3.5 FISCAL IMPLICATIONS

The magnitude and cost to the government, as well as the application of the current subsidy system is illustrated below. These expenditure figures will however be evaluated in the following chapter.

TABLE 3.1: BUDGET ALLOCATIONS 1990/91 (Thousands)

DEPARTMENT	Statutory Housing Funds	Interest Subsidy for First Time Home Buyers	Farm Workers	TOTAL
Adm Assembly	1 000	45 973	15 000	61 973
Adm Delegates	29 479	9 200	** 1 000	39 679
Adm Representatives				
Housing Fund	29 000	14 975	1 000	44 975
Development Fund	* 40 079			40 079
Planning and Provincial Affairs	211 733	40 000		251 733
Purchase of land	* 69 000			69 000
Development Aid (Trust areas - Self-governing Territories excluded)	* 151 821	2 048		153 869
	532 112	112 196	17 000	661 308

Notes:

* Separate provision - not part of a housing fund
** Not included in budget yet

The R3 billion upliftment allocation is not contained herein.

Source: Department of Public Works and Land Affairs

CHAPTER IV

AN ANALYSIS AND EVALUATION OF CURRENT SUBSIDY SYSTEM

4.1 INTRODUCTION

In this chapter each individual subsidy scheme will first be analysed in terms of volumes and patterns of expenditure. Next, Housing Commission schemes will be evaluated against the stated policy principles and priorities. Subsidies are then considered in terms of their racial allocation to test whether or not they are being allocated fairly. Ideally, all groups of similar income should have equal access irrespective of race. It is furthermore necessary to place expenditure on housing subsidies in South Africa into perspective, by evaluating the amount of resources actually applied to this purpose in comparison with international experience. Finally, a general assessment of the use of public sectors funds in the housing procurement process will be given.

4.2 HOUSING COMMISSION SUBSIDIES

4.2.1 Rental and Sales Subsidy Formula

This is applied towards public sector developments (upgrading and site and service schemes), state financed family and welfare housing with an income limit of R1 000 per month. In evaluating this income related subsidised loan scheme Goede (1990; 3) identifies the following characteristics:

- It does not facilitate private sector development industry initiatives

- It is an administratively cumbersome and expensive subsidy

- There is consumer or borrower abuse of the annual means test review and it is sensitive to political and other demonstrative abuse.

4.2.2 Serviced Sites and Building Material Loans

Urban Foundation analysis (1990) reveals that, of the Housing Commission schemes, the scheme providing loans for serviced sites and building materials is performing best with respect to:

* the government's policy of encouraging self-help
* a tendency towards a fair allocation on a racial basis
* stimulating supply of housing and not demand
* having the potential to reach the appropriate target group, i.e. lower income households.

Notwithstanding its performance, in relative terms the scheme receives less funding than its priority rating, (see Chapter II) would indicate. While there is a trend towards increased expenditure on this scheme, there are significant constraints to the scheme being applied at a meaningful scale. These are:

* the scale of implementation is related to the will and capacity of the local authority to initiate and run a scheme

* in practice the household is required to complete a house rather than being permitted to build incrementally over time. This limits the number of poor households who can afford to participate in the scheme.

The scheme providing loans to local authorities, utility companies and welfare organisations has a sound objective of stimulating the provision of serviced sites. However, the scale of implementation is constrained by local authority capacity and the complexity with which the private sector is faced in accessing the funds. Furthermore, whilst housing utility companies in principle could initiate such schemes the system of prioritisation and programming of these quantity rationed funds by the Housing Commission, constrains their participation.

4.2.3 90% Housing Loans

This scheme is not extensively utilised and the percentage of Housing Commission expenditure allocated to this scheme is declining (see Table 4.1), which is consistent with government's intention to phase out the scheme. It is not targetted at the poor, as indicated in the table below by the loan sizes and the fact that black households receive very little of this subsidy. It appears that, in terms of the number of beneficiaries and the size of the loans, the allocations are a function of the energy of the various administrations rather than being based on equity considerations.

TABLE 4.1: 90% HOUSING LOANS - AVERAGE LOAN SIZE BY RACE (1987)

RACE GROUP	AVERAGE LOAN SIZE (RANDS)
WHITE	41 453
ASIAN	27 307
COLOURED	23 948
BLACK	17 041

Source: Data derived from Urban Foundation, 1990; p 46

4.2.4 Family Housing

The production of subsidised family housing (conventional local authority housing), has been extensive, receiving the bulk of Housing Commission Expenditure. Over the period 1983 to 1987, 94 116 dwellings were completed, with most being targeted at coloureds (42 347 units) and blacks (32 301 units) and less being provided for Asians (15 350 units) and whites (4 118 units). (Urban Foundation; 1990; p 47).

The extensive production of family housing, contrary to policy, and in spite of its having a low priority rating (see Chapter II), is, it could be argued, a direct consequence of local authorities having become familiar with this process of housing delivery over the years and the political benefits that accrue to the local authorities when they deliver completed houses of high standards.

4.2.5 Welfare Housing

Expenditure on welfare housing is small in scale, (6 765 dwellings between 1983 and 1987) with the white group benefitting most from the scheme (6 270 dwellings) and only 10 units for blacks. This inequitable distribution is partly related to the capacity and will of local authorities to develop welfare housing schemes. In addition the extent of welfare housing developed is dependent on the extent of the institutional capacity, (public and private sectors), of the different communities. Those that are well organised for the development of welfare projects are in a more favourable position in being able to attract funding.

4.2.6 Sale of Publicly Owned Housing (Sales Campaign)

From the inception of this programme to the end of 1987, 123 460 houses, financed from National Housing funds, were sold. A further 415 126 were identified for sale by that date.

These sales were intended to promote private homeownership and to reduce the role of local authorities as landlords. However, the total of 94 116 houses, that were built under the family housing programme from 1983 to 1987, testifies to a degree the confusion about the goals of housing policy.

4.2.7 Development Loans to Local Authorities, Utility Companies and Welfare Organisations

Levels of expenditure on development loans are difficult to obtain due to the scale of the task - each applicant would have to be approached individually. However, the Urban Foundation (1990: 48) made some estimations of the subsidy component of the loans. Calculations based on 1987 figures and interest rates have a subsidy value of only R11,88 million for that year. Therefore, whilst expenditure on these loans is large, the scale of the subsidy component of these loans is quite small.

Notwithstanding the small scale of the subsidy, there are certain problems associated with the scheme. The administrative requirements and the priority programme on which the scheme is based, make it more difficult for utility companies to access these funds as opposed to funds on the capital market. The situation thus arises where private sector utility companies may be undertaking housing developments on land adjacent to that being developed by local authorities who are utilising subsidised development loans. Since the local authority here can provide a product at a lower purchase price, the private utility company is discouraged from competing at all in the market, thus reducing national construction capacity.

A further problem is that the finance is quantity rationed so it may not be equally available to all applications.

4.3 NON-HOUSING COMMISSION SUBSIDIES

4.3.1 State-Assisted Savings Scheme

This scheme involves very little State expenditure - estimated at R781 000 in 1987. Since the scheme applies no eligibility criteria the financial assistance it offers does not necessarily go to those requiring assistance. Given the negligible utilisation of the scheme and the inappropriate targetting it is questionable whether it is appropriate to apply resources to administering the scheme at all. (Urban Foundation; 1990: 49).

4.3.2 First-Time Home-Buyer's Subsidy Scheme

This scheme is effective in a limited sense. As regards the white group the scheme is targetted at the poorer sections. The most recent amendment for Whites is the introduction of an income limit of R3 500 per month (P Goede; 1990). The major criticism against this scheme, is that with all other groups it stimulates demand among the beneficiaries who tend to be at the upper income level. One of the significant constraints to more appropriate targetting among black, coloured and Asian communities is the reluctance of the financial institutions to provide loans of less than R30 000. Unless there is some incentive for them to do so the scheme will remain inappropriately targetted. The positive features of this scheme are that it does stimulate the building industry and does extend homeownership. (Urban Foundation; 1990: 50).

4.4 EVALUATION OF HOUSING COMMISSION EXPENDITURES ON SUBSIDIES AGAINST STATED POLICIES AND PRIORITIES

The table below indicates the distribution of expenditure between the four components of Housing Commission activity from 1983 to 1987:

TABLE 4.2: NATIONAL HOUSING COMMISSION SUBSIDIES: PERCENTAGE DISTRIBUTION AND TOTAL EXPENDITURE (1983 - 1987)

	1983	1984	1985	1986	1987
Sites & Material Loans	4,5	8,0	11,3	10,9	19,4
90% Housing Loans	6,5	3,5	2,6	2,5	1,9
Welfare Housing	10,2	16,2	12,1	9,3	10,3
Family Housing	78,8	72,3	74,0	77,3	68,3
TOTAL	100	100	100	100	100
Total expenditure (Rm)	338	495	595	597	732

Source: Urban Foundation (1990; 53)

According to the stated policy principles and housing priorities of government, it appears that the schemes above would enjoy the following priority rating.

Sites and Material Loans	-	high priority (policy principles and housing priorities)
90% Housing Loan	-	low priority (policy principles)
Welfare Housing	-	high priority (policy principles)
Family Housing	-	medium priority (housing priorities)

From this table, it is clear that the high priorities of sites and material loans and welfare housing are not receiving the highest proportion of allocated funds. Expenditure on 90% loans is low, which is consistent with its being a low priority.

Family housing, which is not mentioned at all under government housing policy, receives the highest proportion of expenditure. It is argued that there are two major reasons for these inconsistencies:

* the policy principles and priorities are too broad and not sufficiently clear to guide the structuring of

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* the policy principles and priorities are too broad and not sufficiently clear to guide the structuring of

subsidy schemes. What is needed is a set of guiding principles;

* there is no single national authority responsible for the allocation of funds to one scheme relative to other schemes and in accordance with policies and priorities. Rather, the particular interests of each Own Affairs administration influences the emphasis given to each subsidy scheme. This results in high allocations to relatively small groups and lack of access to assistance on the part of large numbers of people.

4.5 EVALUATION OF SUBSIDY ALLOCATION ON A RACIAL BASIS

It is generally accepted that in South Africa today the communities faced with the most critical housing shortages are the Blacks. As stated earlier, subsidies are intended to assist those most in need of shelter. An important component of an assessment of the current schemes, is the degree to which the most disadvantaged communities have access relative to the more advantaged communities. This is portrayed in the table below.

TABLE 4.3 :PROPORTIONAL RACIAL ALLOCATION OF HOUSING COMMISSION EXPENDITURE (1983 - 1987)

	1983 %	1984 %	1985 %	1986 %	1987 %
Whites	19,0	22,7	15,8	15,7	12,9
Coloureds	36,5	32,2	31,4	38,2	29,5
Asians	16,1	16,6	11,8	14,7	11,6
Blacks	28,3	28,5	41,0	31,4	46,1
TOTAL	100,0	100,0	100,0	100,0	100,0

Source: Urban Foundation (1990: 58)

Although the trend over the past five years has been towards greater fairness, the subsidies allocated to black households are still significantly lower than they should be. The suggested reasons for this are:

* the many constraints to housing delivery for Blacks limit the extent to which subsidy schemes can be applied;

* many of the schemes are dependent on the capacity of local authorities and many Black local authorities are not viable and have limited capacity to implement the schemes;

* fair allocation can best be achieved if the subsidy schemes are implemented on a national basis rather than through Own Affairs administrations, each of which has a vested interest in maximising the allocation of subsidies to its own community.

4.6 EVALUATION OF AMOUNT OF RESOURCES APPLIED

In evaluating the amount of resources applied to housing subsidies in South Africa, it is necessary to make an international comparison. Data analysed by the Urban Foundation (1990; 62) revealed that the South African government is spending slightly higher proportion of its budget on housing (only when bantustan spending is included) than the average for developing countries. The data presented in the table below indicate the opposite - namely. that the housing sector in South Africa contributes only 3% to GDP. This figure is also well below the 3.9% average for these 28 countries.

This study concludes therefore that the level of housing construction by all agents in South Africa is low in relation to other countries at our level of development. This implies that State spending may be relatively inefficient in mobilising the private sector in this field. A more efficient use of these public sector funds is needed, to yield the best level of assistance possible to all those requiring it. The study will make proposals in this regard in the final chapter.

TABLE 4.4: INTERNATIONAL COMPARISON OF SELECTED COUNTRIES, GDP, GNP PER CAPITA AND HOUSING AS A PERCENTAGE OF GDP, 1981 [3]

	GDP (MILLION) (DOLLAR)	GNP PER CAPITA (DOLLAR)	HOUSING AS % OF GDP
LOW INCOME ECONOMIES			
Tanzania	4 350	280	2.0
India	142 010	260	2.1
Sri Lanka	4 120	300	3.5
LOWER-MIDDLE INCOME ECONOMIES			
Kenya	6 960	420	3.3
Guatemala	8 660	1 140	0.8
Peru	23 260	1 170	4.8
Thailand	36 810	770	2.9
Phillipines	38 900	790	4.0
UPPER-MIDDLE INCOME ECONOMIES			
Hong Kong	27 220	5 100	4.2
South Africa	74 670	2 770	3.0
Mexico	238 960	2 250	4.4
Panama	3 490	1 910	2.2
Uruguay	9 790	2 820	10.5
Venezuela	67 800	4 220	5.3
Greece	33 390	4 420	4.6
Korea	65 750	1 700	3.4
Singapore	12 910	5 240	4.4
INDUSTRIAL MARKET ECONOMIES			
Italy	350 220	6 960	4.2
Canada	282 500	11 400	4.3
United States	2 893 300	12 820	3.1
Belgium	96 940	11 920	3.6
Denmark	58 260	13 120	3.9
Germany (Federal Republic)	708 540	13 450	5.7
Netherlands	140 490	11 790	4.9
Norway	57 140	14 060	5.0
Sweden	112 420	14 870	3.7
United Kingdom	496 580	9 110	2.1
Australia	171 070	11 080	4.6

Sources: World Bank, 1983: World Development Report, Oxford University Press.
United Nations, 1983: Compendium of Human Settlements Statistics, Publishing Division United Nations, 1985.

3) Note: Firstly that these are the latest available figures and secondly that "expenditure on housing" represents the fixed capital formation for the construction of residential buildings.

4.7 CONCLUSION

The current package of subsidy schemes is clearly inconsistent with government policies and priorities.

The Urban Foundation (1990; 68) suggested two main reasons for these inconsistencies. Firstly, no explicit principles have been developed and documented as a basis for developing the priorities and the specific schemes. The implicit overall objective of subsidy schemes is the provision of shelter for all families. This objective is acceptable as a broad statement of intent, but it is too broad to influence the structure of subsidy schemes. What is required is a set of guiding principles.

Secondly, because subsidy schemes are currently implemented through Own Affairs administrations there is no single authority responsible for the allocation of funds in terms of national priorities. Even if there were an explicitly stated national subsidy objective and related guiding principles, there would be no way to ensure that, at a national level, the various schemes were being appropriately implemented. Rather, the particular interests of each Own Affairs administration would influence the implementation of subsidy programmes.

Peter Goede (1990; 7) points out that there is a broad consensus that a fundamental shake-up of subsidies is necessary. The real challenge is to match State resources or the country's affordability with the expectations and affordability of the individual and communities in a highly emotional and politisized environment.

CHAPTER V

AN EXPLORATION OF RECENT HOUSING FINANCING PROPOSALS

5.1 INTRODUCTION

In this chapter the Urban Foundation's housing finance proposals will firstly be evaluated.[4] Secondly, the proposal of Public Housing will be explored. The Urban Foundation (UF) has proposed a four part financial strategy to address the housing problem. They are:

a) The Loan Guarantee Initiative (LGI)
b) A Pension and Provident Fund Scheme
c) The Group Credit Company Pilot Scheme
d) A Subsidy proposal

These innovative financial mechanisms have to be evaluated and measured against certain criteria. Firstly, they must be socially equitable. In South Africa we have a legacy of traditional deprivation and inequality and these mechanisms should aim to bring relief and restore equality as soon as possible. In this sense not only the elite must benefit from these schemes, but especially the poor communities. Secondly, they must be economically viable. The cost must be low enough for the innovative schemes to be replicated on a national scale.

5.2 THE LOAN GUARANTEE INITIATIVE

In October 1989, the Urban Foundation released a statement in London and Johannesburg announcing that it has "linked major Western countries and international business with a South African

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4 This section draws mainly on Urban Foundation's unpublished proposals.