with all the necessary stringent controls. (Association of Building Societies; 1990)

The second area of difference between the proposed National Housing Bank and the existing National Housing Fund would be an extension of functions. At present the National Housing Fund simply extends loans and subsidies to individuals and organisation for the purchase of land, construction of housing and, to a degree, for the provision of community facilities. The primary functions of the new bank would include:

(a) The provision of capital loans to individuals, savings and credit unions, community companies, local authorities and other agencies to undertake housing programmes.

(b) The provision of low-income loans to local authorities and other public agencies to provide the pre-conditions for positive housing development-serviced land and positive and enabling mainstructure (public services, public spaces and public facilities).

(c) The provision of subsidies to the poor.

(d) The guarantee of financial institution loans to low-income families.

(e) The provision of training programmes and seed capital to savings and credit unions.

(f) The control of the building materials industry.

The bank would therefore be the primary instrument for increasing and stabilising funds for low-cost housing; it would enable access to funds by the poor, and would act as a priming agent in establishing an appropriate housing finance system (Dewar; 1980).

The aim of the national Housing Bank should be to allocate the country's scarce financial resources to those segments where the needs are the greatest. This cannot be done effectively without the participation of community organisations, trade unions and non-profit agencies. The following issues that are critical to the National Housing Bank's decision making process needs to be adddressed:

- **Who initiates projects Who is eligible to receive public funds?** Up to date local authorities could initiate projects and receive funds. The present illegitimacy of local authorities requires a drastic revision of local governments. Alternative community bodies, unions and non-profit organisations could be made eligible to apply for funds for projects.

- **Who will screen projects and decide amongst alternatives?** In South Africa's public housing system, the provinces acted as gatekeepers, screening applications. In present circumstances illegitimate RSC's and provinces will not be appropriate co-ordinating agencies. Joint commissions between political organisations might serve as alternatives. A set of principles also needs to be implemented to guide decision-makers in selecting applications after they have been screened.

- **What different types of finance can be offered by which agencies?** Mabin (1990) indicates that at least four different types of finance could be offered by different agencies. A central government body like the proposed National Housing Bank could make **direct grants** to projects. The National Housing Bank or other quasi-government organisations could provide **very soft loans**, with highly subsidised rates of repayment - as the land

Bank has done on occasion. Other agencies like the Development Bank and Small Business Development Corporation could offer loans at higher interest rate, but still below commercial rates. Others could offer loans at commercial rates for projects deemed desirable but unable to attract commercial finance. Projects could be supported by a combination of all these types.

- **The setting of priorities in these agencies.** The proposed institutional framework will have to create a type of **forum** in which all parties and political groupings have the opportunity to shape the disbursement priorities of these organisations.

- **Mobilisation of private funds for development.** Innovative ways in which the National Housing Bank could mobilise private funds for development need to be researched. Where private funds designated for development, are channeled through private - for profit agencies, careful monitoring is necessary to ensure that development goals are met.

- **Implementation, monitoring and assistance.** It is essential to build a local institutional system with the capacity to implement projects. Currently black local authorities almost all lack any implementation ability. But blind faith in the private sector may prove to be misplaced. Public agencies, properly monitored can be highly efficient. New forms of public - private partnerships should be considered. Mabin (1990) drawing from experience in Indonesia, stresses that the creation of public agencies and public assistance to local communities and non-government organisations is essential for successful upgrading and housing development programmes.

- **Cost Recovery.** Finally, the years of rent and service charge boycotts have surely focussed enough attention on the need to consider very carefully the burden which development projects may place on communities in repaying, over whatever period at whatever rates,the funds used. To make the poorest members of society pay dearly for rudimentary improvements such as running water, while suburbanites pay less in absolute let alone relative terms for full urban services lays the ground for decades of conflict. It is after all the function of a state to redistribute wealth and income through the taxation system and its appropriations. Full cost recovery may not always be possible.

  There are many other possible uses of public funds in the housing sector. South Africa still has much to learn from other parts of the world as well as our own housing practices. Petty prejudices and blind faith in abstract models should not be allowed to interfere with the desperate need to address the needs of the poor in South Africa. (Mabin; 1990).

6.3.2 Financial Institutions

As discussed earlier, financial institutions are reluctant to become involved in the low-income market, because of the risk and the profitability factor. It is the intention of this new, proposed, integrated system to extend the influence and resources of financial institutions to reach lower segments of the market. A proposed measure to achieve a more appropriate risk/profit ratio is through **guarantees.**

In this regard, the Urban Foundation has already launched a Loan Guarantee Initiative, which will provide an insurance policy for insurance companies who, in turn, will provide insurance guarantee for the banks and building societies.

It was widely accepted at the Third International Shelter Conference in April this year that the role of the Government includes specifically, "the encouragement and support of housing finance institutions that promote the channeling of private resources into housing in a constructive way". (Munjee; 1990). Guarantees by the Treasury to financial institutions and insurance companies was therefore proposed.

However, this study does not view the guaranteeing of commercial risk as an appropriate role for government. International experience on guarantees for commercial risks associated with low-income borrowers indicates that this in fact promotes defaulting by the borrowers. Given the historical context of housing for urban blacks in South Africa and the still prevalent expectation that the government is responsible for providing housing to this sector, it is likely that a system of government guarantees will be exploited by the home-owner.

In addition, international experience has indicated that, where government's guarantees are applied, the financial institutions tend to be less committed to developing and maintaining systems which contain arrears and defaulting.

In Malaysia and Thailand for instance rapid and sustained growth of commercially viable housing finance institutions occured in the absence of any arrangements for mortgage insurance. Mayo (1990) also sounded a note of caution on the danger and negligible apparent benefits of such guarantees during the early stages of the development of a commercially viable housing finance system.

This study argues that South Africa's financial institutions are capable of much the same downmarket move as achieved in Malaysia and Thailand, if the government rationalises the legal and regulatory framework regarding land (specifically tenure).

Whether the government should guarantee commercial finance is a more controversial point. If however government guarantees are to be introduced, it should be subject to the following conditions: (as proposed by the Association of Building Societies; 1990; 19).

- The role of the government in providing guarantees should not be publicly promoted.

- Definition of organised boycott action through reference to the scale of activities.

- Building societies should be able to demonstrate what negotiation actions it has taken in an effort to resolve the boycott.

6.3.3 Savings and Credit Unions

The third institutional level is that of the informal money markets, savings and credit unions or the informal housing finance sector as Jorgenson (1989) describes it. He defines this informal sector simply as, "that part of the housing activities which does not have access to formal sector finance."

Savings and credit unions are the most characteristic form of finance used by the poor all over the world, to construct shelter. In South Africa, savings and credit unions (also known as stokvels) have an estimated annual income of over R600 million in metropolitan areas alone. (Business Day; 27/09/1990; 3). It is only by capturing the flow of these funds that the formal sector institutions can hope to mobilise significant additional resources for the benefit of the poor.

In analysing the South Africa housing finance system, Jorgenson (1989) concluded that there is a tremendous need for a finance mechanism, which can channel funds to those who are excluded from formal finance. He proposed the creation of a separate institution, to be formed and run on commercial lines and preferably with public sector support and funding.

This study argues that the National Housing Bank could fulfill such a role. Its objective in this regard should be to enhance the effectiveness of savings and credit unions and to enlarge their capacity for self-help. Savings and credit unions should become the vehicles through which money could be channeled to the poor. The activities of the NHB would therefore also include the following:

- Advance direct loans to credit unions.

- Initiating training schemes relating to administration, bookkeeping and decision-making.

- Encouraging investment of non-utilised funds in, for instance, Building Societies, thereby ensuring that funds continue to circulate in the housing sector.

- Provide credit unions with seed capital. (United National experience suggests that the probability of success is directly related to the scale of seed capital applied. (Dewar; 1980)).

6.4 ALTERNATIVE USES OF PUBLIC FUNDS

The central theme of this study is that housing policy in South Africa should have, as its primary objective, meeting the shelter needs of the poor. As proved earlier, the private sector will not enter the shelter market without public incentives. It is therefor necessary to not only build a comprehensive public support system for the shelter procurement process, but also to provide rental accommodation. Alternative ways of spending public sector funds are:

through subsidies, incentives to employers, support to community based housing organisations and public housing.

6.4.1 Subsidies

Despite wide debate about the merits of subsidisation and its application in the South African context, a degree of subsidisation is essential to assist the poor to gain access to shelter. How these subsidies are applied in practice needs to be reassessed and explored:

- The most practical form of subsidy incentive for the lowest income earning segment would appear to be some form of capital grant that would enable them to purchase a site and erect an informal dwelling that could be upgraded over time. It is however very important that the poor should be allowed options as to where they invest the capital subsidy. the proposed subsidy (see chapter 5) is to be usable only on new, undeveloped land. The poor must be able to spend it on upgrading their existing shacks or on buying a small flat in the inner-city, close to work, if they so choose.

- Direct subsidies of rentals for those who cannot even afford full rent, was proposed by Tucker (MD of the Perm) at a recent conference. He pointed out that there is today virtually no private sector owned rental accommodation for occupation by black people - despite the fact that a rented home is all that can be afforded by a very substantial portion of the black community. Bratt (1989) indicated that direct cash vouchers on housing allowances, that enable lower-income households to rent units on the private market, have been supported by a host of academics and housing analysts including those who advocate little or no government intervention such as the 1982 President's Commission on Housing.

- Current subsidies should be modified and targeted at the poor, by defining parameters enabling only the most needy to qualify.

6.4.2 Incentives to employers

It is today widely accepted that the enormous resources of the private business sector, should somehow be directed towards housing. It is necessary to continuously pursue new ways of involving the private sector. **State Matching Finance** provides a potential important mechanism. The government should consider launching a new public - private partnership programme. The objectives would be for private - for profit partners to participate in ventures clearly aimed at benefiting low-income housing needs. However, a note of caution on the dangers of public - private partnerships that could easily lead to conflicting objectives being pursued. The quest for profit should not play a leading a role in such initiatives. State matching funds could provide the answer.

Another mechanism is tax incentives to encourage employer participation in the financing of shelter. Employer and trade union/ staff associations should assist employees/members to obtain and afford shelter. Examples include; loans, guarantees, subsidies, as well as using pension and provident funds to buy the building societies' recently issued debentures on the financial market.

6.4.3 Support to community based housing organisations[5]

Community based housing organisations proved to be a successful strategy to deal with Americas's low-income housing problems. The potential of a new housing policy in South Africa, built on the empowerment of community groups is compelling. The production, rehabilitation, management and/or ownership by community based organisations, with funding and technical assistance provided by a comprehensive public support system, not only would offer participants much-needed shelter, but also control over and security in, their living environments.

There seems to be a pressing need for systematic research into the costs and benefits to the government, for providing a comprehensive support system for community based housing organisations, as part of their housing strategy. Evidence from the USA shows that the most important constraints of these grassroots organisations, are lack of technical assistance and lack of funding to cover start-up costs. (Bratt; 1989)

6.4.4 Public Housing

It is today widely accepted that informal housing must form a central element in the government's housing policy. However, as Maughan-Brown (1987) advocated, it should never be seen as the only one:

> "There is a critical need for the development of a variety of other strategies, including the development

5 A community development corporation is a nonprofit organisation committed to improving economic conditions, providing affordable housing, delivering social services to a defined geographic area, or all of these things. In addition to addressing concrete needs, they attempt to enhance the political position of a local community and to provide opportunities for individual empowerment. (Bratt; RG 1989).

of public housing to complement the informal housing strategy."

This study does not deny the limits and problems of public housing, but suggests that their is a role for public housing in South Africa to complement a shelter strategy in resolving the housing crisis.

The following policy principles should guide a public housing strategy in South Africa:

- A firm commitment by the State, in terms of appropriate policies and amount of resources applied, in terms of appropriate policies and amount of resources applied, is critical to the resolution of the housing crisis. This study concluded from the international comparison on housing expenditure (see chapter four) that South Africa spends a relatively too small proportion of its budget on housing.

- Public housing should form part of a cumulative economic and social development programme. The construction sector is a potential lead sector in South Africa and an extensive public housing programme not only alleviates unemployment, but will also stimulate the economy, (as discussed below).

6.5 THE HOUSING FINANCE SYSTEM AND THE ECONOMY

In designing a policy framework for a South African housing finance system it is important to realise the goals and objectives of a well-functioning system. The goals of a housing finance system reflects the broader goals of housing policy in South Africa and as such, reflect a number of different ways in which the housing sector influences the performance of the economy and the social and economic well-being of the population.

In a simple theoretical model the economic system can be split into two parts - a real and monetary side (Franken; 1984). Therefore, two principal channels by which the housing sector influences the economy are through the real side, that is, transactions of goods and services and the financial side concerned with the financial flows in the economy. Housing finance policies and institutions influence the performance of the economy through each of these channels, and influence both the efficiency with which resources are allocated and their distribution among different groups within society (Mayo; 1990).

Housing finance and the real economy - the volume of housing finance that is available and the terms on which it is provided have an important bearing on the efficiency with which the overall system of housing production functions. A substantial fraction of housing in South Africa is produced by the informal sector in an incremental fashion. Often housing is virtually a lifetime project, with rooms being added or features being upgraded when and if resources are available. The result of this incremental production process can be seen in our burgeoning squatter settlements. Mayo (1990) stresses that cities are truly built the way they are financed, and when financial markets are not well developed or inappropriate - as is the case in South Africa, the building process is not particular efficient. The widespread availability of housing finance on reasonable terms permits considerable improvement in the physical process by which housing is produced. Generally speaking the availability of housing finance also reduces the effective cost of housing and improves affordability, by permitting many households to borrow at rates of interest that are well below those provided by informal money lenders.

Housing finance and financial sector development - the development of housing finance has been seen to be an important part of overall financial sector development in most countries.

Among the important ways in which housing finance systems contribute to the overall development of financial systems are by improving the process and volume of resource mobilisation, by improving the allocation of resources in the economy, and by reducing the degree of risk in the financial system. Housing is an important motivation for savings and as Christian (Van Huyck; 1987)) stresses "without the institutional infrastructure to mobilise domestic savings most developing countries will continue to have low propensities to save". Stokvels play an important role in this regard. The mobilisations of savings is therefore critical to the functioning of the economy as a whole.

The availability of housing finance also has important implications for the ability of the financial system to properly allocate resources throughout the economy, and to mitigate risks within the financial system. Housing is a major sector of the economy in most countries. In South Africa housing investment alone (excluding infrastructure) comprises 3% of GNP (Table 4.4). The housing stock is also a very large source of fixed national wealth. As an industry, the housing sector is one of the most crucial in the economy, and thus it is critical that the financial system be capable of moving adequate amounts of resources to the sector. As long as resources for housing are mobilised primarily outside the formal financial system, the performance of the sector will be below its potential, and the overall performance of the economy will suffer.

Moreover, it is likely that a broader role for housing finance will reduce the degree of risk throughout the financial system. Housing - or shelter for that matter, is one of the safest assets in which the financial system can invest. Its qualities of durability and fixity of location mean that its value as collateral for loans is considerably greater than that of most other assets.

6.6 CONCLUSION

This study is based on the view that it is the responsibility of the state to provide the poorest segment of the population with access to shelter. It was argued that the South African government spend a too small fraction of its budget on housing. This chapter therefore proposed alternative and more efficient uses of these public sector funds to primarily serve the needs of the poor. It should be clear that there can be no single solution, but rather a multifaceted policy approach with diverse objectives was proposed to serve the needs of the poor. In the final analysis this study concludes that more of the country's scarce resources should be allocated to the housing sector - for social, political and economic reasons.