Delft Area Housing Needs Analysis

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Executive Summary

For the past five years, the Kuyasa Fund has provided housing micro finance services to active savers who have qualified for a national housing subsidy and are engaged in the People's Housing Process (PHP). The Kuyasa Fund's current client base comprises households earning less than R3 500 per month in the Western Cape.

Kuyasa's desire to expand its services and examine its own loan product, and the fact that housing micro finance is under-researched in South Africa, has encouraged the Fund to undertake a research project in Delft to examine the housing micro finance possibilities in this area.

Delft, which lies east of Cape Town, is home to a combination of African and coloured communities. The formal houses in Delft were built by the Integrated Service Land Project (ISLP) during the 1990s. The process involved Delft residents receiving their housing subsidies in the form of a house, not in cash; in other words they were not involved in the housing construction process. This lack of choice has made the housing situation in Delft vastly different from the situations in other Cape Flats areas, as well as from the Peoples' Housing Process delivery method with which the Kuyasa Fund is familiar. In Delft, there was little choice and subsidy beneficiaries moved into finished products – which led to considerable dissatisfaction among Delft residents. In the PHP process, households participate in the delivery process and determine the housing product. Generally, this approach leads to greater buy-in and satisfaction with the end product.

Due to the different cultural and linguistic realities in Delft, as well as the specific housing context that exists as a result of the housing subsidy policies that guided the ISLP, Delft represents a different type of community to those with which Kuyasa typically engages. The Fund realizes that successful projects in Delft will require a greater understanding of the existing socio-economic conditions of the area.

Consequently, the Kuyasa Fund embarked on an intensive research study in Delft to assess the housing needs and aspirations of the community. The main objectives of this research were to:

- examine perceived housing needs and aspirations
- interpret the construction and housing-related skills present
- determine the demand for Kuyasa-type services in the area
- recommend a new loan product, if what Kuyasa currently offers is not appropriate for this community

This project set out to determine the best way to provide housing loan finance to people in a post-subsidy context where clients require housing loans to improve their existing property rather than to build their initial property.

The research process incorporated interviews with 297 Delft residents, four focus groups, secondary research and a workshop attended by other non-profit researchers. The findings are summarised below:

- **Demographics**: Of those interviewed, the average age group was 30-39. Half of all households reported that they were female headed. 47% of respondents have achieved a level of education between grades 8-11, while 21% confirmed finishing grade 12. 50% of those interviewed have lived in Delft between two to eight years. The average household size in Delft is four people. 46,5% of respondents said they were unemployed. Unemployment is rife, with 44% of respondents reporting that they have been unemployed for five years or more. Of those, 88% earn less than R3 500 per month and almost half of those surveyed receive a social security grant from the government.
- **Savings**: Participation in a savings group is a prerequisite for Kuyasa clients, and this study attempted to determine the presence of savings. It found that 86% of the respondents are not involved in community-based savings groups. However, more than 55% of respondents had bank accounts. In general, the majority of those who *did* assert involvement in savings groups were black.
- **Housing needs**: This study undertook to determine what types of home improvements Delft residents wanted in order to conclude if Kuyasa could service the area. 82% of respondents had never been involved in the building process. Most residents were unhappy with the quality of their homes, often citing leakages and poor building standards. Improvements required included ceilings, plastering, bathroom improvements, electrification, and building extensions, indicating a need for incremental financing. Complaints included the size of houses, lack of privacy and inappropriate layout. There was a marked difference in opinion between residents of brick houses and residents of zinc and asbestos houses, with the latter calling for the demolition and rebuilding of their houses while the former concentrated on upgrading the existing structure.
- **Loans**: Respondents conveyed dissatisfaction with Kuyasa's standard first loan of R5 000, preferring larger loans with longer repayment periods.

Recommendations

Our recommendations in respect of *post-RDP housing micro finance* are:

Savings

1. Through separate grant funding, specially sourced for this purpose, to employ staff to support savings activities in Delft. This process should be a medium to long-term process over a three to five-year period with the aim of demonstrating to residents the economic and social value of group savings;
2. Increase the mandatory savings target as a precondition for getting a loan;
3. Convert the savings requirement into a mandatory deposit, which could be reimbursed in two instalments: one in the final stages of the building process (thus acting as an incentive to get the work done quickly) and one when the loan is repaid (as an incentive to repay).

Loan size

1. Increase the mandatory savings requirement (as above) to qualify for a loan, so that the amount available for housing improvement is increased by more than the increase in average loan size;

2. Increase Kuyasa involvement in construction design and planning, to help clients minimise costs. This involvement, however, should be at arm's length, preferably though a relationship with building materials suppliers or with the Development Action Group;
3. Support exchange programmes between Delft residents and existing Kuyasa clients so that the former can benefit from the building experience of the latter;
4. Contingent on the above steps, increase the allowable first loan to a size that is practical for Delft residents.

Repayment period

Kuyasa Fund should develop a pilot programme that would involve the steps proposed above, in order to identify a loan product (size and term) that is both useful to clients and feasible for Kuyasa. The key here would be to identify the minimum cost of feasible home improvements and use this 'floor price' as a basis for deciding loan size and therefore term.

Collateral

Link the recommendations above, regarding a higher initial savings requirement, to construction completion *and* loan retirement; as well as an increased field presence in Delft. This will need to be augmented by stronger pre-loan diligence; increased provisions for legal action; as well as increased provisions for bad debt, at least in the initial phases of a pilot programme.

Field staff

Kuyasa will need a stronger field presence in Delft, if it is to increase its lending activity there. The absence of other factors (e.g. prior savings activity) and the presence of new factors (e.g. more construction planning assistance) implies the need for greater staff visibility. Kuyasa will have to find ways to maintain 'institutional' pressure on clients and support stronger pre-loan diligence and legal steps to ensure repayment performance. Kuyasa would also need to employ more Afrikaans-speaking loan officers to engage with the majority of Delft residents.

Housing support centres

There is very little knowledge or experience of home building or maintenance in Delft. Kuyasa must address this issue before attempting to lend for home improvement. There is need both for pre-loan and post-loan assistance, to assure success in the building and repayment process. Kuyasa, however, may not have the capacity to fulfil all of these roles. Kuyasa should interact with other housing and community development institutions and organisations to initiate the development of skills and awareness raising facilities, such as housing support centres.

Pricing

Kuyasa management *must* be open to the possibility of higher interest rates for loans in Delft. It is clear that the risks and costs of post-RDP home improvement loans will be higher than for PHP subsidy-linked loans. Failure to price for these differences will lead to de facto subsidisation of one class of client by another. The most feasible option would be for Kuyasa to design and pilot a totally new home improvement product, branded as such, which would attract a higher interest rate than the current product.

Acknowledgements

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The study was carried out by Xola Ngamlana, from the Kuyasa Fund, and Christine Johnston, seconded to the Kuyasa Fund by Rooftops Canada – Abri International.

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1 Introduction

The Kuyasa Fund, with support from the FinMark Trust[1], commissioned this paper into the housing needs and aspirations of residents of Delft, a low-income residential area within the Cape Town Municipality. The purpose of this study was to explore the perceived housing needs, housing capacities, and feelings about loans and debt of the residents of Delft; determine if Kuyasa Fund's housing micro finance services are needed and desired by Delft residents; and determine if Delft residents require a different micro finance loan product to that provided by the Kuyasa Fund and, if so, to recommend an appropriate product. Research proceeded in four overlapping stages:

- **Stage 1: Secondary research**: Gaining an understanding of the history of housing policy in South Africa, specifically in reference to the Cape Town Municipality; learning about possible markets for micro loans for housing improvement; and gaining a basic understanding of the socio-economic and political conditions that exist within Delft.
- **Stage 2: Primary research**: Acquisition of detailed data on the perceived housing needs of Delft residents, by giving a questionnaire to a random sample of Delft residents and offsetting up four focus groups with Delft community members from different backgrounds and with differing experiences of housing and micro loans.
- **Stage 3: Analysis, formulation of conclusions and implications for Kuyasa Policy**: General analysis of findings, both of our primary and secondary data, and their compilation into a format conducive to generating concrete conclusions regarding micro loan demand, procedure and product.
- **Stage 4 (yet to be completed)**: Commencing housing micro finance operations in Delft, if needed. Research findings will be disseminated to relevant stakeholders through workshops and publications.

1.1 Motivation

The *actual* demand for additional housing finance services by recipients of South Africa's state housing subsidy is an under-researched area. South Africa's current housing policy is based on the assumption that resources will be added to the housing subsidy in the form of savings, credit, or both (Baumann, 2004b: 7). For this reason, it is generally assumed that housing micro finance of some kind is 'needed' by subsidy recipients (as shown by the government's continuous attempts to get South Africa's banks to make it available, discussed below). Nevertheless, there has been little effort to identify the actual content of this assumed demand. South Africa's cultural, ethnic and socio-economic heterogeneity, moreover, means general assumptions about the *need* for finance for housing improvement are unlikely to match the effective *demand* for it.

The Kuyasa Fund has a relatively short but successful history, supporting low-income residents' incremental housing processes by providing micro loans and savings support at the time a housing subsidy is first made available. Kuyasa is now

[1] The FinMark Trust is an independent trust based in Johannesburg, South Africa, and established in 2002 with core funding from the SA office of the UK Department for International Development (DFID). Its mission is "to make financial markets work for the poor". In practice, this means supporting efforts to extend access to appropriate financial services to individuals and households who currently lack it. The FinMark Trust is particularly interested in the Kuyasa Fund's work in enhancing access to housing finance for low income households, and the methodologies it is developing towards extending the access frontier.

investigating providing micro loans to low-income residents who have already received a subsidy and a contractor-built home – the ‘post-subsidy’ market. This study explores the potential market for Kuyasa loans in Delft. It should be noted that, prior to this study, Kuyasa undertook a pilot project with a small number of residents using its existing loan product, which did not meet with success. In response to this failure, this study was commissioned to look at alternative methodologies.

1.2 Methodology

A variety of techniques was employed: secondary research; questionnaire development; focus group content development; field research, including contacting 400 and interviewing 297 Delft residents, as well as engaging 26 residents in focus groups; data editing and capturing, and finally analysis and interpretation of results.

Secondary research

Secondary research was conducted on an ongoing basis, with most occurring prior to the questionnaire draft; and secondary data analysis occurred concurrently with primary data analysis. This aspect of the research focused on recent material on the housing micro finance sector, with a focus on South Africa; housing policy in South Africa, both historic and contemporary; and the history and conditions of Delft. This review was undertaken though an internet search of both academic and professional websites.

Questionnaires

The questionnaire was developed over six weeks, during which preliminary interviews were conducted to pinpoint problems in the questionnaire. Research staff at the Development Action Group assisted in this process.

Questionnaires were administered to 400 randomly selected Delft residents. A sample size of 400 was chosen because it would lend a precision rate of +/- 5% with 95% confidence intervals. The large size of this sample carried certain costs with it, which were taken into account when determining its usefulness. To select households[2], contact was made with the Tygerberg administration of the City of Cape Town for a list of 4 000 Delft township plot numbers. A request for a listing of Delft area plot numbers, from the City Directorate of Strategy and Information, garnered a list of 6 000 property numbers. The two lists were combined and any overlapping numbers omitted. 400-500 addresses were randomly selected for visits as well as a list of 100 substitute addresses. It is recognized that it is unlikely Kuyasa had a complete list of all Delft area plot numbers, but that the chosen selection process was the most reliable option.

To convert plot numbers into actual addresses of possible respondents, a map of the entire area containing both erf (plot) numbers and addresses was requested and eventually obtained from the council. Plot numbers randomly selected were assigned to the corresponding address, which was used by our fieldworkers to identify selected households. A substitution list was also selected, to be used in the event of respondents not being available for interviewing.

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[2] We chose to select households, rather than individuals, due to the fact that we could not gain access to a list of people living in Delft with corresponding addresses. Upon visitation of the selected household, only primary decision makers were requested for interviewing.

The initial interviews were conducted by 19 Delft community residents, aged 17-19. Fieldworkers were recruited from the local community, primarily via the Roosendal Secondary School. They participated in a workshop facilitated by Kuyasa researchers, on proper interviewing techniques, communication skills and interpersonal skills. Methods employed in this workshop included, but were not limited to, role play, lectures and discussion. The trained interviewers called on selected respondents in their homes and conducted interviews in order to fill in the predetermined questionnaires in English. The group completed two hundred interviews in one week. Eight extra field workers were trained and assigned to interview the remaining 200 selected respondents, including revisiting households where initial visits were unsuccessful.

Focus groups

Focus groups were used to gain additional information and further assess the housing needs and aspirations of Delft township residents. It was felt that these were needed to supplement the questionnaire in order to gain insight into people's attitudes, understandings and perceptions that could not be obtained from the pre-determined set of largely close-ended questions, in the questionnaire. Discussions in a group situation, concerning housing, produced a variety of views and perceptions that were stimulated from interaction, discussion and reflection.

Four focus groups were conducted with 8-12 participants each. Three were made up of community members at large, randomly selected for involvement. In practice, the groups that emerged were not defined as expected. This was due to the fact that attendance was varied – of the randomly selected individuals chosen to participate who had agreed to be involved, approximately 20% were not present. In addition, many of those who were present brought along a friend or relative to participate. Thus, the random sample method of participant selection was not followed.[3] The fourth group consisted of 10 of the 15 Delft South residents to whom Kuyasa has already provided loans. This group was organized to gain insight into why many of the loans failed to produce their intended results and why repayment rates were poor. This is a crucial group in helping to determine if new loan products are necessary for Delft.

While the survey research sample targeted a random group of residents, responses indicate that this group comprised people from households earning less than R2 500 per month, with a significant portion receiving a grant of some type. In this respect the survey was representative of Delft residents. The focus group sample consisted of both a representative group of Delft residents and a smaller group representing Kuyasa clients from Delft.

[3] We recognize that this may have an impact on the data collected from the focus groups. We acknowledge that the information gained through the focus groups was that from those who were either simply able to attend or from those who had specific housing concerns and wished to voice them (or both).

2 Context

2.1 The legacy of the missing pillar

Housing delivery is one of the cornerstones of the performance of the post-1994 South African state. Although the nature and scale of South Africa's housing needs remain subjects of debate, the relative housing status of South Africa's residents is a visible and potent symbol of pervasive socio-economic inequality, rooted in both the apartheid past and the manner of South Africa's post-1994 reincorporation into the global economy. Housing is important in all developing countries but, in South Africa, it is particularly sensitive because the country's social geography continually reinforces the perception of relative deprivation on the part of the black majority.

In 1994, the new ANC-dominated government introduced a new approach to housing delivery based on a 'consensus' engineered by the private sector in the dying years of apartheid (Huchzermeyer, 2000; Baumann, 1998). The centrepiece of this policy is the National Housing Subsidy Scheme, a one-off capital subsidy for individual households, financed by annual allocations from the national budget, distributed on the basis of applications channelled though the provinces. The subsidy is available to 'poor'[4] South Africans in four forms (Wilkinson: 1998, 225):

1. **Project linked** subsidies paid to private (occasionally public) businesses which deliver houses according to government-approved plans;
2. **Individual** subsidies paid to individuals who build or purchase approved homes on their own;
3. **Institutional** subsidies paid to non-profit organisations to initiate 'social housing' developments for ownership or rental;
4. **Consolidation** subsidies to build or complete a 'formal' structure, paid to individuals or communities living on serviced sites who received either no subsidy or the R7 500 subsidy provided under the Independent Development Trust (IDT) programme of previous years.

Figure 1: South African subsidy beneficiaries, 1994-2004[5]

HOUSES COMPLETED / UNDER CONSTRUCTION PER FINANCIAL YEAR									
PROVINCES	**1994/97**	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**TOTAL**
EC	6,511	32,223	24,659	20,345	34,021	10,816	58,662	7,449	194,686
FS	13,042	18,001	17,391	7,177	16,088	7,005	9,155	3,371	91,230
GP	56,239	70,924	58,170	45,384	38,547	46,723	24,344	15,225	355,556
KZ	17,553	78,468	53,105	28,997	28,547	14,379	24,485	11,008	256,542
LP	11,108	15,743	22,899	12,401	20,996	16,667	14,953	2,722	117,489
MP	19,884	10,873	16,838	4,808	16,457	14,584	21,649	14,919	120,012
NC	6,666	4,768	2,387	2,600	4,148	2,588	6,056	2,923	32,136
NW	21,287	20,977	18,367	12,944	14,109	13,885	23,784	6,201	131,554
WC	25,321	43,834	34,575	26,916	17,730	16,634	20,500	4,795	190,305
TOTAL	**177,611**	**295,811**	**248,391**	**161,572**	**190,643**	**143,281**	**203,588**	**68,613**	**1,489,510**

The choice of a capital subsidy for post-apartheid South Africa reflected a confluence of interests and weaknesses on the part of the dominant groups in society. The incoming ANC government wanted to deliver as many houses as quickly as possible, but lacked any coherent strategy to do this via the public sector. The political goal

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[4] Subsidies are provided on a sliding scale according to household income.
[5] http://www.housing.gov.za/Stats/Table/200306/T_Houses%20Completed.jpg, downloaded Tuesday, 29 March 2005.

was to deliver one million homes in five years (Rust and Zack: 2001). The ANC had been warned by many advisors not to fall into the trap of state-based housing delivery, however, so the challenge was to create a system that could turn state resources into houses without the state actually doing the building, or owning the result. The private sector, on the other hand, wanted to kick-start the domestic construction and urban development sectors, both to forestall more radical demands from the masses and to boost capital accumulation, and a capital subsidy fit the bill perfectly. The state would pay, but the private sector would do the work and make the profits. Post-1994 housing policy thus assigned key roles to the state and the private sector (Jenkins & Smith, 2001; Baumann, 1998). The implementation of this supply-side approach[6] quickly became the central concern of policy-makers, effectively sidelining other issues, such as the need for spatial, social, and economic integration (Wilkinson: 1998).

For the purposes of this paper, the important thing about South African housing policy post-1994 is that it has created an entirely new class of households, who own a plot of land with a small 'RDP' house[7] on it, courtesy of the state, but built by the private sector. Indeed, by far the majority of all subsidised houses delivered since 1994 are of this type: the product of the dominant model of housing delivery over the last decade, which uses the project-linked subsidy to develop new 'greenfield' sites or 'consolidate' existing site-and-service schemes with 'top-structures' (Baumann, 2004d: 7).

This is important because it has created a new challenge for South African housing finance. For most of the last decade, South Africans have argued about how to link housing credit to the state subsidy, so that developers could build bigger houses than the subsidy could pay for on its own. When the National Housing Forum and the ANC chose 'breadth' over 'depth in housing (i.e. quantity over quality), they did so on the assumption that additional credit-based resources would come from *somewhere*, quickly. This is why housing credit is the second of the new government's seven 'pillars of housing delivery', after the subsidy itself.[8]

The 'second pillar' has never materialised. While government and the private sector have pointed fingers at each other about housing credit's no-show, however, more than a million new houses for the poor have been built with the subsidy alone. **It is widely acknowledged that the bulk of these houses are qualitatively inadequate – too small and/or poorly finished – because the subsidy on its own could not pay for more. The question now is what role can housing micro finance play to improve on this outcome by helping new homeowners to improve their houses?**

2.2 Housing micro finance

'Micro finance institutions' (MFIs) are commercial or non-profit institutions that provide financial services of a much smaller average value than is available in the 'normal' market. MFIs typically offer services to households who cannot otherwise get them. MFIs can have different principles (developmental, and non-developmental) and different methods for attaining them. They can offer a range of

[6] Politicians were keen to be seen as 'delivering' houses. In reality, the private sector was the primary actor in the actual delivery (building) of homes.
[7] After the now-defunct Reconstruction and Development Programme.
[8] See www.housing.gov.za.

services, such as micro enterprise loans, savings, insurance, as well as 'credit plus' products such as education and training and health services (Daniel et al, 2003).

There is ongoing debate in micro finance circles about the appropriate relationship between mainstream financial services, such as banks, and micro finance institutions. In such debates, 'developmental' MFIs – those that specifically target the poorest households – are usually on the defensive. One challenge comes from those who support 'commercialisation', in which the goal is for all micro finance institutions to be both profitable and profit-driven. Non-profit MFIs are seen as at best a sideshow and, at worst, disruptive of the orderly functioning of financial markets. Another challenge comes from the Consultative Group to Assist the Poorest (CGAP), the World Bank's micro finance support project, which has become increasingly vocal about the need to move beyond standalone MFIs and towards large-scale approaches to financial services for the poor, even if these are not market based (e.g. basic 'state banks'). These debates are reflected in South Africa. Some argue that formal banks are not designed to serve the poor, and have little or no market incentive to learn how to do so; thus there is a need for state intervention in this situation of 'market failure' (Baumann, 2004a; Van Rooyen, 2005). Others argue that since banks have the resources to provide finance services to the poor, it is their socio-political responsibility to find ways to do so.

Micro finance for housing, although relatively new, is of interest to many MFIs due to the recognition that lack of housing and basic infrastructure is one of the main drivers of poverty (especially urban poverty), but that household-level access to finance for these things is poor or nonexistent (Daphnis, 2004; Ferguson, 2004; Mitlin, 2001). This is reinforced by what some call a 'second generation' approach to housing for the poor in developing countries, based on an understanding that mass 'public' housing construction programmes are largely ineffective (Datta & Jones, 2001; Renaud, 1999). Instead, it is increasingly recognised that housing processes in such environments are primarily incremental – which raises the question of how best to finance this kind of process.

The problem is that most familiar models of micro finance – both commercial and non-commercial – have been developed around micro enterprise or consumption needs rather than asset acquisition, such as housing. Lending for micro enterprise is the sole focus of most 'Grameen'-type micro credit NGOs. Lending for consumption (or for unspecified purposes) is the preserve of commercial moneylenders. Neither approach is designed for the specific needs of housing acquisition and/or improvement. As Christen argues,

> The private finance of low-income housing presents the micro credit industry with one of its most dramatic challenges. The purchase of new homes, parcels of land upon which to build, or the major upgrading of a current residence all represent sums of money that require relatively long loan terms to keep payments within the reach of poor families. Yet micro credit operators have built their success on the backs of lending methodologies that keep loan terms quite short, loan amounts low, payments frequent, and that use peer-based knowledge as a basis for assessing a potential borrower's character (willingness to repay). These techniques were developed precisely to counter the fact that poor families had no collateral to back their credit requests, and that their sources of income, while potentially sufficient, were too unstable and difficult to verify for the longer terms of traditional loans (2004: ix).

The key issues for housing micro finance are thus the *length of loan term* and the *nature of security*. The basic problem is that what works well for micro enterprise micro credit (short loans and group guarantees) does not suit the housing process in most developing countries. Even where incremental improvement is the norm, housing loans for low/unstable income households need to be much bigger than for micro enterprise to be useful. Housing borrowers have much less incentive to operate and enforce mutual guarantee systems, since access to an ongoing line of credit is less important for housing than for micro enterprise. Most housing MFIs are reluctant to follow banks on the path of foreclosure and eviction, even if this is politically possible. Thus, as Christen rightly observes, “the greatest challenge of all lies with those who wish to make long-term, larger loans for substantial housing rehabilitation or new home purchase for micro enterprise clients whose income flow is variable and uncertain” (2004: xi).

Although there are various opinions on best practice in housing micro finance, there are points of agreement. First, housing micro finance is crucial to the poor, as other options for shelter finance are generally unavailable to them. Second, micro loans for housing should be provided in ways that are diverse, affordable, and supportive of existing household and community livelihood strategies. Housing micro finance should stimulate asset formation and social capital sustainably, rather than increase vulnerability through individual debt (Lucarelli, 2005; Datta & Jones, 2001; Ferguson, 1999; Mitlin, 2001; Moser, 1998).

As understanding of the need for and methods of housing micro finance grows, however, it is becoming clear that knowledge of its use at household level is lacking. There are almost no studies of how poor households ‘turn money into house’. This is problematic in two ways. On one hand, those who favour conventional mortgage models for the poor tend to assume that households are incapable of utilising loan funds effectively, leading to a bias in favour of ‘developer-driven’ construction systems in which households are passive ‘beneficiaries’ of housing, even though they are expected to repay the loans that finance it. On the other hand, proponents of micro credit for incremental housing development often assume that poor households have the skills and opportunities to use such loans effectively – ‘turning money into house’.[9] In both cases, the focus is on finance rather than the end use of that finance.

2.3 Housing finance in South Africa

History

South Africa’s banking system has always been closely modelled on the British, and the mortgage bond, delivered through neighbourhood ‘high street’ banks, has long been the only significant retail housing finance product. Although South Africa’s mortgage industry is not perfect – most notably a weak secondary market and high transaction costs – it is little different from those of north western Europe. South Africa’s housing finance system, however, has been shaped decisively by the legacy of racial discrimination. Even during the colonial era, it was difficult for most black households to obtain permanent property rights in urban areas. During the apartheid era, this became legally impossible. By the 1960s, a system of racial segregation was extended to all parts of ‘white’ South Africa, in terms of which all blacks were considered temporary residents and therefore ineligible for permanent ownership of land. This made it impossible for retail banks to offer housing finance to black urban

[9] See Tilock, 2004, for a brief – too brief! – discussion.

households. In any case, very few black households could have afforded mortgage finance.

For most of the apartheid era, black access to housing finance was further limited by the fact that in the parts of South Africa set aside for blacks (the so–called Bantustans), access to land was typically based on allocation by, and at the sufferance of, traditional leaders. Under so-called traditional tenure, black households did not have permanent freehold, making mortgage finance impossible. In the last few decades of apartheid, however, black élites were able to obtain permanent tenure in urban Bantustan areas, and South African banks began to extend mortgage finance to them. Finally, at the very end of the apartheid era, the National Party government extended 99-year leasehold tenure to selected urban black populations, and banks began to offer mortgages to some township property markets. Repayment boycotts of these mortgages became a political tool in the late 1980s, however, which continues to make banks wary of the 'township market'. For both political and economic reasons, then, South Africa's housing finance system developed to serve the needs of the white, and to a lesser extent, coloured and Indian population groups. (Apartheid limitations on land availability for coloureds and Indians, however, drove up land prices artificially and made mortgages unaffordable even for middle-class households).

South Africa's housing finance system has also traditionally incorporated subsidies. Prior to 1994, the South African government and private sector offered a range of subsidies to the white, coloured and Indian populations. These were most prevalent in the public service, but many large companies also offered them. They typically took the form of a fixed monthly contribution towards an employee's mortgage repayment. In some cases employers also helped with deposits towards a mortgage.

Current impasse

While apartheid created the conditions for unequal access to housing finance, the policies of the post-1994 African National Congress (ANC) government have helped to reinforce the problem. This paradoxical result is due to a mix of political and institutional factors.

The ANC came to power in 1994 with little background in housing issues. As we have seen, the main focus of effort at the National Housing Forum in 1992-4 was the capital subsidy. The limited discussions on credit focused on using South Africa's mainline banks to extend the middle-class mortgage model 'downwards'. Most ANC-oriented NHF participants failed to consider whether this was appropriate or even possible. In fact, in 1994 South Africa's retail banks had neither the experience nor the inclination to offer mortgages to informally-employed households, and since then they have been under intense pressure from global financial markets – and from the SA Reserve Bank – to meet 'first world' standards of risk management and profitability (Tucker, 1999). As a result – and despite the fact that South Africa's retail banks have repeatedly entered into 'agreements' to do so, for political reasons – there has been very little mortgage lending in the low-income black 'market' (see below). The ANC, however, has been reluctant to force the banks to lend, for fear of alienating foreign investors. Nor has the parastatal sector picked up the slack. The government's conservative treasury regulations discourage risk-taking (and thus innovation) by state-financed development programmes. This is especially true of the parastatal National Housing Finance Corporation, which has had little meaningful impact at the low-income end of the market.

The upshot is that, since 1994, except for the subsidy, public housing finance effort in South Africa has amounted to 'moral suasion' aimed at forcing the square peg of long-long term, high-value mortgage finance designed for formally-employed households into the round hole of a largely informally-employed low-income market. This has been a quixotic exercise, often devoid of realism. Although populist politicians sometimes portray the banks as inherently racist, their cautious approach to housing finance is inevitable in South African conditions. The preconditions for the mortgage model are that (a) houses have *exchange value* and are *easily traded*, so banks can use them as security for a high-value, long-term bond, (b) borrowers can make regular repayments out of a predictable income stream, and (c) that the financial system is integrated and regular mortgage payments can be made more or less automatically. These conditions clearly do not hold for South Africa's low-income majority.

It is becoming increasingly accepted, if grudgingly, that the primary reason South African banks do not make housing finance available to the poor is not racism, but rather that their potential customers are informally-employed low-income households who lack bank accounts. From this perspective, the primary problem of South African housing finance is thus economic. The concentration on long-term mortgage lending thus inevitably leads to a focus on ways to increase the number of households eligible for mortgage-type products, by improving real incomes through socio-economic development and income redistribution (which is helpful to the banks and the Department of Housing, who can argue that the problem is not theirs to solve).

This is an unhelpful result, with no specific housing finance policy implication. It emerges because, as with housing in general, the debate on mortgage lending in South African housing finance has been conducted entirely from a *supply-side* perspective. By contrast, the *demand* side of the housing finance equation remains poorly understood. What do South Africa's low-income households actually want in terms of housing finance? Even without empirical evidence, it is clear that mortgage lending at the low-income end a 'developing country' market is risky not only for banks, but also for potential borrowers. Even though they can repay small loans (as many MFIs have proved), most low-income households cannot maintain the rigid repayment schedule required by a mortgage. Moreover, South Africa's 'township' housing markets are institutionally weak, and it is very difficult to sell a house, either to move up/down the housing ladder, or in execution (Nell *et al*, 2004). To make matters worse, South African formal sector wage employment has actually declined in absolute terms since 1994, especially in the low-middle income bracket. As a result, when they do manage to get a mortgage, many low-income black South Africans lose their houses because of income instability, retrenchment, and so on. This renders entering into long-term debt irrational.

The problem with South Africa's current housing finance system, therefore, lies not only in the supply side, with commercial banks reluctant to lend to low-income blacks, but also in the demand side. Because the mortgage model is unsuited to South African low-income conditions, many black households would not want to take out a mortgage bond even if they were available. Indeed, recent research reveals just this situation (Nell *et al*, 2004).

South Africa's housing finance system can thus be characterised as a situation of pervasive *market failure*. The policy and regulatory environment has generally ignored alternatives to the mortgage model, such as small loans and targeted savings for incremental housing improvement. Mainstream financial institutions such as banks do not see it as profitable to develop such specialised pro-poor housing finance institutions on their own account. There is no source of wholesale finance or technical support to enable the development of a class of institutions offering such alternatives. The impulse to do so, therefore, must come from the South African state, which has failed to act.

Housing finance providers

By value, the biggest providers of housing finance in South Africa are the four main retail banks – ABSA, Nedbank, First National and Standard. Since 1994, however, new niche bank and non-bank institutions have emerged at various levels of the housing finance system.

Table 1 (Gardner, 2003: 50) divides the sector into wholesale and retail lenders. At the commercial **wholesale** level, by far the bulk of capital for mortgage lending is sourced internally by the banks for their own operations rather than lent to non-bank specialist housing lenders. In the parastatal sector, several institutions provide either wholesale loans or loan guarantees to specialist housing lenders, but in relatively low volumes. Lack of accurate data on parastatal lenders makes it difficult to estimate their share of the mortgage market.

At the **retail** level, banks dominate, but a number of new micro-banks, specialist housing lenders and general micro lenders have emerged since 1994 that cumulatively cover about 8.4% of the housing finance market (see Table 1). Almost all of these non-bank housing finance providers are commercial enterprises; the NGO housing finance sector is so small as to be almost negligible (but see below).

There are also a number of **self-help** housing finance institutions in South Africa. Traditional community savings and credit schemes are ubiquitous, and many members use them to meet housing needs. Community-based organisations such as the Homeless Peoples' Federation and some local financial services co-operatives assist their members to save towards housing in a more structured way. This activity is difficult to quantify, but can have a significant impact in terms of incremental housing improvement (Baumann and Mitlin, 2003; Baumann, 2003b). Little state support, however, has been made available to such institutions and their overall quantitative impact remains small.

Volume[10]

Outstanding credit extended to private households in South Africa was about R360 billion in 2002. Of this, R191 billion (53%) was for private mortgages. A further R7 billion was for mortgages extended by parastatals and non-bank institutions. South Africa's mortgage market is thus about R198 billion. The South African Micro finance Regulatory Council[11] estimates that registered micro lenders (including banks) currently hold R5.6 billion in non-mortgage credit used for housing purposes. Altogether, total mortgage and non-mortgage housing debt held in South Africa is just under R200 billion.

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[10] Data in this section is drawn from Hawkins (2003) and the Micro finance Regulatory Council (http://www.mfrc.co.za).

[11] http://www.mfrc.co.za/detail.php?s=91 downloaded on Thursday, 07 October 2004.

Table 1: South African housing finance (by total loan book) (Gardner, 2003:50)

No	CATEGORY	DESCRIPTION OF INSTITUTION	PRODUCTS (See s.4.4.2)	EXAMPLES
1.	WHOLESALE FINANCE INSTITUTIONS			
1.1	Wholesale Finance Institutions	Providers of wholesale finance facilities that may be used by housing institutions for internal capital needs or for retail lending activities.	Wholesale Loans Institutional Loans	Mutual Banks Banks (e.g. Standard, Nedcor, ABSA)
1.2	Specialist Housing Finance Institutions	Specialist DFIs established with state support in order to increase the number and capacity of housing finance organisations through providing *inter alia* wholesale finance. Regulated by special statutes.	Wholesale Loans Institutional Loans	NHFC (s.5.4.1) NURCHA (s.5.4.3) RHLF (s.5.4.2) TUHF (s.5.4.4)
2.	RETAIL FINANCE INSTITUTIONS			
2.1	Banks	Commercial financial institutions regulated by Banks Act, and Usury Act	Mortgage Finance	Members of the Banking Council
2.2	Non-Bank Lenders	Institutions issuing medium to small loans. or exempted for products of below R10 000	Securitised Loans Personal Equity-backed loans	NHFC (Makhulong product) SA Home Loans
2.3	Micro-Finance Institutions	These are a sub-section of Non-Bank Lenders that grant unsecured personal loans that are exempted from the Usury Act (Usury Act Exemption Notice and regulated by the MFRC. These include normal micro-finance institutions, niche market lenders and NGO lenders.	Unsecured Small Loans Savings-backed Micro-loans	Members of the Micro-Finance Regulatory Council
2.4	Housing Institutions	Specialist housing institutions providing end-user financing for housing products using innovative tenure arrangements. Regulated by various laws, including Instalment Sale (Alienation of Land Act, 1989).	Instalment Sale products Rental Tenure Co-operatives	Rental Housing Institutions (e.g. Johannesburg Housing Company); Social Housing Institutions (e.g. Cope Housing Association); Instalment Sale Institutions(e.g. Cape Town Community Housing Company)
3.	SAVINGS INSTITUTIONS			
3.1	Savings-linked Credit Institutions	Housing savings schemes linked to the provision of credit by micro-finance institutions	Savings-linked credit	Instalment Sale Institutions(e.g. Cape Town Community Housing Company); Finance Institutions (e.g. uTshani Fund)
3.2	Specialist Savings Institutions	Specialist institutions or schemes established to assist low income households to accrue savings for their 'own contributions' to subsidised housing	Savings schemes	NURCHA (National Savings Scheme)
4.	GUARANTORS			
4.1	Wholesale Housing Finance Guarantors	Institutions that underwrite or provide guarantees to the providers of wholesale loans for housing purposes.	Housing-Specific Wholesale Finance Guarantees; 'Hardship Cover' Guarantees for rental institutions / SHIs	NHFC (specialist guarantees) NURCHA (OPIC bridging finance guarantees, Gauteng Rental Guarantee Fund guarantees for rental institutions) HLGC (hardship cover guarantees on rental income streams for rental institutions)
4.2	End-User Housing Finance Guarantors	Institutions that provide guarantees to the providers of end-user housing finance (Mortgage finance) on individual loans.	Loan Default Guarantees AIDS Guarantees	HLGC guarantee products

Table 2: South African housing finance providers (Gardner, 2003: 50)

Type of credit	US$ billions	% of housing finance market	% of consumer credit market
Consumer credit	55.8	–	100%
Total housing finance, of which	30.9	100%	55.4%
Bank mortgages	29.6	95.8%	53.0%
Non-bank mortgages	1.01	3.3%	10.0%
Non-mortgage loans for housing	0.87	2.8%	1.6%

In the non-mortgage housing finance sector, 89% of loans by value are personal loans secured by ceding of a pension and payroll deduction (only available to formally employed people). About 11% of housing loans by value are unsecured personal loans. This is particularly worrying, since unsecured loans for incremental housing improvement are the most common forms of housing finance for informal sector households in most other developing countries. Approximately 60% of South African households fall into income and employment categories that would make them potentially eligible for *only* this kind of loan under current South African conditions (Baumann, 2003a: 88).

Table 3: South African non-bank housing finance (by total loan book)

Loan type	US$ millions	% of non-mortgage market
Pension-backed personal loan	775	89.3%
Unsecured personal loan	93	10.7%
Total	868	100%

Overall, then, the South African housing finance sector is characterised by extreme imbalance between the volumes of credit extended to the minority of households who can access mortgages and the majority who could probably best use small, incremental unsecured personal loans for housing.

Strategic characteristics

As noted above, South Africa's banks are not strategically oriented to serve low-income, informally-employed customers. Although they have faced great political pressure to do so, the fundamental fact is that the sophisticated, individual, retail banking model they operate is unsuited to such customers, and there is little economic incentive to develop a new model *inside the mainline banks* that would be suitable. Instead, South Africa's bankers consistently argue that they would prefer to support the emergence of specialised retail institutions that can develop appropriate products and systems to serve the informal poor (Tucker, 1999).

Indeed, in recent years some such institutions have begun to emerge. On the commercial side, a number of micro-banks have begun to offer products specially designed for low-wage employees. Some target communities with a high proportion of migrant mineworkers. Others have positioned themselves to serve urban wage-earners.

Table 4: South Africa's housing finance sector – players and products (adapted from Rust, 2002)

		Banks	**Alternative lenders**		
				Non-bank lenders	
			Small Banks	**General Micro lenders**	**Specialist Housing Lenders**
Main Approaches	**Target market**	• Moderate to high income • Formally employed	• Moderate to low income • Formally employed	• Low income • Formally / informally employed	• Low income • Formally / informally employed
	Main products	• Mortgage loan • Pension & Provident Fund-backed loan • Personal loans	• As with Banks • Housing improvement loans	• Unsecured personal loans • Pension & Provident fund-backed loans	• Unsecured personal loans • Pension & Provident Fund-backed loans
	Loan sizes and Terms[12]	• From R75 000, usually over R100 000. • Deposit: 0% to 30% • Interest Rate: Approx prime (-2 to +2) • Term: 10-20 years	• R10 000 to R60 000. • Deposit: None • Interest Rate: Approx prime • Term: 8 years	• R500 to R5 000 • Deposit: No • Interest Rate: Approx 40% • Term: 30 day cash loan; 6 months to 2 years term loan.	• R2 000 to R10 000 • Deposit: No • Interest Rate: approx 40% • Term: 6 months to 2 years.
	Primary collection method	• Preferred debit order • Payroll deduction	• Payroll deduction • Preferred debit order	• Cash collection • Preferred debit order	• Preferred debit order • Payroll deduction • Cash collection
Estimated size		• 4 banks • Diverse portfolio includes housing	• 2 banks • Some targeting of housing	• About 2000 lenders • Varied portfolio, includes housing	• Less than 40 lenders • Some offer non-housing products
Regulatory environment		• Banks Act • Usury Act	• Banks Act • Usury Act	Usury Act Exemption Notice	Usury Act Exemption Notice
Pressures		• Increase Return of Equity • Reduce retail exposure • Eliminate cross-subsidisation • Risk of non-payment	• Funding • Risk of non-payment • Consumer indebtedness • Increase Return of Equity • Perception / reputation risk • Takeover threat	• Funding • Risk of non-payment • Perception / reputation risk • Marketing / product design	• Funding • Consumer indebtedness • Risk of non-payment • Funding • Perception / reputation risk • Marketing / product design
Capacities		• Lending at scale • Can take deposits • Advanced administrative systems	• Lending at scale • Can take deposits	• Personal service • Grassroots collection experience	• Understanding of housing • Grassroots collection experience • Personal service
Motivations to focus on low income market		• Pressure from government • Attraction of mass market	• Attraction of mass market	• Appropriately structured for small scale • Attraction of mass market	• Appropriately structured for small scale • Attraction of mass market

Another category of post-1994 financial institution is the commercial micro lender. Like most developing countries, South Africa has always had informal moneylenders who ignore official interest rate caps. In the mid-90s, however, revisions to the Usury Act created the possibility of formal commercial micro lending at unregulated interest

[12] From Gardner, 2003: 48-49.

rates. These commercial micro lenders now comprise 64% of registered institutions with the Micro finance Regulatory Council.

Table 5: Registered micro lenders, 2003[13]

Type	Branches	% of total
Banks	2387	32.7%
Publicly listed, non-bank	15	0.2%
Private commercial micro lenders	4687	64.2%
Trusts	116	1.6%
Section 21 (non-profit) companies	54	0.7%
Co-ops	42	0.6%
	7301	100.0%

These commercial micro lenders serve a market that is predominantly formally-employed, with access to a formal bank account. The MFRC estimates that about 11% of disbursements from such institutions are used for housing. The non-profit retail financial sector in South Africa is tiny. As Table 5 shows, trusts and non-profit companies are only 2.3% of all registered micro finance institutions. The financial services co-operative movement is also minuscule.

Costs of housing finance

South Africa is a high-cost borrowing environment for consumers and businesses alike. Historically, this has been due to high levels of price inflation and domestic government borrowing due to South Africa's financial isolation under anti-apartheid sanctions. Since 1994, inflation and interest rates have dropped dramatically, but the prime interest rate, and thus consumer lending rates, remain high in comparison to South Africa's main trading partners for three reasons:

1. The South African Reserve Bank has pursued a high interest rate policy to encourage capital inflows and stabilise the currency. Inflows of short-term speculative investment are critical to the country's balance of payments.
2. In the 1980s, South Africa's middle class also developed the habit of dissaving and borrowing, in the face of high inflation and poor returns from savings products. This and high government borrowing limited the amount of capital available for consumer lending, driving up rates. The SARB has used a high real interest rate policy to encourage a return to a savings culture.
3. South Africa's consumer goods market has traditionally relied on credit to serve South Africa's large unbanked population. The majority of South Africa's low-income population has not been able to access formal bank accounts, so individual saving has been difficult; instead, people have relied on hire purchase credit from retailers to obtain costly items like appliances.

Table 6 below summarises interest charges for a variety of housing finance products in the 2002-3 period. Although these rates have fallen by 1-2% since then, they remain very high compared to South Africa's main trading partners in the developed world. This has reinforced the affordability problem for potential consumers of mortgage and non-mortgage housing finance.

[13] http://www.mfrc.co.za/detail.php?s=95, downloaded on Friday, 08 October 2004.

Table 6: Typical costs and terms of South African housing finance (Hawkins, 2003: 27[14])

Mortgages and Housing Finance Cost Overview					
Type of Intermediary	Cost of Funds	Average Annual Charge to Client	Form of Security	Average Loan size	Term of Loan
Micro-loan - NHFC Incremental Housing	16.0%	42%	Unsecured	R 4,660.00	21 months
Pension-backed loan	11%[2]	16%-17%	Pension fund	R 20 000	8 years
NHFC Mortgages - Home ownership	13.0%	17%	Property. After 8 months, risk shifts to NHFC	R 80,000.00	15 years
Low-end Bank Mortgages	11%[3]	19%-20%	Property	R 90,000.00	20 years[4]
High-end Bank mortgage	11%[3]	15%-17%	Property	R 210,000.00	20 years[4]
High-end independent	13.5%	15%	Property	R 220,000.00	20 years

1 = 2002 figure; max now 62%
2 = Opportunity costs of possible deposit rate
3= Highest deposit rate; in reality, the average depositor earns far less
4= Written for 20 years, but average effective term is 7 years

Another cost element relevant to housing finance is the cost of registering a mortgage bond and the transfer duty the state imposes on most housing transactions. As Table 7 shows, legal costs and taxes amount to an average of just under 7% of the purchase price of a typical middle-class home.

Table 7: Mortgage bond registration costs (Hawkins, 2003: 29)

Registration costs of a bond of R300 000					
Initiation Costs	Valuation costs	Stamp Duty	Admin costs per month	Registration	Transfer Duty
R199.50	up to R1250[1]	R600.00[2]	R5.70[2]	R3 500[3]	R15 400[3]

[1]= max permitted by law, around R684 would probably be charged
[2]= defined by law
[3]= average based on quotations supplied by 3 banks

Housing options

Despite the high cost of housing finance, South Africa's changing political economy since 1994 has created opportunities for an increasing number of blacks to access traditional mortgage finance. Thousands of black South Africans have entered the middle and upper classes through private sector and government employment and 'black economic empowerment' policies, and can now participate equally with more established communities in the housing and housing finance market.

A small but growing number of lower-middle class black wage earners and small business people are also able to access mortgage finance. For most of these households, purchase of a new home in a commercial housing development is the

[14] These costs have moderated substantially in the last two years as a result of falling interest rates.

main option, since housing transfers in established black townships are rare (see below). The commercial black-oriented housing development market began to emerge in the first half of the 1980s after the introduction of the apartheid régime's 99-year leasehold policy. Many households benefited from a first-time home ownership subsidy, which has now been phased out.

Because of affordability issues, houses in this market have become progressively smaller over the years. A typical developer-built, bank-financed house would cost about R100 000. At an average construction cost of about R2 000 per m^2 (including land and services costs), such houses are typically about 50 m^2. This produces a cramped living environment, especially given the African tradition of providing accommodation to relatives as needed.

One issue that has been partially resolved since 1994 is the quality of developer-built housing for the low-middle income market. The introduction of the National Home-Builders Registration Council to regulate and guarantee building quality has eliminated the worst abuses of the early 1990s, when many houses fell apart after a few years, leading to mortgage boycotts and pressure from the banks to rein in unscrupulous developers.

2.4 Delft

Delft is a recently developed residential area of about 12 500 households, 30 kilometres to the east of the Cape Town city centre. It is bounded to the south by the N2 highway, to the west by Cape Town International Airport, and to the east by the R300, a major north-south link road. Delft is significant in that it represents an overlap between an area formerly classified as 'coloured' and Khayelitsha township, an area formerly designated 'African'. As such it is an entirely new type of suburb in Cape Town (Oldfield: 2000). While cultural and ethnic identities of residents are changing and new identities, based on different social categories are emerging, the legacy of segregation persists in many residents' economic choices and social networks (Oldfield: 2004).

Delft was created in 1990 through subsidised housing projects for both 'coloured' and 'African' families from either overcrowded housing in formal townships or informal settlements. Fifty percent of the sites in Delft South & Central were made available to people on the waiting list of the City of Cape Town's Tygerberg Administration area.[15] Delft's ubiquitous 'RDP' houses were built though the Integrated Service Land Project (iSLP), which began under the apartheid government in 1990 but was taken over as a Presidential Lead Project after 1994. The iSLP, which recently came to an end, was a classic developer-driven approach to mass housing delivery based on the project-linked subsidy. Huge tracts of land were allocated and serviced, with houses built by commercial contractors. The iSLP emerged at a time when the 'social compact' method of community/beneficiary participation was still in use. Community 'participation' and housing choice were limited to initial briefings about house designs and labour opportunities at mass meetings, after which selected or self-appointed representatives from among the beneficiaries would formally 'agree' to the housing plans on behalf of everyone else. This system eventually fell into disuse as it became apparent that the 'structures' and 'leaders' lacked legitimacy, leading to confrontations between dissatisfied beneficiaries and developers over arbitrary plot

[15] Material in this section drawn from http://www.islp.org.za and Oldfield 2000 and 2004.

allocations, tiny, poor quality houses, and the allocation of labour opportunities to beneficiaries. As the iSLP went on, a system of 'managed' consensus emerged in which a variety of means were employed to avoid conflict, mainly by presenting housing options as a fait accompli.

It is significant that the iSLP in Delft was consciously based on the assumption that the RDP houses were only 'starter structures', and that incremental improvement would be necessary to complete them:

> The primary objective is the creation of a secure, serviced site and a simple but small, formal "starter" structure. Improvements will thereafter take place incrementally as resources permit. … The conventional and most common housing option in the iSLP is a free standing, single-storey concrete block structure of 18 - 25 square metres, on a serviced site of 120 - 160 square metres. However, since September 2000 double-storeyed (sic), partly walled structures have been introduced, and have become popular. Although their site sizes are limited to 80 square metres they provide about 30 square metres of accommodation within the subsidy limits.[16]

This approach makes Delft a classic scenario of post-subsidy RDP housing – as noted above, an entirely new class of household in South Africa.

The remainder of this section presents the basic demographic information for the survey group from a random sample of 400 from which 297 responded (see Section 5, below).

Age

Eighty-six percent of respondents were between 18 and 50 years of age. While the majority of Kuyasa's clients are generally over 40 (58% of clients being between 40 and 60 years, while 15.5% are over 60 years of age), only 36% of Delft respondents were between 40 and 60 years, with 4% over 60.

Age	18	19 –25	26 – 30	31 – 40	41 – 50	51 – 60	61+	Total
%	1.4	8.5	13.6	35.7	26.9	9.9	4.1	100.0

Marital Status/Head of Household

56.2% of respondents are married, while 35% are single. 47% of participating households consider themselves to be 'female headed'.

Education

47% of respondents have achieved between grades 8-11. 21% of those surveyed have finished grade 12. 6% of respondents have finished tertiary education, including technical college, Technikon, and/or University.

Years in Delft

51.5% of respondents indicated that they have lived in the Delft township between 2-8 years. Less than 1% has resided in Delft for 15 years or more.

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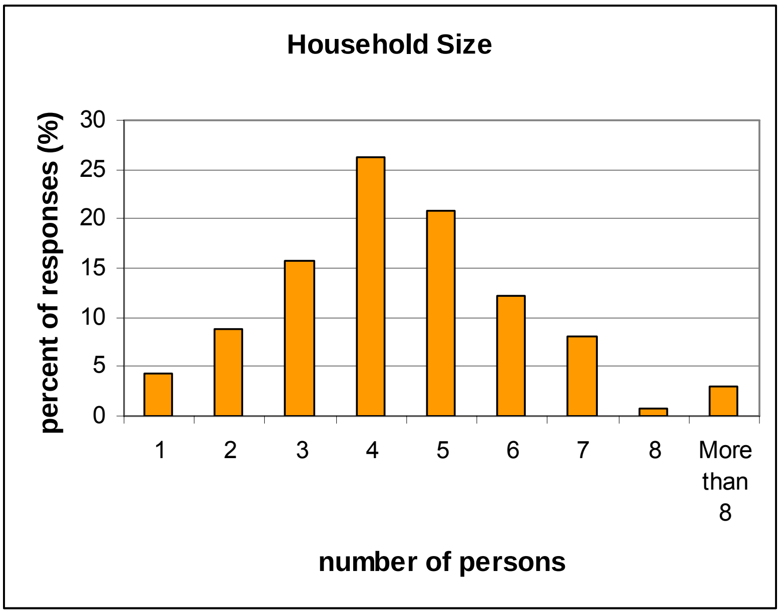
[16] http://www.islp.org.za/theproject/housing/housing.htm#Principles, downloaded Wednesday, 30 March 2005.

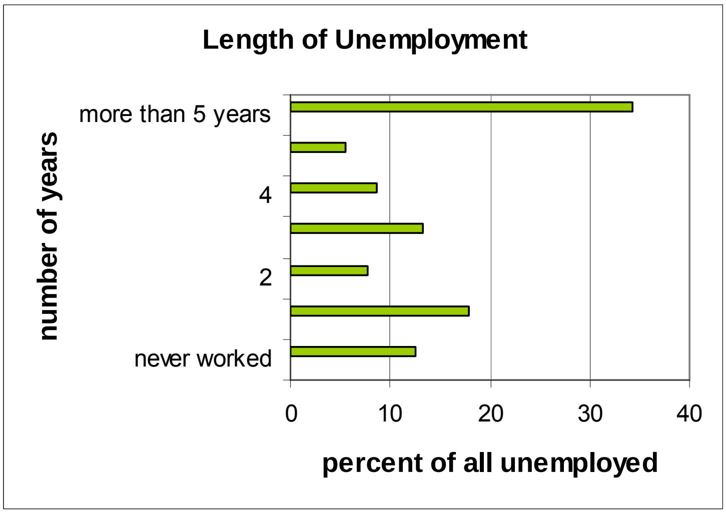
Household size

The most common household size in Delft is four (26.3% of all respondents). 21% of respondents have five household members. 71% of all those surveyed have four or more household residents; a contributing factor for the demand for more space, given that most households are accommodated in a 23 m^2 house.



Employment

46,5% of respondents indicated that they were unemployed. The graph below shows a more detailed account of unemployment in Delft. A significant amount of respondents, 44%, have been unemployed for more than five years, while 23% said they have unemployed for approximately one year. 22% of those participating claimed to have no working household members.



54% of respondent households claimed to have at least one employed person living in the home. Of those who claimed to have working members, 70% stated that this person has secured formal employment, while 18% claimed that the employment was informal. Only 9,5% of respondents reported that their households were self-employed.

Employment Skills

Of those employed, respondents reported a wide range of employment experiences, from labourer to professional.

Skill	Professional	Administrative	Technical	Clerical	Service Worker	Labour	Other
%	15.8	3.8	22.9	2.3	14.3	39.1	1.9

Income from Employment

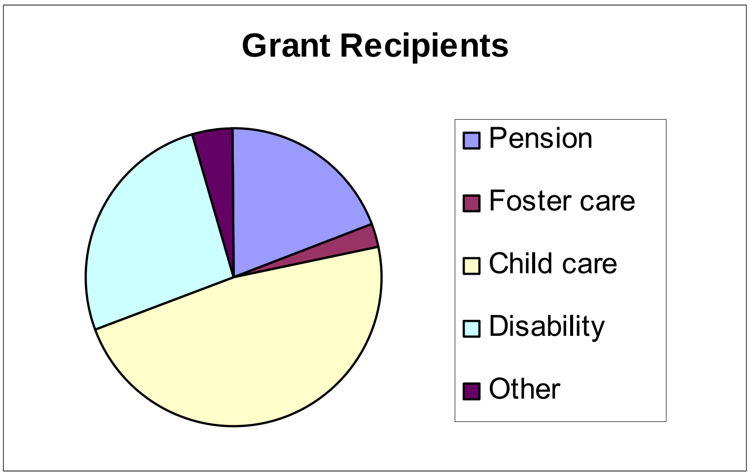
88% of households involved in the study earn R3 500 or less per month from permanent, casual or household employment. 18,5% reported no income at all (which is unlikely, probably masking state grant income), whilst 45,8% reported household income under R1 500 per month, the most common measure of 'very poor' in South African housing practice.[17]

Average Monthly Income (R)	Frequency	Percent (%)
0	55	18.5
100 – 300	5	1.7
301 – 500	7	2.4
501 – 1000	28	9.4
1001 – 1500	41	13.8
1501 – 2000	38	12.8
2001 – 2500	21	7.1
2501 – 3000	16	5.4
3001 – 3500	19	6.4
3501 – 4000	4	1.3
4001 – 4500	9	3.0
4501 – 5000	8	2.7
5001+	11	3.7
Sub-total	262	88.2
don't know	7	2.4
no response	21	7.1
not applicable	7	2.4
Sub-total	35	11.8
TOTAL	297	100.0

Income from Grants

143 respondents, or 48% of those surveyed, reported that they receive a grant of some type. The most common type (52%) is a child care grant, followed by disability grant (29%). The large number of child care grants signifies a youthful but impoverished community, and supports the claim that more bedrooms are needed in the homes (see below).

[17] For example, household income under R1500 per month is required to qualify for the largest housing subsidy.



Delft residents and Kuyasa clients in Delft

The table below compares the Delft community to the subgroup of Kuyasa clients in Delft. The most striking aspect of this comparison is the much lower rate of unemployment among Kuyasa clients. It is also striking that at least half of employed Kuyasa clients are informally or self-employed. This is the category of household identified in section 2.1 above as being 'structurally' ineligible for all forms of housing finance in South Africa.

The table below compares the Delft community to the subgroup of 15 existing Kuyasa clients who happen to live in Delft (notwithstanding that Kuyasa has not formally moved into this area). The most striking aspect of this comparison is the much lower rate of unemployment amongst existing Kuyasa clients. It is also striking that at least half of employed existing Kuyasa clients are informally or self-employed. This is the category of household identified in section 2.1 above as being 'structurally' ineligible for all forms of housing finance in South Africa.

	Delft Community	**Kuyasa Clients**
Average age group	30-39	40-49
Gender	52% Female 48% Male	73% Female 27% Male
Most Common Household Size	4	5
Unemployment[18]	43.7% unemployment	13.8% unemployment
Type of Employment (of those employed)	18% Informal 70% Formal 9% Self-Employed	28% Informal 40% Formal 16% Self-Employed
Average Monthly Household Income	R1 537.35	R1 778.88
Participation in Savings Group	14%	100%

[18] This indicates those clients who do not have formal, informal or self-employment, but survive on state grants or other sources of income.

3 Focus groups

Four focus groups were conducted, three of which comprised Delft community members in general and one made up of Kuyasa clients residing in Delft. All residents were generally receptive to our request to participate. However, only 66% of those people who agreed to participate in the community focus groups actually attended them, while 80% of the Kuyasa clients attended (most likely due to their previous relationship with the Kuyasa Fund).

3.1 Perceptions of the community

All respondents spoke of how, prior to their residence in Delft, they had had little social interaction with the 'other group' (African or coloured). Some reflected on the 'racism' that existed between Xhosa speaking people and Afrikaans speaking people, prior to their residence in Delft. Overwhelmingly, however, participants discussed how the community of Delft was integrated socially. Many discussed how they have close social connections with members of the other language group, and that they readily rely on all other members of their social groups/neighbourhoods to watch their children and houses.

3.2 Main housing concerns

Overwhelmingly, people felt that housing was important and that their own houses were below 'appropriate' standards. The most common concerns were house size, quality (ability to withstand weather and break-ins), and housing-related health concerns.

All respondents who had not yet extended their current home, complained about the size of their RDP house. The main concerns were:

- The houses have only one bedroom. This means that there is no privacy for adults, that male and female children must sleep in the same room, and that the space is 'crowded';
- Overwhelmingly, respondents felt that the lack of privacy for adults leads to many problems, such as marriage troubles due to a lack of private space for the couple. The lack of separate bedrooms also affected some single parents' ability to have relationships with other adults, again, due to a lack of privacy;
- The lack of privacy was also seen as related to incidence of young children having sex, due to the fact that children were often witness to parents' sexual activities;
- The kitchen and the toilet are next to each other, which is perceived as unhealthy.

Participants live in houses made of either zinc, brick, asbestos or asbestos and brick. The quality of these homes was a major housing concern. The majority of participants regarded the quality of their houses as poor. Respondents were most commonly distressed about leaking during rain ('raining in the houses'; 'almost worse than shacks in the rain'), leading to mould in the house.

For those participants living in zinc homes, there were concerns regarding the ability of the walls and ceilings to withstand break-ins. Respondents reported incidents of robbers ripping the burglar bars off the windows. And they were concerned at the ease with which the roof could be pulled away from the house.

Leaking is believed to cause illness due to the resulting damp and mould. The proximity of the toilet to the living space was also understood to contribute to illness. Participants living in asbestos houses complained of asthma and cancer in their families, which they attributed to asbestos in their walls and ceilings. [19]

3.3 Housing aspirations

The consensus of participants was that house improvement was the primary housing aspiration, as most houses were 'falling apart'. House extension was the second strongest housing aspiration.

All respondents believed that their houses were too small. Most respondents wished to have at least two bedrooms, with many wanting three. No respondents mentioned that they would be interested in extending their kitchen or lounge, or in creating storage space. A few, however, voiced an interest in extending their bathroom.

All respondents present wished to improve the quality of their homes. There were differences, however, in the responses of those living in asbestos or zinc houses versus brick houses. Those in asbestos/zinc houses felt that that, ideally, their houses should be totally demolished and a new brick house built in its place. Those living in brick houses said fixing the leaks in their homes would constitute housing improvement. Insulation was not mentioned by respondents as a priority improvement.

3.4 Responsibility for meet housing aspirations

Non-client respondents agreed that the government was responsible for improving and extending existing houses. They argued that those who had promised them housing should deliver adequate housing. They believed that the government should use funds to improve/extend houses in their community before improving schools, community centres and police stations. Those Delft respondents who were existing Kuyasa clients (pilot group), on the other hand, while considering housing important, felt that other things, such as building schools, was a more important priority for government intervention.

Non-client respondents agreed that, if they had the means and the government would not help, they would take responsibility for improving/building. Most participants, both client and non-client, felt that they currently did not have the means to do this.

[19] "These findings are corroborated by Zack and Charlton (2003) in their report "Better off, But.... Beneficiaries perceptions of the government's housing subsidy scheme"", which reviews subsidy beneficiaries' views of the housing subsidy scheme.

3.5 Financial issues

Savings groups

The majority of respondents do not participate in savings groups. This seems to be linked to language and cultural differences. Most participants (70%) were Afrikaans-speakers, with 30% being Xhosa-speaker. Afrikaans-speaking participants had little knowledge of savings groups, and none involved were actually members of a savings group. Many were also unreceptive to the idea of being in a savings group, as they preferred to save at the household level. All of the Xhosa-speakers had knowledge of savings groups and more than half were actually involved in savings groups of some sort.

Loans and debt

The majority of respondents were receptive to the idea of a housing loan, but felt they were ineligible for bank loans due to household income and the perception that their houses had no value. The primary concern regarding loans was the repayment schedule. This was also the perception of Kuyasa clients. While all said they had been happy that they had applied for a loan with Kuyasa, all agreed that the repayment schedule had been slightly unsatisfactory, specifically that it was too complex to understand.

Repayment schedule and loan amount

Most participants agreed that a loan of R10 000 was needed to make most improvements and/or extensions. Existing Kuyasa clients all agreed that their loans – either R3 000 or R5 000 – were insufficient to complete their desired home improvements, which remained incomplete. No Kuyasa client respondent has yet completed his or her improvements. They attribute this to the small loan amount and thus believe that a larger loan would have been more useful.

While some non-client participants had little concept of what type of repayment schedule would be appropriate for them, the majority of non-client participants felt that approximately five years was a desirable repayment period. A few felt they would repay the loan more quickly if they could, but the majority preferred to pay a small amount per month for a longer period of time, so that the loan repayment would not be 'felt by the household'. Kuyasa clients, on the other hand, felt that a minimum of two years was necessary to repay a R5 000 loan comfortably, while a longer (unspecified) period would be needed to repay a loan of R10 000. The concept of having to pay more interest was raised by some client participants, but in general, respondents were unconcerned about this, conveying that they would have to see actual numbers to form an opinion on a longer loan repayment schedule. It is important to note that respondents didn't raise possibility of taking smaller loans at a time.

3.6 Client perceptions of Kuyasa Fund

All but one of the Kuyasa client respondents had been happy with the service they received. The single unhappy respondent, who was the sister of a loan recipient rather than client herself, said that she was unhappy with the Kuyasa Fund because it removed of some of her property following her sister's failure to make loan payments. She felt that it was unfair as she was not aware that her sister had taken a loan. According to her, no follow up was made by a Kuyasa employee regarding her sister's arrears.

Client participants felt that Kuyasa's loans would be more useful if they were larger. All acknowledged that loan size was constrained due to their low levels of income.

Participants were also unhappy about their Kuyasa account statements, which they said they did not understand. Many were unclear how the repayments worked. Occasionally they felt they were being cheated of money, because they only took into account the capital repayment portion and ignored the interest even though the concept of interest had been explained to them. Some participants were unhappy because they had been told different things by the loans officer at the community presentation and by officials at the Kuyasa office.

4 The survey

Unlike the focus groups, the survey reached a much larger group of respondents but did not provide an opportunity to explore their views in detail.

4.1 Demand for financial and housing support services

Homes and micro loans

65% of respondents claimed they are unhappy with their current home. 60% of those surveyed (58% of male and 63% of female respondents) reported that they would consider applying for a micro loan to improve or extend their houses. This response varied considerably between areas, however, with substantially more respondents willing to take loans in Eindhoven, Hague and Leiden. This is due to the fact that houses in these areas are much smaller and in more need of repair than in other areas.

Loan	Delft South	Eindhoven	Roosendal	Voorbrug	Hague	Leiden	Total
Yes	55.2%	70.0%	50.0%	40.6%	70.6%	69.3%	60.2
No	44.8%	30.0%	50.0%	59.4%	29.4%	30.7%	39.8

While many respondents claimed to be unhappy, however, it is important to point out that a significant number of people, 96%, reported that they liked living in the area itself and that they were not interested in selling their houses and/or moving out of Delft.

Savings

Although 67% of those surveyed said they would consider saving towards improving their houses, 240 respondents (or 86%) were not involved in any community-based group saving. Importantly, however, 55% of respondents reported that they had a bank account of some type (90% of which were described as savings accounts).

Experience of building

82% of respondents reported that they had never been involved in any type of building process; however, 54% of respondents have a friend or a relative with building skills and experience. No information was gathered on where these relations are located, however, and thus more information is needed to determine if these relations would be able to assist Delft residents in improving/extending their homes.

4.2 *Demand for housing improvement assistance*

Housing improvement aspirations

As noted above, 65% respondents are not satisfied with their houses and would like to improve them. The table lists the main improvements Delft residents are interested in. Of the 42% of participants who aspired to a house extension, 37% reported that they would be happy with two bedrooms, implying they are in need of a one-room extension (most RDP houses in Delft have one room, occasionally separated into two rooms via a curtain). 29% reported that they wanted three bedrooms, implying a need for a two-room extension.

Improvement Area	Percent
Ceiling	21.2
Electrification	0.2
Extension	42.2
Plastering	19
Plumbing	0.4
Roofing	0.2
Bathroom	16.8

Obstacles to improvement

Participants were asked to say what they perceive as preventing them from improving their homes. 29% reported that they lack funds and have no access to loans. 17% claimed that building materials are too expensive, while 11% cited unemployment. Clearly these are interrelated issues. Taken together, two-thirds of respondents would like to improve their houses but lack the money to do so.

Perceived obstruction	Percent
Not enough money, no access to loan	29.1
Nothing, I have not attempted	18
Building material too expensive	17.4
Nothing, I am currently attempting	17
Unemployed	10.7
Not enough money but do not want a loan	10.4
Building Plan nonexistent	7.4
Other	6
Title deed	5.4
Municipal Clearance Certificate	2

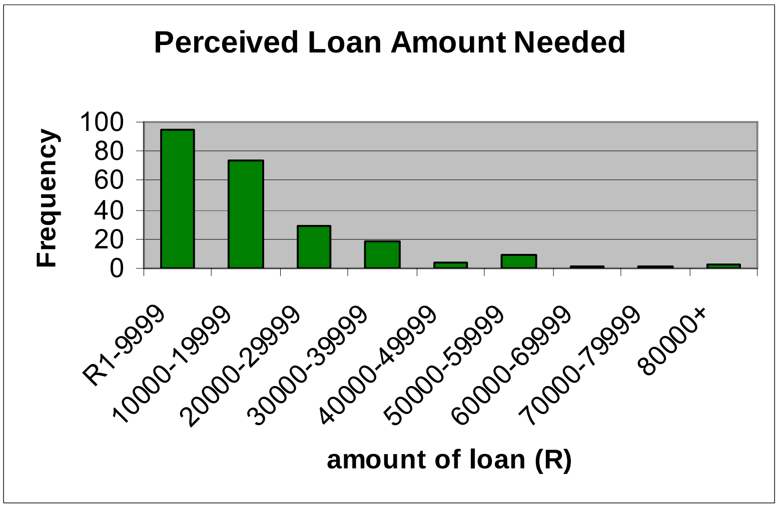
Also notable is that more than one in five respondents cite bureaucratic obstacles to home improvement, such as lack of approved plans, rates clearance certificates and title deeds.

Kuyasa's own assessment shows that the manner in which the capital subsidy is used to develop the primary housing stock impacts on the capacity of households to incrementally improve their housing after construction. A greenfield, developer-driven housing project creates greater distance between the beneficiary households and the end housing product. In contrast, a housing development through the Peoples' Housing Process (PHP) requires greater involvement of households, and therefore creates conditions in which households are able to use loans and savings to incrementally improve housing. Because of their previous experience in the PHP projects Kuyasa's existing clients in Site B Khayelitsha have clearly demonstrated great ease in being able to effectively convert Kuyasa loans and their own savings into home improvements. In contrast, Kuyasa's existing Delft clients have shown that they experienced difficulties in converting savings and loans into effective home improvements.

4.3 Perceptions of housing micro finance options

Perceived loan needed

Respondents were asked to estimate the cost of improving or extending their homes and their ideal loan amount. We asked these questions without supplying any information about what types of loans Kuyasa Fund offers. The average estimated cost of making desired improvements was R12 700. The average desired loan was between R9 900 and R13 800. It is important to point out that these figures represent the perceived cost of making most, if not all, desired housing improvements and extensions at one time. However, we did not ask nor did respondents indicate their feelings about multiple small loans versus one large loan.

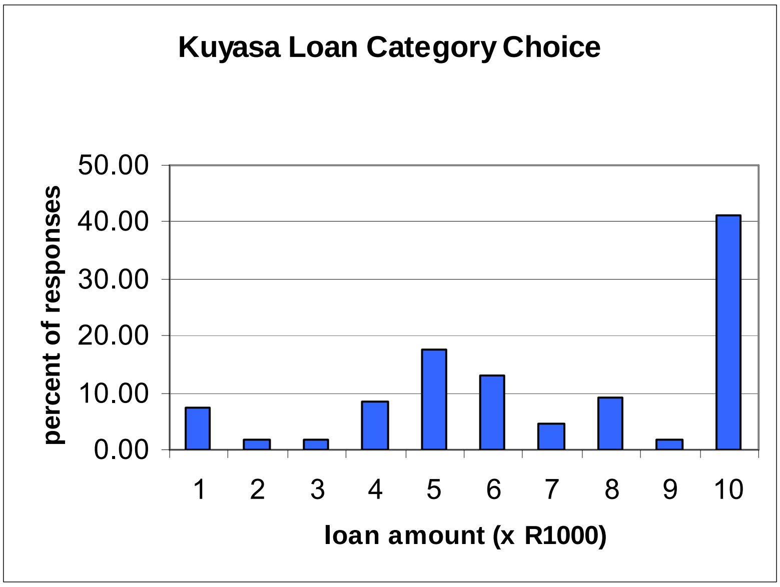


Perceived loan period

Respondents were also asked to describe their perceived desired loan term, again without any information about the loan repayment periods offered by Kuyasa. The average period was between 3,4 and 4,8 years. The median loan repayment period is 3 years. Following this response, participants were shown the Kuyasa loan schedule. This information altered some responses, with the ideal repayment period was between 3 and 3,6 years.

Kuyasa loan aspirations

Following the respondents' responses regarding their perceived loan needs, we asked them to choose their desired loan amount from the Kuyasa loan schedule (shown below). Almost 40% chose a loan amount of R10 000. The graph below indicates that the majority of respondents want a loan of R5 000 or more – interesting considering that current Kuyasa first time loans are almost always below R5 000.



Kuyasa repayment terms

Of those surveyed, 83,5% said Kuyasa repayments rates and schedules are reasonable. It should be noted, however, that the survey did not reveal or ask about perceptions of Kuyasa's 32% per annum reducing balance interest rate. Participants were not asked questions concerning the conditions of loans, procedures of loan allocation or security.

Knowledge of housing micro finance options

Importantly, 91% of the respondents are not aware of any public or private for-profit or non-profit organisation that assists in financing house improvements via micro loans. 94% of respondents had no prior knowledge of the Kuyasa Fund.

5 Analysis

Kuyasa Fund has historically worked primarily with Xhosa-speaking people who reside in Khayelitsha, Philippi, Strand and Nyanga. Approximately 70% of respondents in this research were Afrikaans-speaking and 30% Xhosa-speaking. 'Cultural' differences between these two groups may explain some of the differences between respondents and the broader group of Kuyasa clients. This theme will emerge repeatedly in the following subsections.[20]

Comparison Category	Delft Residents	Kuyasa Clients
Average Age Group	30-39	40-49
Number of Pensioners	12%	14%
Female-Headed Households	Just under 50%	Over 75%
Average Household Size	4-5 (stats SA: 2001)	4-5
First Language(s) Spoken	Afrikaans and Xhosa	Xhosa
Percentage of Grade 8 Graduates	74%	55% Khayelitsha 45% Philippi (stats SA: 2001)
Self Employment Rate	9.5%	16%
Group Saving Rate	Not the Norm	All Clients
Desired/Actual Loan Amount	R10 000	R3524 (women) R3764 (men)
Desired/Actual Repayment Period	36 months	17.2 months
Desired/Actual Primary Use of Funds	Home extension/improvement	Build PHP homes and demolition of shacks
Experiences with Building	Few have experience	Most have experience (through PHP)
Knowledge of Kuyasa	Mostly unaware of Kuyasa or similar organisations	Kuyasa is well established in Khayelitsha and Philippi

5.1 Income and unemployment

The majority of survey respondents earning a household income from employment claimed to be earning less than R2 500 per month. Almost half reported receiving a government grant of some type. There are many signs of poverty in the area and the large number of child care grants specifically implies a youthful community. Many of the respondents reported that they earn no income from employment of any kind. The results of the focus groups produced similar findings, with respondents generally saying that household incomes were inadequate.

Delft has a very high level of unemployment, but one that is consistent with other Cape Flats areas. Some survey respondents claim to have been unemployed for up to a year, and many have been so for more than five years (44%).

The challenge this poses for the Kuyasa Fund is that unlike 'African' areas such as Khayelitsha, where informal economy activity is abundant and intra and inter-household relationships play a major role in livelihood strategies, the 'coloured' residents of Delft – as well as their new 'African' neighbours – may have less opportunity to survive in the 'second economy'. Kuyasa's ability to reach the *informally*-employed – the category most excluded from conventional micro credit – depends on a reasonable assurance that borrowers will be able to generate income to repay their loans even if they lack formal jobs. For Khayelitsha residents, a variety

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[20] All statistics are derived from either the 2004 Delft research project or from Kuyasa Fund's client database, unless otherwise indicated.

of sources of income, including inter-household solidarity, may come into play to help the household meet Kuyasa repayments. In Delft, on the other hand, individualism and the ‘wage/grant’ culture of dependency on third parties for livelihoods may prove to be a major obstacle.

5.2 Savings culture

One of the most significant findings is that only 14% of those surveyed participate in a savings group, versus 100% of Kuyasa clients in Delft. The majority of focus group respondents also do not participate in group savings of any type.

This highlights an important difference between Delft residents and the general Kuyasa client population. If Kuyasa continues to use participation in a savings group as a prerequisite for a loan, savings group initiation and training may be necessary. This would raise Kuyasa’s costs and risks substantially, as savings behaviour would inevitably come to be seen as ‘targeted’ to a Kuyasa loan rather than an aspect of ingrained financial culture.

Just over half of all respondents reported that they have a bank account of some sort (most commonly a savings account). This is another difference between Delft residents and Kuyasa clients in general. It is not clear, however, whether this reflects actual *savings* in formal banks, or another factor that prompts Delft residents to have formal bank accounts – such as a history of formal wage employment or a ‘tradition’ of formal banking among ‘coloured’ households.

There is a general lack of financial knowledge in the community regarding interest rates. There is also a general lack of knowledge among Delft Kuyasa clients concerning Kuyasa’s practices. There is a need for greater financial education concerning both savings and banking in general, and Kuyasa’s policies and methods. This may be accomplished via a housing support centre, if financial education programs are designed and implemented, and/or via loan officers themselves, if such educational programs are redesigned.

5.3 Housing aspirations

Given the unhappiness with subsidised housing in Delft, there is no question that housing improvement support services will be well received. The study conducted by Nell et. al. on Delft South (and other South African regions) in June 2004 supports our findings that most Delft residents aspire to improve or extend their homes (2004: 27). In addition, Rust’s (2003) study of three South African communities affected by the national housing programme found that housing consolidation mostly took the form of extensions to RDP houses.[21] She reported that, in virtually every case, respondents have undertaken remedial work (‘improvement’ by our definition) to ‘address the original shoddy construction or design work’ (2003: 13). Rust’s study further found that RDP house beneficiaries have found ways to finance these changes themselves (2003).

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[21] Rust asserts that the popularity of home extensions that she witnessed was due to the fact that RDP houses are particularly small. ‘The majority built an additional room or rooms onto the front of the RDP house, keeping the RDP unit as a backroom, away from public use … A second approach saw households build rooms right around the RDP house, engulfing the original unit. Finally, a few households built an entirely new unit next door to the RDP house…’ (Rust: June 2003; 12 - 13).

This research indicates that Delft residents' housing needs are only partially met by RDP houses and that housing micro finance services might be appropriate. Rust identifies an important issue. While people's aspirations to extend their houses fit the original housing policy, which envisaged an incremental process or improvement to a core house, the reasons Delft residents (as with other RDP house beneficiaries elsewhere) decide to improve or extend their homes are different from those envisaged by the policy (Rust, 2003). South Africa's housing policy assumed that the 'core house' would be satisfactory in itself and that beneficiaries would extend them. In reality, RDP houses in Delft are of poor quality, and the first thing many potential borrowers will want to do is to make up for these shortcomings (particularly for zinc or asbestos homes). Should they borrow from Kuyasa, then many Delft residents will effectively be paying again at interest for what the subsidy should have provided in the first place. Scarce household resources that should be going into extensions to living space will instead be going into remedying the shortfalls of state housing policy.

This has implications for the Kuyasa Fund and any other institutions wishing to emulate it. Borrower's repayment behaviour is affected by their reason for borrowing. Kuyasa's housing micro finance model is built on positive motivation: getting a bigger, better house for the first time by adding savings and credit to a subsidy. In Delft, many Kuyasa clients would be borrowing for a negative reason: making good the shoddy delivery of state subsidised houses. When this is combined with the culture of passivity, created by the developer/project paradigm in Delft, as opposed to the proactive approach of the People's Housing Process in places like Khayelitsha, as well as Delft residents' lack of experience of 'turning money into house' it becomes apparent that a post-RDP project environment may be substantially more risky from a credit standpoint than a post-PHP environment.

It may well be that housing micro finance products that work so well and cost so little to offer in PHP environments – unsecured, small, incremental loans – will not work so well in post-RDP environments. Loans in such contexts might have to be based on more conventional approaches of risk management, which are more expensive, raising the risks and costs of delivering housing micro finance.

5.4 Housing finance needs

Participants' ideas of housing improvement/extension costs had a direct effect on their perceived financial needs. The majority of survey respondents reported that they would require a larger loan than the Kuyasa norm. At an average of R11 850, participants' desired loan amount exceeds Kuyasa Fund's maximum loan of R10 000 (and greatly exceeds the maximum first time loan amount of R5 000). Focus group respondents also reported that a minimum of R10 000 would be necessary to make their desired housing alterations and all Delft client respondents reported that their initial R3 000-5 000 Kuyasa loans were not enough to complete their desired home improvement (no respondent had yet completed their improvements).

Survey participants also sought a substantially longer loan period (49 months on average) than the Kuyasa norm. Focus group participants also claimed that they would prefer to repay a small monthly amount over a longer period. Kuyasa discourages loan repayment periods of more than 18 months. More information is needed to see if Delft residents would be satisfied with smaller loans.

5.5 *Obstacles to incremental improvement*

When asked what currently stopped respondents from improving or extending their homes, responses varied, but centred on lack of finance. This indicates that providing micro loans may be a viable option for those Delft residents who wish to improve or extend their homes.[22]

Significantly, the majority of the sample reported that they have never been involved in a building process. While half of the respondents said they know of someone who has been involved in building, the results suggest a need for support for Delft residents to manage their own housing improvement.

[22] Again, this finding mimics Rust's 2003 study where she leant that the main reason that participants had not improved their homes was affordability due to unemployment, the high cost of building plans, and the cost of maintaining or fixing the original dwelling. In addition, access to finance was a factor in individuals actually improving or extending their homes. (2003: 14).

6 Conclusions and recommendations

It is clear that the Delft market is substantially different from Kuyasa Fund's existing markets. These differences, many of which relate to the history of subsidised-housing delivery in these areas, can be summarised as follows:

1. The manner in which the capital subsidy is used to develop the primary housing stock impacts on the capacity of households to incrementally improve their housing after construction.
2. The culture of self-help activity (financial and otherwise) is weaker;
3. The informal economy is not as deeply entrenched in residents' livelihood strategies, with correspondingly greater dependence on wage and/or grant income;
4. There is a greater expectation of external (i.e. government) intervention in and responsibility for residents' housing situations;
5. There is less building process experience;
6. Residents are already in relationships with local government, many of which are negative (owing rates, etc.);
7. The initial demand for housing micro finance is derived from the need for remedial work on houses produced by a third party rather than self-construction of a new house. This suggests an overall dissatisfaction with the housing process and could have a negative impact of borrower perceptions regarding their loan arrangements;
8. The size of *effective* housing improvement loans is higher than for top-up loans for new construction.

These factors – all of which indicate greater lending risk for Kuyasa Fund – must be borne in mind in approaching possible Kuyasa Fund lending in Delft or similar areas.

6.1 Recommendations for the Kuyasa Fund

Savings

Kuyasa's products are based in part on the financial self-help experiences of low-income 'African' communities. Building on these communities' experiences with group saving, Kuyasa policy incorporates savings groups into its micro credit system.[23] The weakness of group savings in Delft, however, suggests that Kuyasa will need either to alter its loan product to facilitate individuals who do *not* save in groups, or to engage in savings training and savings group facilitation.

Any relaxation of the savings requirement, however, would require an exploration of new methods of security (see below). Moves to initiate savings groups for the purpose of making loans would raise costs and expose Kuyasa Fund to moral hazard. It is likely that prospective clients would engage in targeted savings behaviour in order to get a loan, which would therefore not be good guide to future repayment behaviour. On the positive side, a savings requirement, even if imperfect, would weed out rank opportunists.

Because of this, Kuyasa management will consider the following:

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[23] Kuyasa Fund policy is based on the belief that the practice of group savings is not only a demonstration of peoples' willingness and ability to save, but also to repay loans.

1. To employ staff, through separate grant funding, specifically sourced for this purpose, to support savings activities in Delft. This process should be a medium to long-term process over a three to five-year period with the aim of practically demonstrating to residents the economic and social value of group savings;

2. Increasing the mandatory savings target as a precondition for getting a loan;

3. Converting the savings requirement into a mandatory deposit, which could be reimbursed in two instalments: one in the final stages of the building process (thus acting as an incentive to get the work done quickly) and one when the loan is repaid (as an incentive to repay).

Loan size

Currently, Kuyasa lends R5 000 or less to a first time borrower, after which a client can borrow as much as R10 000. Subsequent loans are contingent on a positive first-time loan experience. The median amount demanded by the people of Delft, by contrast, was R10 000. Respondents did not feel that a first time loan of R5 000 was sufficient.

There is an inevitable paradox here. On one hand, Delft residents present a greater risk profile than the Kuyasa norm. On the other hand, they need larger loans because of where they are in the housing process (post-delivery improvement). In this respect, Kuyasa Fund is basically in the same position as most non-South African housing micro finance institutions, which do not operate in a subsidy environment.

There is no easy way out of this paradox. Nevertheless, there is little point in offering loans that are not practically useful to clients. Kuyasa management will consider the following:

1. Increasing the mandatory savings requirement (as above) to qualify for a loan, to increase the amount available for housing improvement by more than the increase in average loan size;
2. Increasing Kuyasa involvement in construction design and planning, to help clients minimise costs. This involvement, however, should be at arm's length, preferably though a relationship with building materials suppliers or with the Development Action Group;
3. Support exchange programmes between Delft residents and existing Kuyasa clients so that the former can benefit from the building experience of the latter;
4. Contingent on the above steps, increasing the allowable first loan to a size that is practical for Delft residents, which would require a review of Kuyasa's credit and interest rate policies.

Repayment period

The preferred payment period for Delft respondents is longer than Kuyasa currently offers, which ranges from six to thirty months with the majority of clients repaying within eighteen months. Delft respondents seek a repayment period of thirty-six to forty-two months. It is entirely natural, however, for prospective clients to opt for a longer repayment period when given the choice. In practice, however, the Kuyasa Fund must make the final decision about product design.

There is evidence from other micro finance institutions that longer repayment periods do not necessarily lead to defaults (i.e. Grameen Bank with repayment periods of up to 120 months; SEWA with 60 months; Calpia of El Salvador with 60 months; BancoSol of Bolivia with an average of 80 months). The key is the relationship between the MFI and the client: longer repayment periods can be sustained if the MFI maintains a close field-level relationship with the client and does not simply walk away expecting to be repaid. Of course, this would raise Kuyasa's costs considerably (see below).

On balance, the best option for Kuyasa Fund would be to develop a practical pilot programme (see below) that would involve the steps proposed in the previous section, in order to identify a loan product (size and term) that is both useful to clients and feasible for Kuyasa. The key here would be to identify the minimum cost of feasible home improvements and use this 'floor price' as a basis for deciding loan size and therefore term.

Collateral

The Kuyasa Fund needs to examine the issue of collateral in the absence of group savings and given the need for larger loan amounts. The literature on housing micro finance suggests that peer pressure in housing loans is less suitable than for micro enterprise lending. Vance argues that 'in some contexts, group solidarity is considered less suitable for housing loans, given that it is difficult to hold a group liable for large sums of money over longer periods' (Vance: 2004, 141). He goes on to say that 'increasingly practitioners tend to agree that housing loans generally should be individual' (2004, 141).

There is a basic difference between housing micro credit and micro enterprise micro credit. The latter is based on a de facto long-term *line of credit* to which the micro-entrepreneur has an incentive to maintain access, while the former is understood as a once-off transaction (notwithstanding the fact that some clients may take repeat loans). This makes group solidarity a weaker option for housing micro finance, since the greatest incentive to apply peer pressure would be from subsequent prospective clients, not current clients wanting repeat loans.

The use of the title deed as collateral is almost certainly not feasible due to foreclosure laws and transaction costs – a global trend in housing micro finance, such as the Grameen Bank and Bancosol (Escobar & Merrill, 2004: 61).

The best option is probably to adopt the recommendations above regarding a higher initial savings requirement, linked to construction completion *and* loan retirement; as well as an increased field presence in Delft. This will need to be augmented by stronger pre-loan diligence; increased provisions for legal action; as well as increased provisions for bad debt, at least in the initial phases of a pilot programme.

Field staff

All the signs from this research effort suggest that Kuyasa will need to have a stronger field presence in Delft if it is to increase its lending activity there. This is logical: the absence of other factors (e.g. prior savings activity) and the presence of new factors (e.g. more construction planning assistance) implies the need for greater staff involvement. Commercial banks rely entirely on the bond mechanism and the threat of foreclosure to make conventional housing finance products work. This option is not open to Kuyasa. Instead, Kuyasa will have to find ways to maintain 'institutional' pressure on clients, supported by stronger pre-loan diligence and legal steps, to ensure repayment performance. This implies the need for greater and longer-term staff presence.

Kuyasa would also need to employ more Afrikaans-speaking loan officers to offer its services to the majority of Delft residents. Kuyasa management needs to ensure that field staff members are communicating the MFIs products and policies to clients properly, since some previous clients reported that they did not understand certain loan criteria.

Housing support centres

The issue of construction skills must be addressed to facilitate the success of any housing project. In cases where there is a lack of building experience, not only is home improvement more difficult, but repayment rates tend to be low (Tilock: 2004). There is very little knowledge or experience in home building or maintenance in Delft. Kuyasa must address this issue before attempting to make loans for home improvement. Delft residents also lack an awareness of the People's Housing Process, a proven positive avenue to successful home construction. Individuals interested in home improvement need assistance to assess the quality of their houses, to develop a budget for improvements, need information on where to access materials and labour, and need support in developing and implementing building plans, among other things.

There is a definite need both for pre-loan and post-loan assistance to individuals and groups to ensure success in the building and repayment process. Kuyasa, however, may not have the capacity to fulfil all of these roles. For this reason, Kuyasa will communicate with other housing and community development institutions and organisations, such as the Development Action Group, to initiate the development of skill and awareness raising facilities, such as housing support centres.

Pricing

Everything that has been said so far suggests that Kuyasa management *must* be open to the possibility of higher interest rates for loans in Delft. Although there are obstacles to this – not least in the form of comparison to other Kuyasa clients – on balance it is clear that the risks and costs of post-RDP home improvement loans will be higher than for PHP subsidy-linked loans as at present. Failure to price for these differences will lead to de facto subsidisation of one class of client by another. The most feasible option would be for Kuyasa to design and pilot a totally new home improvement product, branded as such, which would attract a higher interest rate than the current product.

6.2 Way forward

Kuyasa Fund definitely needs to engage in further research in Delft. The next stage of research should be practical and oriented to developing and piloting a new product along the lines suggested above. Such a pilot could follow well-established product development procedures, such as those developed by MicroSave Africa.[24] The following conditions are recommended for such a pilot:

1. In so far as possible, it should funded by a grant or grants specifically designed for new product development, rather than out of current revenue streams;
2. It should be ring-fenced from the existing Kuyasa loan book, to preserve the performance and integrity of the latter. This could be accomplished by setting up a second loan fund with its own accounts;
3. It should be supported by regular outside monitoring and evaluating in order to reduce the impact on current Kuyasa staff, as well as to generate insights into the process.

6.3 General observations

As noted in Section 2, South African housing policy after 1994 was based on the assumption that the state subsidy alone would not be enough to provide adequate housing for South Africa's low-income households. The 'breadth over depth' choice made at the National Housing Forum and adopted by the Housing White Paper of 1994 clearly meant that other resources – primarily credit – would be required to make South Africa's housing drive something more than a political numbers game.

This did not happen. There was never any realistic prospect that 'top-up' housing credit would be provided to the poorest households, the bulk of subsidy beneficiaries, through South African commercial sources. Instead, for more than a decade, houses have been built with the subsidy alone, by commercial developers. The result is hundreds of new settlements like Delft with thousands of households living in tiny, low-quality 'hophuise' or 'ivezanwayo', their inhabitants desperate to improve them – or selling or just abandoning them, and returning to informal settlements.

One of the most striking (if tentative) conclusions of this research is that the developer-driven, project-based approach to subsidised housing delivery has done more than produce inadequate houses that urgently need to be improved. It has also undermined or failed to develop the household and community-level skills and capacities required for successful incremental self-improvement. Most Delft residents had nothing to do with their houses until they were given keys to them. During the housing process they were treated as passive beneficiaries and excluded from practical decision-making, because this was easier for government and developers. Accordingly, most Delft residents have little idea how to 'turn money into house': manage finance, relate to local government, acquire building materials, build. The opportunity for them to learn how to do these things was foregone with the decision to go the developer route. The developer/project paradigm has thus simultaneously created a major South African housing problem and undermined the potential to solve it through household and community initiatives. It is no wonder that Delft residents look primarily to government to solve their problems, which are serious indeed.

The contrast with the People's Housing Process approach, dominant in nearby Khayelitsha, is stark. There, the Kuyasa Fund and groups like the Homeless Peoples'

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[24] http://www.microsave-africa.com/

Federation have facilitated thousands of houses, using a mixture of subsidies, savings, credit, and direct beneficiary participation in construction. This has laid the basis for a vibrant culture of ongoing housing improvement. Instead of seeing themselves as passive beneficiaries, Khayelitsha residents are proactive builders of their settlement.

The implications of the contrasting Delft and Khayelitsha situations for South African housing finance are also profound. Whereas Kuyasa Fund and similar institutions find a fertile market in places like Khayelitsha, Delft is a major challenge, requiring significant revisions to existing products, which may not work. The essential skills, capacities, attitudes and self-confidence needed to allow a household to take a housing improvement loan and successfully 'turn it into house', abundant in Khayelitsha, are lacking in Delft.

Because of its community-based methodology, when Kuyasa Fund takes a hard-nosed business decision about whether to offer housing improvement loans in places like Delft – as it must, even if it is a non-profit MFI – it will have to factor in the weakness of Delft households' ability to 'turn money into house'. It would be paradoxical indeed if Kuyasa, like the commercial banks, were to reject this market as a poor prospect. Should it do so, a large part of the blame must be laid at the door of the housing policies that produced places like Delft.

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