidies to finance community-based initiatives.

The uTshani Fund, for example, established with a R10 million government grant in 1995, is argued to be a people-centred approach to financing delivery, in contrast to subsidy policy; It makes bridging loans ahead of subsidy, repayable when the subsidy becomes available. Through the Homeless People's Federation, people themselves administer the fund, with loans being made to housing savings schemes on a collective basis.

Current policy is not opposed to community mobilisation, but has not pro actively pursued it either. A key component remains community participation through a 'social compact' that must be signed between key players: the community, the developer, local authorities and financiers, before the approval of projects for subsidy support. Everyone must commit to the project and agree individual roles and responsibilities. However 'social compact' requirements sometimes constrain rapid delivery, and a 'social compact' does not automatically equate to mobilising community partnerships. Formal sector players dominate as successful developer applicants, far outperforming peoples' initiatives in accessing government funds and translating them into housing opportunities.

Organisations like the Homeless People's Federation illustrate the benefits of mobilising 'sweat equity' into housing projects. But whether their methods can be replicated quickly and at scale has yet to be demonstrated.

Built-environment critique

A final critique emanates from 'built-environment' professionals - particularly architects and urban designers. They focus on housing policy's failure to re-structure the apartheid city or create more liveable and urbane environments. Dewar (1998) for example believes current policy actually exacerbates apartheid planning's sterile urbanism and aspects of British town planning embedded in it (e.g. un i-functional zoning). Most low-income housing is confined to the urban periphery because of failure to vary subsidy with location in the city in the context of high inner city land prices.

Evaluation of current policy and practices however must be contextualised against fiscal constraint and equity considerations. There may well be more room for differentiating subsidies by location. But these provisions would violate equity principles, as equally poor people would receive different subsidies simply by virtue of their location. Equity concerns may however have to be traded-off against restructuring goals and creating liveable inner cities.

Current policy envisages incremental delivery; it is therefore unfair to judge the actual product delivered rather than what will emerge as individuals invest in

Surprisingly, World Bank proposals have been largely ignored by government. It may be time for South African policy makers to re-visit these proposals

their own housing. Current policy differs from policy in the past particularly with respect to terms of tenure arrangements and the emphasis on mobilising end-user finance. Both provisions will substantially increase the likelihood of ongoing improvement in housing stock through private investment.

An additional hypothesis worth considering is that poor location and sterility of housing projects may be more a function of weak urban management than housing policy *per se*. In Durban, for example, an Integrated Development Plan for the North and South Central Local Councils excludes housing, as that is considered the responsibility of another sphere of government. In such an instance it should not be surprising that new housing projects do not receive public environment investments (because they are not part of the IDP). It should also be noted that there are many examples countrywide of successful inner-city upgrading projects (e.g. Burnwood Road, Briardene and Cato Manor in Durban). If local authorities took a stronger hand in prioritising projects and in utili sing effective planning controls, the 'built-environment' critique might not be so applicable.

Policy Challenges

Housing policy might best be described as 'bottom-up market-friendly state welfarism,' a compromise that has delivered but has nevertheless not escaped some of the contradictions associated with this fusion. Despite appearing to be strongly 'market-friendly,' policy is actually rather 'statist'. Private sector developers have accessed project subsidies on the same basis as government implementing agencies. End-user financiers have been drawn into the process, and, by promoting ownership, have created the conditions for future market exchange. However the programme is still state-subsidy driven and focused on 'projects'. Only 10% of subsidies allocated to date have been individual subsidies and virtually all housing activity has occurred in 'projects'.

Another 'statist' feature is that private sector developers have unexpectedly crowded into the lowest end of the market, because they have avoided producing housing requiring end-user finance over and above subsidy. Leverage of both private end-user and bridging funds has not occurred at the scale expected.

The clear identification of delivery targets has focused the housing drive, but the magnitude of the problem is often exaggerated. This has led to a product-oriented as opposed to process-oriented conception of housing and has down played urban quality issues. By the Housing Department discounting all shelters not meeting minimum standards, there has been a tendency to exaggerate shortages.

Policy makers have assumed that most housing subsidy beneficiaries are permanent urban dwellers, but have underestimated the extent of circulatory migration. Research on consolidation in two decadeold housing projects reveals interesting disparities. In Inanda New Town, Durban, 63% of households had not extended beyond the original houses' perimeters because they were apparently large enough. In Khayelitsha however only 23% had *not* added to the much smaller original house. Policy makers must recognise the impact of circulatory migration and ongoing attachment to the rural areas on expected rates of consolidation, and develop 'transitional' housing policies like those evident in Gauteng and KwaZuluNatal.

The assumption that most people want to become homeowners as opposed to renters has been insufficiently tested. Significant demand exists for rental accommodation, particularly amongst circulatory migrants. While policy is not geared to provide rental housing (except through the institutional subsidy and the hostels programme), there has always been a vigorous private rental sub-market. New owners often sub-let, and this sub-market has increased supply of privately owned stock. The growth of new housing institutions should further increase rental stock, even though only 2% of the subsidies allocated to date are institutional.

South Africa's present housing policy has been hailed as the country's first non-racial policy. Militating against non-racial residential outcomes however is the emphasis on project-based-delivery, and 'social compact' requirements, with the unintended but frequent outcome that the most proximate communities insist that sites provided in projects nearby should be allocated to members of their own community, a process of 'gate-keeping'. Such communities are historically constituted on a racial basis, therefore 'own' community allocation reinforces the apartheid legacy.

Even where allocation processes are not subject to 'gate-keeping' individuals from minority race groupings often fear being part of predominantly African settlements. 'Gate-keeping' intensifies the negatives of 'projectising' development. Individuals cannot secure housing unless there is a project that they can access. Frustration is likely if individuals cannot compete for available sites. 'Gate-kept' sites are highly unlikely to reach the neediest. For example, in the St. Wendolin's area in Southern Pinetown, many sites remain unoccupied despite being transferred to end-users several years ago, because individuals have chosen to use their eligibility for subsidies as an

The clear identification of delivery targets has focused the housing drive, but the magni-tude of the problem is often exaggerated. By discounting all shelters not meeting minimum standards, there has been a tendency to exaggerate shortages

opportunity'to speculate. Quite adequately housed at present, they have gained access to the new sites through the 'gate-keeping' process.

'Gate-keeping' can be addressed if local authorities insist that allocations in all 'greenfields' projects (those not on a presently serviced site) are available to all qualifying residents on a first-come-first-served basis. Local authorities must become partners in subsidised projects undertaken by private developers (who would have no interest whether allocations are 'gate-kept' or not). Private developers want to complete projects and are thus highly susceptible to expedient deals with local community leaders. Local authorities will have to be tougher in dealing with this. Open allocations may solve 'gate-keeping' but will not necessarily prevent racially exclusive settlement patterns.

Local authorities, private developers, NGOs and community-based organisations all make project applications to provincial housing boards, who make assessments based on technical and social criteria. The current application-based approach has proved effective where the emphasis is on delivery at scale, because it helps to maximally mobilise delivery capacity and rewards those demonstrating capacity to package and deliver appropriate projects. This differs markedly from a process where government (at various levels) identifies programmes for achieving its spatial, developmental and political goals. A negative outcome of the current application-based approach is that substantial imbalances in housing delivery are occurring, reinforcing existing settlement patterns and current distributions of capacity. These include uneven delivery between local authority areas, provinces, small and large developers, formal developers and communities, urban and rural areas, and inner city locations and the urban periphery.

Current housing policy allows for substantial private sector participation. Members of the private sector participate as developers, contractors, financiers, professionals, and building materials retailers and manufacturers. Many corporations also provide housing support for their workers. By March 1998 some 655 developers/contractors had become involved in subsidy-related projects, including 255 emerging developers/contractors, and the NHBRC has 5889 registered homebuilders.

Many bankers, government financial institutions, and non-traditional lenders believe that government's initiatives aimed at opening up the lower end of the mortgage market to the private sector have failed. As a lending instrument, the mortgage bond has suited neither the needs and circumstances of low-income households, nor the risk-averse instincts of the financial institutions. By contrast however, there is much greater confidence about the prospects of the instruments being packaged by a crop of non-bank lenders making micro-loans available at scale. Such instruments are far more manageable for end-users and are proving to be profitable to lenders.

While it is unlikely that the current emphasis on incremental housing delivery will be displaced, proposals associated with the 1998 Job Summit may yet pose a significant policy challenge. Official announcements on the content of the Job Summit housing initiative are still awaited. It is expected however that these proposals will focus on a pilot project involving the delivery of 50000 units in some 10 to 20 projects countrywide. COSATU is understood to be pressing for some 70% of these houses to be rental units. Apparently projects will be large (average 5 000 units) and the financial arrangement will be comprised of the capital subsidy, an equity contribution from government (extra subsidy), and loan finance at the current mortgage bond rate plus one per cent.

While the initiative is to be welcomed as both a job creator and a kick-start to the social housing process, some concerns must be raised. To begin with, the scale of individual projects is too large and militates against grafting of housing into the existing urban fabric rather than creating new large estates. Secondly, if the bulk of houses are to be for rental then the challenge of creating the institutional capacity to manage large rental estates should not be underestimated. It is particularly crucial that responsibility for looking after such stock is not given to local authorities, most of which have appalling housing records, particularly with regard to collecting rent. Instead the initiative should be used to boost the incipient and independent housing association movement. It should be noted that the housing produced through the Job Summit will in all likelihood not be affordable by the very poor for whom incremental housing will still be the most appropriate form of delivery. The Job Summit initiative will be a welcome addition for those who can afford more.

The assumption that most people want to become homeowners as opposed to renters has been insufficiently tested

Conclusion

Contrary to being a failure, post-1994 housing policy is actually working well, particularly compared to international delivery benchmarks. Government has however neither marketed its success nor dispelled the popular myth that the housing sector is a mess.

Housing policy's strength is its capacity to accommodate various ideological predispositions and associated delivery systems. Side-by-side with a more demand-driven subsidy system, a vigorous housing association movement (established outside of

"

government) has a place in the overall housing framework, particularly in facilitating inner city reconstruction but also in providing additional choice. Apart from subsidies received up front, associations must run like businesses. This has given an efficiency edge to the provision of social housing.

Policy has had limited success in mobilising off-budget funds for the housing sector. Momentum is developing in the non-traditional end-user financing sector. This is encouraging, given the large incremental housing sub-market in South Africa, with its appropriately designed subsidies. The cornerstone capital subsidy system is also proving relatively simple to administer and is reaching targeted end-users. Developers are crowding into the lowest income end of the market. If anything the lower-middle income market is not being properly served.

Policy appears to have succeeded in mobilising delivery capacity, with substantial space for enthusiastic private sector participation. Policy makers have also done well to persevere with policy when nondelivery hysteria in the early years could easily have derailed it. Instead policy makers have, for the most part, made intelligent adjustments to policy without sacrificing major principles.

Despite overall success, several issues are cause for concern and need addressing. These include:

Needing to extend formal mortgage bonds further downmarket.

Basing subsidy budgeting process on non-linear projections.

Increasing housing's budget vote from 1% to 5%.

Normalising the lending environment.

Moving away from 'projectised' housing delivery in formal project areas.

Increasing consumer sovereignty over the housing process.

Circumventing' gate-keeping' by local communities and allowing more individual choice over the location of housing.

- Ameliorating urban sprawl and eradicating apartheid settlement patterns.

Producing better quality housing environments.

Promoting the capacity of local authorities to facilitate and manage housing delivery.

Focusing on improving slow consolidation in incremental housing projects.

Committing more strongly to the social housing process.

Despite overall success, several issues are cause for concern and need addressing

The full paper is 43 *pages long. Copies are obtainable from CDE at R30 each.*

Professor Smit is the Executive Director of Durban Metro Housing. He also teaches in the Planning Department at the University of Natal.

NOTES

1 B Tucker, Banking Council South Africa press release, May 1998.

2 World Bank Urban Development Division, *Housing: enabling markets to work,* Washington DC: World Bank, 1992.

3 B Renaud, *Housing and finandal institutions in developing countries: an overview,* World Bank Staff Working Paper no. 658, 1984.

4 Figures provided by Municipal Finance Management Office, Department of Constitutional Development.

published by the Centre for Development and Enterprise
Pilrig Place, 5 Eton Road, Parktown, Johannesburg 2193, South Africa POBox
1936, Johannesburg 2000, South Africa
Tel 27-11-4825140 Fax 27-11-482 5089
e-mail: info@cde.org.za
http://www.cde.org.za