

Fact Sheet

The BOP Learning Lab
Southern Africa

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Access to better habitat

Where can the private sector help to accelerate delivery ?

Despite the deployment of one of the world's largest public housing programmes, an estimated 7 to 10 million people in South Africa - close to one in five people in the country - still live in so-called "informal dwellings", usually consisting of makeshift structures built with corrugated iron, wood, cardboard and plastic. Like most other developing countries, South Africa is urbanizing at break-neck speed, and demand for housing and employment in the cities is many times bigger than supply. Whatever the complexities - and there are many - surrounding housing issues, there is an increasing realisation that conventional thinking about low-cost housing needs to be challenged.

Access to 'adequate' housing is perhaps one of the most pressing, emotionally and politically charged socio-economic topics in South Africa today. The provision of free housing for the poorest South Africans is an essential part of the post-1994 social contract, founded on the promise of a 'better life for all'. In fact, South

Africa is one of only a handful of countries in the world in which the "right to access to adequate housing for all" is enshrined in the constitution. Over the past decade and a half, 2.8 million small housing units, universally known as "RDP houses" (after the first post-apartheid economic policy framework), have been built and handed over free of charge to qualifying families.¹

objective of alleviating poverty. This factsheet will attempt to unpack some of the issues surrounding low-cost housing, and investigate how the private sector could not only contribute more to the process than it already is, but in fact be a major driver in the whole process, alongside public policy makers.

1. The theory: providing adequate housing for the poor

In theory, every household with a monthly income of less than R 3500 is eligible for a subsidized low-cost housing unit. A significant legal, institutional and financial framework has been developed to turn the theory into reality on the ground.

This process has been largely driven by the government. But despite these massive efforts, it is becoming increasingly clear that informal settlements are not about to disappear within the next four years, as "Vision 2014", the Department of Human Settlements' ambitious point of reference originally outlined in 2004, would have it.²

The private sector can play a significant supporting role in easing delivery of low cost housing, and giving effect to the overall

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1 SOUTH AFRICA YEARBOOK 2009/2010. Chapter 13, Human Settlements. Published by the GCIS (Government Communication and Information Service), P308

2 See for example HUCHZERMAYER Marie, "Housing in informal settlements: A disjuncture between policy and implementation", in Risk and Opportunity, 2008

3 Information obtained from SOUTH AFRICA YEARBOOK 2009/2010. Chapter 13, Human Settlements. Published by the GCIS (Government Communication and Information Service), Pretoria, p308 Transformation Audit, Institute of Justice and Reconciliation, Cape Town, 2008, p94

a. Key institutions and stakeholders³

The Department of Human Settlements:

Formerly the Department of Housing, the DoHS is in charge of policy direction, budget allocation and implementation (i.e. delivery). Its change of name in 2009 also reflects a philosophical shift that's been in the making for a number of years. Indeed, it has long been clear that housing is not just about houses: building endless rows of houses with four walls and a roof do not make a community, nor does it provide schools, clinics, clean streets, recreational facilities or a sense of belonging to a neighborhood and a community. The DoHS is therefore not just in charge of building houses for the poor, but of ensuring that low-cost housing is integrated into a much more holistic vision of sustainable communities and neighborhoods. This is the basis of the Breaking New Ground approach (BNG) launched in 2004 with the global aim of building new integrated communities and break down spatial organisation patterns inherited from apartheid based on racial segregation.

The National Housing Finance Corporation:

The NHFC was set up in 1996 by the Department of housing as a development finance institution. Its mandate is to ensure that "every South African with a regular source of income is able to access finance to acquire and improve a home of his or her own".

The Housing Development Agency:

Created in March 2009, its mandate is to identify, acquire and hold land suitable for the creation and development of sustainable human settlements.⁴

b. The subsidy scheme

The most important financial framework of the national housing programme is the National Housing Subsidy Scheme. There are several layers and categories of subsidies, but in its simplest form, the scheme provides a basic subsidy of R 55,706 for households earning less than R 3,500. Households earning between R 1,501 and R 3,500 per month are expected to make an own contribution of R 2,479 towards this subsidy. Above income levels of R 3,500, households are no longer eligible for subsidized housing and have to turn to the private sector for housing solutions.

The subsidy amount, in effect, represents the cost of a 40m² housing unit

consisting of a bathroom, two bedrooms, a kitchen and a lounge. It is not provided to households in the form of a cash grant but paid to construction firms contracted by local and provincial authorities.

c. The results

What does Government have to show for its efforts? Quite a lot, in fact. As mentioned, an estimated 2.8 million homes were built for the poorest sections of the population, providing shelter for 13 million South Africans free of charge.

The housing programme has also, to a degree, been an important driver of black economic empowerment as it has provided a chance for many small black-owned enterprises in the construction industry to gain a foothold in the industry, consolidate their experience and build up expertise.

These achievements should not be minimised, but the harsh reality, however, is that these efforts have not been nearly adequate. The housing backlog of around 2.5 million units is higher than ever, and informal settlements keep growing on the outskirts of South Africa's urban centres.

There is a growing realisation that vision 2014 will remain just that for the time being, a vision, and that clearing up the housing backlog will remain a national priority for many years to come. Radical thinking will need to be introduced if any meaningful progress can be made on this topic.

2. The reality: Challenges of low cost housing, and the persistence of informal solutions

Among the multiple challenges that policymakers face, three stand out as particularly difficult to solve: location, limited financial and land resources, and the sustainability of the stand-alone housing model.

a. Location:⁵

Poor people, like anyone else, want to live as close as they can to their workplace and where they are most likely to get some access to basic services, including education for their children, healthcare and other essentials, including vital social networks. The implication is that people are reluctant to leave, even temporarily, when given promises that their informal dwellings

will be replaced by formal housing. There is one simple reason for that: informal settlements can accommodate many more people than the formalised, single unit RDP houses that replace them, and people have a justifiable fear that once they are temporarily moved, they may never be able to come back. As it turns out, several high-profile cases over recent years have proven that people currently living in informal housing have learnt to be suspicious of such assurances: perhaps the most prominent example is that of Joe Slovo residents in Cape Town, who fiercely resisted being forcibly removed to Delft on promises that they would be allowed back after housing projects were completed, and took their case to the Constitutional Court.⁶

b. Scarce financial and land resources:

The national budget for housing and community amenities in the 2009/2010 budget was R 81 billion or about 9% of the national budget. Of that amount, around R 13 billion is distributed to the provinces in the form of housing subsidies. This is, of course, a very significant allocation of financial resources: in comparison, the national defence budget is R 33 billion, and the health budget is R 98 billion.⁷

Finding land on which to build low-cost housing is another challenge: Is there enough such land close to places of work, suitable for construction and available at a reasonable price? If the current practice of building stand-alone, one-story single units of 40m² is continued, the answer is almost certainly negative. Whatever land remains available in and around cities is in high demand and government does not have the resources to compete with private stakeholders to purchase such land at market prices. One seemingly obvious answer may be to radically shift towards high-rise, high-density habitat. Such solutions, however, come with their own set of challenges, but these may still be more desirable than trying to build a second Cape Town, Johannesburg or Durban around each of these cities.

c. Stand-alone housing: how sustainable in the long run?

The above two challenges clearly point to the third one: how sustainable is it to persist with the stand alone, single unit housing policy? South Africa's urban centres, already plagued by urban sprawl, are getting ever larger. This low-density model also make related services such as

⁴ see www.nhfc.co.za

⁵ As outlined by Gerry ADLARD, Development Consultant associated with the African Centre for Cities, in "What is the future of informal settlements in Cape Town".

⁶ See "There is no way I'll go to starve and die in Delft", Sowetan, 21 August 2008.

⁷ <http://www.finance.gov.za/documents/national%20budget/2010/guides/Budget%20Highlights.pdf>

public transport even more difficult to make sustainable. The amount of land needed to build such housing is also increasingly scarce and therefore expensive. Policymakers have yet to clearly confront these realities but are faced with the difficulty of explaining this relative deprivation to poor constituencies who have been waiting for houses for years, and will be reluctant to accept high-rise blocks of flats when other have received stand-alone houses.

d. Does owning a house mean upliftment from poverty?

It is also worth asking, at this point, if owning a house really is the first step out of poverty it is often purported to be. It is true that a formal house, however basic, is an asset - but it is also a costly one that needs regular upkeep. Furthermore, subsidized houses are difficult to use as collateral for loans: banks are reluctant to accept such houses as collateral as they have limited market value and cannot immediately be sold by their new owners. Paradoxically, this leads many households to rent out their newly acquired RDP as soon as it is handed over to them, even if that means moving straight back to an informal dwelling: economically a very rational choice, as it is by far the best way to extract revenue from a newly acquired asset. This economic reality goes some way to explaining the 'backyarder' phenomenon, whereby shacks are built adjacent to newly built RDP units. The simple truth is that poor people aren't suddenly lifted out of poverty as a result of owning a formal house - it's just a first step on the ladder, "a necessary precondition for the accumulation of assets".⁸

Whichever way one looks at these realities, it seems unlikely that the dynamics behind the growth of informal settlements and the challenges associated with low cost housing will change any time soon. This reality is encouraging new thinking among development economists, public policy makers and the private sector, which are increasingly considering that informal settlements may gradually be upgraded and develop incrementally, especially if people who live in informal settlements no longer fear removal or eviction.

3. Where can the private sector help ?

There are a number of areas in which the private sector can intensify efforts to complement the public sector's drive to improve the housing situation, not only when it comes to the subsidized housing programme, but also when it comes to upgrading informal settlements and improving conditions in those settlements. These areas include, among others, housing finance, services, energy, insurance, and construction techniques.

Housing finance: Established financial institutions as well as newcomers are increasingly aware of opportunities and developing housing finance products adapted to the lower-end market. This includes "gap-housing", catering for people who earn above the R 3,500 threshold to be eligible for subsidized housing, but too little to qualify for a traditional mortgage. Gap housing finance is a significant growth market for banks: ABSA, for example, has increased its gap housing loan portfolio by 35% over the past year. Since 2004, it has lent over R 13.5 billion to low-income earners. Standard Bank, another of South Africa's large retail banks, is also entering this segment of the market, among others through a R 1.5 billion integrated development project in Durban.⁹

At the lower end market, there are also potential opportunities for micro-finance solutions to ensure the maintenance of subsidized housing as well as the upgrading of informal settlements. Kuyasa, a micro-loan outfit, is specifically catering for this end of the market and has granted 10,400 loans for a total value of R 56.5 million over the last 7 years.¹⁰

Upgrading Services: This is potentially the biggest single area in which the private sector can help improve low-cost housing, including informal housing. There is potentially a large market for low-cost construction materials, insulating materials, water retention and heating systems, sanitation and drainage systems, for example. Servicing households is another opportunity. In the Kenyan capital Nairobi's poor districts of Kibera and Matare, SC Johnson, a household brand, has been expanding economic opportunities and employment for young entrepreneurs who offer household cleaning services and pest control, thereby improving people's health and

well-being.¹¹

Energy: Innovation in energy supply can help to make energy not only more accessible to people low-cost housing, but also encourage small enterprise development. The prepaid electricity boxes introduced a decade ago in South Africa have helped to provide access to electricity in informal settlements, something that was not deemed possible before. New solutions are now being explored, including solar energy and energy efficient light bulbs. Global energy companies like Schneider Electric and Alstom are innovating in this regard with clean, safe and affordable energy solutions. Shell, another global energy giant, has developed the "Envirofit" stove, a cooking device that retails for the equivalent of R 250 and cuts smoke and toxic emissions by 20%.¹²

Insurance: How does one insure the contents of a shack against the elements and crime? Just as there is an existing market for funeral cover at the BoP which is already being serviced, there is also one for other contingencies to be insured. Families living in informal settlements are more vulnerable than others to events like fire, flooding, and damage to property. Such contingent events can have devastating effects on poor people's lives. Traditional insurance companies such as Metropolitan and Sanlam, already active in the funeral cover market at the BoP, could leverage on their existing knowledge and experience of the BoP market to extend that coverage and help protect people.

Construction techniques: Here is another crucial area in which the private sector can help to fill gaps and respond to specific individual needs not only to build formal low-cost housing, but also to upgrade informal structures incrementally. Several innovative construction techniques have emerged in South Africa over the last two decades. One example of such construction technology is provided by Moladi, a Port-Elizabeth-based firm that manufactures reusable plastic formwork used to build low-cost housing, a technique that is also being used to build clinics, community buildings and schools in around 15 developing countries around the world. With Moladi's plastic formwork, a low-cost, RDP-type housing unit of 40m² can be built for around R 45,000, 20% below the government's basic subsidy.¹³

⁸ Prof Caroline MOSER, quoted by ADLARD, Gerry, "A framework for formulating a strategy for the City of Cape Town to address poverty and urbanisation"

⁹ See Joan MULLER, "Closing the gap - Banks pour billions into affordable housing", Finweek, 18 March 2010.

¹⁰ See www.kuyasafund.org.za

¹¹ See for example "Schneider Electric launches In-Dya", <http://www.indiablooms.com/BusinessDetailsPage/businessDetails040210a.php>, 4 February 2010

¹² TAHIR Tariq, "The stove that won't kill the world's poor", The Times, London, 14 February 2010. http://business.timesonline.co.uk/to/business/industry_sectors/technology/article7026199.ece

¹³ See www.moladi.net

Conclusion: The need to introduce some radical thinking around housing and housing issues

Despite having one of the largest public housing schemes in the world, it seems quite clear that South Africa will miss its deadline to provide formal housing for all by 2014. This certainly does not mean that the vision itself is wrong, but rather testimony to the fact that it is impossible to disconnect the issue of housing from the underlying factors that push people to create their own facts on the ground much faster than any policymakers can cope with: Economic necessity, the search for a better life, for access to jobs, health and education. People who stay in informal settlements don't enjoy living in shacks, but it usually is the best option they have to choose out of a number of poor choices.

The inevitable conclusion is that informal settlements are going to remain part South Africa's peri-urban landscape for the foreseeable future, and that the establishment and policymakers will need to adapt to this reality.

The public housing scheme, for all its limitations, will also remain in place. Even if

some economists have pondered whether it may have been a mistake for South Africa to commit itself to providing free housing for the poorest, it would be politically unthinkable to renege on such a fundamental part of South Africa's post 1994 social contract, especially now that close to 3 million houses have already been built.

The most realistic way forward, then, is to assist people in upgrading and improving their settlements incrementally. As a rule, people are the best agents of their own upliftment, especially when some of the main uncertainties of their lives have been removed. Once people know that they won't be removed, even "temporarily", they are much more likely to invest in improvements to their dwellings, to their own benefit but also that of their communities. Provided with the right solutions at prices they can afford, they will upgrade habitat on their own devices. The private sector clearly has a major role to play in this regard. Innovative solutions, such as those we have outlined in this essay, can help people at the base of the pyramid to significantly improve their conditions.

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¹⁶ GOVERNMENT COMMUNICATION and INFORMATION System, South Africa Yearbook 2007/2008, Chapter 15. Pretoria, 2007, p419

¹⁷ X. "Africa awash in sunshine, but not solar energy", Mail & Guardian, 28 September 2008.

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