

# Housing & Land Funding Programmes Review Report in support of the LANDfirst Approach

Final Draft

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## EXECUTIVE SUMMARY

In the early 1990s the ANC undertook extensive consultations with a wide range of experts. This process resulted in the Reconstruction and Development Programme (RDP), which was aimed at addressing the many social and economic challenges facing the country. One of the key principles of the RDP, in relation to Housing, read as follows: *'Provide well-located and affordable shelter for all... To build 1 million houses in five years.'*

In *Towards a Fifteen Year Review*, the Policy Analysis Unit in the Office of the Presidency recognised the strides made in the delivery of housing between 1994 and 2008; 3 132 769 housing subsidies were approved; R48.5 billion was spent on delivering 2 358 667 units giving access to state subsidised housing opportunities to 9.9 million citizens, with 53% of the subsidies used for women-headed households. The *Review* also recognised that by 2006, the housing programme could not keep pace with the growing number of households.

Currently the Department of Housing acknowledges that access to well located land is one of the major blockages in the housing delivery chain, a blockage compounded by intergovernmental weakness. The current national housing budget is approximately R10 billion. In a study by KPMG commissioned by the National Department of Housing and published in 2006, it is estimated that R102 billion would be needed to overcome the housing shortage by 2012.

The solution to this challenge lies in an increased allocation to the housing budget, and creative funding solutions incorporating individual and private sector contributions.

It is within this context that Afesis-Corplan, an East London based NGO that has been doing work in local governance and settlement related issues since 1992, has developed the 'Land First' concept, which is essentially about providing people with access to land (and basic services, basic tenure, etc) as a first step to incrementally and progressively improving the lives of people living in slum conditions. During October 2008, Afesis-corplan with the support of the Urban Landmark (ULM), conducted a series of workshops around the country on land access for settlement development. (Land Access Workshop Series Report, 2008)

LANDfirst is an approach to settlement development that emphasises the provision of planned secure land with basic services as a first step towards a longer-term housing and

settlement upgrading process. The LANDfirst approach to settlement development starts with government providing a 'basic' level of development. People are then able to stay on or occupy and later build their own homes. Government then comes back at a later stage to provide additional subsidies to allow tenure and services to be upgraded and people to improve the houses that they had started to build. An alternative terminology for 'land first' that could be used is 'incremental settlement'. It can be contrasted with most existing settlement development programmes that focus on the immediate provision of a complete 'full house' as part of a fully planned and serviced project. (LANDfirst Campaign Strategy, 2009)

In the workshops with stakeholders the following points emerged as the basis for a 'vision' for access to residential land:

- 'All people in South Africa have access to land on which to live, which is affordable, with some form of security of tenure and with access to basic services and tenure;
- The land is well located and integrated with other land uses; people have options of where to live, in what type of houses, and where household livelihood strategies are supported;
- People are generally able to live where there are minimal need for disruptive removals, where new land is made available in well located areas; and housing environments are progressively upgraded over time in a programmatic manner;
- Government listens and responds to the needs of people and people participate in decisions about land and housing (Land Access Workshop Series Report, 2008).

This study will attempt to establish which of the available land acquisition, development and housing funds would be able to support the LANDfirst approach.

## **I. STRUCTURE OF THE REPORT**

The purpose of this document is to review existing and planned government programmes for the acquisition and development of land for residential use. It will explore some of the key challenges and gaps within housing provision arena; as well as attempt to highlight some alternative approaches through exploration with the private sector and international experience.

The document will broadly consist of three parts, namely: methodology, results and conclusions. The results section will also include the matrix of the housing need, current provision and gaps.

## **2. INTRODUCTION/BACKGROUND**

In the South African context the mandate for housing provision is derived mainly from the Constitution of the Republic of South Africa (Act 108 of 1996). In terms of section 26 of the Constitution, **everyone has the right to have access to adequate housing** (Section 26(1)). The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right (Section 26(2)). The legislation that the Department of Housing has promulgated and implemented falls squarely within this Constitutional imperative. Furthermore, according to Section 25 (5) of the constitution: The state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis.

Section 2 of the Housing Act, 1997 (Act No. 107 of 1997) compels all three spheres of government to give priority to the needs of the poor in respect of housing development (Section 2(1)(a)). In addition all three spheres of government must ensure that housing development -

- provides as wide a choice of housing and tenure options as is reasonably possible;
- is economically, fiscally, socially and financially affordable and sustainable;
- is based on integrated development planning; and
- is administered in a transparent, accountable and equitable manner, and upholds the practice of good governance (Section 2(1)(c))

Through its legislation, existing and future, and the Housing Code, the Department of Housing is carrying out its legislative imperative as set out in the Housing Act, 1997.

According to the authors of the Housing Atlas Study 2005, ‘...the main purpose of housing delivery in the first decade after 1994 was aimed at the **reconstruction and development of marginalised** neighbourhoods and fragmented cities. This first wave of response was characterised by:

- A relatively even national geographical spread of infrastructure investment and development spending (related to both housing and service delivery);
- A focus on the quantum of delivery of houses and basic services;
- A focus on standalone houses on single plots;
- The provision of new housing projects on the urban periphery.

Whilst this approach started to address many of the imbalances and needs of the marginalised, many additional challenges become more eminent as the urban and rural landscapes gradually changed, such as the diversification of the needs of an increasing mobile population, as well as a need to maximise the potential that can be achieved through strategic spatial infrastructure development and housing delivery.

This has given rise to a ‘new way of thinking’ about housing provision to offer greater economic, social and recreational opportunities whilst at the same time achieve more sustainable human settlements. As stated in the government’s new housing policy also known as Breaking New Ground, what we are trying to achieve as a country is: ‘...*the achievement of a non-racial, integrated society through the development of sustainable human settlements and quality housing*’ (“Breaking New Ground” 2004:7)

This new approach furthermore assists government to meet some of its **broader objectives of economic development & growth, poverty alleviation and crime management**, as follows:

- Supporting the functioning of the entire single residential property market to reduce duality within the sector by breaking the barriers between the first economy residential property boom and the second economy slump;
- Accelerating the delivery of housing as a key strategy for poverty alleviation;
- Utilising the delivery of housing as a major job creation strategy;
- Ensuring property can be accessed by all as an asset for wealth creation and empowerment

- Leveraging growth in the economy; and
- Combating crime, promoting social cohesion and improving the quality of life of the poor (Housing Atlas, 2005: 4).

In addition to the constitutional imperatives, the South African housing sector has to contribute positively to the achievement of the Millennium Development Goal 7 Target 11 which is: 'to have achieved significant improvement in the lives of at 100 million slum dwellers by 2020'.

The National Housing Code 2004 Chapter 13 set a target for upgrading the living conditions of close to 2.9 million households in informal settlements over a period of 15 years (2005-2020). It makes reference to and is in line with the MDG goal of "improving the lives of at least 100 million slum dwellers by 2020" as proposed in the *Cities Without Slums* action plan. It is subsequently confirmed in Part 3 (2007) as the national goal to upgrade all informal settlements by 2014. However, numerous public political statements and policy documents at all levels of government refer to the 'eradication' of all informal settlements by the set date.

Setting targets for the upgrading of informal settlements is both necessary and an obvious key indicator of political will. However, the target articulated in Part 3 / Ch 13 has been widely misinterpreted to imply that the government will build new top structures for all the residents of informal settlements by 2014.

Counting new top structures alone is a counterproductive measure of improving the lives of informal settlement households. Notwithstanding the continued large-scale provision of new housing, promising new housing for all informal settlement households by 2014, establishes a very challenging target that is unlikely to be met.

According to the National Upgrading Support Programme (NUSP), the following calculation illustrates the financial implications of the country's target of 'eradicating informal settlements' and ensuring that South Africans have access to adequate shelter:

- *1.6 million households living in informal settlements (Stats SA Community Survey 2007)*
- *Cost of a serviced stand and top structure at R67 916 (2008/09 Subsidy Quantum: top structure R43 506; informal settlement upgrading, excluding relocation grant: R24 410)*
- *1.6 million serviced stands and top structures would cost around R108.7 billion.*

A number of programmes and strategies are then developed around these from a number of institutions, ranging from National Government Departments such as DoH and DLA; provincial and local government; National institutions and funds were established to facilitate some of these programmes; Non-governmental sector/alternative approaches; and private sector role and involvement – such as private property developers and the Commercial Banks.

According to the Department of Housing, approximately 70% of households in SA are currently excluded from access to housing credit through the formal banking sector. Through the housing subsidy scheme, the 40% of households for which housing credit is not a viable option are provided with a housing unit, the so-called RDP housing unit. The upper income bracket of the subsidy scheme requires end user finance to access a housing product. Thus 30% of the SA population who are under- or un-served as a result of:

- The conventional banking sector being unable to service them due to structural incompatibilities;
- Insufficient capacity in the emerging, increasingly successful but inadequately funded specialised lending sector;
- Insufficient focus by Government and the private sector on alternative tenure forms.

The Department of Housing following intensive local and international research, the National Department of Housing concluded that 4 mutually comprehensive and supportive approaches should be adopted in order to assist the under- and un-served portion of the population to access housing. These are:

- Government initiative aimed at facilitating and encouraging the formal banking sector to increase lending to the lower end of the housing market;
- Proactive steps to foster growth and development of the emerging alternative lending sector;
- A major initiative to stimulate the provision of housing under a variety of tenure options; and
- Mechanisms to substantially promote and expand the amount of personal savings mobilized in the housing process ([http://www.housing.gov.za/Housing\\_Programmes.htm](http://www.housing.gov.za/Housing_Programmes.htm)).



According to the Department of Land Affairs (DLA) government's Land Redistribution Programme seeks to comply with the provisions of Section 25(5) of the Constitution by providing land to the poor for residential and productive purposes. The Provision of Land and Assistance Act (No 126 of 1993), provides the legal basis for the acquisition and transfer of land to historically disadvantaged individuals and municipalities to achieve constitutional objectives. For urban renewal and slum clearance policies to be in line with the Breaking New Ground Strategy it needs to go hand in hand with rapid land acquisition and release policies.

The role of various government departments and supporting agencies will be investigated for their contribution to the objective of increasing access to financial services by the un- and under banked. In the review of funding programmes, this study will make a distinction between the following categories of funding provision for development:

- (i) land acquisition;
- (ii) bulk infrastructure and services; and
- (iii) top structure.

### 3. METHODOLOGY

As per the proposal the Funding Programmes Review will follow the following steps:



#### 3.1 Desk-based research

The following institutions, government departments and agencies that play a role in supporting policy and institutional development toward the objective of increasing access to financial services by the un- and under-banked, were investigated in this regard:

- Department of Housing (DoH), Department of Land Affairs (DLA), Department of Provincial & Local Government (DPLG)

- Provincial Government Departments of Housing
- A sample of relevant municipalities
- UN Habitat/Habitat International

### **3.2 Interviews with key stakeholders**

Face-to-face interviews were held with the following key stakeholders:

- Department of Land Affairs;
- City of Johannesburg;
- Buffalo City;
- Housing Development Agency;
- Private Property Developer; and the
- Banking Association of South Africa.

## **4. RESULTS**

### **4.1 Findings of the desk-based research**

#### **I. National Government**

##### **a. National Department of Housing: Breaking New Ground Programme**

The following is a short description of the current National Housing Programmes per Intervention Category

#### **(i) Financial**

##### **Individual Housing Subsidies**

The individual subsidy mechanism is available to individual households who wish to apply for a housing subsidy to purchase an existing house or to purchase a vacant stand for the construction of a house.

##### **Implications for the LANDfirst approach**

Households that access the subsidy are able to apply this to incrementally improve their homes once they've been allocated a piece of land and tenure is secured as part of the LF approach.

#### **(ii) Incremental Housing Programmes**

## **Integrated Residential Development Programme**

The programme provides for planning and development of integrated housing projects. Projects can be planned and developed in phases and provides for a holistic developed orientation.

### **Phase 1: Land, Services and Township Proclamation**

The first phase could entail planning, land acquisition, township establishment and the provision of serviced residential and other land uses to ensure a sustainable community.

### **Phase 2: Housing Construction**

The second phase could comprise the house construction phase for qualifying housing subsidy beneficiaries and the sale of stands to non-qualifying beneficiaries and to commercial interests.

## **Implications for LF**

The programme does not require much modification if LANDfirst is seen as a 'scale project' implemented over many years with land and services acquisition and installations is completed within the first few years and the 'full package' is developed in subsequent years. This approach however will need to investigate legality of letting people occupy completed serviced sites before a house is built.

## **People's Housing Process (PHP)**

The PHP assists households to access housing subsidies with technical, financial, logistical and administrative support to build their own homes. The beneficiaries need to be directly involved in the decision-making process for how the land, services and houses will be built; and they should also contribute some form of member/ beneficiary contribution. For example, savings, labour (not necessarily free), land, material, etc.

## **Implications for LF**

If PHP seen as just top structure component, no changes needed. However, if PHP also includes land and services, than need to allow split in services and top structure like IRD. It should also allow for less than full services and title.

## **Informal Settlement Upgrading**

This programme facilitates the structured upgrading of informal settlements. It applies to in situ upgrading of informal settlements as well as where communities are to be relocated for a variety of reasons. The programme entails extensive community consultation and participation, emergency basic services provision, permanent services provision and security of tenure. This programme is instituted in terms of section 3(4) (g) of the Housing Act, No 107 of 1997.

Funding under this programme is made available to municipalities as grants for the undertaking of projects based on approved business plans for the upgrading of whole settlements. The scope of the programme is to finance the development of services stands and beneficiaries are all inhabitants of a particular targeted informal settlement, including persons not eligible for the housing subsidy scheme. Beneficiaries of the programme will only receive access to land and services, from the development of top structure, those who qualify for it can then apply for the housing subsidy, whilst 'non-qualifiers' must look at alternative options such as self-build.

This programme will fund:

- Community residents survey/registration and participation;
- Geotechnical investigation;
- Land acquisition;
- Pre-planning;
- Interim engineering services;
- Detailed town planning;
- Land surveying and pegging;
- Contour survey;
- Land survey examination fees;
- Site supervision fees;
- Permanent engineering fees;
- Project Management;
- Transportation;
- Social services – social benefits, schools registration; and
- Food to relocating households.

The programme will, however, only provide the requisite funding for development on suitable land. (Incremental Interventions Upgrading Informal Settlements, Part 3 of the National Housing Code, 2007: 17)

### **Implications of LF**

No changes needed to be used for LANDfirst. For relocation option of UIS will need to allow the relocation to also occur using the phased incremental approach that is accommodated in the in situ option. May need to allow longer period of time between when basic services and upgrading occurs.

### **Consolidation Subsidies**

The consolidation subsidy is available to a beneficiary who has already received assistance through government to acquire a serviced residential site under the pre 1994 housing schemes. This subsidy is applicable to serviced sites that were obtained on the basis of ownership, leasehold or deed of grant and must be utilised to construct or upgrade a top structure on the relevant property.

### **Implications for LF**

The consolidation subsidies focus on financing of top structure development and assumes that people are on fully serviced and titled sites. This approach does not need much modification and could work within the LF approach as an upgrading option.

### **Emergency Housing Assistance**

The programme provides temporary assistance in the form of secure access to land an/or basic municipal services and/or shelter. The assistance is provided to beneficiaries who have for reasons beyond their control found themselves in an emergency housing situation where their existing shelter has been destroyed or damaged, their prevailing situation posed an immediate threat to their health, life and safety or where they have been evicted or faced imminent eviction. It is only applicable in emergency situations of exceptional housing need.

### **Implications for the LF**

For this programme to work within the LF approach, it would need for the definition of emergency to be expanded to include people in informal settlements

who need to be moved, and people living in backyard shacks in overcrowded conditions.

### (iii) **Social and Rental Housing Programmes**

#### **Institutional Subsidies**

This mechanism is targeted at housing institutions that provide tenure arrangements alternative to immediate ownership (such as rental, instalment sale, share block or co-operative tenure) to subsidy beneficiaries.

#### **Social Housing**

The Social Housing Programme seeks to provide a rental or co-operative housing options for low income persons at a level of scale and build form which requires institutional management and which to be provided by accredited social housing institutions and in designated restructuring zones.

#### **Rural Subsidy Informal Land Rights**

The Rural programme is used to extend the benefits of the Housing Subsidy Scheme to those individuals living in areas referred to as 'rural' areas where they enjoy functional security of tenure as opposed to legal security of tenure.

#### **Implications for the LF**

The rural subsidy allows for households and communities to settle on land without full title or legal security of tenure. For this approach to work it would be important to ensure that the concept of 'functional security of tenure' is made applicable within the urban land context.

### **b. Department of Land Affairs (DLA): Land Acquisition for Sustainable Settlements (LASS)**

The DLA manages a number of land reform and development products, mostly for the purposes of agriculture and located within rural areas. The Land Acquisition for Sustainable Settlements (LASS) programme is currently earmarked to be implemented in the urban areas for urban agriculture (commonages) and land for housing. The DLA had decided to ring-fence 20 % of the land reform budget allocation for LASS projects annually, dependent on

the needs of the community. The policy has been approved and it will be administered via municipalities.

The LASS grant is made available to municipalities that have a dire need for land for settlement purposes. This approach calls for municipalities to identify the settlement needs in their communities before approaching the DLA for funding for land acquisition. Municipalities may have already identified the land need for housing within their communities and secured other finance such as from the DoH for top structure subsidies and municipal services. This should not be a separate process from the Integrated Development Plan (IDP) process of the municipality. Where the provision of top structure and on-site basic infrastructure such as water, sanitation and internal roads are needed, the DoH should provide these services. The DLA Grants and Services Version 8 also provides for a Planning Services Fund (PSF) that inter alia can fund services that may include, for example: formulation of business plans, land use plans, planning for municipal commonage projects, planning for settlement projects, valuations, subdivision, conveyancing, transfer costs and legal entity formation. Preliminary settlement planning for approved LASS projects can also be funded from the PSF. However, costs for detailed planning and township establishment must be borne by the municipality and/or the DoH. (Land Acquisition for Sustainable Settlements (LASS): Urban Settlement Policy, July 2008)

#### **Implications for LF**

Land Acquisitions for Sustainable Settlements (L.A.S.S) would form a key component of the LF approach, however, it would need to consider how communities and/or NGOs on behalf of communities are able to access funding for land acquisition.

#### **c. Department of Provincial and Local Government (DPLG):**

##### **Comprehensive Infrastructure Plan**

The provision and management of infrastructure in municipalities are key functions that need urgent attention in municipalities in South Africa. More recently, the significance of asset management has been highlighted, and current capacity constraints in the electrical sector, has highlighted the need for proper maintenance and operations of assets. The government has furthermore committed to eradicating service backlogs by 2014, and a concerted effort is therefore required to achieve these goals. However, various municipalities are currently under severe pressure to improve their revenues, and need support to increase their institutional capacities. The Comprehensive Infrastructure Plan has therefore been

formulated to provide a high-level framework for developing an intervention strategy for consolidating the above programmes at municipal level.

### **Municipal Infrastructure Grant MIG**

According to the MIG Programme Management Process and Procedure manual (dplg, 2006) the national government provides subsidies to municipalities to ensure that households are provided with a basic level of service. MIG is a conditional grant to municipalities with the key objectives to:

- Fully subsidise the capital costs of providing basic service and infrastructure to poor households
- Distribute funding for municipal infrastructure in a transparent and equitable manner
- Assist in enhancing the developmental capacity of municipalities
- Provide a mechanism for coordination of national priorities with regard to basic municipal infrastructure services.

The MIG fund is one of the sources of funding identified to support the CIP programme. In the housing context, the CIP must operate with the Integrated Sustainable Settlement concept, in other words, make sufficient funding available to ensure the development and funding of basic services, basic planning and basic tenure.

### **Implications for LF**

The applicability of the CIP and MIG for LF resides in the ability of these programmes to ensure that the infrastructure and services components of land for residential development is fully realised.

## **2. Role of local government**

Municipalities would be directly responsible for the administration and management of the CIP and MIG fund within the municipal boundaries. Municipalities would have to ensure that infrastructure planning is captured within the Integrated Development Plan (IDP) and aligned to the plans by the relevant national government stakeholders such as Housing, Land Affairs, Water Affairs and Forestry and Dept of Minerals and Energy.



Municipalities as owners of expansive tracts of land within local areas and play a critical role in ensuring that sufficient land is released for development, in particular within the large scale projects envisaged by the BNG programme of government. The specific role that the municipality would play in this regard would be coordination of various sources of funding, for example: MIG funding for the provision of infrastructure, Department of Housing funding for the development of the top structure, as well as the application of its own sources of funding to supplement these sources. This would mainly be in the areas of township establishment and planning of the area, provision for roads and stormwater as well as other infrastructure, it could also be for purposes of acquiring land. However, municipalities can only effectively perform this role if they have sufficient own sources. With so many competing priorities this is often impossible for municipalities to achieve.

Some of the national government departments for example the LASS and UISP require that municipalities become the agency through which funding is accessed and disbursed to qualifying communities, individuals and households.

The municipalities that were surveyed as part of this study, in principle, agreed that the concept of LANDfirst could work, that the municipal programmes in the areas of informal settlement upgrade, both in situ and greenfields, are in fact a type of 'land first'. Municipalities agreed with the concept of providing communities with security of tenure and the incremental housing programme. A key issue for in particular the smaller municipalities remain that of affordability. They furthermore believe that for a programme of this nature to work it must be supported by national government and spearheaded at the local level by municipalities.

### **Implications for LF**

The implications and applicability for LF is that municipalities as funding agencies of national government departments play a critical role in ensuring that sufficient funding is available for the acquisition of land (LASS) and that funding is obtained for the development of serviced stands and social services (UISP).

### **3. National Institutions established to facilitate some of these programmes & policies:**

#### **a. Housing Development Agency**

The establishment of the Housing Development Agency was promulgated in September 2008 and launched by the Minister of Housing in March 2009 to facilitate the fast tracking of

housing delivery. The Housing Development Agency will partner with private sector developers, financial institutions, owners of both land and buildings to implement urban renewal projects and integrated human settlements. The HDA will focus on:

- Acquire, and/or facilitate the acquisition, and release of strategically situated land and buildings for development
- Facilitate the planning process to ensure proclamation of land for integrated human settlement
- Ensure appropriate government funding flows and subsidies for:
  - Land and building acquisition;
  - Planning and proclamation process;
  - Bulk and internal infrastructure development;
  - Social infrastructure development;
  - Top structures; as well as
- Supervise and monitor the development of the land.

It must furthermore have the ability to:

- Grant, lend or borrow money;
- secure the payment of moneys borrowed through the mortgaging of land;
- enter into indemnities, guarantees for purposes of housing development and to secure payment;
- enter into agreements with stake holders including local and provincial authorities, departments of state, financial institutions and developers and,
- institute and defend litigation

### **Implications for LF**

As its key objective the HDA must ensure that appropriate government funding in the form of subsidies flow to support the various government programmes. There is huge potential for this programme to collaborate in the LF programme through the following interventions:

- Land acquisition;
- Planning and proclamation process;
- Bulk and internal infrastructure development;
- Social infrastructure development; and
- Top structures.

## **b. National Housing Finance Corporation**

The National Housing Finance Corporation (NHFC) was set up by the Department of Housing in 1996 with a mandate to ensure that every South African with a regular source of income is able to gain access to finance, to acquire and improve a home of his or her own. The Corporation acts as a wholesale funder and risk-manager, facilitating access to housing finance for low and moderate income communities.

The fund intends to support the Breaking New Ground programme, by:

- Significantly expanding the housing supply and tenure options;
- Promoting integrated/inclusionary housing development; and
- Helping in the eradication of informal settlement.

The NHFC does not lend money directly to home-seekers, but rather through a network of approved lenders and social housing institutions in the various provinces. The NHFC wholesale funding is channelled through three funding programs, namely Alternative Tenure, Home Ownership and Incremental Housing, these enable rental, home ownership, improvement and / or extensions to property.

### **(i) Alternative Tenure**

Alternative Tenure (AT), one of the three funding program divisions, creates housing finance opportunities for forms of tenure other than direct ownership.

In association with social housing institutions and approved financial institutions, AT enables large-scale development of housing units in urban and peri-urban areas to be used as rental stock or to be sold on instalment sale. Housing institutions are also assisted to develop appropriate property and financial management systems through the division.

AT mainly aims to deliver on the following:

- Provide finance to housing institutions and primary market institutions;
- Improve capacity of existing intermediaries;
- Expand the delivery and management of affordable housing units; and
- Provide new financial opportunities in un-serviced areas for clients who offer alternative tenure housing options.

AT offers funding to institutions through a Project Loan facility, through which institutions finance other forms of tenure such as Instalment Sale, Rental, Co-operatives, and Rent with an option to Buy.

### **(ii) Home Ownership**

Home Ownership (HO) facilitates ownership of affordable homes. To promote, fund or underwrite home ownership initiatives in the low and medium income sectors, the division works through privately owned and managed intermediaries and partner banking institutions to develop various forms of financing home ownership.

Potential homeowners can buy existing houses or build new ones. Collateral for this funding is provided by pension fund guarantees, mortgage bonds and insurance cover. Accredited lenders provide mortgage and non-mortgage loans over terms of 8 - 15 years. All new houses that are financed must be enrolled with National Home Builders Registration Council (NHBRC).

HO funds approved lenders through on-balance sheet funding (debt funding), that enables non-mortgage (Pension/Provident Fund backed) and mortgage home loans to home seekers.

**(iii) Incremental Housing**

Incremental Housing (IH) offers finance to those who wish to build their homes on an incremental basis by extending or improving existing property.

Through approved micro-lenders, the IH extends credit for loans that may be used for adding a room, installing a geyser, enhancing security or effecting any other improvement that increases the value of a house.

IH focuses on smaller lenders that can target the low end of the low- to moderate-income housing market and provide funding for improving their houses, buying land or providing top-up credit for discount benefit or capital subsidy beneficiaries.

Funding to lending institutions is offered through Structured Loans.

**c. National Urban and Reconstruction Agency**

Nurcha is a construction finance company that provides bridging finance to contractors and developers involved in the construction of subsidy and affordable housing, community facilities and infrastructure.

**d. Rural Housing Loan Fund**

The Rural Housing Loan Fund is a government agency which specialises in housing lending to the rural working poor. It started operating on a DM 50million grant from the German Government via the Department of Housing and lends money to the rural working poor through five intermediary retail finance companies. Virtually all its final borrowers have household incomes of less than R3500 a month and build or extend their houses one loan at

a time often hiring local builders and working with local building materials suppliers. Many of the borrowers are women who are first-time borrowers that have been shunned by mainstream credit providers. During the 2006/7 financial year the fund disbursed approximately R75million.

#### **4. Non governmental sector**

##### **a. The Kuyasa Fund**

The Kuyasa Fund's mission is *'to provide microfinance services because improving the quality of housing adds essential social values and because no other appropriate sources of housing finance are available to low-income households.'* The Kuyasa model comprises the following elements:

- Gearing savings into the housing process;
- Small unsecured micro loans geared towards housing;
- Ensuring that consumption is for housing;
- Short and repeated loan cycles;
- Household freedom and responsibility of how housing loan is consumed; and
- Use of local labour and maximising local value.

Kuyasa's Performance to date include: successfully expanding the banking frontier to the previously un-banked; it directly mobilised R32m of savings into the housing process; the fund disbursed R55m to 9500 clients over 8 years. The fund's longer term vision is to mobilise savings of 300,000 households into the housing process with 150,00 new loans between 2008 and 2014.

##### **Implications for LF**

The potential of the Kuyasa Fund as a contributor to the LF approach would be in how savings are geared to assist communities rather than individuals to access housing opportunities.

##### **b. uTshani Fund**

The uTshani Fund is a not-for-profit organisation registered with the National Housing Board as a Lender. The Fund was established in January 1995 to partner and support development initiatives of organized slum communities. uTshani's community partners are grassroots organizations practicing the principles of Shack Dwellers' International (SDI).

According to its website, since its inception uTshani has invested over R100 million into housing development making it the biggest investor in pro-poor housing in the country.

uTshani Fund's priority when it was established in 1995 was to use donated capital to pre-finance innovative community-based housing delivery and design (as opposed to developer-driven models) in order to provide examples of alternative, improved housing delivery along People's Housing Process lines. The intention was to recover bridging loans through successful subsidy applications, and to revolve these funds back into new innovations. In addition to providing low-cost housing finance directly to saving schemes, the uTshani Fund, as a revolving Fund, has pre-financed land purchase and infrastructure development

In 1997, uTshani Fund concluded a legal Agreement with the National Department of Housing which recognized uTshani as an accredited financial intermediary of the subsidy system and allowed them to access subsidies "up front" for community savers. In terms of this agreement uTshani issued 5 660 up front subsidy loans in the period 1996/2001.

### **Implications for LF**

The uTshani could potentially play a meaningful role in support of the LF concept by providing low-cost housing finance for the development of the top structure but has pre-financed land purchase and infrastructure development.

## **5. Private sector role and involvement**

### **a. Commercial Banks**

As indicated previously, approximately 70% of the SA adult population is excluded from formal financial services. Nearly all those excluded are black, nearly half live in rural areas and 55% are women. In October 2000 the financial sector campaign was launched and after some negotiation, the Financial Sector Charter was adopted in October 2003 by the business associations of financial sector companies representing banks, insurance companies and brokers. The charter outlined specific BEE goals including provision of service to people with low incomes.

The banks committed to provide R42billion for new low cost housing finance by December 2008. These loans prioritised households with a stable income in excess of R1,500 and less than R7,500 per month with a maximum value of R180,000 per unit. The goal was to reach

construction and ownership of between 250,000 and 400,000 units by 2010. (South Africa 2006 – Challenges for the Future, 13)

There was some delay as the banks argued with the government about liability relating to low cost mortgages. The Banking Association of South Africa argues that government ‘needs to find new ways to mitigate non-commercial risks that banks face as they lend into a market with little or no experience of mortgage bonds.’ (South Africa 2006 – Challenges for the Future, 14)

The Finance Linked Individual Subsidy Programme (FLISP) is the programme established by the banks in order to target the so-called ‘gap market’. The financing could be accessed by individuals by means of a personal loan, pension supported loan or mortgage loan for qualifying individuals. The amount of loan funding provided would vary according to the affordability levels of individuals and covers the cost of the land, services and top structure.

The Banking Association reportedly intends to work closely with HDA to support it to ensure that the required land is successfully acquired.

According to Pierre Venter of the Banking Association the banks would be keen to support a programme of this nature and believes that there would be much benefit from ‘piloting’ the concept in an area that could then become an example for others to learn from.

### **Implications for LF**

The commercial banks should be pursued as possible partners for LF as a facilitator of land acquisition and installation of services and infrastructure.

#### **b. Micro Finance Sector**

According to Kecia Rust over 230,000 mortgages were granted in the FSC market between 2004 and 2008. This is the market of households with an income of R1,500-R7,500 per month. The micro finance sector has a significant role to play in support of this market, as they do not have means to alternative source, for example the housing subsidy scheme.

### **Implications for LF**

As the micro finance sector mainly target individuals and households in the development of the top structure and incremental housing development, it could complement the LF approach as part of the upgrading component.

### c. **Employers**

Anecdotal evidence from NGOs working in the area of housing development as well as the Department of Housing, suggests that there is some interest from employers to assist their employees to access opportunities to own their own home. To date there has been no comprehensive response to this need. The enhanced PHP allows for member or beneficiary contribution to savings that are to be geared for the development of top structures. In this context, the employer could subsume the beneficiary contribution toward ensuring that their employees are afforded an opportunity to own good quality decent housing. This contribution could be in form of material, labour or land.

#### **Implications for LF**

As part of the LF approach, once the land and security of tenure issues have been dealt with the employer/beneficiary contribution to the PHP could fund the top structure development, in other words, as part of the upgrade component of the LF approach.

## **4.2 Stakeholder interviews framework & findings**

The following interview framework served as a guide for the face-to-face interviews with selected stakeholders:

### **FRAMEWORK OF QUESTIONS FOR INTERVIEWEES**

1. Provide brief background of the 'Land First' concept and test initial reaction/feedback from stakeholder.
2. What do you believe are the key challenges facing RSA in respect of adequate Housing provision for South African citizens?
3. What role does your organisation play in this regard? Can you do more? PROBE
4. What should the role of national govt, in particular Department of Housing, be in this regard?



5. What are the key funding requirements and challenges in the housing provision programme, both government and private sector?
6. What are the current funding programmes that your organisation supports/manages? What did it aim to achieve? What have been the key achievements to date?
7. Current provision vs need, and in your opinion what is the 'housing gap' that needs to be supported? What is the need – financial, land, skills, other resources?
8. In your opinion what must be done to ensure that government meets its promise of a 'slum-free' country by 2014?

### **Key Issues highlighted in the interviews with stakeholders**

Big concern for government in ensuring that sufficient **suitable and well-located land** is made available for the purposes of residential land is the issue of ownership. The most contentious being the land in 'private hands' as this land becomes expensive as soon as government shows an interest in acquiring same. This is the experience of both national government departments such as the DLA and municipalities.

Another challenge is the **availability of land** especially in the urban areas within the urban edge which impacts the cost-effectiveness with which these developments can be undertaken.

There is much room for **improved coordination** between government department and across the spheres. Municipalities believe that if they are accredited as housing service providers with the necessary authority over the various functional areas that impact the successful housing development and implementation that they could be much more efficient than they are currently able to be.

A key challenge for municipalities is the **sustainability of housing development**. The City of Johannesburg believes that this can only work if new approaches such as mixed income developments are explored, in particular to deal with what they term the 'gap market', in other words those individuals who do not qualify for the government housing programmes due to their income levels but cannot afford to access bond financing through the commercial banking institutions.

The lack of a **consolidated country-wide audit of land** that is available for development, who owns it and the suitability thereof is a key stumbling block to the successful development of residential projects.

From the perspective of the private property developers low cost or affordable housing can only work if it is financially and commercially viable. In other words, as part of an integrated and **mixed income** type of development.

#### **4.3 Matrix of current funding provision and gaps.**

Depending on which set of statistics you are working from the housing shortage in the country falls somewhere between 1.6million and 2.2million. At this stage additional information is required to be able to do a segmentation of the housing need.

(See Annexure A attached)

## 5. CONCLUSION

It is patently clear that the housing and land provision will remain a huge challenge for the Republic of South Africa, however government alone will not win this battle. It will require serious commitment from the private sector, banking industry and communities themselves to play a key role in this regard.

National, Provincial and Local Government, national institutions established by national government and the private sector, all have a contribution to make to ensure the adequate funding for:

- land purchase
- township establishment
- service and infrastructure provision
- house construction; and
- community facilities

In order for these programmes to support the objectives of LANDfirst:

- Sufficient funding would have to be made available for land acquisition. Stakeholders surveyed agree that the well located, suitable land belongs mainly to government or public and parastatal institutions and therefore should be coaxed to reprioritise the utilisation of the land, from land for commercial use to land allocated for residential land.
- Existing programmes must be fully explored to establish how funds could be applied to the programmes targeted as part of LANDfirst.
- The LF Campaign strategy must provide for a stream that would play an advocacy role and ensure that the relevant government departments and fund managers are encouraged to align its programmes with the LF objectives.

## 6. RESOURCES

[www.dla.gov.za](http://www.dla.gov.za)

[www.housing.gov.za](http://www.housing.gov.za)

[www.nhbrc.org.za](http://www.nhbrc.org.za)

[www.nhfc.co.za](http://www.nhfc.co.za)

[www.nurcha.co.za](http://www.nurcha.co.za)

[www.rhlf.co.za](http://www.rhlf.co.za)

[www.servconhousing.co.za](http://www.servconhousing.co.za)

[www.shf.org.za](http://www.shf.org.za)

[www.utshani.org.za](http://www.utshani.org.za)

Constitution of the Republic of South Africa Act (Act 108 of 1996)

Housing Act, 1997 (Act No. 107 of 1997)

Housing Atlas, 2005

National Housing Code 2004 Chapter 13

National Upgrading Support Programme (NUSP)

South Africa 2006 – Challenges for the Future

Housing Development Agency Act 23 of 2008

DPLG, 2008. Municipal Infrastructure Grant: MIG Programme Management Process and Procedure

Ronald Eglin, November 2008. Land Access Workshop Series Report, Afesis-corplan with support of Urban Landmark

Veda Associates, 2009. LANDfirst Campaign Strategy

Finmark Trust Kecia Rust

DLA, July 2008. Land Acquisition for Sustainable Settlements (LASS): Urban Settlement Policy, July 2008

National Department of Housing, 2007. Incremental Interventions Upgrading informal settlements, Part 3 of the National Housing Code

**Interviews** with following stakeholders:

- National Department of Land Affairs, Mr Mpho Yeye Sethaba
- Housing Development Agency, Mr Neville Chainee
- Buffalo City Municipality, Mr Albie Meiring
- City of Johannesburg, Mr Strike Ralegoma and Mr Paulus Ntsooa
- Remote Construction Group, Mr Sthe Mabanga
- Banking Association of South Africa, Mr Pierre Venter