PLANNING FOR PUBLIC SECTOR FUNDING OF LOW-INCOME HOUSING

BY

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"Woe to you who add house to house and join field to field till no space is left and you live alone on the land."

(Isaiah 5:8)

I N D E X

CHAPTER 1

INTRODUCTION

A central theme of this study is that housing policy in South Africa[1] should have as its primary objective, **meeting the shelter needs of the poor.** This study will argue that the current policies, which entail a move to privatise low-cost housing, will not meet the above objective.

In 1981 the Government accepted self-help and homeownership as solutions to the housing problem. The new state housing policies include the facilitation of private sector development, the sale of state-owned mass township housing to tenants and the promotion of self-help site and service schemes. (Hendler; 1989; 5) The White Paper on Urbanisation (1986) stated that the Government accepts in principle that the provision of housing is the responsibility of the individual, the employer and other members of the private sector. The Government accepts responsibility only in exceptional cases and only in respect of the very poor. This abdication of responsibility towards the housing shortage must be seen against the background of its extensive involvement in the mass construction of houses in the fifties and sixties.

The state monopolised low-income housing in the fifties and sixties by developing segregated mass public housing estates or "townships". The essential resources for this mass housing construction was provided by the state through the National Housing Fund. Municipalities, whose revenue from sorghum beer and liquor monopolies was not enough to finance housing, also had to borrow extensively from the National Housing Fund. This vibrant construction activity continued until the late sixties,

1 For the purpose of this study South Africa is defined as the whole country including the reserves.

when the state started to redirect its funding for family housing towards the Bantustans, thereby reducing the rate of new urban housing except for migrant worker hostels. Since the early 1970s state housing supply lagged increasingly behind demand in all parts of the country with the inevitable consequence of an expansion in overcrowding, growing pressures for squatting, the erection of backyard shanties and the proliferation of sub-letting. By way of contrast, it should be noted that the formal housing sector for whites experienced a period of good growth in the seventies. (Rogerson; 1990; 58-60).

The Government therefore is still today seen as being responsible for the inadequate provision of shelter in South Africa and it is the Government which is called upon to supply these needs, whether the demand is made by community organisers or by trade unionists.

This study is based on the view that the private sector will not produce the needed shelter for the poor at prices they can afford. To illustrate; the private sector has only successfully penetrated the upper end of the market and will eventually (with the Urban Foundation's initiatives) succeed to provide housing to some 50% of black households. This study will therefore argue that effective housing policy, under normal market conditions will not satisfy the needs or the demands of the poor, without the direct financial assistance from the state to provide accessibility to shelter.

The objective of this study is to put forward planning proposals for an effective housing finance policy for South Africa, with its primary objective, meeting the needs of the poor. The approach taken is firstly to describe and then to evaluate current subsidy policy. Thereafter the study will explore recent housing finance proposals. Finally a planning framework for alternative uses of public funds will be proposed. As background to the study, it is necessary in the following chapter to provide a conceptual perspective.

CHAPTER II

DEFINITIONS/CONCEPTUAL PERSPECTIVE

The tremendous need for shelter in South Africa is a complex reality. This chapter will serve to clarify and explain certain terms as "savings and credit unions", "low-income group", "shelter" in order to provide an understanding of the problems and opportunities involved in the housing procurement process.

2.1. SAVING AND CREDIT UNION

A savings and credit union, also known as "umgalelo" or a "stokvel" is typically a group of 50-150 people who get together and start to save on a regular basis. (Wilson and Ramphele; 1989; 282) They are all members with one vote regardless of the size of their deposits and they are all collectively responsible for the liabilities of their society. A committee is elected and runs the administrative side of the affair, including the granting of small short-term loans to members. A clerk may be employed to do the day-to-day accounting, but initially and depending on the size of the union, all work may be done voluntarily.

Two important charactersistics of such unions are:

1. the common bond between members (workers from the same factory, members of a religious congregation, inhabitants of a village or members of the same tribe living in the same city).

2. the members are from low-income groups.

These two traits tend to become less conspicuous as the union grows. (Jorgenson; 1982)

2.2 SHELTER

In most housing literature, "housing", "shelter" and "dwelling" are used interchangeably. Normally shelter consists of a one-family dwelling. In official terminology shelter is not recognised as a house unless it is approved under existing laws, but in this document we shall deal with all kinds of shelter, legal as well as illegal, incomplete as well as finished, temporary as well as permanent. These shelter settlements will undoubtedly become an important part of future urban towns and cities.

2.3 LOW-COST HOUSING

Firstly, the word **housing** is used both about the process and the product of creating shelter/s for humans. Secondly, it is necessary to distinguish between **low-cost housing** and **housing for low-income groups**. The themes are often used interchangeably

Low-cost housing, as in the case of modest housing, is considered by many to be a relative concept, which can only be described in terms of attitudes, perceptions, aspirations and levels of affordability. (What is considered to be low-cost in one community or street is not necessarily low-cost for another).

It often happens that the poor are housed in not-so-low-cost housing (through subsidies). It also happens that people living in low-cost housing are not necessarily low-income people. Middle income people sometimes have differing priorities and prefer to spend a larger part of their income on for instance a vehicle or business rather than a house. Low-cost housing can therefore not be defined by the income of the occupants, but rather as the term states, the cost of the inputs into the house.

What is important for the purpose of this paper, is that financial institutions in the mortgage market are known-for reasons which shall be discussed later - to be much more concerned with the income of the borrower than the cost of the dwelling. To cope with the much used expression "low-cost housing", we can define that term as housing which the low income groups can afford, ie which does not cost more than 2.5 or 3 times their present household income, to build or buy.[2] (Jorgenson; 1982).

2.4 SELF-HELP

Self-help is a term increasingly being used in the literature on practical development issues and projects. With respect to housing or shelter, it implies that individuals and communities organise and manage the shelter procurement process themselves. In other words, they control the major decisions about the dwelling and environments, regardless of who does the actual building. Self-help must therefore be distinguished from self-built.

The self-help approach requires genuine decentralisation of decision-making and control to community level. This must be supplemented by networks of finance to supply credit and enable communities to implement decisions.

2.5 INCOME LEVELS AND THE LOW-INCOME GROUP

For the sake of convenience and objectivity, the Lorenz curve is used to divide people into income groups, as seen below.

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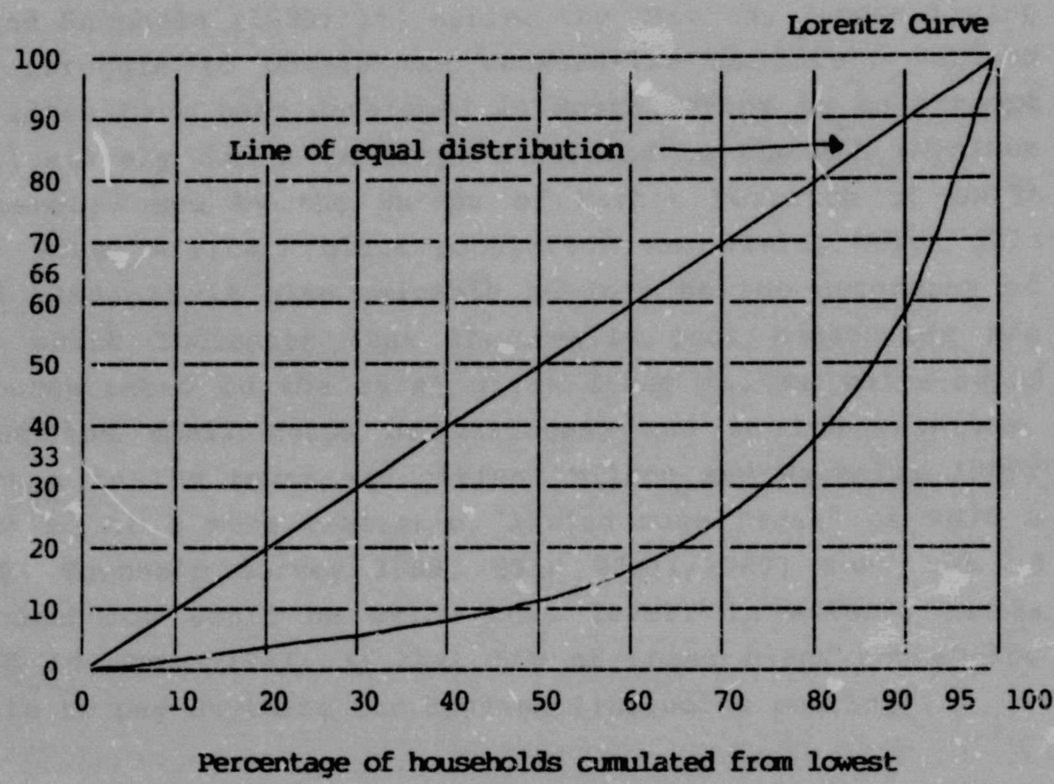
2 This amount is a "rule of thumb", generally used by building societies to determine a household's affordability levels. Affordability should however not be a criteria, but the amount people are prepared to pay. Willingness-to-pay depends on particular priorities, preferences, perceptions and individual circumstances. (de Vos; 1988; 140).

Source: MO Jorgensen; 1982; p13



In general in developing countries 79% of the population enjoys 33% of the total income. In South Africa 1980 statistics indicate that the bottom 40% of the population earned only 8% of the income. (Wilson, F and Ramphele M, p21).

Regarding shelter finance, De Vos (1987: p3) has indicated that 75% of all blacks in SA cannot afford a house without some form of financial assistance, and 62% cannot afford such a house even with the maximum available assistance.[3] This is the low-income group and the concern of this paper.

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3 A conventional low cost house according to de Vos is a $55m^2$ by $60m^2$ home, containing 3 living rooms, a kitchen and bathroom with minimum finishes. Electricity, hot and cold water and waterborne sewerage is also provided. These houses cost today around R35 000.

2.6 AFFORDABILITY AND POVERTY LEVELS

Wilson and Ramphele (1989; 16) define the poor as, "those living under a struggle to obtain the necessaries of life". Various poverty lines have been developed in South Africa in an attempt to quantitatively define poverty. According to the MLL (Minimum Living Level) used by the Bureau of Market Research of UNISA 60,5% of South Africa's black population was living below this level in 1980. It is also valuable to look at the geography of poverty, which indicates that the really poor households are still concentrated on the rural areas (that is, on white-owned farms and the small dorps or villages) and in the reserves, rather than in the towns and cities (Wilson and Raphele; 1989; 25). Looking at a more realistic "living wage level" of R870 a month (SA Township Survey 1989, STAR 22/11/1989) some 80% of black households would be below this level. In effect, it is estimated (de Vos; 1987; 3) that 56% of these black households are unable to pay anything for housing (including renting).

2.7 CONCLUSION

This chapter served to describe a central concept of this study - namely who are the poor and what is meant by low-income housing? These definitions should provide ample background to the rest of the study.

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OVERVIEW OF CURRENT SUBSIDY SYSTEM

3.1 INTRODUCTION

The public sector should be mainly responsible for the provision of housing for that segment of the housing market that is in dire need of some form of assistance to afford even a modest home.

Three ways in which public sector funds is currently used for housing are for the buying of land, provision of serviced sites and direct subsidies.

3.2 SUBSIDIES

This section will deal with the institutional structure within which housing subsidies in South Africa are provided, the policy principles and priorities of these institutions and details of the particular subsidy schemes.

3.2.1 Institutional Structure

The overall coordination is done by the Department of Planning and Provincial Affairs. This Department has been responsible for the co-ordination of housing matters since 1 April 1990 when the housing function was transferred from the Department of Public Works and Land Affairs. The Department provides the secretarial and administrative support for the following bodies;

- South African Housing Advisory Council

- Working Committee of Heads of Departments

- Committee of Ministers concerned with housing under chairmanship of the Minister of Planning and Provincial Affairs.

Housing is seen as an "own affair" and subsidies are therefore administered by the Own Affairs administrations. (See figure 1).

3.2.2 Stated SA Government Housing Policy Principles and Housing Priorities

In 1983 the Government introduced a new housing policy. The essential principles are highlighted below:

i) Individuals and organisation providing housing will unfortunately have to accept that they will in future not be able to rely entirely on the Department and the local authorities to finance all low cost housing projects, but that they will also have to make a contribution.

ii) In the first place funds are utilised to make serviced sites available to enable individuals to purchase stands upon which they could erect their own houses with their own funds, or finance obtained from other sources such as building societies, other financial institutions, or their employers. The Department will therefore give preference to applications for the purchase of land, and thereafter funds will be made available for all income groups - but the requirements of the low income group should at all times be emphasised.

iii) The second priority is welfare housing (the aged, pensioners and other needy persons who cannot provide for themselves).