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## South Africa's Housing Conundrum

**Since 1994 the Government has provided more than 2.5 million houses and another 1.2 million serviced sites. Over this period, the housing backlog has nevertheless increased from 1.5 million to 2.1 million units, while the number of informal settlements has gone up from 300 to 2 225, an increase of 650%. At the same time, the housing subsidy has gone up from R12 500 per household to some R160 500 today, while state spending on housing and community amenities has risen from 1% to 3.7% of GDP. Yet the quality of the houses being delivered is often poor. Many people have long been urging the State to transfer the housing subsidy directly to them, as they could build far better houses for themselves. In this article, housing expert Mary R Tomlinson seeks to explain the housing conundrum and offers some thoughts on how it might be resolved.**

### Introduction

South Africa's housing policy has now been in place for some 20 years. It arose from debates at the National Housing Forum (NHF), a multi-party organisation established in 1992 to negotiate a new non-racial housing policy and strategy. These debates focused, in particular, around such issues as:

- whether housing should be provided by the private or the public sector;
- what standard of housing should be provided: a completed four-room house or "progressive" (incremental) housing; and
- how rapidly the housing backlog should be eliminated.

The National Housing Policy framework that arose from this process put forward a vision and goal for housing delivery. It also set out the principles and strategies to be used in fulfilling these aims. Through a new "housing subsidy scheme",

## **Though more than 3 million housing units have been provided, the housing backlog is now bigger than it was in 1994.**

qualifying households were to have access on a “progressive” basis to:

- a permanent residential structure with secure tenure, ensuring internal and external privacy and providing adequate protection against the elements; and
- potable water, adequate sanitary facilities, and a domestic energy supply.

The delivery goal was set at 350 000 units per annum until such time as the housing backlog had been removed, though

the policy also noted that meeting this goal would have to be subject to government fiscal affordability. In 1994, the backlog was put at 1.5 million units for the 1.5m households then considered “inadequately housed” because they lived in informal settlements, backyard shacks, or hostels. The policy also noted that a further 200 000 units a year would be needed to keep up with new family formation.

Since 1994, more than 3 million housing units (including both subsidised and rental housing) have been delivered to poor and low-income households. South Africa nevertheless sits today with a housing backlog of 2.1 million units. How can this be? More precisely, how can South Africa have spent R125 billion, in 2010 prices, over 20 years, delivered more than 3 million units, and yet have a larger housing backlog than when it began?

The aim of this paper is to put forward some possible explanations for this conundrum. It will thus re-visit some of the negotiated agreements that underpin housing policy, identify some of the significant policy shifts and tensions that have arisen in implementing policy, and evaluate whether these factors have contributed to the unintended consequence of a seemingly bottomless backlog. Some ideas on how to resolve these tensions in a way that would result in both delivery at scale and satisfied beneficiaries are also put forward.

### **Increasing housing backlog figures and the constitutional mandate**

In reviewing South Africa’s housing policy, it is useful to begin by examining housing delivery statistics. As earlier noted, the Government since 1994 has delivered more than 2.5 million completed houses and another 1.2 million “housing opportunities” (where housing subsidies have been approved and water and sanitation services have been installed, but construction has not yet been finished). As impressive as these figures sound, they become less so when stacked up against the housing backlog. This amounted to 1.5 million units in 1994, was put at 2.7 million units in 2012, and now stands at some 2.1 million units. This last figure – the one most recently computed by the Department of Human Settlements – is based on the number of people with their names on the national housing waiting list. (The reasons for these differences lie partly in the fact that backlog statistics are neither systematically compiled nor located in a single place, which leaves them open to varying interpretations.)

In addition, in 1993 there were an estimated 300 informal settlements across the country, whereas by the 2009/10 financial year the number had risen to some 2 700, an increase of almost 800%. More recent figures provided by the Department of Human Settlements put the total number of informal settlements at 2 225, of which some 1 260 are located in KwaZulu-Natal, Gauteng, and the Western Cape.

**In 1993 there were 300 informal settlements across the country, but now there are 2 225.**

## **Housing policy has no “grandfather” clause limiting state housing to those who lived under apartheid.**

This large increase in the number of informal settlements since 1994 shows that seemingly impressive delivery figures have in fact been insufficient either to clear the backlog or to keep up with new family formation. Why has this occurred? Did policy-makers overlook the likelihood that rural households would continuously move into urban areas over the next two decades? Did they also overlook the fact that households residing in urban areas would continually outgrow their crowded homes and so spill over into informal settlements?

Neither of these explanations is convincing. At the time that housing policy was being formulated, policy-makers were well aware of these potential trends and took them into account in their forecasts of what annual new family formation was likely to be. Today's backlog numbers are thus more likely the result of how policy has in practice been interpreted over the past two decades, rather than how it was intended to be implemented.

One key issue is that the housing policy adopted in 1994 has no “grandfather” clause limiting the provision of housing to those who lived and suffered under apartheid. There is also no time limit to the constitutional clause (Section 26) stating that “everyone has the right to have access to adequate housing”. South Africans born both before, as well as after, the end of apartheid thus take the view that “they have a right to a free house” if their monthly income is below R3 500 per month. Accordingly, households continually break themselves up into smaller units in the expectation that each new unit will become entitled to a housing subsidy. National, provincial and local government housing officials (interviewed by the author in 2014) all refer to this as the growth of an “entitlement syndrome” and say it has made the goal of eliminating the housing backlog simply unattainable.

In October 2014 the minister of human settlements, Lindiwe Sisulu, tried to break the logjam by announcing that no one under the age of 40 would receive a “free” house. Said Ms Sisulu: “Our intention in giving free houses was to right the wrongs of the past and make sure that we can give our people dignity. And that group of people is not the people below the age of 40.” Young people, she went on, needed to clearly understand that they would not receive free housing. “You the young people have lost nothing to apartheid... None of you are ever going to get a house free from me while I live.”

Some commentators applauded her for attempting to encourage self-reliance and to limit the housing demand on the public purse. Others said her comment was “premised on the false belief that the past does not affect someone under the age of 40”. Moreover, it was the Government itself which had fostered a culture of entitlement and raised “false expectations”. It was also the Government that had failed to “generate enough opportunities for young people”, who were often unskilled and unemployed and would find it difficult to buy houses for themselves.

**The minister of human settlements, Lindiwe Sisulu, has urged that “free” houses go only to people aged 40 or more.**

### **Decreasing housing delivery figures and the role of politicians**

Alongside the backlog figure is the worrying fact that delivery figures have been decreasing over time. In the early years of the policy's implementation, approximately 200 000 housing units per annum were being constructed. Delivery figures show that,

from a peak of 235 600 units in the 1998/99 financial year, housing delivery has decreased to some 106 000 units in 2013/14.

## **The initial aim was to provide a serviced site and rudimentary structure, not a formal house.**

The national housing department attributes declining delivery in the first ten years after 1994 to the slow release of land for housing and often unsettling policy shifts, among other things. However, to understand the sharp decrease in delivery, it is also necessary to revisit the difference between policy intentions and the way these have been interpreted in practice.

Part of the problem, as earlier noted, is that poor households have interpreted the Constitution's housing mandate as giving them "a right to a free house". This interpretation has never been in keeping with the agreement reached at the NHF, which was to deliver "progressive" or incremental housing. In addition, the relevant constitutional clause is carefully phrased, stating that people have a right of "access to adequate housing", the key words here being "access" and "adequate". The clause also gives the State the task of "achieving the progressive realisation" of this right, while recognising that it can do so only within the limits of "its available resources".

It is also worth recalling the terms of the agreement, hammered out in the NHF, that the Government's delivery approach would focus on "breadth" rather than "depth". This meant, in essence, that the Government would provide a lesser standard of housing to as many people as possible, rather than a higher standard of housing to fewer people.

This agreement was intended to help realise the goal of eliminating the housing backlog within a five-year period. In line with this objective, the national housing subsidy was intended to provide beneficiaries with their first step on to the housing ladder. Beneficiaries would thus be given a serviced site, together with a rudimentary structure and secure tenure. The intention was that, over time, households would consolidate and extend what they had received from the Government. By using their own resources and gaining access to housing finance, if this was available, they would eventually end up with the desired four-roomed house.

However, after the 1994 election that brought the Government of National Unity to power, the first group of provincial housing MECs rejected this approach and began exerting pressure on the Government to deliver formal houses. Ever since, both politicians and communities have persistently demanded increases in the subsidy amount, so that this would become big enough to build a four-room house. Over time, the housing subsidy has thus grown from its original R12 500 per household to R160 500 per household in 2014, an overall increase of some 1 200%. Today, moreover, this increased housing subsidy is intended to cover only the construction of a house, with land and service costs coming out of provincial and local government budgets.

In practice, thus, South Africa's housing policy has seen its focus turn from "breadth" to "depth". This has mixed ramifications. On the one hand, the standard of housing delivered today has improved significantly from what was provided in the early years. On the other hand, this improvement has come at the cost of shrinking delivery figures. It has also seen expenditure on housing grow faster than any other budget item, including social grants.

**The focus on formal houses has seen the subsidy rise from R12 500 per household in 1994 to R160 500 today.**

## **Spending on housing and community amenities has increased even faster than spending on social protection.**

In 1994 government spending on housing and community amenities accounted for 1% of gross domestic product (GDP). In 2015/16, according to the current budget, expenditure in these spheres will rise to 3.7% of GDP, making for an overall increase of 270%. This is a faster rise even than expenditure on social grants and other forms of social protection, which is expected to rise from 2.8% of GDP in 1994/95 to 3.8% of GDP in 2015/16, an increase of 36%. Already, annual spending on housing and community amenities consumes 11.4% of budgeted government expenditure, which is almost as much as health.

In seeking to understand what has happened over the past 20 years, it is often easy to overlook the significance of the political dispensation agreed in constitutional negotiations. The African National Congress (ANC) was keen on a unitary system of government, with a strong national government and weak provinces. Housing delivery would then, it says, have been directed by a national housing department with clear authority to decide on the standard of housing to be delivered. Instead, a more federal system was adopted, in which provincial administrations have “concurrent” legislative jurisdiction with the national government in various spheres, including housing. Though the national government still has the power to override provincial decisions and require uniform “norms and standards” in wide-ranging circumstances, in practice the provinces have assumed an authority to decide for themselves what standard of housing they wish to provide. Provincial administrations also face unrelenting political pressure to deliver a house, rather than a serviced site. The majority of resources allocated to housing delivery have thus ended up being concentrated on the few rather than the many.

### **Conflicts over powers and functions: local versus provincial government**

The Constitution divides governmental functions between the national, provincial, and local tiers. When South Africa’s housing policy was being formulated, local government was seen as playing little part in the delivery of housing and services. Such delivery was instead to be driven by private sector developers, as this seemed the best way of bypassing the chaos likely to result from the thorough-going “transformation” of local government then being planned.

However, early beneficiaries of the rudimentary RDP (Reconstruction and Development Programme) houses delivered by the private sector soon expressed great unhappiness over the size, quality, and location of their new homes. (This was also hardly surprising when these houses were being largely financed by a R12 500 per household subsidy which was supposed to cover land and services as well as the house itself.) The national government’s solution was to transfer responsibility for managing and implementing housing developments to the public sector.

This shift is reflected in the National Housing Act of 1997, which makes it clear that the private sector is no longer to drive delivery but rather to act as contractors to the public sector. The statute also states that municipalities, in preparing their “integrated development plans (IDPs)” – which are supposed to reflect a holistic approach to housing and service delivery – must take all reasonable steps to ensure that people in their areas of jurisdiction have access to adequate services and housing. The Act also envisages a potential role for local government to participate in housing development.

### **Provincial administrations face unrelenting political pressure to deliver houses, not serviced sites.**

However, this shift towards public sector responsibility for housing and service delivery, including at the local level, overlooked the parlous state of local government capacity and finances. In particular, it brushed over the fact that South Africa's 278 municipalities have vastly different capabilities – and that only about 50 of them have dedicated housing departments. Capacity thus differs widely, from well-staffed housing departments in metropolitan areas to poorly resourced secondary cities. Rural small towns often have only a single housing official, which makes it impossible for them to deliver on the housing mandate.

## **Provinces are responsible for housing development, but municipalities get blamed for poor delivery.**

Under the Housing Act, the provinces have largely assumed responsibility for managing housing development. Provincial departments approve projects, allocate the necessary revenue and other resources, hire and manage building contractors, and administer the subsidy scheme. Local authorities may have these powers “delegated” to them, but only if they have already been “accredited”. A framework for accrediting local authorities was finally put in place in 2006, but to date only a handful of local authorities, the metros, have been granted a limited form of accreditation, as further described below.

Conflicts regularly arise in situations where a local authority lacks “accreditation”, for the province then retains authority to manage housing developments within the local authority's area of jurisdiction. This often puts municipalities in an invidious position as regards their constituencies. Households within their areas of jurisdiction naturally view the local authority as responsible for deciding what type of housing is delivered, who does the construction, and which households are fortunate enough to be granted housing subsidies. Because of this blurring of responsibilities, communities often accuse local officials of non-delivery and corruption – when in fact their powers over housing are very limited.

### **From RDP housing to informal settlement upgrading**

Criticism of housing delivery has generally revolved around what is in fact “adequate”. Communities and housing actors generally agree that houses are often badly built, poorly located, and too small. Even after the passage of the Housing Act in 1997, delivery continued to follow the same approach. People living in informal settlements were thus removed to new “greenfield” sites, located on the peripheries of cities and towns, where they were supplied with a uniform and limited product. Beneficiaries were dissatisfied with how little input they could make into the delivery process. They often said that they could build bigger and better houses for themselves if they were simply given direct access to the housing subsidy.

This persistent dissatisfaction with housing quality prompted the national department to embark on a major re-think of policy. So too did the department's exploration of Indian and Latin American experience in dealing with shacks and slums, and its engagement with a group of NGOs active within informal settlements. (Particularly important here were members of the Urban Sector Network and representatives of the Indian Shack/Slum Dwellers International (SDI) alliance.)

These factors led to the adoption in 2004 of a revised housing policy, called Breaking New Ground: a comprehensive plan for the development of sustainable human settlements (BNG). BNG rejected the idea of small RDP houses on poorly located land and instead proposed the

**Houses are often badly built, poorly located on the urban periphery, and too small.**

delivery of “sustainable human settlements”. This dramatic about-turn was accompanied by an equally notable shift: a new-found acceptance of informal settlement upgrading as an acceptable delivery option.

### **Breaking New Ground (BNG)**

The Breaking New Ground (BNG) policy aimed to make settlements more “habitable” by increasing the size of the houses to be provided. Said the national housing department: “Unlike the previous 20-34 square metre RDP subsidy houses, the BNG house is 40 square metres in size with two bedrooms, a separate bathroom with a toilet, shower, and hand basin, a combined living area and kitchen with wash basin, and a ready-board electrical installation where electricity supply is available to the township.”

The BNG policy also sought to integrate subsidised houses with rental and bonded properties, provide a higher level of municipal engineering services, and create “ancillary facilities”, such as schools, clinics, community halls, and informal trading facilities. It urged the use of “different housing densities and types”, so that “single-stand units” would in future be combined with double-storey units and adjoining terraced or row houses. The State would also seek to build on “well-located” land and encourage higher residential densities, so as to reduce travelling distances and overcome apartheid spatial inequalities. Housing design would be improved to “change the face” of the stereotypical RDP house, while the quality of construction would be improved. All these factors would help generate “sustainable human settlements”, which would go beyond providing basic shelter to promoting “economic growth and social development”.

To increase affordability, the subsidy formula would be changed, so that all households earning less than R3 500 a month received the same amount, which would also be increased in line with inflation. In addition, the State would help households with monthly incomes of between R3 500 and R7 000 gain access to housing loans, so that could buy houses for themselves (see *Understanding FLISP*). Funding would also be provided for social housing: rental housing at low cost and medium-density.

In a further major break from previous policy, the BNG document stressed the urgent need to “integrate informal settlements into the broader urban fabric”. The national department would thus introduce “a new informal settlement upgrading instrument”, which would seek to bring about “the focused eradication of informal settlements”. This would be done mainly through a “phased in-situ upgrading approach”. Only where such upgrading was not feasible (for example, because a settlement was located on land prone to flooding or subsidence) would residents instead be relocated.

The upgrading process would start with an assessment of community needs and then move on to the provision of basic services and secure tenure for all residents, so opening the way for housing development. Delivery would take “a variety of forms, including medium-density housing and free-standing houses”, which would be built either through “community self-help or local contractors”. Municipalities would be “the primary implementing agencies” and would be responsible for “operational and maintenance costs”. They would work together with small community-based organisations (CBOs) and larger non-government organisations (NGOs) active within targeted informal settlements, so as to encourage community participation in planning and other processes.

Upgrading projects, the BNG document went on, would be implemented through partnerships across national, provincial, and local tiers of government. Renewed emphasis would be given to the "People's Housing Process" (PHP), which aimed to give residents "a greater choice over the use of their subsidy" and enhance beneficiary commitment to housing projects. Though the PHP approach would also help provide "more for less", there was some confusion as to what this meant. Some people thought it meant reducing costs through "sweat equity" or getting people to help build their own homes, while others thought it wrong to force beneficiaries to "provide free labour". The focus and content of PHP would thus be clarified and redefined. A new "funding mechanism for PHP" would also be established, to help build capacity and organisations among housing beneficiaries. These resources would be made available by local authorities, acting through CBOs and NGOs.

The BNG policy also aimed to give municipalities a much greater role in housing development. It recommended that municipalities "assume overall responsibility for housing programmes in their areas of jurisdiction". Municipalities would be accredited to take on this function, once they had "demonstrated their capacity to plan, implement and maintain" housing projects and comply with financial management rules. To this end, municipalities were urged to establish housing units "with adequate staff complements", set up planning committees, compile inventories of the land they owned (especially land suitable for housing), and affirm their willingness to comply with the national department's "anti-corruption, monitoring and reporting requirements". Accreditation would begin with the nine metropolitan authorities, followed by various secondary towns, and would over the next ten years extend to all 278 municipalities across the country.

As municipalities became accredited to take on housing development, the BNG policy went on, so the role of national and provincial housing departments would "increasingly shift towards formulation, monitoring and facilitation". Housing funds would flow directly from the national department to accredited municipalities, so bypassing the provinces. The national department would also help crack down on fraud and corruption. In addition, it would "focus increasing attention on the development of local contractor capacity", so helping to bring about "the growth of construction SMEs and black economic empowerment (BEE) within the construction sector".

### **BNG implementation**

#### *Municipal accreditation*

Despite the BNG's proposals, few municipalities have in fact been accredited for housing development as yet. By August 2014, as the *Financial Mail* reports, six metropolitan authorities had been accredited to carry out functions at "level 1" (overall planning) and "level 2" (the planning and management of housing development projects). However, none had been given "level 3" responsibilities for all budgetary and housing delivery functions. In the 2014/15 budget, the National Treasury allocated R300m for the "municipal human settlements capacity grant", which was supposed to be divided equally among the six metros so as to help them discharge the "level 3" functions they were expected to acquire. However, Ms Sisulu and the provincial housing MECs declined to disburse the grant, saying that the metros were not yet sufficiently equipped to take on housing delivery. Ms Sisulu added that the national government had been compelled to spend more than R2bn over the previous three years on repairing shoddily built RDP homes, while the number of houses being built had dropped significantly in recent years.



Political factors also contribute to this reluctance to accredit the metros. In the 2014 general election, support for the ANC dropped significantly in many metropolitan areas – and especially so in Port Elizabeth, Pretoria, and Johannesburg. National government may thus want to retain the housing function to help boost its electoral support in the run-up to the municipal elections due in 2016. Ms Sisulu has recently announced, for example, that the national department plans to spend R4.6bn on housing in the Port Elizabeth area (the Nelson Mandela Metropolitan Authority), where the ANC's electoral support dropped to 49% in 2014. In addition, provincial housing MECs have long been reluctant to hand control over significant housing resources to municipalities. Nor do they wish to relinquish their current control over subsidy allocation, as both these shifts would significantly weaken their political power. Hence, the BNG document's call for all municipalities to be accredited to take over housing development within ten years has largely fallen on deaf ears.

Provinces thus remain the key actors in housing development, while the delivery of formal houses, rather than the upgrading of informal settlements, is still their key focus. This is partly also for political reasons, as provincial housing departments get more kudos for building new houses than for tackling the challenging and time-consuming task of upgrading shack settlements.

#### *Formal housing delivery*

The value of the housing subsidy has shot up, partly because of the increased costs of building a better quality four-room "BNG" house, and partly because of the BNG decision to link the subsidy to the inflation rate. In 2006 the housing subsidy for individuals earning less than R3 500 a month stood at some R29 500, but by 2014 (as earlier noted) it had soared to more than R160 500 for the structure alone. In May 2015 Ms Sisulu announced that "this phenomenal leap was unsustainable", and that the subsidy had been pegged at its 2014 level, "notwithstanding inflationary pressures".

The Financial and Fiscal Commission (a body established under the Constitution to advise on the allocation of revenue between different functions and tiers of government) said in April 2015 that it would cost some R800bn to eradicate the current housing backlog by 2020. But the minister of finance, Nhlanhla Nene, is concerned about the country's "severely constrained public finances" and has warned that "the Treasury will no longer subsidise...inefficient practices". Such practices, he says, include "the 20% that regulation adds to the cost of building housing", as well the long-term costs of "building houses in new dormitory suburbs on the outskirts of cities", far from where people work.

Despite the greatly increased value of the subsidy, there has been little real improvement in the quality or sustainability of new housing developments. In April 2015 Gauteng premier David Makhura strongly criticised the RDP houses that Government had built, saying they were nothing but "incubators of poverty". Added Mr Makhura: "What's called RDP houses is a bad dream. There are no trees, no proper infrastructure, and no integration." In future, he stressed, the Gauteng provincial administration would do away with "poverty-stricken human settlements" and instead embark, with private sector help, on establishing large-scale residential areas, with 15 000 to 60 000 units, that would come "complete with amenities such as schools, parks, health facilities, infrastructure and light industry". However, this call does little more than repeat what the BNG document said more than a decade ago and has yet to deliver.

The Gauteng administration now aims to build 700 000 houses over the next four years, while Ms Lindiwe's goal is to provide 1.5m houses by 2019. Meeting the national target will

require the building of 375 000 houses in each of the next four years, whereas the highest number of houses the State has ever built in a single year is some 235 600. In addition, the most recent official statistics on housing construction show an average construction rate of 118 200 houses a year, which is far below the 375 000 mark. According to Ms Sisulu, the Government will now “fast-track the delivery of houses...by cutting red tape” and concentrating on mega projects to attain economies of scale. Some 60% of the work will also be done by “youth brigades”. The national department also plans to review tender processes so as to “prevent corruption and fraud” and ensure that building contracts “go only to companies with verified expertise and proven track records”. Says Ms Sisulu: “Through this process, we also wish to ensure that the rampant practice of companies buying contracts and performing sub-standard work will be remedied.”

(The national department has recently spent more than R2bn on fixing badly-built RDP houses, but in 2015 it terminated the rectification programme, saying beneficiaries must fix their own houses as part of their maintenance obligation. But very much more rectification still remains to be done – in 2011 the director general of human settlements, Thabane Zulu, put the rectification bill at R58bn – while many of the problems lie beyond the capacity of beneficiaries to address. As *The Star* reports, “a large number of RDP houses are poorly designed, erected on land without roads, sewage, water and electricity, and built without professional supervision by architects, structural engineers or soil analysts”. Hence, in one development, “40% of houses had such serious structural defects that they had to be demolished and rebuilt”.)

Once these additional 1.5m houses have been built, Ms Sisulu would “like the State to step away from the large-scale provision of housing for the poor” as this creates a “syndrome of dependency”. But this change will be difficult to achieve when the Government has already done so much to foster an entitlement mentality. Moreover, for as long as the State continues to act as the key provider of housing, expectations will continue to grow.

Mr Nene hopes that the private sector will help to build more homes, especially for the “gap” market of people earning between R3 500 a month and R15 000 a month (up from R7 000 a month when the BNG document was adopted). However, the private sector’s delivery of housing stock for the lower-income market has fallen sharply, from a high of some 76 500 houses a decade ago to roughly 12 600 a year now. Obstacles to faster delivery include a lack of bulk infrastructure and slow turnaround times due to red tape. Mr Nene has said that it takes between 31 and 43 months to move from “land to stand”, which is “too long”. But “even 43 months is optimistic”, says Taffy Adler, a former chief executive of the Housing Development Agency in Ms Sisulu’s department. “We can talk of 10-year turnarounds because of regulatory frameworks,” he cautions.

Added Harry Gey van Pittius, chairman of the South African Affordable Residential Developers Association in September 2014: “Before 2008, the industry built 60 000 houses a year in Gauteng [alone]. Now we cannot even manage 4 000... Municipalities don’t have the necessary skills, especially engineers and building inspectors, and decision-making has been centralised at political level. There is no money for bulk services, so developers have to contribute huge amounts to make projects happen. That expenditure only adds to overheads, as it cannot be recovered in the prices of the houses sold. Approvals that used to be given in a year or 18 months now take up to three years.”

- by Anthea Jeffery

## Upgrading of informal settlements

The BNG policy shift has led to the establishment of a number of programmes intended to support in-situ upgrading. These include the Upgrading of Informal Settlement Programme (UISP); the National Upgrading Support Programme (NUSP), which seeks to build capacity among provincial and local officials; and an Extended People's Housing Programme, as further described below. However, it is difficult to assess how much progress has in fact been made in upgrading informal settlements, as the BNG document urges.

### **The BNG policy recognises the need for the in-situ upgrading of informal settlements.**

In 2009/10 the national department said it had identified "at least 2 700 informal settlements" across the country, of which most (635) were found in KwaZulu-Natal, followed by Gauteng (with 489) and the Western Cape (with 445). It was busy giving formal recognition to these settlements, and then re-establishing them as serviced sites with water and sanitation infrastructure provided by municipalities. (This was mostly being done via the Upgrading of Informal Settlements Programme, under which the State provides serviced sites to residents to improve their quality of life but does not guarantee the provision of an accompanying top structure. This is because the people living in informal settlements may not qualify for the housing subsidy: for example, because they are not married, or lack South African citizenship or permanent residence.)

More recent figures from the national department put the number of informal settlements, in March 2014, at 2 225 – a significant (475) decrease from the 2 700 such settlements earlier identified. Decreases are most marked in KwaZulu-Natal (511 in 2014, versus 635 before); the Western Cape (350 in 2014, from 445 before); and Gauteng (399 in 2014, from 489 before). According to the national department, it has delivered more than 322 000 serviced sites over the six years to March 2015, which may have further reduced the number of informal settlements. The department adds that it encourages people to invest in their own housing, and that a "significant" number of homes have been built by people provided with serviced sites. However, it has no statistics on this readily available.

In-situ upgrading is still the "Cinderella" element in the overall housing programme, even though the Government has recognised, since the BNG policy shift in 2004, that it cannot provide a new formal house for everyone. In-situ upgrading is also essential in an era of rapid urbanisation and significant internal migration, mostly to Gauteng and Western Cape.

Why has in-situ upgrading progressed so slowly? This is partly because provinces prefer to concentrate on formal housing, while municipalities generally still lack accreditation for housing development. Local authorities may also be reluctant to extend water and sanitation services to areas where residents are unlikely to be able to pay for them, as this will simply add to existing pressures on municipal budgets. (As the BNG document noted in 2004, municipalities see RDP housing projects as liabilities rather than assets, because of "the inability of recipients of subsidy-housing to pay for municipal services"; and the affordability problem could well be worse in informal settlements.) In addition, the upgrading process is often technically complex and fraught with intra-community tensions and conflicts.

**However, provinces still prefer to concentrate on formal housing.**

## **Bitter conflicts can easily arise during attempts to upgrade informal settlements.**

Much of the difficulty stems from a lack of clear leadership structures within informal settlements. In many of these areas, shacks are also built cheek-by-jowl, with little space between them for access roads or community facilities. Bitter conflicts can easily arise over the location of roads, schools, clinics, and the like. Often, moreover, no

development is possible without taking down some of the shacks and at least temporarily relocating the people living there, while the affected residents often resist being moved in this way. To help resolve these issues, the BNG document puts great emphasis on community participation, but progress here has also been slow and uncertain.

### **Community participation and engagement**

The People's Housing Process (PHP) aims to help households take the initiative in organising the planning, design, and building of their own homes. In 1998 the first policy to facilitate this process was drawn up by the Government, which in the same year decided to establish formal links with a grassroots fund, the uTshani Fund. This Fund was based on the idea that savings groups linked to the South African Homeless People's Federation (SAHPF) would be able to make deposits into it and also access loans for housing from it. In 1998 the Government "accredited" the Fund, so as to facilitate the channelling of housing subsidies to these savings groups. It later also provided the Fund with R10 million to help it grant credit for housing to these groups.

The PHP has nevertheless struggled to gain traction, while the uTshani Fund collapsed in 2001. Critics argue that this is largely because the Government continued to see informal settlements "only in negative terms" and had no real interest in their incremental upgrading. It also showed "very little support for low-income households to build their own homes". Hence, the State gave little space to the poor to participate in either the formulation or implementation of housing policy, while its overwhelming focus remained on the delivery of formal housing at scale.

In 2006 the Government tried to rectify this situation by instructing the national department to give more emphasis to the PHP. The Government also began to engage with the recently established Federation of the Urban Poor (FEDUP), which had risen from the ashes of the SAHPF, managed to salvage the uTshani Fund, and established a new Community Organisation Resource Centre (CORC). FEDUP had also developed a participation model that encouraged communities to clarify their wishes, improve their leadership skills, and organise themselves for effective engagement in development processes. FEDUP had also developed an "empowerment through engagement" model, which aimed to change the way in which solutions were defined, negotiated, and implemented.

In 2007 Ms Sisulu (then the national housing minister) promised the FEDUP-CORC-uTshani alliance 6 000 housing subsidies to be used in upgrading informal settlements and building houses on the PHP approach. But the 1997 National Housing Act gives responsibility for allocating subsidies to the provinces, which failed to make the allocation pledged. These provincial MECs no doubt wanted to see their housing budgets spent in a timely manner, whereas upgrading informal settlements is an extremely time-consuming process with many moving parts that can easily break down, thereby stalling or shutting down delivery altogether.

**The BNG policy calls for community participation in upgrading, but this is difficult to achieve.**

## **Housing policy should again focus on “breadth” rather than “depth” – on incremental provision, not formal houses.**

It is also difficult for NGOs and CBOs to help overcome these problems and become more involved in settlement upgrading. Though many officials would welcome their assistance in strengthening community participation, few of these organisations have the formal legal structures and controls required under the Municipal Finance Management Act of 2003 and other legislation. With public concern about financial mismanagement growing, provincial housing departments find it easier to contract with private sector firms able to meet these compliance requirements. Hence, if CBOs

and NGOs are to play a greater part in upgrading, they need to structure themselves into formal entities with the ability to tender and contract in accordance with the Government’s regulatory framework.

Communities are often unhappy with this situation and argue that the Government should simply hand over the subsidy (or, at least, part of it) to households directly, so leaving them free to manage their own housing delivery. This demand forms part of an on-going debate as to whether households should be viewed as “beneficiaries” of government resources, or as “consumers” with their own preferences and capacity to “buy”. Communities generally take the view that they should be treated as “consumers”.

### **Some issues to consider**

In looking back over 21 years of housing policy and its implementation, it is notable how much effort has been made to engage with critics, improve delivery, and satisfy beneficiaries. But policy still confronts the conundrum of a seemingly intractable housing backlog, notwithstanding the enormous delivery that has taken place. The debate about the need to increase community participation is also on-going, as is the tension between formal statutory processes and more fluid community-driven ones. To re-cap:

First, the “right to housing”, as provided for in the Constitution, is the cornerstone of housing policy and is likely to remain so. However, this “right” has been re-interpreted from its original intention, from the delivery of “progressive” housing to the delivery of formal homes. Over time, this shift has meant that an approach that was initially intended to deliver “breadth” over “depth” has shifted to one today that focuses on “depth” over “breadth”. This situation makes it impossible to remove the backlog with the resources available. It may therefore be time to re-visit this change in interpretation.

Second, housing policy has become much more complicated over time and so requires significant capacity to implement, which many local authorities lack. In addition, for local authorities to become housing developers, they must first be fully “accredited” by national government. To date, this has not occurred. Why this is so deserves further scrutiny, especially as provincial resistance to losing control over housing resources and subsidy decisions is likely to be a key factor. Local authorities also need more resources and skills if they are to take on the task of housing development within their areas of jurisdiction.

**Housing policy has become more complicated and difficult to implement.**

Third, the need to upgrade informal settlements has been recognised and some progress has been made. But there are still some 2 225 informal settlements across the country, close on 2 000 more than there were in 1994, and the upgrading process remains complex and

**Many households want the housing subsidy paid to them directly as they could spend it more effectively.**

time-consuming. The need for increased NGO/CBO participation in the delivery process has been recognised, but many of these organisations lack the legal structures required by the Government's regulatory processes.

A final point worth mentioning is that South Africans have been free since 1994 to elect their own government. If voters are unhappy with housing delivery, they have the freedom periodically to replace their elected representatives with people they believe will better represent their interests.

- By Mary R Tomlinson

*\*Tomlinson currently lives in Australia but has researched and published on South Africa's housing policy for more than 25 years. This paper was written following a visit to South Africa in March and April 2014, during which a number of interviews were conducted with housing officials.*

### **Understanding FLISP**

FLISP is the acronym for the Finance-Linked Individual Subsidy Programme developed by the Department of Human Settlements to help prospective house buyers who earn between R3 501 and R15 000 a month buy houses at a price of R300 000 or less. FLISP is administered through the National Housing Finance Corporation, a development finance institution established in 1996 to provide affordable housing finance to low- and middle-income beneficiaries.

FLISP provides a one-off subsidy, which is paid out in one lump sum. This can be as high as R87 000 for people at the bottom end of the scale, with monthly earnings of between R3 501 and R3 700 a month. At the top end of the scale, for people with salaries of between R14 901 and R15 000 a month, the subsidy is limited to R20 000.

A FLISP subsidy can be used to buy an existing house, either old or newly developed, or to buy a vacant, serviced residential stand on which a properly registered builder has contracted to construct a new home. (The builder must be registered with the National Home Builders Registration Council, or NHBRC, an entity established in 1998 to help ensure compliance with proper building standards.)

FLISP beneficiaries must be South African citizens or permanent residents who are 18 years old or more, are first-time home buyers, and have never previously benefited from a state housing subsidy. They must be able to provide proof of their monthly income. They must also be able to show a purchase agreement (or building contract) for the house (or stand) in question, along with their capacity – if necessary, with the help of a FLISP subsidy – to obtain a mortgage bond to finance the purchase.

FLISP subsidies allow qualifying beneficiaries to make up shortfalls between the mortgage bonds they can raise and the prices of the properties they want to buy. Say, for example, a first-time home buyer wants to buy a house for R300 000, but qualifies only for a mortgage bond of R250 000. On a monthly salary of some R9 400 a month, the buyer would be able to obtain a FLISP subsidy of roughly R50 000. This would make good the shortfall and allow the purchase to proceed. The subsidy would not be paid to the buyer but rather, via the transferring attorneys, to the bank providing the mortgage loan. (According to the National Finance Housing Corporation, applications for FLISP subsidies are processed in roughly seven days, so the buyer's capacity to proceed with a purchase can quickly be assessed.)

FLISP subsidies can also be used to reduce mortgage loans and bring down monthly interest payments. Say, for instance, that a first-time buyer wants to buy a house for R300 000 and in fact qualifies for a mortgage bond of R300 000. In this instance, the FLISP subsidy of some R50 000 would be deducted from the mortgage loan. This would leave the buyer with R250 000 to repay, which would reduce the interest payable each month. Again, the subsidy would not be paid to the buyer, but rather to the bank providing the mortgage loan.

The FLISP subsidy scheme began in April 2012. Thus far, the National Housing Finance Corporation has paid out R32m in FLISP subsidies to some 770 beneficiaries, while a further R30m has been approved for the benefit of another 750 people.

- by Anthea Jeffery

## A Fundamental Rethink Required

**Housing policy needs a fundamental rethink to empower individuals, provide better value for money, and break the current delivery logjam. The Government should thus shift to a new system of housing vouchers, to be provided directly to beneficiaries. These vouchers would be redeemable solely for housing-related purchases – and would go to some 10m South Africans between the ages of 25 and 35, who earn below a specified ceiling. Individuals would be empowered to make their own housing choices, while the vouchers would help provide “more bang for every buck”. Accelerated housing delivery via the voucher system would also stimulate investment, generate jobs, and give the weak economy a vital boost.**

**It will take some 20 years to build “free” houses for the 2.1m people on the waiting list.**

**A**s this issue of *@Liberty* highlights, current housing policy is both costly and ineffective. In the past 21 years, the State has provided more than 2.5 million houses and a further 1.2 million serviced sites. Despite this, the housing backlog has grown from 1.5 million units in 1994 to 2.1 million units today, while the number of informal settlements has expanded from 300 to 2 225. At the same time, the housing subsidy has shot up from R12 500 per household to a staggering R160 500 per household, at which amount it has now been pegged. Yet many of the RDP (Reconstruction and Development Programme) or BNG (Breaking New Ground) houses built via this subsidy are so small, badly constructed, and poorly located that the ruling African National Congress (ANC) itself describes them as “incubators of poverty” that do more to entrench disadvantage than overcome it.

State spending on housing has grown faster than any other budget item since 1999. Housing and community amenities – defined as including the administration of housing developments and services, along with the supply of water – currently consume 11.4% of budgeted government spending, which is almost as much as health. Spending here has risen from R5bn in 1994 to the R153bn budgeted this year, an increase of close on 3 000%. By contrast, spending on social grants and other forms of social protection has risen from around R14bn in 1994 to roughly R206bn now, an increase of some 1 400%.

Despite this rapid increase in the housing budget, the delivery of “free” houses has slowed, and currently averages some 118 000 houses a year. At this rate, it will take almost 20 years to build enough houses for the 2.1m households now on the waiting list. In addition, the FLISP subsidy (see box on page 15) has gone to fewer than 800 beneficiaries, though some 750 people have also had their FLISP applications approved. At the same time, actual expenditure on housing seems to lag the budgeted amount.

Against this background, Mary Tomlinson suggests some important way as to improve housing policy and state delivery. She urges a renewed focus on “breadth” rather than “depth”, in terms of which the State would deliver less to more people: in particular, by focusing on upgrading informal settlements rather than on building formal houses. She suggests that local authorities be given the skills, resources, and accreditation needed to take over housing development from provincial administrations and so end the blurring of responsibilities between these two tiers of government. She also calls on many more civil society organisations to restructure themselves as legal entities, so that they can contract with the State and help promote community participation in the complex process of upgrading informal settlements.

**The FLISP subsidy has thus far gone to fewer than 800 beneficiaries.**



## **A major paradigm shift is needed to resolve the housing conundrum.**

These proposals, if implemented, would help to expand state delivery, while making it more efficient and more sensitive to community views. However, as the figures on housing costs and shortfalls make clear, these suggestions are also not enough. Rather, a major paradigm shift is needed if the housing conundrum is to be resolved.

Put differently, the problem is not simply that housing policy is being poorly implemented, but also that housing policy is deeply flawed.

The solution lies largely in what people have been saying for years: that the State should transfer the housing subsidy directly to them, as they could use it more efficiently and so make every rand stretch much further.

Poor people have for decades been building their own houses on farms, in the former homelands, and in shacks in cities. Shack settlements might not look good, but they represent affordable housing for poor people.

At the same time, the successful in situ upgrading of informal settlements is extraordinarily difficult and is unlikely to succeed unless more is simultaneously done to increase the housing stock available to the poor. In addition, if urban sprawl is to be contained, the country needs a new focus on three- or four-storey terrace or row houses (where each house directly adjoins the next), and also on medium-rise apartment block with five- to six-storeys in general.

The Government's main emphasis should thus shift to housing of this kind, which the private sector – and not the State – should be responsible for building. The private sector would also have a clear interest in building such housing (or in revamping existing structures for housing purposes) if millions of South Africans were to be given housing vouchers to spend exclusively on meeting their housing needs.

Under this new approach, the Government's role in delivery would largely revolve around the speedy identification and release of state and municipal land suitable for these new housing developments.

Second, the Government should stream-line and fast-track land re-zoning and town-planning processes. To increase efficiency, it should outsource these tasks to the private sector through a transparent, non-racial, and cost-effective tendering system. Housing development must no longer be held up for three years or more, as is commonly the case, by continued incapacity within the public service.

Third, the Government should shift from its current housing subsidies to a new system of housing vouchers provided directly to beneficiaries. These vouchers would be redeemable solely for housing-related purchases. The vouchers would go directly to all South Africans between the ages of 25 and 35 who fall below a specified earnings ceiling. There are currently some 10m South Africans within this age cohort. (The total number of recipients would remain much the same each year, as the number of people turning 25 and entering the programme would be roughly counter-balanced by the number turning 36 and thus exiting it.)

**The Government should provide housing vouchers directly to some 10m South Africans.**

The voucher would be worth R800 a month, or R9 600 a year and each recipient would continue to receive this voucher for ten years. Each beneficiary would thus receive close on R100 000 over this period. A couple would be able to pool their money and would thus

receive nearly R200 000 over a decade. This amount could be topped up by their own earnings, which means a couple earning R5 000 a month could devote R1 000 of that to housing. Over ten years, this additional amount would boost their housing budget to close on R320 000. Such sums would help substantially in empowering people to build or improve their own homes, or obtain and pay down mortgage bonds.

## **The voucher system would be more effective in stimulating housing supply.**

The cost to the fiscus for 10m beneficiaries would be R96bn a year. The R30bn a year that is currently included in the housing and communities amenities budget for water provision would remain the same – but would be much better used via a transparent, non-racial, and cost-effective system of outsourcing to the private sector.

Current employee and administrative costs should be limited to R5bn a year, as the new system would be simple and easy to administer. Some R20bn would go to community development, and would also be outsourced for improved efficiency. This would put the total housing and community amenities budget (including water supply) at R151bn a year, which is slightly less than the current R153.4bn.

The proposed voucher option is thus less costly than the present system. It is also likely to be much more efficient – and much more effective in stimulating housing supply – as each individual who receives a voucher will have a personal interest in ensuring its optimal use. Moreover, whereas current policy adds to housing demand by encouraging existing households to split up – so that each new household can qualify for a “free” house – the new vouchers will avoid this perverse incentive.

The voucher system – and the market it would create – would encourage the private sector to build many more terrace houses and/or apartment blocks, or to revamp many more existing structures for housing purposes. Beneficiaries would also find it easier to gain mortgage finance, which would further stimulate new housing developments. Beneficiaries who already own their homes would be able to use their housing vouchers to extend or otherwise improve them. Some might choose to use their vouchers to build backyard flats, which they could then rent out to tenants also armed with housing vouchers and so able to afford a reasonable rental. This too would help increase the rental stock available.

People currently living in informal settlements would increasingly have other housing options available to them. Some would move into the new housing complexes and others into new backyard or other flats. Informal settlements would become less crowded, making upgrading easier. Those who choose to remain in them would be able to use their housing vouchers to buy building supplies, hire electricians, plumbers, and other artisans, contribute their own labour or “sweat equity” to reduce costs, and gradually upgrade their homes.

All South Africans would also benefit from the advice centres that private developers, non-government organisations, and social housing institutions would be encouraged to establish. These centres would provide people with a variety of low-cost housing plans, as well as advice on a diverse range of building materials and housing choices. In addition, the centres would provide information on the housing voucher scheme, the various funding options available to people, the FLISP system already provided by the National Housing Finance Corporation, and how best to ensure good building quality and manage mortgage or other debt.

## **People in informal settlements could move, or use their vouchers to upgrade their homes.**

## Other policies should also shift, so as to speed up economic growth and empower the truly disadvantaged.

The housing voucher system would do away with the present artificial division between the “free” houses provided by the State to those who earn R3 500 a month or less, and the much smaller “gap” subsidies provided, through the FLISP system, to people who earn R3 501 or month or more (up to a ceiling of R15 000). It would also remove the incentive for people to keep their

earnings below R3 500 a month, as well as the resentment that many people feel at having to pay for their own houses if they earn marginally more than R3 500 a month.

The new system would also give people control over their own housing vouchers and a choice as to how they would like to use them. At the same time, those who felt insecure about managing these monies could voluntarily transfer them to the National Housing Finance Corporation to disburse on their behalf via its FLISP or other programmes.

Other policy changes would, of course, be needed for sustainability and optimum results. The new system would work best in an environment of expanding employment and rising prosperity. The State’s main emphasis should thus shift from ever more redistribution to promoting economic growth. The State should also put its emphasis on:

- excellent education, to be achieved largely through the introduction of state-funded education vouchers and other reforms;
- much improved health care, to be attained, among other things, via state-funded health vouchers;
- very much more employment, to be gained through faster economic growth, sound education, and necessary reforms to labour law; and
- the fostering of genuine entrepreneurship in a supportive business environment. This will also require a shift from damaging race-based black economic empowerment (BEE) policies to race-neutral initiatives that focus on opening up opportunities for the truly disadvantaged through a new system of “economic empowerment for the disadvantaged” or “EED”.

With these reforms in place and annual economic growth rates accelerating to the same levels (5% of GDP or more) evident in many other emerging markets, South Africans would increasingly be able to earn their own incomes and buy or build their own homes. In time, the State’s role in housing provision would thus diminish. In the interim, accelerated housing delivery would help to stimulate investment, generate jobs, and give the weak economy a vital boost.

- by Anthea Jeffery

Jeffery is the Head of Policy Research at the IRR and the author, among other things, of *BEE: Helping or Hurting?*