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A GAP IN HOUSING FINANCE PROVISIONING IN SOUTH AFRICA: A STUDY OF AN EXTENDED HOUSEHOLD IN PIMVILLE, SOWETO

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A research report submitted to the Faculty of Engineering and the Built Environment at the University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Built Environment (Housing)

Johannesburg 2013

DECLARATION

I, Lindiwe Mbongwe, declare that this dissertation is my own unaided work and all sources have been acknowledged by means of complete references. It is being submitted for the degree of Masters of Science in Housing at the University of Witwatersrand, Johannesburg (Republic of South Africa), and it has not been submitted before for any other degree or examination at any other university.

……

Lindiwe Mbongwe

21 March 2013

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LIST OF ABBREVIATIONS

ABIL	African Investment Bank Limited
AMI	Area Median Income
ANC	African National Congress
ECA	Ethnographic Content Analysis
FSC	Financial Sector Charter
GHB	Government Housing Bank (Thailand)
HDFC	Housing Development Finance Corporation (India)
HPF	Housing Provident Fund (China)
HSS	Housing Subsidy Scheme
IBS	Information Based System
ICESCR	International Covenant on Economic, Social and Cultural Rights
ID	Identity Document
MFI	Microfinance Institution
MID	Mortgage Interest Deduction
NHFC	National Housing Finance Corporation
PAR	Participative Action Research
RHLF	Rural Housing Loan Fund
UDHR	Universal Declaration of Human Rights
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

ABSTRACT

In South Africa, there is a group of families that live in small four-room houses that were transferred to them by the apartheid regime in 1978. As elsewhere in the developing world, many of these families are extended families which live together because they do not have any other options.

This study explores the housing needs and living conditions of the Ndala family and three other extended families living in or near Pimville, Soweto. Structured interviews, observations and evaluation research are utilised to determine the extent to which poor extended families in South Africa are excluded from housing finance. Literature discussing self-help housing, livelihoods, poverty and enablement is presented in order to construct a theoretical framework, after which an overview of housing finance arrangements in the developed world, developing countries and South Africa in particular provides the backdrop against which the findings are discussed.

The findings and analysis demonstrate that extended families such as those included in the study fall into a gap in the provisioning of housing finance in South Africa. They do not qualify for government housing assistance, and they also cannot obtain loan finance from banks because they do not meet the strict lending criteria. As a result, the extended families turn to non-conventional sources of income and finance such as rental income, loans from relatives and stokvel funds in order to survive and in some cases extend their houses.

It is recommended at the end of the study that South Africa review its current housing policies. Specifically, the study recommends that a new strategy called “rent a room” be put into place in order to assist poor extended families like the Ndalas.

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Introduction

In South Africa, there is a group of very poor families that previously rented government-owned houses during the apartheid era. In 1978, the State converted those leases into full ownership. Today, these four-roomed houses which measure about 42m^2 are often home to extended families. Quite common in developing countries, extended families go beyond the nuclear family and usually consist of parents, children, grandparents, aunts, uncles and cousins all living in the same house. In South Africa, it is particularly poor African families that are forced to live together because they do not have other options.

These extended families are generally excluded from both government housing assistance and loan finance from banks. Some of the reasons for this exclusion are: the poor are defined as a homogeneous group and are all treated in the same manner; the criteria of financial institutions are based on individuals and tend to follow a stereotype about what constitutes joint income; loan products are inflexible and lack innovation; the banks are risk averse; and the government does not provide enough security for banks to take on the perceived risk of lending to poor people.

Housing shortage is a worldwide problem that is in large part caused by urbanisation. In an attempt to understand this problem, numerous studies have been conducted on the evolution of housing finance. However, studies on this theme do not seem to mention the housing needs of extended families, and in particular, there is no mention of housing finance for extended families.

1.2 Background

The Ndalas and their neighbours have been living in the same houses since 1967. With the advent of the new government in South Africa in 1994 came the introduction of numerous housing subsidy schemes and other government programmes intended to help poor communities with their housing needs. The main government intervention that addresses the country's housing shortage is the Housing Subsidy Scheme (HSS). The HSS can be accessed through various means (e.g. developer, province, National Housing Finance Corporation and banks) and has been designed to cater for differing needs and preferences (e.g. Peoples Housing Programme, social housing, informal settlement upgrading, individual, project-linked and hostel development). Yet, the scheme is not as accessible and all-inclusive as many would have us believe, for large families have not been adequately accommodated by the policy. This was confirmed by the former Minister of Housing, Lindiwe Sisulu, who stated in her 2007 budget speech that her Department's delivery of 1.3 million units housed an average of five members per household (Sisulu, 2007). Sisulu's speech bears testimony to the fact that the country's housing success does not include larger households.

The Ndalas are an extended family of more than forty individuals from five generations. Their original government house is in a formal township and is classified by the government as a legally-constructed 53/9 house. This house measures 42m^2 in size and is on a 300m^2 stand. Currently, the house is completely surrounded by corrugated iron extensions (see Figure 1), some of which are rented out to outsiders. These additions have accentuated the property's crowdedness.

The Ndala house is classified as a formal structure and was transferred to them through the discount benefit scheme. The four-roomed house was always inadequate as this family has always been large in size. Since the transfer occurred, the family has expanded manifold, but the Ndalas do not qualify for any of the numerous government interventions intended to help poor families with their housing needs. The size of this house is hopelessly inadequate, and this extended family continues to live in overcrowded conditions. The fact that these houses are classified as formal houses within an established township has also excluded them from the government's *in situ* upgrading policy, which caters for informal settlements. This leaves the families to seek loans for their housing needs.

Almost all of the adults in the Ndala family are unemployed. This means that a home loan from a mainstream bank is not an option. Nor do the family members have the requisite skills or opportunities to secure decent employment. In essence, the family is stuck without any options for bettering their housing situation.



Figure 2: The Ndala house in Pimville, completely surrounded by the shacks they rent out
Photo: Lindiwe Mbongwe, 2012

1.3 Research site

This study is located in Pimville, Soweto, which is today part of the city of Johannesburg. Johannesburg grew rapidly after the discovery of gold in 1886, attracting mining prospectors and job seekers. The early settlers were racially diverse, and for the first few decades, groups of people belonging to different races lived in the same area. Before long, however, Africans were removed from the inner city and resettled in the townships that were established for them. In 1904, Pimville was established as a freehold black suburb. Kliptown was founded around the same time, while Alexandra Township, which is situated some 20 kilometres to the north-east of Johannesburg, was founded in 1912. Residents in these early township settlements did not have to carry passes. They were allowed to own land and graze their livestock (Callinicos, 1987).

Due to rapid urbanisation, African residential areas were in short supply in the early 20th century. Therefore, the Johannesburg City Council undertook to build the township of Orlando in 1935; Orlando later became part of greater Soweto. Built of bricks, these

houses were hailed by the city engineers as 'the future great city of Bantudom' (Callinicos, 1987:4). This old housing stock has bigger yards than more recently constructed township houses, and 80% of the properties are fenced off (*ibid.*).

During the apartheid years, Johannesburg was administered separately from other municipalities such as Sandton and the surrounding townships. It had an all-white city council, while Soweto and other townships were nominally governed by an underfinanced and disempowered black city council. This situation persisted until 1995, when Johannesburg and its neighbouring municipalities including Soweto were united under the single Greater Johannesburg Transitional Metropolitan Council. This placed Johannesburg at the forefront of the implementation of the current government's policies (*ibid.*).

Pimville Township is situated approximately 20km from the Johannesburg Central Business District and about five kilometers from Chris Hani Baragwanath Hospital, which is the third largest hospital in the world. The University of Johannesburg's Soweto Campus is situated in Pimville, and the famous Kliptown where the Freedom Charter was signed in 1955 is only five minutes away. There are two major shopping malls in the area, as well as a well-developed soccer stadium that was sponsored by Nike. The township boasts four high schools, thirteen primary schools and one technical college. A teacher's college was also situated in Pimville before the amalgamation of tertiary institutions. The building it used to occupy currently houses a government department. Pimville is arguably one of the better positioned townships and has well-developed infrastructure and amenities.

1.4 Problem statement

The HSS is not as accessible and wide-ranging as it appears to be. Some members of the Ndala family, for instance, have been on the waiting list for a State subsidised house for more than 15 years, during which time the Ndala circumstances have changed and various policy adjustments have been made. According to Gilbert (2004:26), 'the average waiting period for any subsidy in Chile is 15.6 years. And, for a basic house, it is 21.4 years'. South Africa's profile is similar to Chile's, as its housing waiting list dates back to the apartheid era, and the exclusion of poor families like the Ndalas is unavoidable. The qualifying criteria for subsidised housing includes, inter

alia, that one has to have dependents (Department of Human Settlements, 2009). However, after being on a waiting list for 15 years, one's dependents have likely come of age.

The fact that the poor are defined as a homogeneous group is part of the problem. In reality, there are numerous groups within the poor, such as extended families, that are all submerged under one label: the 'poor'. Another problem is the fact that financial institutions' lending criteria generally consider individual income, limiting what is considered and allowed as joint income.

1.5 Purpose and rationale

This research aims to determine whether there is any formal provision of housing finance for extended families from either the government or the banks. If not, the study seeks to show that South African government interventions intended to address the country's housing shortage exclude extended families. Using the Ndala family as a case study, the research sets out to demonstrate that certain households or categories of households have been excluded from financial assistance because they have been lumped into the broad category of 'poor'.

The research also explores the theory propounded by the United Nations Development Programme (UNDP) (1982) that microfinance is an effective means for poor families to secure credit. In practice, a large proportion of poor families are not able to access microfinance because the formal financial institutions which provide loans have onerous credit requirements. For example, they require a record of regular savings in a formal institution, which excludes the poor who tend to save intermittently and not in a bank (Merrett and Russell, 1994).

In short, the study attempts to ascertain the reasons for the housing situation of this family and to establish whether the current human settlements policy and financial interventions are working for families such as theirs or whether these policies need to be reviewed.

1.6 Research questions

Primary research question: How effective have the different housing finance interventions been in meeting the needs of poor extended families in South Africa?

Secondary research questions:

1. To what extent are housing loans accessible to a poor extended family?
2. How (if at all) has microfinance helped the Ndala family?
3. How has the Ndala family addressed its housing needs over time, and how has the family sustained its livelihood?
4. To what extent has housing policy made provision for poor extended families?
5. Should the housing needs of this family be catered for by the government's subsidy programme?
6. How could poor extended families be helped to meet their housing needs?

1.7 Guiding hypotheses

Judging by the informal building materials used by the Ndala family to extend their house, it seems that they have not accessed any type of repayable housing loan. A further hypothesis is that this family has been excluded from all types of housing finance assistance: government subsides as well as loans from financial institutions. The housing subsidy generally caters for families living in informal settlements through the *in situ* upgrading option, but the Ndalas remain incorrectly classified as a family whose housing needs must be addressed by formal loans. However, without proof of formal employment or income, the Ndalas do not meet the credit qualifying criteria.

1.8 Research approach

This study focuses on international and national housing finance dynamics in order to understand the rationale for the reliance on private financing for housing rather than government fulfilling that role. It holds policy implications in terms of the structure and strategies for promoting housing finance and equity. An evaluation of the pertinent policies was undertaken to uncover the subtle and detailed processes and institutional arrangements that might have affected the Ndala family.

As already mentioned, the Ndala family is made up of more than forty people from five generations. Although the Ndala family might be considered unusually large, it is not a unique case. Knights and McCabe (1997) suggest that the case study is a tool which combines several qualitative methods, thereby avoiding an over-reliance on one single approach. It is for this reason that I decided to combine my observations with semi-structured interviews and documentary data collection. I chose a case study design because it would allow for a more in-depth understanding of the family's circumstances and a better investigation of the hypotheses. A set of theoretical questions served as a guide. These questions focused on the Ndala family as well as other selected families living in the formal township that had not received government subsidies and had not used any home loan or housing microfinance from formal institutions. The data-gathering process was fully participative.

While the case study approach would elicit the views of the families (the Ndalas as well as a few more families), it was also important to review the different types of loans and processes in order to better understand how mortgages and micro-loans are granted to poor families. Therefore, I conducted a desktop study and also approached some financial institutions that are active in the low-income market, requesting information on their products and qualifying criteria. Bryman and Bell (2003) define this data collection method as a summative evaluation.

As will be discussed later, most of the interviewees had little formal education. It was therefore important to conduct the study in the vernacular, which varied from one family to the next. Two families spoke Xhosa, one family spoke Zulu and the last one spoke Sotho. I asked the questions in English and translated them if necessary. The participants generally responded in their mother tongue. More detailed information on the research methods can be found in Chapter 3.

1.9 Conclusion

Chapter One provides the overall introduction to the study. It includes the study's background, rationale and objectives and a description of the area where the study was conducted. The chapter also contains the problem statement, research questions and guiding hypotheses, along with a brief description of the research methods. The remaining five chapters of the report are structured as follows.

Chapter Two consists of the literature review and the conceptual framework. The review focuses on the following thematic areas: extended families, self-help housing, livelihood and enablement. The chapter ends with a diagram which represents the theoretical framework of this study.

Chapter Three describes the research methods used to conduct the study. More specifically, it covers the research design and approach; the population and sampling procedures employed; methods for collecting and processing the data; and the approach used to analyse the data. The chapter also highlights some ethical considerations and challenges that I encountered in conducting the interviews.

Chapter Four provides a detailed evaluation of housing finance provisioning. Housing polices and finance structures in the developed and developing worlds and South Africa in particular are examined and analysed. The information presented in this section was gathered from the desktop study of literature and policy documents, as well as from interviews with sector experts.

Chapter Five discusses data collection and analysis and the study's findings. It first provides the empirical data obtained from the in-depth interviews with the participating families. This is followed by the unpacking and analysis of the empirical data according to the key themes that were covered in the study.

Chapter Six provides a summary of the findings and makes policy recommendations.

This structure has been provided to help the reader navigate through the document. It is now time to turn to chapter two, the literature review.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This study was inspired by and formulated around a poor extended family. The literature review thus begins with a focus on the definition and reasons why people live in extended families. The review then considers existing literature related to the debates and discussions about housing finance for low-income households. Other than some literature from the United States (US) that focuses on mortgage finance, there are no studies that address housing finance for poor extended families. Given the paucity of literature specific to the study topic, I have had to rely on literature that discusses housing finance and finance methods for poor families in general.

After discussing extended families, the literature review centres on the concepts of self-help housing, livelihood and enablement. In the section on self-help housing, consideration is given to non-conventional finance, the role of the government and incremental housing. Livelihood is discussed by means of a focus on themes such as poverty, employment, social inferiority and powerlessness. Finally, 'enablement' is broken down into discussions of partnerships and government subsidies in order to understand the link between finance and the delivery of low-income housing. The chapter ends with a diagram which represents the theoretical framework of this study.

2.2 Extended families

An extended family is defined as a family type that extends beyond the nuclear family to include parents, children, grandparents, aunts, uncles and cousins all living nearby or in the same household. These families tend to be multigenerational. The most common type of multigenerational household is one with a grandparent as the head of household and his/her adult children having moved in with their children (Koebel and Murray, 1999; Killion, 2000; Flannery, 2002).

Extended families are kept together as a result of different circumstances. Killion (2000) cites poverty and homelessness as two important reasons, but notes that extended families do not result only from these two causes. This arrangement is often spurred by the need to combine resources and save money (due to poverty) or to care for older/sick family members, such as when grandparents move in with an adult child's family. Extended households are often characterised as living in 'physically inadequate and overcrowded housing' (Koebel and Murray, 1999:139-140). On the other hand, referring specifically to African-Americans, Killion (2000:346) observes that 'the extended family has been a primary source of strength, substance, and survival'. Meanwhile, Koebel and Murray (1999:126) note that 'urbanisation reduced extended family ties and made the nuclear family and independent households the preferred norm'. It is evident that the reasons why families extend beyond the nuclear family are varied and complex.

In the United States, extended families are often referred to as 'doubling-up', and some housing advocates argue that 'doubling-up' represents the 'hidden homeless' (Koebel and Murray, 1999). However, others argue that doubling-up and overcrowding are 'different manifestations of the same underlying relationship between housing costs and household resources' rather than hidden homelessness (Horing and Filter, 1993:248 cited in Koebel and Murray, 1999). This argument is based on the fact that extended families exist across all income levels, but the idea of 'hidden homelessness' only applies to poor families who might be living together to share meagre resources.

Kellett and Moore (2003:124) observe that homelessness is often a direct result of poverty and unequal distribution of wealth and power, but they also acknowledge that the causal factors for homelessness are not limited to 'poverty and they differ from one individual to the other'. While agreeing that extended families are sometimes a reflection of homelessness, Flannery (2002:417) also states that the phenomenon is 'complicated by race, ethnicity and culture.' For instance, he writes about 'patrilocal and polygamous' extended families, where a husband has multiple wives, each with her own small hut on the same property (Flannery, 2002:418). In Indian communities, a common family structure is one in which grandparents, their sons, daughter in-laws and grandchildren all live in the same household and share the same kitchen. Each couple has their own bedroom, the eldest woman sets the menu and leads the cooking, and brothers, sisters and cousins grow up together (Chadha, 2012).

Extended family structures can also reflect social ties. This point is articulated by Hedman (2013), who observes that social ties are one of the most important factors explaining where people would like to live. A study he conducted in Sweden found that many people prefer to live next to or near family. Other reasons to live in extended families include safety, physical structure and access to public transport. Meanwhile, Killion (2000:347) observes that elderly people often prefer to stay in their homes 'despite deteriorating neighbourhoods, as they would rather stay in familiar surroundings'.

In short, extended families live together for various reasons, including poverty, culture, ethnicity and care-giving concerns. Sometimes, living in an extended family is a choice. Other times, however, extended families are bound together by circumstances such as poverty and unemployment which force them to share small properties. Therefore, extended households often live in physically inadequate and overcrowded houses, especially in the developing world and countries such as South Africa.

Although extended families have been around for thousands of years, changes in society require innovative ways of providing them with housing. The following sections of the literature review focus on established housing processes in order to identify key themes that will be tested later in the study. The first approach addressed is self-help housing.

2.3 Self-help housing

This section presents the theoretical background to self-help housing. The review focuses on both the proponents and opponents of self-help housing, with a particular emphasis on how self-help housing is a non-conventional finance mechanism for housing development. It then considers government's role and the advantages and disadvantages of incremental housing. According to Burgess (1985), researchers need to address three basic questions in order to understand self-help housing. The three questions are: (1) what really is housing? (2) what constitutes self-help? and (3) what is the State and what role does it play in the housing sector? To a large extent, the literature is reviewed in a way that responds to these questions.

In the past, poor families dealt with their housing needs through a self-help housing process. Nientied and van der Linden (1988) observe that between 1918 and 1929, families sought the assistance of their neighbours, colleagues and extended family members in constructing their housing units. This self-help approach was really a pragmatic response to address the severe housing shortage and political unrest after World War 1. Aided self-help housing was a common solution to the urban housing problem in the 1950s, when most South American countries began experiencing exponential population growth and rapid urbanisation (Nientied and van der Linden, 1988). Njoh (1999) observes that research in self-help housing expanded after two seminal books: Charles Abrams' *Man's struggle for shelter in an urbanising world* (1964) and John Turner and Robert Fichter's *Freedom to build: Dweller control of the housing process* (1972). Njoh further states that prior to these two works, self-help was viewed simply as a process whereby families used their own labour to collect building materials and construct their own houses (1999).

According to Turner (1972:130), the basic principle of aided self-help is the labour of participating families who earn 'sweat equity'. Harris and Giles (2003) note that aided self-help was adopted by governments as a cheaper alternative to public housing. Turner (1972) also observes that self-help provides the basis for a solution to housing crises and other social problems. However, Turner's view is criticised for being too simplistic, as it focuses on squatter settlements and tends to ignore other economic, structural and societal issues. Thus, caution should be exercised in promoting self-help housing as a solution, because research on it is based only on informal settlements.

Although both Turner (1972) and Burgess (1985) advocate self-help housing, they differ substantially in their view of the value of a house built using self-help methods. Turner (1972) states that the main value of self-help housing lies in its use. He discourages focusing on the exchange value of self-help housing, because exchange value does not recognise the owner's housing needs and instead prescribes strict standards which require unattainably high investment and mortgage loans and the services of a contractor, which negates the principles and strengths of self-help housing (1972). On the other hand, Burgess (1985) writes that self-help housing, like all other housing processes, is defined by capitalistic production and exchange. Therefore, the construction of a house invariably gives it value as a commodity which

can be exchanged. He goes on to argue that it is inappropriate to only consider the use value of self-help housing and ignore the exchange value (Burgess, 1985).

There are two significant drivers in self-help housing: non-conventional finance and the government. As noted by Turner (1982), self-help housing can only be successful if government creates an enabling environment. Furthermore, proponents of self-help housing emphasise the importance of non-conventional lending or informal finance for two reasons. Firstly, formal financial institutions have onerous credit requirements (Merrett and Russell, 1994). Secondly, mortgage loans come with restrictive rules on what the lender is allowed to build as well as increased costs due to the appointment of a contractor (Turner, 1972). Non-conventional financing is covered next, followed by discussions on the role of the government and incremental housing.

Non-conventional financing

Proponents of self-help housing point out that self-help programmes are financed largely by self-rotating saving schemes, and they therefore advocate for this finance mechanism for poor households. In this finance methodology, members make contributions, and the sum collected is loaned to members on a rotating basis. One of the main benefits of this form of lending is the fact that the loan is free of interest and fees. This type of loan is used predominantly for incremental housing (discussed later), and is often the only solution for some poor households (Merrett and Russell, 1994; Smets, 2006; Turner, 1986). In addition to this type of saving scheme, Renaud (1999) notes that those who access non-conventional financing often accept loans from relatives, employers or money lenders to supplement their savings and current income.

Government's role

Turner (1976, 1982, 1986) and Nientied and van der Linden (1988) argue that the government should make it possible for households to be involved in the delivery of their own houses. In affluent societies, however, government involvement is generally in the form of enforcing restrictive building regulations which curtail owner/builder practices (Nientied and van der Linden, 1988). Kim (1997) elaborates on the government's role, explaining that governments should facilitate the provision of serviced land, streamline procedures to obtain building permits, set realistic building and design standards and make the construction industry more competitive.

The emphasis on realistic building and design standards is important, as standards that are too strict or unrealistic are a hindrance to self-help housing. Turner (1972) and others argue that the prescribed housing standards have only served to 'shut out' low income households from access to housing. Turner further writes that most who oppose households having control over housing delivery processes believe that self-help housing will result in lower housing standards. Banks play a role here as well, for they will only finance houses that comply with the standards and regulations. Turner (1976) blames the inappropriateness of housing standards on the fact that many developing nations adopted 'foreign' housing standards and concepts that were never actually tested in developing countries. In addition, governments often address the issues of inadequate housing, overcrowding and informal settlements without considering residents' unique housing needs (e.g. extended families) and aspirations.

Self-help housing works best when it is accompanied by an accommodating legislative environment which allows people to build their houses in the best way they know, and it does not thrive in places where municipalities impose strict building standards (Merrett and Russell, 1994).

Incremental housing

According to Merrett and Russell (1994), self-help housing is practiced by very poor people as a survival strategy. The distinguishing factor between self-help housing and other housing delivery systems is that families engaged in self-help housing actually help build their home in addition to contributing financially. Self-help techniques also allow families to build incrementally. Although incremental housing might take longer than purchasing a new home, it is often the best (and only) way to attain housing. As observed by Njoh (1999), self-help housing also offers an opportunity for households to recycle scarce resources (building materials) and build incrementally, especially in urban areas where building materials are not readily available. Unfortunately, regulations and standards often work against both self-help and incremental housing.

According to Turner (1986), self-help housing is driven by 'user-value' rather than market exchange value, and housing should be seen as a process. The biggest (and most obvious) advantage of self-help housing is its low cost. The users provide 'sweat equity' and 'management equity' by managing the construction themselves, thus avoiding the cost of hiring professionals. Another benefit of self-help housing is that

participating families are able to play a meaningful and direct role in the delivery of their houses. This enables families to take charge of their own destiny.

There are some critics of self-help housing who argue that self-built housing is technologically backward. The technique is often frowned upon, particularly in urban areas, as self-built structures usually do not meet the requirements of the local authorities. On the other hand, Turner (1986) reminds us that users know their needs better than government officials. The poor know how to deal with their needs and livelihood better than the people in positions of power who try to dictate what is acceptable.

As the above evidence demonstrates, self-help and incremental housing are important methods of housing provision, but they can only succeed if there is access to nonconventional financing and supportive legislation and regulations. However, research on this housing method focuses on poor families in general and does not specifically address the idea of extended families.

2.4 Livelihood and poverty

This section now turns to the concept of livelihood – as defined and viewed by policy makers and as experienced by poor people. According to Chambers (1995), many professionals have a myopic way of defining livelihood, focusing solely on employment. A more encompassing definition refers to means of making a living. This includes livelihood capabilities and tangible and intangible assets. Thus, ‘employment can provide livelihood, but most livelihoods of the poor are based on multiple activities and sources of food, income and security’ (Chambers, 1995:175*).*

The narrow view of livelihood held by many professionals is the main reason why some of the issues of the poor are misunderstood. The term ‘poor’ cannot be understood only as the noun form of the word poverty. In this use, the lack of physical necessities, assets and income are acknowledged, but the broader sense of being deprived or in a bad condition is overlooked (Chambers, 1995). Chambers argues that standardised approaches should be put aside and the poor should be enabled to analyse their own needs, for ‘the realities of poor people are local, complex, diverse and dynamic’ (1995:173).

Poor people develop their own strategies to deal with their poverty and challenges, but policy makers tend to define poverty through their own lenses (Wratten, 1995; Amis, 1995; Chambers, 1995). Wratten (1995) and Amis (1995) blame urbanisation and capitalism as the root causes of poverty, arguing that capitalists fuel urban poverty, and policy formation often puts capitalists' interests first. Furthermore, conventional economic thinking results in a standardised approach to poverty that comes from the perspective of the ruling class (*ibid.*). This economic-based approach ignores other categories of disadvantage and deprivation such as social inferiority, isolation, physical weakness, vulnerability, seasonal deprivation, powerlessness and humiliation (Chambers, 1995).

Thus, poverty needs to be defined in a broader context (Wratten, 1995; Amis, 1995; Chambers, 1995). According to Wratten (1995) and Amis (1995), a focus only on income is a limited approach, as it leaves out the reasons for not having income: 'If there is no income there is no ability to access the basic social need' (Amis, 1995:148). In a similar manner, Chambers (1995) observes that livelihood is centred on human emotions, rather than on material income.

According to Barnett (1988), Britain experienced a period of affluence during the 1960s. However, research conducted during that time showed that relative poverty continued to exist despite apparent affluence (*ibid.)*. This finding is in line with Wratten (1995), Amis (1995) and Chambers (1995), who point out that there are numerous aspects of poverty. Barnett's (1988) British study defined poverty not just as struggling to survive, but also being unable to participate in society in a meaningful way. In this developed country, being deprived of ordinary things taken for granted by most Britons such as birthday parties, going to the cinema or visiting a disco was a sign of relative poverty (*ibid.).* The conclusion that can be drawn is that poverty is not necessarily the result of a general lack of goods and services in a society, but rather due to unfair distribution of these goods (Barnett, 1988).

As stated earlier, the poor define their livelihood according to their own experiences. Some of the dimensions of deprivation that are experienced by the poor but overlooked by economists and other professionals are: social inferiority, isolation, physical weakness, vulnerability, powerlessness and humiliation (Chambers, 1995). These forms of deprivation greatly impact the poor, and should not be ignored by policy makers and decision makers.

Employment as a form of livelihood

Policy makers often attribute lack of income to unemployment, and as such they use ‘employment, unemployment, job, workplace, and workforce as concepts to define a form of deprivation. Yet these are concepts and categories derived from urban industrial experience in the North’ and it would be inappropriate to apply and impose them in the global South (Chambers, 1995: 182).

Social inferiority

According to Maslow’s hierarchy of needs, the needs at the bottom end of the pyramid might seem inconsequential to those who are materially well-off. However, this is not the case for the poor, who experience many types of deprivation. Those who struggle to make ends meet suffer from their physical *and* their psycho-social-emotional needs not being met. Poor people may feel inferior due to age, ability level, gender, race, ethnic group, class, social group or occupation (Chambers, 1995).

Isolation

Isolation refers to being peripheral or cut off. Chambers (1995) observes that poor people can be isolated in many ways. Amongst others, they can be isolated geographically (living in a ‘remote’ area); isolated in communication (lacking contact and information, including not being able to read); isolated by a lack of access to social services and markets; and isolated by a lack of social and economic support (*ibid.*).

Physical weakness

One of the major forms of deprivation that is overlooked is not being able to do things because of physical disability. This has a particular negative effect on income generation. Chambers (1995) observes that most people, particularly poor people, depend heavily on their bodies as their major resource. Therefore, being physically weak, ill or disabled can easily lead to deprivation. An example provided by Chambers (1995) is that a sick person may be prevented from working due to his illness, which results in an inability to generate income. At the same time, the sick individual may need taken care of and may require money for medical care.

Vulnerability

Chambers (1995) observes that the words ‘vulnerable’ and ‘poor’ are often used synonymously. But vulnerability is not the same as income-poverty or poverty, because it refers not to lack or want but to exposure (external) and defencelessness (internal) (*ibid.*). Examples of exposure include shock, stress and risk, while defencelessness includes the lack of a means to cope without suffering damage or loss. Other examples of vulnerability include economic impoverishment, physical weakness, humiliation, social dependence or mental illness (*ibid.)*. Chamber’s argument is that a wider and more inclusive definition of vulnerability should be applied in order to allow for a correct assessment of the situation and plight of the poor (1995).

Powerlessness and humiliation

According to Chambers (1995), the poor are often physically weak and economically vulnerable. As a result, they are easily ignored, lack influence, are subjected to the power of others and are exploited. He cites research in India which found that poor people disliked taking on debt because consequences of being in debt included ‘abuse’ and ‘insult’. This reality is not considered by those who expect that poor people will seek loans to improve their conditions (Chambers, 1995:190).

In summary, Chambers (1995) and others advocate for a focus on the concept of sustainable livelihoods. This concept refers to a life in which people’s basic needs are satisfied and people have some form of security against anticipated shocks and stresses. However, it is inadequate to use income as the only measure of poverty or accessibility because this leaves out the reasons for not having income (Amis, 1995). Instead, other aspects also need to be considered. For instance, poor people find their own strategies to deal with deprivation, but these strategies do not necessarily conform to the standard economic point of view. Having provided an overview of livelihoods, the discussion now turns to the role of the government in enablement.

2.5 Enablement

The World Bank has been involved in poverty eradication since the early 1970s, but their attention was diverted for some of this time due to macroeconomic destabilisation (Stren, 1990; Pugh, 1994). During the 1970s and 1980s, the World Bank's involvement was in the form of site and service schemes, but this method has not proved to be successful (*ibid.*). In 1990, the World Bank brought the issue of poverty back to the centre of its development agenda. Since 1986, the United Nations, the World Bank and other international aid agencies have set a new direction for housing policies in developing countries. This new direction is outlined in strategic policy documents under the term 'enablement' (Pugh, 1994: 357).

Pugh (1994) observes that enablement first came into the spotlight based on the notion that human settlements contribute to economic and social development, rather than occurring as a social expense. To this end, development policies promoting enablement were formulated, and issues of equity, efficiency and adequacy come to the fore (*ibid.*). The concept of enablement was adopted with the understanding that it would provide the balance required by the economy. Enablement has an instrumental economic purpose due to the fact that housing is linked to the wider urban economy and both the housing sector and the urban economy are used as vehicles for promoting national economic development (Pugh, 1994). Pugh observes that the idea of 'enablement' has its origin in the political economy theory of liberalism, the principles of which are based on market dynamism and efficiency.

Housing policy documents of the UN and the World Bank position 'enablement' as a guiding principle for housing theory and practice in developing countries (Pugh, 1994). However, Pugh (1994) highlights that although these policies have merit in developed countries, they are not based on an analysis of conditions in developing countries. In particular, the housing sector cannot be separated from economic and political considerations, as the three are interdependent. In other words, low-cost housing development must satisfy all these relationships.

Post-1985, the World Bank's housing guidelines have had seven main goals: (1) developing housing finance systems; (2) making subsidies measurable, transparent and targeted; (3) improving the extent and method of infrastructure provision; (4) undertaking 'regular audits' to achieve affordable cost and efficiency in land and

housing; (5) improving the competitiveness and organisation of the building industry; (6) creating appropriate property rights, especially in terms of regularising squatter settlements; and (7) establishing 'enabling' institutional frameworks (World Bank, 1993).

Because the World Bank and other international institutions have been involved in development projects in developing countries for some time, these housing goals – enablement included – are in a way a reaction to the lessons learned through past experience (Pugh, 1994). In view of limited government funds, the housing debate centres around the role that governments should continue to play; in other words, should governments be the provider of houses or function as a welfare state? However, even the 'enablement' concept faces challenges related to limited funds, as stated by Pugh (1994:361):

> Because the macro-economic 'orthodox' places curbs on the growth of public spending, in policies for stabilisation and structural adjustments, short term sacrifice of austerity decreased real incomes for some households, and survival strategies for the poor.

The challenge facing governments is the distribution of scarce resources in the most equitable manner. According to Stone (2003:39), 'most of our society accepts the concepts of equity and social justice. However, they continue to disagree on their real-world application'. In other words, how many government benefits and services does it take to achieve a fair share? Equity is truly in the eyes of the beholder: however a cake is sliced, everyone will have an opinion about the fairness of the size of the pieces. Therefore 'a major divide in the great debate about equity is whether distribution should be judged by criteria of process or recipients?' (Stone, 2003:55).

As acknowledged repeatedly in this report, the government's role is very important. Pugh (1995) observes that public spending is a necessary component of anti-poverty strategies and development initiatives. However, government cannot do everything; it needs to be limited to certain functions and contributions. The development of partnerships is therefore part of the solution.

Partnerships

Payne (1999:4) examined the concept of partnerships through research conducted in Egypt, India, Pakistan and South Africa, observing that 'the most successful

partnerships are those in which each partner derives something beneficial, and gains access to something that it does not have from the other partner or partners that are in the relationship'. He goes on to write that successful partnerships are made of 'programs and or projects in which both public and private sector entities have financial commitments and exposure to risk (*ibid.*). In other words, partnerships should be inclusive and partners have to have a common goal, even if the interest, benefits and powers of the partners differ. However, this power difference is exactly what poses a challenge, because many formal partnerships do not represent the poor satisfactorily. As a result, many poor people tend to form informal partnerships (Payne, 1999).

> The informal partnerships exist largely because the regulatory framework which determines official standards, regulation and administrative procedures are often inappropriate to the social, cultural, economic and environmental realities that apply in developing countries. Low-income households resort to informal partnerships as the only means (Payne, 1999:4).

Government subsidies

Housing finance comes from three major sources: (1) housing subsidies by government; (2) mortgage loans by banks; and (3) microfinance by formal or informal lenders. Governments have broad goals for the housing sector, and they often establish housing subsidies to fill the gap that is left by commercial banks (Hoek-Smit and Diamond, 2003). Some of the reasons that governments provide subsidies are to: (1) improve public health; (2) improve fairness, justice and societal stability; (3) overcome market inefficiencies; (4) address poor housing conditions or insufficient volume of new construction, particularly in the low-income sector; and (5) stimulate economic growth (*ibid.*).

However, as Hoek-Smit and Diamond (2003) explain, subsidy programmes in developing countries are often haphazard because they are heavily influenced by political pressure. This point is crucial to this study, as it is one of the reasons why there are needy people that are left out of government subsidy programmes. The challenge faced by governments is that the goals they set for housing subsidies co-exist with many other societal needs and pressures, such as urban development and the growth and stability of the financial sector (Hoek-Smit and Diamond, 2003). In addition to political pressure, governments provide housing subsidies for other reasons

as well: to normalise the housing market, to fill the gap that is left by commercial banks and to prevent the formation of slum areas (*ibid.)*.

Hoek-Smit and Diamond (2003) observe that the costs of housing subsidies are often hidden and uncertain. An example is interest rate subsidies, which are financed by off-budget credit lines, tax deductions for interest payment on mortgages and blanket government guarantees for credit or cash-flow risk. One of the major downsides of housing subsidies is that they often benefit higher and middle income households and do little to expand home ownership at the margins. Tax deduction of interest payments, for instance, does not help the poor, as the poor do not generally pay income tax. Furthermore, government lenders and special tax funds mostly provide subsidised loans to higher income households, ignoring low-income households (*ibid.*). Therefore, the current approach to housing subsidies does not necessarily assist the poor.

2.6 Theoretical framework

The following diagram is a schematic representation of the study's theoretical framework demonstrating the relationship between the important theoretical concepts.

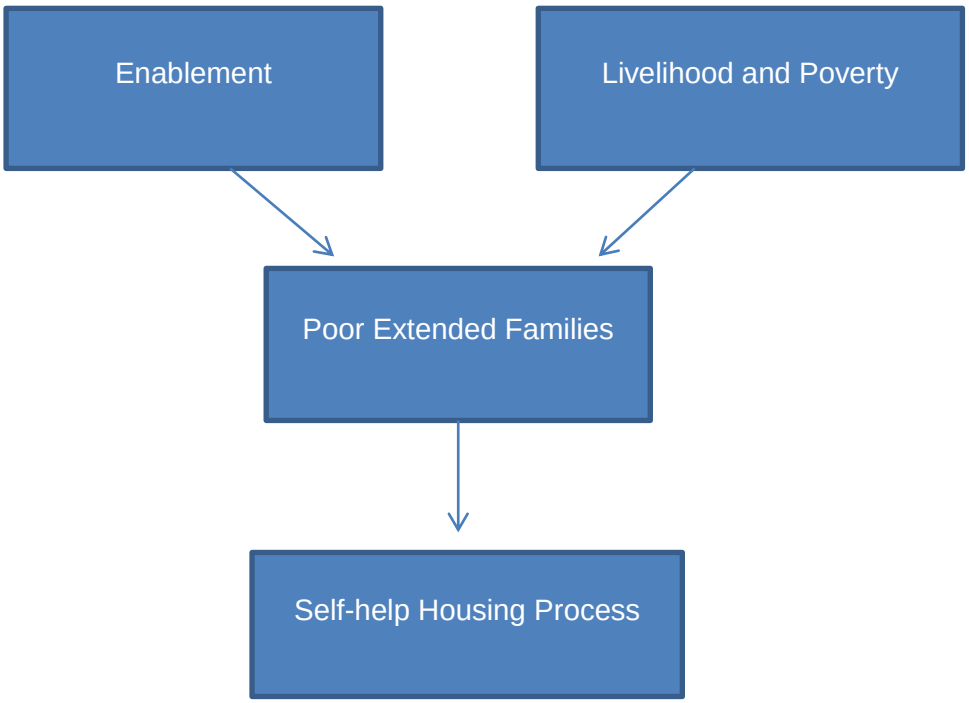


Figure 2: Diagrammatic representation of theoretical concepts explored in the study

2.7 Conclusion

Housing the poor has been a challenge for decades, and it continues to be a matter of debate today. Self-help housing is when families construct their own dwellings using their own labour, nonconventional financing and sometimes recycled materials. Proponents of this method believe that it is the solution for most poor households, as it allows families to participate actively in the delivery of their own houses. However, self-help housing is often frowned upon, particularly in urban areas, because the structures do not usually meet the requirements of formal building codes, and opponents of the approach view it as technologically backwards. Furthermore, self-help housing has not been researched outside of informal settlements. Despite these critiques, Turner (1976, 1982) and others argue that self-help housing can work in modern society provided governments create an enabling environment.

Policy formulators and decision makers do not always consider the views of the poor. Hence, definitions of livelihood, poverty and vulnerability continue to be seen from the perspective of policy makers. Proposed housing solutions are standardised and not always the most appropriate. Because the poor know how best to deal with their needs and livelihood, their input should be paramount when new policies are created.

Enabling policies are a tricky matter. First of all, they must consider multiple different role players who all have different interests. Financing is an important element in promoting home ownership, but the challenge lies in determining where this finance will come from. Even the formation of partnerships is made more difficult because partners do not always share a common goal. The matter is worsened by the diverging views on equity and fairness. Furthermore, enablement was conceived from an economic point of view rather than from poor people's perspective; subsidies were seen to be the solution for economic balance and closing the housing gap.

Hoek-Smit and Diamond (2003) point out that subsidies are the result of political processes, and therefore there is not always a clear rationale for aspects of housing subsidies, or even for whole subsidy programmes. Even when enablement policies are in place, it is not always clear where the necessary funds will come from, and governments often fail to create an environment which enables lending (Kim, 1997). A final problem is that developing countries experience a different set of challenges from developed countries. Therefore, linking housing finance to the economy may not be the most successful approach for the poor in the developing world.

Finally, housing literature, housing polices and government subsidies often focus on small nuclear families. Therefore, there are ultimately families that are left out. Extended families fall into a gap in the available knowledge, and it is in an attempt to fill this gap that this study was carried out.

CHAPTER THREE

RESEARCH METHODS

3.1 Introduction

This study examines the exclusion of an extended family from government subsidy programmes and bank finance. The literature review conducted in chapter 2 discussed the relevant concepts, and this chapter now turns to an overview of the research methods followed. The study is of an exploratory nature and used a mixture of methods. The three main methods used were: participative action research (PAR), evaluation research (ER) and observation. After a description of the research design, the chapter describes the population and sampling procedures. This is followed by an overview of data collection and the approach used in analysis. Finally, attention is given to the study's ethical considerations.

3.2 Research design and approach

Three main methods were used in this study: participative action research (PAR), observation and evaluation research. According to Sarantakos (2005), the strengths of PAR are that it encourages public participation, serves the public interest, promotes change and furthers emancipation. In addition to the Ndala extended family, three more families were included as part of the PAR. I chose to use a qualitative approach in order to gain a more in-depth understanding of the families' livelihoods and circumstances. According to Reason and Bradbury (2001), most types of PAR have an explicit commitment to empowering and improving the social conditions of participants. Therefore open-ended questions were utilised to enable participants to have some control over the direction of the interviews.

The Ndala family is the prime focus of this study. This extended family comprises over forty individuals from five generations. Knights and McCabe (1997) suggest that case study design allows the researcher to combine several qualitative methods, thus avoiding an over-reliance on one approach. I chose to use a case study approach as it would allow for a better understanding of the families' circumstances and better

address the hypotheses posed. More specifically, I combined observations with semi-structured interviews.

While the qualitative part of the study would elicit the views of the families, evaluation research was conducted to determine whether the housing interventions (policies, programmes and strategies) intended to help the poor have been properly implemented and whether the target group has been adequately covered (Sarantakos, 2005). To this end, I evaluated policy documents and housing finance programmes and documents. I also reviewed the various types of loans in order to understand the granting of mortgages or micro-loans to poor families.

Sarantakos (2005) writes that the goals of evaluation research are: (1) To assess the quality, effectiveness, efficiency and goal achievement of political, social and ecological measures, models or laws; (2) To stimulate documents and accompany social and organisational changes and learning processes; (3) To contribute through new research findings to deeper understanding of the areas in question; (4) To identify the need for new programmes and ways to improve the effectiveness of existing ones; (5) To discover gaps in services and investigate the alternatives employed to meet unmet needs; (6) To offer systematic evidence that informs experience and judgement; and (7) To offer assistance with decision-making and planning from the perspective of the service provider.

3.3 Population and sampling procedures

The Ndala family served as the main case study. Prior to initiating the study, I was already familiar with Pimville and knew of the Ndala family. I had observed that this family had a lot of people living in the same house and exemplified a multigenerational family living within a single household. Initially just a four-roomed government house, the dwelling grew through the addition of the shacks which now surround the house. After deciding to research extended families, I approached the Ndala family to request an interview and they agreed.

In addition to the Ndala family, three other extended families with a similar profile to the Ndalas were also included in order to enrich the information obtained. A purposive sampling strategy was used to select other households that met the criteria

(Sarantakos, 2005). The Monwametsi family, like the Ndalas, had used corrugated and second-hand materials to extend their house, while the Mfuku and Ndlovu families had used bricks and mortar to extend their houses.

Whereas the Ndala, Monwametsi and Mfuku families reside in Pimville, Soweto, the Ndlovus live in White City, Jabavu, Soweto. It was important to include all housing finance sources in this study. The Ndlovus had used stokvel funds for building purposes, and they were included because I could not find a family in Pimville that had used this funding source. Even though the Ndlovus reside in another area of Soweto, all township houses share similar physical and cultural characteristics. Thus, the only real different in the two areas is their proximity to the Johannesburg Central Business District.

3.4 Collecting and processing data

The principal method of data collection was face-to-face interviews with the most senior member of each family. These interviews were based on a structured questionnaire that covered a range of issues such as housing needs, livelihood, acquisition of property, relationship with banks and financial assistance.

In addition to eliciting the views of the families, I also reviewed the different home loan processes in order to understand the granting of mortgages or micro-loans to poor families. This was done via a desktop study and by requesting information regarding products and qualifying criteria from financial institutions that are active in the low-income market. Policy documents, internal banking documents, newspaper articles and annual reports were reviewed as additional sources of data. Bryman and Bell (2003) define this data collection method as a summative evaluation.

I now provide a more detailed description of the interviews and observation that I completed.

Qualitative interviews

Interviews were conducted with the Ndalas and the other three families, none of which had received government housing subsidies, home loans or housing microfinance from formal institutions. A participative action approach was followed, using a structured

questionnaire to gather information. In order to ensure that results from all four families could be compared, I asked the same questions in the same order. Questions were repeated or clarified if necessary. As observed by May (2001), face-to-face interviews allow the researcher to have visual interaction and pick on unspoken gestures. Yin (1994) adds that the case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context.

Observation research

In addition to the structured questionnaire, participants' behaviour was also observed. There are numerous types of observation research: structured and unstructured observation, systematic observation, participant observation, non-participant observation, simple observation and contrived observation (Bryman and Bell, 2003). Participative observation is the most common form used in research. It entails an observer being immersed for a prolonged period and observing the behaviour of the target setting (group, organisation, community, etc.). Familiar with the neighbourhood, I used participative observation to obtain information by observing actions, behaviour and the environment.

3.5 Analysis approach

Kabanoff, Waldersee and Cohen (1995) suggest that content analysis is a transparent method that enables the researcher to measure the frequency at which a theme appears. I used what is called Ethnographic Content Analysis (ECA), sometimes referred to as qualitative content analysis. This is an approach that emphasises the role of the investigator in the construction of meaning. As with most ethnographic approaches, the emphasis is on allowing categories to emerge out of the data. In essence, ECA involves plenty of movement back and forth between conceptualisation, data collection, analysis and interpretation.

3.6 Ethical considerations

The families that were involved in the study provided full informed consent. They were asked permission and were made aware of the fact that the research was being conducted for a Master's degree. The families also granted permission for the publication of the research findings and for the use of their personal details. In fact, they insisted on their real names being used, and were happy to provide information, however confidential and private it may seem. Initially, the families thought that I was there to help them, but even after thy understood that it was strictly research for my studies, they gave their consent.

To take into account the fact that most of the interviewees had little formal education, the study was conducted in the vernacular when needed. The interview questions were first asked in English and then translated if necessary. The participants generally responded in their mother tongue.

3.7 Conclusion

In conducting this study, multiple research methods were used: PAR, observation and evaluation research. Because the study was exploratory, multiple methods allowed for the collection of more data. In addition, different methods were required because the data came from various sources: policy documents, financial institutions' documents and participating households. Structured questionnaires and observations were used to gather information from the four participating households, all of which provided full informed consent. In addition, policy and financial institution documents were also assessed and analysed. The analysis approach used in this study was ethnographic content analysis.

CHAPTER FOUR

HOUSING FINANCE PROVISIONING

4.1 Introduction

This chapter provides an overview of housing finance literature in developed and developing countries in order to evaluate housing finance and policies that are related to the provision of housing to lower income households. More specifically, the intent is to determine whether or not there are examples of the provisioning of housing finance for extended families. South African housing policy is also examined to ascertain how it has affected extended families and to check whether government and private sector interventions even cover extended families in the first place.

The shortage of housing is a worldwide problem that is worsened by increasing urbanisation. This has led to discussions around mechanisms that can address the shortage. Governments are expected to address their communities' housing needs, particularly very poor families. However, direct intervention by governments has proven to be unsustainable due to budget constraints (Gilbert, 2004). As a result, governments worldwide are moving away from strongly interventionist stances and direct housing initiatives and instead relying on funding agencies (*ibid.*). This means that individuals are responsible for obtaining their own houses. The government now serves as enabler rather than provider, setting norms and regulations and facilitating core funding (Kim, 1997; Gilbert, 2004; Stein and Vance, 2008).

Lack of Access to Finance

This shift away from government provision of housing has had a negative impact on the poor, who are often unable to obtain housing (Kim, 1997). Instead, home ownership has been promoted for all but the neediest (*ibid.*). When it was agreed at a 1976 United Nations Conference that finance was the solution for achieving homeownership, the issue of where finance was going to come from for very poor families was never addressed. 'This move by governments is therefore limited to middle to high income earners, and cannot be applied universally' (Kim, 1997:10).

Conventional private sector banks are risk averse, and their strict qualifying criteria for the provision of housing finance discriminate against poor households (Merrett and Russell, 1994). On the other hand, governments do provide some protection against losses that banks might suffer. For instance, in order to ensure stability, governments often provide bail-outs for institutions that face financial ruin, as evidenced following the 2007 financial crisis. Earlier, the United States government was heavily criticised in 1982 when they allowed a banking collapse and a disastrous drop in money supply (Lea, 1994).

The lack of access to housing finance for the poor is attributed to the discrepancy between financial institutions' practices and the economic characteristics and financial needs of low-income households (UNDP, 1982; Merrett and Russell, 1994; Kim, 1997). The lack of education is also a contributing factor. As Pillay and Naudé (2006) observe based on research they conducted in South Africa, a main reason that banks don't lend to low-income earners is their lack of knowledge about borrowing behaviour, preferences and experiences of low-income households. Kim (1997) points out that partly due to this lack of knowledge about the poor, banks consider low-income clients to be too risky. Finally, the small loans required by low-income households are seen to be too expensive to administer (Smets, 2006).

Merrett and Russell (1994) list the following as examples of banking practices that exclude the poor: (1) requiring that borrowers have middle-high income; (2) requiring a record of regular savings in a formal institution; (3) requiring a permanent address and landline telephone; and (4) putting stringent conditions on loans in terms of the amount lent, the date by which it has to be fully paid back, the interest rate, the repayment pattern and the punitive actions taken against defaulters.

Sources of housing finance

Housing finance is typically provided by banks and other formal and informal institutions in the form of loans. In addition to these private-sector loans, governments often provide housing finance assistance in the form of housing subsidies. The combination of bank loans and government subsidies plays a major role in stabilising the economy.

Housing finance can be used for different purposes, such as to buy a house, build a house, renovate a house or extend a house. The purpose for which the money is needed determines whether the loan must be secured or unsecured; a secured loan refers to a mortgage loan, whereas an unsecured loan refers to a micro-loan. The challenge faced by governments is ensuring that there is a balance between two goals: providing houses for all and ensuring that home loans are profitable and sustain the market.

Although the move towards homeownership made at the UN conference in 1976 was seen as redressing inequality, its feasibility and sustainability were not thought through carefully (Kim, 1997). For instance, there were no discussions about the source of finance for low-income households; instead the focus was on commercial banks, which have mortgage loans as their main housing loan product. Kim (1997) and Smets (2006) argue that mortgage loans are not appropriate for low-income households, as the loan requirements exclude poor people.

Part of the reason why the requirements for formal mortgage loans are so strict is that developed countries such as the United States set the standard for the rest of the globe. In the global North, more households are able to meet the onerous lending criteria. Developed countries are thus at an advanced stage of mortgage lending, while developing countries are still struggling to find a finance solution for households which are diverse in terms of wealth and level of education (Lea, 1994). The discussion now turns to finance arrangements in developed countries, after which developing countries and South Africa in particular receive attention.

4.2 Housing finance arrangements in developed countries

The study focuses mainly on the United States, but notable differences from other developed countries will also be highlighted. Governments of developed countries such as Britain and the United States promote homeownership above all other forms of housing provisioning. Most developed countries have also embraced mortgage finance as the primary tool to deliver housing (Lea, 1994).

4.2.1 Homeownership

Diamond and Lea (1992, cited in Lea, 1994) concluded that the US and Britain had the two most efficient housing finance systems in the world. This assessment was based on both quantitative and qualitative analysis of mortgage credit provisioning. In the United States, the Federal government is responsible for 20% of the country's housing finance (Lea, 1994). The Federal government's involvement in housing is driven by the need to stabilise the housing economy and to provide financial assistance to lending organisations (*ibid.*). The efficiency of the US system therefore is achieved through extensive support by the government. The British government launched its initiative 'Homes for All' in April 2005 to help more first-time buyers (Jarvis, 2008). Through this scheme it is reported that ownership was increased from 70% to 75% (Higgins, 2005). During the same period, the US increased homeownership from 67% to 70% (Jarvis, 2008).

Such government interventions are a 'reflection' of the 'push' to extend homeownership to all citizens, particularly poor families and racial minorities, as homeownership is promoted as an important strategy for regenerating distressed urban neighbourhoods (Harkeness and Newman, 2002:597). On the other hand, these interventions do not seem to be addressing the need for affordable housing, partly because the promotion of homeownership has resulted in rising house prices. Caplin et al. (2007) argue that in the US, rising home prices have resulted in steadily worsening affordability problems for many new entrants to the housing market.

Meanwhile, Martens (2011) observes that in the US, demand for affordable housing exceeds the supply. An analysis done by the National Low Income Housing Coalition in 2009 found that the US had a shortage of 3.4 million units for households whose earnings were at or below 30% of the area median income (AMI) (*ibid.*). This shortage is broken down as follows: (1) 750 000 are homeless; (2) 1.9 million are paying more than 50% of their income in rent; and (3) 765 000 are living in substandard housing, doubling up and / or constantly moving (Martens, 2011). Doubling up in the American context is essentially a synonym for extended family.

These issues have sparked debates around extended families in the United States (Koebel and Murray, 1999; Killion, 2000; Flannery, 2002). The main focus in these debates is the high cost of home ownership, and it has been suggested that policies

should be reviewed. It is argued that if house prices continue to rise, renters will be the hardest hit by affordability challenges, and they will be unable to participate in the appreciation of house prices (Caplin et al., 2007; Martens, 2011).

4.2.2 Housing finance policy

In the US, the government plays a key role in housing finance by providing default risk insurance through the Federal Housing Administration and the Department of Veterans Affairs. The federal government also provides guarantees for funds raised in the deposit and secondary mortgage markets (Lea, 1994). However, this focus on funding lending institutions is a significant departure from the country's housing vision in the 1930s which focused on people. It also results in a two-tiered national housing policy (Martens, 2011). However, support for lending institutions is politically popular, and it is sometimes viewed as compensation for accepting high tax rates (Hoek-Smit and Diamond, 2003).

Proponents of rental housing in the US have argued that (Martens, 2011):

1. Many of the challenges facing the US affordable housing industry have their origin in the political compromises that led to the US Housing Act of 1937.
2. The nation's early response to the housing crisis of the 1930s has resulted in a housing policy that prioritises meeting the housing goals of the wealthy over addressing the critical housing needs of the poor.

4.2.3 Housing subsidies

According to Hoek-Smit and Diamond (2003), a subsidy is:

> 'an incentive provided by government to enable and persuade a certain class of producers or consumers to do something they would not otherwise do, by lowering the opportunity cost or otherwise increasing the potential benefit of doing so. The developed countries focused on subsidising the financial lenders through an array of incentives and exemptions.'

In order to stimulate and stabilise the economy, the US government does provide some housing subsidies such as the Mortgage Interest Deduction (MID), the Property Tax Exemption and the Capital Gains Exemption. However, these subsidies are criticised for favouring the rich (Hoek-Smit and Diamond, 2003; Martens, 2011).

Martens (2011) further argues that the US government invests a large amount in housing subsidies, but they are poorly targeted and do not always go to where the greatest need is. Thus, US housing policy is grossly out of balance (Martens, 2011). This imbalance is evident in the effect of the three major subsidies mentioned above. The Office of Management and Budget estimated that the US government would spend $212 billion (R1 950 billion) in 2012 on housing subsidies for Americans whose incomes are greater than 50% of the AMI. This amount is four times more than what the government spends on direct outlays for low-income housing (Martens, 2011).

The MID is popular politically, but it is not effective in increasing rates of home ownership. It also helps the rich more than the working class or poor. For example, households that earn between $40 000 and $75 000 (R368 000 – R690 000) a year receive $523 (R4 812) from the MID, whilst households that earn $250 000+ (R2.3 million) get $5 459 (R50 223) or more. Thus, richer households receive ten times more support than poorer households (Martens, 2011).

Many European countries have also adopted the MID on a smaller scale. However, in the US, these funds seem to be unlimited. Efficiency could be improved greatly if the MID were restricted to a tax credit and/or tight limits were placed on loan amounts. Britain put these restrictions in place and ultimately eliminated the scheme, resulting in greater efficiency in the British housing system (Hoek-Smit and Diamond, 2003).

4.2.4 Increasing access to housing finance

In Denmark, all home lending is through mortgage bonds. Because banks are the sole providers of finance, the system is quite streamlined. However, this system assumes that all people are equal (Lea, 1994). There is no repayment risk due to well established credit risk protection. The target market is high income households, and the banks simply do not extend credit to low-income households (*ibid.*).

In the US, on the other hand, the deregulation of financial systems led to increased competition between financial institutions, which in turn resulted in greater efficiency in how the mortgage markets delivered credit to home buyers. It also increased the

number of role players in the housing finance arena and led to a number of innovative lending products (Lea, 1994).

The efficiency and greater supply of mortgage finance have not been without challenges. Housing finance systems in the US and elsewhere were subjected to extraordinary stress in the early 1980s and late 2000s. Adherence to fixed-rate mortgage lending in a volatile interest rate environment effectively bankrupted many housing finance lenders during the 1980s crisis (Lea, 1994). In the 2007 economic melt-down, entities such as Fannie Mae again faced bankruptcy due to bad loans.

A relatively recent phenomenon in the US was the promotion of Credit Default Swaps. These financial derivatives provide “insurance” on risky mortgage bonds, but they also encourage reckless lending behaviour during housing bubbles. The difficulties experienced in the US housing finance system since 2007 stem from a combination of macroeconomic policy instability and pre-existing housing market constraints. Constraints on mortgage contracts led to the bankruptcy of specialised housing lenders when there was an abrupt change in monetary policy (Lea, 1994).

4.3 Housing finance arrangements in developing countries

Developing nations are also faced with the need to ensure a stable economy and put appropriate housing policies in place (Hoek-Smit and Diamond, 2003). However, the global South is lagging behind the global North in terms of housing finance. This is despite the fact that housing is often the largest single household expense. The challenges faced by developing countries necessitate unique and different approaches towards housing finance (*ibid.*).

Smets (2006) believes that in order to reach poorer sections of society, innovative housing finance schemes and institutional arrangements are required. However, the international community sets the trends that are followed by developing countries. Thus, mortgage finance dominates the home loan environment. The challenge lies in creating lending tools that are not modelled around mortgages (Kim, 1997).

Some developing countries such as India and Thailand have come up with innovative solutions which ensure that finance is available to a wide spectrum of

borrowers. In fact, the Indian finance system is the only one which specifically addresses extended families, albeit indirectly. After providing an overview of approaches taken in India and Thailand, this section considers subsidies, increasing access to housing finance and housing microfinance.

4.3.1 India

In 1970, the Housing and Urban Development Corporation was formed in India to finance various housing and urban infrastructure activities. In 1977, the first private sector housing finance company was established: the Housing Development Finance Corporation (HDFC). With a rapidly growing population, currently around 1.1 billion people (KPMG, 2012), the Indian government has had to intervene in the provision of housing, particularly affordable housing. Housing policies in India tend to be framed from a social rather than an economic perspective (*ibid.*).

Homeownership in India has been promoted through a vibrant housing finance environment that is characterised by innovation, efficiency, competition and diversity. For example, the Indian government introduced a new tax incentive and benefits scheme which:

1. Lowered home loan interest rates;
2. Introduced a capital gains exemption, provided that profits are re-invested in property; and
3. Condoned black money

Black money is money that is earned illegally, usually from underground economic activity, and is therefore not taxed. In 1991, there was a once-off measure whereby black money could be declared without punishment. This move was designed so that 60% of the “black money” would be returned to the owners while the National Housing Bank retained 40% in a special fund for housing purposes (Ariyan, 2011).

Indian culture has certain unique characteristics that influence its approach to housing. The private housing finance companies, such as the HDFC, understand these cultural aspects and have recently incorporated them into their home loans. For example, home loan repayments can pass from one generation to the next without the need for a new home loan application (KPMG, 2012). This is of great

benefit to extended families, as multiple generations tend to live in one family structure (Chadha, 2012).

4.3.2 Thailand

In 2005, I attended an international conference in Bangkok, Thailand entitled "Housing the poor through the private sector." At the conference, Mr Ballobh Kritayanavaj, the Senior Vice President of Thailand's Government Housing Bank (GHB), explained how the country's housing finance system has gone through a successful transition. According to him, Thailand's housing has evolved from a government-led approach focused on low-income households to a free market approach operated by private developers who can efficiently provide low-priced housing without government subsidies. Most of his speech was based on an extract from a paper he had presented at another conference (Kritayanavaj, 2002).

Half a century ago, there were no major housing developers in Thailand, and the GHB worked towards the objectives it had set in 1953. These objectives were: (1) to mobilise funds for lending; and (2) to engage in land subdivision and construction of houses for sale to the general public. When the GHB faced challenges in meeting these objectives, the National Housing Agency was created to handle the housing development component, leaving the GHB to specialise in housing finance. The GHB was able to absorb risk through rigorous capital funding mechanisms (Kritayanavaj, 2002).

Since 1982, the Government Housing Bank has tapped into the domestic savings market using attractive deposit instruments, and it has accessed wholesale funds by issuing debt instruments. These two sources respectively accounted for 62% and 31% of the GHB's total funding in 1994. In recent decades, there has been an increase in the number of private lenders, and the GHB has increased competition in the housing finance industry by raising the deposit rate and lowering the lending rate. This was made possible due to relatively low overhead, computerisation and outsourcing some of the bank's operations. As a result, developers have been able to lower their prices (Kim, 1997; Kritayanavaj, 2002). However, most low-income households can still not access housing finance in Thailand. This leads to the next point, that of housing subsidies for poor households.

4.3.3 Housing subsidies

Hoek-Smit and Diamond (2003) write that housing subsidies combined with supportive regulation and other policies result in an efficient housing finance sector. Countries such as Chile, Columbia, Costa Rica, Ecuador and South Africa have adopted a capital subsidy scheme for those too poor to buy houses without financial assistance (Gilbert, 2004). These countries all follow a neo-liberal approach in their macro-economic policies. The capital subsidy concept was pioneered in Chile in 1977 and has since been copied by other developing countries (*ibid.*). According to van der Walt (2012), the head of policy at South Africa's National Department of Human Settlements, Chile has recently moved away from this housing subsidy.

There is no empirical evidence that South Africa in particular modelled its subsidy scheme after Chile. Despite some similarities, there are major differences between the two countries. For instance, Chile requires beneficiaries to first save money before they are eligible for the subsidy, but this concept was rejected by South Africa's African National Congress (ANC) led government (van der Walt, 2012). Other differences between the two countries are that Chile has a much smaller population than South Africa and South Africa provides a complete house on a freehold stand.

China attempted to address its housing shortfall by creating the Housing Provident Fund (HPF) in 1991. Under this scheme, employees and employers are required to contribute a proportion of their salaries to the HPF. After making enough contributions, workers are allowed to withdraw funds to purchase a house (Yeung and Howes, 2006).

In Honduras, the government has allocated money to two housing subsidy programmes. The first subsidy is complementary to self-help efforts and is called PROVICEP. In this scheme, the family contributes 10% of the total cost, the government subsidy covers about 30% and the rest is covered by a loan. The target population for this subsidy is families that earn minimum wage (Stein and Vance, 2008). The second scheme is known as the Housing for People Programme, in which up to $2 000 (about R 18 000) is per household is provided as a direct subsidy (*ibid.*).

4.3.4 Increasing access to housing finance

International development agencies do provide assistance with housing finance. However, these agencies have their own mandates and therefore they impose their own conditions. It is also important to understand that in most cases, these agencies have a private relationship with individual banks, and each bank hopes to use the available funds as a competitive advantage. During the period 1988-2005, the Swedish International Development Cooperation Agency alone allocated more than $52 million (R450 million) to promote and finance low-income urban housing and local development programmes in Central America (Stein and Vance, 2008).

Almost all of these development agencies work through a local bank in the country that they are lending to. An example is the United States Agency for International Development (USAID). USAID often offers to cover 50% of the losses experienced by the banks that they lend to, providing comfort for the borrowing banks to increase their lending. However, USAID places conditions on their loans, a few of which are described below (USAID, 2010).

First of all, the borrowing bank must on-lend at an interest rate and on terms that are comparable to the commercial lenders in that country. This prevents one bank from having an advantage over other banks. On the other hand, borrowing banks are allowed to use their own criteria in determining who qualifies for loans, meaning that there is no guarantee that this funding goes towards poor households. Another condition is that the borrowing bank must also use its own capital that was acquired on a market basis, not subsidised capital received from the government, international agencies or not-for-profit institutions (USAID, 2010). This condition ensures that the bank does not receive a double benefit, but it still does not guarantee that the bank will lend to poor households.

It has been established that subsidies are not a panacea because governments have limited funds. Therefore, the gap needs to be filled by some other form of finance. Existing blueprints, however, are based on mortgage finance, which does not work well for the poor. An alternative solution is microfinance, to which the discussion now turns (UNDP, 1982; Kim, 1997; Smets, 2006).

4.3.5 Housing microfinance

Microfinance is considered by many to be the solution because it is an unsecured loan which does not require collateral. Microfinance also has a shorter repayment period and is a concept that the poor are familiar with. Even in the developed world, where mortgage-backed loans are the norm for new housing, micro and repeat loans with flexible forms of collateral are common for the improvement or expansion of existing houses (incremental housing). When applied to home loans, microfinance can greatly increase the number of people who can access funding. This realisation has led to the rise of formal microfinance institutions (MFIs) in many developing countries (UNDP, 1982; Merrett and Russell, 1994; Kim, 1997).

Around the world, housing microfinance has been receiving more and more attention recently, and informal housing finance schemes have emerged as alternative solutions for low-income households. One example is the Grameen Bank of Bangladesh, which came into existence in the 1970s and is considered to be one of the best models of microfinance (Stein and Vance, 2008). Bangladesh's Grameen Bank is sponsored by both the central bank and the nationalised commercial banks. It offers a tangible solution to the problem of the exclusion of the poor from the housing finance system. The goals of the Grameen bank are to:

1. Extend banking facilities to the poorest of the poor;
2. Eliminate the exploitation of the poor by money lenders; and
3. Create opportunities for the large number of informally self-employed and unemployed people in rural Bangladesh.

Other examples of microfinance include FUNHAVI and Compartamos in Mexico and Sewa in India. Compartamos is a hugely successful MFI which was founded in the 1990s and grew very quickly. It has achieved annual growth rates of 50% and profits of $50 m (R460 m) per year. By the time it was floated on the public market in April 2007, it had over 600 000 borrowers. The floatation valued the bank at over $400 million (R3 680 million) and made most of its shareholders millionaires (CSFI report, 2008). Clearly, microfinance is an effective vehicle for providing credit to low-income earners, thus assisting poor households achieve a better quality of life.

However, housing microfinance is still challenged because it depends on some form of income generation and lacks accompanying legislative support (Kim, 1997). Most of the existing microfinance options require borrowers to prove a monthly income, which many poor people cannot do. Hence, proponents of 'aided self-help' have promoted non-conventional finance. This approach is particularly appropriate because poor households have traditionally built and improved their dwellings through self-help processes (Merrett and Russell, 1994; Turner, 1982).

4.4 Housing finance arrangements in South Africa

In order to fully understand the evolution of housing delivery and the housing finance system in South Africa, it is important to first understand the country's historical, political and financial landscape. South Africa's finance system is considered to be one of the best in the world (Rust, 2008). It has a well-managed risk profile and the government has enough reserves to avoid bankruptcy (*ibid.*). In addition, South Africa has a highly developed economy, a solid banking infrastructure, a strong construction sector, a solid legal framework and a deeds registry that is recognised as world class (*ibid*).

On the other hand, the housing environment in South Africa was negatively impacted by apartheid laws. Indigenous people were dispossessed of their remaining land, and their access to land was quite restricted. The Group Areas Act served to increase racial segregation in urban areas. It was not until 1978 that black South Africans were allowed to own houses. The government's Discount Benefit Scheme at the time transferred many government-owned houses to the tenants who lived there, and banks started providing home loans in some of the African townships. However, the banks experienced a large number of payment defaults due to inter alia bond boycotts, the poor quality of houses and a lack of financial education. As a result, banks and building societies pulled out of township lending (Housing White Paper, 1994).

Even when banks did provide service to non-white clients, they followed apartheid patterns. For instance, poor and non-white clients had to enter the banks through separate doors and stand in different queues in order to avoid "clutter" or upsetting

their white (and rich) clients who did not want to wait (Schoombee, 2004). During this time, the commercial banks served almost exclusively high income earners and businesses, although building societies were a bit more accommodating (*ibid.*). When the banks and building societies merged into the four major banks we know today, however, they could not deal with the massive client base inherited from the building societies. Therefore, some banks started limiting low-income earners to different banking hours (*ibid.*).

After 1994, the government intervened in different ways, one of which was the Botshabelo Accord. In this agreement, the banks promised to stop redlining and the government made certain concessions to create an enabling lending environment. But when discriminatory lending continued, the government withdrew its guarantees and a stalemate was reached. To address the stalemate, the government had to promote partnerships and build trust within the housing sector. To achieve this, two agreements were signed between the government and the Association of Mortgage Lenders (now called the Banking Association of South Africa). The first of these agreements was the Record of Understanding, which was later replaced by a second agreement called the New Deal. As a result of these agreements, quasi-governmental institutions such as the National Housing Finance Corporation (NHFC) and the Rural Housing Loan Fund (RHLF) were established to provide funds to intermediaries who would on-lend to poor households (Rust, 2008).

The dilemma faced by the South African democratically elected government is captured in the following quotation from the Housing Code (Department of Human Settlements, 2012):

> If we respond only to the numbers that must be built, we risk replicating the distorted apartheid geography of the past. If we respond only to the dysfunctional market, we risk alienating households so impoverished that they are unable to access any market.

Current housing policy in South Africa is geared towards trying to correct the wrongs of the past and to cater for the poor who cannot access housing from the private sector. The principles of the various international covenants and human rights treaties that South Africa is a signatory of also play a crucial role. Some of these principles are human dignity, freedom, equality and democracy (McLean, 2006).

Finally, housing policy is driven by the massive housing backlog, which is currently estimated at 2.3 million households. In order to provide this number of houses, the required delivery rate is 220 000 units per annum (Department of Human Settlements, 2012).

4.4.1 Human settlement strategies (Department of Human Settlements, 2012)

In order to carry out the new housing policy and stabilise the housing finance environment, numerous strategies had to be developed. South Africa's National Housing Policy is being undertaken in terms of the following seven key strategies:

1. Stabilising the housing environment
2. Mobilising housing credit
3. Providing subsidy assistance
4. Supporting the people's housing process
5. Rationalising institutional capacity
6. Facilitating the speedy release and servicing of land
7. Co-ordinating government investment in development

Some of these strategies are discussed in more detail below.

Stabilising the housing environment

Attempts are being made to stabilise the housing environment by:

1. Creating a stable and effective public environment;
2. Lowering the perceived risk in the low income sector of the housing market by ensuring that contracts are upheld and applied and all parties understand and fulfil their roles and responsibilities; and
3. Ensuring good quality housing.

Mobilising housing credit

The mobilisation of housing credit seeks to encourage lending to the poor sector of the market by managing and cushioning commercial risk and sharing it between a number of players including the individual, the private sector and the government. This strategy focuses on the following two areas:

1. Financial and development guarantees supported with government funds and managed on the open market to indemnify financial institutions from loss of investments, and
2. Mechanisms to mobilise credit provisioning on a risk-sharing basis to allow financial institutions to gain experience in lending to the low income sector and be able to continue without government assistance in the future.

Providing subsidy assistance

This strategy entails the provision of subsidy assistance to households that are unable to satisfy their housing needs on their own. Every province has a Housing Development Fund, which receives a budgetary allocation from the South African Housing Fund, which in turn receives an annual allocation from the national budget. The Provincial Housing Departments then decide how the funds will be allocated. This strategy is further divided into three programmes:

1. Housing Subsidy Scheme
2. Discount Benefit Scheme
3. Public Sector Hostel Redevelopment Programme

These schemes are described in more detail below.

Housing Subsidy Scheme

The Housing Subsidy Scheme was implemented on 15 March 1994, and it replaced all previous government housing subsidy programmes. This scheme assisted households earning under a certain threshhold per month to acquire secure tenure, basic services and a top structure. This once-off capital subsidy was a method to provide housing to those too poor to obtain their own finance (Tomlinson, 2007). This scheme is further divided into a range of subsidy mechanisms: the Individual Subsidy, the Project Linked Subsidy, the Consolidation Subsidy, the Institutional Subsidy, the Relocation Subsidy and the Rural Subsidy. However, none of these subsidies is specifically designed to cater to extended families.

Although the subsidy was intended to assist as many people as possible, criteria had to be developed to ensure that only deserving individuals were selected. The criteria fulfil a purpose, but inevitably leave some needy people out of the subsidy scheme.

The following criteria must be met in order to currently qualify for a housing subsidy. Applicants must:

1. Be South African citizens or permanent residents;
2. Have a gross monthly household income that does not exceed R3 500;
3. Have not received any previous housing benefit from the government;
4. Be first-time property owners; and
5. Be married or in long-term co-habitation; **or**
6. Have financial dependents (excluding children over the age of 18 who are not studying).

For criteria 3 and 4 above, having received a consolidation subsidy or a relocation grant does not disqualify an applicant. In extended families that received a house from the government through the Discount Benefit Scheme (described below), the titleholder is considered to have already received a housing benefit from the government.

Discount Benefit Scheme

Another type of subsidy is the Discount Benefit Scheme, which promotes homeownership for long-term tenants who were in occupation of state-financed rental stock prior to 15 March 1994. This scheme also applies to deed-of-sale transactions and individual loans concluded before 15 March 1994 where a balance of the purchase price was still outstanding. The stock is predominantly formal housing such as the houses in which the study families live. Tenants of such stock receive a maximum discount of R7 500 on the historic cost of the property. The property is then transferred free of charge to the tenant. But, should there still be an outstanding amount owed on the house, the tenant is expected to pay the balance from his or her own resources by means of a cash contribution or home loan (Department of Human Settlements, 2012).

Public Sector Hostel Redevelopment Programme

This last subsidy aims to rehabilitate public sector hostels to acceptable living conditions and integrate the hostels with the surrounding community. The policy provides for a funding limit of R16 000 per family or R4 000 per individual living in a

hostel under the jurisdiction of the Provincial Housing Development Board (currently the Provincial Housing Department) or the municipality.

Together with the private sector, the Gauteng Provisional Housing Department has developed fully subsidised housing units as well as improved rental units at Jabulani Hostel in Soweto. The intention was that applicants awaiting RDP homes would be allocated these units, while the current hostel dwellers who have homes in the rural areas would reside in the improved rental structures. However, it has been reported that hostel residents are refusing to let RDP houses be given to “outsiders”. As a result, well-constructed houses are standing empty (Mnyani, 2012). This illustrates challenges faced by government.

These three strategies were adopted in order to stabilise the housing environment and mobilise housing credit. However, housing in South Africa remains unaffordable for many people due to the high level of unemployment and low incomes earned. In 2011, the official unemployment rate was 26% (Statistics South Africa, 2011). The situation is exacerbated by the fact that financial institutions remain reluctant to lend to certain groups of people.

4.4.2 Providers of finance

Housing finance consists mainly of subsidies and loans. Subsidies such as those described above are provided by government and employers, while loans are sourced from both formal and informal sources. Formal lenders include commercial banks, savings banks and development finance institutions, while informal lenders include friends, relatives, colleagues, savings clubs, stokvels and micro-lenders (sometimes called mashonisas). These informal loans are unsecured and tend to be short term.

South Africa also has a strong dependency on international funding. When the Government of National Unity borrowed R850 million from the World Bank and International Monetary Fund (IMF) in the early 1990s, the country became subject to the ‘Washington Consensus’ (Freeman, 2008), meaning that there would be no discriminatory or racial practices in the country. This places South Africa in a precarious position. Apartheid legislation had created huge disparities between the ‘haves’ and the ‘have not’s’, and it was thought that new legislation was the only way

to reverse this unfair situation. But because of the conditions of the IMF loan, new legislation could not discriminate in any way, including against wealthy white people (Freeman, 2008).

Despite international loans, the South African government struggled to stimulate the housing finance environment. In 2002, the Community Re-investment (Housing) Bill was drafted, which would have forced banks to begin lending in the former African, Indian and Coloured townships. Freeman (2008) observes that if the Community Re-investment (Housing) Bill were passed, financial institutions would have had to adhere to targets in terms of income and geography. Banks were unhappy with the introduction of this Bill complaining that the government wanted to force them to take bad loans. It is likely that the banks would have developed creative products and ways of providing finance to poor communities. However, the banks moved quickly to propose a counter-offer based on mortgage lending known as the Financial Sector Charter (*ibid.*).

4.4.3 Financial Sector Charter

The four major banks signed a memorandum of understanding known as the Financial Sector Charter (FSC) with the Minister of Housing in October 2005. On the one hand, this was a positive move, as it would unlock the potential of the South African financial sector, promote its global competitiveness and enhance its world class status (Rust, 2008). On the other hand, Freeman (2008) says that the FSC allowed the banks to deliver finance on their terms. The FSC defined low income as households earning between R1 500 and R7 500, an amount that was to be adjusted by the consumer price index. The banks committed to lending R42 billion in this market within a period of five years (2004-2008). This period has now come and gone, and the financial institutions claimed to have met their R42 billion target.

However, it is not necessarily clear that the FSC was effective and achieved the desired goal for low-income households due to the following facts. First of all, by the time the FSC was implemented, the house price at the bottom-end of the FSC income bracket was R80 000, and the market could not produce such a house (Melzer, 2009). Second, the banks were forced to lend at the upper end of the income bracket and to increase the upper income criteria to levels higher than the agreed-upon FSC target market. Thirdly, loans that were still in the books (meaning

loans that were written without FSC criteria) were considered and counted in the report. Fourth, prior to the FSC, the banks' lending criteria had never looked at household income. After the FSC, the banks categorised all properties costing R180 000 or less as falling within the range of the FSC, even if the household income was higher than the prescribed range. Finally, the FSC's income brackets referred to household income, but personal income was used as a measure to assess whether a loan fell within the FSC market. These last two factors may have resulted in the inclusion of a number of people who actually fell outside the FSC target (*ibid.*).

Another problem was identified by Melzer (2009), whose research indicated that by 2006, an average house at the low end of the housing market cost R120 000. Assuming that the mortgage would be over a period of 20 years at an interest rate of 10%, a loan of R120 000 would require households to earn a monthly income of R3 600. This essentially disqualified all households who earned less, despite the fact that the low end of the FSC target group was supposed to be R1 500 per month.

Furthermore, the only houses really available at such a low price were old township houses, but the households living in these houses tended to hold onto their homes due to the fear of not having alternative accommodation in the future (Melzer, 2009). Therefore, even with all the will in the world, without housing stock which was affordable based on the FSC's target incomes, the banks could not meet the commitments and objectives of the FSC.

According to the Department of Housing's *White Paper* (1994), approximately 220 000 subsidised houses had to be delivered annually to meet the demand. However, housing production was constrained due to the following: (1) the lack of access to well-located and reasonably priced land; (2) the decrease in the number of home builders; and (3) government incapacity such as delays in land proclamation, which was reported to have taken as long as four years. On the demand side, the following constraints existed: (1) the lack of relevant housing finance products; (2) potential borrowers having judgements against them; and (3) onerous qualifying criteria for home loans.

As a result, the banks embarked on actions to address these challenges (Partners for Housing, 2009). It also became apparent that the government and the banks needed to work together to remove some of the impediments. The major financial

institutions including insurance companies and the Development Bank of South Africa (DBSA) formed an alliance with the Minister of Housing in 2009. Partners for Housing faced a lot of challenges and had very little success. On the other hand the banks have claimed sporadic successes, such as having achieved the targeted R42 billion in home loans. But a number of households are still unable to access housing finance, and none of the attempts have yet yielded completely satisfactory results. The right to adequate housing guaranteed in the Constitution does not imply that it is only the state that is responsible for the provision of houses. Other agents in society, including individuals and banks, must also do their part to provide housing. But in the end, the government must ensure that the right enabling legislation is in place (Department of Human Settlements, 2012).

4.4.4 Microfinance

Microfinance is a common practise in South Africa, particularly with informal lenders. Before the introduction of the National Credit Regulator, there was an unregulated growth of the micro-lending industry. This inevitably resulted in unscrupulous money lenders known as “abomashonisas” (“loan sharks”). Public concern about the increasing over-indebtedness of borrowers and the exploitation of low-income earners through the charging of exorbitant interest rates resulted in the government stepping in to regulate (Marsh and Saran, 1999).

Up until 1992, banks were not interested in offering small loans, as they were too expensive to administer. In addition, the Usury Act of 1968 put a ceiling on how much interest could be charged for loans over R10 000. Thus, microfinance lenders loaned amounts that did not exceed R10 000 (Schoombee, 2004). On 31 December 1992, however, certain money lending transactions not exceeding R6 000 became exempt from the provisions of the Act. This was done as a result of pressure to make small loans profitable (Schoombee, 2004). This exemption opened the door for banks to supply small loans profitably, and for the first time banks considered issuing loans to the lower sector of the market.

Even after the exemption, though, big banks were not eager to offer loans to the poor due to the perception that microfinance is a risky business that cannot sustain itself (Schoombee, 2004). In order to mitigate the risk, the practice globally was to rely on donor funds. Gradually, however, the number of small loans increased. By

the mid-1990s, it was estimated that 3 500 formal micro-lenders were disbursing R10 billion in small loans annually, with a further R5 billion supplied by informal micro-lenders (Schoombee, 2004; Du Plessis, 1998).

In terms of housing finance, the FSC Report stated that African Bank alone contributed R2 billion to housing finance in the mid-2000s (Gardner, 2010). Microfinance is a tool that could contribute significantly to housing delivery, and there is evidence which suggests that there have always been a number of microfinance lenders who financed housing activities (*ibid.*). According to Gardner (2010:16), 'it is estimated that the total housing-related microfinance portfolio in South Africa is between R 3.2 billion and R 10 billion'. Microfinance is seen as a solution in areas beyond the reach of mortgage finance. It is promoted not only through the private sector, but also through government bodies such as the National Housing Finance Corporation (NHFC).

The primary mechanism for microfinance has been the provision of wholesale finance facilities to specific housing MFIs. For instance, the NHFC disbursed funds to the Rural Housing Loan Fund (RHLF). RHLF was originally a business unit within NHFC, although it is currently funded through a combination of soft loans from the Dutch development institution (KWF) and The Development Bank of Southern Africa. RHLF then on-lends money to intermediaries, such as the Kuyasa Fund.

In 2009, RHLF lent funds at 14% interest to the Kuyasa fund, at a time when the prime lending rate was 9% (Rural Housing Loan Fund, 2009). Kuyasa Fund is a South African non-profit microfinance institution that focuses solely on the provision of loans for incremental housing, particularly in the Cape region. Its target market is recipients of the fully subsidised government (RDP) houses, which are too small for many families and need to be extended (Mills, 2007). However, Kuyasa loans are restrictive, stipulating that borrowers must earn less than R3 500 per month and belong to a savings group. They must also save for six months before they can be eligible for a loan, and borrowers are subject to a credit bureau check.

Despite some successes, microfinance faces a few challenges. Firstly, formal financial institutions have limited housing products and don't generally provide microfinance. Perhaps an even bigger problem is the shortage of housing supply in

South Africa, which means that there are very few houses that are priced low enough for people to purchase (Rust, 2008).

Incremental housing is an age-old practice in South Africa, funded by pension-backed loans, microfinance and other sources. Microfinance is viewed as a way to enable incremental housing, and the microfinance industry is regulated to an extent. However, regulations only partially protect the poor from extortion by unscrupulous lenders; because small loans are viewed as risky, microfinance lenders charge high interest rates. Furthermore, housing legislation does not currently create an enabling environment for incremental housing, and town planning regulations often prevent individuals from engaging in self-help housing.

All loans from formal institutions require a form of security. With mortgage finance, for instance, a bond is registered using the house as the asset. Poor people, who often have no assets, have little choice but to turn to microfinance, as it is supposedly an unsecured form of lending. Yet even most providers of microfinance require a payslip as proof of salary, so security is required even with microfinance. On the other hand, salary is really false security, as people can lose their jobs. When this happens, if they have taken out a loan, they are in an even worse position than people who didn't qualify for any form of finance in the first place.

Capitec Bank, one of the largest providers of microfinance in South Africa, is currently granting loans up to R200 000. Granted, a person who qualifies for a R200 000 micro-loan is not poor, but may be excluded from the mainstream banks for other reasons, such as being black listed. Smaller loan amounts come with a higher interest rate. For example, a loan size of R3 000 in 2012 was charged interest at 40%, while the prime lending rate was only 9%. In comparison, if a person saves R3 000, the best interest rate they can get from Capitec is approximately 4% (Capitec, 2012). Even just this one example shows that microfinance, although available to some, is exorbitantly expensive.

4.4.5 Non-conventional financing

The most common form of non-conventional financing in South Africa is stokvels. This is a group of people that get together to save as a collective. Members save for different reasons such as school fees, home building and improvement, burials, etc.

These organisations each have their own constitutions, and members generally commit to contributing a certain amount at agreed time frames, i.e. weekly or monthly. Members honour their commitments, partly to uphold their honour and to prove their ability to save. The money is typically deposited in a bank, with withdrawals allowed at the end of the year. Unfortunately, these savings are not awarded better interest rates by the banks, and as a result, some stokvel members like Ms Ndlovu in this study feel that they are being punished for saving.

Stokvels are just one example of a survival strategy developed by poor people. As early as the 1980s, there were approximately eight million stokvels in the country (Stokvel Association, undated). Between 1991 and 1994, housing saving schemes were set up in many informal settlements. By June 1993, 58 housing saving schemes had been established (Bolnick and Mitlin, 1999) which later became part of the South African Homeless People's Federation. The savings were used to provide small loans for emergencies and to fund income generating activities.

This gave birth to a community-managed revolving fund called Utshani Fund ('Utshani' is a Zulu word for 'grass'), which provided bridging housing loans to members of the Federation. Bolnick and Mitlin (1999) reported that through this scheme, members could build houses that were much bigger than the capital subsidy (RDP) houses – between 40–60 m^2 in size as opposed to the RDP house which was originally 28 m^2. However, the funding consisted of money being routed directly to poor people by the government, and when the subsidies were not received, the scheme collapsed (Bolnick and Mitlin, 1999).

4.4.6 Challenges facing government interventions

The South African government has made various attempts to provide different forms of housing assistance, but it is facing many challenges. In 2005, for instance, the Gauteng Department of Housing embarked on an infrastructure upgrading project in Orlando East, Soweto. The aim was to eradicate the backyard shacks that had become a permanent feature of these houses, and build proper structures in their place that could be rented out by the home owner (Thring, 2012). However, the project failed for various reasons. According to Thring (2012), the Department of Housing wanted homeowners to sign a contract committing to no longer having shacks, but homeowners were reluctant. The bigger problem though was a lack of

education (*ibid.*). Poor communication also plays a roll, and has led to the rejection of other projects such as the additional rooms that government had built on top of some RDP houses that were intended to generate income for the homeowner. Because of poor communication, the qualifying criteria were unclear and considered to be discriminatory (*ibid.*).

Another major challenge is that the South African population is growing too fast for the Department of Human Settlements to be able to keep up. According to Louis Van der Walt (2012), the South African government is delivering 120 000 keys per annum, but the natural growth is about 200 000 new households per annum. Thus, the demand for new houses is higher than the supply. Because the government is lagging behind, informal settlements continue to grow, although they have recently become a major focus area of government (*ibid.)*.

Another challenge is the fact that the current R88 000 capital subsidy is not enough to construct an RDP house; a more realistic figure is estimated at R156 000 per family (*ibid.*). This is because the actual costs attached to an RDP house are far higher than reported. For instance, the R88 000 figure does not take into account the cost of securing land, and in some areas there is a severe shortage of land (*ibid.*). Van der Walt (2012) also mentions that South Africa is the only country that provides free houses, as even Chile has stopped doing this.

Clearly, South Africa's approach to housing is beset with numerous challenges. The government has limited funds and is struggling to ensure equity and stability, and the previously marginalised population continues to struggle to qualify for formal or microfinance loans.

4.5 Conclusion

This chapter has examined housing finance practices in developed countries, developing countries and South Africa. As expected, there is a gap in the literature regarding housing finance provisioning for extended families. The housing systems of developed countries such as the US and the United Kingdom set the standards for the rest of the globe, leading to the dominance of mortgage financing and the promotion of homeownership. Because people must provide some form of security to

access a loan, this finance system favours the middle and upper classes, leaving the poor vulnerable.

Various solutions have been attempted to help the poor, with limited success. Housing subsidies are supposed to close the gap, but they are driven by an economic rather than a social perspective. Thus, subsidies (often in the form of tax breaks) tend to benefit the middle and upper classes and continue to leave out the poor. The reliance on commercial banks has also disadvantaged the poor, because formal financial institutions require proof of savings history and formal employment.

Microfinance has helped low-income households to some extent. Institutions such as the Grameen Bank in Bangladesh and Sewa Bank in India have shown success in helping poor people obtain housing. However, even these institutions require a payslip or other proof of income. Although most governments have stayed clear of providing housing loans directly to individuals, Thailand's GHB is one exception. It operates completely on a commercial basis, providing mortgage loans and financial services and competing with other financial institutions in terms of interest rates. This provides an alternative for aspiring homeowners (Kim, 1997 citing an extract from Thaipan).

In South Africa, the Housing Subsidy Scheme is not as all-embracing as many would have us believe. It has strict qualifying criteria and a long wait list. And after waiting years for an RDP house, it is likely that applicants no longer meet the criteria of having dependents (Department of Human Settlements, 2009). Other government programmes such as the Discount Benefit Scheme are smaller and have been met with mixed success. This is also the case with the Financial Sector Charter and microfinance. Some poor South Africans have been helped, and others have been left out. Non-conventional financing such as stokvels are sometimes the only alternative. Clearly, the housing policy environment in South Africa faces numerous challenges.

Extended families are generally left out of housing finance discussions and policies. Families that "double-up" in America are considered to be a problem, and it seems that only in India do banks understand the cultural value of extended families. Even in India, though, there is no programme or finance that is directed specifically at extended families; there is only some flexibility within the ambit of mortgage finance.

It is worth noting that although there has been some success in increasing homeownership through mortgage finance and other methods, it may not be the correct tool for everyone, particularly the poor. And as Barnett (1988) argues, developing countries need to chart their own path rather than simply following the trends set by developed countries.

CHAPTER FIVE

ANALYSIS AND FINDINGS

5.1 Introduction

The assumption in this study was that the Ndalas and the other three families had not received any government housing subsidy. This assumption was based on the fact that the households live in formal houses within an established township, and have thus been excluded from the *in situ* upgrading programme, which caters for informal settlements. In addition, the households are too poor to qualify for a formal loan. The research first set out to confirm or refute this main assumption. If indeed these families had not received any financial help, then the next question was how they had acquired their houses and employed their livelihood strategies.

The original residents of present-day Pimville were moved from what is now referred to as Old Pimville in the mid to late 1960s when the government expropriated their land. The old and new Pimville are in the same location, but the transition resulted in land being rezoned and divided into smaller properties and the old houses being replaced with new bonded houses by private developers. In the new Pimville (sometimes referred to as Klipspruit) the state built rental houses that came with 99-year leases. Even the households who were backyard tenants in the old Pimville received a government house to rent in the new Pimville. The lease agreement was between the municipality and the “Rightful Tenant”. During the apartheid era, this “Rightful Tenant” was the male head of household. In the event that the head of the family died, the eldest son would take over the position, even if the widow was still alive. However, it was understood that the house was a family home, and the son was not allowed to evict any of the family members.

When people were moved from Old Pimville, they were not only dispossessed of their land, they also lost their income generation activities. In the new Pimville, they were no longer allowed livestock, and they did not have as much land on which to build additional buildings, so they could not rent out extra buildings for income (Callinicos, 1987). The interviews and observations conducted as a part of this study

focused on the concepts discussed in the literature review: self-help housing and livelihood.

5.2 Property acquisition

To establish whether these homes were purchased or inherited, the respondents were asked how they had acquired the original state house. The responses would also shed light on their livelihoods and start to address the concept of an extended family.

The three Pimville families were relocated from the old Pimville. The Ndalas have been living in their house since 1967, and they acquired the property when the stand that the family owned in Old Pimville was taken away from them. This was also the case for the Monwametsi family. Although Ms Ndlovu's house was also originally acquired through the initial 99-year lease agreement, she herself inherited the house through marriage. The Mfukus did not own property in the old Pimville, as they had been tenants there, but in the new Pimville they received a house. Except for Ms Ndlovu, who inherited her house through marriage, the rest of the houses had belonged to the current owners' deceased parents. Upon the deaths of the original owners, the families continued to stay together in the house.

5.3 Property ownership

In the late 1970s, the original 99-year leases were converted into full ownership through the Discount Benefit Scheme, and title deeds were issued. As in the lease agreements, ownership of the houses remained with the family. Although the title deed was in only one family member's name, the understanding was that it was a family home, and the title holder had no right to sell or do anything to the home without the full agreement of all concerned. Technically, however, once the title holder died, there was no longer an official owner of the house, a situation which is common through South African townships.

5.4 Government housing subsidies

Respondents were asked if they had received any government housing assistance. Ms Ndala (Nzwaki the eldest daughter of the late Mr and Mrs Ndala) claimed that she had not received any government housing help, and she further claimed that she does not receive a government pension even though she qualifies at age 71. One of Ms Ndala's daughters did receive child support grants for a while, but these grants stopped when the children had grown up. The other three families also stated that they had not received any housing assistance. Ms Mfuku said that she had applied for a housing subsidy, but was denied because she did not have children below the age of 18.

The Ndalas further stated that they were advised by neighbours to move into informal settlements in order to qualify for an RDP house. Similarly, Ms Monwametsi stated that when her husband was still alive, they had tried to move to an informal settlement in order to apply for an RDP house. However, they were unable to come up with the amount of money required to have space at the informal settlement reserved for them. So, they lost out on the land and she has not heard anything about their application since. Ms Ndlovu had this to say about her situation:

> I have never received a housing subsidy because I already had this house. None of the family members have received a housing subsidy. My youngest son does not have children so he does not qualify; my eldest son sees this house as his ultimately.

A conclusion that can be drawn from the above responses is that the Discount Benefit Scheme that transferred ownership of the families' houses to them in the 1970s is not recognised as a government intervention. The new government's subsidies are the only thing perceived by the respondents to be government intervention. Based on what Ms Monwametsi said, it is apparent that there is also some corruption going on, because there is no rule that states that people must pay to acquire space at an informal settlement.

5.5 Extended family trees

Extended family units are common in the wider Pimville community. The following section describes the Ndala family tree in order to dispel the myth of a nuclear family, particularly in an African culture.

The Ndala family tree (pre-1994)

Before 1994, the Ndala family consisted of 61 members. Mr and Mrs Ndala were the original owners of the house, and they had three children - a daughter named Nzwaki, another daughter named Tutu and a son named Monwabisi. Both Tutu and Monwabisi married and brought their spouses to live with them in the family home. The third generation contains 19 people: Nzwaki had 7 children, Tutu had 9 children and Monwabisi had 3 children. The fourth generation is as follows. Nzwaki's children had a total of 20 children and Tutu's children had a total of 17 children. Monwabisi's children did not have any children. The total number of 61 excludes the fifth generation, which has also multiplied manifold in recent years.



Figure 3: The Ndala house as it was before being surrounded by corrugated iron extensions
Photo: Lindiwe Mbongwe, 2012

The Ndala family tree (post-1994)

The original owners both Mr and Mrs Ndala have since passed away, so have some of their children (Tutu and Monwabisi). Nzwaki remains the eldest living daughter of the late Mr and Mrs Ndala (she is currently 71 years and has never been married). The Ndalas exemplify a typical multigenerational extended family which comprises many members through birth and marriage. Currently, there are 39 people living on this property (this number includes 20 tenants living in the shacks outside). Most of the family members have since passed away or moved into informal settlements with the hope of getting a government subsidised house. Like the Ndalas, the other three families are quite large, with between 9 and 21 family members living on one property.



Figure 4: The Ndala house has expanded, with outside corrugated iron extensions that house tenants
Photo: Lindiwe Mbongwe, 2012



Figure 5: The Ndala house fenced off with second-hand concrete wall. Photo: Lindiwe Mbongwe, 2012

Similar to the Ndalas, the other three families are also multigenerational households, and they state that death is the main reason for the reduction in the number of family members living together. On the other hand, all of the households have expanded through birth and marriage. Cousins, their children, daughters-in-law and sons-in-law all live under one roof.

As demonstrated by a recently published newspaper article, multigenerational households are common in Soweto (Monnakgotla, 2012). According to the article, the 68-year old Lucy Manya, a grandmother, spends most of her time scavenging in dustbins to feed the 17 mouths that depend on her. She, too, is from Pimville, Soweto. Most evenings, she goes to Maponya Mall with her older grandchildren to scavenge in dustbins for food when their donations run out. Living with her in an RDP home are five of her children and eleven grandchildren whose ages range from less than a year to 20 years (*ibid.*).

5.6 Sense of pride and belonging

Despite living in close quarters, the Ndalas and the other families expressed being happy living in their house and in the area for the following reasons: (1) it is the only home they have; (2) strong neighbourhood relations have developed over time, so they get help from the neighbours; (3) they don't have money to purchase or build a

new house; (4) there are established amenities in the area (one child stated that: 'I am happy living in this area because I play soccer and there is a big soccer stadium'); (5) rent is too expensive, and even if the children were to live separately, they would still have to help their parents financially; (6) those that run informal business have an established clientele which they would not want to lose; and (7) they look after the younger siblings and are able to share the little that they have.

Most family members didn't know any home other than the extended family home. As one respondent said, 'This is a home for all of us; everyone has the right to be here. When things are tough they come back home. But this remains a home for all the family members.' Thus, it seems that the families have accepted their living conditions, formed strong neighbourhood relations and are happy living in the area. So although they would love to improve their houses in terms of size and beauty, many of them do not necessarily want to move out of the area. The Mfukus and Ndlovus have been able to expand their houses to an extent, and they expressed pride at making their houses bigger and more beautiful.

On the other hand, some members of the younger generations display ambitions to move to more affluent areas or build houses for their nuclear family. These younger family members have a higher level of education than their parents and grandparents; many have a matric certificate and some are studying at tertiary institutions. Some of them did indeed move to wealthier areas for a short time, but the cost of living and rent became too expensive, so they had to move back.

5.7 Crowding and lack of privacy

Ms Ndala was unable to state exactly how many people were living on the property. She explained: 'In the outside buildings, I am not sure but there are couples who sometimes end up bringing other relatives of theirs.' All of the families that were interviewed have large numbers of people living on the same property – between 9 and 39 individuals. Even when non-related tenants are excluded, the Ndalas and Monwametsis still have 19 and 12 people respectively living in a four-roomed house which has only two bedrooms and no inside toilet or tap.

This overcrowding results in a serious lack of privacy. Adult males and females often sleep in the same room together, and children are exposed to adult activities. As stated by Ms Ndlovu, ‘There was a time when I shared the bed with my son and his wife; this was the most difficult time of my life’. The lack of privacy is glaring, and the exposure of young children to adult activities is a major challenge in these households. This lack of privacy is one of the forms of deprivation that can only be understood by poor people themselves (Chambers, 1995).

5.8 Housing situations

Dealing with housing needs

Some family members in the younger generations have moved into informal settlements in the hope of receiving an RDP house. But according to Ms Ndala, even those members that have left for informal settlements leave their young children at the extended family home as it provides a secure place of abode. And as Ms Monwametsi pointed out, moving to informal settlements is more difficult than it may seem. Because most family members are unemployed, outside structures are rented out to outsiders. The need for this rental income means that these outside rooms cannot be used to house family members.

Incremental housing and non-conventional finance

As the Ndala family grew, the house became progressively more and more inadequate to meet their housing needs. The family is thus faced with two major challenges: lack of space and lack of income. The Ndalas have gradually extended their house with recycled building material and corrugated iron, while tenants have erected their own structures and pay to occupy the space. However, these structures do not meet the criteria of the local government.

The Ndlovu and Mfuku families have also made changes to their houses using conventional building material (bricks and mortar). Mrs Ndlovu received funds to improve her house from her stokvel, which allowed her to withdraw money in December that she had been saving throughout the year to extend the house incrementally. Mrs Ndlovu said: ‘with that money, over the years, I have managed to

extend the house, and I now have a bedroom for all my sons and me. I don't owe anyone now for these extensions.'

Ms Mfuku, on the other hand, reported that 'My step sister gave funds to improve and extend the house. The condition was that she can collect rent till she can get her money back, and she still gives me money for looking after the building.' The children also help out. Younger family members that find work assist their parents and grandparents with money to extend the house and build outside cottages.

5.9 Livelihood strategies

How they have sustained their livelihood

The Ndala family is almost completely dependent on rental income from their shacks, as is the Monwametsi family. However, Ms Monwametsi sometimes has "piece" jobs which augment her income. Mrs Ndlovu sews dresses and Ms Mfuku bakes cakes. Ms Mfuku also receives rental income that is controlled by the relative who provided a loan for the extensions. Some of the Mfuku youngsters try their hand at washing cars, but they do not get work every day. In the Ndlovu household, some family members are employed as factory workers.

Income poverty

All households stated that they did not earn enough income. In responding to this question, Ms Ndala indicated a strong sense of family ties: 'This income is not enough, but we get by. At least I buy bulk for food and feed them all, including my brother's sons who just finish their money. Although we have stopped cooking together as we had always done as a family, I still can't let them starve.'

At the time of the interview, the last remaining working member in the Ndala household had just been laid off from a jewellery factory that she had worked for since she was young. At the time she was retrenched, she had been earning R200 per week. Some financial support sometimes comes from another daughter who lives in an informal settlement and works at the same jewellery factory. The tenants

are supposed to pay R200 per month per shack (R1 600 total), and Ms Ndala shares this income with her brother's sons. However, she laments that some of the tenants just pay as much and when they like because 'they were brought in by my late brother, and they don't seem to recognise me'.

The situation is exacerbated by the fact that Ms Ndala, who is 71-years-old, does not receive a government pension because she does not have an identity document. She states that she was issued with a temporary identity document (ID) during the 1994 election, but when it expired, she was unable to renew it. Although she has gone to the Department of Home Affairs a few times, she was never attended to, and she eventually gave up trying because of the time and transport money required. Unfortunately, Ms Ndala's case is not unique. The old lady from Pimville in the Sowetan newspaper article cited earlier has the same problem. Seemingly, her name is misspelt on her ID, and she too had given up trying to secure a government pension.

Lack of education as a form of deprivation

Although all family members have some form of education, the majority have only basic education, making it difficult to get good paying jobs. Ms Ndala and Ms Monwametsi, for instance, attempted standard six as their highest level of education, and they are the highest educated in their families. The younger generations in the other families have mostly attempted secondary education (grades 10 to 12), and a few have even completed a tertiary course. This general lack of education has meant that family members who do manage to find work are only able to secure low-paying jobs in factories or shops. Still, the families acknowledge the importance of education. For example, Ms Mfuku mentioned that 'This money is not enough because I have to pay R250 per week for my daughter's transport to college. And I still have to buy food for the family as well as other things like clothes.'

5.10 Relationship with financial institutions and access to loans

The Ndalas have no relationship with any bank because all of the family members are unemployed. The other three families have some relationship with banks in the form of savings accounts, but they too are unable to access bank loans due to unemployment. Ms Monwametsi stated that relatives were not an option for a loan because they would need assurance of repayment. In fact, she even asked me in Sotho: 'Wena ukankadima chelete?' ('Would you lend me the money knowing my situation?')

Ms Mfuku stated that although she has a savings account with Capitec Bank, she has not applied for a loan because she is unemployed. She also said that 'this is a family home. When you use loan money to extend the house, some of the family members will think you want to kick them out'. Mrs Ndlovu explained that she had not applied for a loan because she does not have regular income, and as it is, her bank savings account is constantly being closed by the bank. She claims that she prefers the stokvel because 'you are forced to save'. Banks, in her opinion, 'charge you interest for the money they loan you, yet when you save your money with them, they still charge you for service and you find that the money you put in is less than the money you saved'.

5.11 Conclusion

The Ndalas and the other families are generally happy living in the area. They have formed strong neighbourhood relations over the years and the area is developed with a big soccer stadium nearby. Living together is really the only choice for most family members. On the positive side, this allows these families to share what little they have. On the negative side, however, the families experience overcrowding and a lack of privacy. Some younger family members have moved to informal settlements or other areas, but the extended family home remains a place they can return to if needed.

An overall low level of education has hindered most family members from finding work. Outside space is often rented out, and this extra source of income helps to make ends meet. In this way, for the Ndala family particularly, owning property has

made a huge difference. But even this rental income is not enough, as all the families reported struggling to make ends meet.

Mrs Ndlovu participates in a stokvel, which has allowed her to incrementally add on to her home, while the Mfuku family was able to expand due to a loan from a family member. Although three of the families have savings accounts at a bank, none of them are able to access formal loans because they are mostly unemployed and cannot provide proof of income or adequate savings history in a formal institution. Even microfinance is not an option, as family members' income is not high or regular enough to qualify for micro-lending.

In short, these families are stuck. They do not qualify for a government housing subsidy because they obtained a house from the apartheid government. They are also excluded from mortgage loans and microfinance because none of them are formally employed, a fundamental requirement of the banks. Stokvel, family loans and rental income provide some relief, but the families remain overcrowded.

CHAPTER SIX

GENERAL CONCLUSION

6.1 Summary of findings

Primary research question: How effective have the different housing finance interventions been in meeting the needs of poor extended families in South Africa?

Although the government has intervened through its Housing Subsidy Scheme, this programme has not assisted extended families like the Ndalas. The Discount Benefit Scheme of a few decades ago did not take into account the size of the family, and the families that were interviewed do not even consider this earlier programme to be a housing subsidy. The housing subsidy programme currently in place focuses on residents of informal settlements and on a typical family consisting of a couple with a few children as opposed to individuals and extended families (van der Walt, 2012). In other words, extended families are not catered for.

Secondary research questions:

1. To what extent are housing loans accessible to a poor extended family?

A housing loan is not accessible to the Ndala family and others like them because financial institutions have strict qualifying criteria, such as proof of regular income and record of regular savings in a formal institution (Kim, 1997; Merrett and Russell, 1994; UNDP, 1982). This is partly because banks do not have much knowledge about low-income borrowers (Pillay and Naudé, 2006). In addition, many poor South Africans are wary about high interest rates charged by banks and the possibility of losing their properties if they miss payments. High unemployment in the case study families prevented them from obtaining housing loans.

2. How (if at all) has microfinance helped the Ndala family?

Lack of formal employment also excludes the Ndalas and other families from accessing micro-finance, as even micro-lenders require proof of income.

3. How has the Ndala family addressed its housing needs over time, and how has the family sustained its livelihood?

The extended families in this study used the age-old self-help housing process to address their housing needs. The Ndalas extended their house with recycled building material and corrugated iron which they did not have to pay for. Their tenants erected their own structures and are charged for occupying the space. The Ndlovu and Mfuku families have added to their houses using conventional building materials (brick and mortar). Mrs Ndlovu received funds from her stokvel, and Ms Mfuku received a loan from a relative (two examples of non-conventional finance).

Although very few family members had formal employment, each family developed its own coping strategies: running small businesses from home, casual work and renting out rooms. Even with only these informal sources of income, some families were able to ensure that their children received a good education. However, many of the Ndala children do not attend school.

4. To what extent has housing policy made provision for poor extended families?

As discussed in chapter 5, the current government policies do not cater for extended families. The extended families in the study did obtain houses in the 1970s through the Discount Benefit Scheme, which did not consider family size. However, the current HSS caters to nuclear families and people living in informal settlements. Therefore, extended families that live in crowded conditions in houses that they already own are excluded from current housing policies.

5. Should the housing needs of this family be catered for by the government's subsidy programme?

6. How could poor extended families be helped to meet their housing needs?

These final two questions are addressed in more detail in the recommendations that follow. In short, yes, the housing needs of extended families should be catered for by the government's subsidy programme, and there are various ways in which the families could be helped to meet their housing needs.

6.2 Recommendations

The findings from this study indicate that the South African housing policy needs to be reviewed. More specifically, the target group for subsidised housing should be expanded to also include extended families. Furthermore, those who obtained government-owned houses before 1994 should not be written off as having already obtained a meaningful government subsidy. In other words, there should be a distinction between houses acquired pre-1994 (through the Discount Benefit Scheme) and those acquired post-1994 (through the HSS) to allow for specific interventions that meet the needs of all South Africans.

Stein and Vance (2008) observe that rentals of formal houses should be encouraged. Therefore, an environment should be created that enables poor households to earn rental income. This helps both the owners of the house in terms of income generation as well as the renters who are able to have decent accommodation in formal settlements.

The way in which the Mfukus financed their housing extensions provides a valuable lesson. The picture below shows how this family's house has been transformed using money borrowed from a relative. Loans come with a number of advantages – renovations can comply with the local regulations and houses can contain proper sanitation. However, relying on relatives for housing finance is not sustainable. The government has a role to play in providing finance to families like the Ndalas.



Figure 6: The Mfuku house (on the left) has been transformed from a house that looked like the one on the right to a double-storey structure comprising 4 bedrooms, 2 bathrooms and 2 toilets Photo: Lindiwe Mbongwe, 2012

A detailed account of how this concept can work for families like the Ndalas is articulated below. An institution like the NHFC could provide funds for the extension of houses. The current government housing subsidy funds could even be made available for the initiative, which I term ‘rent-a-room’.

6.3 “Rent a room” concept

The government is promoting home ownership and has steered clear of owning housing stock that could be rented out. This is understandable given the fact that South Africans want to own their own home. In addition, non-payment of rent is fairly likely. Thus, the “rent a room” concept focuses on well-established, suburban areas and existing home owners. The shortage of affordable accommodation could be addressed within areas with well-established infrastructure such as Pimville, Soweto. Although there are numerous initiatives currently underway to address the acute housing shortage, the majority of these initiatives take a more traditional approach.

This new innovative approach would supplement the current approaches and assist families such as the Ndalas who do not currently benefit from the housing subsidy programme. The target market should be predominantly the previously black-only townships and suburbs within metropolitan areas. These neighbourhoods contain houses that were previously owned by the government but have since been converted to full ownership by families like the Ndalas.

In essence, the concept entails the construction of additional housing units (self-sustainable facilities such as a granny flat) on the same property as existing houses. Typically, the land size is +-300m^2 and the existing houses are 42m^2, allowing much space for additional structures. The newly developed structure(s) would provide accommodation for family members as well as renters. The government would provide the funds to construct the new structures, and the families who own the stands would pay a predetermined amount back over time, using the rental income that they receive.

There needs to be adequate management of the entire process, from the construction of accommodation facilities to the day-to-day (rental) management of the new units. A letting agent should be appointed with the following responsibilities:

1. Finding tenants;
2. Collecting the rental amount; and
3. Paying the rental amount to the housing subsidy programme.

The homeowners do not necessarily have to have formal employment, as the loan can be repaid using the rental income. Once the loan is repaid, the owners of the houses would then collect the rent and supplement their income. The concept is based on the idea of incremental housing, and there could be a set capital amount like there is for RDP houses. However, this would be a loan made to extended family units. Thus, unlike with RDPs, the loan amount would be repaid within a maximum period of five years depending on rental rates in the area.

The process should include the following steps:

1. Find extended family units that live in houses that were originally state-owned and under 99-year lease agreements
2. Approve finance
3. Appoint construction company and construct additional rental facility
4. Place tenants
5. Manage and collect payments from tenants
6. Repay the capital used for the construction

The key role-players in the implementation of this concept would be:

1. Home owners
2. Letting agents
3. Construction companies
4. Investors / funders
5. Tenants
6. Government (local/provincial/national)

This project would have the following benefits for the various role-players. It would:

Home-Owner:

1. Create fixed assets (property)
2. Generate income
3. Unlock the value embedded in property

Letting Agent:

1. Create jobs
2. Generate income through management and administration fees

Construction companies:

1. Provide work
2. Result in more employees being hired

Investors / funders:

1. Provide a return on investments
2. Enable funders to invest in a socially responsible project

Tenants:

1. Increase the number of housing units available
2. Improve the quality of backyard rental stock

Government:

1. Decrease the influx into informal settlements
2. Assist more households as the capital amount is repaid
3. Provide high quality backyard rental accommodation
4. Address the land shortage

Finally, it must be noted that this is an exploratory study and the four families included in the study do not necessarily represent all extended families. The major focus was on the Ndala family, with the three other extended families being included to gather richer data. The families differed from each other, particularly with regards to access to (non-conventional) housing finance. More extensive research needs to be conducted on the implications of a quasi-government entity like the NHFC lending directly to households, as they currently provide loans to institutions.

Nonetheless, the data from this study indicates that there is a gap in housing finance provisioning in South Africa. Poor extended families that obtained formal houses from the Discount Benefit Scheme do not qualify for government housing assistance or mortgage loans. And a possible solution lies in the proposed “rent a room” concept.

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ANNEXURE A

INTERVIEW GUIDE

Introduction

Good morning/afternoon. My name is Lindiwe Mbongwe. Thank you for allowing me the opportunity to interview you. As I indicated, I am conducting research for my Master's degree which I am doing at Wits University. I will ask you a few questions pertaining to your household. Please let me know if you are willing to be interviewed, and please know that you may end this interview at any time if you no longer feel comfortable with it or do not have time.

1. History

1.1 How long have you been living on this property?

1.2 How and when did you acquire this property?

1.3 How many people live on this property?

1.4 How many of those living on this property (including in the outbuildings / extensions) are members of the family through birth, adoption or marriage?

1.5 What is the relationship / standing of those who live here but are not members of the family?

1.6 (Probe) for Gender

1.7 How many adult males and how many adult females live here?

1.8 How many children under the age of eighteen are on the property?

1.9 How many of these children are under age twelve?

2. Level of education

2.1 How far did you go in school? In other words, what standard did you pass?

2.2 What about the rest of the household, what level of education have they attained?

3. Source of income

3.1 What is the household's source of income? How many members of the household are employed?

3.2 What kind of employment are they in? What sector? Level of employment?

3.3 Is the total household income adequate to run the household? Please explain

3.4 (Probe) wages, salary, small trade, pension, child support grant, relatives, rent

4. Relationship with financial institution

4.1 Are you a client of a financial institution? A bank?

4.2 If so, which institution? And what type of account do you have?

4.3 Have you ever applied for a loan? Yes/no

4.4 If yes, what was the loan for?

4.5 Were you successful in obtaining the loan? If not, why not?

4.6 If the loan was for an extension of the house, why do you want to extend your house?

5. To those that carried out changes to their houses

5.1 Where did you get funds for the improvements made to your house?

5.2 If you got a loan from a relative/friend/neighbour, what were the conditions of this loan?

6. Policy/subsidy questions

6.1 Have you ever received any government housing subsidy? When? How much?

6.2 What about other members of your household? Have other adults applied for housing subsidies? If not, Why not?

6.3 Are you happy living in this area? Please explain.

6.4 Are you happy living in this house? Please explain.

Conclusion

I would like to thank you very much for your time, good bye.

ANNEXURE B

INTERVIEWS WITH CASE STUDY FAMILIES

Mfuku, M., 2012. Interview with author. Pimville, Soweto, 9 September 2012.

Ndala, N., 2012. Interview with author. Pimville, Soweto, 9 September 2012.

Monwametsi, P., 2012. Interview with author. Pimville, Soweto, 10 September 2012.

Ndlovu, N., 2012. Interview with author. White City Jabavu, Soweto, 14 November 2012.