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Issues and Opportunities for the Integrated Provision of Serviced Land and Credit for Progressive Housing

CASE STUDY

REPUBLIC OF SOUTH AFRICA
HEATHERLEY HOUSING PROJECT

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SUMMARY

1. GENERAL DESCRIPTION OF THE PROJECT

1.1. Name of the project

Heatherley Housing Project (otherwise known as Nellmapius Extensions)

1.2. Location

The land is within the eastern area of jurisdiction of the Greater Pretoria Metropolitan Council, in the Gauteng province. This area is in the vicinity of a former transit camp, Mamelodi, which was only recognised as a formal residential township in the early 1990s. The surface area on which the project is located covers close to 140 hectares. Overall, the sub-region in which the project is located is home to approximately 500 000 residents. It is located approximately 25 kms from the centre of Pretoria.

The project comprises two main components:

- A component developed using housing subsidies allocated by the province and the municipality only; and
- A component developed using not only subsidies but also personal contributions as well as micro-lending finance.

1.3. Details of target population

- In terms of the first component, the target population is aligned with the national housing policy criteria, on the basis of which subsidies are allocated: to never have owned property before or have been the recipient of state assistance in respect of housing and land, to earn less than US$467[1] (ZAR 3500) per month and have at least one financial dependant. Additional criteria was set by the local authority: priority was given to female-headed households, households having resided in the area of jurisdiction of the municipality over a prolonged period of time, and households earning less that US$200 (ZAR 1500) per month.
- In terms of the second component, eligible micro-loan holders: should be employed for a period of three years or more, a member of a pension or provident fund; and earn between US$200 and US$467.

1.4. Financial resources of the beneficiaries

In the project, 73% of beneficiaries have a monthly income inferior to US$200. Income levels for the households accessing the micro-loans would have been between US$200 and US$467.

An estimated 45 per cent of the population live in poverty. The percentage of households with an income lower than the minimum living level (MLL), as calculated by the Bureau for Marketing Research (University of South Africa), has been established. These calculations are based on the actual income and household size of each household as established by the Central Statistical Service. For South Africa this cut-off point can be defined by considering the poorest 40% of households (about 19 million people or just under 50% of the population) as ‘poor’, giving a monthly household expenditure level of US$47 per adult equivalent.

1.5. Legal status of the land and housing for the inhabitants

In the Heatherley housing project, as in the overwhelming majority of low-income housing developed from 1994 to date, the legal status of both the land and housing delivered is individual ownership.

[1] At the time of writing, the South African Rand was trading at ZAR 7,5 to the US$. Significant fluctuations of the currency exchange rate must nevertheless be noted.

2. AIMS OF THE PROJECT

2.1. General development objectives

Deliver adequate housing for the poor, at sufficient pace and scale, to begin resolving the significant backlogs existing in the province. This objective is in line with the Constitution of South Africa which states that all South Africans have a right to decent and secure housing. It also meets the political agenda of the Government of National Unity elected in 1994, which set a target of one million new houses to be built within five years.

2.2. Specific objectives

The project was identified as one of 5 pilot projects, where 5000 subsidies where allocated in bulk per project, in line with the province's intent on addressing backlog. The project was designed to give effect to the national housing policy, based on the implementation of a subsidy scheme covering land acquisition and transfer, planning and design activities, servicing sites and the construction of a starter house, to be consolidated by households over time. The national policy emphasises the scale and pace of delivery based on a supply-driven and private sector-led implementation approach.

The introduction of a micro-finance component was primarily required in response to objections from an existing settlement, adjacent to the land on which the project is located. In terms of these objections, the housing developer had to examine ways to augment the resources available for the construction of housing stock on a portion of the site, as a buffer zone. The fact that bulk electricity was not available at the time of construction meant that traditional mortgage institutions were reluctant to participate in the project and that alternative financing mechanisms had to be developed.

3. INSTITUTIONAL AND FINANCIAL PLANNING

3.1. Institutional actors involved in the project

The project benefited from the formation of a local alliance associating the different role-players, and from the allocation of specific responsibilities between the different partners in the alliance. The apportionment of the responsibilities was carefully aligned to the parameters of the housing subsidy scheme approach where the private sector is the primary technical role-player, the State is called upon to expedite financial, regulatory and community-based issues although the beneficiary community is mostly a silent partner.

- **LTA** is the developer who was responsible for the planning and servicing of the site, as well as the construction of housing structures.
- **The Provincial Department of Housing** was responsible for the allocation of subsidies to the project. At the request of the developer, the Department appointed a consultant to oversee the facilitation of the allocation and disbursement of subsidies, as well as overseeing the management of beneficiary access to the project. This role ensured that risks associated with the process were minimised.
- **The municipality** played a funding role by allocating an additional subsidy to cover the costs of higher service levels. Local authority officials were responsible for identifying beneficiaries from their municipal housing waiting lists and for managing the relationships between the beneficiary households and the project.
- **Southfin** (the financier for the micro-loan component) was instrumental in pioneering this mode of housing delivery finance, which mortgage lending institutions were reluctant to investigate. Southfin appointed a consultant, **Lapalaka**, to carry out all commercial and marketing activities.
- **The beneficiary community** was not directly involved in conceptualisation and decision-making in respect of the housing delivery process. However, the setting up of a steering

committee did incorporate community-based organisations active in the region. Local labour was also employed in the course of the construction process.

3.2. Global budget of the project

The total costs for the project amounted to US$ 16,5M (ZAR 124,0M). Almost 96% of the project was subsidised. The sources of finance and their respective contributions were as follows:

- National housing subsidies financed 71,3% of the project (US$ 11,8M)[2],
- Municipal subsidies financed 24,1% (US$ 4,0M),
- Household savings amounted to 2,6% (US$ 0,4M),
- Credit (micro-loan component) financed 2,0% (US$ 0,3M).

4. IMPLEMENTING THE PROJECT

4.1. Forms of credit and repayment methods

For the large majority of units built, commonly known as “give-away” or “RDP” houses, no contribution was expected from the beneficiaries. Nevertheless, households will have to pay services and taxes, amounting to a monthly average of US$13,3, which many families cannot afford.

For the micro-loan component, the respective contributions of the three financial variables, namely, subsidies, savings and credit were as follows:

- 22,6% financed through subsidies,
- 50,0 % financed through credit, with an average micro-loan amounting to US$3733,
- 22,2% financed through savings and personal contributions.

A key innovation in the credit mechanism was that although in the mortgage lending sector the duration of loans, the interest rates and repayments fluctuate, for the Southfin loan:

- The duration fluctuates from 5 to 12 years (with a possible extension to 15 years);
- The interest rates fluctuates (with a current rate of 22%);
- Repayments are fixed.

The manner in which the micro-finance housing products was securitised was broken-down as follows:

- 10% from the beneficiaries, either as a cash deposit or a provident fund cession;
- 20% risk taken by Southfin;
- 35% from the Homeloan Guarantee Company; and
- 35% from NURCHA, a tax-exempt, non-profit company which provides guarantees for loans made by commercial banks as part of developer-driven subsidy projects.

In addition, Southfin holds an insurance policy to cover possible loan defaults.

The amounts which households were able to borrow were linked to repayments of a maximum 25% of household income, so that after all deduction, take-home income should be at least US$100 per month. On average, monthly instalments ranged between US$80-100 for a loan of US$ 4500 based on a loan duration of 8 years and a monthly income of US$370.

[2] For households earning less than US$200, subsidies are set at US$2133 per household, for households earning less than US$467 and more than US$200, subsidies are set at US$1000.

4.2. Overall schedule

The Heatherley project was initiated in 1995 and completed in 2000. Implementation began from 1997 onwards after the signature of the contract formalising the commitments of the different stake-holders.

4.3. Methods of implementation

LTA operates as the primary intermediary in the process and manages the financing and construction processes. The company outsources most of the actual physical work to contractors. Three main contractors were employed, one to oversee the construction process and the other two were responsible for civil engineering works. Each sub-contractor was briefed, recruited, trained and monitored. All the sub-contractors for the Heatherley project are based in nearby settlements. A total 400 construction workers were recruited in the project.

4.4. Stages of implementation

Proposals in term of the pilot approach developed by the province were submitted in 1995. The project took place over 5 separate phases corresponding to sections of the site. The contract between the municipality and LTA was signed in February 1997. The first four phases of the project were developed for RDP products. Once the initial training and deployment of sub-contractors had taken place, the implementation of services and construction was a fairly quick and mechanistic process (at the peak of the construction process, close to 200 houses per week were handed over to beneficiaries).

The preparation and development of the micro-lending products was an altogether more complex process. Negotiating with potential partners and other role-players spanned over the whole of 1998. Application to the province for the conversion of subsidies from project-linked to credit-linked subsidies was undertaken at the beginning of 1999. Marketing to both prospective clients and companies then began, with the first house ordered in July 1999. The first house was handed over in October 1999 and the last in June 2000.

5. RESULTS

5.1. Number of homes built

A total 4959 houses were financed using only municipal and national housing subsidies and 145 were micro-loan financed. The size of the plots delivered is standardised across the project and stands at 250 m^2 per site, in accordance with the subsidy regulation guidelines issued by the Department of Housing.

5.2. Type of housing and nature of progressive features

In the Heatherley project all fully subsidised houses are 32 m^2 in size and comprise an enclosed bathroom area, whilst the rest of the house is not partitioned. The houses developed using the micro-loan option tend to be larger in size and range up to 51 m^2 (3 bedrooms). A dividing wall separates the living area from the other rooms. The quality of the finishes in respect of the later is also higher than in respect of the RDP products.

The level of services is higher than the minimum standards required nationally, and includes tarred internal roads, waterborne sewage, and underground storm water drainage. At the time of construction and delivery of the housing products to the beneficiaries, bulk electricity was not available. The network has since been extended to the site and at present 2000 houses have already been connected.

The cost of the micro-loan component houses varied from US$ 4000 to US$ 6666 (the cost of an RDP house is US$3120). Of note is the difference in price per m^2 of the houses of the RDP product (US$73/$m^2$) and of the micro-loan product (US$125/$m^2$) of same area coverage.

Originally, the micro-loan component of the project was to have amounted to 600 units. The requirement that the project be completed in no more than two years, and the lengthy conceptual, procedural, marketing and administrative aspects of the micro-loan component combined to limit the number of micro-loan houses developed to 145.

To date only 8 out of 122 households have experienced problems in terms of their repayments. These problems were associated with the retrenchment of the loan-holders. 20% of the households have been in a position to put down a 50% equity contribution. About 20% of acquisitions were outright purchases.

Consolidation rates seem higher in the RDP section than in the micro-loan section of the project, where improvements consist primarily of the setting up of gardens, the installation of fences and burglar bars, and the shifting of the position of windows to achieve greater privacy. An explanation might be that current affordability levels are probably higher for those households that fall just below the US$ 200 mark than those houses that have a micro-loan.

Attention was given to positioning houses on the plot to enable households to extend their houses or build additional rooms on the site to accommodate family members or to enable households to generate an income from letting portions of their sites (which would increase affordability levels in terms of municipal service charges).

5.3. Description of the beneficiaries affected

In the project, between 60 and 70% of beneficiaries are female-headed households and 73% have a monthly income inferior to US$200. The majority of beneficiaries originate from neighbouring settlements, both formal and informal.

The micro-loans were accessed by households were the family head is 40 years of age or below with 2 to 3 dependants. Income levels for these households would have been between US$200 and US$467.

6. EXPERIMENTAL AND INNOVATIVE FEATURES

The Heatherley micro-loan initiative was the most innovative component of the project, as it is a targeted effort to combine provincial subsidies, loan finance and personal savings for housing development prior to the development of the housing product. This aspect stands out from the norm, where housing development is generally fully subsidised and where credit and personal contributions are mobilised primarily on an individual basis and after delivery has taken place.

In comparison to bonded housing micro-financing represents a significant saving. Costs and time-requirements involved in the mortgage system, such as the need to endorse the title deeds, do not feature in the micro-finance system, which represents close to a 70% saving on the administrative and legal costs associated with the financing of the housing project.

The model developed by Southfin makes lending possible as it ensures that repayments are fixed which means that loan-holders are sheltered from extreme fluctuations in the lending market. This model also avoids the risks for the lender and for the loan-holder by securising the loan in its entirety. The province and municipality agreed to adjust the mainstream administrative and financial processes and assume much of the commercial and financial risks involved with the implementation of the RDP component of the project. These innovations were spurred by the need to insure the pace and scale of delivery. They also reflect the current balance of power between public and private sectors in the South African context.

7. SPECIFIC ASPECTS OF THE PROJECT DIRECTLY LINKED WITH THE STUDY

The Heatherley project is a project-level experience aligned to the mainstream policy approach developed nationally. Its assessment provides an opportunity not only to reflect on its characteristics, in relation to the micro-financing arrangements, but also on the experience of a national housing policy and delivery system.

Prominent features of the housing policy in South Africa include:

- A policy designed to promote social redress from past apartheid injustices, especially in terms of tenure security by granting individual ownership rights over land and housing,
- The setting of quantitative delivery targets to address extensively the housing needs of the poor (1 million houses in 5 years),
- The significant budgetary allocation to the housing sector in the form of a once-off capital subsidy to qualifying households,
- The definition of subsidy eligibility criteria in terms of household income, and
- An approach which emphasises scale and pace of delivery on a supply-driven, private developer-led basis. Although the policy provides for housing development based on both new-developments and in-situ upgrading, in practice the majority of housing developments have taken the form of green-field developments.

The project has been successful in achieving its short-term objectives: delivery of 5000 units in the specified two-year time-frame and, as a result, significant improvement of living conditions for the beneficiaries.

The economic dimension of housing in South Africa should also be considered. Site visits revealed that much of the vacant space on the individual plots is being used to pursue some form of informal economic activity. In addition, in the course of planning for the housing development, land was set aside for uses other than residential. Both the developer and the municipality are currently investigating the possibility of developing some of this land for commercial purposes.

The promotion of locally defined and interpreted housing requirements and of local-level solutions, experienced in the Heatherley project in respect of the micro-loan component, should be seen as a desirable adjustment of the current national framework.

The Heatherley project reveals two critical shortcomings of the South African policy approach which only targets the poorest segments of the population by means of a capital subsidy, but leaves households that fall beyond a specific income threshold, to fend for themselves in a remarkably exclusionary housing market. The second issue pertains to the uni-dimensional nature of the policy in respect of the variety and complexity of housing needs and demand. Where alternative responses have been framed, notably by community based organisations, their significance in the overall delivery effort has been minimal (1%). Other alternatives, such as rental housing development or micro-lending- provided for in terms of the policy- have tended to remain in the margin.

All delivery efforts are geared to ensure that entry into the housing market is facilitated for the poor. What have remained beyond the ambit of the policy intervention are the notions relating to upholding and maintaining tenure and possession of the benefits with two sets of outcomes:

- In some cases the package of benefits accessed in the course of a housing delivery process becomes unaffordable to the beneficiary who then is forced to dispose of the property by selling or renting it to more financially capacitated households, and return to informality.
- If as little as 25% of the households are either unable to or unwilling to afford charges- a conservative estimate in the South African context- then this means that the municipality will run arrears of up to ZAR 1,5M per year on the services. The City Council of Pretoria estimates that municipal taxes and service charges arrears in its area of jurisdiction amount to ZAR 800M, out of a yearly operational budget of ZAR 300M. This suggests that the

financial viability of the municipality's capital subsidies to raise service levels may not be justified in terms of the increased costs and deficits incurred in the process. These costs will further threaten the financial viability of the municipality as the housing subsidy scheme continues to be implemented should the affordability levels of beneficiaries in respect of service charges not be taken into account.

The project raises serious questions about the long-term sustainability of the scheme. Strategic issues in respect of the future of housing development include:

- Establishing land availability in well located areas, close to the urban core to avoid urban segregation and the perpetuation of apartheid settlement patterns together with its inherent economic and social inefficiencies;
- Reconciling the objectives of urban integration with a practice of new settlements development;
- Addressing the physical upgrading requirements of existing townships;
- Adopting a differentiated approach to respond to the diversity of the housing demand;
- Balancing the tension between the delivery of subsidised high quality housing products and the sustainability of the housing subsidy scheme, the risks of downwards raiding and the impacts of such an approach on land and housing markets;
- Managing effectively the tensions between the public and the private sector and affording beneficiary communities greater autonomy and responsibility in respect of housing development;
- Considering the sustainability of local government finance in respect of service provision;
- Framing and developing credit systems and products that are within reach of the very poor, to address the uncertainties pertaining to the sustainability of the subsidy scheme in the mid- to long-term.

1. ECONOMIC AND POLITICAL CONTEXT OF THE PROJECT

1.1. NATIONAL AND LOCAL ECONOMIC CONTEXT IN WHICH THE EXPERIMENT IS LAUNCHED AND DEVELOPED

In 1996, the total population of South Africa amounts to 40.5 million people constituting approximately 9 million households of which more than half earn less than R1500 per month[3]. The Human Development Index (HDI), the level of development of a country's population calculated on the bases of life expectancy, education and income, was 0,716 in 1994. For example, the HDI for black South Africans is 0,500 but 0,897 for whites. The country has one of the most skewed income distribution profiles in the world (as is reflected by a Gini Coefficient of 0,65). On average, Africans earn 13 per cent of the income earned by whites, while Asians and coloureds earn 40 per cent and 27 per cent respectively. An estimated 45 per cent of the population live in poverty. The percentage of households with an income lower than the minimum living level (MLL), has been established. These calculations are based on the actual income and household size of each household as established by the Central Statistical Service. For South Africa this cut-off point can be defined by considering the poorest 40% of households (about 19 million people or just under 50% of the population) as ‘poor’, giving a monthly household expenditure level of ZAR 353 per adult equivalent.The poverty rate among female-headed households is 60%, compared with 31% for male-headed households. As such, irrespective of race, 26% of female headed households earn less than ZAR 500 per month, compared to 13% of male-headed households.

Since 1994 the formal economy has absorbed less than 5% of the more than 300000 workers entering the labour force annually, whilst shedding many more. The economy has grown at a rate not exceeding a yearly 3,5%. In addition, unemployment remains critical in limiting the ability of the majority of South Africans to access the land and housing market, with an expanded unemployment rate having increased from 32,7% in 1994 to 37,6% in 1999.

An additional source of strain on the South African society and economy has been the HIV/AIDS pandemic. Although the epidemic declared itself relatively late, compared to neighbouring countries, in the early 1990s the infection rate has now caught up, and an estimated 20 to 25% of the population is now infected. This is likely to have a profoundly destabilising impact on the economic security of the urban poor and on patterns of human settlement. This suggests that household affordability levels push access to housing beyond the reach of an increasing proportion of the South African population.

Gauteng, the province in which the case study was undertaken, produces 38% of the country’s GDP with socio-economic indicators that rate among the highest in the country. The performance of other provinces, save for the Western Cape and parts of KwaZulu-Natal, is starkly lower and although these provinces constitute the bulk of the backlog in terms of land, housing and services delivery, they have the least ability to prop up the economic context of their residents.

The urban housing backlog in South Africa in 1995 was estimated at approximately 1,5 million units, increasing at a rate of close to 200 000 units per annum, due to high rates of population growth and low rates of housing provision. In 1996, more than half the population, 54% lived in urban areas at the time of the census. An estimated 1,5 million urban informal housing stands, were also identified as requiring upgrading to meet the minimum standards of accommodation set out in the housing policy. Fewer than half of South African households, 45%, had a tap inside

[3] In 1996, the South African government undertook a national census. The findings of the census, together with information gathered in the course of yearly household surveys by the South African Statistical Services were used to compile this section.

the dwelling, whilst more than 42% have no access to waterborne sanitation. While a large proportion of households in Free State (26%), Gauteng (24%) lives in informal dwellings (shacks), a large proportion of households in Eastern Cape (41%) and Northern Cape (39%) live in traditional dwellings. Nationally, 65% of households occupied formal houses, flats, or rooms, whereas 18% of households live in traditional dwellings and another 17% in shacks. These factors were taken into account during the process of quantifying the backlog in terms of housing.

It is primarily in relation to the housing policy that categorisation of the socio-economic profile of the population, according to income, has been undertaken to specify eligibility criteria in terms of the housing subsidy scheme. As such, the backlog was derived from an assessment of the costs of housing and the proportion of the South African population unable to afford these costs, in full or even partially.

In 2000, the Gauteng Department of Housing undertook a process of quantifying housing backlog in relation to three key deliverables; namely, the provision of tenure security, the installation of service infrastructure and the delivery of a housing top-structure. It estimated that today: 7 348 424

- Households residing within informal settlements, with no tenure security number 209 094 (3 % of the population of Gauteng);
- Households with no access to piped water amount to 305 681 (4% of the population);
- Households with no access to water-borne sanitation amount to 336 378 (4,5 % of the population);
- Households in need of a top-structure number 482 837 (6,5% of the population) and
- The overall demand at municipal level for housing products (tenure, services, top-structure) amounted to 905 012 (12,5 % of the population of Gauteng) (Gauteng Department of Housing).

1.2. HOUSING POLICY APPROACH

1.2.1. National housing policy approach

a) National housing policy principles

The African National Congress's 1994 election manifesto was captured in the Reconstruction and Development Programme (RDP). It stated that all South Africans have a right to a secure place to live in peace and dignity so that housing should be affordable, developmental and sustainable. The RDP also called for housing land to be suitably located geologically, environmentally and with respect to economic opportunities and social amenities. The subsequent Housing White Paper proposed that 150,000 households needed to be housed annually in order for the housing backlog to be eradicated over a period of ten years and a further 150,000 units annually would be needed to prevent new household formation increasing the backlog. Following the 1994 elections the Government of National Unity set a target of one million new houses in five years.

b) Financing aspects of the national housing policy

The institutional implementation framework established to give effect to the RDP has largely fallen by the wayside in the early years of the ANC's first term in office. However, the implementation apparatus of the housing policy, a capital subsidy scheme, has actually materialised. The SA housing policy is primarily a housing finance policy, where households are entitled to a once-off subsidy to cover the costs associated with tenure, services and a rudimentary top structure. As such, tenure security is addressed primarily by means of housing delivery either in the form of green-field development or through in-situ regularisation financed by the once-off subsidy scheme. It is also addressed by granting individual ownership rights over land and housing.

National subsidies are also available for bulk and connector infrastructure, which municipalities are able to draw on.

The Housing Subsidy Scheme currently provides six funding options to eligible people in the income bracket of ZAR 3 500 per month and below. These options are as follows:

- Individual ownership subsidies: Individual ownership subsidies are targeted at enabling ownership of fixed residential properties for the first time buyers. The subsidy levels are linked to household income. There are two types of individual ownership subsidies:

  The project-linked subsidy operates primarily by means of developer-led housing development projects; and

  The individual subsidy affords people access to housing subsidies to acquire ownership of an existing property or a property in a project. This subsidy may also be used where a household wishes to purchase a serviced site for self-build purposes.

- Consolidation subsidies: This subsidy is available for households who have previously received housing assistance from the State in the form of ownership of serviced sites before the inception of the Housing Subsidy Scheme.
- Institutional subsidies: Institutional subsidies are made available to housing institutions developing affordable housing stock. This is the only subsidy which caters for tenure options other than ownership.
- Relocation assistance: This subsidy mechanism provides an alternative to defaulting bond-holders who were three months in arrears on 5 June 1995. It provides for the establishment of a rental arrangement for a defined period of time until relocation to an affordable property is arranged.
- Discount Benefit Scheme: The Discount Benefit Scheme enables home-ownership for tenants of state-owned rental stock.

In addition to having to fall below the ZAR 3 500 mark, households are entitled to different subsidy benefits depending on the actual income bracket in which they fall. Since 1999, the subsidy scheme is graduated according to the following income thresholds, where the poorest households have access to the highest subsidy amount:

- From ZAR 0 to ZAR 1 500, households are eligible to access ZAR 16 000; and
- From ZAR 1 501 to ZAR 3 500, households are eligible to access ZAR 8 000.

This categorisation system was informed by a consideration of affordability levels in relation to land, services and housing costs. Its rationale is that the South African government should target its intervention, in terms of socio-economic development to the poorest of the poor, or those who are not in a position to afford minimum levels of social and economic services. This means that the amounts are not aimed at providing an extensive housing product benefit; rather the amounts were selected to ensure that a majority of South Africans should benefit from State subsidies within the fiscal affordability of the State. The outcome is then the delivery of starter-houses, at no outright costs to the users, who are then able to consolidate the products which they receive.

Originally, the maximum amounts of the housing subsidy was ZAR 15 000, to which an additional 15% variation increment was attached to cover poor geotechnical conditions. Although the amounts have been revised, they have not kept up with inflation, which has ranged from 4% to 7% annually.

1.2.2. Provincial and local government housing policy approach

The Gauteng Department of Housing has initiated from 2000 onwards a ring-fencing exercise setting the following delivery targets in terms of departmental budget allocation:

- 50,0% formal, project-linked housing projects ;
- 37,5% phase upgrade of informal settlements ; and
- 12,5% institutional, rental and high-density housing.

In the course of 2000, the province has had to make available an additional amount to cover emergency housing assistance requirements, introduced nationally to cover instances where children's rights to shelter are threatened.

Concerning access to the subsidy, the following eligibility criteria were established:

- Household income should fall below the ZAR 3500 benchmark irrespective of the number of wage-earners in a particular household;
- Households should have at least one financial dependant; and
- Households should not have benefited from previous state-assisted housing delivery schemes and/or have held ownership right over land or housing.

The Pretoria municipality has also opted to prioritise those households that earn less than ZAR 1 500 per month. The municipality requires that where housing development projects are to occur within its area of jurisdiction, beneficiary households should be registered on its own housing waiting lists, in addition to those of the province. The municipality also seeks to target households that have resided for a long period of time in its area of jurisdiction, as well as female-headed households.

1.2.3. Housing policy in practice

The South African Housing policy places significant emphasis on the role of the private sector as the vehicle of the implementation of the policy housing. As such, not only is the housing policy supply-driven it is also private sector driven. To a large extent, the subsidy model enables large developers to take control of the delivery process. As such, community driven development processes are largely non-existent (it accounts for less than 1% of the subsidies allocated nationally to date)[4]. Whereas the project-linked subsidy option accounts for close to 80% of the total subsidy allocation (inclusive of in-situ tenure upgrading and institutional subsidy mechanisms), some evidence of community-driven and NGO supported housing processes has emerged since the early 1990s. The experience of the Homeless People's Federation and the support NGO People's Dialogue, or the role of institutions such as the Urban Sector Network, and its affiliates the Built Environment Support Group, Plannact and the Development Action Group, reveals that there is a level of demand for such types of delivery processes.

It is also telling that whereas, prior to the introduction of the subsidy scheme involvement of the private sector in the development of housing for the income groups targeted by the housing subsidy scheme had existed, and was generally financed using bridging finance mechanisms, since the introduction of the subsidy scheme, little if any such activity is currently taking place for those particular income groups. Instead, developers, apart from developing subsidised housing, are now targeting the development of bonded housing products valued between ZAR 60 000 to ZAR 100 000, which remains clearly beyond the affordability levels of the urban poor.

[4] Unlike Asia or Latin America, where self-built housing is not only accepted but also regarded as the norm, many of South Africa's policy-makers interpret 'people-driven' as meaning 'participation' in a process designed, driven, and implemented by 'delivery experts' (Bauman, 2000).

1.2.4. Project in context

In terms of municipal development objectives and the provincial approach to housing development for Pretoria, new greenfield development is to be the focus of delivery in the region. The Heatherley project forms part of the project-linked housing subsidy programme of the province, to deliver serviced stands with houses to qualifying beneficiaries within a project. The project was identified as one of 5 pilot projects, where 5000 subsidies where allocated in bulk per project, in line with the province's intent on addressing backlog. It has benefited from resources which, as will be described in greater detail in the following sections, have been a significant success factor. However, in respect of the policy context, this project is fairly representative of the South African context.

1.3. LAND DEVELOPMENT AND LAND POLICIES

Land development and land policies in the South African framework are undergoing a thorough overhaul. This process is geared to support the housing policy's development approach in terms of the scale and rate of housing delivery. Land use and land development management systems are primarily defined at the municipal level, through instruments such as town planning schemes, municipal by-laws and zoning regulations. The apartheid legacy of discriminatory, fragmented and racially biased land management systems still prevails. The process of reforming land development policies was initiated in the early 1990s. A key outcome of this process was the formulation of the Development Facilitation Act (1995). This transitional measure, introduced in 1995, was constructed as a key intervention in addressing the land and housing backlog. The DFA set out to deal with the perceived legislative and procedural obstacles to the desired rate of land development by introduce new measures to facilitate and expedite projects and to bypass bottlenecks in existing regulations. The Principles of the DFA are intended to guide decision-makers in respect of land development and stress integration, city compaction, efficiency and equity, and they represent the new conventional wisdom of an alternative (to apartheid) vision of how South Africa's towns and cities should be structured spatially. Overall, the financial provisions of the housing policy, in terms of the implementation of the subsidy scheme, tend to dictate the manner in which land development occurs. As such even if the land development policy provides for both formal and informal land development processes, the practice of the housing policy implementation is firmly biased in favour of green field development in peripheral locations as opposed to in situ upgrading.

Tenure models are in practice focused on the delivery of individual ownership. The historical denial of ownership rights to the majority of the South African population has had the effect of politicising the housing and tenure questions. The lack of coherent, distinctive and specific policy position on this complex issue has meant that, by and large, the notion tenure security is still subject to prevailing bias in favour of individual ownership granted by means of a housing development intervention.

In relation to the question of planning processes regulations and standards the current system of land management and administration does not make it possible for households to obtain secure tenure and provide for their own housing and services requirements individually. This occurs as individual households in informally settled areas would probably only be able to obtain formal land security by paying themselves for survey and registration under the system used by high-income households. This remains out of reach of the poor, and contributes to explain why housing delivery processes akin to that of the Heatherley project remain the primary means of accessing secure and formal tenure for the majority of the urban poor.

1.4. CREDIT PROVISION AND CREDIT SYSTEMS

In terms of the question of credit for housing, the National Housing Policy identifies the lack of end user finance in the low-income housing market as a major constraint to housing delivery.

The Housing White Paper identified that at the time of writing, 45-55% of households in need of housing, were unable to afford or access credit, and are therefore entirely dependent on their own limited resources and state subsidisation. Therefore, the government's approach focused on introducing subsidies to create incentive to credit and provide something where households have no or little access.

In addition, it was identified that although the South African mortgage lending institutions had been active in new housing development in the 1980s the poor quality of housing being developed at the time led to severe defaulting on bond repayments. From this experience, the institutions began associating poorer households with perceptions of higher commercial risk than higher income families. The Department of Housing concluded a 'Record of Understanding' (RoU) with South Africa's Association of Mortgage Lenders, in terms of which the banks committed themselves to provide supporting loan finance to projects under the subsidy programme, to little avail.

The South African Reserve Bank is responsible for setting lending rates practised by lending institutions. The Usury Act stipulates maximum rates of interest, forms of security, and other essential aspects of all lending activity. It also provides the Minister of Trade and Industry with the authority to regulate microlenders. Most South African microlenders target Small and Medium Enterprises, and do not give loans for emergencies, consumption, nor do they which does not seek to support housing delivery. Even where non-bonded soft-loans underwritten by parastatal lending institutions are extended. for housing purposes, up to 50% of the loans are in fact used to purchase consumer items. On the supply side of the micro-loan industry, we have noted the existence of widely differing role-players. Firstly, it is fairly common practice for employers to lend to their employees at a rate seldom exceeding current prime-lending rate (at present this amounts to 15% per annum). Secondly, a significant amount of cash lenders operate, often illegally. They are often the most accessible lending institutions for the urban poor, as they do not require payroll-deductions or other formal arrangement. However, their risk management methods and the interest rates which they charge are often extremely exploitative. Practices such as withholding bank debit cards and identity documents and charging interest rates of up to 55% are rife. As such if those institutions make borrowing possible for the urban poor they also make it tenuous.

Formal lending institutions have recently introduced products, personal loans that are designed to attract low-income households. The requirements that loan-holder have regular employment and the provisions for pay-roll deductions are common. Because formal lending institutions are deposit taking they are able to extend lending rates that are relatively affordable to the urban-poor (i.e. prime lending rate +1,5%). The size of the loan is relatively small (between ZAR 5 000 and ZAR 10 000). However, given that housing delivery is almost exclusively linked to a developer-driven process, housing development beneficiaries have not been in a position to make use of such lending facilities to augment the financial resources available to develop higher quality housing products. What does happen in practice, though it does not appear to have been the object of research, is that households may extend and consolidate the housing products delivered as course of a project-linked housing delivery project by making use of small personal loans which they access through any of the above financing mechanisms, or only using household savings or a combination of both. This of course means that household-initiated and sourced finance occurs in a post-hoc manner.

The micro-loan component of the Heatherley project thus represents an innovation in the South African context, where in spite of governmental efforts to the contrary, lending institutions have stayed clear of the low-income housing sector. There, three variables of housing finance were mobilised to achieve housing development, namely: housing subsidies, personal savings, and credit. It is critical to note however that the majority of housing products developed as part of the project utilised mainly subsidies and did not draw on the other two.

2. PROJECT LAUNCH AND CONSOLIDATION

2.1. ORIGIN OF THE EXPERIENCE: PUTTING A LOCAL ALLIANCE IN PLACE

2.1.1. Political expediency and origin of the project

In the previous section, the approach and mechanisms developed by the National Housing Policy were presented as being primarily linked to a system of subsidisation of supply-led housing product delivery. It was also shown how in the practice of housing development, project-linked subsidies far outweighs any other delivery model. Project-linked subsidies are paid via commercial developer-driven housing projects approved by provincial housing departments. Soon after the introduction of the capital subsidy scheme, private sector actors, comprising large developers together with some financial organisations, approached the Gauteng Department of Housing to lobby for the block allocation of subsidies on a semi-competitive basis. For the province, this meant that through the project the Gauteng department of Housing could demonstrate its capacity to deliver at scale and lobby for further allocation of subsidies.

The terms of allocation of the subsidies by the province were then negotiated so that a total 25 000 subsidies would be allocated to 5 separate developers based on past project experience and proposed development approach and processes. Proposals were submitted in 1995.

2.1.2. Involvement of the private sector in the project

An analysis of future planning exercises at municipal level in terms of housing demand, reveals that the Greater Pretoria Metropolitan Council amounted to close to 10% of all regional demand in the province. LTA, a large property and engineering company put forward a proposal for the development of housing in the Pretoria area, as provincial waiting lists indicated that the area had been relatively under-catered for in the province. LTA was awarded the development rights for a total 5000 subsidies in terms of the Pretoria proposal. In addition, they also accessed a further 5000 subsidies for the development of housing products in a number of sites, in partnership with Grinaker, another housing development company. The developer was primarily attracted to the scale of the housing delivery projects as it ensures that economies of scale are reached to render the venture more viable and profitable.

2.1.3. Focus on the Heatherley site

Originally, the municipality sought to negotiate the dispersion of the subsidies across its area of jurisdiction to promote greater infill and integration of the urban fabric. The political imperatives of the province in terms of delivery of housing products at scale meant that the Department of Housing turned down this proposal. In the absence of alternative, the municipality favoured the Heatherley site as housing development had already been planned in the area and existing settlements in the region were under increasing pressure. Ongoing land invasions and informal densification processes in backyard shacks had marked the urbanisation of neighbouring settlements such as Mamelodi, where most of the beneficiaries of the Heatherley project resided in prior to their accessing the project.

2.1.4. Origins of the micro-finance component

The introduction of a micro-finance component was primarily required in response from objections of an existing settlement adjacent to the land on which the project is located. Formerly a coloured area, proclaimed in terms of the infamous Group Areas Act, the settlement is constituted of houses developed in the early 1980s using loan finance. The residents of the settlement objected to the construction of low-cost housing in the direct proximity of their own settlement, which -they argued- would cause the price of their property to decrease. The local authority had to take this into consideration in terms of the township establishment and land development applications, in line with the participatory requirements of land development legislation. The housing developer then began examining ways to augment the resources available for the construction of housing stock on that portion of land, as a buffer zone.

LTA engaged with a number of institutions active in the lending industry to identify financial products and arrangements potentially suited to the development of higher quality housing. A key issue in the process of negotiation was how to spread the financial risks involved in the lending terms for the micro-loan houses. Apart from two major parastatals active in the lending sector for low-income housing, NURCHA[5] and the Homeloan Guarantee Company[6], LTA also sought to attract additional interests from the private lending sector. The fact that bulk electricity was not available at the time of construction and delivery, as well as the reluctance of the municipality to partake in development of bonded housing for subsidy recipient, targeted LTA's attention to alternative lending institutions, and in particular Southfin.

In terms of LTA's interests this represented a significant opportunity to experiment with a new type of housing delivery model, where the economies of scale would ensure the profitability of the venture, and- in respect of the micro-loan component- establish the company as a pioneer in the field of private-sector driven micro-loan housing delivery.

2.1.5. Profile and interests of the micro-lending institution

In the course of its micro-lending activities Southfin identified the opening of market opportunities in the low-income housing development sector. The company also experienced declining profitability in its mainstream micro-lending activities as formal financial institutions are now entering the micro-lending market. The fact that these institutions are able to receive deposits means that their capital reserves and the financial returns which they derive from the deposits enable them to offer more competitive interest rates than those offered by Southfin.

Souhtfin's intentions in respect of the micro-loan component were about positioning the institution in the housing delivery sector, in the belief that similar opportunities will emerge in future.

2.1.6. Defining the extent of the micro-lending component

Initially, extension 4 of the Heatherley Project, on which the micro-lending component was developed, was to host the same type of housing product as the rest of the site. An alternative to such housing product was envisaged as early as 1997 but the finalisation of the entire micro-loan housing package, and as a result, the exact costs of construction involved, were not known at the time of signature of the contract between LTA and the municipality. On the basis of mutual trust between both parties and of the innovative character of the project, parts of the contract were left unspecified. Application to the Gauteng Housing Department for the conversion of the project from an RDP product to a micro-loan housing product (entailing a change of type of subsidy from project-linked subsidy to credit-linked subsidy) occurred at the beginning of 1999. Originally 600 micro-loan houses were to have been built. The process of conceptualising the modalities of the micro-loan finance and the marketing activities for the financial package spanned over more than a year. The marketing requirements were linked to the demand-driven nature of micro-loan housing delivery, as opposed to the supply-driven nature of the RDP housing process. This meant that the two-year time-frame for the project as a whole had a limiting impact on the actual number of houses developed using the micro-finance package.

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[5] The National Urban Reconstruction and Housing Agency (NURCHA) was registered as a tax-exempt, non-profit company in May 1995. NURCHA aims to "facilitate delivery of adequate, sustainable housing by unblocking financial obstacles to subsidised housing" for families earning less than R1 500 per month. NURCHA guarantees loans made by commercial banks as part of developer-driven subsidy projects. NURCHA provides guarantees up to 70 % of the total loan.

[6] The Homeloan Guarantee Company was set up as a parastatal institution, to provide financial guarantees for low-income housing development, and encourage credit-based housing development.

2.1.7. Identification and selection of beneficiaries

The municipality drew on its housing waiting lists to identify potential beneficiaries who were then contacted to verify their interest in the project, and select possible housing products from a range of three show houses developed by LTA. The developer then compiled subsidy applications for each prospective beneficiary and submitted them to the province for approval. The consultant appointed by the Provincial Department of Housing screened the applications submitted by the developer against the provincial housing waiting list to verify the eligibility of the applicants.

2.1.8. Process of land development and delivery

Once the subsidy applications were screened and approved, the developer initiated the first steps in the process of delivery. This comprised the design of engineering services, planning of the site and plot layouts to establish the township, for the first of four portions of the Heatherley site. Subsequently services were installed, and the top-structure built. Finally transfer of ownership of the site to beneficiaries was undertaken. This last phase in the process normally takes place prior to the construction of housing structures. A relatively high level of absenteeism is often recorded at the time of handing-over to beneficiaries (up to 5% of sites in any given project). This incurs considerable holding and administrative costs to developers. To avoid this situation, LTA successfully requested that the construction should incur prior to the handing over of properties to their new owners. For each of the four portions of the site, identified as phases of the project, a similar housing development process took place.

2.2. ROLES AND RESPONSIBILITIES

The institutional roles in the alliance rely heavily on the allocation of specific responsibilities between the different partners. The apportionment of the responsibilities was carefully aligned to the parameters of the housing subsidy scheme approach where the private sector is the primary technical role-player, the State is called upon to expedite financial, regulatory and community-based issues and the beneficiary community is mostly a silent partner.

2.2.1. LTA

LTA was responsible for the planning and servicing of the site, as well as the construction of housing structures. LTA sub-contracted most-labour intensive activities to local contractors and performed a management and co-ordination role.

2.2.2. The Provincial Department of Housing

The Provincial Department of Housing was responsible for the allocation of subsidies to the project. At the request of the developer, they appointed a consultant to facilitate the technical and political aspects of the allocation and disbursement of subsidies.

2.2.3. The local authority

The municipality played primarily a funding role by allocating an additional subsidy to cover the costs of higher service levels, as well as overseeing the management of beneficiary access to the project. Local authority officials were responsible for identifying beneficiaries from their municipal housing waiting lists and for managing the linkages of the project with beneficiary households. The local authority took over the risks associated with the absenteeism of beneficiaries at the moment of transfer of ownership, which would have increased holding costs to the developer. Local authority officials tend to view the role of the private sector in housing development as necessary as currently most municipalities do not have the required financial or human resources capacities to undertake housing development at the scale required. This is mitigated by the local authority's attention to the management of the private sector's interests to ensure the quality of both the process of delivery and the products being delivered.

In the distribution of roles between the public and the private spheres, a strategic issue was reducing the risks associated with the delivery process. The local authority bore much of the political risk, while the private partner sought to minimise technical risks.

2.2.4. Southfin

The financier for the micro-loan component was instrumental in pioneering this mode of housing delivery finance, which mortgage lending institutions were reluctant to investigate. The company emerged therefore as a willing partner in the project. Its prior involvement with Lapalaka, a micro-loan retailer, consolidated the sharing of responsibilities in the conceptualisation and development of the micro-lending products.

2.2.5. The beneficiary community

The beneficiary community was not directly involved in the conceptualisation and decision-making in respect of the housing delivery process. The greenfield nature of the project meant that a mobilised and organised beneficiary community was not readily available to participate in the process. However, the setting up of a steering committee on which executive-level role-players from the government and private sector actors were represented did incorporate community-based organisations active in the region. Among these organisations was the local branche of the South African National Civic Association. In addition, beneficiaries were given a selection, albeit limited, of house types from which to chose. Further, local labour was also employed in the course of the construction process.

2.3. POST CONSTRUCTION DEVELOPMENT

The municipality envisages the development of commercial and social facilities within and in the proximity of the site. Land has been set aside for this purpose, in the layout-planning phase. However, little co-ordinated activity has taken place in respect of the need to involve the different institutional actors who have a stake in the realisation of this vision, from the time of project conceptualisation. For instance, although the development of schools is planned for the site, the Gauteng Department of Education (education being a provincial function) was not party to the housing development planning process. This typifies the overall lack of co-ordination for integrated delivery and development of housing development in South Africa. We did note, however, that the municipality is active in mobilising resources for transport and socio-economic development in the area. The project manager, in the Engineering Department of the Pretoria City Council, has largely taken over the responsibility for overseeing the post-housing-delivery development process, although this is not directly related to his functions.

3. SUSTAINABILITY

3.1. FINANCING THE PROJECT

3.1.1. Sources of finance

The total costs for the project amounted to ZAR 124 041 242. The sources of finances and their respective contributions were as follows:

- Housing subsidies amounted to a total: ZAR 88 394 175 (71,3%)
- Municipal subsidies amounted to a total: ZAR 29 914 907 (24,1%)
- Household savings amounting to: ZAR 3 275 520 (2,6%)
- Micro-loan component (Southfin) amounted to a total: ZAR 2 456 640 (2%)

Aside from the municipal subsidies which were targeted specifically at covering the costs of the services and the construction of major structural infrastructure, all the other sources of finance were to cover the costs of all the aspects of the development, including land, planning and design, servicing the sites and the construction of top structures. In addition, the micro-loan component and the household savings contributions were targeted at a specific segment of the site for the development of higher quality housing products.

3.1.2. Financing system analysis

a) RDP component of the project

Financial system

The project is funded by means of the housing subsidy which amounts to between ZAR 17 250 and ZAR 18 400[7] per beneficiary to cover the costs of land acquisition, site planning, township establishment and land transfer, servicing and the construction of a top structure. To this amount, an addition ZAR 5000 per beneficiary was made available by the municipality to cover the additional costs that were incurred to meet service levels of a higher level than possible through the subsidy scheme. Additional amounts were also provided, by the municipality to contribute to the servicing and planning of sites to be developed for non-residential uses, and to provide for transport infrastructure, such as bridges. These amounted to approximately ZAR 5 120 000. This financing arrangement was targeted at households earning less than ZAR 1500 per month, although part of the municipal subsidy was also used to cover the costs associated with road construction and other bulk infrastructure for the micro-loan component. The municipal subsidy was paid directly to the contractors performing the tasks for which it was allocated (i.e. higher service levels etc…). Where the subsidy amount increased to R 18 400, this did not directly affect the cost of the houses, as each completed housing product was costed at ZAR 17 500, irrespective of the increment in the amount of the subsidy. A total 4 959 houses were built at this cost. Beneficiaries for the RDP component of the project did not make any outright financial contribution. As such the total financial contributions for this portion of the site amounted to:

- Municipal subsidies: ZAR 29 914 907; and
- Housing subsidies: ZAR 88 394 175.

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[7] The actual amount varied according to the different phases of the project as some of the housing products were developed- and therefore financed- prior to the increase in the subsidy amounts.

Development costs for the site amounted to ZAR 118 309 082[8]. The standardised product which those households accessed during the project is referred to in the rest of this report as RDP[9] houses. These housing products are also referred to in practice as “give-away houses” as the beneficiaries who acquire them via the intermediary of the subsidy scheme are not liable for any costs until transfer of the property when households then have to cover the costs associated with fixed-property such as municipal taxes, as well as service and maintenance costs.

Definition and evolution of the financial system

The RDP housing products are being developed using resources administered and disbursed by the provincial Housing Department, following closely the national process-related regulations. This pertains to the disbursement of the subsidy in different tranches relating to the various components of the housing delivery process, from the planning of the site to the construction of housing structures and transfer of ownership.

The municipal subsidy in respect of services, although departing from the minimum national standard allocation, is in line with the practice of municipalities, that have sufficient resources to supplement the housing subsidy allocation. Indeed, municipalities tend to set and resource service standards for their areas of jurisdiction that are in excess of the minimum prescribed standards as they argue this will limit the running costs of maintaining the infrastructure delivered in the long-run. It is unclear, however, that the municipality has taken into account the running costs to the user of these levels of services.

Technical aspects of the financial system

To manage the payment of sub-contractors involved in the design, planning, servicing and construction in the project, two parallel channels were set up:

> For the provincially administered moneys: LTA received funds directly from the province and then disbursed them to sub-contractors according to the different tranches of the subsidy system.
>
> For the municipal funds: the municipality was directly responsible for payment of sub-contractors in respect of the service components.

Both the province and the municipality were called upon to monitor progress and the outputs of the delivery process prior to payment being made.

The table below presents the manner in which the subsidy disbursement system is structured in the province. This structure was developed by the province to avoid a situation where developers carry the main development risk and enable government to retain control over the quality of housing products being delivered[10]. The manner in which the subsidy amounts were allocated in the project is presented in the table below for those RDP products built after the increase in the subsidy amounts, although the relative proportion of the subsidy allocated to different tasks in the project would have remained similar prior to the increase.

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[8] As stated above, part of the municipal financial contribution also covered the costs associated with bulk infrastructure of the micro-loan component.

[9] This appellation is frequently used in the housing environment in the country in reference to the Reconstruction and Development Programme (1994) in terms of which the housing policy was launched.

[10] Previously, the subsidy was to have been paid out in two tranches: 70% on completion with 30% retention. Developers were forced to raise bridging finance at market-related interest rates. Under these conditions, few developers were willing to engage in the housing delivery process; which meant that the approach of the housing policy as primarily private-sector driven did not materialise.

Project Linked Subsidy Breakdown (2000 prices- inclusive of the increase in the subsidy amounts introduced nationally)	
Payment 1: Engineering designs	680
Payment 2: Approval of general plans	350
Payment 3: Installation of Services (inclusive of variation of 15%)	6680
Payment 4: Transfer of ownership	750
Payment 5: Top structure (inclusive of variation of 15%)	9940
Total 5 phases inclusive of variation (15%)	18400
(a) Total national housing subsidy	**18400**
(b) Municipal subsidy of ZAR 5000R for services	**5000**
Total cost (a) + (b)	**23400**

LTA operated as the developer in the servicing and construction process. By sub-contracting smaller operators, LTA was required to ensure that its cash flows were not affected negatively by possible delays in the subsidy allocation and disbursement process. Key interventions were set in this respect. These interventions were geared to minimise risk and speed up subsidy payments. In respect of the financing system, the fourth payment, for the transfer of ownership rights to the beneficiary was shifted to the end of the housing delivery process. This means that the most significant payments (n° 3 and 5 representing 90% of the subsidy) were made relatively rapidly in terms of the overall project cycle. This not only avoids high holding costs and risk factors related to delays in transfer of ownership to the beneficiaries and speeds up the actual construction of housing products in terms of the overall schedule of the project.

Upon certification of performance in respect of the housing products, by the municipality, provision was made for the municipality to take over possession of the housing products. This was meant to terminate the responsibility and liability of the developer in terms of the housing products being developed shortly after construction, and the last payments to be made closely after capital outlays are being made by the developer, thereby minimising holding costs.

b) Micro-lending component

Financial system

The portion of the site developed using not only the subsidies but also micro-loans and household savings were costed and therefore financed according to the different housing models which households could select from. In the Heatherley case, whilst the amount of the subsidy allocation is consistent, both the amounts borrowed and the household savings contributions vary according to the cost of the housing product accessed and the collateral deposited. It is important to note at this point that out of 150 houses which where developed using additional finance to the subsidies, 28 were outright purchases.

Definition and evolution of the financial system

The development of an acceptable financial model was a long process. Because of past experiences of bond-boycotts, and to avoid the risk of repossession of bonded housing, in the current unstable economic context, mortgage bonds were excluded. Guarantees were sought through payroll deduction and pension or provident funds. Parties had to be brought on board, as the model had to be financially viable for the developer and respond adequately to the financial requirements of the subsidy criteria. Southfin was the only institution who was willing to experiment with the model. They have a previous record of micro-finance (personal loans) and are an association which has sufficient reputation to be accepted by employers (required in terms of payroll deduction arrangements). Southfin has been able to secure a ZAR 100 000 000 credit facility from the National Housing Finance Corporation (NHFC) which the financier was able to draw on to offer its micro-lending products.

Once the arrangements for the micro-loan financing were finalised at the institutional level, between the role-players, namely NURCHA, the Homeloan Guarantee Company (both being statutory organisations), Southfin, Lapalaka and LTA, marketing activities were initiated. Given that the loan had to be partially securitised utilising scissions on pension or provident funds, approval had to be obtained from workers unions. To sustain the costs of the micro-finance (demand-driven) construction process, the production of RDP fully subsidised housing products (supply-driven) also has to feature as part of the delivery process. This means that in the current context of the South African housing environment, housing delivery projects where a micro-loan component features cannot take off without some form of subsidy and construction of housing units at scale on a supply basis. This ensures that the cash flows fairly stable and ensures that the operating costs (to the developer) of the construction process are viable.

However, beneficiaries were largely excluded from any consideration on the arrangements pertaining to the sourcing use and terms of the subsidies, as is the norm in the South African housing development context. In addition, the extent to which households were able to influence arrangements pertaining to the micro-lending aspects of the housing project is similarly minimal. Micro-loan holders were not able to negotiate interest rates, as would normally be the case in the mortgage-lending sector.

Technical aspects of the financial system

Key operational mechanisms have been set in determining both household eligibility and financing mechanisms. Eligible micro-loan holders should be:

- Employed for a period of three years or more;
- A member of a pension or provident fund; and
- Earn between ZAR 1500 and ZAR 3500.

In addition, the process of marketing the micro-loan targeted firstly employers, to obtain consent for the payroll deductions. Companies with a sound financial track record and of sufficient scale, to act as a guarantor where necessary, were identified. This means that access to the housing delivery project was largely indirect. Employers are often weary of micro-lending schemes, as well as employer channelled housing delivery processes, convincing employers to partake in the scheme was difficult. As such, one company alone accounts for 80% of the beneficiaries accessing micro-loan housing.

The type of employment which beneficiaries of the micro-loan project have is critical in determining access, as payroll deductions are the preferred mode of instalment collection. The financier targets specifically companies that are stable. A few of the households who have accessed the project are domestic workers who have benefited from their employers' participation in the scheme. Employers had to give permission for the payroll deduction.

The amounts which households were able to borrow were linked to repayments of a maximum 25% of household income, in line with the rule of thumb which most financial institutions set in respect of loan affordability. The NHFC also specifies that after all deduction, take-home income should be at least ZAR 750 per month.

A key innovation in the credit mechanism was that although in the mortgage lending sector the duration of loans, the interest rates and repayments fluctuate, for the Southfin loan:

- The duration fluctuates from 5 to 12 years (with a possible extension to 15 years);
- The interest rates fluctuates;
- Repayments are fixed.

The rationale for adopting this approach is that should repayment amounts fluctuate, affordability levels would be threatened. For instance, an additional ZAR 50 per month on a ZAR 800 loan repayment might reduce both the ability and willingness of households to continue paying their loan. This is based on the premise that household income would have to increase by ZAR 200 per month to cover the affordability requirements that the proportion of income dedicated to loan repayment should not exceed 25% of the household income.

The current interest rate for the micro-loan houses in the Heatherley project are 22% per annum, well below the rates currently practised by most micro-loan institutions (+- 30%, as regulated by the Usury Act), but well above current market rates for bonded-houses (14,5%). This rate compares favourably with rates practised by unregulated- and illegal- micro-lenders- amounting at times to up to 55%.

The manner in which the micro-finance housing products was securitised was broken-down as follows:

- 10% from the beneficiaries, either as a cash deposit or a provident fund cession;
- 20% risk taken by Southfin;
- 35% from the Homeloan Guarantee Company; and
- 35% from NURCHA.

Southfin holds an additional insurance policy to cover possible loan defaults.

The respective contributions of the three financial variables, in terms of the research hypothesis, namely, subsidies, savings and credit were defined as follows:

- Subsidies for households earning less than ZAR 3500 and more than ZAR 1500 are set at ZAR 8 000.
- Because those households fall above the R 1 500 income category, the municipality did not make available additional subsidies, although part of the infrastructure investment made in terms of the RDP component have benefited the micro-loan component.
- Personal savings were allocated in the form of collateral and amounted to varying proportions of the cost of the housing product (no less than 10% and up to 50%, the latter proportion being the contribution which 20% of the beneficiaries opted to put down).
- Credit component, where the average micro-loan amounted to ZAR 28 000 (for a house priced between 30-50 000R)

In this respect, the Heatherley initiative is extremely innovative in South Africa, as it is a targeted effort to combine provincial subsidies, loan finance and personal savings for housing development prior to the development of the housing product.

For example, a household income of ZAR 2 800 would entitle beneficiaries to access a loan of ZAR 34 000. Were the loan to be taken over a period of eight years, a minimum deposit of ZAR 3 400, and result in instalments of ZAR 700 per month. Given that the instalment amounts are fixed, should interest rates increase drastically, this would extend the duration of the loan, thereby increasing the effective cost of the loan to its holder.

3.2. ACCESS TO LAND

The selection of the site was based primarily linked to concerns over land availability in respect of the scale of the project and the fact that the land was owned by the municipality. The existence of commercial, industrial and residential development in the relative proximity of the future housing project was seen to be an advantage for the future development of the area. In addition to these concerns, the project had to be located in an area where the housing need was the greatest according to the provincial housing lists, which identify the eastern part of Pretoria as being under significant pressure. The fact that residential development on part of the site had already been planned was also advantageous as it meant that township establishment and design activities were already underway.

The land acquisition aspects of the project also benefited from an indirect subsidy from the municipality which owned the land on which the development has taken place. This meant that the land acquisition process was facilitated, thereby minimising risks to the developer, and that the ZAR 500 per site, inclusive of conveyancing fees, was well under the costs normally incurred in terms of land acquisition, as these frequently amount to double that amount. This freed up significant funds, which were then available to cover the construction costs. It is also likely that this may have increased the profit margins of the developer.

In the South African context, the overwhelming majority of housing delivery processes result in the granting of ownership rights to beneficiaries, as this forms part of the subsidy package. This is equally the case in the Heatherley project.

3.3. TYPE OF CONSTRUCTIONS PRODUCED

3.3.1. Construction process

The members of the steering committee agreed upon the details of the project, including the phasing of the delivery, the principles of access to housing products, the housing models, layouts and the need to develop higher quality housing in the strip of land directly adjacent to the existing formal settlement.

LTA operates as the primary intermediary in the process and manages the financing and construction processes. At present, the low-cost housing section of LTA comprises four employees. In housing development processes, the company thus outsources most of the actual physical work to contractors, principally emerging companies, in line with national affirmative procurement policies. Three main contractors were employed, one to oversee the construction process and the other two were responsible for civil engineering works. Each sub-contractor was briefed, recruited trained and monitored. All the sub-contractors for the Heatherley project are based in nearby settlements such as Mamelodi. A total 400 construction workers were recruited in the project.

The project took place over 5 separate phases corresponding to sections of the site. Proposals in term of the pilot approach were submitted in 1995. The contract between the municipality and LTA was signed in February 1997. It did not specify the type of house to be built. The first four phases of the project were developed for RDP products. At the peak of the construction process, close to 200 houses per week were handed over to beneficiaries. Given the tight time frames which LTA had to abide with, the speed of delivery was critical. The sheer scale of the development meant that technical designs could be modularised and applied across the site. It also meant that once the initial training and deployment of sub-contractors had taken place, the implementation of services and construction was a fairly mechanistic process.

Given the green-field nature of the project, no pre-existing community was to have served as the target of participatory processes to input into the nature of the project. The housing developer therefore elected to build a show village comprising three housing models from which households were to select and “order” according to their preferences.

The preparation and development of the micro-lending products was an altogether more complex process. Negotiating with potential partners and other role-players spanned over the whole of 1998. Application to the province for the conversion of subsidies from project-linked to credit-linked subsidies was undertaken at the beginning of 1999. Marketing to both prospective clients and companies then began, with the first house ordered in July 1999. The first house was handed over in October 1999 and the last in June 2000.

3.3.2. Housing products

The housing policy and the manner in which the subsidy is implemented have sought to break away from past experience of site and service schemes. It was also assumed that housing beneficiaries would exert pressure on developers to deliver high quality products. Contrary to this assumption, profit-motivated developers have tended to deliver the minimum. Until national standards were established in respect of housing size, the average size of housing built rarely exceeded 25 m^2. In response to this situation, a minimum standard of 30m^2 was established in the Minimum Norms and Standards. At present, the national average stands at between 32 m^2 and 35 m^2. In the Heatherley project all RDP houses are 32 m^2. The houses developed using the micro-loan option tend to be larger in size and range up to 51 m^2. The quality of the finishes in respect of the later products is also higher than in respect of the RDP products.

Due to local authority's high service quality policy, and additional subsidy was made available to that end. The level of services included tarred internal roads, waterborne sewage, and underground storm water drainage. Many comparable projects only abide with the minimum standard services set out in terms of the subsidy regulations, which require gravel roads, surface storm water drainage, shared stand-pipe and ventilated improved pit latrines.

The subsidy implementation regulations require that a 10-year warranty is applicable in terms of the houses produced. LTA has therefore monitored closely, together with the municipality the quality of the housing stock developed.

Finally, the developer obtained the ISO 9000 certification through the Heatherley project. This quality assurance and environmental performance certification is an exception in the low-cost housing development sector. Thus, the quality of the products built in the project is high, compared to most developments of the same type.

3.4. HOW THE COSTS ARE DEFINED

3.4.1. Costs of the housing products

The apportionment of costs of the housing products is primarily structured according to the subsidy guidelines as described in the section relating to the funding system. In terms of the amounts made available through the national subsidy, the portion available for each phase was as follows:

- Engineering designs: 3.6 % (or 2.1% inclusive of the municipal subsidy)
- Planning: 1.9 % (or 1.5% inclusive of the municipal subsidy)
- Installation of services: 36.3% (or 49.9% inclusive of the municipal services subsidy- which contributes to augment significantly the cost of services)
- Land acquisition and conveyancing: 4 % (or 3.2% inclusive of the municipal subsidy)
- Construction of house: 54 % or (42.5% inclusive of the municipal subsidy)

Because the development process is private-sector driven, identifying the actual costs of different components of the process, in greater detail, was not possible. In addition, the scale of the project has meant that economies of scale were achieved, this would have had an impact on the manner in which specific costs were determined. For instance, the municipality was able to negotiate with professionals (conveyancer, planners, etc…) favourable rates. Although we were unable to determine the actual fee structure in respect of the project management for the Heatherley project in particular, in South Africa, the industry average amounts to approximately 2% to 4% of the total costs per site. It is probable that significant savings would have been achieved in respect of repetitious activities which were undertaken in bulk. The sheer scale of the project would have contributed to inflate the project management costs proportionately to the other costs, in particular the costs of labour and materials for the implementation of services and the construction of the top structure.

The retailing price of the houses developed, set by LTA, is described in the table below.

House type	Number of rooms	m²	Price (ZAR)	Price (US$)	N° ordered	Total price in ZAR	Total price in US$	ZAR/ m²	US$/ m²
House Type A	1	32	17 500	2 333	236	4 130 000	550 667	547	72,93
House Type B	1	32	17 500	2 333	1 674	29 295 000	3 906 000	547	72,93
House Type C	1	32	17 500	2 333	3 049	53 357 500	7 114 333	547	72,93
Sub-total RDP					**4 959**	**86 782 500**	**11 571 000**		
House Type LTA 32	2 (1 bedroom)	32	30 000	4 000	13	390 000	52 000	938	125,07
House Type LTA 36	3 (2 bedrooms)	36	34 000	4 533	93	3 162 000	421 600	944	125,87
House Type LTA 40	3 (2 bedrooms)	40	38 000	5 067	31	1 178 000	157 067	950	126,67
House Type LTA 48	4 (3 bedrooms)	48	47 000	6 267	4	188 000	25 067	979	130,53
House Type LTA 51	4 (3 bedrooms)	51	50 000	6 667	4	200 000	26 667	980	130,67
Sub-total micro-loan					**145**	**5 118 000**	**682 400**		
Total					**5 104**	**91 900 500**	**12 253 400**		

Of note in the table is the difference in price per m² of the houses of the RDP product (ZAR 547/m²) and of the micro-loan product (ZAR 938/m²) of same area coverage, in terms of the retail price. Some of our interviewees, felt that the smaller houses developed by using the micro-loan did not justify their cost to the end user. Others rationalised this difference in terms of additional features of the micro-loan houses, such as better roofing materials, plastering inside the houses, wooden doors, and higher quality sanitary materials. In addition, some of the cost drivers of the micro-loan houses are not directly related to the housing product per say but to the costs of administering, securising and sourcing the micro-loans. Further, some of the professional costs associated with the micro-loan housing were substantially higher than for the RDP houses. This was explained in terms of the following factors:

- The delivery of the RDP houses is supply driven which facilitates positive cash-flows as opposed to the demand-driven nature of the delivery of micro-loan houses;
- The professionals (town planners, surveyors, etc…) demanded higher fees for the micro-loan houses as they argued that the value of the product was higher;
- Differential costs were also motivated by the fact that whereas RDP houses are exempt from taxation on first acquisition, the micro-loan houses incur Value Added Tax (at 14% of the retail price).

Yet, in comparison to bonded housing micro-financing represents a significant saving. Costs and time-requirements involved in the mortgage system, such as the need to endorse the title deeds, do not feature in the micro-finance system, which represents close to a 70% saving on the administrative and legal costs associated with the financing of the housing project. This particular project also benefited from local subsidies to improve service standards (ZAR 5000) and from the economies of scale linked to the size of the project.

3.4.2. Services and ongoing costs to the end user

Additional costs, to be borne by the end-user, are those related to the provision of services. Affordability levels of intended beneficiaries were not taken into consideration in terms of defining of specific levels of services, as the municipality opts to promote high levels of services.

The costs of services are as follows:

- ZAR 25.62 per toilet point per month;
- ZAR 27.14 per month for refuse removal;
- ZAR 33. 86 per month for municipal taxes.

In terms of the RDP houses, little has been done in the way of considering the impact of service payments on household affordability.

The council has a policy where the poorest households in the municipality (households who have a joint monthly income of less than ZAR 1 100 per month) have access to a lifeline water consumption amount, not exceeding 6 Kl per household/month, a rebate on electricity costs and municipal land taxes of up to 50% of the value of the charges is also available for these households.

This creates a seemingly inequitable situation. Indeed, some households are liable for an average 90-100R/month to cover taxes and charges, which represents about 6% of the total income of households earning 1500R, while other households are heavily subsidised. This may lead to feelings of injustice among some households who would then boycott those charges.

3.5. INNOVATIVE ASPECTS OF THE PROJECT

In both components, innovation was not conceived as the desirable outcome of the project, but emerged in response to constraints imposed on the project. As such, innovation was primarily a means to a specified end- speedy housing delivery, at scale- and occurred to surmount obstacles or accommodate the interests of the primary role-player in the project, the housing developer. The introduction of a micro-finance component was primarily required in response from community objections from an existing settlement adjacent to the land on which the project is located. The local authority had to take this into consideration in terms of the township establishment and land development applications, in line with the participatory requirements of land development legislation. Similarly, the innovations introduced in terms of the RDP component, particularly in respect of the disbursement of subsidies, were primarily driven by the need to insure pace and scale delivery. It also reflects on the current balance of power between public and private sectors.

Overall, the least innovative of the different phases of the project cycle, implementation, was also the shortest. On the other hand specific innovations were experimented with in other aspects of the project and of the project cycle.

The innovative aspects in terms of the RDP component:

- In the construction process: Little innovation was sought in the conceptualisation of the housing models; the main innovation was a modular layout which enabled, according to a local official economies of up to 30% on the cost of servicing the houses;
- Adjustment of the mainstream administrative and financial processes were the main innovations, the objective being to speed delivery and shift part of the commercial and financial risks which would normally have been borne by the private partners in mainstream housing development;

The innovative aspects of the micro-loan component:

- Micro-credit is a fairly common practice in South Africa. The Heatherly project pioneered its application to low-income housing. Setting up a financial system to manage political, commercial and financial risks for the private financier was a major innovation.

4. TECHNICAL SUPPORT

4.1. HEATHERLEY AS A TYPICAL EXAMPLE OF PRIVATE-SECTOR DRIVEN HOUSING DELIVERY

The technical support mobilised in the Heatherley Project was, as is the case of most South African housing delivery processes, intrinsically defined by the approach to private sector- driven housing development. In community-driven housing development models technical support is assumed to be essential as it facilitates a number of aspects such as the legal processes associated with construction or the technical design of services and housing structures. In the case of developer-driven housing development processes, technical expertise is generally built into the capacity of the companies undertaking the delivery of housing products. This is true of most housing projects in the country, and of the Heatherley project. In the previous sections, we have seen how the role of community role-players and beneficiaries was limited to participation in the steering committee and the selection of housing types.

In this context, there was no intermediary operator as conceived of in relation to community-driven housing development, such as an NGO. Such organisations exist and do perform this role. The extent of their involvement in housing development process has been proportionately limited by the overwhelming emphasis on developer-driven models, as it is argued that their approach is not adequately geared towards speedy land and housing delivery. The intensive community building and facilitation processes associated with this model are undeniably time-consuming and resource intensive. However, our interviews with role-players active in this sector of housing development reveal that, to a large extent, the benefits of community and housing development processes far outweigh the time and resources commitments required. Nevertheless, this approach was not followed in the Heatherley case, a project, as we have seen above, where pace and scale of delivery were two key objectives.

4.2. RELIANCE ON CONSULTANTS

Of note in Heatherley is also the extensive involvement of consultants in each phase of the project. From the feasibility study, to the technical and planning designs, and to the legal process of conveyancing, consultants were almost omni-present in the different activities performed. Similarly the organisations involved in the project also made use of consultants to perform specific tasks for which they lacked in-house capacity. This is true of the provincial Department of Housing, of Southfin and of LTA. This situation is somewhat symptomatic of the trends in the South African construction industry where companies prefer to outsource technical expertise to outsiders to ensure that their overheads remain affordable rather than securing in-house capacity.

In this context, technical support was dispersed across the different role-players involved in the project. Similarly the costs incurred by the performance of the technical support roles were therefore spread. However, in the Heatherley project, it can be assumed that the major role-player in terms of technical support was LTA, the developer as they oversaw the development process in its entirety, acting as a go-between among other role-players, save for the community management aspects which the local authority undertook. Again, although we were unable to ascertain the project management fee which LTA charged in the project, we have identified that for most housing delivery processes, such costs often amount to 2% to 4% of the total costs per serviced site with a top structure. Similarly we found that often additional project management costs are structured into different components of the overall professional fees, such as town-planning and engineering design. Professional fees in South Africa for low-income housing delivery projects vary between 10% and 12% of the cost per site.

4.3. EDUCATIONAL ACTIVITIES

4.3.1. Education of loan-holders

Southfin initiated an educational process with future loan-holders, at the companies securitising the micro-loans request. This was seen to be necessary to remedy the overall lack of experience of the low income market with the formal financial system, to impart future beneficiaries with sufficient knowledge about the responsibilities and liabilities associated with the lending environment. Given that the manner in which the credit facility is structured- i.e. fixed instalment amount but flexible lending time and interest rate- the education process also sought to allay misunderstanding in respect of the length of time over which loan-holders remain liable, to avoid loan-boycotts. This process was however fraught with inadequacies as close to 50% of the targeted persons did not attend the course as accessibility to the course- in terms of time and location was inadequate. In addition, the costs of the course amounted to ZAR 70 per person; costs which had to be covered by the beneficiary household. Language issues also proved problematic as the course was given in English, a language which all South Africans are not always familiar with.

4.3.2. Education on services and house-building regulations

Council policy in terms of incremental house building is based on the premise that municipalities should support the national housing policy which seeks to provide starter products for households to consolidate over time. Accordingly, the municipality is not rigid about improvements and overtly regulating procedures for the ongoing management of land development. Few households have approached the municipality to have their building plans approved. In anticipation of this phenomenon, the council organised an education campaign to sensitise households to minimum house-building standards, such as the need for proper foundations, as well as environmental health issues, notably around the use of full-waterborne sanitation systems. In spite of this, a number of housing structures appeared to be unstable, and some households have set up pit latrines on their stand, either to accommodate the sanitation needs of persons residing in backyard shacks on their property, or to limit their water consumption to keep water costs within their affordability levels. This could have serious environmental consequences.

4.3.3. Education on local building capacity

As a means of supporting employment in project areas where unemployment levels are very high, "local employment clauses" are often part of tender submissions to government institutions. This is in line with Affirmative Procurement policies of government to promote the growth of small and medium enterprises and the employment of previously disadvantaged persons. In the case of the Heatherley project, 93% out of a 400 workers-strong work force was local. The sub-contractors were in charge of training the local work force to acquire construction skills. Where households opt to improve and extend their starter-house, in line with the housing policy's incremental approach, they often rely on local construction companies. This may mean that those who participated in the construction process are then able to continue exercising their skills. Yet, the capital outlay required to purchase the necessary equipment to operate as a builder may limit the extent to which this actually occurs in practice.

5. RESULTS

5.1. RESULTS IN TERMS OF THE CONSTRUCTION PROGRAMME

The rate of completion of the project in terms of the two-year time-frames was in line with the original agreement. The number of houses built and subsidies allocated exceeded marginally the amount of subsidies originally planned as savings on space were achieved through the use of a modularised layout plan (see attached layout plan). Concerning the micro-loan component, 600 units were initially planned. Only 145 were built due to delays in implementing the scheme because of its innovative nature.

The size of the plots delivered is standardised across the project and stand at 250 m^2 per site, in accordance with the subsidy regulation guidelines issued by the Department of Housing. As can be seen in the plans attached, each RDP house covers an area of $32m^2$. It comprises an enclosed bathroom area, whilst the rest of the house is not partitioned. Each house is positioned in a North-South direction to maximise solar exposition and minimise electricity consumption in winter. Attention was given to positioning houses on the plot to enable households to extend their houses or build additional rooms on the site to accommodate family members or to enable households to generate an income from letting portions of their sites (which would increase affordability levels in terms of municipal service charges). To minimise servicing costs, and to avoid monotonous site design, the layout of each block was modularised.

Each site has full-waterborne sewerage and metered house water connections. This level of service is higher than the minimum service guidelines issued nationally and was made financially feasible by the additional municipal grant. At the time of construction and delivery of the housing products to the beneficiaries, bulk electricity was not available. The network has since been extended to the site and the national electricity company Eskom is in the process of connecting individual houses to the grid. At present 2000 houses have been connected. A significant problem, in this respect, is the fact that the chasing of electricity lines in each house was not undertaken at the same time as the construction of the houses. Houses that have been plastered and/or painted will have to be re-plastered, where the electricity lines were chased. As the houses have already been transferred to the new owners, neither the electricity company nor the developer can be held liable for this activity which households will now have to undertake.

Roads are tarred and stormwater drainage forms part of the services developed in the project. This is significantly higher than the level of service provided for by the national standards and regulations. This was explained in terms of the fact that surfaced roads present lower maintenance costs to the municipality and greater comfort to the user. Few of the RDP beneficiary households appeared to possess cars, however. Water meters are used to record the monthly household consumption.

Higher quality materials and levels of finishes were key characteristic of the micro-loan products. The size of the micro-loan houses varies from $32m^2$ to 51 m^2, and from 1 to 3 bedrooms. The entry-level micro-loan product does not appear to differ much from the RDP houses, save for a dividing wall separating the living area from the bedroom. The costs of the product differ substantially both in terms of production costs and in terms of cost to the end-user. Those earning minimally higher incomes (i.e. the ZAR 1500 to ZAR 3500 income group) are liable to pay an average monthly instalment of ZAR 700 for a minimum of 8 years while those who claim to fall below the ZAR 1 500 income level receive a house for free.

In the Heatherley project, households, most of who previously lived in shacks or in very difficult overcrowded conditions, get a free house and ownership rights. This may suggest that the quality of housing stock which they access is an improvement on their previous conditions. However access to standardised housing products may not necessarily correspond to the needs of each individual household, as no needs assessment was undertaken. In Heatherley like elsewhere in the country, housing is seen primarily as a quantitative, technically driven priority.

5.2. RESULTS IN TERMS OF ACCESS TO SECURITY OF TENURE

The type of tenure being delivered as part of the housing project is individual ownership. This corresponds to the mainstream housing delivery process in the country which has tended to shy away from tenure forms other than ownership. This approach is one which acknowledges the social redress aspects of granting individual ownership to households who, under the apartheid system, suffered extreme tenure insecurity. In addition, household income security is often at threat for the urban poor who may fall victim to market-exclusion under rental arrangements.

In terms of the micro-loan component of the project, tenure security is intimately linked to income security. Although mortgage lending options were rejected, the granting of a micro-loan is based on continued income probability (i.e. employment record and an assessment of the economic health of the employer). Eight micro-loan holders have experienced difficulties in meeting their financial obligations due to down-sizing.

5.3. RESULTS IN TERMS OF FUNDING SYSTEM

In terms of the subsidies, the products developed in the Heatherley product do not vary significantly from the mainstream housing development process. None of the interviewees reported problems relating to payment and disbursement of the subsidies. This is evidently linked to the extraordinary measures which LTA insisted upon in terms of the subsidy transfers.

Originally, the micro-loan component of the project was to have amounted to 600 units. This figure was set to ensure the financial viability of the project for the financier Southfin and its retailer Lapalaka. However, the timeous implementation of the housing project in accordance with the approach of the province (i.e. two years), and the lengthy conceptual, procedural, marketing and administrative requirements of the micro-loan component combined to limit the number of micro-loan houses developed to 145. This suggested that the venture was not profitable for the financier. However, Southfin views the project as a flagship pilot project, which demonstrates to actors involved in the housing sector the viability of micro-lending for low cost housing.

Originally, Southfin had planned that a 1% defaulting rate would be incurred. To date only 8 out of 122 households have experienced problems in terms of their repayments. These problems were associated with retrenchments of the loan-holders. This amounts to approximately 6% of the total number of micro-loans extended. Out of the eight, only 1 loan was declared non-performing, 5 were repaid by making use of the provident fund, whilst the remaining 2 are being repaid by making use of the pension fund, the later taking longer to process than the other.

The non-performing loan was held by an owner who sold the unit without setting the debt and disappeared. In the normal mortgage market in South Africa, bonds are endorsed against the title deed and need to be cleared prior to transfer of a property. As the micro-loan is not registered in the Deeds Office, no such safeguard is available for micro-financing.

The corrective measure initiated to remedy the non-performance of the loan was an agreement entered into between Southfin and the loan holder to reschedule the payments. However the loan holder is currently in arrears in terms of the electricity repayments to the municipality, which might delay transfer of the property and prevent Southfin from recouping its costs. Southfin has made a claim to the Homeloan Guarantee Company which has not been settled yet.

5.4. RESULTS IN TERMS OF ACCESS TO HOUSING FOR THE FAMILIES TARGETED BY THE PROJECT / THE LOW-INCOME POPULATIONS

The local authority intended all beneficiaries to be in the below ZAR 1500 monthly income range. This was mostly achieved for the RDP component of the project because of the obligation for all applicants to be registered on a municipal waiting list. The potential beneficiaries were first screened for income. Applications were scored according to other criteria (women head of households, important number of dependants, time spent in the area). The applications totalling the most points were prioritised by the municipality. In the Heatherley project, the official household income groups are broken down as follows:

- 73% of households officially earn less than ZAR 1 500;
- 19 % earn between ZAR 1 501 and ZAR 2 500; and
- 7% earn between ZAR 2 501 and ZAR 3 500.

There is evidence, however that this graduation system is being abused by beneficiaries, who in some cases do not disclose the full amount of their revenue so that they may get access to a higher subsidy amount. This was evidenced in terms of the apparent value of the extensions and improvements made to some of the houses.

Between 60-70% of the beneficiaries in the RDP component are said to be female-headed households. Some of our interviewees were confident that this state of affair was the result of political directives from the national Department of Housing to enhance the representativity of women among subsidy beneficiaries. Others were more sceptical and explained that couples often represented themselves as single-headed households in terms of the subsidy application process, so that the income of one partner- only would be taken into account to assess subsidy eligibility. Given that the subsidy system operates normally on the basis of joint income to assess the level of the subsidy, this enables couples to fall in the ZAR 0-1500 income category, and as is the case of the Heatherley project gain access to a free house. The relative low levels of statutorily registered marriages among the black population makes this possible in the South African context.

If this situation is indicative of the reality of access to housing in the Heatherley project, it clearly demonstrates the limits of basing housing subsidy amounts on household income alone irrespective of household size. On the other hand, if the estimation of household composition is an accurate reflection of the reality then this suggests that the ability of subsidy recipient to derive sufficient income (to cover household costs such as services, food, clothing and education of dependants) whilst caring for children and dependants is somewhat uncertain.

The micro-loans were accessed by households were the family head is 40 years of age or below with 2 to 3 dependants. Beneficiaries also have to be in employment for a minimum period of three years. Income levels for these households would have been between ZAR 1500 and ZAR 3500. Because of the close scrutiny of the loan applicants, it is unlikely that beneficiary profiles were extensively different from those originally envisaged in terms of the micro-loan arrangements. Evidence is rife that the households which have opted for the micro-loan option could not have been accommodated by the traditional lending institutions. Interviewees reported that the beneficiaries' involvement with the formal banking environment was limited. (e.g. in the process of collecting collaterals, where households opted not to use their pension contributions for this purpose, the financier reported that heads of households would pull from some hiding place trunks filled with their lifetime savings, sometimes amounting to over ZAR 20 000).

6. IMPACT OF THE PROJECT

6.1. QUANTITATIVE IMPACTS OF THE PROJECT

6.1.1. Impact on the demand

The sheer scale of the housing project was aimed at having an impact on the quantitative aspects of housing demand in the region. By the end of March 2000 a total 408 000 households were registered on the provincial housing waiting lists. These figures clearly demonstrate the enormity of the backlogs estimated in terms of the demand for services, tenure and housing structures. This could suggest that the extent to which the project has contributed to reducing this backlog has however been limited in terms of the provincial level backlogs. At present, the current housing backlog in the Eastern part of the municipality, where Heatherley is located, amounts to 30 000 households. To date, close to 8000 units have been delivered in there while only 1500 have been delivered in the Western part of the municipality. As such the impact of the Heatherley project in providing some relief to households in need is evident.

6.1.2. Impact on informal and user-led land development

The council has noted that some households who have received a housing product in Heatherley are in fact residing in informal settlements in different parts of the province where they are employed. It is likely that for those households, the costs involved in housing (albeit illegal and informal) are less than the commuting costs which they would have to pay would they reside where their "free" house is located. Other households also opt to maintain an informal housing unit in another area to use these as a base from which to practice commercial activities, to house family members or to derive an income from by renting the units.

The second aspect of this impact may be considered in terms of the housing policy approach's of the homeless as first and foremost interested in acquiring "permanent residential structures". Where housing delivery projects primarily take place as part of a formal supply-led process, households may themselves consider unnecessary any attempts at providing for their own housing needs and engaging in land development activities. In terms of the area where the project is located and where the municipality is actively involved in facilitating housing delivery, evidence is rife that communities are waiting for the formal process to take place prior to investing their own resources in housing production and consolidation.

6.1.3. Impact of the construction process

93% out of a 400 workers-strong work force was local. The intensity of construction progressively built up as more and more local teams were trained by the sub-contractors. During project implementation, a part of the community was able to improve its economic situation and acquire construction skills, as local "emerging[11]" construction businesses are sub-contracted. When construction comes to an end, work opportunities disappear, as housing developers will have to employ and train new labour from the community in which future developments are to occur. As such, the extent to which the construction process actually achieves the objectives of economic empowerment and the consolidation of a competent construction workforce is limited.

6.1.4. Impacts in terms of sustainable public investment

Part of the national subsidy and the municipality in its entirety aim to provide services to beneficiary households of a specific level. These service levels have important financial implications in terms of costs to the user. The municipality has introduced life-line service

[11] In the South African Context this term mostly refers to black-owned companies.

provisions and discounts on municipal service charges which could contribute to make payment for services affordable. However, if this results in differences in charges some households may reject payment liability. In the project, the average service costs are said to amount to approximately ZAR 100 per month. If as little as 25% of the households are either unable to or unwilling to afford charges- a conservative estimate in the South African context- then this means that the municipality will run arrears of up to ZAR 1 500 000 per year on the services. The municipality estimates that municipal taxes and service charges arrears in its area of jurisdiction amount to ZAR 800M, out of a yearly operational budget of ZAR 300M. This suggests that the financial viability of the municipality's capital subsidies to raise service levels may not be justified in terms of the increased costs and deficits incurred in the process. These costs will further threaten the financial viability of the municipality as the housing subsidy scheme continues to be implemented should the affordability levels of beneficiaries in respect of service charges not be taken into account.

6.2. QUALITATIVE IMPACTS OF THE PROJECT

6.2.1. Existence of choice?

In qualitative terms, the provision of secure tenure, full services and a permanent housing structure is seen by the majority of interviewees as a positive impact on beneficiaries; especially those previously residing in backyard accommodation or under conditions of severe overcrowding in nearby formal and informal settlements. The evidence of consolidation activities noted in the course of site visits demonstrates that some households are willing and able to improve their housing product, which may suggest a certain level of satisfaction with the benefits incurred through the project. Given the nature of the project-linked delivery process, in which little participation occurs, beneficiary household impact on the nature of the housing product being delivered or its location was almost nil. Further, the gravity of housing backlogs tends to suggest that accessing a housing product, irrespective of quality or location has little to do with choice. In fact as households were selected from the waiting list based on order of precedence, should households have turned down the opportunity to access the project, this would have meant having to remain on the waiting list for an undetermined period of time.

6.2.2. Financial impacts on beneficiaries

Because housing forms part of a package, a household who was previously residing on land illegally, and with limited services finds itself liable to pay significant housing-related expenses. As such, household affordability of formal housing products is not only affected by the outright costs of the housing products but also by the ongoing costs that are associated with the housing product. When these costs become unaffordable, beneficiaries are forced to vacate or even sell their housing products attracted by the short-term prospects of cash-in-hand, often at prices well below the subsidy amount. Although we were unable to ascertain the extent of this phenomenon in the Heatherley project, it is often observed in similar projects across South Africa. This has severe implications in terms of the viability and sustainability of the subsidy system. It suggests, in particular, that households, which can only qualify for the housing subsidy once, become excluded from accessing housing products at a later stage because of their economic vulnerability. This also suggests that the poorest households, who opt to dispose of their asset because of the costs associated with holding the asset, would not be in a position to afford the costs of repaying a loan. This raises the issue of security of tenure in the mid- to long-term.

However, current affordability levels are probably higher for those households that fall just below the R1500 mark that those houses that have a micro-loan, as the latter have significant financial liabilities. Hence the ability to undertake improvements independently (i.e. not as part of a scheme) may be greater. This is evidenced by the poor rate of consolidation in the micro-loan section of the project, where improvements consist primarily of the setting up of gardens, the installation of fences and burglar bars, and the shifting of the position of windows to achieve greater privacy.

6.2.3. Social impacts

The majority of beneficiaries originate from neighbouring settlements, both formal and informal. In terms of the later, social networks, a critical factor mitigating the impact of socio-economic hardship, were preserved to a degree. The fact that the subsidy criteria excludes or includes households, based on factors related to income, has meant that housing development in an environment marked by economic vulnerability has tended to develop settlements where income levels are homogenous. As a result poor households are congregated in settlements- often at the periphery of the urban core, thereby contributing to the continued socio-economic alienation of households and settlements.

The emergence of class-differentiation between the residents of the micro-loan houses and the RDP houses has been noted. This was explained to us in terms of households deriving pride from their financial contribution to their houses. It was also noted that these households are less likely to build informal structures in their backyards. Whereas the residents of the RDP houses originate from surrounding areas, this is not the case for the micro-loan financed houses, which could contribute to a sense of alienation from the remainder of the project.

6.2.4. Spatial integration impacts

The extent to which the project has effectively promoted the objectives of spatial integration should be considered in terms of the spatial location of the project. The project is situated in the periphery of the urban core. Like the majority of project-linked housing development processes to date, it tends to perpetuate the apartheid patterns of spatial segregation and fragmentation. The fact that the number of housing subsidies was to have been disbursed over a single site has restricted the extent to which land may have been identified within or in the proximity of the urban core at the required scale.

The housing subsidy regulations specify broadly the costs which should be incurred to cover the purchase of land, and that these costs have to be mitigated against competing cost-drivers such as services, and the top structures-for which minimum standards have been set. Accessing private land for housing development can be a fairly complicated process. Indeed, had the land been acquired on a willing-seller, willing-buyer basis, it is likely that its costs would have been prohibitive. Had the municipality or the developer sought to expropriate land for the development, the time-consuming procedures involved in the expropriation process would have compromised the time-related expediency of the project.

The site is located in the near proximity of established industrial areas, in which some of the beneficiaries of the project are employed. However, given the current downturn in the South African economy, and shedding of jobs in the secondary sector, it is unlikely that the existing companies situated in that area will embark on a massive employment drive. As such, it may be fallacious to view the location of the housing project as facilitating unilaterally access to employment opportunities.

The total population of the surrounding settlements amounts to approximately 500 000 persons. In spite of this, there are only limited social and economic opportunities in the sub-region. The municipality has planned further public investment in the area to include:

- The upgrading of a train-station located in the proximity of the site, with an inter-modal transport facility;
- The construction of a link road to the nearby industrial area; and
- The development of a trading node for both formal and informal business.

This could contribute to promoting the development of the area as a whole, thereby ensuring a degree of sustainability of both public and private investment.

7. SUCCESS AND RISK FACTORS

7.1. MEASURES TAKEN TO ALLAY RISK AND ENHANCE SUCCESS

7.1.1. Allaying development risks

To make the project viable financially, the developer shifted significant risk factors to other role-players in the project. These risk-avoidance mechanisms included:

- Shifting the payment pertaining to transfer of tenure rights to beneficiaries to the end of the process, to enable the developer to pursue the development process made to transfer to the new owners. This avoids delays in the deeds Office, and surmounts problems, which may arise, where the beneficiary is not forthcoming at the time of handing over of the property.
- The compilation by the development of subsidy applications, to pre-screen applicants. This ensured greater control over the potential for success of each application, to minimise administrative and holding costs to the developer.
- The setting up of fast-tracking measures at provincial level for the subsidy allocation and disbursements.
- Applying for subsidies in bulk and not in respect of a specific stand, nor in respect of a particular beneficiary on the waiting list which deviates from the mainstream subsidy regulations. This enabled the developer to re-allocate the housing product to other qualifying beneficiaries from the waiting list in case the initial beneficiaries failed to come forward at the date of transfer.

Further, one of the first steps in the housing construction process was the formation of a social compact agreement linking the housing developer, the provincial government, the municipality and civil-based organisations from neighbouring settlements, including the local branche of the civic organisation. The social compact agreement led to the formation of a steering committee on which those interests were represented, although the degree of direct beneficiary participation featured in the project was extremely limited. This finding correlates with the experience of similar private-sector-led housing development processes, which amount to well over 80% of the housing delivery effort in the country. In addition, perceptions are rife both among private and public sector institutions and role-players that community participation should be carefully managed, as if inappropriately conceptualised and implemented it could lead to the emergence of conflict and in turn possible incidence of delays in project implementation, land invasions or vandalism.

7.1.2. Reducing financial risk for micro-lending

In terms of the micro-loan component, again risk-avoidance was key in setting financing targets, outputs and processes. In terms of the micro-lending component the following risk avoidance interventions were taken:

- The definition of eligibility criteria in terms of income and employment profiles was seen to be important to ensure that households have a stable inflow of revenue to prevent loan defaulting.
- The fact that the repayments are fixed ensures that households are not directly faced with the risks associated with fluctuating interest rates. This system clearly makes lending possible, although in the long term, the compound interest rates which beneficiaries have to repay would certainly increase the overall cost of borrowing.
- In terms of the securitisation of the loans, financial risk is shared between role-players, from statutory organisations, to private sector role agencies and the beneficiaries.

- The payroll-deductions and the cessions on pension or provident schemes were also critical in reducing risk.

In spite of these precautions, the fact that eight loan-holders were retrenched poses significant questions about the risks associated with economic insecurity. Evidently, these risks are not held by the financier or the developer but by the loan holder who, by losing access to his or her employment, may also loose access to housing. In this situation, having already benefited from state assistance, housing beneficiaries would also become ineligible in terms of the housing subsidy criteria.

7.1.3. Support of the municipality

According to all actors a key criteria was the implication and backing of the project by the municipality both from political representatives and officials. This secured the following benefits:

- The substantial municipal contribution to the implementation of high levels of service;
- Facilitated access to land at preferential rates and in sufficient quality;
- The fact that the municipality took responsibility for the management of beneficiary access to the project, a process which represents significant political risk;
- The realignment of municipal budgets to support the post-delivery development aspects of the housing project, for items such as the upgrading of a railway station in the proximity of the site; and
- The fact that the municipality was willing to take over significant risks from the developer associated with the development process.

7.2. OTHER RISK FACTORS

7.2.1. Minimal consultation and participation

In the Heatherley project, community and beneficiary participation was minimal, which alleviated some of the risks, real and perceived associated with conflict over the allocation of resources. However, this approach may very well prove to be a risk factor in terms of the long-term development of the project. Because households had limited say in the nature of the benefits and products which they received, the degree to which public investment is financially sustainable and viable is threatened, as the sense of ownership and responsibility for the housing product is compromised[12]. Some of our interviewees were of the opinion that where households are required to make a contribution towards the product they are receiving their sense of ownership is greater.

Our interviews confirmed the assumption that as the need for housing is extremely severe, households will accept any housing benefit granted to them. The view that a RDP house, in the periphery of the urban core with limited access to social and economic opportunities, is still “better than a shack” was common to most interviewees. This perspective is often used in the South African context to rationalise supply-led, top-down approaches to development where standardised tenure and housing rights and services are delivered. This alleviates a number of risk factors for the developers, the municipality and other housing sector actors, as it prevents the possibility of community and household bargaining for individualised or settlement-based decision-making. Because all beneficiaries have access to identical outputs, there is no opportunity for protestation, or rejection of the development process and products. This also enables the delivery of housing at pace and scale, which is in line with the mainstream housing development policy and implementation. The extent to which this promotes the objectives of community and settlement development in the long-term remain however unclear.

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[12] Some of the houses in the project have been demolished to build new houses over the foundations.

7.2.2. Increase in the demand for housing

The objectives of housing development correspond to an experience of housing demand quantified in terms of backlogs. Efforts made to resolve the backlogs by means of large scale housing delivery can have paradoxical impacts. This occurs where as a result of effective housing delivery in a given location, housing demand increases as households relocate to those areas in anticipation that further housing delivery will take place there. Indeed, since the inception of the subsidy scheme, households have been moving to the city from provinces as far away as the Eastern Cape not only to look for employment but also expecting that, should they fail to find employment, they would get a free house. Gauteng has been the recipient of a significant proportion of the national housing subsidies. To counter-act the urbanisation process, national government has since shifted the allocation of subsidies to more rural provinces. This is now affecting the ability of municipalities in the province to respond to existing backlogs, as it is planned that in the next 4 years, the subsidies available to the province will decrease by a third.

7.2.3. Lack of co-ordinated post-delivery development

The local alliance established to resource and implement the housing delivery process was set up for a specified time frame and towards set objectives: the construction of housing at scale. For all intents and purposes it is clear that most role-players now perceive their role in the project to have ended after construction and transfer. This is typical of the housing development environment in South Africa, and is exemplified by the fact that after the implementation of electricity connections in each house, the need to plaster sections of walls where electricity lines were chased was not seen to be the responsibility of the developer. However, efforts are being made at ensuring some development of the site following housing development; land was set aside for the construction of schools and clinics, and attention is being given to commuter transport development, and the developer is considering the possibility of commercial and retail development in the area. These actions did not form part of a concerted effort to ensure integrated development at the onset of the project but have occurred in a post-hoc manner.

8. REPLICABILITY

In the other case studies, the following section assesses the manner in which the experience of a particular project may be replicated in similar situations and may serve to influence local, provincial or national policy in respect of housing development. In the South African context, however, project-level experience is highly influenced by the policy approach developed nationally. Thus, the manner in which the potential for replicability is developed for the South African case study will seek to not only reflect on the project experience, but also on the experience of the national housing policy, with specific reference to:

- The applicability of the Heatherley approach to different settlement contexts;
- The focus on scale and rate of housing delivery to the detriment of more qualitative aspects;
- The financial feasibility of the subsidy scheme;
- The sustainability of the subsidy scheme; and
- The ability of the micro-lending component to reach the “poorest of the poor”.

8.1. APPLICABILITY OF THE HEATHERLEY APPROACH TO DIFFERENT SETTLEMENT CONTEXTS

The South African settlement context is the product of the convoluted, discriminatory and highly fragmented policy of apartheid. Past policies have led to the emergence of a variation of settlement contexts where tenure insecurity and homelessness co-exist with diverse development needs, each with its own socio-economic, spatial and political dynamics. Such contexts include irregular settlements, backyard shacks, overcrowding and subletting, public owned rental housing, and permit-based settlements in peri-urban areas. Although the Heatherley intervention provided some relief for a significant number of households, it is clearly not an approach which can satisfy all settlement contexts where housing and tenure issues are significant. Yet, the approach followed in the Heatherley project is typical of the manner in which housing and tenure intervention is considered in the practice of housing delivery.

The single type of benefit which is obtained from the housing intervention does little in the way of addressing the variety of needs and interests. Of similar importance is the overwhelming sense among our interviewees that even if aspects of the housing policy are inadequate, a demand-driven, household needs assessment based approach to housing development is unnecessary. The focus on setting up a supply driven approach has been detrimental to the emergence of more localised interpretations of housing need and intervention.

Paradoxically, although the micro-lending component of the project may not prove to be an option for a number of households or settlement contexts, it does provide an alternative for a number of households, which would only access the type of housing developed with great difficulty (either because they earn too much to access the full subsidy or because they earn too little to access private bond-housing)

8.2. FOCUS ON SCALE AND RATE OF DELIVERY TO THE DETRIMENT OF QUALITATIVE ASPECTS

The politicised nature of housing development, coupled to an understanding of the problem entrenched with a poor quantification and qualification of actual housing needs of South Africans have led to an approach to land and housing that focuses on the scale and the rate of delivery. Housing interventions have focused more on quantity than on quality. The Heatherley project falls squarely within the ambit of the housing programme by focusing on producing a high number of housing products within a short period of time to reduce backlogs.

This has occurred at the detriment of a number of qualitative issues pertaining to:

- Spatial location;
- Financial impact;
- Tenure needs;
- Co-ordinated development and “after-care”;
- Social mobilisation.

While these issues may have featured prominently in the housing discourse at one time, they have been de-emphasised in the course of implementing the housing programme. In fact progress in delivery is often monitored in relation to the number of subsidies approved, rather than houses built or sites delivered.

In terms of the Heatherley project, these issues were not actively addressed. In fact the primary focus of the project, scale and rate of delivery have directly contributed to a situation were they were purposefully avoided and compromised. This approach does represent specific advantages. The Heatherley project demonstrates the technical feasibility of adopting a fairly standard approach to housing delivery at the settlement level. Indeed, the sheer scale of the project suggests that once design and planning activities have been undertaken, housing and services construction then becomes a fairly mechanistic process which can occur speedily.

8.3. FINANCIAL FEASIBILITY OF THE SUBSIDY SCHEME

The widespread rejection of the South African experience with site-and-service schemes at policy level has meant that subsidy regulations specify that the subsidy is to be spread to cover not only land purchase costs, but also planning, services and a “top-structure”. Additional regulations such as the size of the top-structure and minimum service standards have emerged since the implementation of the subsidy scheme. Given that the nominal value of the amounts granted has only marginally increased since 1994 and that its real value has actually decreased in the interim, with the fall of the Rand, developers have had to deliver more with less resources. In the Heatherley project addition of funds to the base subsidy were sourced. The municipality made available additional funding for infrastructure and the variation increment was accessed. However, numerous development companies are cutting back their low cost housing development activities as they claim it is no longer viable. One of the profitability aspects of the Heatherley project was its scale. There are indications that the extraordinary measures which were set up to make the development viable for the different private sector role-players may not be promoted in future for the following two reasons:

- Recent policy statements indicate a growing awareness of the need to promote the qualitative issues described above; and
- The overall decrease in the national housing budget together with a shift in subsidy allocation nationally is now favouring more rural provinces.

As such it is unclear if this kind of large-scale housing project will be pursued in future.

8.4. SUSTAINABILITY OF THE SUBSIDY SCHEME

In addition to the issues pertaining to the financial feasibility of the subsidy scheme, issues relating to its sustainability should also be taken into consideration. These issues relate to the manner in which the implementation of the subsidy scheme impacts on household income. In the Heatherley project we were made aware that the costs of services was a source of concern for the residents, who comprise in the main female-headed households and households earning less than ZAR 1 500 per month. The package of benefits accessed in the course of a housing delivery process has become unaffordable to the beneficiary who then is forced to dispose of the property by selling or renting it to more financially capacitated households, and return to informality. This suggests that the benefits of the subsidy scheme may not always be reached by those who it is meant to target. In addition, there were clear indications- based on the nature and extent of house improvement- that some of the households who benefited from a “free” RDP product, would probably fall above the ZAR 1500 benchmark. This questions key aspects of the housing policy including:

- The notion of a package of benefits (tenure + services + house) may in the long-run squeeze out the poorest of the poor and lead to downward raiding;
- The manner in which criteria for eligibility to state benefits is defined should be scrutinised in terms of the ability of the implementing agent to effectively monitor abidance by beneficiaries and in terms of their fairness (i.e. the subsidy regulations currently do not take into account household size in determining the amount which beneficiaries are entitled to so that a single person with a single dependent, will get the same benefit as an extended family household); and
- The lack of incentive on the part of the municipality to recover charges and taxes.

8.5. AFFORDABILITY OF THE MICRO-LENDING COMPONENT TO THE “POOREST OF THE POOR”

Much of the past decade has been concerned with problems that arise when fancy financial engineering is used to make mortgages affordable to people who cannot afford them, the result of which is not affordable mortgages, but overextended borrowers who cannot meet their commitments. Where measures are being sought to augment the funds available by means of a loan or a bond, as is the case for the micro-loan component of the project, key replicability constraints need to be taken into consideration, including the income target and formal employment conditions. Although the beneficiaries of the micro-loan component of the project cannot be said to constitute the most financially disadvantaged segment of the population, their income profile still contributes to place them beyond the reach of the commercial-banking sector. In terms of the subsidy graduation system, these households would only have been able to benefit from a RDP house type of product, if they had been in a position to complement the subsidy amount which their income made them eligible to, with a considerable personal contribution (approximately ZAR 15 000). Although some of the beneficiaries were able to make a significant contribution, most would not have been in this position and would have therefore been excluded from such projects altogether.

A key innovation in respect of the Heatherley project, in terms of the credit-linked housing development sector is the fact that the repayments are fixed. This ensures that households are not directly faced with the risks associated with fluctuating interest rates. This system clearly makes lending possible, although in the long term, the compound interest rates which beneficiaries have to repay would certainly increase the overall cost of borrowing.

Further, the income target of the Heatherley micro-loan model does not necessarily mean that micro-lending for housing the poorest of the poor is not a viable alternative in the country. Our interviews with and research on the work of the community based organisation the Homeless People’s Federation, its support organisation People’s Dialogue and the Utchani Fund, have shown the feasibility of savings mobilisation and micro-credit among the urban poor. However, mixed reviews have often been raised about the model’s ability to develop housing at scale. The capacity of the state to shape and accommodate community based-approaches is limited. In addition, the manner in which the informal sector operates- outside the ambit of the formal (and often legal) regulated system- presents a specific manner of overcoming financial risk, which may be compromised should greater level of institutional formality be achieved. However, given the waning interest of the private sector in participating in housing delivery in the financial context of the subsidy, a more supportive approach to people-led housing development may emerge.

ANNEXURES

ANNEXURE 1: THE INTERGOVERNMENTAL FISCAL SYSTEM IN SOUTH AFRICA AND THE ALLOCATION OF DEVELOPMENT RESOURCES TO GOVERNMENT DEPARTMENTS AND TIERS

Abstract from “Factors affecting the intergovernmental fiscal system”, Cecile Ambert 2000 for the Department of Provincial and Local Government Affairs

Transfers from the national to the provincial and local government spheres are primarily based on an equitable share provision. Other factors which affect the allocation to both the provincial and local sphere include:

Conditional grants voted as an expenditure in the national budget, to fund specific functions in support of national priorities, and recorded as revenue in the provincial or local government accounts.

Agency payments which are grants made to provinces and municipalities to reimburse them for services provided on behalf of national government, these payments are recorded as revenue in the national accounts as they are channeled through the relevant national sector departments.

Before resources are divided between the spheres, provisions are made for national commitments such as debt service costs and contingency reserves. Interest on government debt is estimated at R 46,5 billion for 2000/01. The national sphere is awarded 40.4% (R 68 999 million) of the total nationally generated amounts for 1999/2000.

Transfers from the national to the provincial and local government spheres amount to 59.6% of the expenditure on the national budget or 58.2% (R 99 376 million) for provinces and 1.4% (R 2 327 million) for local authorities in the 1999/2000 financial year.

In terms of housing budgetary allocation, administered by the provinces, the allocation process is as follows:

- The share of the national budget allocated to housing is identified during the annual budgetary process.
- The share allocated to housing is then spread among the different provinces according to factors such as population size, and housing demand, as well as strategic factors relating to urban development policy.
- Provinces allocated subsidies, from their allocation to different projects according to the demand expressed in terms of “projects proposals” drafted by municipalities or housing developers. Some provinces, like Gauteng, have undertaken a ring-fencing exercise either the spatial location of housing subsidies in their area of jurisdiction or the type of housing development which subsidies should be used for.

The share of nationally generated revenue allocated to the local sphere- responsible for municipal services and local economic development- is limited. The local sphere allocation of R 1 673 million for the 1999/2000 financial year and R 1 867 million for the 2000/01 financial year is divided between local authorities.

ANNEXURE 2: INSTITUTIONAL STRUCTURE OF LOCAL GOVERNMENT IN SOUTH AFRICA

Abstract from "Participatory Processes for Integrated Development Planning in Post-Apartheid South Africa"; Cecile Ambert, 2000, Paper presented at the Urban Futures Conference, Johannesburg

Prior to 1994, municipal management was characterised by fragmentation, dualism and political oppression. These attributes resulted from a number of governmental interventions ranging from the introduction of racially-motivated zoning, spatial segregation, forced-removals, job-reservation, disenfranchisement, and institutional fragmentation. Two instruments of the apartheid system stand out as particularly pertinent to the question of spatial jurisdictions of local authorities. The first was the segregation of residential areas based on racial factors, and the creation of racially-based local authorities. The second entailed confining black South African to labour reserves, in the former homelands and self-governing territories. Financially these geographic spaces were planned and governed to create and maintain dualism. As such, they became a focal point of political opposition.

The historical restrictions on the supply of land and housing for black South Africans has led to the emergence of low-income residential practices marked by over-crowding, settlement processes occurring illegally on unplanned and un-serviced land and urban sprawl. This type of intervention yielded a legacy which the new government has had to address. Salient features of this legacy have included tremendous disparities in terms of service levels and housing standards within and between settlements. To redress this flawed urbanity the ANC government undertook to integrate the political space of local government from 1994 by dismantling the former homelands and self-governing territories, creating wall-to-wall local authorities, and amalgamating formerly separate local authorities. This municipal demarcation process was undertaken as an interim arrangement and resulted in the creation of close to 850 municipalities across the country.

In 2000, further restructuring has taken place, with a decrease in the number of municipalities to close to 300. This re-demarcation process has seen the amalgamation of numerous smaller and less capacitated and financially viable local authorities. It has also been marked by significant institutional uncertainty at the municipal level.

ANNEXURE 3: NATIONAL STANDARDS FOR CONSTRUCTION/SERVICES IN LOW-INCOME HOUSING AND ISSUES

Abstract from a report on Planning Standards and their Impact on Access to Housing for the Urban Poor, by Lauren Royston and Cecile Ambert, for Payne and Associates, London

The costs associated to the process of accessing housing for the urban poor have been the object of periodic yet significant attention in the South African housing policy and implementation environment. These debates have emerged in the course of drastic shifts in national governance approaches, in response to factors related to political transition and the realisation of the need to review housing policy systems to respond to dynamic shifts in urban environments.

At the inception of the apartheid regime, the state had achieved the delivery of formal houses based on the National Party's harnessing the western trend of new towns development. By the seventies the growth of informally settled areas was extensive. In the bantustans they far overshadowed any formal housing that the new administrations were able to deliver. Internationally, from the 1970's, liberal economics, riding on the collapse of statism globally, introduced the notion of incremental housing processes where households hold the primary responsibility for addressing their own housing and shelter needs. According to this approach, government's responsibility is primarily one of support to low-income household, to level the playing field and enable access by providing the foundations for household consolidation: sites and services. The South African government was quick to latch on to this trend, and engineered the setting up of an emergency development fund, the Independent Development Trust (IDT) in 1991, in charge of several development programmes, among which the delivery of serviced sites at scale was key.

The IDT approach was based on the premise that whilst project based housing development can have some positive impacts, policy based interventions are more desirable because they affect the housing context at a broad level. Hence, the IDT's housing development branch focussed its efforts on the provision of a capital subsidy to place serviced sites with registered individual ownership in the hands of the end user.

The notion of standards featured as part of the debates leading up to the framing of the national housing policy primarily in respect of service standards and tarrification. In rejection of the illegitimacy of black local authorities set up and administered by the apartheid government, and to protest against unacceptable services standards, households begun boycotting service charges. Standards are not easy to set because of traditional tensions between community needs, developers' objectives to provide services at the lowest possible costs (covered by the subsidy) and local authorities who want high service costs to minimise maintenance costs over the life-span of the infrastructure.

The politicisation of housing delivery products had also played itself out in the rejection of site-and-services schemes developed by the IDT. The minimal package provided through the IDT capital subsidy scheme consisting merely of a serviced site and tenure, raised several criticisms. This was addressed in terms of the housing policy in the adoption of an approach to setting housing product delivery standards which should include some form of rudimentary top-structure. This was to have encouraged households to consolidate the starter product which they would receive from the state. Profit-motivated developers have tended to deliver the minimum. At the time the average size of housing built rarely exceeded 25 m2. In response to this situation, a minimum standard of 30m2 was established in the Minimum Norms and Standards in respect of permanent residential structures set by the National Department of Housing. At present, the national average stands at between 33 m2 and 35m2.

ANNEXURE 4: FINANCIAL SUPPORT INITIATIVES

In October 1994 a Record of Understanding was concluded between the Department of Housing and the Association of Mortgage Lenders to secure the involvement of the financial sector in the delivery of low income housing. Arguments raised by financial institutions in respect of their unwillingness to extend mortgage finance to low income households were that they could not commit financial resources for low cost housing because certain environmental and institutional constraints must be addressed before they could do so. In the low-income market, institutions felt a need for a measure that would reduce their risk to a lower proportion of property valuation: an insurance guarantee has therefore devised for smaller loans in the R 12 500 to R 35 000 price range. The Home Loan Guarantee Company (HLGC) was established in 1990 to provide guarantees to short-term insurers. Besides reducing the risk to a financial institution, the scheme provided a mechanism to assist potential borrowers in decreasing the required 10% deposit. Only a 5% deposit or a similar amount of collateral was required with the remainder of the deposit to come from the purchase of deposit replacement cover. The loan guarantee of 35 % became payable to the insured financial institution in the event of a loss on the sale of the property. Banks would prefer a minimum 5% deposit, but as a result of government persuasion this criterion has been removed in order to bridge affordability gaps.

Servcon was launched in June 1995 as a joint venture between the government and the Association of Mortgage Lenders. It was tasked with dealing with the properties that had been repossessed by banks after a sale in execution, but which the banks were unable to repossess due to the breakdown of the due process of law. The programme originally targeted nearly 14 000 properties. Servcon's rehabilitation programme offered to the occupants contains the following elements:

- Subsidised rental option;
- Buy back or loan rescheduled option;
- Rightsizing option (assistance towards an alternative affordable house).

Although 18 704 clients have signed agreements, the default rate on these agreements is high. They are being constantly followed up. Approximately 34% of clients are paying. The overwhelming reason for defaulting was economic in nature. The primary causes were loss of employment as well as loss of one partner's income. Other social issues such as death, illness, divorce and abandonment also had an impact. The current experience is that the majority of Servcon clients still face economic hardship.

The launch in April 1999 of Gateway Home Loans, a subsidiary of the National Housing Finance Corporation sought to create housing opportunities for low and moderate income households through effective secondary home loan processes. After a long feasibility and preparation process, Gateway Home Loan entered its pilot phase in April 1999. This followed the accreditation for the first property market lenders- Standards Bank, People's Bank, and African Bank- and the establishment of the operating processes and the initial product profile (The Makhulong Home Loan). The first Makhulong loans were originated on a subsidised project in Gauteng in August 1999. A standardised origination system has been developed and implemented with all lenders. Gateway has developed a simple counselling system to enable employers, or primary lenders to screen borrowers for Makhulong elegibility. Gateway is targeting primarily households employed to buy houses in the R 20 000 and R 50 000 range.

ANNEXURE 5: PARTICIPATORY PROCESSES IN URBAN PLANNING

Abstract from "Participatory Processes for Integrated Development Planning in Post-Apartheid South Africa"; Cecile Ambert, 2000, Paper presented at the Urban Futures Conference, Johannesburg

The transition to democracy in South Africa brought about the affirmation of the value of participatory and partnership principles. The undemocratic, non-participatory and under-developmental apartheid system of governance, which local communities and organised civic organisations had been actively combating, made way for change in the politico-social environment of governance. In opposition to a past marked by disenfranchisement and fragmentation, a host of legislation and policy has emerged since 1994 which recognises the value of participation as the expression of democratic governance, in particular in relation to local governance and urban development.

The manner in which the South African system of municipal management has sought to respond to the challenge of developmental local government has been two-fold. The first response has involved a thorough overhaul of the physical jurisdiction of municipalities and the introduction of democratically elected representation. The second response has focused on the implementation of a new system of municipal planning, embodied in the Integrated Development Planning process.

Integrated development planning: changing the what and how of municipal planning

The demarcation process shifted dramatically the role of local authorities, it changed the scope of local government functions by integrating the constituents of municipalities into single units. This process could not however determine on its own how municipalities were to govern, nor the direction of their governance. To further the integration objectives of the demarcation process and drawing on the objectives of the Reconstruction and Development Programme which put forward the vision of development as a locally-based and plan-led process, would require far greater intervention.

The Integrated Development Planning process for local government was introduced as a procedural and system-based approach to co-ordination and integration. It is crafted around a process involving a variety of actors and interests to set strategic goals and objectives. Integrated Development Planning is seen as both an approach to planning which seeks to achieve holistic planning through strategic planning tools, and a process-based method of planning for local government.

In this context, participation in municipal planning becomes a tool for establishing partnerships. The extent to which participatory processes have been conceptualised as part of the methodology envisaged in recent policy and legislation and proposed by the various guidelines and manuals issued to date, remains largely underdeveloped. Whilst some put forward the view that participation is an arena where the national department responsible for local government should not and cannot be prescriptive, there are still debates regarding the appropriate timing and extent of citizen participation in the planning process in the ranks of the national department of local government. These debates, however, do not go as far as examining the rationale for participation in municipal planning and remain locked within the partnership rationale which views participation merely as a platform for consensual bargaining between government and communities.

Having only been introduced as a statutory planning process in 1996, the IDP planning approach and method is still in the process of being implemented across the country. However, assessment of IDP'S to date, undertaken in a number of local authorities, paint a pessimistic picture of the extent to which they have been a factor of change in terms of integration. In stating that the municipal IDP had barely any influence on the manner in which the municipal budget had been set, Johannesburg city manager Khetso Gordan depicts a situation which is common to numerous local authorities. This suggests that the outputs of the activities undertaken as part of the process- in particular the participatory activities do not correlate to the manner in which local government budgets are drawn.

The dichotomy between the planning process and the municipal budget is not the only source of concern. Equally disturbing findings relate to the content of the planning documents resulting from the processes. The documents generally dominated by technocratic sector-focused information analysis, strategies and projects bear little evidence of concern for integrated planning and delivery. Visions for the development of the local authority are often unspecific and unrelated to the local context. Development objectives come in the form of wish lists divorced from concerns about technical and financial feasibility.

These findings correlate to the assessments of the participatory aspects of the IDP processes undertaken to date. These assessments reveal significant deficiencies in the manner in which participatory processes have been conceptualised and operationalised. As such, the participatory components of the planning process have been about legitimising what outsiders to communities have already concluded and formulated. This finding suggests that not only was the purpose of participation in municipal planning inadequately conceptualised, but that the tools and methodological approach on which practitioners relied have been inadequate.

The outcome of this situation is that the actual impact of the participatory process on the content of the plans and municipal budgets has been minimal. In comparison, the process of participatory budgeting developed in some Brazilian municipalities such as Porto Allegre, where budgeting is explicitly the raison d'être of participation, stands out. There, the implementation of participatory process has been facilitated by the existence of extremely vibrant local organisational capacity, the political will of councillors to harness participation for planning as an opportunity to formalise their political mandates, and the liberty afforded to localities by a highly decentralised intergovernmental system. To render the participatory process meaningful, considerable attention has been given to conceptualising and implementing its organisation.

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