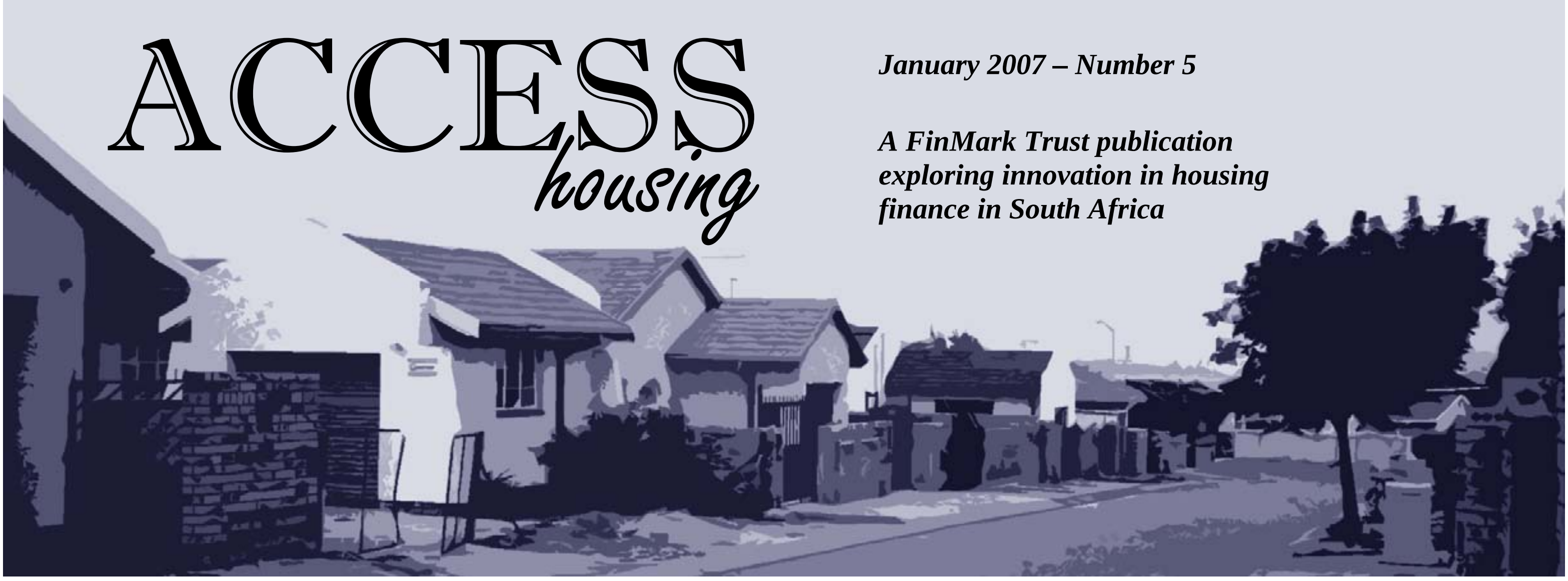


ACCESS housing

January 2007 – Number 5

A FinMark Trust publication exploring innovation in housing finance in South Africa

The danger of what we don't know

By now we should all know that the old saying "what you don't know can't hurt you" can't be right. To know whether a snake is poisonous is useful information when faced with a hissing serpent that is advancing on your ankle. Information makes one better equipped to deal with the situation at hand, to respond appropriately, strategically, and competitively.

An ongoing mission of the FinMark Trust has been explicitly this: to provide critical information into the sector in support of evidence-based policy making, transformation and innovation towards making financial markets work for the poor. In the process of doing this, FinMark hopes that other players will see the benefit of this approach and integrate it into their systems and processes. The information that we generate, through the FinScope[1] survey, as well as through other targeted research initiatives, is not an end in itself, but a tool that promotes effective policy change and stimulates competition and innovation on the part of providers.

While there is increasing recognition that those people outside formal financial services provision collectively represent a substantial untapped market into which services can be provided on a sustainable basis ("the fortune at the bottom of the pyramid"[2]), there is a lack of credible information on what this market looks like, how it operates, what it wants. This is also true in housing.

Key studies in the past few years[3] have addressed some of this gap, but in the process have raised far many more questions. In an environment of (quite understandable) delivery impatience (last year was the worst year on record in subsidised housing delivery, and the delivery of 'affordable' stock is meeting only 14% of the estimated demand annually), there is a danger that we will be complacent with what we know and overlook what is inexplicable. And whether such ignorance obscures market opportunities or market realities, the outcome is something that today's financial sector can ill afford.

These are some of the questions which need to be answered:

What does the 'affordable market' look like? It is remarkable that this is something we don't know. With instruments and periodicals such as the ABSA House Price Index and Residential Property Perspective, the Standard Bank Residential Property Gauge, and the FNB Property Barometer, one would think that information on the supply, churn, and appreciation of the affordable housing market would be in abundance. ABSA's analysis[4] does have a category for "affordable housing" and defines this as houses between 40-79m² and costing less than R226 000. However, while property prices in the higher income segment are analysed by province and by metro, 'affordable housing' statistics are only provided in national averages and no differentiation between 'new' and 'existing' is offered. FNB's Property Barometer[5] is a useful addition, basing its analysis on surveys with estate agents. However, while it has recently included township-based estate agents in Gauteng, Cape Town and Durban, their comments are also generalised and neighbourhood specific dynamics are not reported. Standard Bank's December edition[6] has an excellent section on Soweto, suggesting that there is indeed data to analyse – but what about the rest of the country? Without this critical information, banks cannot know the risks of lending into the 'affordable' market – they will be unsure as to whether there is a sufficient secondary (resale) market to support their collateral risk – and this will dampen their enthusiasm. As it is, FSC housing finance attention is on new build. Perhaps with more information, secondary market churn could also be stimulated.

How do people turn money into house? Current housing finance debates are dominated by a concern with three product categories: mortgage, pension-backed, and unsecured or micro loans. There is a growing recognition of

[1] FinScope is now conducted in nine African countries and Pakistan. For more information go to www.finscope.co.za

[2] See Prahalad (2005) The Fortune at the Bottom of the Pyramid: Eradicating poverty through profits. Wharton School Publishing.

[3] See, for example, research sponsored by the Banking Association in to housing supply and functioning markets, available on their website, www.banking.org.za. The FinMark Trust has also commissioned substantial research, including an analysis of the workings of township residential property markets (2004), the activities of small scale landlords and home based entrepreneurs (2005/06), the causes of default among clients of housing non-bank lenders (2006), and the access frontier of mortgage finance (2006). See the housing finance theme page on www.finmark.org.za

[4] http://www.absa.co.za/absacoza/generated/files/d81b1ae612a7e010VgnVCM1000003511060aRCRD/PropertyPerspective.pdf?F_C_ID=03b8ac45985bc010VgnVCM1000003511060aRCRD

[5] https://www.fnb.co.za/personal/borrow/homeloans/quarterlyReview.html

[6] http://www.ed.standardbank.co.za/research/SAGE_RPRP_011206.PDF

incremental housing as a delivery process, but how households actually do this, what makes it easier and what makes it more difficult, remains a mystery. As a result of the mystery, a bias in favour of large scale developer-driven projects on open tracts of land persists, when opportunities for urban infill that is owner-driven might be more sustainable.[7] The Financial Diaries data, explored briefly in this edition of ACCESS*housing*, shows that most households in the sample were perfectly capable of their own project management on their homes, with or without a programme to help those efforts. This would seem to strengthen the case for housing micro loans, but how widespread are such skills? And critically, from a finance perspective, how can lenders support the process so that the finished product is mortgageable?

How do people turn house into money? Current information systems count the number of subsidised houses complete or under construction, and the number of subsidised beneficiaries (i.e. households with a title deed). With the advent of government's Breaking New Ground policy, the delivery of sustainable human settlements becomes an area of inquiry. But sustainability is a long term prospect which arises as a result of a confluence of factors. What a subsidy beneficiary does with their house is a critical indicator in this equation. *We need to know if people are upgrading their homes*, and if so, with what sorts of finance. This will give us a sense of the level of investment in housing and whether households see their homes as an asset – be it social, financial or productive. It will also respond to the R2479 debate that says people must contribute to government's investment – could investment be happening after the subsidy is allocated? *We need to know if subsidised houses are being sold – how, why and at what price*. If we don't understand this we'll never understand the role housing plays in the economic lives of low income people and whether through its housing subsidy, government is investing in economic growth as well as shelter.

What is actually happening in the FSC space? The FSC update later in this edition tells of the frustration of the Financial Sector Charter Council with the data provided by lenders in respect of the housing loans that have been originated. Clearly these are teething problems which the FSC process will iron out – the information requirements necessitate systems changes (i.e. to capture the relevant data) which are complicated all the more by additional requirements for compliance with Basel 2 and the National Credit Act. The critical need for the information, however, does not go away. Quite simply, we need to understand *how low lenders can go*[8] in extending housing finance into the target market. An important segment of the target market to watch is those households earning just outside subsidy eligibility: if they can access neither subsidy nor loan, this becomes a critical issue of concern for government seeking to meet its Constitutional obligations in ensuring that all residents in South Africa have access to housing.

Are lending patterns changing in South Africa? On the 24th of November last year, the draft regulations for the Home Loan and Mortgage Disclosure Act (HLMDA) of 2000 were released for public comment.[9] In the six years since it was promulgated, the HLMDA has been effectively dormant without the regulations. The issuing of draft regulations for comment was therefore a significant event. Once approved, the regulations will provide the sector with much needed information on the nature, scale and scope of lending for housing purposes and this will assist in determining where the blockages are in the housing finance value chain. While the Department of Housing considers the various comments it has received, it is hoped that it will also consider how the regulations, once accepted as final and implemented, support the development of a publicly available (and accessible) database. Ideally, all information should be made publicly available to enable researchers to identify trends and to provide incumbent and potential lenders (and other financial service providers) with critical industry information. While such information may currently be regarded as proprietary and confidential, greater disclosure can materially improve competition in the industry and enhance market functioning particularly in under-served market segments.

For policy makers as well as product providers, the lack of information regarding the low income housing sector is a major barrier to effective engagement. Without adequate market information, product providers find it difficult to devise innovative new products for the low income market, or to justify broad based roll-out. For their part, policy makers struggle to define the problem of access with sufficient granularity to develop a targeted response. And access to housing finance and the property market by the poor suffers as a result. The danger of what we don't know is not only that we'll overlook a potentially big and vibrant market, but also that we'll undermine the opportunity for the majority of our population to build their housing wealth.

Kecia Rust

Housing Finance Theme Champion, FinMark Trust

In this issue:

[7] This argument is developed by the Kuyasa Fund in its Delft Housing Needs Analysis. See http://www.finmarktrust.org.za/documents/2005/AUGUST/Delft_report.pdf

[8] A 2006 edition of the housing finance access frontier is currently being developed. For the 2005 edition, entitled "How low can you go?", see http://www.finmarktrust.org.za/documents/2006/MAY/AccessHF_report.pdf

[9] The draft regulations were published for comment in Government Gazette No 1734, dated 24 November 2006. Comments were received by 29 December 2006 and the Department of Housing is now considering these towards the development of a new draft.

The struggles of building contractors

Over the last year, the housing sector has been frequently reminded of the dearth of affordable housing stock available for purchase by the FSC target market. In 2005, less than 20 000 units costing less than R200 000 were built across South Africa. Last year also appears to have been the worst year on record in the delivery of subsidised housing, with only 158 918 units delivered until September 2006. The demand for housing is clearly evident throughout the country. With the FSC housing commitments, housing finance is finally available to low income end users in the Charter target market. This should be a dream market for developers and contractors ready to provide the supply.

But is it? Or are the problems faced by developers and contractors some of those contributing towards low levels of supply, notwithstanding the intense demand?

Last year, the FinMark Trust supported Nurcha[10] in a market research exercise into the financing needs of emerging and established contractors and developers operating in the construction sector, undertaking housing, infrastructure and community facilities contracts.[11] The research involved a survey of small contractors and developers.[12] On average, entities interviewed have 9 permanent employees, and employed a peak of 42 temporary employees over the last year. On average, the companies surveyed had been operating for 5.3 years. Regarding their role in development, 64% have operated as the main contractor on tenders, and 18% in a developer and contractor role. Developers and contractors are versatile within the construction sector, and most swap readily between different types of contract. While 58% have done housing projects, the same proportion have also undertaken other general building contracts (education, community centres, government buildings, sports facilities), 55% civil engineering and township services, 36% specialist works and 24% civil works.

[10] Nurcha (www.nurcha.co.za) is a construction finance institution, focusing on financing both small and large contractors and developers undertaking subsidised housing, credit-linked housing and infrastructure projects. Nurcha's work is focused on the stimulation of job creation, black economic empowerment, growth of entrepreneurs into sustainable businesses and the stimulation of women-owned enterprises. This involves taking developers and contractors that have no capital and little experience and financing them in a controlled manner through a succession of projects until they become larger, self-sustaining entities.

[11] A summary report is available on http://www.finmarktrust.org.za/documents/2007/JANUARY/Nurcha_construction.pdf. Also see Nurcha MD Cedric De Beer's presentation to the FinMark Forum on http://www.finmarktrust.org.za/forums/Presentations/powerpointfiles/2006/FPres_Nurcha.pdf.

[12] Interviewees were selected from those listed with a CIDB category of between 3 (Contract value of from R300 000 and 6 (contract value up to R10-million), with the focus being on categories 3, 4 and 5 (from R300 000 to R5-million). Again, problems in obtaining sufficient data eventually lead to the inclusion of category 6 contractors as well. Only those categorised as GB (General Building), CE (Civil Engineering) and SP (Subsidised housing) were sampled.

The research findings were striking[13].

- **Contractors are hard to find** and there is a dearth of recorded information on housing tenders awarded by provincial and local authorities. Where databases existed, they were very inaccurate (up to 80% of respondents were not contactable through information provided). A further problem was the rapid 'morphing' (change of structure, name and sector), demise (closure or change of business) and relocation of construction entrepreneurs due to location of work or changed business circumstances.
- **The start up phase is very hard**: Among those interviewed, it took on average 13 months to obtain their first contract from date of establishment.
- **Normal tender procedures are the main way to obtain work**: On average, contractors and developers interviewed had completed just over 5 contracts in the last three years. The average turnover in the last year was R4.9-million. Of all contractors and developers, 81% indicated that they followed normal tender procedures to obtain work, while 12% indicated that they were awarded government tenders directly. Of those awarded work by government directly, half were only awarded one contract per year. Given that the average contract takes just over five months to complete, this did not represent a regular stream of work sufficient to sustain the enterprise.
- **Business gets harder after that**:
  - Of those who follow normal tender procedures, t**he average contractor submits 55 tenders for each one awarded**, and this goes as high as 86 in Limpopo Province. Free State Province seems to be much better, with an average of 15 submissions for each tender awarded. For housing projects, the average is 26, but for infrastructure projects it is nearly 76. It is clear why over 80% of Contractors and developers consider it difficult or very difficult to procure work.
  - **Only 29% of contractors reported having sufficient work throughout the year.** Half of all contractors indicated a lack of work for between one and six months of the year, and 27% for between seven and twelve months of the year. Just fewer than 40% indicated they had no work for between 1 and 6 months of the year, and 37% indicated that they had no work for between 7 and 12 months of the year.
  - The lack of tender and contract regularity implies that **28% of contractors and developers rely on other sources of income outside of the construction sector**. Half of these require the other income due to intermittent work availability in the construction sector. While this work diversity may improve the

[13] The following conclusions are drawn from Gardner's (2006) paper on http://www.finmarktrust.org.za/documents/2007/JANUARY/Nurcha_construction.pdf.

general level of skills and adaptability of contractors and developers, it does also indicate a lack of contract continuity in any one area of specialisation. This ability to adapt is therefore most likely a survival mechanism rather than an active strategy to diversify.

  - The almost **1:5 permanent to temporary worker ratio** indicates a high level of operational uncertainty and the need to be adaptable in leaner times.

- **Cashflow is a challenge:** When asked how they financed their cash flow requirements during their last contracts, contractors and developers indicated that they used a combination of mechanisms:

  - 37% used retained profits

  - 27% mentioned progress payments. Of these, only 55% claim to have received regular progress payments. On average, just fewer than 6 payment claims are submitted per project, with an average of 23 days to payment.

  - Just under a quarter (23%) used payment terms from suppliers. While 85% indicated they would use this mechanism again, only 63% (the lowest of all financing types) said they were happy with the service they received and 72% reported they could get cheaper financing elsewhere. While respondents reported the lowest need for security for this type of financing, it is unlikely such facilities would be provided without a cession of project income to the supplier.

  - Using a business loan or used a bank overdraft was cited by 14% of respondents.

  - Interestingly, only 6% had obtained a specific construction finance facility for the project. While 58% indicated they were required to provide security (the highest of all financing types), this source of financing also had the highest levels of satisfaction (79%). Given the inherent benefits of construction finance, this shows a huge need to make construction finance more readily available to emerging contractors and developers.

- **And profits are minimal:** Only 56% of contractors and developers interviewed claimed they had made a profit over the last financial year, while 20% said they broke even and 18% reported a loss. Considering their last three projects, 23% indicated that they had made a profit before tax of over 10%, 49% made a profit of between 5% and 10% and 18% broke even or made a loss. While 'profitability' may be determined in many ways, this does indicate a high proportion of contractors and developers are not financially viable in the longer term, and many are not reaching acceptable levels of profit for growing an enterprise. It was certainly a much raised issue in the interviews that many contractors and developers are searching for alternative work that offers better returns than the very tight margins offered within the subsidised housing sector.

There is no doubt that being able to obtain regular work would make it much easier for Contractors and developers to scale up and become more financially sustainable in the longer term. The report draws the following conclusions:

- **Procurement Procedures**: The current tender allocations procedures within the subsidised housing sector are a direct cause of some of the problems being experienced in the industry. Far from contributing to the growth of Construction SMMEs, it can be argued that these are severely hampering the growth of the sector by slowly starving emerging contractors and developers of regular contracts required for viability. The allocations and tender processes should be reassessed within a clearer understanding of what it takes to develop and grow construction and development entrepreneurs. Certainly, greater certainty in tendering procedures and project allocations are required as a minimum.

- **Tailored Financing**: Nurcha's experience has made it clear that the development of a specific construction financing methodology has proved very successful and provides a critical link in the housing supply chain.

- **Business vs. Project Financing**: The methodology of financing specific projects (or ring fenced groups of activities) rather than providing general business financing may prove to be a financing methodology more applicable to smaller entities. Instead of placing the onus on them to demonstrate overall business profitability and a solid financial history, it focuses their attention on ensuring that one specific venture is economically viable and profitable.

Construction finance provides a key link in the housing development process. Through facilitating the ability of contractors and developers to complete projects profitably, it directly stimulates the supply of affordable housing and the development of sustainable communities through the provision of infrastructure and community facilities.

The legacy of the failures of previous construction finance entities will live on in the memories of some contractors and developers. The future success of the construction finance sector will lie in the hands of institutions such as Nurcha. The ultimate test of success will be the legacy of successful projects completed with the assistance of correctly administered construction finance, and the growing number of expanding and financially independent construction entrepreneurs in South Africa.

There is little doubt that South Africa's daunting developmental needs will not be met without innovative approaches to financing and developing construction entrepreneurs. In fact, of the contractors and developers surveyed, 97% indicated that they would require construction financing some time in the future.

Access to housing finance: what would it look like when it works?

FSC Update

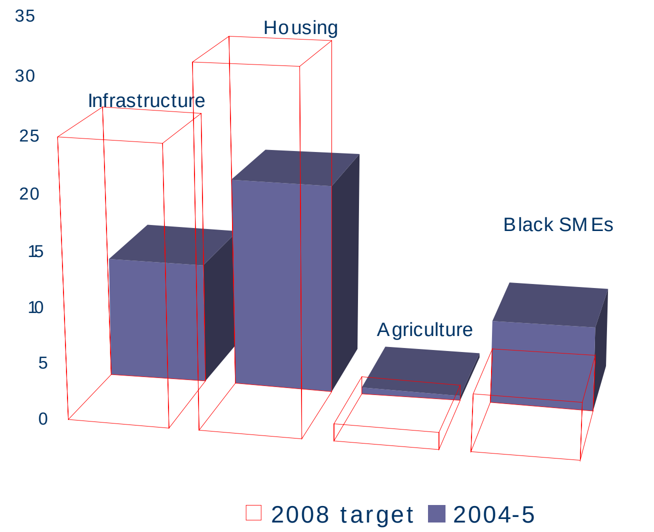
Financial Sector Charter Council (FSCC) Chairperson Mr Enoch Godongwana presented the FSCC Annual Report for 2005 to Parliament in November.[14] Mr Godongwana explained that the FSC's primary objective was "to promote a transformed, vibrant and globally competitive financial sector reflecting the demographics of South Africa, contributing to an equitable society, providing accessible finance to black people and targeting investment into certain sectors."

The Annual Report records the performance of the financial sector players against the FSC targets. All financial institutions submit their data on forms developed by the FSCC. These are then considered and approved by the Executive of the FSCC, which then prepares a rating. These ratings provide BEE credentials for tenders and the Charter targets aligned with the Broad Based Black Economic Empowerment Act Codes of Good Practice.

Investment in low income housing is categorised under the "origination and targeted investments" pillar.[15] This pillar is reported to have performed less well than the others – presumably because transformation on this basis is inter-dependent with a working market and therefore less easy to control.

There are two housing targets – the R42 billion that has been so widely publicized is an origination target (i.e. gross sales) – a commitment by the banks to originate R42 billion worth of loans. The FSCC, however, monitors a targeted investment target of R31,8 billion – that is, the net movement in the balance sheet. The relationship between these two figures is interesting in that the nature of the loan, its size and term, impacts on the net movement in the balance sheet. A housing micro loan originated today may no longer be on the balance sheet by the December 2008 deadline. Therefore, for a lender to focus on short term loans, they would need to increase their origination of such loans in order to meet their target. That said, the banks' commitment to R42 billion in origination does accommodate a product mix so that the long term, mortgage product is not necessarily the favoured option.

The FSCC Annual Report is not particularly congratulatory with regard to performance in respect of the housing targets. While it acknowledges a report of R19 billion towards the R31,8 billion target, it expresses concern that this is over-reporting. Minutes from the parliamentary presentation report Mr Godongwana as explaining that "many of the banking systems were not structured to produce reports on the income categories used by the FSCC, and had used house-prices as a guide. In addition, the banks tended to base their calculations on only the borrower's income and not on household income."



The following quotes directly from the FSCC Annual Report:

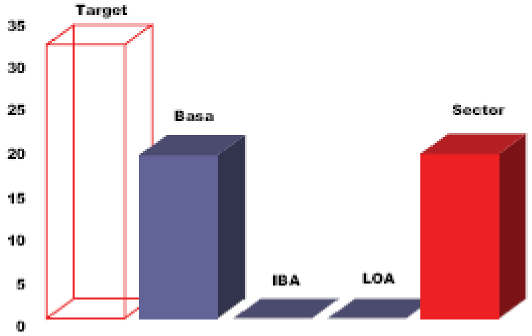
"The 2008 target for low-income housing finance is R31,8 billion. To qualify as low income housing finance, loans and other forms of credit-granting must be to households earning between R1 600 and R7 900 in 2005 (this represents a CPIX-linked increase from the R1 500-R7 500 household income referred to in the Charter). The bulk of the R19 billion reported for 2005 came from the domestic banking sector, with minor contributions from the life assurance industry and international bankers.

"The report has already referred to non-tracking of household income of loan recipients. Reporting institutions did not distinguish between the criteria for qualifying origination (minimum R500 household income a month) and targeted investments (minimum R1 600). Only two institutions, neither of them among the leading housing financers, attempted to track the household income and LSM status of borrowers. Most of the reported housing finance is thus unconfirmed for 2005. A reliable baseline study based on strict Charter criteria will form part of the 2006 reporting and review process. For 2005, the major credit-granters in the banking industry opted to assume household income based on unit cost (the cost of the house), setting R180 000 as the ceiling for qualifying loans. As indicated, insufficient information was provided on loan size and none on actual household income to assess the impact of the targeted housing finance initiative with a high level of statistical confidence.

[14] The Parliamentary Monitoring Group (www.pmg.org.za) records minutes of all Parliamentary Committee meetings. The FSCC report was to the Finance Portfolio Committee on 15 November 2006. The FSCC Annual Report can be downloaded from: http://www.fscharter.co.za/attachment_view.php?aa_id=32

[15] The Charter has seven performance pillars: human resources, ownership and control, procurement, access, origination and targeted investments (including low-income housing, agricultural investment, transformational infrastructure and black SMEs), Black economic empowerment (BEE) transaction financing, and corporate social investment.

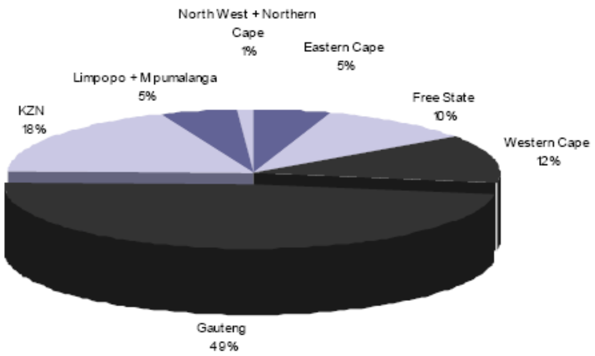
Access to housing finance: what would it look like when it works?



R billions: low-income housing investment per industry

"Such information as was provided by credit-granters suggests that the primary lending and funding focus is at the upper end of the house income band set by the Charter. Lower-income households (R1600-R4 500 monthly household income) appear from the reports to represent a disproportionately small proportion of borrowers. This effect is compounded by delay by institutions in introducing household income as the basis for lending decisions. Most institutions continue to base decisions on the income of individual borrowers, although continuing to use the R1 600-R7 900 Charter qualifying bracket.

"The potential result of this approach is significant bracket-creep: loans being made to households in which one earner (the borrower) is at or near the ceiling of R7 900 and the income of second or third earners are not taken into account, although the combined income pushes the household above the Charter's R7 900 ceiling, moving the household up one or more earning brackets. Charter-designated housing finance is thus potentially being allocated to income brackets not provided for in the Charter. Paralleling the trend in all financing covered by the Charter in which information on geographic spread was requested, the bulk of housing loans was in Gauteng and the Western Cape (61% combined), with KZN borrowers receiving 18%, and the remaining provinces 21% between them. As has been noted, the assessment of the geographic spread of housing finance and the reliability of the conclusion is restricted by the omission from the reports of several major credit-granters of the underlying information."



Low-income housing finance by provincial share

The FSCC Annual Report makes the following recommendations with respect to the origination of housing loans:

- **Tracking by household income: "***It is recommended that the Charter Council engage the banking industry to ensure that, in all future reporting processes, it tracks low-income housing loans by household income and that, in doing so, it takes account of the differing minimum household incomes applicable to originated and targeted investment low-income housing funding."*
- **Geographic distribution**: *"It is recommended that the Charter Council consider the trend in all three originated loan categories of clustering loans around the country's three major urban areas."*
- **Economic distribution**: *"It is further recommended that the Charter Council consider the differing targets for low-income housing and black SME funding provided for under origination and targeted investments. These effectively discourage funding for low-income housing for the poorest segment of households and of black SMEs earning turning over less than R500 000 a year and crucially, of start-up black SMEs."*

2005 targeted investment by industry (R millions)

	All targeted investment	TI	Housing	Agriculture	Black SMEs
ACI	61	61	0	0	0
Basa	28 580	2 472	18 862	473	6 773
IBA	437	109	0	0	328
LOA	4 559	4 017	162	43	336
Saia	14	0	0	0	14
Sector	33 651	6 660	19 024	516	7 450
Target	63 300	25 000	31 800	1 500	5 000
Origination (R millions)					
Basa			18 647	633	6 794

Note on the 2005 targeted investment table: The difference in the 2005 housing and black SME targeted investment figures for Basa and those its members reported for origination derive from the fact that origination is for 2005 only. Targeted investments are based on loans on the institutions' books on 31 December 2005 and may thus include loans origination prior to 2005. The difference between the agricultural development targeted investment figures and that for originated agricultural development loans is assumed to derive from the involvement of non-Charter institutions.

Housing and the finances of the poor

By Daryl Collins

This article draws heavily from a paper prepared for the KfW Financial Sector Development Symposium, held 9 November 2006 in Berlin. The full Focus Note on 'housing and the finances of the poor' is available on www.financialdiaries.com or http://www.finmarktrust.org.za/documents/2006/NOVEMBER/FDFN_housing.pdf.

- *This Focus Note brings together evidence from the South African Financial Diaries together with the Bangladesh and Indian Financial Diaries to expand our understanding of how poor families "turn money into house."*
- *Acquiring housing is an important goal for many poor households, providing a key focus of borrowing or saving. We found that of all the lump sums borrowed or saved over the course of a year, 13% were used for housing.*

- *We also found that many households acquired their homes not only with borrowing and saving but also incrementally by buying building supplies bit by bit. Nearly 50% of the South African Financial Diaries respondents said they acquired their homes this way.*
- *Incremental spending was a feature of spending throughout the year that we tracked Financial Diaries households. In South Africa, the amount spent on housing, if prorated to a monthly basis, was 4%-6% of monthly income.*
- *The bottom line is that poor households across different types of housing stock and in three very different countries all have the focus and ability to build housing assets through a variety of ways – borrowing, saving and incrementally.*

The financial lives of the poor are complex. Household membership and sharing arrangements are ever changing and often ambiguous, incomes come from a variety of sources and livelihoods and cash flows are tiny and irregular. The first step to address the challenge of providing appropriate financial products to the poor is understanding the financial arrangements in which a household is already engaged. The Financial Diaries studies aim to fill that gap by continuously tracking a small number of households across an extended time period.

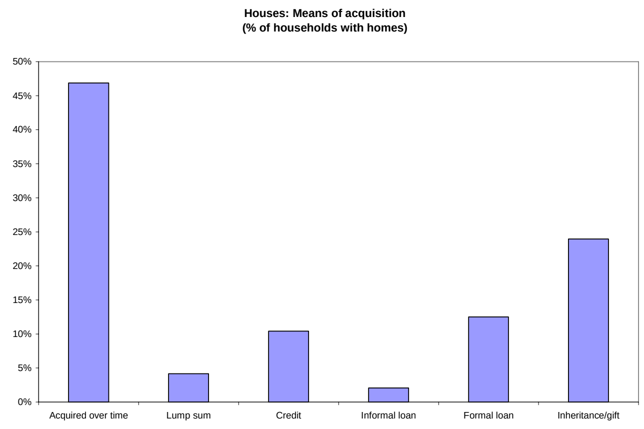
The richness of Financial Diaries studies from Bangladesh, India and South Africa allows us to delve deeply into the financial decision-making of the poor, to understand a bit more about what drives their economic behavior. In all three countries, the quest to own a home or a piece of land was a key factor in their financial aspirations. The respondents we interviewed in the three countries spanned a number of different types of homes. In the rural areas, most respondents owned their homes (which varied in terms of strength and comfort of construction) and the parcel of land on which they stood. The luckiest would have a large piece of land to farm (in the case of India and Bangladesh) and a larger compound (in the case of South Africa). In the urban areas, household might live in a mud hut, or a shack, or even (in some cases in South Africa) a permanent brick home. In the urban areas, there were also more households who rented a home. We learned, however, that respondents with shaky tenure in the urban areas could simultaneously be building a home in the rural areas.

A picture of home ownership within poor areas depends largely on how what you include in that measure. Within the context of the South African Financial Diaries sample, the picture would be quite rosy if one includes shack ownership, second homes and the homes owned in rural areas—about 90% of the sample households perceived that they owned their homes. In rural areas home ownership is generally the norm, although it is necessary to view this in the context of legal tenure. If we only looked at the urban areas and we did NOT include shack ownership, the percent of the sample who had legal tenure to their homes is only 24%.

Household expenditure on housing

How did households manage to acquire these homes, if they are so poor? We found that homes were acquired both through raising lump sums and incremental building. Finance is the relationship between money and time. When one has irregular and small incomes, it is difficult to accumulate money over time, so an important element of understanding the financial lives of the poor is to carefully observe how household managed to put together what we would call a "large lump sum." Of course, we found many smaller sums that were raised and snapped up to manage daily expenses. But how many larger lumps emerged from financial operations – the loans that were borrowed and the savings that were withdrawn? Using a benchmark of mean monthly income,16 we found over 300 large lump sums produced through financial instruments over our 250 households. Their total value was $80,857 (India = $23,358, SA=$43,949, Bangladesh=$13,550), or an average of $270 per sum.17 Within this context of saving and borrowing, we found that of the 300 lump sums that were raised by the entire sample, 41 (13%) were used for housing.

But this is not the same thing as saying that lumps sums were the primary way that households managed to obtain their homes. In South Africa, nearly 50% of Financial Diaries homeowners said that they acquired their homes by buying the housing supplies bit by bit over time. Other means of acquisition might be through a lump sum, i.e. saving up through a savings club, or getting paid out from a pension scheme. Households may also use retail credit from a store, usually a local supply store. Rarely would household acquire their home via an informal loan from a money lender or a loan from a family member. Some would have access to a formal loan from a bank. Lastly, about 25%, mostly in the rural areas, would inherit their homes.



16 In Bangladesh and India, this benchmark was about $50. In South Africa, where income distributions are wider, the benchmark was based on each household's average monthly income. The average benchmark across households was $425 per month. The higher average South African income hides a wide distribution of incomes, even within these poorest of areas. Over all three areas in South Africa, roughly two thirds of the sample have incomes that are higher (often well higher) than those in India and Bangladesh, but one third of households have incomes that are as low or lower than $50.

17 When making comparisons between the three countries, we converted all local currencies figures into dollars at the average market exchanges rates over the times of the studies. These exchanges rates are South African Rand 6.5/US$, Indian Rupees 47/US$ and Bangladesh Takas 50/US$.

Access to housing finance: what would it look like when it works?

South Africa: Means of acquisition, house-owners

With this in mind, we learned to pay careful attention to the incremental amounts that were spent on the home each month. Often these amounts would quickly add up to a new room, or a wall around the property. Many homeowners in different areas and income levels were building up their homes by bits and pieces throughout the year. In all three sample areas of the South African Financial Diaries, at least half the Financial Diaries households made some sort of expenditure on housing during the study year. The amount spent, if prorated to a monthly basis, was between 4%-6% of monthly income (note that this does not included bond payments for those that had them).

Not every home in poor neighborhoods comes with a guaranteed tenure. Some households may have a title deed that shows legal ownership to their home and land, but others do not. In rural areas, in particular, homes that are invested in and kept for generations are not necessarily backed by a formal title deed.

Types of tenure

In the South Africa Financial Diaries, we found roughly four types of home ownership tenure. Formal homeowners had a title deed (19% of homeowners). Rural homeowners (50% of homeowners) did not. In urban areas, some homeowners did not have a title deed, but felt their tenure was secure (9% of homeowners). This was usually the case where an RDP house was involved. This definition also applies to one area in Diepsloot where the households owned the land on which they built their shack. On these sites, households also had access to their own toilet and water. However, none of these households could produce evidence that they owned this land, so we have kept them in the "secure but no deed" category. For most of those with shacks (23% of homeowners), it was clear that though the shack material was theirs, their tenure on the property was insecure.

During the interviews with Financial Diaries households, we became aware that we shouldn't assume anything from the type of house the respondents lived in. Time and again, we found households living in a shack, but investing in a house in rural areas. In the Bangladesh sample, 45% of households (mostly rural) have secure tenure of at least a homestead. In the urban area, 40% of households are either renting or squatting informally. Fifteen percent of the Bangladesh sample were squatting or renting in the city but owned land back in their home villages. In South Africa, 16% of households in the urban area of Diepsloot have a second home in the rural areas. A similar phenomenon is also apparent in India. In the urban area, 24% of the households raised lump sums for home construction, mostly in their home villages.

Investment intentions

In order to understand the housing and household finance, we need to understand something about the breadth of what a home means. In middle class households in high income countries, we're used to thinking of a home as an important investment. This is not usually the primary reason for home ownership in poorer environments. Often housing and land purchases are a means of livelihood. Certainly, the land owners in Bangladesh and India were considerably better off than those without land. Those who did not have land were often trying to secure some.

In other circumstances, homes are a place to be identified with. South Africans who are building homes in the rural areas are often not doing so to increase their financial net worth, but to have somewhere that they call "home" beyond the crowded hostels and shacks where they live in the urban areas. In one household's case, we were confused by their strenuous efforts to build a home in the Eastern Cape. Does that mean that they'll be returning soon? Not at all, we were told. Cape Town is good for working, but you must have a family home near your relatives – to hold family feasts, to retire to and to be buried from. If you have a family of your own, '*you can't be buried from your parents' home - they must take the coffin from your own home*.'

Upcoming dates

- **5-23 March 2007,** Johannesburg: Microenterprise & Development Institute – Southern Africa. Course for practitioners. Go to http://www.mdi-sa.org
- **12-14 March 2007**, Spier Estate, Cape Town: Making markets work for the poor in Southern and Eastern Africa. Contact Norma Tregurtha at norma@commark.org or call +27 82 532 8248
- **20-23 August 2007 in Kampala, Uganda**: 3rd African Microfinance Conference: New options for rural and urban Africa. Deadline for papers: 15 March 2007. For info, email gloevents@infocom.co.ug

If you would like to be included in (or removed from) the mailing list for ***ACCESS housing***, please contact Tamara Banda at the FinMark Trust: tamarab@finmark.org.za. For more information, please contact Kecia Rust, the FinMark Trust's housing finance theme champion, on Kecia@iafrica.com or on 083-785-4964.