Housing Finance Policy in South Africa

by Warren Smit of the Development Action Group for the Urban Sector Network

Executive Summary

The housing finance policy framework implemented since 1994 has made significant achievements in the number of housing units delivered and is recognised by most stakeholders as fairly sound. There are still, however, a number of problem areas that need attention. The main problem areas can be divided into problems with the housing subsidy scheme, problems with housing credit and problems with the narrow focus of housing policy.

Problems with the housing subsidy scheme include an insufficient and uneven flow of funds; poorly co-ordinated and inequitable subsidisation; the declining value of the subsidy; and complicated subsidy approval and payout mechanisms. There are also problems with targeting and affordability of the ongoing costs of subsidised housing.

Problems with housing credit include the inappropriateness of formal finance; informal "redlining" by financial institutions; the lack of a secondary market; and households who do not qualify for the maximum subsidy or for mortgage loans (the "grey gap").

The suggested approach to housing finance policy is that the housing subsidy system should be part of the overall poverty reduction strategy aimed at the poor. In order to enhance and maximise opportunities for the poor, policy needs to recognise that the poor are not a homogenous group but highly internally differentiated. The literature suggests that survival and coping strategies depend upon a complex set of assets, capacities, capabilities and competencies. Thus, housing policies must include supportive, stimulatory and preventative measures. Preventative measures are important to protect subsidised housing from downward raiding. Specific measures need to be put in place to protect those groups who are not strictly defined as "poor" but do not qualify for a mortgage loan from banks.

Housing finance policy should have two key objectives:

- To improve the efficiency of the market by removing obstacles that prevent the private sector from increasing the supply of affordable housing or the public from buying or renting housing units produced by the private sector.
- To ensure that those who cannot afford to buy or rent housing produced by the private sector are adequately housed.

The paper argues that the emphasis on capital subsidies is appropriate. Capital subsidies are easier to budget for and are more equitable. It is however proposed that the subsidy scheme should be two-tiered. The poor (below approximately R1500 p.m.) require subsidies large enough to be able to provide adequate housing without any top up, but they also need access to consolidation loans at a later date. Those in the approximately R1500 to 3500 p.m. income bracket require loans linked to their subsidies, and the subsidies should be graded according to income, i.e. the higher one's income, the lower the subsidy.

The main policy recommendation is that the housing budget should be increased. Currently, only 1.4% of total government expenditure is spent on housing, which is extremely low by international standards (many developing countries spend more than 5% of total government expenditure on housing). The housing budget as a percentage of total government expenditure should ideally be increased to at least 2.5%. This would allow for the subsidy amount to be increased and would enable the government to maintain a delivery rate which will ensure that the urban housing backlog is eliminated by 2010, while at the same time to be able to start addressing the rural housing backlog. Increasing expenditure on housing would have a dramatic affect on the economy and on living standards, as housing policy is closely linked to both the macro-economy and to social welfare.

Subsidy amounts should also be increased to be able to provide better quality housing. An amount of R25 000 to 35 000 is typically required to provide adequate housing. Excluding bulk infrastructure costs, which can be funded from other sources, a housing subsidy amount of about R25 000 should be sufficient to produce housing of an acceptable standard.

Irrespective of the level of funding for housing subsidies, there are also a number of measures that are worthy of consideration to help address problems in the housing finance sector. These include: improved subsidy targeting; regular adjustment of subsidy amounts and eligibility criteria in line with changing conditions; increased cross-subsidisation of rates and service charges; increased information dissemination and education; greater integration of funding sources for urban development; establishment of a large-scale government guaranteed non-mortgage credit programme linked to savings and subsidies for households in the R1500 to R3500 p.m. income band; greater support for the creation of community based savings and loans institutions to provide home improvement credit to the poor; streamlined subsidy allocation and disbursement procedures; and the promotion of rental housing.

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Introduction

The existing housing finance framework in South Africa has been in place for more than five years, and has contributed to significant achievements in housing delivery. State intervention with regard to housing finance is essential to ensure that all households can get access to adequate housing, and although the housing finance policy framework set out in the Housing White Paper of 1994 is fundamentally sound, there still is scope for improvement.

This paper is divided into three sections. The first section sets the context. The second summarises the problems of the existing housing finance framework. The third section puts forward proposals to address the problems identified.

Section 1: Context

1.1 The Housing Backlog

There is a large housing backlog, although lack of a suitable definition of inadequate housing and no reliable statistics makes it difficult to quantify. The 1996 census showed 1.5 million households living in informal houses in urban areas and 1.6 million households living in informal/traditional housing in rural areas (Stats SA, 1998). More recently, the total housing backlog has been estimated at 3 to 3.7 million inadequately housed households (Department of Housing, 1999b).

Inadequate housing has to be seen as part of the poverty problem, which is linked to low incomes and unemployment. The 1996 census showed an unemployment rate (expanded definition) of 34% and this is continuing to grow (Stats SA, 1998, 1999). It is estimated that the number of formal sector jobs in South Africa decreased by 15% in the decade to 2000, and, despite fairly strong growth in the economy, decreased by 3% in the year 2000 alone[1]. The extent and depth of poverty in South Africa is evident from estimates that 36-39% of households do not have sufficient food to eat (Crothers, 1998; May, 1998).The use of the Composite Deprivation Index shows that housing and infrastructure are important components of poverty. Of those South Africans classified as most deprived by this index, 74% live in shacks or traditional dwellings and over 90% do not have access to piped water or modern sanitation (Klasen, 1996, cited in May, 1998).

In terms of housing affordability, it is estimated by the Banking Council that only 20% of households can obtain access to mortgage loans (which are generally over R50 000) to buy housing (Tomlinson, 1998). Only an estimated 22% of other households have access to non-mortgage finance, usually pension or provident fund secured loans of less than R10 000, which are too small for buying in the housing market. This means that up to 80% of new households are unable to gain access to adequate housing on their own.

1.2 Current Housing Delivery

In terms of the Medium Term Expenditure Framework (MTEF), about R3 billion a year is to be spent on housing subsidies for the next few years, which is equivalent to about 188 000 subsidies a year (Department of Finance, 2000). Table One shows the four main delivery models for low-income housing in South Africa, the main roleplayers and the support offered by different institutions. Of the approximately 750 000 subsidies delivered during 1994 to 1999, 73 000 were linked to mortgages, about 10 000 subsidies were part of community-controlled People's Housing Process projects, and recent figures show that about 2% of approved subsidies were institutional subsidies (Department of Housing, 1999a; Smit, 1999).

Table One: Current low-income housing delivery

Type of delivery	Main roleplayers	Financing mechanism	Other support	Approx. % of total subsidies disbursed 1994

				to 1999
Conventional completed houses	Private sector developers	Project-linked or individual subsidy plus loan	• National Urban Reconstruction and Housing Agency (NURCHA) guarantees for bridging finance • National Housing Finance Corporation (NHFC) wholesale finance for retail lenders • Assistance with repossessed properties and downsizing (Servcon and Thubelisha Homes)	10%
Incremental housing (serviced sites and core houses)	Private sector developers, local authorities	Project linked subsidy	• NURCHA guarantees for end-user loans and bridging finance • Joint Venture Development Fund funding for developers	87%
People's Housing Process (PHP) Core houses	Community-based organisations and support organisations	Consolidation subsidy or project-linked subsidy, PHP establishment grant	• People's Housing Partnership Trust (PHPT) grants and other support • NURCHA guarantees for end-user loans and bridging finance	1%
Social housing (rental or co-operative ownership of high density housing, e.g. flats)	Non-profit housing institutions	Institutional subsidy plus loan to housing institution	• Social Housing Foundation (SHF) grants and other support • Housing Institutions Development Fund (HIDF) loans • NURCHA guarantees	2%

The National Presidential Lead Project on Housing, one of the Presidential Job Summit initiatives, is set to deliver at least 50 000 units, of which 75% is intended to be rental. Government has contributed R75 million from the poverty relief fund plus R240 million in housing subsidies. The private sector has contributed R1.3 billion to the initiative (Ministry of Housing, 2000).

The housing finance framework is set to change in the future. The Department of Housing and NURCHA have set up a National Housing Savings Scheme, with the possibility of launching a savings-linked subsidy programme. There is also increasing emphasis being placed on “rural” housing, with a formula for the allocation of housing funds to provinces, which is biased towards provinces with large rural populations.

Section 2: Problems with the Existing Housing Finance Sector

Large numbers of housing units have been delivered and a sound policy framework has been put in place since 1994. There are still, however, a number of problem areas with the housing finance sector that need attention. These include problems with the housing subsidy scheme, access to housing credit and the narrow focus of the policy.

2.1 Housing Subsidy Scheme

Problems with the housing subsidy scheme include an insufficient and uneven flow of funds; uncoordinated and inequitable subsidization; the value of the subsidy not keeping pace with inflation; and the complicated subsidy approval and payout mechanisms. There are also problems with targeting and with the affordability of the ongoing costs of subsidised housing.

2.1.1 Insufficient funding

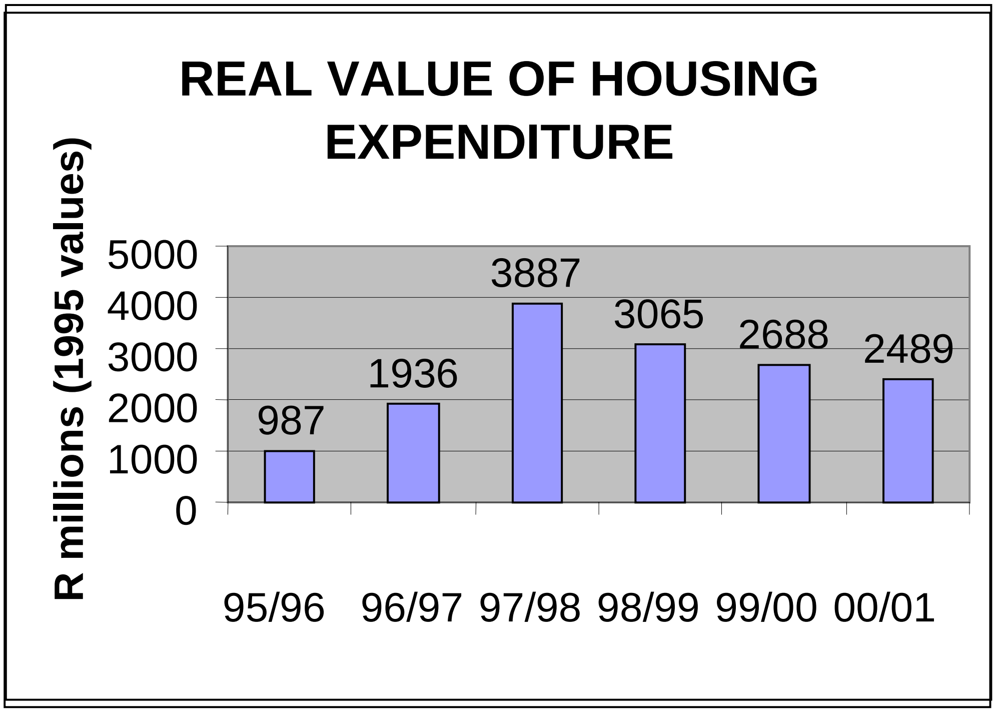
In 1994 the National Housing Goal of increasing expenditure on housing to 5% of government expenditure, from approximately 2% at the time, was set. In reality, the housing budget for 2001/2002 is only 1.4% of government expenditure, and this percentage has been steadily decreasing over the last few years (see Table Two). By comparison, the international average for housing expenditure as a proportion of total expenditure is 3.7%. In South Asia it is 5.4%, in the Middle East and North Africa it is 3.3% and in Latin America it is 3.1% (World Bank, 1993; May, 1998).

Table Two: Housing expenditure 1995-2002 (National Treasury, 2001)

Year	**Housing expenditure (R millions)[2]**	**National expenditure (R millions)**	**Housing expenditure as percentage of national expenditure**
1995/96	987	151 829	0.7
1996/97	2 070	176 291	1.2
1997/98	4 520	189 947	2.4
1998/99	3 748	201 416	1.9
1999/00	3 494	214 749	1.6
2000/01	3 433	235 048	1.5
2001/02*	3 718	258 318	1.4
2002/03**	3 944	277 323	1.4
2003/04**	4 078	297 524	1.4

*National budget for 2001/2002
**Medium-term expenditure estimates

It is generally accepted that housing delivery over the past five years has been insufficient to decrease the housing backlog (Department of Housing, 1999). Many critical analysts and observers primarily attribute this to government’s macro-economic policy, which necessitates controlling state expenditure in order to reduce the budget deficit. The housing budget is particularly vulnerable to cuts as over 90% of it typically comprises capital expenditure, whereas other budget lines, e.g. health and education, are over 95% operational expenditure (mainly salaries) and are consequently considerably more difficult to cut.



The graph illustrates a 36% decrease in real housing expenditure from 1997/8 to 2000/2001[3]. In terms of the MTEF, housing expenditure is expected to remain fairly constant (R3.5 to 4 billion) over the next three years.

Table Three shows that keeping the housing budget constant for the next ten years would only eradicate the urban housing backlog in the event of very low population growth. In this scenario, the rural housing backlog would not be able to be tackled. On the other hand, doubling the housing budget would eradicate the urban housing backlog within 10 years and would enable the rural housing backlog to be significantly reduced.

Table Three: Effect of keeping housing budget constant 2000-2010[4]

Backlog	**High population estimate**	**Low population estimate**
Urban backlog	Reduce backlog by 20% to 1.2 million	Wipe out backlog after 10 years
Total backlog	Backlog will increase by 25% to 3.7 million	Backlog will decrease by 45% to 1.6 million

Expenditure on housing can have dramatic effects on job creation and the quality of life of the poor, as housing policy is closely linked to both the macro-economy and to social welfare. Increased investment in housing can contribute to economic growth and job creation. For every increase of one house per year in the housing delivery rate, it is estimated that one permanent job and three temporary jobs are created (Robinson, 1999). In other words, increasing the delivery rate of subsidised housing from 200 000 to 300 000 units per year could result in an additional 100 000 permanent jobs and 300 000 temporary jobs (conversely, a reduction in the subsidised housing delivery rate from over 300 000 units a year to less than 200 000 units a year, has as occurred since 1997/98, could result in a similar number of job losses). It has also been estimated that investment in the building industry can create 2.8 times as many jobs as an equivalent investment in the commercial sector (NHF, 1994). Low-income housing uses more unskilled labour and imports than other types of construction. For example, studies in Kenya have shown that the labour-to-materials ratio is 45:55 for low-income housing, whereas it is 30:70 for high-income housing, and for an equivalent amount of expenditure low-income housing provides 50% more wages than high-income housing (ILO/UNCHS, 1995).

In terms of macro-economic effects, housing subsidies are only inflationary when they stimulate demand for bigger and better houses rather than ensuring that households who would not otherwise be able to acquire housing are able to acquire it, i.e. the inflationary effect of subsidies can be minimised by accurate targeting.

Expenditure on housing is also strongly linked to expenditure on health. Many illnesses, especially diarrhoea and tuberculosis, are linked to inadequate housing conditions such as dampness, overcrowding, and lack of access to clean water and adequate sanitation. Investment in housing can greatly reduce ill health, thus reducing health expenditure in the long term. Diarrhoea, for example, is the major killer of children aged 1-5 in most parts of South Africa (Seager et al, 1998). Households storing water are 4.6 times more likely to have diarrhoea than those who do not store water, and the provision of adequate water supply and sanitation is estimated to be able to reduce instances of diarrhoea by almost 50% (Thomas, 1998; Bond et al, 1998).

2.1.2 Uneven flow of funding

The funding available for housing has also been uneven from year to year. The Provincial Housing Development Boards (PHDBs) have often run out of money and frozen approval of new projects, sometimes for years at a time. The delivery rate has therefore been very uneven, which has had a negative effect existing (and building additional) capacity in the housing sector. Part of the reason is because many subsidies have been approved for proposed projects that were not ready for implementation or were “unimplementable”. Another reason is the lack of capacity of many provincial housing departments to spend, within allotted time frames, the housing funds allocated to them (for example, there is a widespread lack of capacity to effectively support the initiation and packaging of suitable housing projects).

The uneven and inadequate flow of funding forced some of the larger local authorities, such as the Durban and Cape Metropolitan Councils, to establish land release grants of about R5 000 per unit to provide basic services to settlements in need that cannot access housing subsidies in the short term. The new housing procurement policy is intended to rectify this situation by introducing long term planning based on housing needs identified by local authorities.

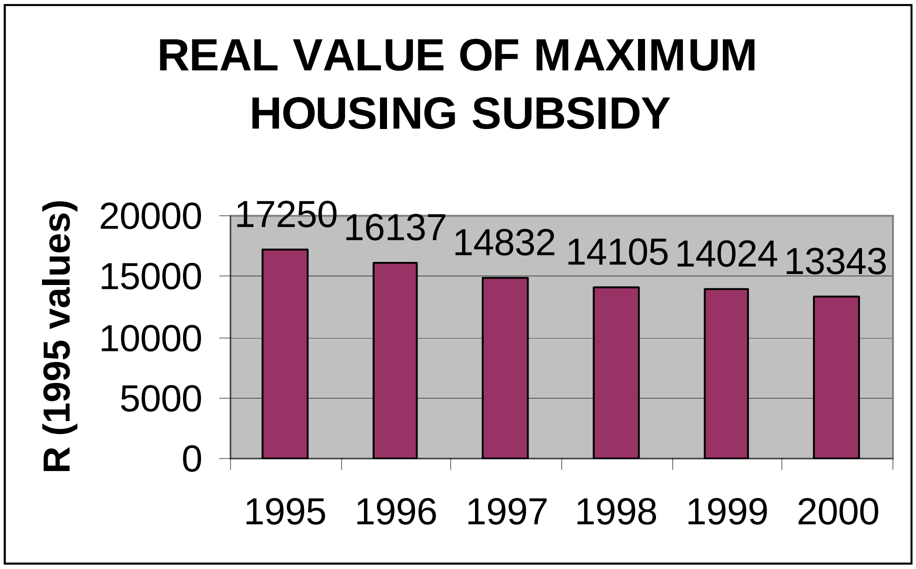
2.1.3 Poorly co-ordinated and inequitable subsidisation

There are a bewildering variety of subsidies for housing from a variety of sources. There is little co-ordination between subsidies from different sources, resulting in huge inequities in the amount of funding received by similar beneficiaries in similar projects in different areas. Apart from the housing subsidies, there are also facilitation grants and People’s Housing Process (PHP) establishment grants; start-up grants for housing institutions from the Social Housing Foundation; Consolidated Municipal Infrastructure Programme (CMIP) subsidies of up to R3 000 per housing unit for bulk infrastructure; and National Energy Regulator subsidies for electricity connections. In addition, the Department of Land Affairs has a grant of R15 000 for households to use for land acquisition, infrastructure, housing and/or agricultural equipment in rural areas.

There are also a variety of local authority grants and subsidised loans and hidden subsidies. Many local authorities subsidise the cost of land and /or internal infrastructure, and some local authorities provide grants and /or soft loans to non-profit developers and housing institutions. For example, it was estimated in 1999 by the Durban Metropolitan Council that projected local government expenditure on housing in Durban over the next 20 years could reach up to R3.5 billion, which is equivalent to more than 60% of the value of the housing subsidies expected to be received in this period (although some of this expenditure will be recovered via loan repayments or subsidies). The largest single items of expenditure are expected to be the provision of bulk infrastructure (although part of this cost will be covered by CMIP subsidies) and the subsidisation of internal infrastructure. The need for the additional subsidisation of internal infrastructure is a direct result of the limited amount of the subsidy.

2.1.4 Value of subsidy not keeping pace with inflation

The value of the subsidy has been steadily eroded by inflation, despite a R1000 increase in the maximum subsidy in 1999 (see Graph). The real value of the maximum subsidy decreased by 23% from mid-1995 to mid-2000[3]. This decline in the value of the subsidy has meant that whereas it was possible to produce a two-room core house on an adequately serviced site in 1995/1996, it is extremely difficult to that today without any additional subsidisation. Indeed, it is virtually impossible to comply with the *Norms and Standards for Permanent Residential Structures* without additional subsidisation (Robinson, 1999). The need to achieve a 30m^2 house within severe constraints usually results in poor standards of construction, typically houses with no ceilings, no insulation, inadequate ventilation, no plastering and inadequate roof overhangs. As a result, local government is being forced subsidise projects in a variety of ways, e.g. subsidising the cost of land and infrastructure or providing subsidised loans. Only a few local government bodies have been able to afford this, and it is doubtful how sustainable this is.



2.1.5 Complicated subsidy approval and payout mechanisms

Although, there have been successful examples of Provincial Housing Development Boards (PHDBs) attempting to speed up the approval and disbursement processes, in general they are still too cumbersome. There are blockages with payments, especially the P2 (town planning and survey fees upon approval of the general plan) and P4 (transfer of property) payments. This is due to delays with township establishment; the fact that one can only draw down from the P2 payment once 90% of P1 is drawn down (and so on); and having to build topstructures before transferring them. In some cases, developers do not find it worth the effort to obtain the final payments, and abandon projects before ownership is transferred. In general, the complex and lengthy approval processes for PHDB payments, and the PHDB limit on payments until identification of beneficiaries restricts housing delivery. PHDBs are being scrapped, but many of these problems will remain, as the provincial housing departments will continue to be responsible for administering the subsidy scheme.

2.1.7 Problems with targeting

It is uncertain to what extent the subsidy is being accurately targeted. Income is not a good measure of poverty, as the most deprived are not necessarily only those with the lowest incomes. The R1500 p.m. income limit for the maximum project-linked subsidy and the consolidation subsidy has proved particularly problematic, as it fairly arbitrarily excludes certain households in undeniably inadequate housing from participating in projects to improve their housing conditions. In addition, the complications in housing development in metropolitan areas have meant that housing delivery in metropolitan areas has, in relative terms, lagged behind housing delivery in smaller towns, where housing backlogs have been more manageable and suitable land has been easier to access. The shift towards a provincial housing budget allocation formula that favours “rural” areas will accentuate this trend.

2.1.7 Lack of affordability of ongoing costs of housing

Many households receiving subsidised housing are unable to pay rates, water charges or electricity charges, and risk being disconnected from services or even losing their properties. It has been found that 56% of households in Cape Town are unable to afford the typical minimum monthly rates and service charges of R100 to150 per month (CMC, 2000).

2.2 Housing Credit

Problems with housing credit include the inappropriateness of formal finance; the lack of a secondary market; and the problem of households who do not qualify for the maximum subsidy or for mortgage loans (commonly referred to as the “grey gap”).

2.1.2 Inappropriateness of formal finance

There does not seem to be a lack of mortgage lending in South Africa – mortgage loans form approximately 30% of the housing market in “township” areas, compared to mortgage loans forming an average of 10-20% of the housing market in developing countries (Smit, 1999; World Bank, 1993). Rather it is that mortgage loan design is inappropriate for low-income households and formal financial institutions have an inability to work with low-income borrowers. Many households have overextended themselves on credit and many households have lost their properties. In June 1999, banks in South Africa had 33 000 non-performing loans worth R1.8 billion in “township” areas (Smit, 1999).

Other forms of credit, e.g. loans secured by pension/provident funds, have increased (see Hassan in this volume for the example of the Gateway Home Loans initiative). This may not necessarily be the most appropriate form of credit for the poor, as it puts the borrower’s pension/provident fund at risk. Informally employed people, and often those who work for small businesses where there is no payroll deduction facility, are excluded from accessing formal credit. The standard 20-25% of income used in calculating affordable loan repayments is also too high; about 10% is a more realistic figure for low-income borrowers.

2.2.2 Lack of a secondary market

There is no secondary market for low-income housing. The housing subsidy is the single largest transfer of wealth, but it is only meaningful if it can be liquidated. It is meaningless if there is no secondary market. Currently, properties are being sold for nominal prices, defaulting borrowers are unable to sell their properties before a sale of execution and financial institutions struggle to sell properties they have repossessed. As a result, there is little incentive to invest in property, there are a high number of repossessions and banks are reluctant to grant mortgage loans in low-income areas. This has resulted in a problem with informal “redlining”, where in some areas, especially incremental housing projects, it is very difficult for people who would otherwise qualify for mortgage finance to get access to loans. The recently introduced restrictions on the sale of subsidised housing may further restrict the development of a secondary market, but its likely impact is unclear due to the fact that the majority of subsidised houses are not sold through formal transfer processes (Boaden and Karam, 2000)

2.2.3 The “grey gap”

In 1994-1999, 92% of approved subsidies were for households in the 0 to R1500 income bracket and only 8% to households in the R1501 to 3500 income bracket (Department of Housing, 1999a). Households in the R1500 to 3500 income bracket often have to take out loans merely to afford a serviced site, and households are finding it very difficult to do so. People earning R1500 to R3500 therefore confront formidable obstacles in accessing subsidies housing. In some projects they are excluded all together, while in others they receive smaller houses than households in the 0 to R1500 income bracket, or sometimes even just a serviced site without any house at all (Thurman, 1999).

2.3 Lack of Options

Housing policy has a narrow focus on the ownership of individual housing units on serviced sites developed by the private sector or local authorities. Non-ownership tenure options and community based delivery have both been neglected. Housing development has also tended to occur in isolation, with little integrated development.

2.3.1 Narrow focus on standardised product

The Housing Subsidy Scheme has concentrated on nuclear families and the ownership of houses on separate plots. The fact that subsidies are uniform in size regardless of household size encourages fragmentation of extended families and kinship groups, which are important survival and coping strategies for the poor (Yose, 1998; Smit, 2000).

Rental is an important tenure option for the poor as it allows for, among other things, greater labour mobility, which can be an important component of survival and coping strategies. The institutional subsidy is the only subsidy that specifically allows for rental as a tenure option, but only 2% of approved subsidies for the period 1994 to 1999 were institutional subsidies. In addition, institutional subsidies mainly address the R1 500 to R3 500 p.m. income bracket and are usually used for rent-to-buy schemes rather than long term rental. The Cape Town Housing Company initiative is a case in point (See Hassan; Porteous and Naicker in this volume).

2.3.3 Lack of community based delivery (PHP)

The empowering of communities and households to provide for their own housing needs is theoretically an important pillar of housing policy, but only about 1% of housing units were delivered via the People's Housing Process up to 1999 (bearing in mind that the People's Housing Process policy was only introduced in 1998). The delays caused by uneven funding flows and complex approval and payment procedures have had a particularly severe effect on community based delivery as the leadership in community based housing projects gets rapidly undermined by any delays in receiving subsidy funds (see Napier in this volume for a discussion of the People's Housing Process).

2.3.3 Integrated development

The financing of the development of new housing areas is not linked to the financing of schools, provision of community facilities, greening of public areas, and so on (apart from the Presidential Projects for Urban Renewal). There is usually little co-ordination between housing funding and funding for other components of an integrated urban environment. The subsidy system usually results in sterile peripheral suburbs with single houses on individual plots, which does little to improve the life of beneficiaries and does not contribute to restructuring apartheid spatial patterns (Thurman, 1999; Smit, 2000).

Section 3: Proposals

3.1 An Approach

Housing policy and interventions should essentially be part of the overall poverty reduction strategy and be aimed at the poor (where "poverty" is defined broadly as inadequate access to opportunities in society). In order to enhance and maximise opportunities for the poor, policy needs to recognise that the poor are not a homogenous group but highly internally differentiated. The literature suggests that survival and coping strategies depend upon a complex set of assets, capacities, capabilities and competencies. Thus, housing policies must include supportive, stimulatory and preventative measures. Preventative measures are needed to protect subsidised housing from downward raiding. Specific measures also need to be put in place to protect those groups who are not strictly defined as "poor" but do not qualify for a mortgage loan from banks.

Housing policy should have two key objectives:

- To improve the efficiency of the market by removing obstacles that prevent the private sector from increasing the supply of affordable housing or the public from buying or renting housing units produced by the private sector.
- To ensure that those who cannot afford to buy or rent housing produced by the private sector are adequately housed.

The subsidy system should be informed by the following principles:

- Must be aimed primarily at providing adequate housing conditions for the poor and, secondarily at assisting those who can not get access to affordable financing
- Must be transparent, with no hidden subsidies
- Must be progressive (i.e. the poor should receive larger subsidies than the better off) and horizontally equal (i.e. similar households should receive a similar level of subsidisation)
- There must be integration between different funding sources to enable the provision of integrated living environments
- There must be provision of a variety of tenure options, including rental
- Must lever savings and credit for housing
- Must stimulate the secondary market
- Must be sustainable
- Must maximise choice

The South African subsidy scheme's emphasis on capital subsidies is appropriate. Capital subsidies are easy to budget for and it is more possible to be equitable. The main alternative - interest rate subsidies such as the First Time Home Buyer's Subsidy - are inequitable, as the subsidies go only to those who can afford to take out loans. Moreover, the higher the loan, the higher the total subsidy. It is also difficult to budget for or control the total subsidy amount. The current subsidy scheme needs some minor adjustments, which includes better targeting; linking subsidies for certain category households to savings and credit; and ensuring that increased emphasis is placed on rental housing and community based delivery.

The subsidy scheme should be a two-tier system. Chile's housing subsidy scheme is a good example of a two-tier system that attempts to meet two objectives (Richards, 1995). Basic Housing Units are provided for poor households, as targeted by means testing. The non-means tested Unified Subsidy is a subsidy certificate aimed at middle-income families who fulfil a savings contract with a bank. The certificate can be exchanged on the open market. In Chile, however, the requirement that all beneficiaries need to save to access the subsidies discriminates against the very poor. It is essential that there not be any savings requirement for subsidies aimed at the poor.

Table Four shows the household categories that need to be taken into account for housing subsidisation in South Africa. The two tiers requiring subsidies have very different requirements. The poor (earning below approximately R1 500 p.m.) require subsidies large enough to be able to provide adequate housing without any top up, but they also need access to consolidation loans at a later date. Those in the approximately R1 500 to 3 500 p.m. income bracket require loans linked to their subsidies, and the subsidies should be graded according to income, i.e. the higher one's income, the lower the subsidy.

Table Four: Breakdown of housing need

Household category	**Access to housing credit**	**Housing subsidy need**	**Estimated proportion of housing market**
Middle and upper class (about R3500 +)	Access to mortgage loans of R50 000+	None	20%
Working class (formal employment) (about R1500-R3500)	Access to micro-loans of up to R10 000	Graded subsidy linked to savings and credit	40%
Poor (informal or irregular employment) Below R1500	Little access to housing credit	Maximum subsidy	40%

Subsidies for the poor would probably mainly be project-based, as project based subsidies are essential for People's Housing Process projects and for the *in situ* upgrading of informal settlements. For project based subsidies, beneficiaries have to wait for a project to be packaged and implemented before getting access to housing, which typically takes up to two years. Individual subsidies for the poor are also necessary, however, in order to stimulate the growth of a secondary market.

For households eligible for subsidies, but who are not identified as poor, savings at a certain percentage of income (depending on income, household size, etc.) for a stipulated period should be a requirement for accessing the subsidy. The household should sign a housing savings contract with an accredited financial institution, and if the savings record is satisfactory, the household should become eligible for a subsidy and the savings could be used as a deposit for a loan from the financial institution. This would ensure greater leverage of savings and credit for housing. Subsidies for this target group would need to be graded. It would be relatively easy to accurately grade subsidies that are linked to loans, because an accurate income and an accurate cost of the housing unit would be required by the financial institution in any event. Most savings and credit-linked subsidies should be individual subsidies. Individual subsidies, as opposed to project-linked subsidies, can provide more choice to the individual beneficiary about where they want to stay and what type of product they want, and can also provide for housing need much quicker than project-based subsidies.

The policy proposals below are divided into two sections. Proposals of a general nature are first discussed. There are then specific proposals for two scenarios, one in which there will be adequate funding for housing, and one in wherein the current level of funding will continue.

3.2 General policy proposals

Irrespective of the level of funding for housing subsidies there are a number of recommendations which could help to solve current problems with the housing finance sector.

3.2.1 Targeting

The current targeting of subsidies at households with incomes of R3500 or less seems to be appropriate, as it is largely this group that has difficulty obtaining access to mortgage finance. This income threshold needs to be regularly reviewed and adjusted if conditions change, however.

Targeting of the poor for the maximum subsidy should be improved, as income is an inaccurate way of identifying those most in need. The introduction of a more sophisticated system of means testing needs to be investigated, for example, the Ficha-CAS means testing questionnaire used in Chile (Richards, 1995). Households are awarded points based on household size, composition and living conditions, employment status, etc., as well as income. A system such as this may be too complex to introduce in the short term, but at the very least, current housing condition and size and composition of household should be taken into account (so, for example, all households in an informal settlement that is being upgraded could qualify for adequate subsidies irrespective of their level of declared income). This would help target the neediest while also ensuring that it is more difficult to defraud the system. In order for this to work, there needs to be increased linkages between government information databases to minimize the risk of fraud – deeds registers, database of taxpayers, database of social welfare recipients, home affairs database of citizens and ID numbers, and so on.

3.2.2 Making subsidy approval and disbursement mechanisms more streamlined and flexible

There needs to be better prioritisation and long term planning for subsidy approvals and disbursements, to ensure that there is an even flow of funding and that the most deserving projects are the ones that receive funding (this is now being addressed through the requirement for multi-year provincial housing plans). There should be provisional ringfencing of funds for different subsidy types (e.g. People's Housing Process subsidies and institutional subsidies) based on flexible targets agreed upon by all stakeholders, in order to avoid different types of projects competing for the same funds and to ensure a more balanced delivery profile. The capacity of authorities to be able to spend funds allocated to a specific type of housing delivery is also an important consideration (for example, Napier, in this volume, notes that some provinces have been unable to spend funds allocated to them to support PHP initatives).

The subsidy payment structure and process should be streamlined to reduce the need for bridging finance and speed up delivery. Being able, in certain cases, to access part of a subsidy (or bridging subsidy) before beneficiaries are identified could speed up delivery. It would enable local authorities to service land without delay and then allocate the serviced sites to beneficiaries, who could then decide on how to spend the remainder of their subsidies (since the introduction of the *Norms and Standards for Permanent Residential Structures*, there has been little scope for community participation in the choice of service levels in any event).

3.2.3 Information/education

Many households living in inadequate housing continue to have little or no knowledge of the Housing Subsidy Scheme or other ways of accessing adequate housing. At a local level, there should be housing advice centres/ offices operated by local government, CBOs and NGOs to provide information to inadequately housed people about sources of housing finance, options for obtaining housing and where and how to access credit.

3.2.4 Facilitating the provision of housing credit to top up subsidies and encouraging the use of household savings for housing

In order to ensure that households in the approximately R1500 to R3500 p.m. income bracket have access to appropriate forms of credit to supplement their subsidies and in order to ensure that the use of household savings for housing is encouraged, there needs to be a national savings and credit programme. Loans should be in the R10 000 to R25 000 range and should be non-mortgage loans. Government and accredited lenders should agree on the details of a scheme, and government-funded agencies should play a leading role in issuing guarantees for the scheme and being responsible for securitisation. Security for the loans should be flexible, in order to cater for the informally employed with stable incomes and for employees of small businesses with no pension/provident funds or payroll deduction facilities. Security for the loan scheme could be a combination of the following:

- savings record
- deposit
- part of pension/provident fund
- part government guarantee
- part bank's risk
- moveable property
- payroll deduction

By requiring households in this income category to save up a certain amount of money over a certain period of time as a precondition for accessing a subsidy, a number of objectives could be achieved simultaneously:

- Promotion of culture of savings
- Significant capital is accumulated by the household
- Lower risk for lenders results in increased bank lending (savings as security and proven savings record)
- Rationalisation of queuing for subsidies

Internationally, direct government involvement in retail lending has been unsuccessful. Providing guarantee products to unlock housing finance is a better option (NURCHA and HLGC currently do this). Where guarantees do not work, direct provision of wholesale finance may be necessary, especially to non-traditional retail lenders or housing associations (NHFC currently does this). Currently, the National Housing Finance Corporation (NHFC), National Urban Reconstruction and Housing Agency (NURCHA), the Home Loan Guarantee Company (HLGC) and Gateway Home Loans fulfill some of the functions of a national housing bank. These include: issuing guarantees; providing seed capital and wholesale finance for non-traditional retail lenders; providing loans to housing associations; and securitisation. This is done on a small scale, however, with much overlap between the institutions. These functions need to be co-ordinated and increased in scale, for example, by creating a national institution or a set of regional institutions.

The primary purpose of institutional consolidation or rationalisation should focus on issuing guarantees for end-user loans linked to subsidies and savings contracts[5]. Secondary functions could include:

- Seed capital and wholesale loans to community based finance institutions (plus other forms of support)
- Guarantees and/or loans to housing associations
- Guarantees for community-based/non-profit developers to obtain bridging finance

3.2.5 Facilitating the provision of housing credit to the poor by supporting the creation of community-based financial institutions

Internationally, formal financial institutions have shown an inability to address the needs of low-income households and it is unlikely that the formal sector will ever provide sufficient or appropriate housing finance for low-income households. There is a need to stimulate community-based financial institutions by providing them with seed capital and wholesale finance. The Banking Council of South Africa is also proposing something similar and is prepared to support the creation of such institutions, even to the extent of allowing such institutions the right to accept savings and undertake transmission activities, which are currently a monopoly of the banking sector (Coovadia, 1999). Examples like the Homeless People' Federation show that community-based savings and loan institutions can be successful in South Africa. This is similar to building societies, which started off in the nineteenth century when small groups of low-income households who were unable to obtain loans from formal sector institutions formed mutual companies owned by members, i.e. savings accounts holders. Onlending via community groups is becoming common internationally and is capable of reaching large numbers of households and achieving reasonable repayment rates. The Community Mortgage Programme in the Philippines provided housing finance to 456 communities (55 218 households) during 1988 to 1995, the Urban Community Development Office in Thailand provided loans to 160 organizations (15 000 households) during 1992 to 1995, and FONHAPO in Mexico gave loans to 800 communities in 6 years, which benefited 250 000 households ((Lee, 1995; Yap, 1996; Mitlin, 1997).

3.2.6 Cross-subsidisation of ongoing costs of housing

Currently, many beneficiaries of subsidised housing are unable to afford the ongoing costs of the housing. This can be remedied by cross-subsidisation of user charges using block rising rate tariffs and not levying rates for properties up to the value of the maximum subsidy. For example, in Durban, water usage of up to 200 litres per day is not charged for (this is now being implemented by many other local authorities), lower levels of water supply are charged for at lower rates and properties with a value of less than R25 000 are not liable for rates.

3.2.7 Stimulating rental housing

International experience demonstrates that rental housing tends to offer better location, services and infrastructure than self-help housing and assists in labour mobility, which is an important survival strategy of low-income households (Gilbert, 1997).

Rental is important, but it should not receive significantly higher levels of subsidy than ownership. Ongoing open-ended subsidisation of rentals or payment of a significant rental allowance is unsustainable for all but the wealthiest countries (Watson, 1996). If one were to have a rental allowance equivalent to a R20 000 to R25 000 capital subsidy, this would equate to an allowance of only R85 to R105 p.m. over a 20 year period, which would not even cover the operating costs of a small rental unit, which are typically R300 to R500 p.m. for social housing (USN, 1999). Another option for rental subsidisation is a capital subsidy invested in a savings account, and a portion of the monthly interest used as a rental supplement. The problem is that even at fairly generous interest rates, e.g. 15%, half of the monthly interest on an amount of R20 000 to 25 000, would only be R125 to R150 p.m. This would also be far less than the monthly cost of a typical rental unit.

Rental housing for the poor could therefore only be subsidised if the levels of subsidisation were considerably higher than levels of subsidisation for ownership. Households which qualified for rental allowances could presumably also qualify for ownership at some point, which would increase the degree of inequity in subsidisation.

Social housing, which will therefore continue to be mainly for the R1 500 to R3 500 p.m income group due to the need to pay for the operational costs, should form at least 5% of subsidised housing delivery (as opposed to the current 2%). Institutional subsidies should be used for long term rental or co-operative ownership, as opposed to rent-to-buy (which is being used as a way to get larger subsidies for individual ownership). A greater level of subsidisation for ownership of completed housing units compared to incremental housing units is inequitable and regressive. A higher level of subsidisation can only be justified where it is for a rental unit that will continue to provide accommodation for low-income households in the decades to come.

Ways of increasing affordability for the poor should be investigated, for example, higher institutional subsidy or increased tax relief for providing low-income rental accommodation. The provision of loans and guarantees to housing associations by a government agency or agencies is also important, as international experience shows that social housing institutions always have difficulty accessing loans from banks.

One way of increasing rental housing is by encouraging homeowners to rent out rooms, by:
- Providing credit for owners to add on/convert rooms or backyard structures for rental.
- Co-ordination of information on the availability and cost of rental accommodation, by local authorities for example.

This would be cost effective because adding rental units to existing housing means there would be no additional land costs, and would therefore be a way of providing affordable and adequate rental housing in the short term, while encouraging densification and assisting property owners in improving their housing. Encouraging inequity is not an issue because most studies have shown that landlords' incomes differ little from that of their tenants (Gilbert, 1997).

3.2.8 Integrated development

A subsidy to assist local authorities to provide multi-purpose community facilities and parks/playgrounds/sports fields is required. This subsidy, together with the existing bulk infrastructure subsidies, should be linked to housing subsidies, so as to facilitate the delivery of integrated living environments. Apart from providing subsidies for community facilities and bulk infrastructure together with housing subsidies, other support mechanisms, such as job creation programmes, and the delivery of education and health care, should also be integrated with housing delivery.

There should be small loans to builders and building materials suppliers as part of incremental housing projects. Offering housing subsidies/loans to households together with support for local builders and building materials suppliers can assist local economic development in an area. For example, Thailand's National Housing Authority devotes a substantial proportion of its funding to micro-enterprise loans (Mitlin, 1997). A substantial subsidy increase to accommodate higher land costs for well located projects in cities is also necessary, in order to facilitate the restructuring of apartheid spatial pat*terns.

Currently, housing is not linked to general social welfare policy, even though South Africa has a more extensive social support system than any other developing country, apart from Chile - it has been estimated that the poorest 40% of households in South Africa receive 26% of their income from social support (Van der Berg, 1997). New housing projects often greatly increase the housing costs of a household and can have a negative impact in other ways, for example, increased transport costs. Housing subsidisation needs to be linked to other social support mechanisms to ensure that there is not just a focus on providing physical shelter and access to infrastructure, but that there is an integrated package of support for the poorest and most disadvantaged. For example, food aid, skills training, rates and service charge rebates, participation in employment programmes, and so on.

3.2.9 Appropriate regulations and standards

Land use and zoning regulations must ensure availability of land for housing, and plot sizes and infrastructure and building standards must be realistic in order to ensure that the poor are not excluded. For example, the minimum house size of $40m^2$ applied in the Free State resulted in the exclusion of the poor from subsidies (Smit, 1999).

3.3 Two Policy Scenarios

Although the quantum of the housing budget is not the only factor affecting housing delivery, the amount of funding for housing subsidies will determine the scale and quality of housing delivery. Under the current level of funding for housing subsidies (R3 billion per year during 1998 to 2001), the most appropriate use of funds would be to subsidise serviced sites (in urban areas only), while facilitating the provision of credit for consolidation. This would maximise the impact of housing expenditure and ensure an adequate delivery rate. If the funding for housing subsidies was substantially increased, for example, doubled, it would enable a minimum of a two-room house to be provided to every household and would allow some inroads to be made into the rural housing backlog. Table Six contrasts the two scenarios.

Table Six: Housing subsidy options for increased budget and constant budget

Subsidy strands	**Increase in housing budget (doubling amount spent on housing subsidies to R6 billion p.a.)**	**Constant housing budget (R3 billion p.a. spent on housing subsidies)**
Maximum subsidy for the poor (below about R1500)	Subsidy of up to R25000, for ownership of serviced site and small house	Subsidy of about R15000, for delayed ownership of serviced site and wet core (if beneficiary does not occupy the site or moves within a certain period, the site reverts to the ownership of the local authority)
Graded subsidy for the approximately R1500-R3500 p.m. income group)	Graded subsidy of R10000-R20000 linked to non-mortgage loan of R10000-25000.	Graded subsidy of R5000-R15000 linked to non-mortgage loan of R10000-25000.
Consolidation subsidy	Consolidation subsidy of up to about R10000	No consolidation subsidy
Institutional subsidy	Institutional subsidy of up to R25000	Institutional subsidy of up to R18400

Table Seven illustrates that doubling the funding for housing subsidies would result in the urban housing backlog being eradicated within 10 years, and a substantial reduction in the rural housing backlog could also be made. If the budget is kept constant, reconceptualisation of the subsidy scheme could still ensure that the urban housing backlog is virtually eradicated within 10 years alongside some progress being made in addressing the rural housing backlog. The quality of the housing produced by the increased housing budget in the first scenario, however, will be considerably higher than that produced by a constant budget in scenario two (as subsidy values will be 50-70% higher).

Table Seven: Effect of policy proposals for increased budget 2000-2010[4]

Backlog	**High population estimate**	**Low population estimate**
Urban backlog	Wipe out backlog after 10 years	Wipe out backlog within 10 years
Total backlog	Backlog will decrease by 15% to 2.5 million	Backlog will decrease by 85% to 0.4 million

Table Eight: Effect of policy proposals for constant budget 2000-2010[4]

Backlog	**High population estimate**	**Low population estimate**
Urban backlog	Backlog will decrease by 75% to 0.4 million	Wipe out backlog within 10 years
Total backlog	Backlog will decrease by 5% to 3 million	Backlog will decrease by 75% to 0.8 million

3.3.1 Best case scenario: Doubling the amount of money spent on housing subsidies

The housing budget as a percentage of total government expenditure should ideally be increased. Doubling the amount of government funding for housing subsidies would enable the housing delivery rate to be increased and subsidy amounts to be increased, which would enable urban backlog to be eliminated within 10 years and would enable an adequate standard of housing to be provided. Table Nine shows that doubling the funding on housing subsidies to R6 billion per year and increasing the maximum subsidy amount to R25 000[6], could result in a delivery rate of 310 000 units a year. Assuming an additional R0.5 billion per year on other expenditure, the housing budget would be equivalent to 2.5% of total government expenditure in 2001/2002. This level of funding would need to be regularly increased until the housing backlog has been reduced to more manageable levels, as the amount of the subsidy would need to be regularly adjusted for inflation.

Table Nine: Proposed housing subsidy scheme for increased housing budget

Type of subsidy	**Details**	**Housing delivery (subsidy funding of R6 billion p.a.)**
Subsidy for the poor, mainly project-linked	R25000 plus potential access to consolidation loans of up to R5000 from community based finance institutions	125000
Savings and credit-linked subsidy, mainly individual	Graded subsidy of R10000-R20000 linked to savings plus loan of R10000-R25000	125 000
Institutional subsidy	R25000, linked to monthly repayment	20 000
Consolidation subsidy[7]	Up to max. of about R10000	40 000
TOTAL		310 000

Increasing expenditure on housing would potentially allow the rural housing backlog to begin to be addressed in the near future. Rural “housing” is broader than urban “housing”, and needs to form part of an integrated rural development strategy. Funds for rural “housing” should be consolidated with funds for other aspects of rural development in a dedicated rural development fund. Rural development is a complex issue, and needs to be addressed with caution, as many rural settlements are unviable and are artificially overpopulated as a result of apartheid population controls in the past, and providing formal housing will encourage people to remain there and may entrench their poverty. In addition, subsidies for rural areas need to be more flexible than subsidies for urban housing. Whereas housing in urban areas primarily has a residential function, providing a base for participation in the economy, rural settlements usually have (or should have) a primarily agricultural function, and consequently, land, equipment, access to credit for seeds, and so on, may be more of a priority than housing. In the same way that housing subsidies in urban areas require housing advice, rural development subsidies need to be linked to technical advice. The isolated location of many rural settlements also usually means that providing infrastructure is considerably more difficult and expensive than in urban areas, and in some cases the entire subsidy amount may need to be spent on providing infrastructure.

3.3.2 Worst case scenario: Maintaining the current level of expenditure on housing subsidies

If the total amount of money spent on housing subsidies remains constant (R3 billion per year) there will need to be a fundamental shift in the nature of the subsidy scheme, away from the provision of houses towards the provision of serviced sites, in order to ensure that the delivery rate is sufficient to reduce the housing backlog within a reasonable time period.

The maximum subsidy amount would need to be adjusted to the value of serviced site with wet core, in order to ensure a sufficient housing delivery rate. The consolidation subsidy would need to be scrapped as it would be impossible to justify in a context of limited expenditure on housing. Similarly, rural housing would not be able to be a focus of housing policy, as the more definable and more easily addressed housing need would be in urban areas.

The maximum subsidy should be sufficient for a serviced site and a wet core, for example, about R15 000. As completed housing units will not be able to be provided, the rights of the beneficiary should be linked to continued occupation, i.e. some system of delayed transfer or rental of the serviced site from the local authority. Ensuring support for housing consolidation, for example, the provision of technical advice by local authorities and access to credit from community based financial institutions, will be increasingly important.

Table Ten shows that maintaining the funds available for subsidies at a constant R3 billion per year could achieve a delivery rate of 240 000 units per year.

Table Ten: Proposed housing subsidy scheme for constant housing budget

Subsidy types	**Details**	**Housing delivery (subsidy funding of R3 billion p.a.).**
Subsidy for the poor, mainly project-linked	R15000 plus potential access to consolidation loans of up to R5000 from community based finance institutions	115 000
Savings and credit-linked subsidy, mainly individual	Graded subsidy of R5000-R15000 linked to savings plus loan of R10000-R25000	115 000
Institutional subsidy	R15000, linked to monthly repayment	10 000
TOTAL		240 000

Conclusion

It is clear that one of the main reasons why South Africa has not been able to reduce the housing backlog is due to inadequate expenditure on housing (the issue of lack of capacity to initiate new housing projects is largely related to the lack of adequate and consistent funding). The inadequate rate of housing delivery has resulted in millions of people continuing to live in inadequate housing conditions, job losses in the construction industry, and high expenditure on health care for problems caused by lack of adequate housing and infrastructure.

International experience shows that countries which successfully solved their housing problems (and benefited economically in the process), such as Sweden and Singapore, succeeded because of strong ideological commitments to spend consistently high proportions of the total government budget on providing low-income housing. The underlying factors why countries such as these were able to effectively address their housing problems are (Headey, 1978):

- The governing party had a strong ideological belief in its housing policy, i.e. providing public rental housing for all low-income households, and spent a consistently high proportion of the budget on housing (up to 20% of all government expenditure in the case of Sweden).
- The cabinet decision making was collective and the Ministry of Finance did not play as dominant a role in decision making as it often does in many other countries.
- The governing party created or promoted powerful interest groups which supported the government’s housing policies, e.g. non-profit developers’ organization, construction workers union, housing co-operatives and the national tenants’ association.

Working towards adequate housing for all still remains a national goal of enormous importance with regard to poverty eradication. It is hoped that future national budgets will reflect this and that the housing policy framework will be able to facilitate the achievement of this goal.

End Notes

1. “Job losses accelerate as economic growth hits a four-year high in SA” by Sanchia Temkin in Business Day (first edition), 28 March 2001 (http:// www.bday/ content/ direct/ 1,3523,819908-0,00.html). “Labour movement in SA appears to be losing ground: report” by I-Net Bridge, http:// www.bday/ content/ direct/ 1,3523,819506-6078-0,00.html, Mar 27 2001 03:24:43:000 PM.

2. The largest component of the housing budget consists of additions to the South African Housing Fund, from which funds for housing subsidies are allocated. This component has typically been about R3 billion per year during 1998 to 2001. The rest of the housing budget consists of the operational costs of the Department of Housing, including: administration; policy planning; programme management; monitoring of housing performance; and communication. Annual expenditure on these activities has been in the R400 – 700 million range during 1998 to 2001 (and it has been decreasing during this period).

3. Actual expenditure in Rands has been adjusted for the Consumer Price Index (CPI) as for June in each financial or calendar year.

4. South Africa has a dearth of reliable statistics (apart from the census figures for 1996), which means that any demographic modelling has of necessity to be fairly crude. The high and low population growth scenarios are based on the 2010 population projections of 45.7 to 57.5 million by the Population Reference Bureau (cited in the South African Institute for Race Relations, 1998). This wide range in estimates is due to uncertainty about the impacts of HIV/AIDS and migration. A current total housing backlog of 3 million households is assumed (1.5 million in urban areas). The annual growth in the housing backlog is estimated as 55 000 to 230 000 households (26 000 to 140 000 in urban areas). These figures are considerably lower than the often quoted figure of an additional 200 000 households per year in urban areas, which is an estimate from the early 1990s based on population models formulated prior to South Africa’s first comprehensive census in 1996, which showed fertility rates and population growth to be much less than had been generally thought.

5. It is estimated that a total guarantee capacity of R950 million would be required to guarantee 125

000 loans, of R10 000 to R25 000, per year. This is approximately eight times the current guarantee capacity of NURCHA.

6. An amount of about R25 000 to 30 000, including bulk infrastructure costs, is required to provide adequate housing, i.e. a minimum of a 30m^2 housing unit, with in-house water supply and waterborne sewerage (BESG, 1999). Excluding bulk infrastructure (the cost of which is covered by local authorities and/or the CMIP subsidy of R3000), a housing subsidy amount of about R25 000 should currently be sufficient.

Typical Cost of Adequate Housing (based on BESG,1999)

Component of adequate housing	**Internal infrastructure cost (Rands)**	**Bulk infrastructure cost (Rands)**
Water: house connection	2000-2500	1500-2000
Sanitation: waterborne sewerage	3000-5000	2000-3500
Roads: mix of graded, gravel and tarred, with open stormwater drains	3000-4000	1500-2000
Streetlighting	1500-2000	N/A
TOTAL INFRASTRUCTURE	9500-13500	5000-7500
30m^2 core house	10000-15000	
TOTAL	24500-36000	

7. Consolidation subsidies are intended to assist owners of serviced sites to be able to improve or rebuild their houses. In the early 1990s there were an estimated 600 000 to 800 000 serviced sites in South Africa, of which only 65 000 had received consolidation subsidies by the end of 1999. Increasing the housing budget would enable consolidation subsidies to be continued. They should be available for all households in the 0 to R3 500 income band and be graded according to income. The consolidation subsidy amount needs to be adjusted so that the final end product it is in line with the end product affordable from other types of subsidies (currently beneficiaries of consolidation subsidies get a better end product than most other subsidy beneficiaries).

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