

An analysis of the South African government low cost housing provision strategy

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Abstract

In 1994 when South Africa's first democratic government was elected, the newly elected government made a commitment to reduce the housing shortage in South Africa. The government promised to built one million houses a year but consistently falls short of its commitment. By July 2001 approximately 1. 43 million as opposed to 3 million were completed. In order to reduce the South African housing backlog, the government has established a number of Social Housing Institutions (SHI), but still its social housing provision has not lived up to the promise. While the supply of social housing increased between 1994 and early 1998, it actually decreased between 1999 and 2004. Meanwhile the demand for social housing is rising. Since the existing government strategies are failing to meet the ever increasing social housing demand, there is a need to investigate the efficiency of the strategy of the South African social housing provision. The purpose of this paper is therefore to determine what kind of strategies the government needs to employ in order to close the gap between the supply and demand of social housing in South Africa. In this paper a comparative case study will be used. Social housing strategies and programmes in three comparable developing countries i.e. Brazil, Malaysia and China will be investigated and compared against the progammes and strategies of South Africa. The research will identify the preconditions for successful housing progammes and strategies and will conclude with policy recommendations.

1 Introduction

After many years of efforts (1994-2005) the main aim of the South African government has been to provide low cost housing to all homeless people earning an income of R1.500-R7000. A Revised Draft (2003: 4) defines a social housing as “housing for low income person that is provided by housing institutions and that excludes immediate individual ownership. It is not an option for the very poor, but its very nature and accessing accommodation for housing institution will have to earn a secure income, formally or informally to be able to afford the rental or other periodic payment of accommodation to be”. The government’s goal which is subject to fiscal affordability is to increase housing delivery to a sustainable basis of a peak level of 350 000 units per annum until the backlog is closed (Department of housing: Chapter 2).

Housing stats in South Africa 2001

House completed since 1994: 1.1 million. These houses have secured tenure, running water, sanitation and electricity.	Number of homes still needed: 2 to 3 million
Number of people given shelter in the past 5 years: 5 million	Number of people still in need of adequate housing: 7.5 million people
Number of rented council units transferred to full ownership: 370,000	Number of rental council units still to be transferred to full private ownership: 350,000

Source: Knight, 2001: 1

Efforts of the government to meet the demand has been made complex by the numerous problems. These problems include high unemployment, poverty, and default of repayment of home loans, the slow commitment from private sector to provide housing loans to the low income earners, high cost of land development, the unavailability of land in urban areas, the increasing prices of building material, high house prices and the bureaucratic government procedures in terms of land release. Olsen (1969: 614) states that housing shortage in a country is experienced when everyone who want a house and willing to pay a market price for the same house, finds it difficult to secure one.

This paper will address the housing by looking at

- I. Brazil and its housing strategies
- II. China and its housing strategies
- III. Malaysia its housing strategies
- IV. South Africa and its housing strategies
- V. Recommendations for good housing delivery in South Africa
- VI. Conclusions

2 Housing strategy of Brazil

Brazil's economic growth between 1968-1973 was described as miraculous and was subsequently termed "The Brazil miracle of economic development", with the Gross National Product growing at 10% while the population was growing at 2,8% per annum (Merrick, 1976: 181). Brazil, better than other countries, is privileged with land and natural resources. It viewed population growth as a positive factor. One of the most significant features of the Brazilian Industrialisation has been the important and increasing participation of the public sector. Beside its positive

growth, the country like most developing countries, suffers from poverty, crime, illiteracy and environmental pollution. By 2001, the population of Brazil was estimated at 160 million and nearly 18 million residents staying in the metropolitan areas like Sao Paulo (O'Connor, 2001:66). Sa Paulo City housing secretary, Paulo Teixeira, estimated that one-quarter of all citizens, nearly three million people, live in residences of uncertain ownership (Morning Edition, 2004: 1). He said "Property rights have always been somewhat flexible in Brazil, perhaps as a result of the enormous need for housing". All those without proper housing resort to squatting. Squatting on private and public property is a long standing tradition in Brazilian society.

Brazil as country has always been experiencing enormous need for housing. It is difficult to acquire housing finance, except only the privileged few (Abdalla, 1999: 3). Most of the poor did not have security for the home loans, resulting in the extremely high interest rate on home loans. In order to reduce the slums and homelessness in the cities the government provided tall buildings. Most poor and low income Brazilians especially in the urban areas live in tall buildings. Before 1976, property rights in Brazil were somewhat flexible. In 1993 a new law that introduced Real Estate Investment fund was passed (Lima, 1998: 47). This fund introduced building quotas that were sold to investors in housing development, primarily other institutional investors and pension funds

The Brazilian government is concerned with shelter for the poor because most of Brazilians are barely familiar with the concept of home mortgage (Merrick, 1976: 181). In 2001 the country's housing need was estimated between 5 million to 10 million especially in the low income sector (O'Connor, 2001:66). High incomes

people easily get a mortgage. The existence of federal and municipal programs to promote homeownership has failed to increase the housing supply, since there is no policy to provide housing for low and middle income groups (O'Connor, 2001: 66). In Rio de Janeiro, houses are expensive that the least expensive house cost more than low income earners' ability to pay (O'Hare & Barke, 2002: 230). Urban population growth and high poverty price levels, has immensely contributed in the problem of housing access. Poor housing policies and restrictions on the availability of building land worsened the shortage of housing.

The Housing Finance System (HFS) was created to cater for the lack of funds for the middle class and reduce the restrictions imposed by the borrowers (O'Connor, 2001: 67). The Brazilian government increased and exercised its control in both the sources of funds and the destination of loans (Abdalla, 1999: 4). It passed a law that compelled all the deposit taking institution to invest at least 70% of the HFS deposit in real estate investment with an interest rate on housing not exceeding 12%. It also stipulated that more than 90% of their investment must purchase construction of houses or residential apartments (O'Connor, 2001: 68)

Real Estate builders and developers instituted their own finance schemes to raise capital for their projects. They sold flats or offices well before their construction commenced. They only began construction when they have raised enough cash flow of installments was sufficient enough to pay for building cost. A purchaser would receive his keys to the home after 48 months, but all the cost of building had been paid. He will continue with the installments for 12-52 months, depending on the project. This method of finance succeeded in helping to build approximately 100 000 units (Lima, 1998: 49).

Other financial institutions that provided housing finance were savings and loan associations, real estate credit companies and the National Housing Bank (NHB), which worked through private and ancillary companies such as builders and developers cooperation (Abdalla, 1999: 5). These institutions specialized in housing finance; however they saw a relative success because of government intense regulation.

In 1997, Cardoso administration enacted a new property law to readdress the problem of lack of security and high housing rates. The main objective of the law was to liberalize the conditions of ownership of residential property (O' Connor, 2001: 67). The new law propelled ABECIP, a trade association in Brazil, to embark in the improvement and implementation of secondary mortgage market, based on securitization company named CIBRASEC (Abdalla, 1999: 5). The main reason behind its formation was that it should be the catalyst agent in mortgage market and maturation of real estate industry. The shares of CIBRASEC are 60% owned private sector and 40% management. CIBRASEC did not get any government subsidies or tax advantages but raised funds to finance its housing business (Lima, 1998: 49). It permitted the reduction of risks to the main parties.

CIBRASEC emphasized that contracts and loans shall be fully honored by borrowers and loan guarantees should ensure the speedy recovery of the loan in case of the default. It will purchase real estate credits and receivables from mortgage companies and place them primarily with pension funds, insurance companies, investment funds and foreign investors. It will also purchase loans without recourse to the seller but it will guarantee its obligations backed by strict credit risk management to ensure tight collections control.

In 2004, Brazil government's announced its new commitment in the provision of low income housing ([www.world bank](http://www.worldbank.org), 2005). The government's new low income housing policy, aims to redress the housing governed by the following framework

- I. The development of the institution of sound national housing policy and urban development
- II. To provide incentives that will boost housing finance market and boosting the housing credit system
- III. The strengthening of legislation and regulation in order to reduce the cost of formal land development such that the supply of formal serviceable land increases even to those with the lowest incomes
- IV. To increase the housing affordability for the lower income groups by restructuring their housing subsidy system.

3 Housing Strategies in China

Communist China is the most populous nation in the world with an average increase of 2% and the growth rate being higher in cities (Chao, 1966: 381). 845). Although the general income level is improving for many, the income level of the poor has declined. Urban poverty and unemployment are also increasing. Urbanization is increasing especially towards main cities in the rapid increase. The main pushing factor behind the increase of urbanization, like most developing countries was the rapid industrialization. This led to the development of the division of urban population and the emergence of the affluent middle class. It also led to increase immigration. Shortages of housing in the cities cropped up. Demand for housing for the poor and the affluent groups increased.

The communist government was reluctant to provide housing to people. This was eminent when the government became sluggish in mobilizing the private funds for housing. The demand for housing grew to 1.600 million square metres of land space, giving 6 square metres of living space to every urban dweller (Zhang, 2002: 7). The prices of building material also increased. The total monetary demand for housing from the government was 80 billion yen, the figure above the affordability of the government, while the total housing budget was 8.6% during the first five years and further declined to 3.6 between 1958 and 1960 (Chao, 1966: 390). The communist China had to make a choice of either slowing the industrialisation expansion or change the investment structure

China's sluggish growth of housing provision was made worse by the reluctance of the communist government to mobilize private funds for housing development. The new economic reform in 1970 saw China's economy growing rapidly. Not every household could afford and was ready to purchase their houses through the market (Meng; Wong, Hui, Feng, 2002: 87). China is currently in the process of economic transformation involving the transfer of most of its existing housing stock from either market or quasimarket means (Lee, 2000, 61). The government attempted to meet the high increasing housing demand by replacing the low rising buildings by high rising houses and renting home ownership (Ikels, 2004: 604). The primary concern of China is that the middle class cannot afford to buy commercial housing, and most of them are not interested in the rundown apartments provided by the government (Rosen and Ross, 2000: 80). As the result government came with the concept of economical housing, a low commodity housing with government subsidy and policy support (Meng et al, 2004: 93). These houses are targeted at providing a large number of decent houses and homes for lower-middle and middle income households

China's increase in the demand for housing is being attributed to, the dispersion of a large section of population to the suburbs, an increased exodus of married children from parental households, an increase in the diversity of support networks, early marriages by young people in order to get a welfare housing and the rise in the proportion of support provided by paid help (Ikels, 2004: 604). China does not put much emphasis on providing housing for rural migrants into cities, all migrants live in the poorest areas or in whatever temporary accommodation provided by the employers. The reason is that the law does not permit squatting in public land (Wang, 2000: 847)

The new China embarked on the new strategy of housing provision. The strategy involved the creation of the new relationship between the government, the market and the society to provide economic housing. China's new housing strategy includes the reduction of the public expenditure, improvement of the efficiency and effectiveness in the provision of public housing of the government and the increased involvement of the private sector and the non governmental organization in the housing provision (Zhang, 2002: 7). The strategy reduced the role of the state as the regulating and controlling regime in the provision of housing. The state had weak institutional capacity to provide housing. The government was compelled to find alternative housing system to accommodate different interest in housing governance in order to improve the efficiency in the housing sector.

3.1 The role of the government:

China's government formulated the new policies to replace the traditional approach of society's hierarchical government. Until 1978, all housing was

financed by the government through budgetary funding. Before 1980 all housing in China was managed and produced via its local housing department, nonetheless this led to the poor response to the housing need of the people (Zhang, 2002: 10). The government had little motive to participate in the emerging housing market, and as a result its participation was limited to sale of public housing. By 1995 the proportion of houses provide by government decreased from 100% to 10.6 % in Shenzhen (Meng et al, 2004: 89). Government was no longer involved in housing delivery but in steering and arranging services. Its main duty was to design policies that addressed imperfections in the market and assisting low income and poor individuals in meeting housing needs. It introduced housing programmes like Comfortable Housing programme (Aijo Goncheng) recently called Economic Liviable Housing programme (Jingji Shiyon Feng) and low profit housing programme (Weli Feng) (Zhang, 2002: 13).

The Aija programme stated that the government should provide seed money up to 40% of the total cost of the programme in the form of loans, land and tax relief as the incentive to the private sector, while organizational work is done by local authorities (Zhang, 2002: 13). Government's assistance with housing is only limited to officially recognized urban resident. A large number of citizens flocking to cities are excluded from the assistance. Temporary migrants can only find accommodation in the expensive and informal rental sectors. Migrants were only able to be accommodated in poorest areas or live in the temporary accommodation provided by employers (Wang, 2000: 845). The policy is such that it is so difficult to squat in the public land. All migrants from rural areas, needs to apply for official permission to get permanent resident status of the city, and only then can be applied for housing assistance.

The Aija programme operates through the government, local authorities work units and the contractors (Zhang, 2002 13). Every local government was asked by the central government to support the building of economical housing by improving development conditions and provide financing (Meng et al 2004: 89). The state provide free land use and tax relieve to reduce housing cost and housing prices. Local authority's other subsidiary companies had no automatic qualification, like all other housing providers, they had to compete for contracts. The housing planning, design and construction were provided by any company that will acquire the tender of the government. These housing were mainly provided to marginal group such as the homeless and the low income groups. The state offered mortgage loans up to 70% of the prospective house purchase price (Zhang, 2002).

In 1990, the government devised a new rudimentary of housing provision. It was mainly to cover all the housing needs of the population and to push forward the marketisation of the urban housing, including granting housing of security to middle and low income households. (Meng et al, 2002:87) mentions that the new housing provision consisted of three parts, namely

- I. Low rental housing without ownership for the lowest income households. These houses are only for urban households with an income level below the poverty line and some disabled or elderly people without the family to provide them with housing. Its provision comprised of three strategies, namely provision of subsidies towards rental, provision of low rental directly and provision of rebates on rents
- II. Economical housing with ownership and subsidies for the middle or lower middle income households which carried the price recommended by the government. The price consisted of the, taxes and profit and developers are

requested to keep low profit in order to ensure affordability. The prices had to be endorsed by governmental price management department and announced before the project begins. The development of this house was determined by the interaction of demand and supply. The government forcefully managed to reduce the supply gap as economic housing pushed forward the economical housing development through the land grants to private and work units and the reduction of administrative charges. The only problem with this house was the inability of the government to control fraud in the real target market and the exact size of the property which inflated the price of individual houses.

III. And the market price housing for high or middle high income households

3.2 The role of the private sector

To boost its dominance in its cooperative solutions, in 1979 China increased the involvement of private sector in development of housing, using few cities as the pilot projects. The market emphasized the property rights as the most essential prerequisite for ownership. It used the two tier system i.e. the transaction of the use of the right for the sale of public housing and the grant of full property rights for commercial housing built by real estate developers (Zhang, 2002:9). This was great incentive for commercial housing development. By 1995 the total value of housing built by non-governmental developers in Shenzhen only was 41 162 501 square metres, 10.6 times more than that developed by public sector (Zhang, 2002: 13). It led to commercial housing development being the dominant form of housing provision since 1990s

3.3 The role of the Work units.

Work units served as structures for housing governance. Much powers of the government were decentralized to the work unit level. They were given the power to use various financial resources more flexibly. They were the mediators between the private and the public sector. They bought the houses from the market at market prices and sold them to employees at discount prices, and then pay the price gap. This price gap was the cost paid by work units as a means of maintaining their employee's loyalty. The work units raised a bigger proportion of the income by raising funds through their involvement in the financial markets. In 1985, 90% of all public housing was built and managed by work units. They mainly served as the state regulatory organ including the implementation of housing policy through their vast network (Zhang, 2002: 16). This stimulated the housing developers to built high quality houses. The work units reduced the problem of non payment by house buyers with low income.

The work units work in collaboration with the employees and the contractors. They established the Housing provident fund programme, the fund in which both work units and the employees work in partnership by contributing an equal amount (5% of the employees' salary) into the employees housing thrift account (Lee, 2000:18). Certain banks would supplement this fund with housing loans through mortgage system to every individual fund. The money is used to attend to the employee's housing needs such as purchasing or renting of housing and even the maintenance. A total of 120 billion yen was raised nationwide for the housing provident fund.

The work units had the support of the government. According to Zhang (2002: 16) the government relaxed the constitution for providing loans for all the projects that

work units were involved in, provided the projects fulfilled the following conditions

- I. The developers has invested more than 30 of the total investment for the project
- II. Local government is co-funded by the work units and its employees and their joint investment is more than 30% of the total investment of the total investment for the project and the money has already been deposited in the bank
- III. Local government invest more than 30% of the total investment for the project
- IV. Local government will pay all land, relocation, and infrastructure fees and individuals and work units purchased housing units in the proposed projects and the advance payment is more than 20% of the total investment

The 1985 China's National Housing Survey, states that 90% of all public housing built in China is managed by work units, with all state's regulation and policies on housing, being mainly implemented via the work-units vast network. (Zhang, 2002: 17)

4 The Housing strategy of Malaysia

Malaysia is a middle income developing country. It has an average per capita income growth of 3 % (Malpezi and Mayo, 1997: 375). Between 1971 and 1990 its economy grew by 8% (Chamburi, Mohd, Yusof, 1997: 1534). Its urbanization grew by 5% annually and its total dwelling, and urban housing demand increased by 7.1% (Malpezi et al, 1997: 375). Jobs are mostly created in the industrial and

service sectors. The structure of society was that one could identify race by economic position and geographical location. Although government has embarked on the job creation campaigns for the poor, these jobs were not sustainable and did not benefit the poor much. The country also depended on the development of small businesses for job creation.

Malaysia's demand for houses increased such that house prices increased by 18.6% while household income grew by 10.8%, reflecting a decline in the ability of household to purchase new housing units. At the same time residential rent rose by 6.4% while consumer prices rose by 7% (Malpezi et al, 1997: 375).

4.1 The role of the government

Malaysia's public housing for all began in 1957 the year it gained independence. The concept of public housing changed from merely providing housing for government officials to that of promoting homes to all sections of society. Low cost housing was introduced to those poor households with income below Malaysian (RM) 300 a month (Lumpur, 2002: 49). The government played a role of ensuring equality in the consumption of housing rather through regulation and organization backed by some subsidies. This means that the state was to ensure that people could buy housing of a size and quality compatible with the income the people earned (Lumpur, 2002: 49).

The advent of the New Economic Policy (NEP) in 1971 and other economic factors in the rural areas resulted in the rapid migration of rural urban population to urban areas. The main objective of NEP was to foster National Unity and nation building through the eradication of poverty. The Native Malays urbanised to cities,

and these changed the racial composition in these areas. By 1970 two thirds of the people living in urban areas were Malays compared to 11, 2 % in 1957.

The single highest housing production in Malaysia was initiated under the public housing programme, although the total housing development expenditure between 1971 to 1990 had never exceeded 10% of the total national development expenditure (Lumpur, 2002: 55). In 1986 The Public Low Cost Housing Program (SLCHP) was introduced to alleviate the problem of housing shortage (Malpezi et al 1997: 376). The SLCHP had two objectives i.e. to boost the economy through linkage effects and to increase the supply of houses in the low and moderate income households. Although the SLCHP increased the number of houses constructed and distributed, the actual progress was slow relative to the expectations. The problem that confronted the SLCHP was its implementation rather the programme itself.

Suddenly there was a lower demand of houses due to inappropriate pricing, houses built in less preferable locations, poor housing designs and the cost of administration. Inappropriate pricing meant that the prices were too low to make up the construction cost especially in expensive areas. The design problem was encountered when the private sector would create new inexpensive designs which did not make immediate success in the market (Malpezzi et al, 1997: 376). The cost of administration originated from the inefficiency of the government officials in the processing of application for land and the slowness in its release.

These problems did not appeal to the private sector and consequently all the responsibility for achieving housing targets was placed on the public sector. The private sector was not heavily involved in the housing programme for the poor. It

built only a one fifth of all the houses completed for the poor and 141, 1 % target for the middle and high income housing. Only some state housing corporations were heavily involved in the provision of housing for the poor. This is because the government controlled the prices of these houses since a large number of the urban poor could not afford them (Chamburi et al, 1997: 1527). The low income people could not obtain or service a loan if they had managed to obtain one. High house prices and the emergence of squatter settlement resulted as the result of slow supply of housing.

4.2 The role of the private sector

During the fourth Malaysian plan the government increased the appeal of low cost housing to the private sector by requiring the private sector to reserve 30-50% of its financing to housing development. In order to boost the participation of private sector, the government used new incentives by reducing infrastructure standards and increased the speed for land conversion and other regulatory matters. The government, through policy levers prescribed the amount of houses that the private sector had to build. Malaysia's housing policy unlike other countries, eschewed enforced account construction to enforce compliance (Malpezzi et al, 1997: 376).

The role of the state was reduced to regulation of activities of private development to ensure that a certain proportion of their house building was constructed at cost affordable to low income groups. The government assisted the private sector through certain instruments, to keep the cost of house down. Lumpur (200: 56) mentions that the government offered subsidized federal loans, accompanied by the reductions in the size and quality of individual units. He further states that by the

time it reached its sixth plan, Malaysia had completed 100 728 high cost unit, five times the original target of 26 100 units.

4.3 The private sector complaint that (Lumpur, 2001: 61)

- I. Much of the non achievement can be attributed to slow government processing and approval of application for land development, concessions, subdivision and issuance of tittles. It's stated that relative to the volume of work, offices are undermanned, hence unnecessary long delays in dealing with applications.
- II. Local authorities lacked professional manpower and their building codes varied from one locality to another and from one state to another. These contributed to delays of more than two years before a final decision is made
- III. The price increases of raw material affected the ability of development to hold down the prices of houses and many of those houses built are located in prime land beyond reach of poor Malays
- IV. The guide lines regarding the distribution of low-cost housing imposed by the state government to private sector were interpreted differently by the private sector and had affected the ability of lower income groups to own their houses.
- V. Credit extended by various financial establishments such as commercial banks and finance companies has increased substantially in recent years. However the bulk of credit facility for housing development has tended to go to middle and upper income household rather than the urban poor.

5 The South African Housing strategy

It is estimated that one third of the South African's entire population lives in informal settlements and dilapidated tin shacks (Maya, 1995: 76). The 2001 census reveals that 20 of the population living in metropolitan cities have urbanised from rural areas, leading to new housing demands, the advent of squatter settlements and increasing unemployment by 2.5 between 1995 and 2002, while the economic growth between the same times has averaged 2.8 %, not enough to defeat the unemployment levels (Haffajee, 2003:1). When the new government came into power it made a commitment to create a living world for all by creating jobs, eradicating poverty and principally to provide shelter to all by building affordable houses in secure environment. The achievement of this goal is guided by six principles, two of which form the basis of this paper, namely

- I. The achievement of maximum private sector involvement
- II. Quality products and environment responsive to the demand of the target community

5.1 The South African Low cost housing background

5.1.1 The role of the government

The past decade has seen the good but questionable success of the South African financial institutions in the delivery of housing. The Department of Housing was tasked with the responsibility of providing and overseeing the construction of these houses. The Department of Housing brought in seven strategies to achieve its goals of housing delivery namely (Revised Draft, 2003: Chapter 3). Moss (2005:

1) stipulate the same factors as the guiding principles to a successful housing strategies

- I. Stabilizing the housing environment
- II. Mobilizing credit
- III. Providing subsidy assistance
- IV. Support the people housing process
- V. Rationalizing the institutional capacity
- VI. Facilitating the speedy release and servicing of land
- VII. Coordinating State Investment in Development

Since 1994, South Africa formulated a number of housing programmes to facilitate the housing supply, some of which are

- I. Reconstruction and development programme in 1994. It set a goal of 300 000 houses to be built, with a minimum of one million low cost houses to be completed in five years (Knight, 2001: 4)
- II. The Bulk connector infrastructure grant: To help in funding bulk and connector infrastructure services for housing projects through subsidy mechanism. A total of R700 million was made available annually for this programme. It collapsed into consolidate Municipal infrastructure programme
- III. The Special Integrated Presidential Projects: The aim was to initiate development in major urban areas focusing in violence torn communities. It focused in infrastructure and houses and job creation. It managed to fund 13 projects to an amount of R1.88 billion and was concluded in 1999

- IV. Human Settlement redevelopment programme was initiated with the aim of identifying projects that would correct disfunctionalities in human settlement. Currently 100 projects are completed with most of them in Urban renewal nodes and integrated development nodes
- V. Overseas private investment cooperation (Opic) in 2003: It funded housing programmes to the tune of R200M: Its main objective is to increase access to finance and increase cash flow management to constructors at affordable rates
- VI. The New Comprehensive Plan on Sustainable Human Settlement in 2005: To increase the flexibility of housing policy principles, to increase the availability of land, and increase private sector participation. This plan that dismantled the old subsidy scheme.

The following graph shows the progress of housing supply in South Africa from 1994 to 2004. The supply of houses increased between 1994 and 1997. The financial year 1995/1996 saw the decline in the financial expenditure of 43.4%. The highest expenditure in the nineties was in the 1997/98 financial year and the lowest is 1995/96. The financial year 2003/04 saw a lowest expenditure of 473.7 with a decline of 69.43% from the preceding year (Department of housing, 2004: 12). From 1998 the supply started decreasing until the introduction of The New Comprehensive Plan on Sustainable Human Settlement which saw an increase in the first few months of 2005. The average for ten financial years was 3537.44 with the standard deviation of 3595.35



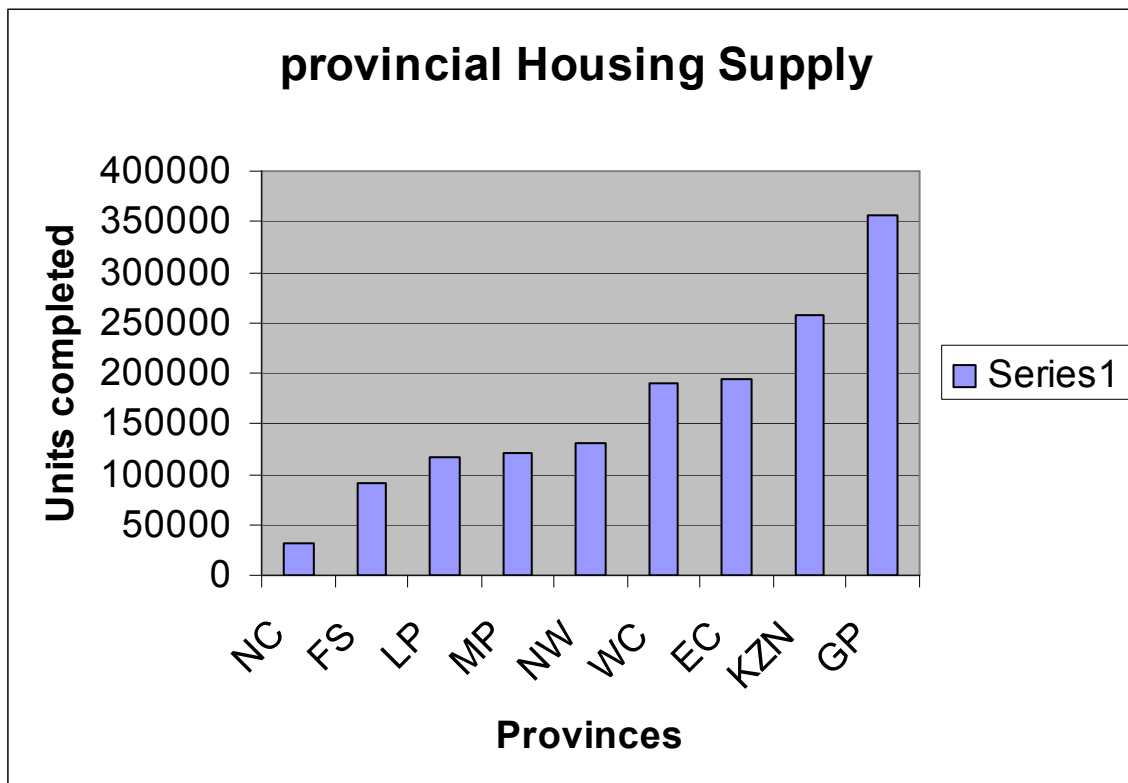
National Department of Housing (2004: 12)

Figure 2



National Department of Housing (2004: 12)

Figure 3



National Department of Housing (2004: 12)

According to Tomlinson (1998:4) the subsidy scheme, a once off capital subsidy, is made available to households earning less than R3.500 per month and the amount of subsidy ranges from R5000 to R15000 with the greater subsidy going to households with lesser income. This subsidy scheme was revoked in 2004 and replaced with the new three tier assistance of income groups effective from 1st April 2005 Sisulu (2004: 3). The three tier income groups and assistance entails

- I. The hard core poor of 0 – R1.500 income level will receive full housing subsidy of R28 000. It includes the hard core who will receive rental accommodation without any saving requirement
- II. The poor income level of R1.500 to R3.500 to receive a full subsidy
- III. And a middle income level group earning R3.500 to R7.000, the government pays a deposit for the house

The prices of houses and land differ according to the area. Prices in the cities are higher than in rural areas. The average cost of a serviced land site is R5 326.61 and for a housing unit is under housing subsidy is R11 755.61 (National Department of Housing, 2004: 4). The efforts of the government to lure the private financiers into low cost housing programmes have not achieved the desired effect. The poor faces the problem of raising mortgage loans.

In the attempt to reduce the housing backlog in terms of finance, administration and management, a number of Social Housing Institutions (SHI) were formed (National Department of housing, 2004: 23). In 2003 South Africa had 60 social housing institutions (SHI) in operation (National Department of Housing, Housing code part 1). The following table gives the picture of some of these institutions

Table 1

The name of the institution	The mandate
1 The Servcon	To manage and service the non performing loans.
2 The social housing foundation (SHF)	To develop and build capacity for social housing institution and to develop policy framework
3 People Housing Partnership Trust (PHPT)	The support the people housing process building capacity and to engage with the national, provincial and local government and civil society to

	meaningfully participate and support people housing projects
4 The Rural Housing Loans Fund (RHLF)	To enable lower income families access on sustainable basis to build or improve their home in rural areas
5 The national Housing finance corporation (NHFC)	To search for new better ways to mobilise, raise and deploy finance for housing from sources outside the public sector and in partnership with broad range of organisation

Source (Department of housing, 2004: 5)

These institutions are tasked with the developing and managing social housing. However many of them are facing governance and management difficulties as well as financial problems (Department of Housing, Housing code part 1).

5.1.2 The role of the private sector

The ability of the private sector is limited by the inability of people to pay their house loans, culminating in repayments boycotts. According to Tomlinson (1999: 41) the following are the decisive reasons for bond and rent defaults especially in the townships

- I. The house prices rising faster than the income leading them to be unaffordable coupled with the low income of the same people
- II. Poor quality of low cost homes

- III. People don't sufficiently understand loan conditions
- IV. Politics of the people (Some are still stuck in the extinct political strategy of non-payment)

One major problem in housing delivery in South Africa is the lack of institutional finance. Banks mainly complain about the non-performing housing loans in the townships, resulting in the reluctance to make housing loans available to emerging social housing institutions. Ebert (2005: 98) states that despite all the social responsibility of the banks, government housing subsidies and interest rate ceiling exemptions, the banks still fail to provide credit to low income earners for housing purchases. He says the main reasons are economic conditions and social relations like, racial, gender inequalities, high unemployment, poverty and AIDS infection rates, which all resulted in high default rates. In South Africa, only people earning beyond R8000 per month experienced little or no problems with housing finance from recognized financial institutions (Moss, 2005: 32).

The government is convinced that the private sector is not doing enough to assist in the provision of housing to low income people. On the other hand the private sector feels that their poor participation in the delivery of the low cost housing is influenced by

- I. High cost of building material and land met by low house prices. The current tax incentives to SHI to reduce the cost of building is only applicable to section 21 companies, while VAT exemption is for rental housing services only
- II. The bureaucracy in the government housing system which is influenced by long periods taken to process their documents and payments.

- III. Low prices of houses, which leads to the poor quality of housing. This in turn reduces their credibility as proper construction enterprises.

Access to finance remained the main obstacle. The backlog of housing is estimated at 2-3 million houses (Department of housing, 2004). Efforts to encourage private sector include

- I. Tomlinson (1998: 4) states that the Home Loans Guarantee Company was established in 1990 to provide guarantees to banks and building societies for low cost housing. The condition was that the borrowers from the banks should be able to raise 10% of the deposit required.
- II. The United States and the South African government also incentivised bank finance by providing loans guarantees. These were achieved through the International development Aid and the government Mortgage Indemnity from US and South Africa respectively.
- III. In May 2005 Lindiwe Sisulu, the South African Minister of housing and the CEOs of the four big banks of South Africa, signed a memorandum of Agreement that committed the banks in deepening their lending for housing purposes and transfer housing finance products and services available to the poor.
- IV. The financial sector Charter also states that they have a target of R42 billion in lending for affordable housing less than R180 000 particularly to the previously disadvantaged areas and those earning below R1500-R7000.
- V. In order to protect themselves banks developed the idea of spreading the risks among themselves on the equitable basis that no single institution would be swamped by the non payment or default. Banks have also agreed to finance only those households who can demonstrate a consistent saving

history and stable financial environment (Maya, 1995: 75). This was one condition that most household could not meet. These conditions influenced the private sector to redirect their business to high income earners. The majority of house buyers who have easy loan access are high income earners as their employers provide either housing subsidy or housing allowances while the opposite is true with the low income earners.

5.3 The way forward

Housing is a highly expensive venture that requires a pool of funds from the private and the public resources. Fortunately, the Democratic South Africa has achieved commendable progress in delivering houses to the needy. This can be confirmed by the improvement in the delivery of 178, 612 decent units within the first nine months of 2004/2005 (Sisulu, 2005:3). Housing shortage is common in all the four countries, i.e. China, Brazil, South Africa and Malaysia. In all these countries the government interventions have managed to reduce the burden. Three main obstacles, hampering the smooth progress leading to the well achieved goals of the government are

- I. The poor cooperation from the private sector.
- II. Inefficient and ineffective municipalities.
- III. And the attitude of home buyers through house loans default.

The poor people in these countries cannot not afford housing, however those who can afford, engage in the default on the house loans repayment. The housing budget including subsidies provided by the government, can not sustain the

increasing demand. The composition of the increasing demand for housing in South Africa is attributed to

- I. Increase in urbanization especially towards the cities
- II. The high unemployment and poverty within the a larger section of population
- III. Shortage of land for housing development
- IV. Bureaucracy of government officials in processing the applications, the release of land and approvals of housing development. It takes longer to complete the process than the private contractors can tolerate
- V. The limited participation of the private sector and in the involvement of low cost housing development. This is due to the inability of the people and government to provide guarantee towards the servicing of the home mortgages, extended with lack of security by the applicants
- VI. Lack of legislation that protect the banks from the mortgage defaults. The current default risk insurance schemes is still not effective as it only covers few cases, and only for six months default period

Majority of the low income earners received assistance from the government through subsidies. This applied only to the citizens that earned an income between R1500 to R4000. High increase in the need for housing however was mainly stimulated by those who are completely unemployed and involved in the informal sector. This is the section of the community not in a position to repay a cent of a loan provided to them. The problem is attributed to the reason that most of the houseless people are mainly from previously disadvantaged individuals who are mainly Black, poor and unemployed and to some extent clouded by the politics non-payment.

The most common problem that these four countries are faced with is the slow involvement of private sector in the housing development. Malaysia and China enforced the involvement of the private sector. As a result, housing production increased 10.6 times in China and five times in Malaysia. The role of the public sector was reduced to only controlling, steering and arranging service, with the total public expenditure not exceeding of the national development expenditure. This result was achieved through the change in policy and legislation.

Similarly, with the introduction of the new comprehensive plan on Sustainable South Africa has learned its lessons. This paper suggests that the following preconditions will lay foundations for good housing strategies

- I. An increase in the economic growth that will increase job creation
- II. Speedy land reform process
- III. Increase in the shared responsibility of housing development by public sector, private sector, non governmental and the community
- IV. More tighter emphasis on the Rural infrastructural development and industrialization that will reduce migration into cities and towns
- V. The rejuvenation of the agricultural sector economy in rural areas
- VI. Capacitating the municipalities in terms of skills that will expedite claims processing, land and house redistribution and application handling
- VII. Reduction of house loans default risk, by tightening or introducing appropriate laws. This is achievable through the increase in institutional and policy mechanism to ensure stringent loan repayment and accountability.

5.4 Policy recommendations entail

- I. The speedy land release and payment to the private developers and contractors mechanism. Completion of payment should be within 30 days of the completion of the projects
- II. Private sector encouraged to get involved in of housing programmes. This primarily because South African Banks and financial institutions are still conservative about financing the low cost housing. The project may be achieved by letting the private sector to build all the houses and the regulatory body to purchase all the houses at an agreed price and sell them to house seekers at a discount, with the individual's pension fund as security to the regulatory body. The regulatory body to be given full property rights for the sale of the houses
- III. Creation of the low cost housing regulatory body: This is the body that transforms the role of NHRB. Its new objectives and mandate is research so as to design a housing policy framework that develop low cost housing price model, determination of size of subsidies to individuals, determination of quality standards, size of the house, expediting the assessment and approval of individual applications and handling of hoses distribution, the prompt payment to developers and contractors, and the control, coordination and management of the waiting lists. The body becomes the link between the private sector, the government and the people. The body is capacitated in raising funds to reduce the tax payer's liability and lesser expropriating funds from the government. The Department of Housing and the Local government only plays the role of legislation and financial support, the identification and the speedy release of land, determination of tax relieve and payment of subsidies.
- IV. Declare squatting illegal, especially in urban areas.

5.5 Conclusions

Housing Development is one of the areas that the present government has achieved higher success. Although not achieving its goal of 350,000 houses per year Nevertheless, there is still room for a better performance. The inability of this performance is mainly around the problem of poverty and unemployment. For South Africa to achieve its goal and reduce the problem, it needs to have economic growth that can create jobs within the lower section of the economy. People living in squatters are mainly living below the poverty line, who have mainly urbanized for better live in cities. The problems of housing development are on-going and persistent and will stay with the government for as long as the participation of the private sector is slow, limited, and not encouraged. Proper shelter and housing for every citizen especially for the poor provides a very crucial foundation for any economic development. It increases every citizen commitment and love for the country. South Africa has made great strides in proving housing and basic services such as electricity and water to the people of South Africa., However, much remains to be done overcome the housing backlog and make water and electricity available and affordable to all

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