households because of a greater absolute subsidy benefit.

The Urban Foundation assumed, as an example, a capital subsidy of R4 500 per site. They have further assumed that there must be a deposit paid for the site by the beneficiary. Therefore the total subsidy per site is set at 90% of the selling price or R4 500, whichever is the lower.

When applying for subsidies the developer (a local authority can be a developer) would have to specify the level of service at which he intends to develop sites and the site sizes. At the time of sale, subsidies would then be paid over to the developer by the State and the sites would be sold at the market price less the subsidy.

Where sites are developed at a selling price of less than R5 000, the balance of the standard subsidy should be transferred to the Regional Services Council for that area.

The scheme can only be effective if financial institutions participate in the small loans market. According to the UF, (Subsidy Proposals; 1990; 84), the State should consider providing an incentive based on a sliding scale for every loan of less than R30 000 granted by a financial institution. In addition, insurance for any losses experienced as a result of political boycotting of loan repayments or sales in execution should be seriously considered.

Note that this study argues in the last chapter that the introduction of government guarantees will prevent the creation of an autonomous housing finance system in which financial institutions are committed to developing and maintaining systems which contain arrears and defaulting.

* **Material loans.** The availability of loans for the purchase of building materials is now extremely important. The UF proposes that this scheme be restructured as a revolving fund providing loans at market rates over 1 to 5 years. It is suggested that access to such funds is more important than the interest rate to the beneficiary and by providing loans at market rates more households can be assisted. The local authorities are well placed to administer the loans. Because loans are at market rates no means testing will be required, which makes it easier for local authorities to administer.

* **First-time Home-buyer's Subsidy Scheme.** It is proposed to modify the scheme by fixing the capitalised value of the subsidy at the same level irrespective of house value. The level should be the same as for the serviced sites scheme, ie R4 500. By equally the subsidies one removes the incentive for better-off households to appropriate the serviced sites scheme.

* **The Sales Campaign.** The proposal, in brief, is that local authorities retain some of their housing stock and utilise it for welfare housing on a rental basis.

FISCAL IMPLICATIONS

The proposed changes in the subsidy policy involve a relative decrease in the reliance on the Housing Commission and an increased participation by the private sector. By 1992 it is projected that the number of units produced annually will be sufficient to keep pace with the increase in the urban population requiring State assistance. (The Urban Foundation Housing Subsidy Proposals; 1990; pp 71-80).

5.5.1 **Evaluation of Subsidy Proposals**

SOCIAL EQUALITY

The capital subsidy is primarily aimed at the low-income households who cannot afford formal housing, but could purchase a serviced site, erect an informal dwelling and over time move towards a more permanent structure. Note that this proposal depends on the availability of loan finance for small loans.

This capital subsidy is already widely accepted as the core of a new subsidy approach. The Association of Building Societies (1989) has proposed a similar subsidy scheme. The Central Economic Advisory Service (1989: 5) emphasises that such a capital subsidy must be targeted at those breadwinners who have a monthly income of R1 000 or less and who are purchasing a subsidised site for the first time.

The conclusion is that the proposed subsidy will make a meaningful contribution to equity, but it does not go far enough. It does not address the needs of those who cannot even afford full rent.

Furthermore, this subsidy facilitates access to shelter only, stopping short of stimulating the demand by the beneficiaries for quality and space. In this regard it is important to also discuss the political and physical consequences of a capital subsidy.

POLITICALLY PARTICIPATORY

Housing policies in South Africa has traditionally been used as a political tool, giving effect to apartheid policies in the form of segregated townships. The process of urban development, if left to market forces, generally gives very little land and services to those who cannot compete in the land and housing market. In this situation a strategy of encouraging community participation and self-help efforts - although an appropriate long term policy for South Africa - might over the short term only serve to reinforce the status quo. Thus, unless the subsidy policy forms part of a strategy to empower the poor by assisting them in acquiring the capacity to bring about their own destinies, it will remain a policy tool for their exploitation.

PHYSICAL CONSEQUENCES

A capital subsidy policy will encourage new, low-density developments on the periphery of cities, leading to urban sprawl. This attenuation has serious transport cost implications for the poor as well as the state. The burden of this grossly inefficient urban structure is borne primarily by the poor, who not only have to commute long distances, but who are also excluded from the few "life-opportunities" - one might call it - offered by the city through this spatial isolation. The importance to the poor of promoting the development of a compact, integrated city cannot be underemphasised.

FINANCIAL VIABILITY

The introduction of a capital subsidy would allow for more scientific planning and accounting methods to be implemented. The government will also be able to budget for a flat rate subsidy based on the number of sites needed each year to overcome the backlog and keep-up with growing demand. Currently the government operates under an open accounting system, where huge amounts are payed in indirect subsidies, without being measured nor controlled. The capital subsidy will therefore allow for a more cost-effective subsidy system that should be sustainable as a long-term national programme.

5.6 PUBLIC HOUSING

In view of the tremendous shortage of housing units in South Africa and the inability of the private sector to cope with this backlog, some progressive housing analysts are proposing a significantly expanded public role in housing. But before a proposal to expand the government's role in housing can be taken seriously, the widespread negative images about public housing must be explained.

This section will therefore examine the international record of public housing. Within the "capitalist world", the application of public housing programmes in the USA will be analysed. In the developing world setting Singapore provides an exceptionally valuable comparative model which according to Rogerson (1989; 2) is highly instructive for South African policy-makers.

USA

Bratt (1989), who evaluated low-income housing policy in the USA concluded that in the 60 year history of public sponsored low-income housing, failures have received more attention than success.

Before attempting to clarify the actual accomplishments of public housing in the "free market" world, important questions need to be addressed: Why, in spite of the real achievements of public housing, do the negative stereotypes persist and what is the current international thinking on public housing?

The current consensus which dominates the academic and international development agency writings (esp. the World Bank) is that because of the public sector's limited available resources, public housing has only provided for a small fraction of need - the main beneficiaries often being the middle-income groups. (Rogerson; 1990; 6). Rachael Bratt (1989) agrees that public housing in the USA has provided disproportionately large benefits to middle-income groups. However, she argues that there is no question that public housing has made a considerable contribution to addressing the low-income housing problem in the USA.

Bratt (1989) concludes that public housing presents a compelling case in the USA: The demand for low-rent housing is acute in many areas, and the public housing programme alleviates a pressing need. Public housing has not failed; if anything, it can claim an impressive success. Despite opposition to the program and unrelenting efforts by the private sector to sabotage it, public housing, over the past five decades, has provided shelter for millions of poor households.

SINGAPORE

Rogerson (1990; 3) argues that far from discarding the important Singapore and Hong Kong examples as "exceptional cases" of little relevance to other developing world systems, not least South Africa, these two case studies hold potentially the greatest resonance for local policy analysts considering public housing as an element in South Africa's housing policy.

An extensive analysis of international experience in public housing is beyond the scope of this study. After a comparative analysis of several "public housing success stories" (Cuba, Hungary, Sweden, Singapore, Hong Kong and Kenya). Rogerson (1990; 4) states that Singapore (and to a lesser extent Hong Kong), could be held as examples of "planning that works" and offers the possibility of shattering the strong beliefs and negative stigmas which largely are attached to the international experience of public housing.

Singapore has been the most successful country in the world in implementing a public housing programme, in terms of both scale and momentum. Almost the entire nation has been housed in the space of a single generation. The most recent statistics (1987) indicate that a staggering 86% of the total population are housed in high-rise, high-density estates. Furthermore, some 74% of the total population are flat owners, giving Singapore one of the highest levels of owner occupation (Field; 1989; 345). The Singapore public housing record must be set against the backcloth of an inheritance (at independence) in 1960 of a shelter situation which was viewed as one of the worst in the world. (Rogerson; 1990;34).

What are the mechanisms and ingredients of Singapore's success? Rogerson; (1990; 37) acknowledged that firstly the most powerful mechanism was the stringent land acquisition law, which provided for compulsory land acquisition at below market prices, thus tempering dangers of land speculation. This legislation enabled the large scale and comprehensive development of public housing, whilst keeping public investment costs low. Such land policies were viewed by the state as powerful redistributive mechanisms aimed at minimising differentials in the distribution of limited resources and achieving a fair standard of living for the entire population. Second was the provision of home loans at modest interest rates over a repayment period of up to 25 years. Purchasers were allowed to use part of their Central Provident Fund savings to meet repayments. The Central Provident Fund is a compulsory savings scheme to which all employees make monthly contributions of 23% of their gross salary and their employers contribute the equivalent of 15%. (Field; 1989; 346). Thirdly, was the effectiveness and efficiency of the single housing authority - the Housing and Development Board. Their effort is even more remarkable in the context of widespread corruption in public housing developments in the Third World. (Rogerson; 1990; 37).

What are the lessons to be learned from Singapore's public housing experience? Firstly, a firm commitment by the Singapore government was needed. Realistic policies geared towards meeting specific goals, promulgation of the necessary legislation, and substantial financial support are key features of this commitment as policy has pursued with a zeal akin to a crusade. (Field; 1989; 347). The statistics of Singapore public housing further disclose that in the 1970s and early 1980s housing absorbed from 4,6% to 15,9% of Gross Domestic Product - this effort can be regarded along with Norway, as the most impressive in the world. (Rogerson; 1990; 32).

Secondly, Singapore's massive allocation of financial resources into public housing since 1960 stems from the government's view of the programme as more than a social welfare scheme for providing decent shelter for the poor. Rather, public housing was seen as an instrument of nation-building to spur national economic development and maintain social stability. According to Field (1989; 345), the fundamental aim of the government's public housing programme from inception, has been the creation of a nation whose people have houses they are proud to call their own. The underlying philosophy is that if one owns an asset in the country, one would stand to defend it. The policy therefore aimed to achieve social and political stability in a region which has shown some political turbulance in the past. (particularly due to its high degree of multi-ethnisity).

Finally, Singapore's public housing programme was also seen as a public works programme, producing massive employment opportunities through its stimulus of the construction industry. Indeed, Rogerson (1990; 38) claims that the Singapore public housing programme is an example of the construction sector as a successful "lead sector" in national development.

5.7 CONCLUSION

In general these housing finance proposals seem plausible, but pension and provident fund managers, insurance companies and financial institutions are reluctant to get involved in the low-income market. The real challenge lies at the bottom end of the market - the shelter segment. The above proposal provides a possible solution to a segment of the market. But even with the full commitment of the private sector and well-oiled mechanisms to deliver the finances, a very large segment of the population would still not be able to afford homeownership provided by the private sector. To address this market the UF proposed the Group Credit Company and Government subsidies.

This study therefore argues that the private market will not meet the shelter needs of the poor without public incentives and that there is a clear need for the state to play a major role.

The Urban Foundation acknowledge that the state is primarily responsible for combatting the low-income housing problem. However, because of its lack of financial and managerial capacity, they characterise a particular role for the state. They regard it as a mere facilitator - establishing the legislative, institutional and financial framework that will enable all parties to participate efficiently in the lower market segment. The State's only direct role is via subsidies.

This chapter firstly analysed the UF's four housing finance proposals. As a final analysis, these initiatives have to be assessed in terms of whether they will meet the shelter needs of the poor.

Tucker (MD of the Perm) was at pains to acknowledge that, far from being a philantrophic initiative, everyone involved in the complex web of financial transactions backing the Loan Guarantee Scheme will earn adequate returns. (Sunday Star;

22/08/1990; 12). Rachael Bratt (1989: 14) who made a thorough analysis of the United State's housing policy argued that unless as much of the housing system as possible is removed from the profit-maximization drive, the shelter needs of the poor will remain unmet. South Africa must take cognisance of United States' negative experience with subsidy programmes that have relied on private, for-profit developers.

In the search for innovative mechanisms, the Urban Foundation (because of its origin and nature) became a powerful lobby group trying to ensure that the private sector's interest in maintaining and increasing profits is well tended to. It is time that housing advocates should work towards policies that are more focused on consumers' than on business' needs. Public housing to complement a shelter strategy provides a possible solution to South Africa's housing crisis. However we need to thoroughly analyse international experience in public housing and explore the policy lessons for South Africa. This paper explores the idea that more, not less state involvement in housing is necessary to meet the nation's housing needs.

CHAPTER VI

POLICY PLANNING FOR ALTERNATIVE USES OF PUBLIC FUNDS

6.1 INTRODUCTION

There is widespread recognition and concern today that the low-income housing situation has reached serious proportions. It seems that there are funds available that could be mobilised for low-income housing, but these funds are still inaccessible for such people. The most effective application of public funds in those segments where the needs are the greatest, demands an appropriate development policy response.

Firstly, an appropriate institutional framework through which policy can flow will be proposed. Secondly, this chapter explores alternative ways to mobilise and allocate scarce financial resources in the Southern African mixed economy in order to meet the increasing need for shelter. Lastly, the role of the housing finance system in the economy, as well as the benefits associated with a well-functioning housing system will be discussed.

6.2 THE INSTITUTIONAL STRUCTURE

Dewar (1980) identified certain policy principles which should guide the South African housing finance system

(a) The size of funds available should be adequate for the scale of the problem;

(b) Access by individuals to the funds should be equitable - particularly those most in need should have access to the funds;

(c) The flow of funds should be smooth and allow for a long-term rational assault on the housing problem.

Analysis of the situation in South Africa reveals that these criteria are not being met:

(a) Firstly, the scale of funds available is inadequate for the scale of the problem. Hendler (1989) argues that; "a precondition for a successful low-income housing and economic development strategy is enough finance, to initiate development. This has not been forthcoming from the State. Hassan (1989) identifies the most important responsibility of a government to be the establishment of a framework and programmes to increase the flow of capital into the housing market.

(b) Secondly, access to funds is inequitable. Chapter III showed that the prevailing public policy does not provide for those most in need of assistance.

(c) Thirdly, because the primary source of finance is budgetary allocations, which by definition vary with the state of the economy, the flow of finance is necessarily irregular. Furthermore, the amount of public funds allocated to housing depends on the relative priority accorded to the many justifiable claims that a developing country, such as South Africa places on the limited resources available.

It must be emphasised that these problems are in no way the making of any officials. The problems arise purely because a regular flow of funds is not guaranteed; and this in turn is a consequence of the mechanisms whereby funds are made available.

Dewar's (1980) analysis of the South African housing finance market indicates that, in effect, two markets - one financed through the National Housing Fund and the other through the private financial institutions - operate relatively independently. However, it is today evident that a three-tiered housing market exists. The third tier - by far the largest - is the informal housing market. This study argues that the most effective and efficient way of increasing the supply of funds, improving access to these funds and improving the flow, is to bring about a greater integration of the three tiers, by creating only one housing market in which the parts are mutually reinforcing.

This proposal of an integrated South African housing finance market has been strengthened and developed through a review of international experience in the development of housing finance systems. In particular Singapore, whom to date has been the most successful in combatting it's shelter problem, vested all authority for the housing environment in a single institution. Drakakis-Smith argued that one of the most important lessons to be drawn from the Hong Kong housing success relates to administrative co-ordination achieved by having a single authority in charge of public housing policy. (Rogerson; 1990; 45). Other countries with integrated housing finance systems, from which this study drew, are Malaysia and India.

6.3 THE INTEGRATION OF THE HOUSING FINANCE MARKET

To achieve this integration, a certain amount of institutional strategic change is necessary. However, the design of a new institutional system should be guided by the principle of minimum interference. As far as possible, existing institutions should be utilised in the reorganisation and, as a system is already in operation, existing contracts should be disturbed as little as possible.

The new institutional structure should consist of three elements: a National Housing Bank, Financial Institutions and Savings and Credit Unions. (Dewar; 1980).

6.3.1 The National Housing Bank (NHB)

The National Housing Bank would become the institutionalised instrument through which housing policy will flow. In South Africa this should be based upon the existing institutions of the National Housing Fund, but it should be characterised by a number of significant differences. Firstly, evidence from the international world suggests that sources of direct financing should be broader through a number of measures: The primary sources of funds could be:

(a) Yearly budgetary allocations, as is the case at present.

(b) Repayments on loans already granted from the National Housing Fund.

(c) The Bank would have the right to float loans in the form of public bonds on the market. Evidence from elsewhere suggests that these bonds are likely to achieve a fair measure of success (Dewar, 1980; Munjee, 1980 and Hassan 1989).

(c) International finance could become a significant component of the NHB's resource base when the World Bank and other international agencies extend their line of credit to South Africa.

(d) Additional funds for housing could be mobilised via a housing lottery. Whilst there is considerable opposition in the ranks of government and amongst the clergy to the concept of a lottery, it does afford a practical and effective means of mobilising funds. To overcome the potential embarrassment to the government of such a mechanism, it could be distanced from the State as far as possible, but carefully administered