

**IMPORTANCE OF INFORMAL HOUSING AS AN INSTRUMENT TO
ACCOMMODATE THE PEOPLE OF GAUTENG PROVINCE**

by

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FOREWORD

The purpose of this study is to show the role that is being played by informal housing as a means of accommodating the people of Gauteng province, because the formal housing sector is failing to accommodate the poor people of Gauteng.

I wish to express my sincere appreciation to the following persons and institutions for their much appreciated support and assistance with the completion of this research essay.

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OPSOMMING

Titel	:	Belangrikheid van Informele Behuising as 'n Instrument om Huisvesting aan die Mense van die Gauteng Provinsie te Bied.
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Die oogmerk met die skripsie is om die belangrikheid van informele behuising as 'n instrument om huisvesting aan die mense van die Gauteng provinsie te voorsien, te ondersoek. Die formele behuisingsektor skyn nie in staat te wees om die laer inkomstegroepe bevredigend te akkommodeer nie, veral omdat die mense nie formele huise kan bekostig nie.

Die formele behuisingsektor voorsien goed in die behuisingsbehoefte van die meeste Blankes, Kleurlinge en Indiërs. Die meerderheid Swart mense is egter, vanweë hulle swak inkomposisie, aangewys op huisvesting in die informele sektor. Informele behuising is dus die mees populêre vorm van huisvesting vir hierdie groep mense in Gauteng.

As gevolg van die swak ekonomiese prestasie van die Suid-Afrikaanse ekonomie en die hoë vlak van werkloosheid, het die omvang van armoede in die provinsie baie toegeneem. Die meeste van die arm mense in Gauteng is Swartes. Hulle koers van vestedeliking is steeds aan die toeneem. Die toekomstige bevolkingsamestelling van Gauteng sal oorheers word deur Swartes, van wie die meeste behoefstig sal wees. Dit is onwaarskynlik dat die owerheid in staat sal wees om formele behuising aan die groeiende bevolking te verskaf.

Aanvanklik was die Suid-Afrikaanse regering, veral die vorige regering, negatief teenoor informele behuising. Siens van ekonome het die owerheid egter oortuig van die belangrikheid van informele behuising en die behoefte om hierdie soort behuising voortdurend op te gradeer.

Die owerheid voorsien standplase met munisipale dienste aan arm mense, wat dan toegelaat word om

enige struktuur op te rig. Wanneer hulle meer fondse bekom, staan dit hulle vry om die huis op te gradeer. 'n Goeie voorbeeld van aanwasbehuising is die beskikbaarstelling van R15 000 per huishouding deur die Onafhanklike Ontwikkelingstrust. Hierdie subsidieskema word veral gekritiseer omdat beweer word dat dit mense verdoem tot bestaanvoering onder agterlike toestande. Dit het egter die voordeel dat dit arm mense ten minste voorsien van 'n dak oor hulle koppe en basiese dienste soos strate, lopende water, riolering en elektriese krag. Onderwys- en gesondheidsdienste kan ook meer ekonomies aan mense in die informele gebiede voorsien word. Die grootste voordeel van dié soort behuising is egter die bekostigbaarheid daarvan en die feit dat mense eiendomsreg verkry.

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CHAPTER I

HYPOTHESIS AND METHOD OF INVESTIGATION

1 HYPOTHESIS

The objective of this study is to evaluate informal housing as an instrument that could be utilised to solve some, if not all, of the housing needs of the citizens of Gauteng province.

South Africa faces a housing need of considerable magnitude. One of the consequences of this situation is that informal housing has become a major and established component of the South African landscape. The inhabitants of informal settlements are mostly longstanding urban residents who are forced into shacks as a result of the general shortage of formal housing and their inability to finance such housing, even by means of mortgages.

The province of Gauteng has, since the discovery of gold in 1886, been plagued by the influx of large numbers of people from the rest of South Africa as well as neighbouring states. The influx of Blacks into urban areas was for many years restrained by the influx control and pass laws.

The attitude of the Nationalist government was that the sojourn of Blacks in areas such as Gauteng was temporary. Government policy was therefore not to provide services such as housing, health, education and recreational facilities on a scale and of a quality that would motivate Blacks to regard their sojourn in metropolises such as Gauteng as permanent. In fact, the policy was to make it as unattractive as possible for them to ensure their eventual return to the Homelands.

The housing backlog in Gauteng, as in the rest of South Africa, is thus to a large extent a function of the socio-economic policy known as Apartheid applied by the previous South African government up to the early nineties. The restrictive laws emanating from the policy of Apartheid placed severe constraints on the vertical as well as the horizontal mobility of Non-Whites, especially Blacks. It was only after the repeal of the influx control and pass laws in 1986 that the inadequacy of housing in Gauteng became evident.

In accordance with the vertical mobility constraint, most well-paying jobs were reserved for Whites, considering the monopoly enjoyed by them. The vertical mobility constraint was mainly responsible for Blacks being employed in those jobs paying lower wages and salaries. Consequently, the standard of living of Non-Whites remained relatively low, while those of Whites increased to a level comparable to those of developed countries. The constraints on the earning power of Blacks placed severe restrictions on their ability to cater for their own housing needs.

The housing backlog in South Africa has been in existence for a long time. In 1977 the national housing backlog was estimated to be 141 000 units. Between 1970 and 1984 numerous commissions and committees of enquiry were appointed to investigate the reasons for the housing shortage. Little, however, was done to alleviate the shortage because of the government's preoccupation with the segregation policy and their interest in mainly addressing problems experienced by Whites. In 1990 the national housing shortage was estimated to be 1,3 million units. To eliminate this shortage, a large number of housing units will have to be built over a relatively short period. It is estimated that half of the Black population in the Gauteng province live in informal houses. There are many factors which make it difficult for the government and other interest groups to reduce the housing shortage. Most of the inhibiting factors discussed below are not unique to the Gauteng province, but are relevant to the whole of South Africa.

The poor performance of the South African economy since the early seventies also placed a major constraint on the provision of housing all over the country. Since the early seventies the economy has grown at a rate which seldom exceeded 1,5 percent, compared to the annual population growth rate of 2,9 percent. The disparity between these two growth rates is a major reason for the declining standard of living experienced by most South Africans. This unsatisfactory state of affairs was complicated by the growing level of unemployment experienced since the end of the sixties and the increased dependence on the informal sector for a living.

The non-availability of land suitable for building houses for the lower-income section of the community is a serious problem as far as the provision of low-cost housing is concerned. Land in the metropolitan areas of Gauteng is not only expensive, but also very scarce as a result of the speculative interests of people and institutions owning large areas of land. The scarcity of land suitable for residential construction within the metropolitan areas compels the lower-income groups to reside in

informal settlements away from their places of work. This involves in relatively high transport costs. The availability of land suitable for low-income housing must be regarded as absolutely essential for the alleviation of the housing shortage in Gauteng.

Financial institutions are reluctant to provide finance for low-income housing in the Black townships. Financing low income-housing is not an attractive option for the financial institutions because of the low profit margins involved and the threat of bond repayment boycotts. Financial institutions regard investment in housing in the Black townships as being very risky. The amount of mortgages outstanding in South Africa at the start of the nineties amounted to R52 billion, of which R6 billion to R8 billion pertained to mortgages in the Black townships. Lack of financing and the problems involved in the scarcity of building sites have resulted in 80 percent of the newly built residential units in the Gauteng province being unauthorised. None of them is formally financed.

One aspect that should also be considered as far as the provision of housing is concerned, is the availability of public finance to address the housing shortage. Servicing the government debt is now one of the largest expenditure items in the budget of the central government. In the 1992/93 fiscal year interest payments on government debt occupied the largest slice of the overall budget. In the period 1990/1 to 1993/4 the increase in interest payments on government debt was, on average, 21,8 percent per annum. If government debt is not controlled, it will crowd out expenditures on housing and other social services.

The objective of this study is to demonstrate the role that informal housing is already playing to alleviate the housing shortage in the Gauteng province. The formal housing sector is incapable of accommodating those citizens who are poor and unemployed. Financial institutions will not be able to contribute significantly to the alleviation of the housing shortage in the Gauteng province because of the inability of large numbers of people to afford mortgage bond repayments. This does not imply that informal housing alone could solve the housing problem in Gauteng. Informal housing must therefore be seen and be used as an integral part of the housing market.

The problem facing the authorities, financial institutions, construction companies and other stakeholders in the provision of low-cost housing is to enable the poor to build affordable homes for themselves. It is estimated that 60 percent of the Black population cannot afford a conventional house,

but they can afford an informal house costing R7 500 and less. Massive subsidies will be needed to enable millions of people who cannot afford a conventional house to avail themselves of one or other form of house or shack, whatever its quality may be.

Besides improving the conditions of informal housing of the people of Gauteng province, an attempt should be made to simultaneously provide some form of formal infrastructure to improve the quality of life of the people and prevent environmental degradation. Because housing construction is labour intensive, many jobs could be created by such programmes. Large-scale housing construction will therefore stimulate economic growth and employment through its multiplier effect.

2 METHOD OF INVESTIGATION

As stated in the hypothesis, the objective of this investigation is to evaluate informal housing as an instrument to alleviate the housing problem in the Gauteng province.

The investigation will mainly be based on existing literature. Data on the formal housing and the informal housing situation in the Gauteng province in particular, as well as elsewhere, will be examined. The format of the research essay leaves little, if any, room for empirical work.

Chapter II examines the existing housing condition in the Gauteng province. The profile of informal housing in the province is discussed in Chapter III. The financing of informal housing in the Gauteng province is examined in Chapter IV. The findings of the research will be summarised in Chapter V.

CHAPTER II

EXAMINATION OF THE GENERAL HOUSING CONDITIONS IN THE GAUTENG PROVINCE

1 INTRODUCTION

The objective of this chapter is to discuss factors that inhibit the resolution of the housing backlog in the Gauteng province. The inability of the majority of the Gauteng population to afford a formal house is mainly the result of their low level of employment, wealth and income.

Housing is regarded as a highly specialised consumer good, one which society considers as important for its general well-being. Its inelastic supply is bound to cause conflicts, political tensions and unsettling social consequences such as poor health, unstable family life and an increase in unwanted activities such as theft, robberies and murder. People expect the Government of National Unity to be actively involved in the resolution of homelessness, as they were promised before the 1994 general election. The influx of large numbers of people into the Gauteng province, together with the high rate of natural population increase, present the provincial government with a mammoth task.

The province is also the recipient of large numbers of migrant workers flocking from the former Homelands and neighbouring countries as a result of a lack of economic growth and the growing poverty in such areas.

The sprawling of freestanding informal housing settlements without adequate water supply and other essential infrastructure all over Gauteng province is an indicator of the problem of homelessness all over the province. The advent of the new political dispensation and the demonstration that the structures of the old order could not deliver, added mobility to the movement of large numbers of people to the cities and towns of Gauteng province.

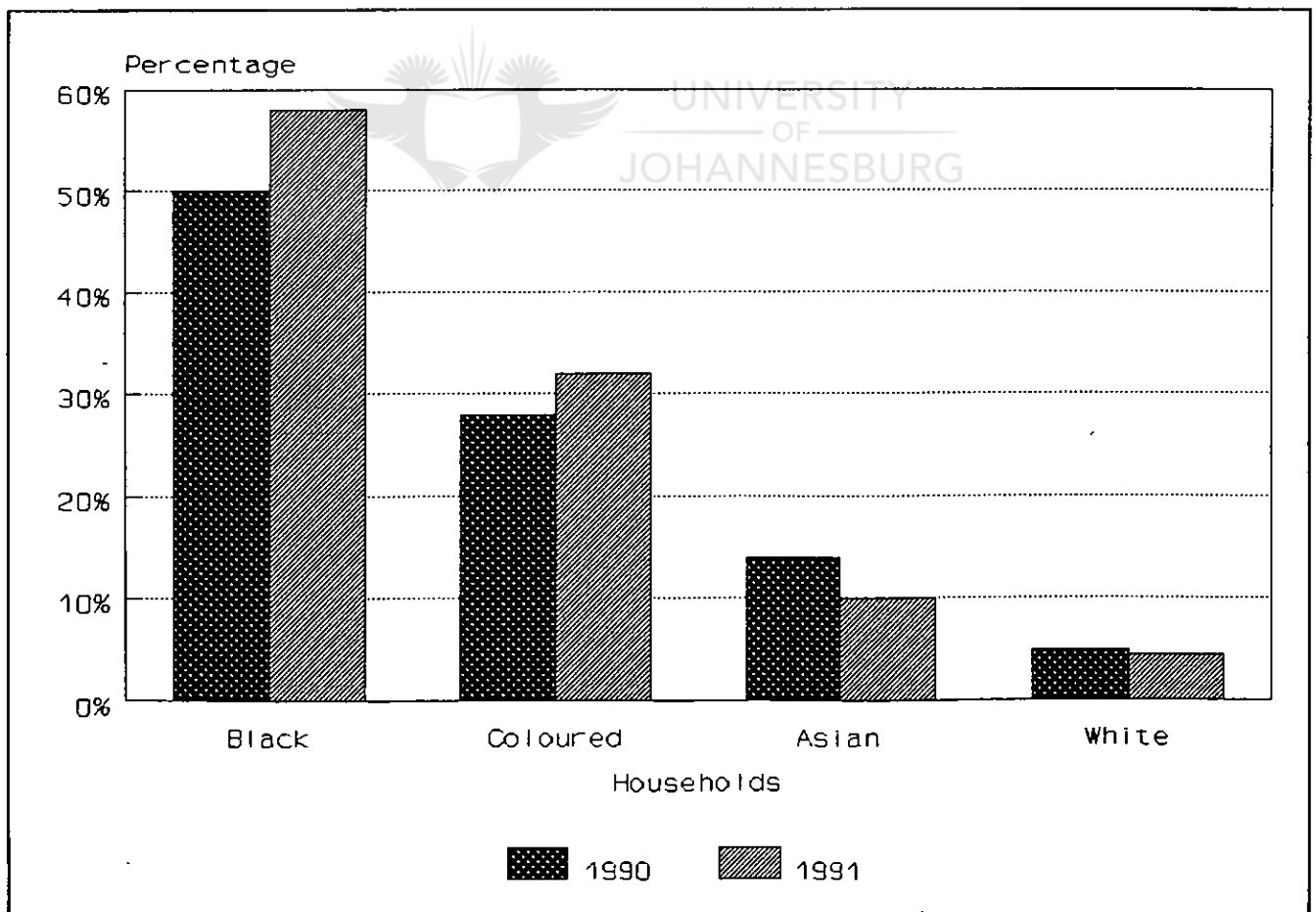
The formal housing market in Gauteng province is catering well for the housing needs of Whites, Coloureds and Asians. Approximately 90 percent of the three sections of the population are accommodated by the formal housing sector. The majority of the Black population, however, cannot afford a formal house. It is estimated that only 43 percent of the Black population is accommodated

in the formal housing sector. It is obvious that the unaffordability of formal housing for the majority of the Black population is a major constraint to the resolution of homelessness in the Gauteng province.

2 UNAFFORDABILITY OF FORMAL HOUSING AS A CONSTRAINT TO HOUSING THE LOWER-INCOME SECTION OF THE POPULATION IN THE GAUTENG PROVINCE

Significant socio-economic differences exist between the various population groups in South Africa as far as their ability to afford housing, of whatever nature, is concerned.

Figure 1: Housing Affordability of Different Population Groups in South Africa Expressed as a Percentage of Households Unable to Contribute to Own Housing 1990-1991



Source: Unified Communications cc, Housing in Southern Africa, September 1992:16

From Figure 1 it can be seen that nearly 60 percent of Black households in South Africa, measured in terms of their disposable incomes for housing, were unable to make any contributions towards the cost of their homes in 1991, compared to about 50 percent in 1990. The Coloured group was also worse off than in the previous year. The situation in respect of Whites remained more or less constant and the position of the Asians improved from about 14 percent to just below 10 percent.

There are several factors which influence the ability of Black households to afford formal accommodation. They are:

- The income profile of the Black population
- The performance of the South African economy

3 THE INCOME PROFILE OF THE BLACK POPULATION

The gap between the rich and the poor is generally greater in the less-developed countries than in the developed countries. High rates of unemployment and the fact that a large percentage of the poor is unskilled has, amongst other factors, added to the skewed distribution of income in South Africa.

The monthly household income distribution of the South African population is set out in Table 1. As can be seen from Table 1, the majority of Blacks (40,1%) fall in the income bracket R1 - R399 per month, which is mainly due to lack of skills and education. Another extreme situation is that of the White population group. The majority of Whites fall in the R6 000+ per month income group. The low level of income of Blacks translates into a low level of affordability. The prospective capacity of people to afford homes will be dictated mainly by the country's economic performance and improvement in the level of peoples' skills.

Table 1: Monthly Household Income of Different Population Groups, 1989/90

Income group R/month	Blacks as a percentage of total population	Coloureds as a percentage of total population	Indians as a percentage of total population	Whites as a percentage of total population
1 - 399	40,1%	17,5%	4,1%	1,8%
400 - 699	23,8%	19,2%	10,1%	3,4%
700-1 199	25,4%	23,4%	22,9%	8,1%
1 200-1 999	6,8%	19,4%	26,9%	11,8%
2 000-2 499	1,8%	8,7%	11,1%	10,3%
2 500-3 999	1,2%	9,0%	15,5%	24,4%
4 000-5 999	0,8%	2,5%	6,3%	23,0%
6 000+	0,2%	0,4%	3,0%	17,3%

Source: Economics, Summer 1992:76

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4 THE PERFORMANCE OF THE SOUTH AFRICAN ECONOMY: 1960-1991

The economic performance of a country determines individuals' personal incomes, i.e. the ability to afford a home. If the economy grows and produces jobs, people can afford homes. If the economic performance of the country declines, people will not be able to acquire homes unless they are subsidised in one or other way.

The relative decline of the South African economy, in terms of its ability to employ its economically active population, is the result of the declining real growth rates. In the 1960-1970 decade real gross domestic product growth was 5,7 percent per year. In the early nineties the real growth rate of the gross domestic product turned negative (Africa Insight, 1995, p 172).

As with most countries, the capacity of the South African economy to accommodate the increasing

economically active population in the formal sector is declining. As can be seen from Table 2, between 1960 and 1965 the South African economy could accommodate 80,9 percent of the economically active population. This means that in the period 1960 - 1965, 81 percent of the new entrants into the labour market could find employment in the formal sector. In 1991, 9,2 percent of South Africa's economically active population was employed in the formal sector. The most important consequence of the decline in the absorption capacity of the economy was an increase in the number of unemployed persons.

Table 2: Change in the Economically Active Workforce and Employment in the Formal sector, 1960 - 1991

Year	Average Annual addition to the work force	Average annual addition to the formal employment	Average annual absorption capacity of the formal sector (Percentage)
1960 - 1965	194 747	157 600	80,9
1965 - 1970	222 064	144 800	65,2
1970 - 1975	318 130	155 600	48,9
1975 - 1980	375 502	101 600	27,1
1980 - 1985	384 776	67 600	17,6
1985 - 1989	388 159	56 250	14,6
1990	391 570	42 181	10,8
1991	402 627	37 182	9,2

Source: Development Bank of Southern Africa

Table 3: Relationship between the South African Workforce (15-64 years) and Informal Employment, 1960 - 1991

Year	Economically active workforce	Formal Employment	Number of unemployed and people working in the informal sector	Column 4 as a % of column 2
1	2	3	4	5
1960	6 900 983	4 652 000	2 248 893	32,6
1961	7 085 488	4 852 000	2 233 488	31,5
1962	7 275 025	4 961 000	2 314 025	31,8
1963	7 469 636	5 012 000	2 457 636	32,9
1964	7 669 457	5 190 000	2479 457	32,3
1965	7 874 627	5 440 000	2 434 627	30,9
1966	8 085 291	5 608 000	2 477 291	30,6
1967	8 301 592	5 724 000	2 577 592	31,0
1968	8 523 685	5 845 000	2 678 685	31,4
1969	8 751 724	6 023 000	2 728 724	31,2
1970	8 984 946	6 164 000	2 820 946	31,4
1971	9 282 679	6 269 000	3 013 679	32,5
1972	9 590 278	6 326 000	3 264 278	34,0
1973	9 908 072	6 597 000	3 311 072	33,4
1974	10 236 394	6 809 000	3 427 394	33,5
1975	10 575 598	6 942 000	3 633 598	34,4
1976	10 926 042	7 078 000	3 848 042	35,2
1977	11 288 099	7 145 000	4 143 099	36,7
1978	11 662 152	7 176 000	4 486 152	38,5
1979	12 048 601	7 298 000	4 750 601	39,4
1980	12 453 108	7 450 000	5 003 108	40,2
1981	12 829 600	7 649 000	5 180 600	40,4
1982	13 200 496	7 803 000	5 397 496	40,9
1983	13 582 203	7 757 000	5 825 203	42,9
1984	13 975 035	7 832 000	6 143 035	44,0
1985	13 376 990	7 788 000	6 588 990	45,8
1986	14 759 603	7 798 000	6 961 603	47,2
1987	15 139 734	7 858 000	7 281 734	48,1
1988	15 529 657	7 958 000	7 571 657	48,8
1989	15 929 624	8 013 000	7 916 624	49,7
1990	16 341 194	8 055 181	8 266 013	50,0
1991	16 723 821	8 092 363	8 631 458	51,6

Source: Development Bank of Southern Africa

The decline in the absorption capacity of the formal economy led to the growth of the informal sector, accommodating some of those people who were unemployed. Throughout Third-World countries there is a growth of employment in the informal sector. As can be seen from Table 3, there is a decline in employment opportunities in the formal sector. In 1960, 33 percent of the economic workforce was unemployed or working in the informal sector. In 1991, the number of people accommodated in the informal sector increased to 52 percent of the economically active workforce. These means that in 1991, the formal economy could accommodate 48 percent of the economically active workforce compared to 63 percent in 1960.

5 THE MAGNITUDE AND THE COMPOSITION OF THE POPULATION IN THE GAUTENG PROVINCE

One of the more serious problems facing Third-World countries is the relatively high population growth rates. In South Africa, the Black population is entering the stagnant labour market in increasing numbers as a result of increased urbanisation and the high natural population growth rate. The historical racial segregation policy constraints discouraged urbanisation of Blacks, as a result of which their urbanisation rate is presently still rising. As far as the other population groups are concerned, the urbanisation process has been completed or is almost completed.

Natural population growth is regarded as the main contributor to the higher population growth rate in the Third-World countries. Half of the population growth in the Third-World cities is attributed to natural increases. The relatively high natural growth rates are, however, also due to the decline in infant mortality rate in those countries. The average population growth rate in South Africa between 1991 and 1992 was 2,4 percent. The growth rate of the Black population was in the neighbourhood of 2,8 percent (Race Relations Survey, 1992/93:256).

Migration is another determinant of the size and composition of the urban population. The focus is in most cases on migration from rural to urban areas, although urban-to-urban migration does occur in the Third-World cities. Urban migrants contribute between 33,3 and 50 percent of the annual population growth rate of Third-World cities. In Gauteng province, migrants come mainly from the former Homelands and other adjacent provinces. Poor economic performances of the economies of

the Southern African countries and civil wars are also responsible for the inflow of large numbers of migrants into Gauteng.

The economic motive seems to be very important as far as migration is concerned. The lower wages prevalent in rural areas are to a large extent responsible for the movement of people to the higher-income areas in the urban areas. The rural-urban migration is also motivated by lack of job opportunities in the rural areas or small towns. The rural people are mainly dependent on the agricultural sector as their main source of income. The sector also offers lower salaries and cannot provide jobs for the growing population. There is consequently a tendency for people to move to Gauteng in order to find employment. Unfortunately, the province cannot provide enough jobs for everybody looking for a job. Owing to the lack of job opportunities in the province, migration increases the unemployment rate in the province and causes numerous other socio-economic ills. The De Loor task group on housing (1992:74) estimated that the rural population of South Africa was expected to decline from 14,1 million in 1990 to 11,7 million people in 2000.

6 GAUTENG POPULATION COMPOSITION ACCORDING TO RACIAL GROUP

There is a great population growth rate disparity amongst the population groups in the Gauteng province, with the Black population group displaying a huge growth rate potential.

Table 4: Population Breakdown by Racial Groups in Gauteng Province: 1992

Population Group	Population (numbers)	Percentage of total population
Black	6 835 000	73 %
Coloured	268 300	2,9 %
Indian	134 800	1,4 %
White	2 121 300	22,7 %
Total	9 360 100	100 %

Source: Race Relations Survey, 1992/93:255

As can be seen from Table 4, the Black population represented the largest component (73%) of the population of Gauteng province in 1992. According to the Urban Foundation (1990(a):22) South Africa is in a period of rapid transition towards a large Black population. The different relative rates of population growth amongst the various population groups in South Africa imply that the composition of the population will shift from being 76 percent Black in 1990 to 79 percent Black in the year 2000 (White, 1993:4).

The bulk of the rapidly growing Black population is likely to find themselves in the lower-income category, i.e. the poorer section of the community. The Deputy Minister of Regional Development predicted in May 1992 that 60 percent of the growth of the population in Gauteng by 2010 would fall in the low-income group, which would depend largely on informal housing (Race Relations Survey, 1992/93:257).

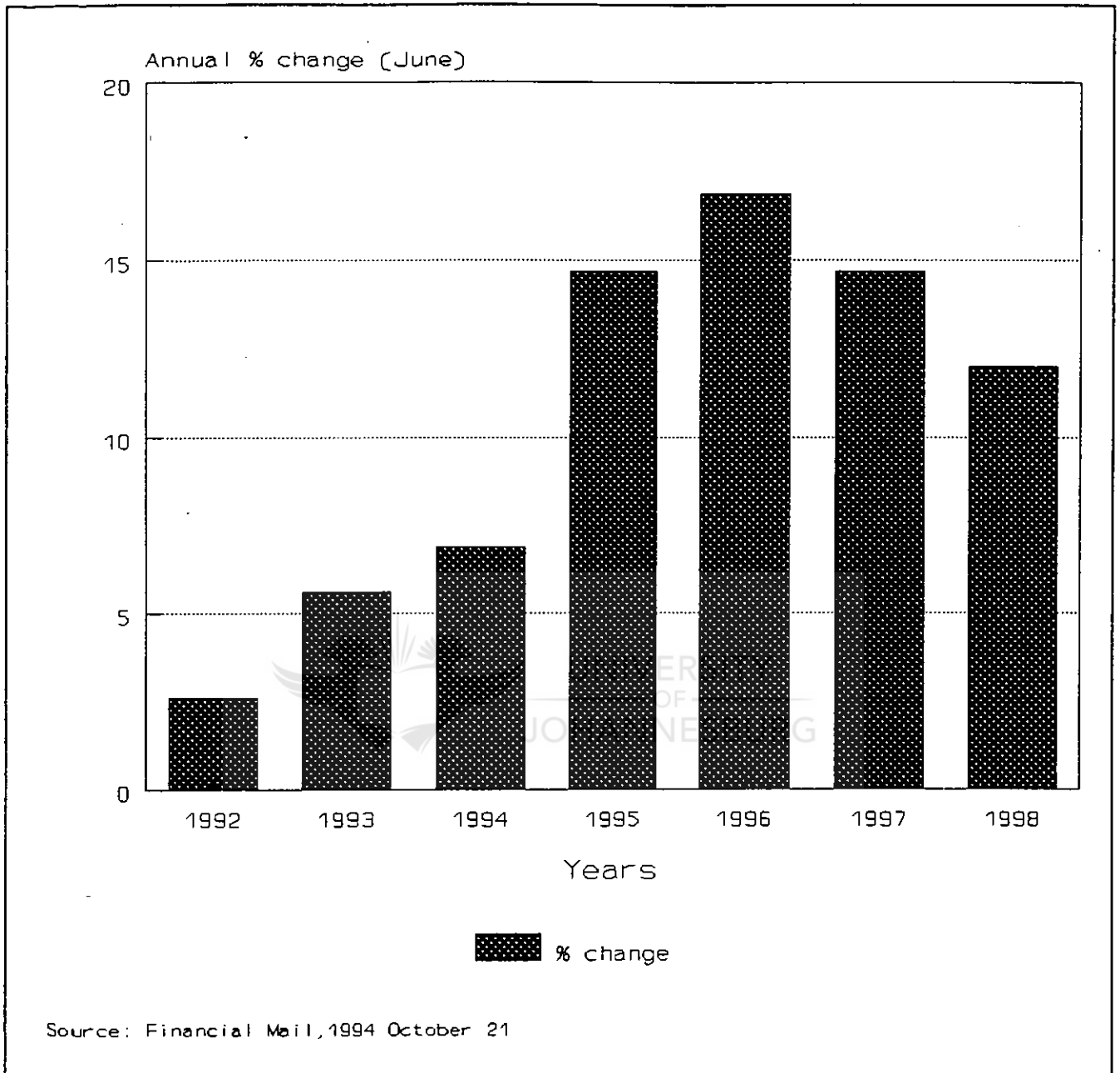
Another important feature of the Black population is that it displays the characteristics of a young population. In 1990 more than 40 percent of the Black population was under the age of 14, compared to only 22 percent of the Whites (White, 1993:6). A youthful Black population group is indicative of a high fertility rate and a high dependency ratio. The age structure of the population in a country is an important guide as to the type of services required, such as education, health and housing.

7 CONSTRAINTS PERTAINING TO THE CONSTRUCTION INDUSTRY

The South African construction industry is not experiencing major constraints as far as the building of houses is concerned, even though the economic recession, which started in 1989, resulted in the widespread retrenchments of workers in the industry. The building materials supply industries have tended to become even more concentrated as a result of insolvencies and mergers. Contractors and building merchants are, however, experiencing shortages and irregular supplies of some materials and equipment, i.e. importation of wood from Zimbabwe (Financial Mail, 1994, October 21:24).

The highly concentrated building industry means that a sudden pick-up in residential construction will be translated into higher building costs. The effects of the reduction in building capacity and the supply of materials will add to the dependence of a growing number of the population on informal housing.

Figure 2: The Behaviour of Nominal and Expected Building Costs, 1992-1998



It can be seen from Figure 2 that the nominal costs of house construction are expected to rise. Building costs are forecast to rise and reach a peak in 1996, and then decline to 12,5 percent in 1998. The rising costs of construction tend to place houses even further beyond the reach of those most in need of housing.

Another difficulty is the shortage of skilled labour in the construction industry. The most immediate concern is its limited capacity to train the number of skilled workers needed to meet all the demands made on it. The Building Industries Federation of South Africa has urged government to provide R200 million a year for training (Financial Mail, October 21, 1994:24). The most immediate way of meeting the skills shortage would be the importation of the required labour.

8 THE DEMAND FOR AND SUPPLY OF HOUSING IN GAUTENG

In countries where the housing market works well, the provision of housing is determined by both the demand for and supply of housing. In Third-World countries the housing market tends not to perform well. Supply tends not to respond to the increase in demand because of the factors which inhibit the supply of housing, such as the lack of skilled labour and materials in the construction industry and, of course, the financial constraint.

8.1 DEMAND FOR HOUSING IN THE GAUTENG PROVINCE

The demand for formal housing is determined mainly by those who can afford to buy a house. Effective demand refers to the consequences of actually buying a housing unit. Demand is therefore a direct derivative of affordability. In order to be successful, the process of providing housing has to be demand driven.

The demand for housing is, however, also determined by the minimum standards for a formal house set by the government or local authority. If the minimum housing standard for a formal house is high, the demand for housing will be low. In Third-World countries it is imperative to reduce minimum standards in order to increase the demand for housing. If the minimum standard of a house is determined by the site-and-service scheme of the Independent Development Trust and coupled with a capital subsidy of R15 000, the majority of people in the low-income group could afford a basic housing structure.

According to De Loor (1992:79) there is an annual housing need of 198 000 units for the purpose of new household formation. The Government of National Unity is determined to translate the need into

effective demand, which is supposed to be accompanied by an increase in the supply of housing. The Reconstruction and Development Programme intends to make the delivery of affordable housing a reality. The government's capacity to meet the demand which has been unleashed in South Africa since the advent of the Government of National Unity has been dictated not only by the national economic performance, but by political priorities which have influenced the way in which the fiscal cake has been cut. It is unlikely that the state will meet the demand without the help of the private sector.

8.2 THE SUPPLY OF HOUSING IN THE GAUTENG PROVINCE

The supply of houses consists, firstly, of the existing houses being sold by owner-occupiers, and secondly, newly built houses being sold by building developers. The supply of housing is said to be relatively inelastic. Sometimes the supply of housing does not respond to the increase in the demand for housing. The Department of Housing is concerned because not so many houses are being built for the lower-income group, despite the existence of the capital subsidy scheme which stimulates the demand for housing. By February 1995 the Reconstruction and Development Programme had completed 878 homes (Financial Mail, April 7, 1995:24), compared to 50 000 homes that are supposed to have been provided within the first year of the programme. According to the Financial Mail (1995:24), the 878 homes built were mostly targeted at higher-income people in the Free State and Gauteng.

In the upper-income bracket the supply of housing responds more readily to the increase in the demand for housing. This is not the case with the low-income housing market, where the supply of housing responds very slowly to the increase in the demand for housing. The inelasticity of the supply of housing in the low-income sector will result in a growing shortage of housing for the low income-sector. The majority of the low-income section of the population will therefore be compelled to seek refuge in informal housing.

9 SUMMARY

The Gauteng province is the recipient of large numbers of migrant workers flocking from the former Homelands and neighbouring countries as a result of the lack of economic growth and growing poverty in such areas.

The formal housing market in Gauteng province is catering well for the housing needs of Whites, Coloureds and Asians. The majority of the Black population, however, cannot afford a formal house. The sprawling of freestanding informal housing settlements without adequate water supply and other essential infrastructure all over Gauteng province is an indicator of the problem of homelessness all over the province.

Unaffordable housing activity revolves around the inability of households to afford the cost of accommodation. The affordability of housing by the Black population declined between 1990 and 1991, while that of Whites during the same period remained constant.

The gap between the rich and the poor is generally greater in less-developed countries than in developed countries. High rates of unemployment and the fact that a large percentage of the poor is unskilled has, amongst other things, added to the skewed distribution of income in South Africa. The majority of Blacks fall in the lower-income bracket.

Since the sixties the performance of the South African economy has been declining. In the early nineties the growth rate of the real gross domestic product turned negative. Like most Third-World countries, the capacity of the South African economy to accommodate the growing number of new entrants into the labour market has been declining over the past three to four decades.

One of the serious problems facing Third-World countries is the relatively high population growth rates. In South Africa the Black population is entering the stagnant labour market in increasing numbers as a result of the growing urbanisation and the high natural growth rate.

Although the construction industry is experiencing some constraints as far as capacity and the availability of building materials are concerned, it has been greatly underutilised by the authorities as

a result of administrative foot-dragging and institutional incompetency.

Funding by the authorities has not been a constraint, considering the fact that the Minister of Finance, in his Budget speech of 15 March 1996, announced that only R1 000 million would be allocated for housing this year as R2 500 million from last year's budgetary provision has not yet been used.

In countries where the housing market works well, the provision of housing is determined by interaction between the demand for and supply of housing. Demand for and supply of housing are seldom in balance. The demand for housing is relatively elastic, while supply tends to be inelastic. The inelasticity of supply is mainly evident in the lower-income bracket, leaving them with the sole choice of seeking refuge in informal housing.

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CHAPTER III

INFORMAL HOUSING PROFILE IN GAUTENG PROVINCE

1 INTRODUCTION

The objective of this chapter is to examine the extent of the informal housing requirements in the Gauteng province. The different types of informal settlements will also be covered in this chapter.

Informal housing refers to accommodation based on very few if any formal prescriptions. A formal procedure of financing such accommodation is also not in place. An informal house may be constructed from cardboard, tin, plastic, mud, wood, grass and other unconventional building materials on land that has not been specifically zoned and serviced for residential purposes.

Informal housing settlements are, among other factors, the result of rapid urbanisation and the migration of large numbers of people from other countries. They demonstrate the inability of the formal housing sector to accommodate the lower-income sections of the population. If such settlements are not provided with the necessary infrastructure, numerous problems may arise, such as the outbreak of diseases due to lack of water supply and sanitation.

The Urban Foundation identified two types of informal settlements, namely "spontaneous" informal housing, which includes backyard shacks, free-standing informal settlements and scattered informal settlements. The second type of informal housing comprises those settlements erected under the official site-and-service schemes such as Ivory Park and Orange Farm (Urban Foundation, 1991:4-6).

During the fifties and sixties the government's reaction to the emergence of the informal settlements was that of demolition of settlements or hostility towards them. During the late 1970s there was a change of attitude towards informal housing. At the request of the World Bank the attitude of countries towards informal housing changed to one of supporting informal housing.

Seven million South Africans are presently accommodated in urban informal settlements (Urban Foundation, 1991:6). In Gauteng province 60 percent of the Black population lives in such settlements.

The province is also characterised by massive overcrowding in the formal Black townships.

2 HISTORICAL PERSPECTIVE OF INFORMAL HOUSING IN SOUTH AFRICA

The segregationist policy of Apartheid is responsible for most of the problems affecting the formal housing market. Informal housing has been a feature of South Africa for a very long time. In Cape Town, informal settlements appeared after the former slaves set up informal houses when they were emancipated in 1834. Johannesburg and Kimberley are said to have developed initially as shantytowns and were only later formalised (Africa Insight, 1992:15).

As early as 1923 the government discouraged racially mixed slums and informal settlements by introducing the Native Areas Act, which restricted the movement of Blacks into the urban areas.

Rapid urbanisation occurred during World War II. The War brought the construction of formal houses to a virtual standstill. The result was the mushrooming of informal settlements in the urban areas. Attempts to demolish informal settlements in Johannesburg were not always successful, because when the settlements were demolished by the authorities they were rebuilt somewhere else.

During the fifties, the Nationalist government acted more forcefully against shantytowns and informal settlements. They demolished shantytowns such as Sophiatown in Johannesburg and District Six in Cape Town. These removals were followed by the mass construction of government houses for Blacks. Soweto, Khayelitsha and other townships for Blacks arose from the mass construction of government houses.

In 1967 the government froze the construction of formal houses outside the Homelands. The reason behind this move was to discourage the inflow of Blacks into the urban areas. The result was the re-emergence of informal settlements on the periphery of urban areas (Africa Insight, 1992:16).

By the early eighties the magnitude of the housing deficit was becoming more apparent. The increase in urbanisation and the inactivity in the formal housing sector gave rise to the freestanding informal settlement. The repeal of the influx control laws in 1986 exacerbated the growth of the freestanding

informal settlements. The mid-eighties was a period of intense political upheavals, resulting in the burning of company cars entering the Black townships. Construction companies and other companies operating in the townships curtailed their activities in the townships after incurring heavy losses through the burning of their vehicles. The provision of housing in the Black townships was therefore severely disrupted.

By 1985 the government adopted the views put forward by South African academics such as Maasdorp and Humphreys during the seventies, who called for the introduction of site-and-service schemes. The formation of the Urban Foundation in 1976 was regarded as a major step as far as informal housing was concerned. The Urban Foundation also formulated a more realistic urbanisation policy.

3 THE EXTENT OF INFORMAL HOUSING IN GAUTENG

The issue of informal housing in Gauteng was researched by the Urban Foundation and discussed in their document "Informal Housing". The Foundation urged for a pragmatic approach to the issue of informal housing because it was the popular form of accommodation in the Gauteng province.

Figure 3 displays the distribution of informal housing settlements in the Gauteng province. It can be seen that informal settlements cover a major part of the landscape in the province. With the level of poverty and unemployment remaining high, informal housing will form the largest portion of the future urban housing stock.

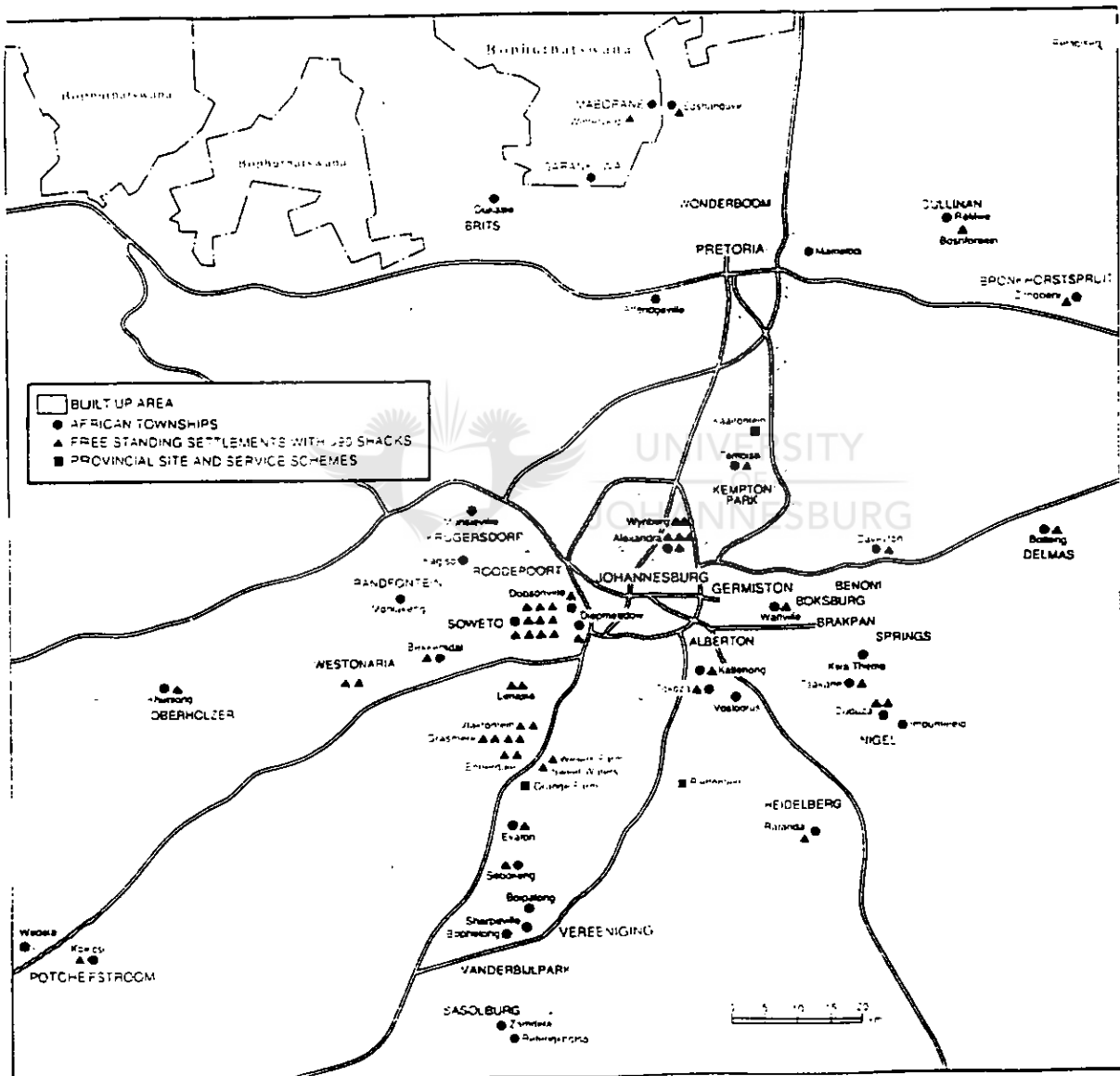
The Urban Foundation estimated in 1991 that nearly 60 percent of Black homes in the Gauteng province were of an informal nature. The majority of the informal settlements (86%) were backyard shacks.

Overcrowding is common within the Gauteng province, with an estimated 11 people living on each stand in the Black townships.

The Foundation estimated the number of informal settlements in Gauteng in 1990 to be approximately 47. In the Gauteng province, informal settlements occurred mainly in the form of backyard shacks

within the existing urban areas. By the early eighties the existence of freestanding informal settlements became more apparent. Since the eighties there has been a rapid increase in the number of the freestanding informal housing population. From November 1987 to late 1989, the free-standing settlement population in Gauteng grew from 116 900 to 377 109.

Figure 3: The Extent Of Informal Housing In The Gauteng Province



Source: Urban Foundation 1991:16

Informal settlements accommodate a substantial number of the Black population in the province. Table 5 shows that almost half of the Black population (2,26m) lives in informal housing.

**Table 5: The Magnitude Of The Informally Housed Black Population:
A Provincial Perspective, 1990**

Area	Total Black population	Informally housed population	Percentage of total Black population
Gauteng	5 213 000	2 260 000	43
Durban	2 600 000	1 800 000	69
Port Elizabeth	580 000	320 000	55
Cape Town	570 000	330 000	58
Bloemfontein/ Botshabelo	470 000	160 000	34
East London	342 800	105 000	31
Total	9 775 000	5 135 000	

Source: Urban Foundation, 1991:7

4 DEMOGRAPHIC PROFILE OF INFORMAL HOUSING SETTLERS IN THE GAUTENG PROVINCE

The demographic profile of the informal housing settlers in the Gauteng province has been researched by the Urban Foundation. This study on the origin of informal housing settlers in Gauteng found that the majority of informal settlers were born in the urban areas. Taking into account all the informal housing settlers in the province, 49 percent were born in the province, and 72 percent of the informal settlers have been in Gauteng for 10 years or more (Urban Foundation, 1991:20).

A study conducted by the University of South Africa's Bureau of Market Research on the origin of

Gauteng's informal settlers found that in 1994 over 91 percent of the shackdwellers originated from areas in Gauteng (Bureau of Market Research, 1995:42).

Salary/wage earners represented 26 percent of the residents of such houses, while the figure among shack-dwellers was only 18 percent.

A comparison of the education level of household members aged 16+ by the type of dwelling shows that 9,7 percent of the shackdwellers had no education, as opposed to 2,7 percent of those living in formal houses.

There was little difference between the size of households in shacks (3,89) and houses (3,99). Women represented over half of the residents of shacks (52,4%) and of houses (53,7%).

Taking all sources of income into account, 36 percent of the household members living in shacks earned an income. The figure for households living in formal houses is 39 percent of all household members. Of the recipients who live in shacks, 64,3 percent fall in the R0,00 - R799,99 income group, compared with 33,4 percent of the earners and recipients in houses.

The Urban Foundation found that the average household income of freestanding informal housing settlers came to R450 per month. The income profile of backyard shack settlers was found to be R750 per month, while the income profile of the households in formal houses was R900 per month (Urban Foundation, 1991:15/17).

The average monthly expenditure on accommodation for freestanding informal housing settlers was R1,00 per month, compared to R36 per month in backyard shacks. It seems that many poor people live in freestanding settlements to keep accommodation costs low. They have no alternative.

Urban infrastructural supply in South Africa is very inadequate. Of these households 25 percent have no access to piped water, 48 percent have no flush toilets, while 46,5 percent are not linked to the electricity supply grid. Socio-cultural amenities are very limited.

5 IMPORTANCE OF SELF-HELP HOUSING IN GAUTENG

In the face of the growing demand for urban housing and the inability of the authorities to meet this need, the present emphasis on self-help housing is recommended. As for self-help housing, the government provides serviced sites and infrastructure such as roads and then allows residents the freedom to build houses based on each resident's affordability and needs. Site-and-service schemes and *in situ* upgrading are examples of self-help housing projects.

5.1 IMPORTANCE OF SITE-AND-SERVICE SCHEMES TO HOUSING PROVISION STRATEGY SCHEME IN GAUTENG

As for the incremental approach to housing, the role of the government in providing serviced sites to the poorer sections of the population is of paramount importance. The incremental approach to housing is closely linked to the site-and-service scheme. The site-and-service scheme involves the provision of a serviced site to low-income people, while the incremental approach to housing includes a basic housing structure built on the site which can be improved as more money becomes available. *The incremental approach to housing is a process of building an informal house on a serviced stand. It is in the early stages of this incremental process that site-and-service schemes can be classified amongst forms of informal housing.* As for the site-and-service scheme, the government provides subsidies which may cover the cost of the serviced stand. The size of the serviced stand for incremental housing in Gauteng ranges between 250m²-350m² (Financial Mail, September 1, 1995:86). The scheme exists because it is unlikely that the State will provide higher subsidies to those in the lower income groups to acquire formal housing.

The first step in the implementation of the scheme requires the identification of land. The amount of land obtained must be sufficient to cater for both present and medium-term future requirements of informal housing. The number of people who may settle on the selected land must be determined. An acceptable norm would seem to be 20 units per hectare (White, 1993:15).

Assuming that 500 people need to be accommodated in the site-and-service scheme. What is the size of land needed?

$$1 \text{ hectare} = 10\,000\text{m}^2$$

Ideally 1 hectare should accommodate 20 units

$$\text{The number of hectares needed} = 500/20$$

$$= 25 \text{ hectares}$$

$$= 10\,000\text{m}^2 \times 25 \text{ hectares}$$

$$= 250\,000\text{m}^2$$

Once the land has been identified, it must be divided into plots of 250m² each. Each plot must be provided with appropriate services and infrastructure. The plots are then sold to lower-income people. Ideally, the plots should be sold to people earning less than R1 000 per month, as was the case in the Independent Development Trust capital subsidy scheme. People owning serviced sites may erect a basic structure of some kind, with the aim of extending such structures as money becomes available.

Roads, drainage, convenient access to piped and portable water for sets of plots, together with drainage at that point, represent the infrastructure that should be provided by the government. The state is required to also provide social, educational and health facilities. Amongst the most obvious components are creches, school buildings and clinics staffed by trained nursing sisters. The size and the number of schools and clinics must be sufficient to serve the "planned" community.

The Independent Development Trust has been closely associated with the site-and-service scheme through its Capital Subsidy Scheme. The trust received a grant of R2 billion from the National Budget at the start of August 1990. An amount of R750 million was allocated to the scheme. A fixed sum of R7 500 would be made available to the head of the family to be used for housing purposes. The subsidy was only available to individuals earning an income of less than R1 000 per month, who have dependants and who were over 21 years of age. Ivory Park and Orange Farm are the products of the site-and-service scheme.

A recent study of the Independent Development Trust settlements by the University of Durban-Westville revealed that informal settlement residents invest thousands of rands to improve their homes (Sunday Times, January 7, 1996:5). For every R7 500 awarded by the Independent Development Trust

as a capital subsidy, residents invest on average an additional R2 500 to R3 500. The study also shows that the average property in informal settlements is worth about R10 000.

The main criticism levelled against site-and-service schemes is that the scheme was implemented too far away from the cities. Poor people had to spend a lot of money to commute between their places of employment and homes. This caused hardship to such people.

5.2 IN SITU UPGRADING AS A STRATEGY TO IMPROVE THE EXISTING INFORMAL SETTLEMENTS

The Urban Foundation, in their 1990 document "Housing for All", define *in situ* upgrading as the upgrading, in place, of existing informal settlements. *In situ* upgrading is the brainchild of the World Bank after the Bank had realised that informal settlements provide the bulk of housing for the poor. Since 1980 many governments have been emphasising the upgrading of informal settlements and site-and-service schemes as major components of the national housing policies. *In situ* upgrading was promoted to meet the needs of those people who are too poor to purchase a serviced site.

In situ upgrading projects, however, took place throughout South Africa, supported by community organisations, provincial administrations and non-profit organisations. *In situ* upgrading took place after the government failed to remove an informal settlement known as Oukasie in Brits to Bophuthatswana. Some of the projects undertaken are listed below:

(i) Oukasie in Brits: An *in situ* upgrading project with 1 600 stands being developed by the Oukasie Trust supported by the Transvaal Provincial Administration.

(ii) Bester's Camp: *In situ* upgrading of 8 100 stands, co-funded by the City of Durban and managed by the Urban Foundation.

Both *in situ* upgrading and site-and-service schemes require community participation to be successful. The ultimate objective of self-help projects is to formalise informal housing at a later stage. Formalising the informal structures entails providing them with the security of tenure and improving

them through the process called "consolidation". Consolidation means that as more finance becomes available, so the basic structure can be improved and extended.

6 SUMMARY

Informal housing refers to housing which has been established unconventionally. They demonstrate the inability of the formal housing sector to accommodate the lower-income section of the population.

The Urban Foundation identified two types of informal settlements, namely spontaneous informal housing, which includes backyard shacks, "spontaneous" informal housing, which includes backyard shacks, freestanding informal settlements and scattered informal settlements. The second type of informal housing comprises those settlements erected under the official site-and-service schemes such as Ivory Park and Orange Farm.

Seven million South Africans are presently accommodated in urban informal settlements. In the Gauteng province 60 percent of the Black population lives in informal settlements. The province is also characterised by massive overcrowding in the formal Black townships.

During the fifties, the Nationalist government acted more forcefully against shantytowns and informal settlements. They demolished shantytowns such as Sophiatown in Johannesburg and District Six in Cape Town. By 1985 the government adopted the views put forward by South African economists such as Maasdorp and Humphreys in the seventies, when Maasdorp and Humphreys called for the introduction of site-and-service schemes.

In 1990 half of the Black population in Gauteng lived in informal housing. Nearly 60 percent of the Black homes were of informal nature. The majority of the informal settlements (86%) were backyard shacks. The number of informal settlements in Gauteng in 1990 was estimated at be approximately 47.

The study by the Urban Foundation on the origin of informal housing settlers in Gauteng revealed that many of the urban informal settlers originated from the urban areas. Of the informal housing settlers

49 percent were born in the Gauteng province, and 72 percent have been in Gauteng for 10 years or more. Of backyard shack dwellers 74 percent are of urban rather than rural origin.

In the face of the growing demand for urban housing and the inability of governments to meet this need, the emphasis on self-help housing is commended. The incremental approach to housing and *in situ* upgrading are examples of self-help housing projects.

As for the incremental approach to housing, the role of the government in providing serviced sites to the poorer section of the population is of paramount importance. The Independent Development Trust has been closely associated with the site-and-service scheme through its capital subsidy scheme. An amount of R7 500 was made available to the head of the family, to be used for housing and acquiring a serviced site.

In situ upgrading is the upgrading in place of existing informal settlements. It can simply be equated with the betterment of the existing informal housing when finance becomes available. *In situ* upgrading took place after the government failed to remove an informal settlement, as in the case of Oukasie in Brits.

Both *in situ* upgrading and site-and-service schemes require community participation to be successful. The ultimate objective of the self-help housing projects is to formalise informal settlements at a later stage.

CHAPTER IV

FINANCING OF INFORMAL HOUSING: AN ATTEMPT TO PROVIDE FINANCE TO THE POOR PEOPLE IN THE GAUTENG PROVINCE

1 INTRODUCTION

The objective of this chapter is to look into the provision of housing finance to the low-income segment of the population by various organisations, including the State. As has already been mentioned, problems are currently being experienced with the financing of informal housing. Unaffordability of housing by the poor is related to the unavailability of housing finance. There is an insufficient flow of funds to the lower-income group to finance or improve their housing structures.

Banks are prepared to provide housing finance to those who receive a regular and stable income (Marais, 1993:4). Granting loans to people without a stable income is a risky exercise as far as repayments are concerned. For reasons related to instability in Black townships, banks have generally pulled out of the township market. Problems relating to end-user finance include a range of issues such as inadequate access to credit facilities and the inappropriate design of credit instruments. Factors such as bond boycotts, a reluctance to vacate properties when sold in execution and refusal to pay instalments due to construction defects are some of the problems experienced by financial institutions. In 1996 the number of mortgage loan defaulters was estimated to be 49 000 and an amount of between R3bn to R4bn is owed to the banks by Black township residents (Sowetan, February 7, 1996:1).

Redlining is considered to be one of the barriers to the provision of retail financing in the Black townships. According to Bond (1993:3) redlining refers to the practice of geographical discrimination by banks and other financial institutions. Even when a potential borrower is creditworthy, he may not be granted a loan because the area in which he wants to buy a house, has been deemed undesirable by the banks.

Redlining in South Africa is a phenomenon occurring in most Black townships, certain inner city areas, in certain desegregated suburbs. Banks contend that redlining is not a problem that can be

solved within the competitive financial and property markets (Bond, 1993:3). One of the basic impediments to flows of funds in areas where end-user finance was once available, is borrower affordability. The role of the government in this regard is to create the enabling environment which allows the consumer to access housing opportunities. The strategy may involve the provision of sufficient subsidies to the lower-income sector by the government to enable them to afford formal houses.

2 THE ROLE OF GOVERNMENT IN CREATING THE ENVIRONMENT CONDUCTIVE TO THE FLOW OF END-USER FINANCE TO THE LOWER-INCOME SECTOR

The role of the government in providing finance for informal housing is important. The government is the primary role-player concerning the provision of serviced stands. The government provides subsidies to cover the cost of serviced stands in order to make them affordable to the poor.

Table 5: Government Subsidy Scheme, 1994

Joint spouse monthly income (rand)	Subsidy (rand)
0 - 800	15 000
801 - 1 500	12 500
1 501 - 2 500	9 500
2 501 - 3 500	5 000

Source: Bureau For Economic Research, April 1995:43

The subsidy should be targeted at the lower-income section of the population. As can be seen from Table 6, those people who fall within the R0 - R800 income group are supposed to receive most of the subsidy (R15 000). The people concerned happen to be the lower-income segment of the population. The people who fall within the R2 500 - R3 500 income group will receive R5 000 as housing subsidy. This subsidy will be in the form of a lump sum payable in respect of the beneficiary and such subsidy will only be paid out on date of registration of the beneficiary's rights to the

approved property. The subsidy is supposed to provide beneficiaries with various housing options and opportunities, such as rental, hostels, traditional tenure, and rural housing. The money required to finance the subsidy scheme totals R3 843 billion per annum (Bureau for Economic Research, April 1995:43). The government can also improve the flow of housing finance by increasing its spending on housing.

3 THE ROLE OF BUDGETED GOVERNMENT EXPENDITURE ON HOUSING FINANCE

Spending by the South African government on housing and related infrastructure amounted to R2,1 billion in the 1992/93 fiscal year, compared to R1,5 billion in 1991/92 (see Table 7).

Table 7: Budgeted Expenditure on Housing 1985/86 - 1992/93
(R - Million)

Financial year	Rm	Percentage of budget
1985/86	588	1,8%
1986/87	1367	3,4%
1987/88	745	1,6%
1988/89	934	1,7%
1989/90	959	1,5%
1990/91	1208	1,6%
1991/92	1356	1,6%
1992/93	1653	1,6%

Source: Race Relations Survey, 1992/93:219

Table 7 illustrates trends in government spending on housing as a percentage of the total budget. As can be seen from Table 7, on average the budgeted spending on housing was 1,6% of Gross Domestic Expenditure. Government spending for the 1986/87 fiscal year includes an amount of R400 million granted to the South African Housing Trust. It can also be seen that government spending for the

1986/87 fiscal year was exceptionally high. From the 1986/87 financial year up to 1992/93, the government's contribution to housing appears to have declined from 3,4% of Gross Domestic Expenditure to an average of 1,6%.

The government's approach to mobilising housing finance is to stabilise the lending environment. The Government's record of understanding with the Council of South African Banks is a step in that direction. According to the agreement, a Mortgage Indemnity Scheme will apply in stabilised areas where there is a willingness to upgrade and repair infrastructure by a local authority and a culture of payment for services. According to the agreement, Government will indemnify financial institutions against losses where normal contractual rights to beneficial access and securities provided for mortgage loans cannot be exercised due to a breakdown in the process of law.

Banks are expected to provide 50 000 new loans, to be increased to 100 000 new loans over a period of five years. Banks will also be expected to grant loans down to R10 000 in accordance with affordability. It is hoped that the *Mortgage Indemnity Scheme* will encourage banks to venture into the low-income lending market.



4 THE ROLE OF THE PRIVATE SECTOR IN PROVIDING HOUSING FINANCE TO THE POOR

The Government of National Unity has, in the 1994 White Paper on housing, admitted that the government alone cannot resolve the housing problem. The government does not have sufficient resources at its disposal to meet all the needs of the homeless and recognises that sustained investment in housing from sources other than the fiscus will be needed. The role of the private sector in this regard is appreciated. There are various non-governmental organisations which are at the forefront of the struggle to house the poor.

4.1 THE URBAN FOUNDATION'S STRATEGY TO FINANCE INFORMAL HOUSING

The Urban Foundation is one of those non-governmental organisations that are concerned with the

formulation of the informal housing policy. The Foundation saw the need to provide housing finance to the informal housing sector from an early stage. In this regard, a company called *The Group Credit Company* was formed to lend money for informal housing.

A capital funding of R1,5 million was made available to the company as loan from the Development Bank of Southern Africa. The objective of the company is to stimulate the supply and upgrading of low-income housing by extending small short-term loans to groups of people instead of individuals. Slightly less than half of the participants are either self-employed or are domestic workers. The average income of the group members was R465 a month (Urban Foundation, 1990:26).

The first loans were granted in November 1989 and there have been no arrears. As of October 1989 loans totalling R1,5 million had been granted to 824 individuals in 50 savings clubs in Cape Town.

4.2 THE INDEPENDENT DEVELOPMENT TRUST'S CAPITAL SUBSIDY SCHEME

The Independent Development Trust was formed in 1990 under the leadership of Mr Jan Steyn to administer R2 billion received from the national budget for the socio-economic upliftment of the very poor people. It was a partnership between the government and a non-governmental organisation aimed at providing housing finance to the very poor.

In order to handle the financing aspect properly, a separate company, the *Independent Development Trust Corporation Limited*, was formed. This company acts as a wholesaler of finance to independent regional organisations. These regional organisations make finance available to groups of individuals on a group credit basis for housing purposes.

In 1991 the Independent Development Trust committed more than R750 million to a massive capital subsidy investment. The capital subsidy would be confined to the poorest segment of the market, with a focus on the acquisition of a serviced site. A fixed sum of R7 500 was made available in the name of the head of the family earning not more than R1 000 per month. The subsidy was sufficient to cover the costs of the serviced stand.

By the end of July 1993 70 000 of the 112 000 serviced sites approved for subsidies had been developed (Urban Foundation, 1993:21). The capital subsidy scheme of the Independent Development Trust fulfilled the basic needs of the poor people, i.e. the acquisition of the serviced sites on which they can erect a temporary shelter of some kind.

4.3 MOBILISATION OF PENSION FUNDS, PROVIDENT FUNDS AND LIFE OFFICES

A number of pension funds and life offices are currently exploring innovative mechanisms for the utilisation of their funds for housing purposes, particularly for families at the lower end of the income spectrum. The scheme was designed by the Urban Foundation in conjunction with a life assurance company.

In terms of the scheme, members of the scheme of pension or provident funds who are first-time home buyers and who fall in the low-income group can obtain a five percent deposit against their policies to buy a house, of which the purchase price does not exceed R45 000. Members retain their full retirement advantages. An amount of R40 billion is invested annually in the pension and insurance funds. Part of the pension and insurance fund can be diverted to financing informal housing (Bond, 1993:2).

While commending the efforts of those organisations which granted loans to the poorer sections of the population, it is also important to note that the situation has not yet improved. The majority of the Black population still cannot afford a formal house because of a lack of housing finance. More funds should therefore be channelled into the low-income housing market. Financial institutions should be enticed to enter the low-income market by being offered tax incentives by the government.

5 SUMMARY

Financial institutions are prepared to provide housing finance to those people who are employed, have stable employment and earn relatively high incomes. Financial institutions are reluctant to provide housing finance to persons in the lower-income group. Granting housing loans to the people without

a stable income, is a risky exercise as far as the repayment of such loans is concerned.

Banks have pulled out of the Black townships for reasons mainly related to social instability in the townships. Factors such as bond boycotts, reluctance to vacate properties when sold in execution and refusal to pay instalments due to construction defects are some of the problems experienced by financial institutions.

In order to advance housing finance to the low-income groups, the role of the government is essential. The capital subsidy aimed at the lower-income groups enables them to afford a basic structure (a serviced site). In some instances the government teamed up with the private sector in order to advance housing finance to the low-income sector. There are several non-governmental organisations which advanced housing finance to the low-income group.

The Urban Foundation was established with the express objective of financing informal housing through a company called The Group Credit Company. A fund of R1,5 million was made available as a loan from the Development Bank of Southern Africa. As of October 1990, loans totalling R1,5 million have been granted to 824 individuals.

The Independent Development Trust is one of the non-governmental organisations which has been at the forefront of the campaign to house the low-income group. The capital subsidy scheme introduced by the Independent Development Trust enabled people earning less than R1 000 per month, to afford a serviced site. In 1991, the Independent Development Trust committed more than R750 million to a massive capital subsidy investment. At the end of July 1993, 70 000 of the 112 000 serviced sites approved had been developed.

There is an attempt to mobilise pension funds and provident funds for housing people at the lower end of the income spectrum, a scheme that was designed with the help of the Urban Foundation. In terms of this scheme, pension or provident funds who are first-time home buyers can obtain a five percent deposit against their policies to buy a house of which the purchase price may not exceed R45 000. An amount of approximately R40 billion is invested annually in the pension and insurance funds, part of which can be diverted to financing informal housing.

While commending the efforts of those organisations which granted loans to the poor section of the population, it is also important to note that the situation as far as the provision of funds to the low-income group is concerned, has not yet improved. The majority of the Black population still cannot afford a formal house because of the lack of housing finance. More funds will have to be channelled effectively into the low-income housing market. Financial institutions should be enticed to enter the low-income housing market by way of tax incentives by the government.

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CHAPTER V

SUMMARY

The Gauteng province is the recipient of large numbers of migrant workers flocking from former Homelands and neighbouring countries as a result of the general lack of economic growth and the increasing poverty in such areas.

The formal housing market in Gauteng is catering well for the housing needs of Whites, Coloureds and Asians. The majority of the Black population, however, cannot afford a formal house. Nearly 60 percent of Black households in South Africa, measured in terms of their disposable incomes available for housing, were unable to make any contributions towards the cost of their homes in 1991, compared to 50 percent in 1990.

The gap between the rich and the poor is generally greater in less-developed countries than in developed countries. High rates of unemployment and the fact that a large percentage of the poor is unskilled has, amongst other things, added to the skewed distribution of income in South Africa. The majority of Blacks fall in the lower-income bracket.

Since the seventies the performance of the South African economy has been declining. In the early nineties the real growth rate of the gross domestic product turned negative. Like most Third- World countries, the capacity of the South African economy to accommodate the growing number of new entrants into the market has decreased continuously.

One of the more serious problems facing the Third-World countries is the relatively high population growth rates. In South Africa the Black population is entering the stagnant labour market in increasing numbers as a result of increased urbanisation and the high natural growth rate.

Although the construction industry has experienced some constraints which prevented it from building more houses, the Government of National Unity has dragged its feet, not because of the non-availability of finance, but mainly as a result of administrative inefficiency of the Government of National Unity. The industry is also suffering from a shortage of skilled labour. The constructors and

building merchants are also experiencing shortages and irregular supplies of some materials and equipment.

In countries where the housing market works well, the provision of housing is determined by the interaction between demand and supply. The demand for and supply of housing are seldom in equilibrium. The demand for housing is relatively elastic, while the supply of housing tends to be inelastic. The inelasticity of the supply of housing creates a problem for the lower-income groups as far as housing is concerned, a problem that can only be solved if such people avail themselves of informal housing.

Informal housing refers to accommodation based on very few, if any, formal prescriptions. A formal procedure of financing such accommodation is also not in place. An informal house may be constructed from cardboard, tin, plastic, mud, wood, grass and other unconventional building materials on land that has not been specifically zoned and serviced for residential purposes.

The Urban Foundation identified two types of informal housing settlements, namely "spontaneous" informal housing, which includes backyard shacks, freestanding informal settlements and scattered informal settlements. The second type of informal housing comprises those settlements erected under the official site-and-service schemes, such as Ivory Park and Orange Farm.

Seven million South Africans are presently accommodated in urban informal settlements. In the Gauteng province 60 percent of the Black population lives in informal settlements. The province is also characterised by massive overcrowding in the formal Black townships.

During the fifties, the Nationalist government acted more forcefully against shantytowns and informal settlements. They demolished shantytowns such as Sophiatown in Johannesburg and District Six in Cape Town. By 1985 the government adopted the views put forward by South African academics, such as Maasdorp and Humphreys during the seventies, calling for the introduction of site-and-service schemes.

In 1990 half of the Black population in Gauteng lived in informal housing. The majority of the informal housing settlers (86%) were backyard shacks. The number of informal settlements in Gauteng

in 1990 was approximately 47.

The study by the Urban Foundation on the origin of informal housing settlers in Gauteng revealed that urban origin outweighed rural origin. Of the informal housing settlers 49 percent were born in the Gauteng province, and 72 percent have been in the province for 10 years or more.

In the face of growing demand for urban housing and the inability of governments to meet this need, the present emphasis on self-help housing is commended. Incremental approach to housing and in situ upgrading are examples of self-help housing initiatives.

As for the incremental approach to housing, the role of the government in providing serviced sites to the poorer sections of the population is important. An amount of R7 500 was made available to the family to acquire a serviced site.

In *situ* upgrading is the upgrading in place of existing informal settlements. In situ upgrading took place after the government failed to remove an informal settlement, namely Oukasie in Brits. Both in situ upgrading and site-and-service schemes require community participation to be successful. The ultimate objective of self-help housing projects is to formalise informal housing at a later stage.

Financial institutions are prepared to provide housing finance to people who are permanently employed and belong to the upper-income bracket. They are reluctant to provide housing finance to the lower-income group because of the risks involved, especially the risk of non-payment of instalments.

Banks have stopped financing housing in the formal Black townships for reasons related to social and political instability in the townships. Factors such as bond boycotts, reluctance to vacate properties when sold in execution, and refusal to pay instalments due to construction defects, are some of the problems experienced by financial institutions.

In order to advance housing finance to the low-income people, government involvement is essential. The capital subsidy aimed at the lower-income people enables them to afford a basic structure (a serviced site). In some instances the government teamed up with the private sector. There are several non-governmental organisations which advance housing finance to the low-income group.

The Urban Foundation was involved in financing informal housing through a company called The Group Credit Company. A capital funding of R1,5 million was made available as a loan from the Development Bank of Southern Africa. As of October 1990, loans to the value of R1,5 million have been granted to 824 individuals.

The Independent Development Trust is also one of the non-governmental organisations which has been at the forefront of the campaign to house the low-income group. The capital subsidy scheme introduced by the Independent Development Trust enabled people earning less than R1 000 per month to afford a serviced site. In 1991 the Independent Development Trust committed more than R750 million to a massive capital subsidy investment. At the end of July 1993, 70 000 of the 112 000 serviced sites approved had already been developed.

There is an attempt to mobilise pension funds and provident funds to house the lower end of the income spectrum. The scheme was designed with the aid of the Urban Foundation. In terms of the scheme, members of the scheme of pension or provident funds who are first-time home buyers and who fall in the low-income group, may obtain a five percent deposit against their policies to buy a house of which the purchase price does not exceed R45 000. An amount of R40 billion is invested annually in the pension and insurance funds. Part of the money in the funds can be diverted into housing.

While commending the efforts of those organisations who grant loans to the poorer sections of the population, it is important to note that the situation as far as the provision of housing funds to the poor has not yet changed. Significantly, the majority of the Black population does not have access to housing finance. In order to improve the situation, more funds will have to be channelled into the low-income housing market. Financial institutions should be enticed to enter the low-income housing market by being offered some tax incentives by the government. It is also important to note that the programme to house the poor is not an easy one considering the risk and numbers involved and the funding implications of providing infrastructure. Also important as far as the housing of the poor is concerned is, however, the creation of job opportunities and the upgrading of skills as envisaged by the Reconstruction and Development Programme.

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