

INVESTIGATING THE PERFORMANCE OF NON-TRADITIONAL LENDERS
IN THE PROVISION OF END-USER FINANCE: A CASE STUDY OF THE
NATIONAL HOUSING FINANCE CORPORATION AND THE
NATIONAL URBAN RECONSTRUCTION AND
HOUSING AGENCY

by

RIRHANDZU RUSSEL SALANE

*Submitted in partial fulfilment of the
requirement of the Degree of Masters of Housing in the School
of Architecture, Planning and Housing, University of Natal: Durban.*

November 2000

DEDICATION


In memory of both Malume Freddy Hlengani Risenga and sister Doreen Mibloti Salani, with loving memories. You really wanted to see this.

To the reader: is for your academic consumption

DECLARATION

I, Rirhandzu Russel Salane hereby declare that that this dissertation for the Masters of Housing Degree submitted by me at the School of Architecture, Planning and Housing, University of Natal has not previously been submitted for a degree or diploma at this or any university, and that it is my work. All reference materials contained herein have been duly acknowledged.

Date : 30/03/01

Signed : 
Rirhandzu Russel Salane

ACKNOWLEDGEMENTS

My heartfelt and sincere gratitude to the Lord God for affording me the opportunity to study, instilling a sense of co-operation to all who were involved in this project, and for providing me with finance when I needed it most

My supervisor and mentor, Mrs Pauline W. Adebayo: thanks for your motherly advice, guidance, encouragement, and for not losing hope in me.

I wish to express my unreserved thanks to:

Mr Morgan Pillay of the National Housing Finance Corporation

Both Ms Nohlahla Mjoli-Mncube and Ms Sabi Mthwecu from NURCHA

Mr G. Seboya, Mr S. Martin and Mr C.V. Venter of Ithala

Mr Lionel David of Agishana Credit Company

Prof. Dan Smit

Ms Mary Tomlinson of the Banking Council of South Africa

Mr Luvuyo Sighala of Durban Metro Housing

Residents of Thembalihle and Pioneer Park: your co-operation still amazes me.

Warm thanks to the field workers, classmates, library staff from UND libraries and BESG Resource Centre for your endless assistance and support.

To my parents – Jullis Hasani and Msaveni Salminah Salani, for your commitment to our upbringing and instilling the philosophies and explaining the intricate patterns of life. You are both living examples. To my brothers and sisters, the Risenga and Chauke families, for the support and showing interest in my studies. God is always with us.

Lastly, all the views expressed in this study are those of the researcher, therefore, the shortcomings of this study should not be blamed on those who informed the study.

Ka van'wanati, "lemani rihlelo kaa"!

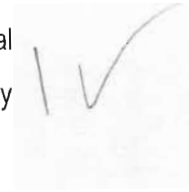
EXECUTIVE SUMMARY

"A significant number of households in need of housing in South Africa can afford to access housing credit, provided that this is available. Such credit is currently not readily accessible by most of such home seekers. Unlocking housing credit is therefore seen as a fundamental requirement in order to facilitate the ongoing improvement of the housing circumstances of such households" (Housing White Paper, 1994).

Restricted access and unavailability of housing end-user finance is one of the critical challenges which faces the government in general, and the Department of Housing in particular. Access to end-user finance is limited due to many reasons which the study will identify.

This study primarily looks at the access and availability of housing end-user finance to the low income earners. Basically it attempts to explore the impact of Non-Traditional Lenders in the provision of end-user finance to the poor. Non-traditional lenders refer to any lender who is not a traditional retail finance lender/company. The study looks at the National Housing Finance Corporation (NHFC) and the National Urban Reconstruction and Housing Agency's (NURCHA) attempts to mobilise housing credit. It closely pays special attention to the strategies used to mobilise the much-needed credit, their impact and the problems they encounter. This is done with the sole purpose of establishing whether or not it is possible to extend their scope to cater for the low income housing market. To realise this purpose, the study follows the path undertaken by these two institutions in terms of impacting to the poor. Agishana Credit Company's activities were investigated in order to determine Nurcha's impact, and Ithala Development Finance Corporation for the NHFC. Further, a path will be established to determine the impact of these retail lenders on the poor. Thus, Pioneer Park housing project is surveyed to determine Ithala's lending activities as well as Thembalihle (Glenwood 2) housing project for Agishana. It is paramount to indicate that both the NHFC and Nurcha do not lend to a man on the street, but deal with retail lenders. In essence, the NHFC attempts to open the

floodgates of housing credit by funding intermediary lenders that on-lend to individual beneficiaries, while on the other hand, Nurcha guarantees activities by these intermediary lenders.



This study is divided into five chapters. Chapter one broadly gives an overview of problems regarding access and availability of housing end-user finance and also outlines the research methodology employed. Chapter two identifies and discusses the different housing delivery systems, as well as gives a vivid picture on the functioning of non-traditional lenders. It provides both international and national experiences that proves that it is feasible to provide housing loans to the poor. Chapter three aims at offering historical background of the four institutions. It identifies their missions, sources of funds, nature of clientele, key activities and the strategies they employ with regards to defaults. Chapter four provides the finding and analysis of the surveys conducted. Firstly, a brief background of the case study areas is outlined. Then findings of the study reveal that it is safe to lend to low income households. This proves that there is a potential to successfully lend to this market without running at a loss. Chapter five is a summary of the research findings, conclusions and recommendations. The findings of the study point out that there is a place for provision of housing credit to the poor. To that end, the study recommends that, what is needed to significantly provide housing loans to this market is the amalgamation of the NHFC and Nurcha's activities; establishment of more lending institutions; encouragement of savings for housing purposes; as well as commitment to innovatively devise and introduce new lending products to cater for this market, which is equally met with strategies to level the play field in terms of legislation so that lending institutions can participate in this housing market at scale.

GLOSSARY OF TERMS

ALT FIN	=	Alternative Finance
BESG	=	Build Environment Support Group
CBO's	=	Community Based Organisations
CEO	=	Chief Executive Officer
CPS	=	Center for Policy Studies
DoH	=	Department of Housing
HDFC	=	Housing Development Finance Cooperation
HSA	=	Housing Southern Africa
HWP	=	Housing White Paper
ITC	=	Information Trust Corporation
KFC	=	Kwazulu Finance Cooperation
MH	=	Metro Housing
MIS	=	Mortgage Indemnity Scheme
NACHU	=	National Cooperative Housing Union
NHFC	=	National Housing Finance Cooperation
NHMFC	=	National Home Mortgage Finance Cooperation
NHS	=	National Housing Survey
NML	=	Niche Market Lenders
NTRL's	=	Non-Traditional Lenders
NURCHA	=	National Urban Reconstruction and Housing Agency
PDL	=	Poverty Datum Line
RDP	=	Reconstruction and Development Programme
SABC	=	South African Banking Council
SHF	=	Social Housing Foundation
SHHA	=	Self-Help Housing Agency
TLC	=	Transitional Local Council
UNCHS	=	United Nations Center for Human Settlements

TABLE OF CONTENT

Title	Page
Dedication	ii
Declaration	iii
Acknowledgments	iv
Executive Summary	v
Glossary of Terms	vii
Table of Contents	viii
List of Illustrations	xii
List of Tables	xiii
Appendixes	xiv
Chapter 1	
Introduction and Research Methodology	
1.0 Introduction	1
1.1 Context and Background of the Study	1
1.2 Limitations of the Study	6
1.3 Research Question	8
1.3.1 <i>Subsidiary Questions</i>	8
1.4 Hypothesis	9
1.5 Basic Assumptions	9
1.6 Definition of Key Concepts	9
1.7 Research Methodology	11
1.7.1 <i>Secondary Sources</i>	11
1.7.2 <i>Primary Sources</i>	11
1.8 Data Processing and Analysis	17
1.9 Conclusion	18

Chapter 2

Housing Finance and Delivery

2.1	The Housing Delivery System ✓	22
2.1.1	<i>The Socialist Approach</i>	23
2.1.2	<i>The Market Approach</i>	26
2.1.3	<i>The Integrated Approach</i> ✓	28
2.2	The Role of NTRL's	30
2.3	Sources of Finance for NTRL's	30
2.4	Circumstances of the Poor	32
2.5	Criteria for Lending to the Low Income Earners	33
2.5.1	<i>Non-Collateral Loans</i>	33
2.5.2	<i>Loan Sizes</i>	36
2.5.3	<i>Repayment Period and Repayment Capacity</i>	37
2.5.4	<i>Loan Recovery</i>	38
2.5.5	<i>Interest Rates</i>	39
2.5.6	<i>Contact with Beneficiary Communities</i>	40
2.6	Benefits That Accrue to Beneficiaries	41
2.7	Problems Related to Non-Traditional Lending ✓	41
2.8	Conclusion	42

Chapter 3

Historical Background of the Institutions

3.1	Background History of NHFC, NURCHA, Ithala and Agishana ✓	43
3.2	National Housing Finance Corporation ✓	43
3.2.1	<i>Key Missions</i>	43
3.2.2	<i>Sources of Funds</i> ✓	44
3.2.3	<i>Nature of Clientele</i>	45
3.2.4	<i>Key Lending Activities and the Lending Criteria</i>	46

3.2.5	<i>Treatment of Defaults and/or Non-payment</i>	49
3.3	National Urban Reconstruction and Housing Agency	49
3.3.1	<i>Key Missions</i>	50
3.3.2	<i>Sources of Funds</i>	51
3.3.3	<i>Nature of Clientele</i>	52
3.3.4	<i>Key Lending Activities and the Lending Criteria</i>	52
3.3.5	<i>Treatment of Defaults and/or Non-payment</i>	53
3.4	Ithala Development Finance Corporation	53
3.4.1	<i>Key Missions</i>	54
3.4.2	<i>Sources of Funds</i>	55
3.4.3	<i>Nature of Clientele</i>	55
3.4.4	<i>Key Lending Activities and the Lending Criteria</i>	55
3.4.5	<i>Treatment of Defaults and/or Non-payment</i>	56
3.5	Agishana Credit Company	57
3.5.1	<i>Key Missions</i>	57
3.5.2	<i>Sources of Funds</i>	57
3.5.3	<i>Nature of Clientele</i>	58
3.5.4	<i>Key Lending Activities and the Lending Criteria</i>	58
3.5.5	<i>Treatment of Defaults and/or Non-payment</i>	59
3.6	The Lending Set-up	59
3.7	Conclusion	59

Chapter 4

Case Studies, Findings and Analysis

4.1	Introduction	60
4.2	Case Studies	60
4.2.1	<i>Thembalihle (Glenwood 2) Housing Project</i>	60
4.2.2	<i>Pioneer Park Housing Project</i>	64
4.3	Clearing Financial Obstacles	69

4.3.1	<i>Risk and Risk Sharing Strategies</i>	70
4.3.2	<i>Criteria for Lending</i> ✓	71
4.3.3	<i>Criteria for Guaranteeing</i>	73
4.4	Mobilising End-user Housing Finance ✓	74
4.5	Institutional Operational Capacities	75
4.6	Access to End-user Finance ✓	77
4.7	Mortgage Loans	80
4.8	Collateral	81
4.9	Loan Repayments	84
4.10	Interest Rates	85
4.11	Defaults	86
4.12	Modelling of Housing Finance Institutions	88
4.13	Capacity Building	89
4.14	Consumer Education	89
4.15	Savings ✓	90
4.16	Policy and Legislation	91
4.17	Summary	92

Chapter 5

Summary, Conclusions and Recommendations

5.0	Introduction	93
5.1	Summary of the Findings	93
5.2	Conclusions	95
5.3	Recommendations	97

Bibliography	108
--------------	-----

Appendices

LIST OF ILLUSTRATIONS

Title	Page	
Figure 4.1	Map of Glenwood 2	62
Figure 4.2	Thembalihle's respondents employment status	64
Figure 4.3	Map of Durban Metropole	65
Figure 4.4	Map of Umlazi Township	66
Figure 4.6	A house at Pioneer Park with retention walls	68
Figure 4.7	A photo showing a row of houses at Pioneer Park and the slopeness of the area	68
Figure 4.8	Pioneer Park's respondents employment status	69
Figure 4.9	A typical one-roomed house at Thembalihle	78
Figure 4.10	A typical four-roomed house at Thembalihle	78
Figure 4.11	A house under construction	79
Figure 4.12 - 4.13	Houses at Thembalihle built with the financial help from Agishana	79
Figure 4.14	An inside wall of a house at Pioneer Park showing cracks from the roof	87

LIST OF TABLES

Title	Page
Table 2.1 The housing subsidy scheme	24
Table 2.2 Revised housing subsidy scheme	25
Table 4.1 Thembalihle's respondents monthly income	64
Table 4.2 Pioneer Park's respondents monthly income	69
Table 4.5 Ithala Progress Home Loan Savings Schedule	91

APPENDIXES

Title	Page
Appendix 1 Interview questions for Mr M. Pillay: General Manager of NML-NHFC	
Appendix 2 Interview questions for Ms N. Mjoli-Mncube and Ms S. Mthwecu of Ithala	
Appendix 3 Interview questions for Ms G. Seboya, Mr C.W. Venter and Mr S. Martin of Ithala and Mr L. David of Agishana	
Appendix 4 Interview questions for Mr Les Botha of Elangeni Projects	
Appendix 5 Interview questions for both Prof. D. Smit and Ms M.R. Tomlinson	
Appendix 6 Interview questions for both the Pioneer Park and Thembalihle Residents	
Appendix 7 Map of Thembalihle	
Appendix 8 Map of Pietermaritzburg	

CHAPTER 1

INTRODUCTION AND METHODOLOGY

1.0 Introduction

The approach to housing provision in South Africa, as indicated in the Housing White Paper (1994) is that of incremental housing. That is, the government provides a household with a basic structure that the household has to expand through time. The strategy is a direct result of the realisation by the government that "it is not able to provide sufficient subsidy to cover the cost of delivering a formal house to every South African" (National Housing Code, 1998:1A53). Thus the housing policy favours the principle of "width" rather than "depth": provide little to the majority than to provide enough to few. To that effect, a sliding housing subsidy grant of about R16 000.00 per beneficiary household which earns between R0 and R3 500.00, and meet other stipulated requirements, is granted for such purposes. In some cases, the Housing White Paper (1994) recommends that the subsidy level be adjusted by up to 15% for geotechnical, topographical or locational reasons. This implies that households have to devise means and ways to extend their houses, or live on the erected rudimentary core houses. There are various ways that could be used to find the most needed cash. It could be acquired from, amongst others, family members and friends; participation in stokvels, savings schemes, housing clubs and associations; micro lenders; and from traditional and non-traditional lending institutions. It is essential to point out that however many and varied, all these strategies have their merits and demerits. The latter strategy- non-traditional lending- forms the cornerstone focus of this study.

1.1 Context and Background of the Study

Housing Southern Africa (1998) argues that minimum subsistence levels (MSL) are calculated by economic institutes to be approximately R1 072. 00 per month. To that effect, the LERC (1992) and Govender (1997:4) estimate that approximately 72% of black people live below the Poverty Datum Line (P.D.L.) of R800 per month, which is far below the minimum subsistence level. Housing Southern Africa (1998) postulates that a decent shelter usually costs more than R40 000.00 in the market. To afford such a shelter and other household fundamentals, one

needs to earn more than R3 500.00 per month. This indicates that the majority cannot afford to adequately house themselves. Therefore "they need financial assistance to afford housing" (Oelofse: 1996).

Access to financial assistance by the poor is one problem that has been of concern to, amongst others, housing policy makers and planners, social movements, community and non-governmental organisations, housing officials and ultimately, the poor themselves. The need for a small loan for "top up" purposes is inevitable because the size and quality of low-cost houses leaves much to be desired. ^{Cost} There are impediments that limit the scope of the poor to improve on their shelter. The economic position of the poor has far-reaching consequences. Pearse (1997) indicates that the poor are considered risky to lend to. The traditional financial institutions that are supposed to be lending to this market are "reluctant to lend to a market that is considered high risk and where profit margins are low" (Tomlinson: 1997). In essence, poor people's record of default on loan repayment has dampened confidence of financial sector to enter the low-income market on scale. Yet, low-income earners are best suited by small loans. "Small loans refer to the loans under R30 000. 00" (Sigcau: 1997). Suffice it to point that the financial institutions find it costly to administer many small loans than fewer bigger loans, and it is difficult to verify all applicants' eligibility to receive a loan, thus leading to defaults on repayments. Therefore they do little to reach people who do not have proof of regular income or collateral. Moreover, "many financial institutions are not keen to finance housing due to the perceived political, criminal and commercial risks regardless of government guarantees" (Legodi: 1998). It had long been observed that formal financial institutions had a tendency of 'redlining' areas for their non-payment character. It is essential to indicate that this setup has been equally met with innovative initiatives to counteract such attitudes and tendencies since 1994. A Record of Understanding (RoU) was reached between the Government and Association of Mortgage Lenders (AML) in the Botshabelo Accord in October 1994, which was terminated and replaced by the New Deal (ND) which was signed by the Government and the Banking Council in April 1998. The RoU agreement maintains that "a stable environment is required for viable private investment" (Record of Understanding, 1995; Sigcau, 1997). The National Housing Code (1998:1A34) argues that the policy intention of the New Deal is to continue government's strategy to stabilise the housing environment by sharing risk and

building trust among the players in the industry. To that end, the government consciously committed itself to purposefully pursue an incentive-based approach to stabilise the living environments for many communities living in unstable and degenerating residential areas. For instance, the Mortgage Indemnity Fund was established to specifically secure loans granted to low income households by financial institutions. While on the other hand, Smit (1998) indicates that lending institutions initially (October 1998) committed themselves to making a certain number of mortgages (50 000) to lower income people within a specified period (1 year). Essentially, "as a general strategy, the Government committed itself to launch a vigorous and unprecedented national and provincial campaign called Masakhane (let us build together), which is aimed at the reinstatement of the due process of law" (Sigcau, 1997:27). The campaign seeks to attract the private sector to provide housing credit to low-income groups by instilling and restoring among the poor, the ethic of payment for the services rendered. To that end, Legodi (1998) indicates that the success of these moves is questionable because till today, traditional financial institutions has done little to lend to the poor because "for the employed, who are unable to afford credit, housing finance is simply unavailable" (Housing Southern Africa, 1998:29).

It is rational to claim that "redlining" areas by formal financial institutions tend to block access to people who might qualify. Above that, these institutions do little to venture beyond the urban periphery thus leaving rural poor households greatly disadvantaged. Over and above that, formal financial institutions "blame the housing authorities for not normalising the lending environment" (Smit: 1998). Legodi (1998) provides three arguments that financial institutions present. They argue that:

- the Masakhane Campaign has failed to restore a culture of payment;
- civil disobedience remains rife against contracts; and
- the criminal justice system has partially collapsed, making legal enforcement of our court decisions on household eviction extremely difficult.

To cement the argument, some top government officials claim that the housing authorities do not increase the housing subsidy grant and also show some intentions of ultimately withdrawing from the housing provision" (Smit: 1998). In essence, the housing subsidy grant has only been adjusted twice since its inception in 1994. The argument put forward by the

Built Environment Support Group (BESG) holds water. They contend that "in the light of the fact that the total cost of a core house on an adequately serviced site is R25 000 – R30 000, and the current maximum subsidy level is about R16 000 for top structure and internal infrastructure and R3 000 for bulk infrastructure is obviously too low. This is largely due to the fact that subsidies have not kept pace with inflation; the value of the maximum housing subsidy, in real terms, decreased by about 25 % in the 1995-1999 period" (BESG, 1999: 29). These states of affairs provide a fertile ground for the argument that the poor should receive or mobilise other financial resources to consolidate their housing.

The situation could look gloomy by the above discussion. Suffice it to indicate that the South African government in general, and the Department of Housing in particular, has taken conscious actions after the 1994 democratic elections to provide the most needed end-user finance. Therefore, initiatives and instruments that seek to stabilise the housing environment and to mobilise housing finance for the poor were established. Essentially, intervention mechanisms to make the market look attractive were established by sharing risk and providing guarantee to institutions (banks and non-banks lenders) that lend below the 'conventional market' were established. Institutions like amongst others; the National Housing Finance Cooperation (NHFC), Servcon Housing Solutions, Home Loan Guarantee Company (HLGC), Gateway Home Loans (GHL), National Urban Reconstruction and Housing Agency (Nurcha), Home Builder's Registration Council and tools like the Mortgage Indemnity Fund (MIF) and Masakhane Campaign were established with the sole purpose of meeting the credit needs of the poor and providing shelter by attracting financial institutions to the low-income market.

It is essential to summarise the intended aims of the above institutions to provide a general idea of housing finance areas that were given priority and those that were ignored. The National Housing Finance Corporation aims at mobilising wholesale finance for the housing sector. "Moreover an important part of the NHFC's brief is to facilitate the activities of the non-traditional lending sector (e.g. stokvels, agencies making small non-bond loans etc) as well as to help kick-start the setting up of "institutions" which, was previously noted, were seen by government as the most significant way to get end-user financing to the poor at scale" (Smit, 1998). Servcon Housing Solutions basically seeks to normalise the lending environment by

offering those who have defaulted on their loans a once off deal so that they can regain ownership or relocate to alternative right-sized accommodations. Thubelisha Homes essentially aims to procure or develop housing stock appropriate for rightsizing. The Mortgage Indemnity Fund and the Home Loan Guarantee Company guarantee financial institutions and developers engaged with the low income market. The National Urban Reconstruction and Housing Agency basically aims to facilitate low cost housing development by mobilising and providing end-user and bridging finance guarantees for developers and contractors to cover low income earners, as well as offer support to these players. However, although the study acknowledges and appreciates that there are many financial institutions with diverse functions, there is still an observable need for end-user housing finance, especially for those earning below R1 000.00 and the self-employed.

The study aims to investigate the performance of non-traditional lenders (NTRL's) in terms of their set goals, and to establish if they are doing enough to provide credit to the low income housing markets. It is essential to indicate that NTRL's in this study refer to any lender who is not a traditional retail finance lender/company. Thus, the study looks specifically on how the two institutions that were set to mobilise housing finance: the NHFC and Nurcha, impact on the poor's housing credit needs. Of paramount importance is to find out if they are successfully mobilising the much needed end-user finance. To successfully determine that, retail lenders that deal with these institutions will be explored: Ithala Development Finance Corporation for the NHFC and Agishana Credit Company for Nurcha. It also aims to explore the possibility of increasing the scope of these non-traditional lenders to lend further down the market should they be found to be not reaching the poorest. The study will provide some recommendations that may enhance the performance of non-traditional lenders if they are found to be failing in that regard. The observation is that the majority of low-income people still find it difficult to access housing credit although there are institutions set up to cater for them. The problem lies primarily in the fact that, like other traditional lenders, non-traditional lenders require collateral and some form of affordability criteria from the borrowers.

Of paramount importance is the fact that the study is exploring a field of housing finance that holds the backbone of housing finance to the most needy. In the sense that end-user finance

is vital for the improvement of the dwellings, and the owners (socially and economically). Without credit, the poor find it difficult to improve or consolidate their dwellings. Although intensive research had been done around housing finance and on subjects about addressing the plight of the poor, little, or no study has explored the degree to which non-traditional lenders are reaching their target group: the low income households. Therefore this study aims to put a human face pertaining to lending activities to the poor by adding comprehension on reaching the poor, and inform on the performance of the non-traditional lending institutions.

In a nutshell, the study aims to explore possibilities of extending the mandate and scope of non-traditional lenders to reach further down market. It seeks to examine the feasibility of “making the markets work” scenario. It aims at exploring the possibility of linking the low income households to the financial markets. The study claims that providing housing credit to the poor has repercussion that even goes outside the housing finance realm: forges relationships with financial institutions; provides that the poor are bankable and they adhere to their obligations; improved social standing; protection from harsh weather conditions; and boosted self-esteem. The capacity of the non-traditional lenders will be explored as regard the provision of end-user finance

The timing of the study is perfect in the sense that more than five years have passed since the inception of the Housing White Paper in 1994, and the establishment of these non-traditional lenders in May 1995. That gives ground for an appropriate period to revisit the performance of the housing sector in general, and non-traditional lenders in particular. Therefore, the study will suggest new directions and approaches to low income housing finance for this new millennium, and beyond, which are not clouded by the mismatches and inappropriations in policy and practice depicted in the apartheid era.

1.2 Limitations of the Study

The study seeks to investigate the performance of non-traditional lenders in Kwazulu-Natal Province- South Africa. In essence, it basically aims to determine whether the non-traditional lenders are providing the most needed end-user housing finance. It looks at the scale and impact so far to determine if or not there is a need to increase the scale. Suffice it to indicate

that not all non-traditional lenders in the Province were surveyed. Only four financial institutions were consulted. Those are the National Housing Finance Corporation (NHFC), the Urban Reconstruction and Housing Agency (Nurcha), Ithala Development Finance Corporation Limited (Ithala) and Agishana Credit Company. The researcher argues that the findings of the study could be generalised to other financial institutions in Kwazulu-Natal, as well as South Africa for the following reasons.

The above financial institutions are drawn from two different categories: the government-initiated (NHFC and Nurcha) and the private sector initiative (Ithala and Agishana). For the fact that they are drawn from two different sectors, they provide the study with divergent views. As such, the forces that underpin their operation are different. It is worth mentioning that all these institutions endeavour to help low income households to acquire loans for housing purposes. Although their clientele or lending strategies differs, they all basically strive to see the end-user getting the housing finance. NHFC and Nurcha aims to mobilise end-user finance. They do not deal specifically with the individual beneficiaries. These two institutions generally deal with lending institutions, developers and contractors, housing institutions and non-governmental organisations. That also, does not warrant the study to compare the performance of the two institutions towards their mandate, but provides a broad base in which the study draws comprehensive conclusions on effectively reaching the poor. Thus their involvement with Ithala offers an added advantage to determine how each succeeds in its set mandate. To that end, the four housing finance institutions justifiably form a convenient and a reasonable broad base from which conclusions on the workings of non-traditional lenders could be drawn. Although the study identified these four institutions for case study purposes, it will not comprehensively deal with all their functions. The focus goes solely on determining how housing finance assistance end up reaching the poor. End-user finance forms the primary focus.

Although the area of housing finance is broadly researched, little information is available on non-traditional lending in South Africa. The study aims to give a broader understanding on how to effectively service the low income housing market. Moreover, the area of housing finance is very broad and relates to many other fields within and outside the realm of housing.

Factors like, amongst others, budget allocation, tenure types, subsidy amount, macro- and micro-economy, market volatility, unemployment, and government regulations have a direct bearing to the availability of housing credit. It is also acknowledged that these factors could have a direct or indirect impact to housing, and also states that the availability of housing finance, in turn has a direct and indirect bearing to those factors. Implied here is that there are many factors that could have an impact in the provision of end-user finance. Therefore, the study will not be focusing on those factors although they may be mentioned in passing from time to time.

Although there are a number of financial institutions that provide housing finance, the study constrains itself to research only the non-traditional lenders on their endeavours to provide the much needed end-user housing finance. It is paramount to indicate that the study took place under a specific period. Therefore, it can not be replicated with the same results for various reasons. For instance, by then the Ithala's Progress Home Loans will be in place and that will change the client base, and the number of people who have acquired finance from these institutions would have increased and some who are employed now could be retrenched, or vice versa.

However, the above mentioned points afford the study an opportunity to make generalisations about the functioning of non-traditional lending institutions in South Africa because they portray a broader picture on how housing end-user finance should be provided.

1.3 Research Question

Is it possible to enhance the role of non-traditional lenders as a strategy to improve the provision of end-user finance to the low-income households?

1.3.1 Subsidiary Questions

- Which lending criteria do non-traditional lenders employ?
- Are non-traditional lenders best suited to provide housing finance to the low-income households?
- Do non-traditional lenders have enough resources to lend to the poor?

- Are mortgage loans appropriate for the poor?
- What else needs to be done to increase the lending scope of non-traditional lenders?

1.4 Hypothesis

The scale at which non-traditional lenders are providing end-user finances to the low-income households needs to be increased.

1.5 Assumptions

- Providing end-user finance to low income households is desirable.
- Non-traditional lenders are best suited to provide housing credit to the low income households.
- There is a need for non-traditional lenders to expand their scope of operation.
- Non-traditional lenders are not the only institutions to provide housing credit.

1.6 Key Concepts

Key concepts of the study are defined in this section. The definitions aim at clarifying meaning of the concepts to readers. In essence, conventional definitions are presented and a working definition for the study is coined and presented. The working definitions are presented because at one stage a concept could be interpreted differently from the intended meanings. Therefore, these definitions are aimed at maintaining similar interpretations. For instance, there is a lack of definitions for concepts like non-traditional lenders in literature. Then, the provision of such definitions easily clarifies meaning.

Non-traditional lenders refer to any lender who is not a traditional retail finance lender/company. This could be big or small institutions. Although they may operate in a formal setting, they do not necessarily operate like Banks, Building Societies, or Loan and Savings Schemes. They are specifically established to address the financial circumstances of the low income earners. In essence they provide short- to medium-term loans at minimal interest rate. They require different forms of security or collateral for the loans awarded. Some of the established non-traditional lenders in South Africa are the Ithala (formerly known as Kwazulu Finance Corporation), Rural Finance Facility, Agishana, Protea Finance, Welisa Finance and

ALT FIN, and the forms of Group Credit Associations, Stokvels and Housing Clubs. There are lending Acts different to those of other financial institutions that govern their lending criteria. For instance, the Usury Act, "places limits on the amount of money a mortgage lender can claim against a borrower, including both the interest and finance charges" (Usury Act, 1968). For the purpose of this study, non-traditional lenders will only refer to institutions that aim to provide bridging finance and end-user housing credit to the low income groups in the form of short- and medium-term loans at minimal interest rates for housing purposes.

End-User Finance: The Longman Dictionary (1978) defines end-user as the person who actually uses a particular product. For the purpose of this study, end-user finance refers to the credit that is or could be made available to the low income households for the purpose of housing. End-user finance is provided in the form of mortgage bond or loan. It could either be for purchasing an existing property or for improvements in the property.

Low Income Households: The South African Banking Council (2000) defines income in four distinct ways. It defines income as a basic monthly salary reflected on the monthly payslip; any permanent non-housing employer allowance; overtime- regular and compulsory- based on performance over the previous twelve month period; and a commission, whether it forms part of the regular monthly income.

A household refers to a "coresident group of persons who share most aspects of consumption, drawing on and allocating a common pool of resources (including labour) to ensure their material production. The National Housing Survey defines household as a person or group whose domestic economy is governed by one single household budget, while Todes (1997) sees it as a unit based on kinship, sharing a common residential site, and engaged in joint decision-making, income pooling and/or labour sharing. van Vliet (1998) argues that household is a research term used to describe all persons who occupy the same housing unit. Low income households therefore will refer to a person or group whose shared domestic income is at least less than R2 500.00 per month. Because "banks generally are not prepared to advance mortgage loans to anyone with a monthly income of less than R2 500.00 per month" (Metro Housing: 1998) due to the risks- perceived and real- associated with low income

earners. A household earning less this amount usually finds it difficult to consolidate on their housing because the money has to be shared among other household necessities such as food, health, transport, school fees, electricity and water bills. In essence, little, if not nothing, is left to engage in consolidation.

1.7 Research Methodology

For the purpose of this study, two sources of data were used; that is primary as well as secondary sources of data.

1.7.1 Secondary Sources of Data

Secondary sources contain relevant literature about the study. They include amongst others, books, dissertations, theses, journals, periodicals, magazines, newspapers, annual reports and electronic data (Internet). Books were accessed from the university library, and some through the inter-library loans. Annual reports were obtained from the respective financial institutions. The reports provide a broad overview on the functioning of the institutions and also provide background information of the two case studies. The Internet provides current information on housing finance matters. Secondary sources were basically consulted to inform the study as regards the nature and scope of non-traditional lending. Secondary sources also highlight the underlying theoretical perspectives of housing finance in general, and non-traditional lending in particular, thus helping in assessing the applicability of non-traditional lending in housing finance provision for the low income households. These sources provided a comprehensive understanding about international and national perspectives on the functions and functioning of non-traditional lenders, thus enabling the researcher to draw conclusions for the study.

1.7.2 Primary Sources of Data

Primary sources of data are categorically drawn from five different groups, i.e., the Government Housing Finance Initiatives, Retail Lenders, Housing Professional and Researchers, developers and beneficiary communities. These categories were chosen because they represent a heritage of various strategies striving to reach the low-income groups. The National Housing Finance Corporation (NHFC) facilitates the activities of the non-traditional lending sector as well as helps to kick-start the setting up of "institutions" which, as

was previously noted, are seen by government as the most significant way to get end-user financing to the poor at scale" (Smit, 1998). To reach its challenge, it "provides wholesale funding to retail banks to increase their low-income loan portfolios" (Adebayo, 1999:10). One of the institutions that it lends to in Kwazulu-Natal is the Ithala Development Finance Corporation Limited (Ithala). Therefore, a path will be established and followed on the flow of finance from the NHFC through its funding programmes to Ithala, which on lends to individual beneficiaries. Nurcha is charged with the task of addressing the backlogs and inequalities of the past by facilitating entry of lending institutions to the low-income market through guarantees. To that effect, it "shares risk in the fields of project finance and end-user finance" (Nurcha, 1999:4). On the other hand, Ithala and Agishana facilitate housing credit by lending directly to beneficiaries. In a nutshell, when viewed as a continuum, at one end of the continuum there is the NHFC lending to housing lenders and institutions, with Nurcha at the middle guaranteeing lending institutions, contractors and developers, and at the other end, Ithala and Agishana dealing with individual beneficiaries.

The study consulted five categories of respondents. This five pronged interviewing approach was used in order to corroborate information that was collected from the sources. The OU Course E811 Study Guide (1988) would term this multi-method approach pentangulation. Gavor (1997:17) and the OU Study Guide (1988) highlight the importance of this approach by indicating that it cross-checks the existence of certain phenomena and the veracity of individual accounts by gathering data from a number of informants and a number of sources and subsequently comparing and contrasting one account with another in order to produce as full and balanced a study as possible. This approach enabled the researcher to gather data from all the stakeholders involved, and it primarily reduced the law of the jungle phenomena: where the monkey protects its jungle. This scenario is critical because all stakeholders were surveyed in order to portray individual views about their functions, and those of others. It basically served to eliminate a situation where one portrays a bright picture of oneself because such pictures are also judged by others. In this case, the beneficiaries were in a better position to judge the lending institutions, than in a situation where the lending institutions simply portray themselves as good. For instance, the way the NHFC works and operates was deduced from

the information Mr Pillay (the NHFC's Niche Market Lenders's General Manager) gave, and from those directly and indirectly involved with the NHFC.

Government Housing Finance Institutions

The first group of respondents consisted of persons drawn from the Government Housing Finance Institutions initiated to mobilise housing finance. Firstly, Mr Morgan Pillay, the General Manager of the Niche Market Lenders: National Housing Finance Corporation, was consulted on behalf of the same institution. He was interviewed because he is a specialist and expert in housing finance. Moreover, by virtue of his position, he is the one who knows the overall functioning of his institution, and over and above that, everyone else reports to him. His experience in lending to the low-income people is invaluable and is informed by past and present experiences. In that light, he was able to throw more light on housing matters pertaining to end-user housing finance.

The questions asked to Mr Pillay were many and varied. The questions were provided to specifically help the researcher in answering the most crucial question, and its subsidiaries, of the study. The nature of the information required was on the following issues: the ability of the institution to reach to the poor; the extent to which the institution has provided credit to the low income people; strategies for reaching the poor; the income profile of beneficiaries; criteria to qualify for a loan; what they recognise as collateral; loan recovery strategies; how they address defaults; their success stories; the problems they encounter; possibility of expanding their scope of lending; Government's influence on lending; and how they mobilise funds and the nature of housing improvements to date. By and large, the responses to these questions helped the researcher to provide meaningful and feasible recommendations at the end of the study.

Secondly, Ms Nohlahla Mjoli-Mncube, the Executive Director and Deputy Chief Executive Officer, and Ms Masabatha Mthwecu, the End-User Finance Manager, were both consulted on behalf of the National Urban Reconstruction and Housing Agency (Nurcha). Both are involved in innovative finance mobilisation strategies, and they oversee the running of the institution and its programmes and everyone else reports to them about the functions of Nurcha. The nature of the information required revolved around the criteria for guaranteeing; how far they have

attracted lending institutions to lend to the low income households; the problems they encounter; government's budget cuts' influence; and their prospective strategies to reach to the poor.

To elicit the necessary information, the researcher conducted face-to-face interviews with the above respondents. Leedy (1986) contends that the direct or personal interview enables the researcher to follow up ideas, probe responses and investigate motives and feelings, which the impersonal postal questionnaire format might not be able to provide. The interviews were conducted in the respondents' institution. A questionnaire was drawn to guide the questions and the questioning. Open-ended questions were asked. Such questions were used because there were no fixed responses provided from which the respondents were to choose from. These questions enabled the respondents an opportunity to elaborate on their answers, and afforded an opportunity to the researcher to probe for more detailed information or for clarity as well. Two interviews were conducted. The second interview was aimed at making follow-ups on questions not clarified or not answered successfully in the first interview, or to probe for more information where the researcher had identified a lack of information on certain concepts or views. The timing between the first and second interview was six weeks. The period gave ample time to the researcher to conduct interviews to the other categories of respondents and to analyse it. The second interview was to fill the information gap on concepts which were not clear.

A tape recorder was used during the interview. Permission to record the interview was sought before the interview commenced. The advantages of using a tape recorder are varied, but it is important to indicate that they 'capture' the interview in such a way that the researcher gets the exact responses without leaving any detail out, and also saves time writing down the responses.

Retail Lenders

The second group of people to be consulted was drawn from Retail Lenders. Mr George Seboya (Marketing Manager- Savings and Loans), Mr Shawn Martin (Manager and Consultant), and Mr C. W. Venter (Divisional Administration Manager) were all consulted on

behalf of Ithala Development Finance Corporation Limited (Ithala). Moreover, Mr Lionel David, the Regional Manager of Agishana Credit Company (Pty) Ltd (ACC) was consulted on behalf of his institution. The four were consulted because, amongst other things, they oversee the running of their divisions and institutions respectively, and every one else reports to them. In essence, they are all in the position to know and give information about the functioning of their institutions. The structure and procedure of the interviews was similar to that of the first group. The only difference is that Mr Martin declined to be recorded as such the researcher recorded all the responses by hand. The nature of the information required revolved around the influence of their relationships with the NHFC and Nurcha; criteria for lending (requirements and eligibility); the extent to which the institutions provide housing credit and how they could expand their functions and lending roles to the lowest strata of the low income earners; their lending criteria; how they address defaults; their successes; the problems they encounter; how they mobilise resources; their support to the poor; and government's influence on their lending.

Housing Professional and Researchers

The third category consisted of researchers and professional persons. Mary R. Tomlinson, General Manager for the South African Banking Council and former Housing Researcher of the Center for Policy Studies, and Prof. Dan Smit, a Development Consultant and former Chief Executive Officer of the Durban Metro Housing were consulted. Both have done intensive research on low income housing finance. Their expertise gave a perspective on the functioning of Non-Traditional Lenders; gave pointers on how they can lend further down the market; their successes and constraints; and the challenges and changes needed in the housing policy. Similar interviewing procedures as on the above categories were followed.

Project Managers

The fourth class consisted of a project manager. Mr L. Botha of Elangeni projects was consulted on behalf of Pioneer Park. He is the one who oversaw the running of the project. Moreover, discussions were held with Build Environment Support Group (BESG) staff at the Tamboville Housing Centre. Mr Sphiwe, Mr Bafana Mbhotheni and Ms G Maphomulo informed the researcher on the activities of BESG as project managers. The researcher considers it appropriate to indicate that he had problems contacting Mr Botha, but a fax interview

eventually sufficed to throw some light about Pioneer Park. The researcher latter learnt that there were problems at Pioneer Park which needed to be addressed at the time but Mr Botha was not available. Therefore, claiming that one can read more to the situation, it becomes apparently clear why Mr Botha did not like to meet the researcher. Maybe he thought the researcher was coming from or representing the Pioneer Park community or any structure in Umlazi.

Beneficiary Communities

The fifth category to be consulted consisted of beneficiary communities. At least two beneficiary communities were consulted (one drawn from Agishana and the other from Ithala). To identify these communities, the researcher had telephoned Ithala and Agishana to establish the projects that they had been involved in with regard to lending end-user finance to the poor households. A comprehensive list of projects was provided. Thereafter, the researcher chose the case studies. Pioneer Park housing project in Umlazi for Ithala and Thembalihle (Glenwood 2) housing project in Pietermaritzburg for Agishana were chosen to serve as the case studies of this study. The two projects were chosen for various reasons. The researcher considered the fact that both the projects are complete in the sense that the physical construction of core houses and the installation of basic services like water, electricity, sewage and roads is completed. Both the projects has in one way or the other linked the beneficiaries to financial institutions to either acquire a house as in Pioneer Park or to increment or improve upon as in Thembalihle. That provided a fertile ground for the researcher to probe for information relating to the way they accessed end-user finance. It is paramount to indicate that the respondents were in the position to provide necessary responses to the questions. Both Agishana and Ithala have lent to a considerable number of households in the projects that they were involved in. Thus the sample was chosen from a large population. Thembalihle consists of 813 housing units and Pioneer Park of 203 housing units and sources from these lending institutions showed that almost half of the communities borrowed from them. These projects differ in geographical locations. The first one is at Umlazi and the other one is at Pietermaritzburg. The mere fact that they are in different metropolises is worth applauding because it broadly gives housing background of two major cities in Kwazulu-Natal, thus giving

a vivid picture of the region's housing credit stance. Furthermore, all these projects fall under the government subsidy scheme.

Systematic simple random sampling was used to gather the sample from the population. The researcher chose a 20 per cent sample from each community. The sample size is considered appropriate because Moser and Kalton (1975:145) argue that a 20 per cent sample is normally considered significant at the 95 per cent confidence level. In essence, it is also considered relatively cheaper and time saving to administer questionnaires to this sample size, and "has minimum sampling errors" (Som, 1973:82). In principle, it is considered safe to generalise to the whole population from this sample because "this quantity represents a characteristic of the population" (Tull & Albaum, 1973:35). Therefore, it presents minimum errors. To that end, a sample of 80 respondents out of 406 Agishana clients was systematically drawn from Thembalihle and 22 respondents out of 118 from Pioneer Park. A systematic simple random sample where each tenth house was interviewed was followed. To draw the sample, the first respondent was randomly selected from the first 10 clients on the list, and then every tenth one on the list corresponding with the first chosen one was included. For instance, in Thembalihle client number six on the list was randomly chosen, and subsequently, clients 16, 26, 36 and so forth, were included. Over and above, a pilot survey was conducted on all areas before the interviews to test the validity and feasibility of the questionnaire. Face-to-face interviews were conducted to the respondents to elicit their responses. The significance of this approach had been outlined above. The questionnaire was drawn in both English and Isizulu to cater for those who can neither read nor answer in English. Services of Research-Assistants were sought to help in cases where there were hurdles in communication because the Researcher is not Zulu and most of the respondents were Zulu speaking.

The beneficiaries were surveyed to enable the researcher to establish the way the poor interact with the non-traditional financial institutions. Basically, the information required from these communities centred on the level of income; the need for credit; how they access credit; the way they are treated by lending institutions; problems they face and their perceptions about housing finance lenders.

1.8 Data Processing and Analysis

All information observed in the field by the researcher and that gathered through interviews and questionnaires was analysed and interpreted. Descriptive and qualitative analysis was used to analyse the data. In essence, the researcher used this analytic tool because most of the responses need to be described. The presentation of the analysis systematically follows the logical arrangements of the questions in the questionnaires. Moreover, the responses from all the respondents was categorised and then analysed together. This means that data about a particular issue, for example, access to end-user housing finance was analysed and discussed together. The data was analysed concurrently to enable the researcher an opportunity to link together similar responses, and to avoid moving back and forth, and confusing responses.

1.10 Conclusion

This chapter highlights the plight of the poor with regard to housing finance. It acknowledges that the provision of end-user housing finance is one hurdle that faces the South African Government, the Housing Departments, non-governmental and community based organisations, housing policy makers and planners, housing finance institutions, and the poor themselves. In essence, there is a clear sign of shortage of housing credit to the majority of the low-income earners. The study describes the functioning of Housing Financial Institutions- both traditional and non-traditional. It shows their mode of operation. It also tries to put forward some innovative strategies of providing end-user finance. This could be traced to the Botshabelo Accord in 1994 where the Government committed itself to normalising the lending environment. The intentions of the study are also well articulated.

CHAPTER 2

HOUSING FINANCE AND DELIVERY

Housing demand and supply is one of the critical challenges that face governments. However hard the governments try to provide shelter, the challenges still persist. There is always an unmet housing demand that governments have to address. The demand may be due to, amongst others, an increase in population through natural growth or/and migration, change in life style, unpleasant condition of buildings due to age of buildings or lack of maintenance, fire, and natural disasters like flood, earthquake or hurricane. Nurcha (1998) reveals that the urban housing backlog is estimated by the Department of Housing to be 1.92 million units. It further estimates that the country's housing need is growing by 200 000 units a year. The demand for housing generally, and housing credit in particular, is the concern for this study because most of the people in dire need of housing are the poor. Yet the poor have little resources, or nothing, to provide housing for themselves. Moreover, those who have means to house themselves are denied access to housing finance. The SABC (2000) describes South Africa's housing market segments into four categories. The first segment is comprised of formally employed moderate to high income earners who have a regular income of more than R3 500.00. The second segment consists of formally employed low income earners who have a regular income of about R800.00 – R3 500.00. The third is comprised of informally employed low income earners with an irregular income of about R800.00 – R3 500.00. The last but not least and most important category is comprised of low or no income people who earn less than R800.00. The last three categories are the ones who need more assistance, in a descending order, to access housing credit and they form the cornerstone of this study.

In countries like South Africa, the poor are subsidised to afford shelter. Regardless of the state subsidy, the kind of shelter provided is too small and of low quality and thus needs to be extended and improved upon. To improve and afford decent housing, low-income people need some sort of financial assistance. Credit to the poor households is difficult to access. The

X

⇒ End here

3 start here

pressing problem that comes first is that although South Africa has well-developed financial institutions, these financial institutions are not reaching the poor. These institutions, like many others of the world, have some criteria for lending which the poor can not meet, thus excluding them from receiving assistance.

The functioning of these traditional lenders leaves much to be desired as far as lending to the poor is concerned. Mjekula (1998:19) maintains that banks will actively pursue all opportunities to lend profitably: they require a mixture of a reliable cash flow, enforceable contracts and security. Therefore, it implies that they will continue to cater for the higher and middle-upper income earners, at the expense of the middle-lower and the low income people. For instance, Ithala Nawe (2000:11) reports that of the 1 000 000 low cost houses built or under construction since 1994, only 14% were funded with Government subsidies together with credit from banks. Due to this realisation that the poor are not adequately catered for in the traditional lending institutions, the concept of non-traditional lenders was developed. Non-traditional lenders were established to bridge or close the wide gap that traditional lenders have created. They are primarily designed to provide housing finance to the poor because they have appropriate lending strategies that are designed according to the circumstances of the poor. For example, an alternative form of collateral is provided for people who do not have collateral. These strategies will be discussed in this chapter, but it is appropriate to indicate at this point that one of such strategies is to encourage borrowers to form groups in order to access housing finance.

Govender (1997) argues that at the root of the strategy to mobilise housing credit is the fact that the access by the poor to housing credit has been limited for a range of reasons beyond affordability. Phenomena such as 'red-lining' (which has since 1994 been addressed by the Mortgage Indemnity Fund) and discrimination, as well as poorly designed credit instruments, and a lack of a consumer propensity to save, are understood as factors limiting the access of the poor to finance.

The study deems it appropriate to briefly portray the basic ideas behind the Mortgage Indemnity Fund as a tool to bridge the housing finance gap in housing provision. The basic

24
stop - moved
sub 2.
start 61

stop

motives for setting up the MIF were to "encourage mortgage lenders to resume lending activities at scale in the affordable housing market in a sustainable manner in neglected areas in the country" (Sigcau, 1997:30-31). Its key functions are, amongst others, "assessing areas specific risk factors in the housing environment and providing cover to accredited financial institutions willing to lend at scale in areas deemed ready for and in need of such cover; supporting payment normalisation programmes implemented by Servcon and accredited financial institutions in the interest of restoring a mutually beneficial relationship between borrowers and financiers; and gathering relevant information on Mortgage Indemnity Fund risk areas with the aim of devising remedial mechanisms" (Mortgage Indemnity Fund Annual Review, 1996). This approach needs to be commended because Sigcau (1996) established in his study about the Mortgage Indemnity Scheme that banks have re-entered areas that they considered risky, and have begun to lend in areas in which they were not lending before its inception. Furthermore, he also found that the MIF has been able to effectively manage its risk exposure and in the process it has managed to gear up investment of private sector money to the value of R7 billion in the covered areas.

The study acknowledges that the government has taken conscious action to unblock the logjams, which impede the flow of finance to the low-income market. Creative initiatives have been developed and new institutions and instruments have been developed since 1994 to date, to specifically cater for this market. The 1994 Botshabelo Accord's Record of Understanding (RoU) and the 1998 New Deal that replaced it are examples in point. The realisation on the ground is that regardless of these endeavours the low-income people still face problems in accessing the finance required to address their housing needs. The focus of the study is primarily on exploring the extent to which the non-traditional lenders are providing housing credit for the poor, and on how they can reach further down the market. The essence of the study lies in assessing whether these institutions are really lending to the target group, and how they are mobilising the necessary credit for housing. Basically it aims to reveal, amongst others, the mechanisms employed in lending and the constraints faced in reaching the poor. This will serve as a pointer to the viability and sustainability of non-traditional lenders in South Africa.

This chapter strives to review literature related to the provision of end-user finance and on the working of non-traditional lenders. It will discuss the approaches to housing delivery that the Housing White Paper has adopted. Thereafter, it will briefly explain the role of non-traditional lenders as well as try to outline their sources for finance. Furthermore, it will explore the circumstances of the poor and comprehensively depict the criteria for lending they employ. These criteria centre on the issuing of loans without collateral, the size of the loan, repayment period and capacity, interest rates as well as the process of loan recovery.

2.1 The Housing Delivery System

This section aims to show the position that the government takes on the housing delivery process. The South African Government's approach to housing delivery centers on promoting a variety of delivery approaches. Elements of these approaches are observed at one stage or another. For instance, at one stage it acts as a provider and on the other just as a supporter of the housing process. Turner, the pioneer of the liberal approach, reinforces the supporter paradigm by maintaining that "housing should be seen as a verb rather than a noun" (Turner, 1978). He emphasises that housing the nation should be seen as a process. He argues that the government should recognise and encourage the poor's potential to build their own housing. That resulted in the adoption of housing policies that recognise site-and-services scheme and slum upgrading in the 1980's. The fact that housing comes with the provision of other related and basic infrastructure and services like water, sewage treatment, electrification, transport, health care, and employment creation also reinforce this view. The basic principle of the provider approach is that housing should focus on improving the environment as well as services. Burgess on the other hand views housing as a noun- the end product. He considers the physical structure (core house without services) that is provided as housing. This implies that housing should be seen as a commodity. The supporter paradigm maintains that housing should be provided in consultation with the beneficiary communities. Virtually, communities should also be involved in the housing process. The way the Homeless People's Federation engages beneficiary communities in South Africa is a good example which is admirable and commendable. While on the other hand, the provider paradigm sees the state as the sole provider of housing. Interest and emphasis are solely put on the end-products. Both these stands have a direct bearing on the rate and quality of the housing delivered. This section

aims to highlight the three (3) housing delivery modes that the current South African housing policy outlines. A brief critique of the three approaches will be provided; thereafter, relationships will be established between the delivery systems and the context in which the non-traditional lenders approach features, even indicating how this approach will cater for the current housing demand.

2.1.1 The Socialist Approach

This approach may also be referred to as the welfare approach. McGurie (1993) and Madonda (1998) indicate that the socialist approach regards housing as a social right and the state should take a primary responsibility on the provision of housing. McGuire (1993) further argues that this approach is adopted by countries such as the Union of Soviet Socialist Republics where housing expenses take only a small portion of individual income and the rest in the responsibility of the government. The South African Housing White Paper (1994) considers housing as a social good. It regards housing as an amenity that each and every citizen should have. The underlying reasons for the welfare approach came after the South African government had realised the enormous size of the housing backlog and the desperation and impatience of the homeless. Therefore, "housing delivery is fundamentally a transformative process" (Metro Housing: 1999). It has to empower beneficiaries and also advance social and economic development. The social housing policy has specific type of people that it targets. For instance, the targeting is based on some assessment of need rather than on the ability to pay. However, the targeting could be through selective or comprehensive housing policy. McGurie (1993) and Madonda (1998) assert that selective housing policy will target selected/special group rather than the entire housing sector within the country. On the other hand, the comprehensive housing policy is non-discriminatory and is targeted to all citizens. In the South African context, the target group is all people who earn below R3 500.00 per annum as of 1994. The rand value has not changed from 1994 till to date. The underlying reasons for the subsidy amount was to reach as many people as possible, as opposed to giving a bigger subsidy to just few citizens. Therefore, "the challenge facing South Africa in housing is to develop a strategy in the short term to direct scarce and insufficient state housing and other resources together with private, non-state resources, to ensure that all those in need

(and particularly the poorest sector of society) are able to progress towards the realisation of an effective right in housing" (HWP: 1994).

It could be observed on the ground that the majority of the low-income people are unhoused and cannot afford to provide shelter for themselves. Therefore the state has to assist them in that regard. To that effect, a delivery target to build one million houses in five years was set and has given the housing drive a focus. It translates to at least 200 000 new households annually. The paralysing effect of being obsessed with delivery target has resulted in the undermining effect on the quality of housing produced: the quantity versus quality scenario. Focus was more on delivering to the required annual rate. Most of the housing projects that have been completed so far had come under constant criticism even from the department of housing minister, Sankie Mthembu-Mahanyele, who reproached them as "toilets on the veld" (Bond and Tait: 1997), or as is portrayed in the Nurcha's Annual Report (1999:9) that many "RDP houses" are little better than "unpainted bus shelter".

The utmost problem relating to these types of products is determined to a larger extent by the amount of subsidy received. The type of subsidy received by beneficiaries is a one-off capital grant. The subsidy amount is graded according to the income of the beneficiary. The table below illustrates how subsidy is graded.

Table 2.1 Housing subsidy scheme

INCOME LEVEL PER MONTH	SUBSIDY AMOUNT
Less than R 1 500.00	R15 000.00
R1 501.00 – R2 500.00	R9 500.00
R2 501.00 – R3 500.00	R5 000.00

Source: Housing White Paper (1996)

The table below is a revised version of the subsidy scheme as of now.

Table 2.2 Revised housing subsidy scheme

INCOME LEVEL PER MONTH	SUBSIDY AMOUNT
R0.00 - R1 500.00	R16 000.00
R1 501.00 - R2 500.00	R 9 500.00
R2 501.00 - R3 500.00	R 5 000.00

Source: Government Tender Bulletin (1999)

Presently, "the government grants each successful beneficiary R16 000. 00 for housing purposes, although some may get up to R18 250. 00 for geotechnical, topographical or locational reasons" (Government Tender Bulletin, 1999). This added money is earmarked at covering costs that may be incurred when "working" the surface due to the unsuitability of the area. Kwazulu-Natal's landscape is characterised by steep slopes which are considered unfavourable for housing, let alone low-cost housing.

An important point to make is that the subsidy has failed dismally because it fails to keep pace with inflation over the years. Smit (1998) highlights the problem of insufficiency of subsidy as almost half of the subsidy is spent on services and the acquisition of land, while the other R7 500 goes to the top structure. The Financial Mail (1996) explains that because there is not enough money, the incremental core housing approach has been transformed into rudimentary (one-room) structures as the starting point. In essence, developers and builders argue that when using conventional methods, the remaining R7 500.00 is at least enough to provide single-room or double-roomed housing. These core houses are too small and the resultant environment leaves much to be desired for. While on the other hand the government's aim for the provision of such small houses was that people would either go to the market to seek financial assistance, or improve through the help of friends or relatives. This position is opposed by the circumstances of the poor on the ground in the sense that some households find it hard to augment cash for consolidation purposes. Therefore, it is safe to claim that one important problem of this stand in the housing policy is that it is impossible for the market approach to meet demand.

2.1.2 The Market Approach

Capitalist app

This approach may also be referred to as the capitalist approach. Housing provision in the market approach is shaped according to the free-market model. The government maintains a minimal role in assisting the housing sector. The role of the government is to make sure that the housing market functions smoothly. In this regard, housing is regarded as a commodity, similar to furniture, clothes, sweets and motor cars. Virtually, to acquire decent housing, one should have to contribute financially. Therefore, there should be a concordant action by the government, the private sector, and non-governmental organisations in housing provision. The government must enable the other sectors to play their deserving and meaningful roles unhindered in the provision of housing. This position is identified as one of the principles of the Housing White Paper: enabling the market to work. It aims at a 'people centered' type of development which calls for the collaborative participation of the private sector, NGO's and communities to the provision of housing. For instance, the poor people should also contribute in one way or the other to their housing. "Stemming from an economic basis of development it is said that development must be seen as being 'people centred' through encouraging initiatives from communities and reducing dependence on subsidies" (De Waal, 1999). In essence, the government does not see itself as having the sole responsibility to provide housing, but just as a player who is part of a broader plan. The Housing White Paper aims to link housing to the financial market. "Essentially, the strategy adopted is a market-based, state facilitated housing process. Basically, housing should be provided through regulative financial and facilitative interventions" (Rust and Rubenstein: 1996). This is evidenced by the attempt in the housing policy in the 1980's to establish a market based housing approach with little or no government intervention, and cemented by initiatives after 1994 to establish housing financial institutions like the Mortgage Indemnity Fund (MIF), Servcon, and the National Housing Finance Corporation, and the incremental mass housing delivery option the policy took. With regards to the mass housing delivery, the subsidies are provided to all low-income earners so that they access housing, and they have to incrementally improve upon their housing conditions. To achieve that, they need to have financial assistance. But a contradiction arises in a situation where the government needs the market to work, directly opposed by high rates of unemployment. The current state of income levels are: "26.6 percent of households earn less than R600 per month, 26.3 percent earn between R600 and R1 500 and 29.1 percent

between R1 500 and R3 500. Those who earn from R3 500 upwards are 22.9 percent" (White, 1994; De Waal, 1999). Essentially, the affordability of low-income households is low. Therefore, people must earn enough money in order to participate in the market and to afford decent housing. The aim is primarily one of integrating the low-income households into the formal financial market rather than segmenting them as they are now. The National Housing Finance Cooperation (NHFC) and National Urban Reconstruction Agency's (Nurcha) activities are earmarked to achieve that.

2.1.3 The Integrated Approach

Support App 2,2,2. state intervention
Enabling App

This approach may also be referred to as the support approach. The integrated paradigm strives to eclectically strike a balance between the market approach and the socialist approach. Like wise, the housing policy tries to strike a balance between economic perspectives and the socialist perspectives. This is after the realisation that both the approaches have merits and demerits on the housing delivery process. For instance, “from the socialist approach/theory, while the government views housing as being a ‘social right’ and has to be a responsibility of the government, the government cannot manage to combat the housing problem on its own” (Madonda: 1998). The Housing White Paper (HWP) recognises its inability to provide housing to all the needy households. The HWP (1994) argues that the relatively high proportion of poor households and budgetary constraints do not allow sufficient subsidy money per household to enable the construction, at state expense, of a minimum standard complete house for each household not able to afford such a house. It therefore means that the individual consumers of housing will still have to make some contributions to enable the government to solve the housing problem. On the other hand “the capitalist approach points to a free-market model which takes care of the housing problem, but the market is enabled to function efficiently and effectively with the assistance of the government in leveling the playing field for the market to run smoothly” (Madonda: 1998). Strategies to stabilise and normalise the housing environment by institutions and tools like the Servcon Housing Solutions and the Mortgage Indemnity Fund, as well as the guaranteeing activities by institutions like the National Urban Reconstruction and Housing Agency and the Home Loans Guarantee Company is a positive step in attracting lenders and constructors to greatly engage themselves with low-income housing.

The housing subsidy seems to be failing to provide an adequate and decent shelter to the low income people. The Financial Mail (1996) indicates that a large proportion of the subsidy is spent on the land and servicing of a site, with very little residual money left to build a top structure. The most obvious problem relating to the economic approach is that the market is depressed. “A key challenge of housing policy then is to design policy which on the one hand enables markets to work, but at the same time allows for the delivery of substantial but

affordable subsidies...the problem is that subsidies tend to distort housing markets and to squeeze out private sector operations" (Smit: 1998).

The study argue that a situation where the government is seen as the sole provider should be closely monitored to avoid tendencies of showing favour to governmental institutions, thereby ignoring the private sector. This stance, complemented by the understanding that most of the local government personnel lack the skill and expertise to deliver housing tends to undermine the position where the government should be regarded as a provider. A balance could only be attained by principles of "good governance": where there is an observable public-private sector and non-governmental organisation partnership. Turner (1976) and Govender (1998) maintain that the potential for the mobilisation of funds for housing are great and admirable, and goes further than what meets the eyes. In essence, low income groups can obtain the greatest benefit because not only will this entitle them to improve upon their housing but they can learn building skills and eventually become their own contractors through their participation in the housing projects.

The stand taken by the Housing White Paper is that of the integrated approach: that the government should provide housing to a certain extent, and from there, the market and the individual consumers of housing should provide housing. It therefore implies that even the low-income households should be included in the housing market. However, the hard realisation is that although there are strong and well-developed financial institutions, the poor are hardly catered for. The formal financial institutions create barriers to the poor; they always require collateral, which the poor do not have. Moreover, "borrowers are also required to have regular sources of income, preferably formal employment; to demonstrate that present annual income is either not less than a third of the price for dwelling or that not more than one quarter of income will be devoted to mortgage repayments; and to raise substantial deposits" (UNCHS: 1994). Like wise, the Makhulong Home Loans maintains that borrower's "installments to gross income ratio must be less than or equals to 25% of households income is R3 500 or less, and 27% if higher than R3 500.00" (Gateway, 2000). It further requires its borrowers "to provide collateral for 30 percent of the loan and the loan guarantor assumes 70 percent of the risk" (Housing Southern Africa, 1999:21a). On the other hand, the formal financial institutions

consider it risky to lend to the poor. They also consider it expensive for them to administer many small loans than few bigger loans.

2.2 The Role of Non-Traditional Lenders

Non-traditional lenders are primarily instituted to provide housing credit to that sector of the community that is ignored or disregarded by the traditional lenders: the poor households. These institutions are not only established to provide end-user finance to the low-income households, but also to prove that the poor are creditworthy. The credit is aimed at improving the living conditions of the poor. In essence, the study aims to ascertain that credit could be provided to the poor through non-traditional institutions. To reach the goal, non-traditional lenders employ certain criteria, which is different to the traditional lenders. In contrast to the traditional lenders, with regards to security, home loans are provided without collateral and initial down payments, while on the other hand the loan repayment and loan recovery records are excellent. The subsequent sections attempt to prove that it is safe to lend to the poor, especially if effective procedures between the banks and the poor for transactions can be established. But it is of paramount importance to firstly show the sources of non-traditional finance.

2.3 Sources of Finance for Non-Traditional Lenders

This section endeavours to show the sources of finance for non-traditional lenders. Although some of the sources might be similar to the traditional ones, but it is important to highlight and briefly discuss them in this study. Acknowledging the route NTRL's uses to acquire their finance enables the study to pinpoint and/or anticipate the challenges that they face when raising finance.

The study identifies six (6) main sources of finance. These are personal savings, mandatory savings scheme (pension and provident funds), secondary markets, government budgetary allocations, private institutions, cooperatives and donors, and retail funds. In some instances, pension funds are used directly for housing finance. Some institutions take the form of mortgage banks that raise long-term funds from secondary markets and institutional investors like insurance or pension fund companies. For this to be effective there must be a good

working relationship between such institutions and non-traditional lenders because pension funds and insurance companies hold a broad base of people's savings. Tomlinson (1997) maintains that mortgage lending backed by a pension or provident fund is also intended to help the low-income consumer by reducing or removing the deposit normally required by a financial institution and replacing it with other collateral guarantees. It is claimed that domestic savings in developing countries form an important source of housing finance. Loanees should be encouraged to make savings towards their housing. Companies can also serve as a substantial source of finance. Basically, a sound relationship between companies and non-traditional lenders is desirable. This approach is broadly called employer housing. In this situation, an employer can guarantee for the loan by pension, provident or retrenchment benefits to provide for the guarantee for the down payment. Hendler (1999) indicates that all 52 companies surveyed by the National Housing Finance Corporation had provident funds that provided collateral for housing loans. The merits and demerits related to such falls outside the scope of this study. But it is safe to infer that companies are in a position to provide credit for housing purposes.

Government also plays a crucial role in providing finance for non-traditional lenders. Government gets money from tax revenues, loan redemption and interest earnings on loans, as well as local and foreign credit and makes it available for housing among other purposes. This forms a big base of non-traditional lenders in most cases. It is essential to indicate at this stage that due to economic depressions and recessions, governments have limited their allocations for housing purposes. This has greatly impaired the functioning and the nature of the non-traditional institutions. Because of limited resources, many institutions respond by increasing various borrowing charges, avoiding long-term lending and giving preference to the most creditworthy" (UNCHS; 1994:5), thus ignoring the poor whose needs are to be addressed. Non-traditional institutions could also raise resources by 'floating a paper' in capital markets. Smit (1998) claims that these debentures should be offered at a competitive and low interest rate than the prevailing rates. This exercise could have a far-reaching effect because the institution is guaranteed about its long-term sources. The subsequent section will reveal the principles that underlie the functioning of non-traditional lenders. Various strategies that non-traditional lenders use will be discussed. The section will also show how the non-

traditional lenders use their funds, and explore the effect of these funds. It will also indicate how non-traditional lenders are best suited to provide housing credit to the low income groups. The strategies employed are highlighted in the following section.

2.4 Circumstances of the Poor

Most non-traditional lending institutions are mostly concerned with changing the circumstances of the poor as compared to other housing finance institutions. Their functioning is guided by the circumstances in which the poor find themselves at. They specifically aim to uplift the socio-economic status of the poor. Their lending criteria, as it will be shown below, make this point obvious. The security of loans, loan sizes, interest rates and the repayment period is favourable to the circumstances of the poor. Their lending criteria take into cognisance the inability of the poor to obtain and maintain larger loans. Alternative strategies to provide collateral are employed when lending. The income level of borrowers is the highest guiding principle to the amount of loan that an individual is entitled to get. Basically small loans from R3 000.00, payable after two years, to medium term loans from R20 000.00 to R38 000.00 payable up to fifteen years are provided. The Makhulong Home Loans and Gateway Home Loans, both sister companies of the National Housing Finance Corporation, and King Finance, ALTFIN, Agishana Credit Company and Protea Finance are amongst the institutions that strive to provide small to medium term loans in South Africa. They are designed to create and cater for a secondary market. To that end, the Makhulong even provides a loan of a minimum of R5 000 00. Above all, it creates a lending environment that enhances a relationship that is aimed at cost sharing. The lenders and borrowers are equally involved. Groups and cooperatives maintain order and discipline amongst members and that has a far-reaching effect in that it encourages commitment and limits default. The bank also 'goes to the people'. UNCHS (1994) claims that institutions that are able to extend financial services to the neighbourhood level, usually via mobile banking facilities but also through networks, can quite often make a significant impact on resource mobilisation. As observed in the Grameen Bank, these mobile networks reduce the casualties that illiterate poor people face when visiting financial institutions, thus removing any barrier that the poor could face or perceive when going to formal financial institutions. Agishana Credit Company (ACC) is amongst the few financial institutions in South Africa that takes services to the people. Hossain (1989) reveals that most

members of the target group are illiterate and are shy about coming to banks. Suffice it to mention that when services are brought to the people, their sense of self-esteem is enhanced. Quigley (1997) claims that any barriers to obtaining credit, particularly mortgage credit, would clearly inhibit the ability of the poor to escape or improve poor neighbourhoods.

2.5 Criteria for Lending to the Low Income Earners

Non-traditional lenders employ certain lending strategies that are not used by traditional lenders. This section will indicate the criteria that non-traditional institutions employ to reach their target. It is essential to indicate at this point that this section is sub-divided into various topics. The sub-division is meant to enhance the discussion but not to show isolation of the topics. At some stage it is difficult to discuss one topic without touching the other because of their relationships. Comparisons with the traditional institutions will always be provided, and be used as a yardstick to display the differences between the two. In this regard, international experiences will be drawn to make meaningful contribution to the South Africa's attempt to provide housing credit to the poor.

2.5.1 Non-Collateral Loans

Most low-income people are barred from receiving assistance from traditional financial institutions because of lack of collateral. Renaud (1984) considers collateral as any form of conventional marketable assets. It could be land or any property. Problems arise because most of the poor do not have any collateral whatsoever, and for those who have, when they fail to maintain their loans, their property is repossessed. Non-traditional lenders aim to address the problem of access to housing finance credit by providing loans to low income people without collateral. The Grameen Bank experience is a successful case in point that proves "that credit could be extended without collateral" (Hossain: 1988). Reinke (1998:558) points out that the Small Enterprise Foundation (SEF), a private non-profit organisation located at Tzaneen, Northern Province, has successfully provided loans to the unsecured loan market in South Africa by encouraging borrowers to borrow as groups. The Utshani Fund, a subsidiary of the Homeless People's Federation also employs the group credit strategy. The study will highlight some of the strategies that are employed to lend without collateral.

Individuals could be afforded a loan even though they do not have collateral. UNCHS (1992) indicates that the Housing Development Finance Cooperation (HDFC) of India regarded the security of the loan as the first mortgage of the property to be financed, normally by way of deposit of title deeds. Group formation could act as collateral for a loan. The Grameen Bank acts as a good model to clone from as regards lending to the poor without collateral. Borrowers are requested to form groups of five or six people to access credit. In essence, to get an individual loan, a person should be in a group. The advantages that accrue from group formation are numerous. Hossain (1988) maintains that the existence of the group thus acts as the collateral for the bank loan. Reinke (1998:45) clarifies that the paradigm of group credit is associated with concepts such as social collateral, peer selection, supervision and pressure. The group is thus held responsible for the default of its members. Another factor that encourages the accountability of the group is the fact that the group receives successive loans, which also serves as an inducement for continuity. Under these conditions, members of the group monitor each other and assist those in trouble where necessary. It also "gives individuals a measure of personal security and confidence to take risks and launch new initiatives" (UNCHS, 1992). The basic and necessary benefits that accrue to the lending institutions are high repayment rates boosted by the solidarity and 'connectedness' of borrowers.

GB

It is worth mentioning that even this kind of approach could have its drawbacks. A case where members of the group die could have far reaching consequences to the remaining members. For such cases, borrowers are encouraged to save a little amount that could cover such hardships.

Another strategy that non-traditional lenders use to secure guarantee of loans is cooperative mortgage loans. Advantages associated with this strategy are that the lender does not need to scrutinize circumstances of individual borrowers, thus reducing administrative costs. This principle has been applied by the National Cooperative Housing Union (NACHU) of Kenya. UNCHS (1994) indicates that provision is made for each defaulting borrower to authorise his cooperative to take possession of his dwelling and collect rent until arrears are settled. Each borrower is expected to furnish three guarantors and to authorise the housing cooperative, via

power of the attorney, to recover outstanding loan repayments" (UNCHS, 1994). In this case, the cooperative could 'temporarily' repossess the dwelling of a member in default. The influence of peer pressure in this regard need not be underemphasised. Members, like in groups, monitor and assist where necessary.

Community mortgage is another efficient strategy to guarantee a loan. In this regard, a recognised community leader or local official has to testify about the income of the community and community members. The community act as a guarantee for the loan because it was realised that "asking borrowers for proof of income, such as a salary slip or income tax return, excluded many urban poor from securing shelter" (UNCHS. 1992:105). Moreover, incidences of default are minimal when the whole community is involved. In this case, the loan is then paid to the community rather than the individuals. The community can then make arrangements for repayments. This was successfully practiced by the Sinag in Phillippines under the Community Mortgage Programme, an arm of the National Home Mortgage Finance Cooperation (NHMFC). In this case, it is the responsibility of the community to avert defaults by individual members or families.

Employer housing cooperative could also be regarded as one system to secure housing credit. "Ever since the 1980's an increasing number of companies have implemented schemes to assist their employees to buy housing" (Housing Southern Africa, 1998:11). In a survey done by Hendler (1999:11) on the National Housing Finance Corporation, it was found that 27 percent of the 52 surveyed companies in South Africa are offering their employees the housing assistance. GEC, Impala, Fedics, Mercedes Benz, Nissan, Edgars, VW and Resonite are amongst those companies. Such housing schemes include direct company micro loans, company benefit/grant, company bond interest subsidy, company accommodation allowance, payroll deduction, retirement fund guarantee and direct loans, as well as company guarantees for deposits for mortgage bonds and micro loans from financial institutions. Basically, the guarantee for the loan is made against employee's retirement fund and other benefits. In this case, the funds "enables the employees who lack collateral to secure the funds that they can afford, and need in order to buy an appropriately sized house" (Housing Southern Africa, 1998). The companies allow for payroll deductions from their employees by the lender.

Incidents of defaults are minimal in this regard. But in cases where the employee loses his/her job due to fraud, retrenchments or accidents, defaults in repayments are anticipated. However, in cases of default, the lender claims the balance from the employer, thus the borrower stands to lose on his provident or pension fund. A perfect model is that of the Tanzania Housing Bank. Renaud (1984) indicates that upon receiving a mortgage loan, a cooperative member was expected to authorise a monthly payroll deduction paid directly by his/her employer to the Tanzania Housing Bank.

Last but not least, and equally important is the union guarantee. Unions can act as collateral for housing loans for its members. The contributions by union members are essential in the sense that they can be used as a link between the union and other financial institutions. Unibank in South Africa has now taken conscious actions to try and provide housing loans to union members. "Eligible applicants have to be employed members of trade unions (preferably COSATU affiliates)" (Housing Southern Africa, 1999:11b).

One can infer from the above discussions that although the move is to provide housing finance to the employed, self-employed and unemployed, much still needs to be done to address the last two categories: the self-employed and unemployed.

2.5.2 Loan Sizes

This sub-section explores the loan packages that are provided by non-traditional lenders to the poor. Loans for housing purposes are supposed to be bigger because of the cost of the house. In essence, moderate loans are appropriate to the circumstances of the poor. This position stems from the understanding that "low-income households have low and/or irregular incomes and are often, quite understandably, unwilling to take out loans, even at high subsidised interest rates, because they may not be able to pay the monthly loan repayments" (Smit, 1998). To that end, Tomlinson (1995:5) argues that small loans are more appropriate to the circumstances of the poor. She further argues that the loans may be small but they are generally appropriate to meet the needs of the poor because they are affordable and large enough to increase the household's purchasing power. In this regard, non-traditional lenders provide small to medium loan packages that the poor could manage to repay in a reasonable

time. The packages are within the individuals' capacity to pay, and are graded according to number of loans received, purpose, sex and educational status of the borrower. "Illiterate members received about 25 per cent less than those with secondary or higher education" (Hossain: 1988). Moreover, women are favoured to men: there is a bias to women. He also asserts that the Grameen Bank has set Tk 5, 000 as the maximum amount that can be approved for an individual loan at 16 percent a year interest rate. UNCHS (1994) indicates that for the National Cooperative Housing Union (NACHU), each cooperative member is entitled to a maximum loan of Ksh 85, 000 (\$US 3 436 00).

2.5.3 Repayment Period and Repayment Capacity

This section focuses on one important aspect as relates to the sustainability of finance institutions and their lending programmes or capacity. It focuses on the capacity of borrowers to pay back the money lent, and the effect of the repayment period on borrowers and lenders. The study asserts that where repayments are always up-to-date, the sustainability of the institution is certainly guaranteed. UNCHS (1994) argues that loan repayment should not exceed two-thirds of the member's income. Most countries' housing policies equally holds this position. The underlying reason for this condition is that if borrowers are given larger loans that they can not afford to repay, it will consequently lead to defaults. Non-traditional lenders provide smaller loans which are payable in a period from one year to at least ten years. To allow flexibility in repayment, repayment period could be on weekly basis or monthly basis. In this regard households are able to repay the loans with ease. There are strategies that encourage borrowers to repay their loans. For instance, the structure of loans is that if a group repays in full on time it moves up a scale and has access to larger loans" (Thomas, 1995:18). Therefore, group members will encourage each other to repay the loan in order to qualify for another loan. Moreover, since repeat loans are essentially bigger than first loans it thus encourages people to quickly repay the first loan in order to qualify for a bigger loan. Over and above, repeat loans are necessary because the loans provided are too small and inadequate to pay for a decent shelter.

Non-traditional lenders have carefully studied the problems that lead to non-payments or poor payments, and tried to improve on them to suit the poor. They observed that the amount to be

repaid has a determining effect on repayments. If the amount is too high, chances of default also become high. Thus they draw the loan repayment strategies to suit the poor. They also observed that "poor repayment records in most cases are the result of weak administrative organisation; lack of personal contact between the lending institutions and the borrowers; and the problems of enforcement (foreclosure)" (UNCHS; 1984:41). Non-traditional lenders are complimented for bringing services to the beneficiaries' doorstep. UNCHS (1994:29) indicates that in Botswana, ward offices of the Low Cost Housing Company (a coalition of the Cooperation for Research, Development and Education, Botswana Christian Council, Botswana Housing Corporations and Rural Industries Innovation Centre) were located within easy reach of communities to receive loan repayment.

2.5.4 Loan Recovery

This section specifically looks at the element of loan recovery. Loan recovery is regarded as one strong point of the non-traditional lenders. The impact of arranging borrowers into groups and cooperatives to act as a guarantee for the loan has been acknowledged as one of the strong lending criterion of Non-Traditional Lenders. "The recovery of loans is ensured by tight supervision of loan utilisation by the bank staff and by mutual responsibility in the group and the center" (Hossain: 1989). In this regard, peer pressure on groups and cooperatives ensures a satisfactory recovery of loans. An account in arrears is quickly identified because of the repayment methods. Loan recovery strategies of Non-Traditional Lenders have so far proved to be successful and impressive. For instance, "CABS has managed to perform to high standards in loan recovery with only about 5 percent of its account in arrears" (UNCHS, 1994:77) and Hossain (1989) indicates that the Grameen Bank record shows that only 0.5 percent of the amount of the loans was overdue beyond one year after issue of the loans to sample borrowers, and the amount unpaid in overdue weekly installments (before the end of the year) was only 3.3 percent of the amount borrowed. Reinke (1997:535) reports that the Small Enterprise Foundation's (SEF) book is also impressive and is often referred to as one of the more successful lenders in the unsecured loan market in South Africa.

One problem that financial institutions face is the inability to repossess a property on default. Most financial institutions fail dismally in this respect. When borrowers fail to repay the loan,

these financial institutions also fail to act appropriately to recover the loan. Jørgensen (1975) asserts that the eviction process in case of default...becomes an emotional and subjective affair, which involves several, sometimes conflicting traditions and the attention if not the active participation of the whole immediate community. In essence, financial institutions can not repossess property because of some political and associated cultural reasons. For instance, communities could 'stand in the way' of a bank when it wants to repossess. The establishment of the Mortgage Indemnity Fund (MIF) was meant to address this problem by trying "to indemnify accredited financial institutions against loss where they are unable to repossess bonded property due to the breakdown in due process of law as well as becoming an interface between government, private sector housing institutions and communities with an abnormal risk and in need of housing finance" (Mortgage Indemnity Fund Annual Review, 1996).

Non-traditional lenders display innovative strategies in this regard by affording groups or cooperatives the opportunity to repossess a dwelling of a defaulter to collect rent in order to meet arrears. In case of the Self-Help Housing Agency's (SHHA), councils could seek permission from courts to foreclose in order to recover arrears. When communities are involved, cases of default and repossessing are minimised.

2.5.5 *Interest Rates*

Smith and Spudeck (1993:14) argue that interest is the price paid for the use of money for some time period. This indicates that it is reasonably accepted to pay interest on money borrowed. But interest rates should be charged taking into cognisance the level of income of the borrower. Essentially, one advantage about non-traditional lenders' borrowing is the fact that they charge reasonable interest rates as compared to the crippling ones offered by traditional financial institutions and moneylenders. Interest rates become a critical factor as far as lending to the poor is concerned. Low-income people fall out of favour of traditional lending institutions because they offer bigger loans which are repayable over a longer period and charge inconsistent interest rates. Perhaps an inquisitive question could be asked about the tendency by low income people to borrow from moneylenders who demand high interest rates and are also deemed exploitative. The answer lies on the fact that "they offer low transaction costs" (Reinke, 1998). Non-traditional lenders seek to provide a solution between the usurious

moneylenders and the traditional lenders. They try to make interest rates to loans affordable to low-income groups who have limited and unsteady income. de Ridder in Stout (1998:18) illustrates that what is needed is a simple, fixed rate and medium-term loan with some form of guarantee for the lender. Conventionally, in most countries, housing interest rates are charged just above the market interest rates. These accompanied by the observation that interest rate has also come down drastically. The Sunday Times (2000:24) reports that interest rate was 25,5% in 1988, but has dropped to 14.5% in 2000. Therefore, this state of affairs make non-traditional lending the best option of providing money for building purposes to the poor.

There are different kinds of interest rates and they operate differently. There are fixed, variable, compounded and graduated interest rates. It is possible to combine one or two of these interest rates. Basically, most lending institutions prefer fixed and variable interest rates. "The variable, fixed repayment option means borrowers' repayments remain fixed but as interest rates fluctuates the repayment term changes accordingly" (Housing Southern Africa; 1999:21b). In India, the Housing Development Fund Corporation introduced a repayment plan where the loan installment steps up every few years" (UNCHS, 1992:58). This option serves the low-income earners well because it takes into account their income levels in the sense that it takes into account that their income will increase over years, thus significantly reducing the repayment period over time.

Theiler (1989:72) indicates that the Grameen Bank charged sixteen (16) per cent interest, and was payable at the end of one year. Over and above that, a housing loan has only five (5) per cent simple interest per year" (UNCHS, 1992:12). It offers a bigger advantage to the poorest of the poor when lending interest rates are differentiated to take account of the income of the borrowers. This system is employed in Zimbabwe by the CABS where the government offers to pay for the difference.

2.5.6 **Contact with Beneficiary Communities**

The biggest advantage of the Non-Traditional Lenders lies in their philosophy and ability to reach even the remotest communities. In case of the Grameen Bank, "staff walk or pedal to the borrowers, not vice versa" (Theiler, 1989:69) to conduct business operations with their

clientele. This approach is recommended for breaking the perceived barrier that may arise when an illiterate and poor person visits a bank. In this regard, the staff has an opportunity to network and also educate borrowers about the consequences of non-payment. The resultant relationship that may arise could have a far-reaching impact on the success of the business..

2.6 Benefits that Accrue from Non-Traditional Lenders

The study argues that there are many benefits that accrue to the low-income households once they receive financial assistance from non-traditional lenders. Pearse (1997) indicates that the benefits could be either short to medium, or long term in nature. She points out that in the short to medium term, access to end-user finance is important for improving the rate at which a household is able to make quality improvements. The long term significance of a bankable incremental approach is to ensure that household investments in the first round of spending can be realised through the establishment of secondary markets. The most conspicuous and obvious is that the poor will have access to a decent shelter. A decent shelter in itself helps to build confidence, a sense of ownership (the pride of belonging), and a sense of permanency. Moreover, provision of housing finance helps to promote economic development of households, in the sense that housing can be regarded as a source of income through subletting and other ways. In broad terms housing could impact positively on developing construction or building skills, community empowerment, job creation, and some form of income generation as identified above. More than providing shelter, some benefits lie solely on the mobilisation of domestic savings. In the long run, the poor could be linked to financial institutions. That could serve as collateral for further loans. Although the study acknowledges and commends the initiatives of the Makhulong Home Loans and other financial institutions in providing end-user finance, it however condemns their approach because they only cater for people who earn from R1 000 00 to R6 000 00 per month, thus leaving the poorest in the "cold".

2.7 Problems Related to Non-Traditional Lending

It was hinted in the above discussion that non-traditional lenders often encounter problem relating to the inability to repossess a property when borrowers default on their loans. Therefore, in case of defaults, there is no collateral that can be attached, thus, the loan

becomes a bad debt. Although the cases of defaults are at minimal, it may limit these financial institutions' endeavours to actively lend to this income group. Over and above that, non-traditional lenders offer small loans as compared to the value of the house. For the loans to have a desired and significant impact on the household's endeavour to increment, more of these loans are required. These small loans are extended over a short period. In most cases, "the loan is given for one year" (UNCHS, 1994:29), but it sometimes occur that repayments are extend over two years. UNCHS (1994) further indicates that in cases where interest rates are determined administratively by governments, financial institutions cannot adjust quickly to rapid inflation and are, therefore, not able to offer positive real rates of interest to depositors. Renaud (1989, 33) shows that there is a big discrepancy with regards to high housing finance cost burdens, complex loan terms, short repayment time and high down payments in absolute terms when considering the circumstances of the poor.

With regards to group lending, a group bears the responsibility of their group members if he/she leaves the group. This is a burden to the remaining members of the group because they have limited financial resources. Moreover, a needy and trustworthy member of a group has limited chances to obtain a repeat loan once the group fails to repay due to defaults by some members because the group is held liable for the defaults.

2.8 Conclusion

This chapter looked at the three different but dependent modes of housing delivery followed by the South African Government. It further proved that it is possible to extend housing credit to the poor who do not have collateral. In trying to show how the poor could be catered for, it took successful cases internationally and also showed how it was applied in South Africa as in the case of the Small Enterprise Foundation (SEF). The strategies that are employed to lend to the poor and the benefits that accrue as well as problems were also identified. It is safe to conclude from the above discussions that non-traditional lenders have an important role to play, and given the necessary support they can close the gap between the have's and the have nots in terms of access to housing finance.

Recow

CHAPTER 3

HISTORICAL BACKGROUND OF THE INSTITUTIONS

3.1. Background History of the NHFC, NURCHA, Ithala and Agishana

This chapter seeks to provide a background history of the four financial institutions that are of special focus to this study. The institutions are the National Housing Finance Corporation (NHFC), the National Urban Reconstruction and Housing Agency (NURCHA), Ithala Development Finance Corporation Limited (Ithala) and Agishana Credit Company (ACC). It is essential to indicate from the onset that the study is concerned much about their key missions and objectives, their sources of funds, and their programmes towards the provision of end-user finance, rather than their other general businesses.

This section outlines the missions that the four financial institutions set out to accomplish. It is paramount to indicate that it is against their outlined missions that the study aims to gauge the functioning of these institutions, and to gauge their commitment to alleviate, and of course, possibly eradicate housing shortage and backlog through their strategies of providing end-user finance to the poor households.

3.2 The National Housing Finance Corporation

"The NHFC was established as one of the five national development finance intermediaries in April 1996 because the government realised that the availability of credit for housing purposes from the conventional banking sector was too restricted and that there were mechanisms in existence or that could be created through which access to housing credit could be expanded" (NHFC, 1999:1). It was set up as a public company, wholly owned by the government. It basically operates under specific exemptions from the Banks and Insurance Acts. It aims at mobilising wholesale finance in the financial markets for the housing sector. The wholesale finance is provided to retail banks so that they expand their lending capacity and reach further the housing market. "Moreover an important part of the NHFC's brief is to facilitate the activities of the non-traditional lending sector (e.g stokvels, agencies making small non-bond loans etc) as well as to help kick-start the setting up of "institutions" which, as was previously

noted, were seen by government as the most significant way to get end-user financing to the poor at scale" (Smit, 1998).

3.2.1 Key Missions

The National Housing Finance Corporation aims to create housing opportunities for low and moderate income families by making available suitable housing credit for the low and moderate income households. To reach its target, the NHFC strives to ensure the development and appropriate funding of institutions providing affordable housing finance at the retail level. That could be achieved through sustained and growing mobilisation of savings into the housing sector through its intermediaries. In that regard, it envisages, as a first five year plan, "the flow of finance via appropriate intermediaries to 600 000 households totalling R5.3 billion in a financially responsible manner, and funding to the value of approximately R2 billion for approximately 100 000 housing units, through appropriate institutions in the market for tenure alternative to individual freehold title. To that end, the NHFC allocate funds through four funding programmes and a subsidiary institution to promote broader access to housing, specifically in the areas of debt finance, equity finance and capacity building. The foci of these programmes are briefly highlighted below under its key lending activities and lending criteria section.

3.2.2 Sources of Funds

Peculiar to all institutions with regard to sources of finance is that they receive a certain amount from the government, and they also generate money through their activities as it raises money in the financial market as a wholesale financier. "It mobilise funds by 'floating' paper in the capital markets" (Smit, 1998:10). In the whole, Tomlinson (1999) indicates that the NHFC received commitments by the South African government of approximately R1.2 billion as start up finance and another R100 million was raised from 24 investors through a convertible debenture issue and a funding line of approximately R150 million for rural housing finance initiatives secured by the German government for its lending activities

3.2.3 *Nature of Clientele*

All these institutions strive to make available housing credit for low-income households. It is essential to indicate at this juncture that the exclusive client of all these institutions are primarily the people who earn below R2 500.00 per month. Those who find it difficult to borrow additional 'end-user' finance to augment the state subsidy grant. It is also equally important to indicate that the strategies employed by these institutions to reach their target groups vary, although all intended to impact on the poor. The National Housing Finance Corporation chooses to deal with institutions that either on lend the poor or use the loans for development purposes that has a direct bearing to the poor. Essentially, its lending activities are two pronged. It actually operates through the housing lenders like the Rural Housing Loan Fund (RHLF), the Niche Market Lenders (NML), Housing Equity Fund (HEF), Gateway Home Loans, which further on lends to beneficiaries, and secondly to housing institutions.

3.2.4 *Key Lending Activities and the Lending Criteria*

It had already been outlined that the NHFC actively undertakes "the funding of specialised lenders (most of whom are not banks), which provide innovative housing finance to clients who are not deemed sufficiently credit-worthy by conventional banks" (NHFC, 1999a). To successfully reach its target, it identifies two types of clientele to do business with: the housing lenders and the housing institutions. The former category consists of retail lenders, credit providers, provincial development corporations and small banks, while the latter category is comprised of organisations which develop, own and manage housing units and could be considered eligible for funding. These housing units should be under other forms of tenure like rental, rent-to-own, or installment sale other than owner-occupation. NHFC (1999a) indicates that the NHFC follows normal commercial practice like assessing the financial standing, track record and management capacity of the potential borrower when evaluating the credibility of a lender. In case of a housing institution, the technical and financial feasibility and viability of the housing project in question are considered. To that end, the NHFC's involvement with its clientele has been progressively impressive. It indicates that it has increased the total number of client base from 18 to 33, and disbursements increased by R85 million or 25 percent to R443 million on a quarterly basis, and by R185 million or 72 percent on an annual basis" (Housing Agenda, 1999:1). Some of its clients in Kwazulu-Natal are Ithala, Lendco (Pty) Ltd

some banks

results

and the Home Build Finance (a sister company to Bonus Build). The NHFC's lending programmes are briefly discussed below.

The Niche Market Lenders (NML) is the main debt funding programme of the NHFC which is targeted at housing institutions, non-bank lenders and small banks. "The NML Programme is the only on-balance-sheet debt-funding programme for providers of housing loans" (NHFC Annual Report, 1999: 10). Basically, it provides scale debt funding to lenders in the low income housing market that have proved the capacity to manage a housing loan book and work within the NHFC's mandate. The National Housing Code (1998:1A47) maintains that this programme fulfills the policy intentions of government to provide specific support for the development and expansion of the non-traditional, micro and niche market lending sector. It basically has three products: loan facilities; risk sharing; and credit guarantees. The services provided to end-users of Niche Market Lenders range from small mortgages, to provident fund guarantees as well as unsecured loans.

The Housing Equity Fund (HEF) is registered as a section 21 Company. The HEF aims to encourage private sector investment in the building of lending capacity. It is targeted at new and emerging housing institutions, provincial development corporations and non-bank lenders by providing both debt and equity finance so that these institutions sustainably provide housing finance to the low-income market. The programme strives to provide equity funding for start up, guarantees and technical assistance to new and emerging lenders so that they can easily access scale debt financing either through the NML and/or private sources. The primary foci of the fund are, amongst others:

- "to explore and experiment with new funding mechanisms on a pilot basis that could have scale impact on the delivery of affordable housing;
- to capacitate and empower lenders from previously disadvantaged groups to enter the housing lending industry;
- to attract the private sector to fully participate in joint venture and in special projects on a partnership basis;
- to increase alternative lending capacity to people presently not yet able to access

conventional mortgage finance from regular banks" (Housing Equity Fund, 1998).

The HEF is managed by the NML because they both have similar clients.

Rural Housing Loan Fund (RHLF) specifically focuses on providing loans more especially to low income rural household market to improve their housing. It is targeted at all types of financial institutions like small banks, non-bank lenders, housing institutions, and broadly encompassing the social housing institutions that operate in the rural areas. RHLF primarily "aims to expand the lending capacity of retail lending institutions currently servicing the rural market by identifying new lending products or markets and alternative lending opportunities" (Urban Sector Network, 1996:7). To reach its target, the RHLF "provides funding and technical assistance to lenders to further enhance their distribution and networks in rural areas as well as providing assistance in the piloting of new loan products" (National Housing Code, 1998:1A48). It also supports the development of lending schemes, which primarily aim to assist rural dwellers as well as farm workers to access services and bulk infrastructure in rural areas.

The Housing Institutions Development Fund (HIDF) aims to promote the establishment of innovative and sustainable institutional capacity in the housing sector by "providing working capital finance for institutional start-up housing institutions, providing project finance for the first project until it is sustainable" (Housing Southern Africa, 1998). The NHFC's Annual Report (1999:13) states that the HIDF is mandated to establish viable social housing institutions that will be in a position to deliver on scale over the long term. It aims to groom capacity and institutional development, so that once the institutions has established capacity through the assistance of the HIDF, it can then apply to the NML for further debt financing. The HIDF works closely with the Social Housing Foundation (SHF), which is strategically intended to capacitate new housing institutions in the stages of planning, applying for funding and establishment with the aim of increasing the flow of funding applications to the HIDF. In essence, the HIDF provides both operational funding and project finance for institutions that have a stable risk profile and is an off-balance sheet fund. These funds are on more favourable and suitable terms.

Last but not least, and equally important, is the Social Housing Foundation (SHF) which was launched in 1997. The programme was conceived primarily to develop expertise and delivery mechanisms in the social housing market so that these housing institutions can access funding. "The SHF's mission is to promote, support and assist the integrated process of sustainable social housing in social housing in South Africa" (National Housing Code, 1998:1A49). The four main functions of the SHF are summed in the national housing code as:

- the provision of training, advice and technical support to established and emerging social housing institutions;
- the development of policy for social housing in South Africa, and undertaking research into local and international experience in social housing;
- the facilitation of an international networking and support programme; and,
- interaction with donor organisations both nationally and internationally, raising the profile of social housing in South Africa, to benefit the industry's funding environment.

Gateway Home Loans (Pty) Ltd (GHL) was established and endorsed as a Presidential Job Summit in 1998 as a direct result of Project Gateway, and later launched in April 1999 as a pilot project. GHL is a subsidiary of the NHFC which aims to establish an effective secondary home loan market through Makhulong Home Loans (MHL). It aims at providing sustainable housing finance at scale for the purchase of houses by people in the low and moderate income bands, using existing intermediaries. The GHL (2000) indicates that the gap is of great concern because almost 30% of the South African population (2.5million) fall into this affordability band. Basically, GHL "aims to develop a secondary market process that will ultimately securitise standardised housing loans for this band"(NHFC, 1999:9). The Makhulong Home Loans have three characteristics that differentiate them from other loans. That relates much to repayment through payroll deductions, using 50% of retirement funds, rather than the value of the house as guarantees from other loans, and that it is aimed solely for the purchase of a house as is paid only on transfer and/or completion of the house.

The National Housing Code (1998) assets that Gateway is mandated to address the gap in the housing loan market by addressing the needs for loan products within the R10 000.00 – R50 000.00 range after the realisation that there is an observable gap where mortgage loans are

not widely available for loan sizes smaller than R50 000.00, and the micro loan industry only provides loans up to R10 000.00. Thus far, Housing Southern Africa (1999c) indicates that Gateway is targeted to deliver 10 000 housing units by March 2000. Loans are made available to formally employed workers because repayments are made by payroll deductions, and that financial collateral such as provident fund guarantees be provided for at least 50 % of the loan size. Smit (1998) indicates that the loans are to be provided at fixed interest rates over a five- to ten year period (i.e. medium term loans), and in all cases will be linked to the transfer of a property into an end-user name. The later is primarily aimed at ascertaining that the money is used solely for housing. In this case, an accredited primary market lender (PML) assesses the credit worthiness of the client and concludes a loan which will be bought by the NHFC at the time of disbursement (which is at transfer). Some of these PML's are the Standard Bank, Nedcor, People's Bank, Affordable Housing Company, Unibank, Alternative Finance and King Finance. Thus, in short, the accredited lender packages mortgage loans for the NHFC to buy.

All these institutions offer a variety and range of complimentary products for end-users for residential purposes with an intentional bias to the under-, or un-serviced segments of the housing market. For instance, the NML intentionally deals with established retail lenders, the HEF with start up institutions, while the RHLF biasly caters for rural communities.

3.2.5 *Treatment of Defaults and/or Non-payment*

The NHFC has an upper hand against defaults because it mainly deals with institutions. Taking into cognisance the fact that for a loan to be issued by these institutions, the borrower is scrutinised against very strict assessment criteria, and has to comply with the NHFC's Statements of Sound Practice. This approach has an ability to lower the rates of default by retail lenders.

3.3 The National Urban Reconstruction and Housing Agency

Nurcha was established in May 1995 as a Presidential Lead Project. It operates as a tax-exempt Section 21 company. Nurcha (1999) reports that it is primarily earmarked as a facilitator of housing for low-income groups and charged with the task of addressing the backlogs and inequalities of the past. It primarily aims to share the financial risk with other role

players by guaranteeing loans by commercial banks and other lenders in assisting developers and contractors, as well as individual beneficiaries. It is sponsored by, amongst others, Swedish International Development Organisation, USAID, The Norwegian Agency for Development and the South African Government. It is expected to have a life-span of five to ten years.

3.3.1 **key Missions**

The National Urban Reconstruction and Housing Agency aims to “clear the financial obstacles that prevent the sustained provision of affordable housing to lower-income families” (Nurcha, 1999: 3) by sharing risk in the fields of project finance and end-user finance with lenders and also through sharing its knowledge, experience and expertise with the borrower. To achieve that target, Nurcha (1999) has set itself five strategic goals:

- to facilitate low-income housing development by guaranteeing loans made by commercial banks;
- to focus on the housing needs of families earning less than R1 500.00 per month;
- to promote small and medium enterprises in housing and development;
- to strengthen the capacity of institutions involved in low-income housing delivery; and
- to assist in the development of a housing market that meet the needs of all South Africans.

Equally important to mention in the underlying operations of Nurcha is that it does not:

- “lend money to individuals for buying or building houses;
- lend money to developers or contractors;
- give subsidies for housing development;
- help individuals get loans for building or buying houses; or
- invest in housing development companies” (Nurcha, 1999d).

Central to Nurcha's core business is the creation and management of guarantee products that unlock housing-related funding. The foci lie on bridging finance guarantees, end-user finance and innovative lending schemes. “Nurcha provides up to 70 % bridging finance guarantees for developers and contractors to cover the cost of development prior to subsidies being paid, end

user guarantees to assist people earning less than R1 500.00 per month to access loan finance in approved projects, and capacity building grants to communities for community development processes" (National Housing Code, 1998:1A51). In case of end-user finance, which is the central focus of this study, Nurcha shares the risk by providing a guarantee to financial institutions that acts as an incentive for them to lend to income groups who can afford to repay small housing loans but find it impossible to access home loans to top up their subsidy due to lending institutions' criteria. The end-user guarantees are for loans as well as rental units. "These guarantees are linked to small loans taken out by low income families to 'top-up' a housing subsidy and buy a better house" (Nurcha, 1999). Basically, a guarantee indemnifies the housing institutions for a specific period against losses resulting from non-payment of rent. Nurcha guarantees up to 45% of the risk involved in end-user finance loans. Essential in the guaranteeing process is that financial institutions should share some proportion of the risk on the loans. The accredited institutions are evaluated according to their ability to service the loans. It is crucial to mention that although the study highlighted all of Nurcha's focus areas, end-user finance is at the centre of this study.

3.3.2 *Sources of Funds*

Nurcha has a broad base of finance for its functions. Its working capital was R270 million. "It basically receives a lot of its funds from the Government, to the value of R25 million, as well as the Open Society Institute (OSI) of New York, to the value of R31.8 million in guarantee capacity" (Nurcha, 1999:16). Other sources include, amongst others, "the Future Growth Fund of Southern Life (R20 million), another R20 million from the Swedish International Development Co-operation Agency (SIDA), the Norwegian Agency for Development Co-operation (NORAD) to the value of R9.9 million, the United States Agency for International Development (USAID) puts R4.5 million and another R3.8 million through the Inner City Housing Trust (ICHUT), R2.17 million from Themban International Guarantee Fund (TIGF), and R440 000 from the Rockefeller Foundation of New York." (Nurcha, 1999:16). These contributions are further "invested in short-term money market instruments or in bank letters of credit in order to provide the necessary backing for its guarantees" (Nurcha, 2000: 9). "Nurcha's total assets at the end of February 1999 consisted of cash and investments to the tune of R148 million" (Tomlinson, 1999).

3.3.3 Nature of Clientele

In its endeavours to extend housing credit to the poor households, Nurcha acts as a guarantor to both housing finance and housing institutions. Essentially, it does not directly deal with the individual beneficiaries per se, but it actually directs its development facilitation grants predominantly towards contractors, community based structures and NGO's working with community structures or government structures and private developers. Basically, Nurcha issues guarantees to lenders financing individual borrowers, as well as emerging and established contractors and developers.

3.3.4 Key Lending Activities and the Lending Criteria

Nurcha guarantees lending institutions to do business with housing institutions and to lend to the poor. It had already been indicated that Nurcha's loan guarantee is broad and three pronged, but the focus for this study is solely on the end-user finance product. In most cases, Nurcha provides a guarantee of 50 percent, which is equally met with 50 percent from lenders. But in some cases, "a 40 percent guarantee over a five year period is envisaged in support of a new generation of installment-based credit products which will act as stepping stones to housing acquisition" (Nurcha, 1999a).

The guarantee is deliberately offered to housing finance and housing institutions to probably induce them to extend credit activities more especially to those who do not meet the banks lending criteria, but who can actually afford to repay small housing loans. Such institutions are, amongst others, Abahlali, Agishana, Seven Buildings, HAEL, King Finance, Yumaka Homes cc., Homes for South Africa (Pty) Ltd, Bhambayi Housing and established banks like ABSA, African Bank, Brait, and Standard Bank. It is essential to indicate some of the projects and the housing units that are provided so that they can act as parameters of measuring its general commitment to housing delivery. Some of the completed projects are, amongst others: Richmond Farm Development in Ntuzuma (1 000 units), Zondela Development Project in Ulundi (832 units), Pioneer Park in Umlazi Lot 533 (167 units), Cato Crest Greenfield North in Cato Crest (330 units), and Beester Camp Phase I and II in Inanda (1 000 units respectively). The Pioneer Park (Ithala's project) and Beester Camp Phase I (Nurcha's project) are the projects that are at the center of this study.

"Rental and savings linked credit are of particular interest to Nurcha" (Nurcha, 1999a). Nurcha (1999:11) also points that its prime endeavour is to release small home loans to families with an income of below R2 000.00 per month, where the loan is secured by neither the value of the property, nor through the pension or provident fund of the borrower. Although Nurcha's home loan guarantees focus on households earning below R2 000.00 per month, the strategy is not meant to exclude lower income families who do not fall into this income category, who also cannot access home loans without the guarantee intervention. Nurcha (1999:9) indicates that in the financial year 1998/1999, it issued guarantees to lenders financing 18 emerging contractors loans and 27 loans to established contractors, with the primary purposes of constructing 16 177 homes. Another feature which is envisaged and is currently under consideration is the establishment of credit-worthiness of its clients by introducing the notion of saving, which will also minimise the risk the institutions taken by lending to this market.

3.3.5 *Treatment of Defaults and/or Non-payment*

Nurcha does not lend loans, but only offers guarantees. In that regard, it means that it has an upper hand against defaults because it mainly deals with institutions. Taking into cognisance the fact that for a loan or guarantee to be issued by these institutions, the borrower is scrutinised against very strict assessment criteria, thus lowering the rates of default. But incidences where the lending institution or guaranteed project runs at a loss is anticipated, and that, in one way or the other, could affect Nurcha's credibility. For instance, possible cases of default could be due to the inefficiency of the new contractors, but is also lessened by the fact that "the borrower must pay a deposit valued at least 10 percent of the loan value" (Nurcha, 1999e), and it does the lending institutions also share the risk because Nurcha does not guarantee 100% of either the loan.

3.4 **The Ithala Development Finance Corporation Limited**

Ithala is a not-for-profit financial institution. It boasts a history of changing names behind it and is the oldest of them all. The institution was established by the state in 1959 as a quasi non-governmental organisation and was known as the Bantu Investment Corporation (BIC) solely "to be responsible for the development of all black areas in the Republic of South Africa" (Ithala, 1999). In 1968, there were amendments in the legislation governing the BIC to enable

the establishment of regional development corporations for each of the various "homelands" and in the due course the Kwazulu Development Corporation Limited (KDC) was established for the development of the black areas in Kwazulu/Natal, by means of proclamation R73 of 1978" (Ithala, 1999). The BIC's name was amended to the Corporation for Economic Development Limited (CED) in 1977, which was further changed to the Kwazulu Finance and Investment Corporation Limited (KFC) in 1984. Its shareholding was transferred to the Kwazulu Government, and had the right to raise finance on the capital market. Ithala (1999) claims that the KFC embarked on a process of transformation from 1994, with the objective of effectively satisfying the changing economic development needs of the people of Kwazulu-Natal. It is indicated that the transformation process culminated in the promulgation of the Kwazulu-Natal Ithala Development Finance Corporation Act No. 2 of 1999, on March 1999. From that date, the corporation became known as the Ithala Development Finance Corporation Limited, which is abbreviated to Ithala. Although the institution changed names in the process, that had no bearing to do with changing of its mandate: to meet the financial needs and assist blacks in development related projects (which inclusively include housing) by providing finance.

3.4.1 ***key Missions***

Ithala broadly aims "to significantly contribute to the socio-economic empowerment of people of Kwazulu-Natal" (Ithala, 1999). Phillips (1999) indicates that Ithala operates across the spectrum of development in Kwazulu-Natal, including entrepreneurial development, the creation of employment, funding of business and agri-business enterprises, the provision of factory space, commercial shopping centres and tourism facilities, fostering of personal wealth through savings, and provision of housing. To that end, Ithala aims to, amongst others; "mobilise, financial resources and to provide financial and supportive services to the people of Kwazulu-Natal; plan, execute and monitor the implementation of development projects and programmes in the province; promote, encourage and facilitate private sector investment in the province and the participation of the private sector and community organisations in development projects and programmes and in contributing to economic growth and development; and act as the Government's agent for performing any development-related tasks and responsibilities that the government considers may be more efficiently or effectively performed by a corporate entity" (Ithala, 1999: 1).

The study concentrates on operations that are particular to housing finance, more especially end-user housing finance. The institution's obligation in providing end-user finance is witnessed in its financial commitment. Phillips (1999) shows that Ithala budgeted R221.2 million to provide clients, particularly in the low-income sector, with affordable home loans, home improvement loans and cash loans to meet the target of assisting 5 000 housing clients throughout Kwazulu-Natal in 1999/2000. Whereas in 1998, the institution granted 2 454 new home loans to the value of R126 million. Ithala boasts that it aims at "banking the unbankable" in an effort to impact on housing delivery at the lowest end of the market. A unique product in the market – "Ithala Progress Home Loans – is geared to bring into mainstream of the housing market people who currently fall outside traditional banking securities" (Phillips, 1999b). Ithala (1999) indicates that in 1999 alone, almost R222 million has been earmarked for home and home improvement loans, primarily for needy low-income earners. It is claimed that Ithala fills an important niche market by providing interest-bearing saving facilities even for rural communities which are not serviced by commercial banking sector.

3.4.2 Sources of Funds

Ithala depends greatly on three sources of funds. Most of its revenue is generated through its savings scheme and on the capital market. It also receives much of its operational finance from the provincial government.

3.4.3 Nature of Clientele

Ithala lends directly to beneficiaries. In some instances, developers can also approach the institution on behalf of communities for home loans. For instance, the Elangeni Projects acted on behalf of the Pioneer Park residents, which form one of our case studies, to access home loans.

3.4.4 Key Lending Activities and the Lending Criteria

Ithala acknowledges delivery of housing as a provincial priority. It strives to provide home loan finance to the needy, low-income households. It also acknowledges that this sector of the market is not generally targeted by the private sector lending institutions. To that end, Ithala has decisively shown conscious actions to provide housing finance to the poor. Ithala

(1999:19) shows that during the 1998/99 financial year, it paid out new home loans to 2 454 people to a total value of R126 million, just 3 percent above the budgeted value. Moreover, it also indicates that the total debtor's balance grew from R729.7 million to R818.0 million, reflecting growth of 12.1 percent over the previous year. Over and above that, Ithala Nawe (2000:10) shows that an amount of R226 million from the companies R430,4 million had been earmarked for utilisation within its housing portfolio to provide bond finance, home improvements and cash loans, especially in low-income sector of the housing market. To that end, it set itself a target to assist 5 000 home-owners with their accommodation needs.

Ithala (1999d) indicates Ithala's commitment to servicing the high demand within the low-income housing market by advancing home loans to the average of R50 000.00 each. These loans are categorically packaged into home ownership loans, home improvement loans, personal loans, and bond saver. To positively contribute to the poor's housing, affordable "loans to a maximum of R15 000.00 and a minimum of R1 000.00, extended over a period of up to 60 months, form the basis of the new loan finance scheme" (Phillips, 1999). This enables even the poor to participate in the housing market. These loans are secured against the borrowers' pension and/or provident fund contributions. Moreover, borrowers are also encouraged to save in the institution. Saving provides many advantages to both borrowers and lenders. Some of those are related to minimising the risk exposure, and thus empowering and housing them. Easy access for borrowers even in the remotest areas of Kwazulu-Natal is effectively addressed by the 39 branches province-wide. Phillips (1999b) indicates that from the 39 branches, 13 of them are in rural areas, representing 218 480 clients, and another 16, with a combined client base of 441 060 are located in small towns in rural areas, while only 10 branches, representing 195 412 clients, are in metro areas. Therefore, Ithala is commendable for not just reaching many rural poor people, but for also taking services to them.

3.4.5 Treatment of Defaults and/or non-payment

Ithala and Agishana are more exposed to defaults than the other institutions because they deal with individual borrowers. They both enjoy loan guarantees offered by Nurcha and the HLGC. In case of Ithala, the impact of default is further minimised by the fact that borrowers are encouraged to save, "the loans are secured against the borrower's pension and/or provident

fund, and borrowers are assisted to get a life insurance so that in the event of death, the loan will be automatically repaid" (Ithala, 1999f). It is further minimised by the guarantee offered by Nurcha.

3.5 Agishana Credit Company (Pty) Ltd

Agishana Credit Company (Pty) Ltd (ACC) is a branch of the Great North Credit Company (Pty) Ltd (GNCC). The GNCC's head offices are in the Northern Province where it started its operations. It also has offices in the Western Cape. GNCC started its lending operations about eight years ago in the Northern Province, then diversifying to the Western Cape. Agishana started operating in Kwazulu-Natal at the beginning of this year. Its Kwazulu-Natal regional offices are situated in Pietermaritzburg. The study can not provide a broader background information because little information is available about Agishana.

3.5.1 Sources of Funds

Agishana receives most of its operational funds from the European Union and the Open Society Institute of New York.

3.5.2 Key Missions

Agishana strives to make housing loans available to people who are considered risky by other lenders. They provide housing finance to the poorest people who would like to own houses but find it difficult to access such funds from banks. They aim to create housing opportunities where they should not exist by designing and providing loan products that suit the circumstances of the poor people. They employ reasonable criteria and also offers their home loans at affordable interest rates.

3.5.3 Nature of Clientele

All of its clients are people who fall and qualify for the government's subsidy grants: those earning below R1 500.00. It also lends to group developers. Most recently, Agishana started lending biasly to housing projects rather than individual beneficiaries.

3.5.4 Key Lending Activities and the Lending Criteria

Agishana prides itself on providing end-user finance to the poorest. It offers housing loans to help poor people build a house, extend on their starter houses, or add other housing components like fences. The size of loans lent varies from project to project, but ranges from R1 000.00 to about R15 000.00. The size of the loan depends largely on the requirements of the borrower, the type of house and the affordability level of the borrower. Agishana is circumspect in their lending activities. They ensure that the money lent is exclusively used for housing. They have a close working relationship with BESG and building suppliers. BESG acts as a go-between in the sense that it provides borrowers with estimates and building materials billings so that the borrower knows the kind of building materials they will need as well as how much it will cost. Both the building materials supplier and home/own builder are paid on verification of materials delivered and/or completion of a house.

3.5.5 Treatment of Defaults and/or Non-payment

Agishana prides itself by having an invaluable experience on lending successfully to the housing market that is considered risky by the other lending entities. It uses a home visit system as its cash collection strategy, the one successfully employed by the Grameen Bank in Bangladesh and Small Enterprise Foundation (SEF) in the Northern Province. This strategy is complimented for its ability to establish healthy relationship and build trust with individual borrowers and for taking services to the poor. Over and above, it ensures that the client receives their statements in hand. Field workers conduct door-to-door visits where they deliver statements, give advice and collect repayments at the clients' home. Their computer system helps them to check who is behind in terms of repayments. Moreover, there is a guarantee extended by Nurcha and the HLGCC on loans extended to the poor. Agishana relies heavily in project-based lending and networking with borrowers as a strategy to collect cash repayments. It is paramount to indicate that defaults are not only a direct result of the inability to repay loans. Both Agishana and Ithala have a guarantee support from Nurcha so that they can claim against non-performing loans on Nurcha guaranteed home loans.

3.6 The Lending Set-up

To portray this lending setup more clearly. It would be better to view the lending activity as a path, where at one end of the continuum there is the NHFC funding intermediary housing lenders and institutions, with Nurcha at the middle guaranteeing these intermediary lenders as well as developers and other housing institutions, and at the other end, Ithala and Agishana lending directly to individual beneficiaries. This illustration only aims to demonstrate the way these institutions impact on the overall setup of housing credit provision, rather than to isolate the working of one institution from the other.

3.7 Conclusion

This section attempted to highlight the similarities and differences of operations among the non-traditional lending institutions. The attempt was not to present a comparative study analysis, but to clearly bring a comprehensive understanding on the functioning of these institutions. A full understanding of these institutions will be reached in the subsequent chapter which specifically looks at particular projects that they have undertaken.

CHAPTER 4

CASE STUDIES, FINDINGS AND ANALYSIS

4.1 Introduction

The study explores the housing delivery strategy stipulated by the Housing White Paper: that housing should also be provided through the market. It explores strategies employed by housing finance institutions to provide end-user finance to the poor and the resultant impact of such strategies. This is done for the sole purpose of determining how these institutions are improving on the availability and accessibility of credit for housing purposes by the poor people, and to find ways to extend their scope if they are found to be lacking in that regard.

Two housing projects were chosen as case studies to determine the access to end-user finance by the poor households: Thembalihle (Glenwood 2) Housing Project for Agishana Credit Company and Pioneer Park Housing Project for Ithala Development Finance Corporation. Greater details of these projects will be provided in the subsequent sub-sections. Moreover, findings of the research study will be provided and analysed. The findings are informed by the surveys that were carried out on the five categories of respondents. These categories are clearly spelt out in the methodology section in chapter one.

4.1 Case Studies

This sub-section seeks to provide a historical background of the two projects. It gives details about the locational area and background pertaining to the establishment, need for the housing and the socio-economic status of the residents.

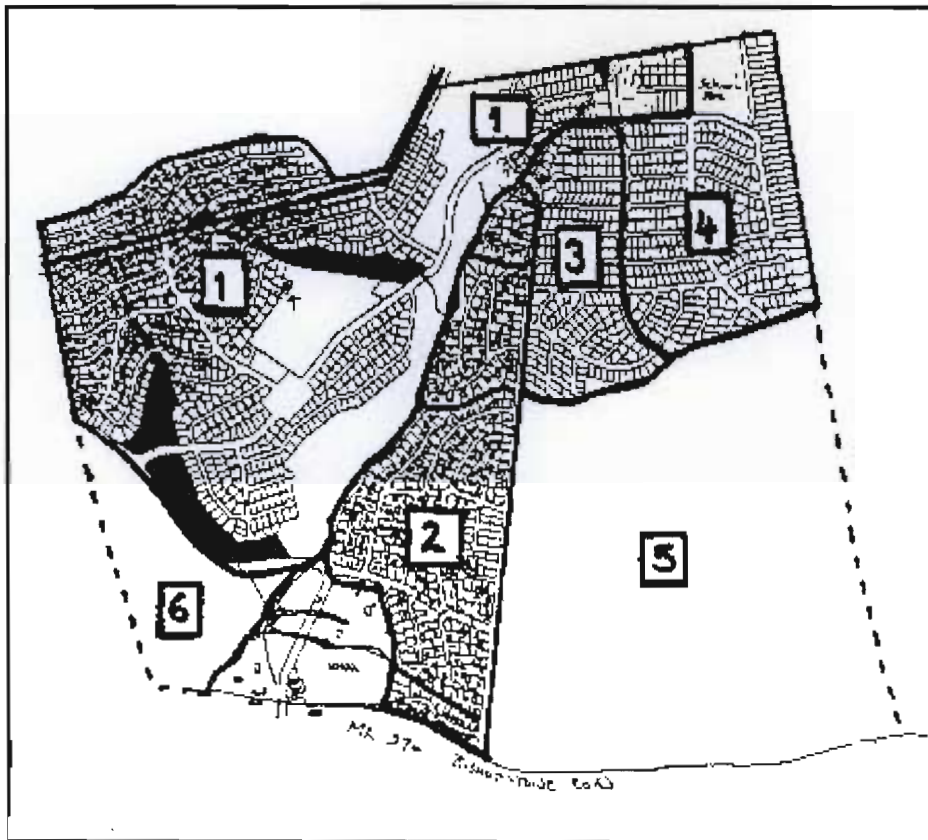
4.1.1 *Thembalihle (Glenwood 2) Housing Project*

Glenwood 2 is located north-west of Pietermaritzburg. The area is adjacent to Glenwood and the industrial area of Willowton. Appendix 1 illustrates the exact location of Thembalihle (Glenwood 2) in relation to the whole Pietermaritzburg area. The Build Environment Support Group (BESG) (1999:50) indicates that Glenwood 2 occupies a substantial parcel of land, about 166 hectares, which has 1 744 housing units. Glenwood 2 comprise of four sub-

sections. The sub-sections are Tamboville and Thembalihle (formerly Azalea), Q-Section and North East Sector. In essence, the names of these sub-sections were coined by the residents and residents identify themselves well with these names than the Glenwood 2 one which is considered as a "technical planning name". The housing project is called Glenwood 2 because it is adjacent to Glenwood. Thembalihle is the largest of all these sub-sections because it consists of 812 units (401 upgrade and 411 greenfield), in comparison with Tamboville upgrade which has 416 units, Q-Section greenfield with 233 units, and North East Sector greenfield which has 283 units. Figure 4.1 illustrates all the sections that form Glenwood 2.

The land belonged to the Council and was occupied illegally over a period of several years. People moved into this area due to the extensive political violence in the region in the 1980's and early 1990's. Moreover, the area offers easy access to employment opportunities in the nearby industries and the city centre. The project was approved in 1996 because, amongst other factors, the project offers an opportunity to help undo apartheid geography through integration of different races. BEG (1999:51) claims that the project was designed with a view of maximising physical mobility through the area and promoting integration with the wider urban environment because in the past the area was reserved only for Coloured and Indian communities. To kick-start lending activities in this area, Agishana had to extend R5 000.00 to beneficiaries to enable them to pay off the Pietermaritzburg-Msunduzi Transitional Local Council (TLC) for land already occupied illegally. The unfortunate part of this area is that it is located on a steep slope with poor soil conditions, which requires special "working" for erecting houses. This called for the installation of higher than normal services throughout the development. BEG (1999) indicates that communities committed R13 400.00 of their subsidy towards the installation of high quality tarred roads and a waterborne sewage system, leaving them with approximately R2 000.00 – R3 000.00 to complete their top structures. A 7.5% increase in the subsidy quota was awarded to cover the extra costs. By and large, the amount was not enough to erect a bigger house, implying that they had to borrow money in order to add or improve on their housing. Agishana Credit Company provided the necessary finance needed to add or improve. The Pietermaritzburg-Msunduzi Transitional Local Council acted as the developer and BEG as the project manager. BEG opened a Housing Support Centre (HSC) in the area. The HSC gave advice to households, builders and savings clubs regarding,

Figure 4.1 Map of Glenwood

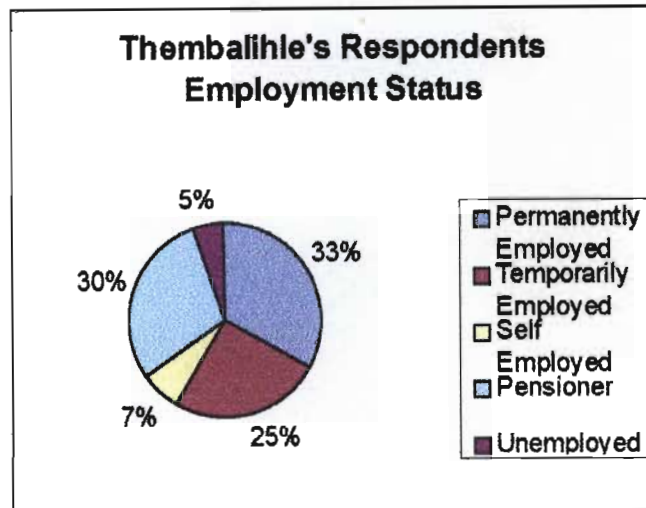


Source: BESS (1999)

amongst other things, the house plans and costing, site inspection and orientation, house construction and has been influential in organising the community into savings clubs.

For Glenwood 2 area, only Thembalihle (a Zulu word for nice hopes) will be used as a case study area for this study and its location is illustrated in appendix 8. The findings from Thembalihle can be generalised to the whole Glenwood 2 housing project because it has both the upgrade and the greenfield developments. Moreover, it has the highest number of housing units, thus, it represents all that the other three settlements have. BESEG (1999) shows that the project involves the development of 812 sites of which 401 involve *in situ* upgrading, and the other 411 is for greenfield development for families relocated from Happy Phola and Enhlalakanhle (informal settlements in Northdale). Thembalihle is comprised of low income people who qualified for the whole government housing subsidy. The subsequent discussion presents a synopsis of socio-economic background of people living at Thembalihle and the figures and tables provided below seek to vividly illustrate some of these findings. The synopsis is aimed at illustrating the kind of people at Thembalihle and their circumstances. The field survey done at Thembalihle reveals that almost three-quarters of the households are headed by women who are in their thirties to fifties (years). At least 7% of the respondents have secondary education and more than three-quarters of the respondents have no formal education. 85% of these households have an income of less than R1 000.00 per month. 33% of the respondents are permanently employed while 25% of the respondents are temporarily employed. 30% are pensioners, 7% are self-employed and 5% are unemployed. From the above discussion, one deduces that the majority of the households have little means that could be geared towards housing improvement. This is the low income housing market that needs special attention as far as housing credit is concerned. These findings conclusively inform the study that most of the households can not afford a medium size loan of more than R20 000.00 because their repayments will be higher than they can afford when considering the fact that most lending institutions maintain that a low income household should not spend more than a quarter of its income on monthly repayments. Figure 4.2 and table 4.1 below seeks to illustrate the employment status and income levels of the respondents respectively.

Figure 4.2 Thembalihle's Respondents Employment Status



Source: Field Survey (2000)

Table 4.1: Thembalihle's Respondent's Monthly Income

Monthly Income in Rands	No. of Respondents	Percentage
Less than 1 000.00	34	85
1 001.00 - 1 000.00	3	7.5
1 501.00 - 2 000.00	2	5
2 001.00 - 2 500.00	1	2.5
2 501.00 - 3 000.00	0	0
3 001.00 - 3 500.00	0	0
3 501.00 and more	0	0
Total	40	100

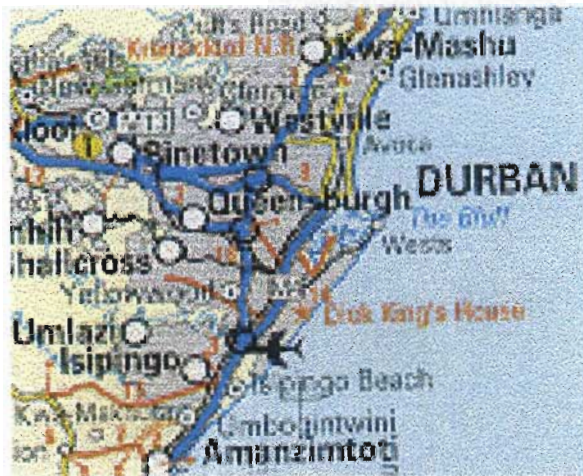
Source: Field Survey (2000)

4.1.2 Pioneer Park Housing Project

Umlazi township is found south of the Durban metropolitan area and is regarded as one of the largest townships in South Africa. It is situated in areas which used to be known as Umlazi Glebe and Umlazi Mission Reserve. Figure 4.3 illustrates the exact location of Umlazi in relation to other Durban Metropolitan areas. Umlazi is bordered by the Ezimbokodweni River on the South and Mlazi River on the north. Most of the people in Umlazi work at the Isipingo industrial area, Claremont and Durban, which is about 20 kilometers. Braude (1996) indicates

that the township was a direct result of the government's decision to relocate people living in Cato Manor during the 1940's in line with the Separate Development Acts and Urban Influx Control legislation.

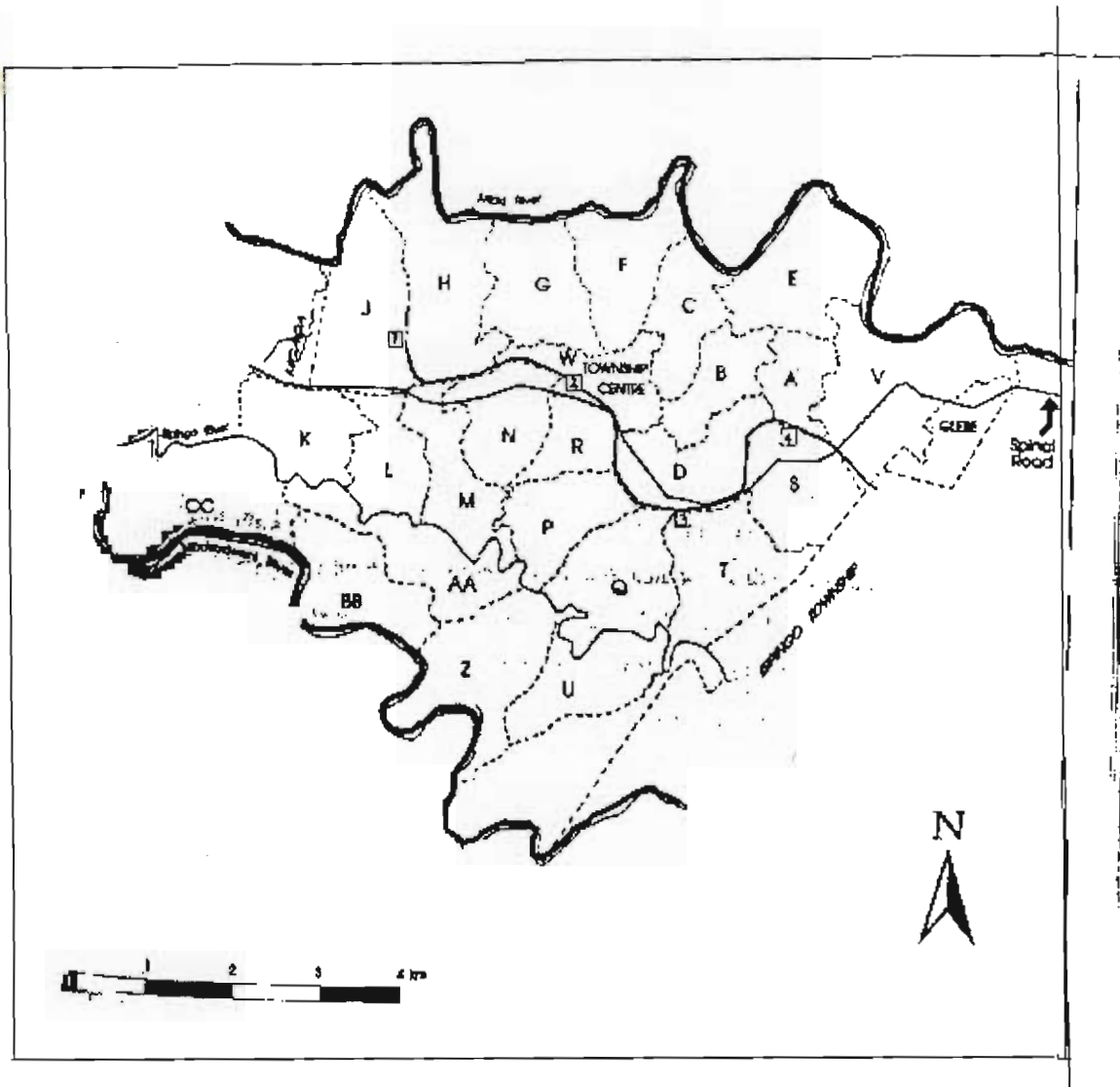
Figure 4.3 Map Showing Durban Metropole and Umlazi



Source: Shell (1996)

The Pioneer Park Housing Project is situated next to sections W, G, F and C. Figure 4.5 illustrates the exact location of Pioneer Park and the other sub-sections of Umlazi Township. The project is a result of high demand for housing due to a high number of unhoused households. Most of the households lived in backyard shacks and in informal settlements in the Malukazi and Mgaga settlements. Recently, most people settled in Umlazi during the 1990's political violence times and some were attracted to Umlazi because of its closeness to the Isipingo industrial areas and Durban. The demand for housing was also exacerbated by the fact that the state construction programme came to a halt in 1968, leaving a lot of discrepancy in housing provision. The only housing built was in Sections AA, BB, Z and W during the 1980's and was for the middle and upper income groups.

Figure 4.5 Map of Umlazi



Source: Metro Housing (1998)

The Pioneer Park's 203 housing units project started in October 1998, and Elangeri Projects acted as Project Managers. Only four-roomed and five-roomed houses were provided which are around 40m² to 75m² in size and are in the R50 000.00 to R110 000.00 price range. Beneficiaries had to approach lending institutions for end-user finance to enable them to buy the houses. Almost half of the beneficiaries received their finance from Ithala. In essence, these houses have in-house flushing toilets and geysers. Mr Botha of Elangeri Projects indicates that of the total house price, almost R28 000.00 of the total cost price was used to

level the land because it is too steep. Figure 4.6 illustrates a typical four-roomed house provided at Pioneer Park and the "working" which went to the ground. The photo illustrates that other than levelling the ground, blocks and tyres were used to create retaining walls to hold the soil. On the other hand, figure 4.7 aims to show not only the houses at Pioneer Park, but also the steepness of the area.

About 20 local sub-contractors and 150 labourers were employed in the development project.

Lithala financed the project and Nurcha issued bridging finance guarantee. The fact that Nurcha was involved in both Agishana and Lithala's projects is commendable. Pioneer Park Close Corporation (PP cc.) acted as the developer while Elangeni Projects acted as the main contractor in the project. The National Home Builders Registration Council (NHBRC) ensured that all the builders complied with set building standards and buildings have a five-year structural guarantee. Nurcha also gave each and every household a tree to plant as they moved in.

This is an institutional-linked subsidy project. Pioneer Park cc. applied for the government's housing subsidy in September 1997 on behalf of the Umlazi Unit W residents. A 180 housing units project to the value of R900 000.00 was approved in December the same year, and construction commenced in 1998. Individual beneficiaries were granted a subsidy of R5 000.00 each. Pioneer Park is comprised mostly of working low income people. The field survey established that more than half of the households are headed by men who earn between R2 501.00 and R3 000.00 per month. Almost three-quarters of the respondents have secondary education and are permanently employed while about 9 percent have tertiary education background. More than a quarter of the respondents are either temporarily or casually employed. A quarter of the male respondents are single. These figures show that most of residents are in the upper low income echelon. They have the ability to repay bigger loans than the people at Thembalihle. The employment status figure and table below aims to portray the employment status and economic background of Pioneer Park residents. These figures are provided to generally portray the habitats of Pioneer Park and to determine the extent of their credit worthiness.

Figure 4.6 A House at Pioneer Park with Retaining Walls



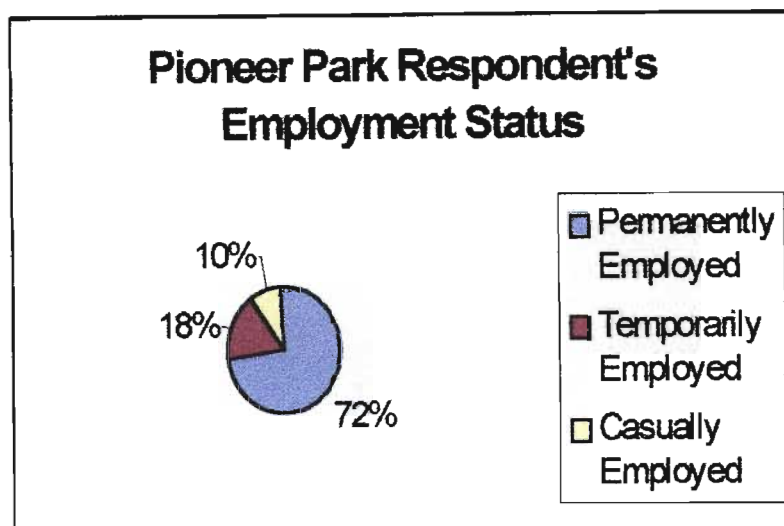
Source: Field Survey (2000)

Figure 4.7 Houses at Pioneer Park also showing the slope



Source: Field Survey (2000)

Figure 4.8 Pioneer Park Respondents' Employment Status



Source: Field Survey (2000)

Table 2: Respondent's Monthly Income

Monthly income in Rands	No. of Respondents	Percentage
Less than 1 000.00	0	0
1 001.00 - 1 500.00	0	0
1 501.00 - 2 000.00	1	10
2 001.00 - 2 500.00	7	63
2 501.00 - 3 000.00	3	27
3 001.00 - 3 500.00	0	0
3 501.00 and More	0	0
Total	11	100

Source: Field Survey 2000

4.3 Clearing Financial Obstacles

Both the NHFC and Nurcha are set to clear any financial obstacles that limit the capacity of retail lenders to extend end-user finance to the poor. The NHFC provides funds to Ithala so that it extends its scope of operation, and also assists already established housing finance institutions and help establish new ones to contribute to the housing market. On the other

hand, Nurcha strives to achieve this mandate by guaranteeing activities by retail lenders. These guarantees act as insurance to lending institutions that some of their losses in terms of non-payment incurred when lending to this low income market will be covered. Basically, a guarantee indemnifies the housing institutions for a specific period against losses resulting from non-payment of rent. These strategies are aimed at inducing retail lenders to extend their scope and cater for the income levels they are reluctant to lend to because of the risk factors involved. Ms Mthwecu of Nurcha indicated that however hard they try, the realisation on the ground is that most housing financial institutions have shown little interest in this housing market regardless of the incentives Nurcha offers. Most banks are circumspect in their lending activities to the poor in order to avoid running at a loss due to non-payments. They are concerned with maintaining a clean loan book that looks lucrative and presentable to their respective shareholders. She further argued that even if a 100% guarantee could be offered to banks, they will still do very little to cater for this market. This remains the biggest challenge for the NHFC and Nurcha in their drive to unlock and make housing end-user finance available and accessible to the poor. For instance, although Ithala enjoys funding from the NHFC and its funding activities are guaranteed by Nurcha, it has done little to make end-user finance to the poorest who do not have the payroll facility. Its housing loan products and affordability criteria limits most of the poor to receive end-user housing finance assistance. They have been reluctant to lend to the unsecured housing market and they have not really explored or initiated other lending products in the past years that could cater for the low income earners. Recently, hopes on lending to the low income earners could be put on their Progress Home Loans which they will be piloting soon with Nurcha. This scheme calls borrowers to save for about six months in the institution before accessing a housing loan. More about savings will be dealt with in the subsequent sub-sections.

4.3.1 Risk and Risk Sharing Strategies

Both the NHFC and NURCHA aim to share risk factors related to lending to the low income housing market. Housing finance lending institutions have been reluctant to actively participate in the low and moderate housing market. Lack of active participation is due to, inter alia, risk factors involved, both real and perceived; low profit margins; high default rates; and cost of administrating many small loans. These factors deter housing lending institutions from actively

getting involved in this housing finance market. The NHFC and Nurcha undertake to attract lending institutions to engage this market which is considered risky and unprofitable by sharing risk. They both strive to minimise the costs related to borrowing to this housing finance market as an attempt to unlock blockages to end-user housing finance. The NHFC extends guarantees/credit enhancements to intermediary lending institutions as a strategy to improve their risk profile in an attempt to assist them to become attractive to other lenders in the market. This is with the primary aim of making housing loans available and accessible to the poor. The discussion with Mr Venter of Ithala indicated that the NHFC does not share risk in a conventional manner but requires loans granted and guaranteed by them to be ceded to the NHFC. On the other hand Nurcha endeavours to extend end-user finance guarantees to intermediary lending institutions. The guarantees are intentionally issued to cover the risks related to this market. In essence, the guarantees are issued to institutions that have considerable expertise in the assessment of credit worthiness. Mr David of Agishana indicated that guarantees by Nurcha induce them to relax their lending criteria to extend a loan to a person considered "unbankable". So far they have succeeded in extending home loans to about half of the households in Thembalihle. It is a remarkable effort from Agishana, but essentially, for Agishana to have significant and far-reaching impacts, it should try to increase its lending capacity and assist the remaining half of the population. The same could be said for Ithala.

4.3.2 Criteria for Lending

This sub-section looks at the lending strategies used by the NHFC, Ithala and Agishana.

The National Housing Finance Corporation is financially prudent in its lending activities. It follows normal commercial practice, whereby it assesses the financial credibility, track record and management capacity of the borrower. Mr Pillay of the NHFC's Niche Market Lenders stated that for an institution to qualify for lending by the NHFC, it should meet the requirements set out in the NHFC/KHULA Statements of Sound Practice (SSP). The NHFC/KHULA (1998) Statement of Sound Practice's main objective is to ensure that retail lenders treat their clients in an economically suitable, viable and sustainable manner and that their lending procedures and practice make adequate provision for the special requirements of borrowers in the niche

market. Form the discussion with Mr Venter of Ithala, it was quite apparent that his institution meets most of the requirements set out in the SSP. It has the expertise and experience, which is backed by a sound management track record; it has also shown a sustainable financial track record over its years of operation; and it adheres to the best practice norms. For instance, it provides a fully comprehensive Community Housing Information Centre (famously known as Chic) and Home Ownership Education training courses to prospective borrowers. A certificate for attendance is awarded at the end of the course. Mr Seboya of Ithala indicated that the courses cover information on the different housing options; loan process and agreement; how interest works; obligations on loan repayment; defaults and remedies; and how to exit from the loan. The principal intention of the Chic course is to teach borrowers about the working of loans, their responsibility, and how to service them, with the ultimate aim of reducing default rates. Furthermore, the poor are exposed to the different housing options available to them.

ITALA

More than three-quarters of the respondents at Pioneer Park indicated that they attended the course, and 47% of the respondents indicated that they did not fully understand the content of the Chic training. They complained that the course content did not clearly spell out the interest rates and they suggested that it should be given special attention. They indicated the confusion in terms of repaying the first instalments of their loans. They were confused as to who was involved in terms of loan repayments and who was not because they received some letters coming from the FBC Fidelity Bank requesting payments. The FBC Fidelity Bank insures loans extended to developers and contractors for credit-linked subsidies. Therefore, in this case, it insured the bridging finance extended to the Elangani Projects by Ithala.

Furthermore, Ithala follows the normal credit check and control rules that are currently followed by most financial institutions. Affordability becomes the major criteria for borrowing money. Both Mr Seboya and Mr Venter of Ithala revealed that applicants have to satisfactorily meet the Credit Risk Model assessment which is regarded by financial institutions as one of the best in the country. On the other hand, Agishana is more relaxed in its lending criteria. Basically a borrower should be earning less than R1 500.00, either employed or able to prove a regular income or the ability to repay the loan, at least a 10% deposit of the loan amount, and title deed. Over and above these, a borrower should be cleared on the Information Trust

AGISHANA
ITALA

Corporation (ITC) check before receiving financial assistance. ITC is a credit bureau check which shows credit details of prospective borrowers. ITC is important for lenders because it portrays the character of the prospective borrower, thus enabling them to prepare corrective remedies during times of hardship. Unlike other finance lending institutions, Agishana can extend credit to the "unbankable" borrower due to the guarantee offered by Nurcha as long as the other criteria are met. To reduce incidences of leakage and to ascertain that the money lent is used strictly for housing, they pay money directly to building material suppliers and contractors. This approach is also widely used by housing finance institutions in Botswana by the Low Cost Housing Committee (LCHC). The study acknowledges that affordability to repay the loan becomes the core criteria for all the lending institutions to extend a housing loan. To that end, other criteria which hinder the low income earners to access housing finance should be relaxed. In essence, Agishana's lending activities points to the study that lending criteria could be relaxed to cater for the low income earners as long as they can afford to repay.

CHECK UP

4.3.3 **Criteria for Guaranteeing**

Like the NHFC, Nurcha is also prudent in its guaranteeing activities. For a lending institution to receive a guarantee, it should meet Nurcha's specified parameters which are; a sound track record; a strong financial muscle; the viability of the exercise and the commitment to help the poor in meeting their housing credit needs; and the institution has to be accredited and should try to accommodate cash loans. The guarantee acts as a buffer against the perceived risks inherent in unsecured lending market. The discussion with Mr David of Agishana pointed out that the guarantee enabled Agishana to reduce its exposure by transferring a portion of the risk to Nurcha. The guarantees for end-user finance loans are extended at a fee of 2% plus VAT on the indemnified portion, payable upfront and renewed annually. A guarantee is extended when a loan is three months in arrears. To portray how prudent Nurcha is in its guaranteeing activities. It has set a benchmark that loans three months in arrears or more should always be kept below 10% of the total number of borrowers on book otherwise it will suspend the guarantee cover for all new loans. Cover may only be resumed when the necessary remedial actions are implemented and the ratio of borrowers in arrears decrease to below 5%. Nurcha guarantees 75 - 90% of Agishana's loans extended to the poor. So far, Agishana have the capacity to extend 60 new loans per month to the unbankable members of the community.

?

They extend housing credit to households who earn an income of R1 500.00 or less per month due to Nurcha's requirement. This category includes, amongst others, the self-employed, domestic workers, pensioners, store assistants and hawkers. In most cases Nurcha shares the risk with other institutions in its activities. The study infers from Agishana's lending activities that guarantees by Nurcha are able to induce lending institutions to lend to the "unbankable" members of the communities. Therefore, for Nurcha to have a desired impact, it should strive to guarantee as many lending institutions as possible.

4.4 Mobilising End-user Housing Finance

It was indicated initially that the study is concerned with investigating the performance of government-initiated housing finance institutions, the National Housing Finance Corporation and the National Urban Reconstruction and Housing Agency, on their set mandates to mobilise housing end-user finance for the low income people. To establish their impact on the poor, the NHFC and Nurcha's relationship with intermediary housing finance lenders was examined. It is paramount to indicate that, as was hinted at the outset, the study does not aim to compare the two institutions, but to closely look at the impact each institution has had on mobilising housing finance to the poor.

Both these institutions do not directly offer end-user housing finance to the man in the street but aim to provide housing end-user finance through intermediary lending institutions. Basically, each institution uses different strategies to make end-user finance available to the poor for housing purposes. The NHFC funds retail lenders so that they on-lend to beneficiaries, and also offer secondary mortgage loans through the Gateway Home Loans. In this case, it lends to Ithala that further on-lends to households in Pioneer Park. Mr Venter of Ithala indicated that the money from the NHFC broadens his institution's financial base, thus enabling them to increase their lending capacity to individual beneficiaries. Nurcha provides capacity building and most importantly, guarantees activities by Agishana. The guarantee acts as an incentive to take more risk by extending their scope and cater for clients who are considered risky to lend to.

4.5 Institutional Capacities

The field survey conducted on all the institutions found that they all have adequate sources of funds to service and continue to carry on with their operations in this housing market. According to Mr Venter of Ithala, the money borrowed from the NHFC is offered at reasonable terms and that encourages them to broaden their operations. The Ithala 1999/2000 Annual Report indicated that almost R226 million was earmarked to provide home loan to about 5 000 new applicants for the 1999/2000 financial year. On the other hand, their 1998/99 Annual Report recorded that in the financial year 1998/99 they extended 4 200 housing loans to their 6 000 applicants. About 2 600 of these 4 200 loans were extended for home improvement purposes to people who have pension and provident facilities. The Ithala 1999/2000 Annual Report portrayed this in a broader picture by indicating that their debtors book rose from R777,4 million in 1998/99 to R823,8 million in 1999/00. This significant increment shows their commitment and capacity in their lending activities. From the discussion with Mr David of Agishana, it transpired that Agishana also receives money from the European Union and the Open Society Institute of New York. Basically that gives them a capacity to lend to 60 new applicants per month, which translates to 720 home loans per annum. Although the situation looks promising, there is a necessary and significant call for Agishana to increase its lending capacity when looking at its annual lending capacity of about 720 home loans. This capacity is low when taking into account the fact that there are 1 745 housing units at Glenwood 2 and that there are other projects in the region that requires its financial assistance.

The NHFC's 1999 Annual Report showed an increment on the NHFC's group of companies-excluding Gateway loans- approved facilities from R324 million to 54 loans worth R620 million from 1998. The R620 million was estimated to result in the granting of 321 823 individual loans to consumers for the building of 35 811 new homes. Moreover, HSA (2000) indicates that loan applications to the value of R689 million are currently in the pipeline. The NHFC currently have 33 clients, compared to the 18 clients it serviced in 1998. That shows a 72% increase from the previous year and about R443 million is disbursed, implying an impact of 136 542 housing opportunities. "It is important to indicate that of all its intermediary clients, 24 are newly established and 15 of them are black- or women owned and managed" (NHFC, 1998/99). The NHFC is currently gaining the momentum needed to impact positively in the

housing market. The momentum can be attributed to its experience in the housing finance market gained through the past years. It now has 33 clients under its umbrella. Although the number of intermediaries involved is impressive, the study is essentially interested in exploring the impact such institutions have to the poor's housing credit. The study contends that the NHFC should work very hard to increase its client base. For instance, when taking into cognisance the fact that "of the 1 000 000 houses built or under construction since 1994 only 14% were funded with government subsidies together with credit from banks" Ithala (2000:11), and Ithala, as one of the NHFC's clients, had a capacity to extend 4 200 home loans in 1999. The study maintains that it imply that its 33 clients have a capacity to extend an average of 138 600 home loans per annum if each extend 4 200 home loans: which is impossible when actually considering the capacity of the newly established retail lenders. These figures connote that the demand and urgency for the NHFC to broaden its lending base by increasing the number of intermediary lenders is inevitable if the 2000/2001's 321 823 home loans target have to be met.

According to Nurcha (2000), the institution has since its inception facilitated 8180 housing loan guarantees to the value of R28.8m through its 14 housing lenders (of which six are new). Since its inception, almost R15,7 million had been drawn down against 18 000 of its guaranteed loans. Nurcha (1998) indicated that in 1997/98 it supported four end-user programmes with the potential to deliver credit to 2 475 beneficiaries. In 1998/99 it set itself a goal to issue guarantees that could result in extension of housing credit to almost 15 000 households. Nurcha (1999) shows that only 1 539 loan were facilitated in that financial year. Furthermore, a target to facilitate 3 540 loans through 16 guarantees in the financial year 1999/2000 was set. Nurcha (2000) indicated that it was able to guarantee 6 new lenders that facilitated 3 739 loans to the value of R11.6 million, about 199 loans above target. Thus far, an ambitious target of 19 new lenders and 6 500 loans at a value of R19.8million is set for the financial year 2000/01. This target would represent a 47% increase from the previous financial year. Recently, Nurcha has shown a promising future in end-user housing finance provision through its potential to amicably meet its 1999/2000 targets. Seemingly a right tune has been struck and that is commendable in housing finance provision. It becomes clear that when the number of lenders guaranteed increase, they proportionally increase with the number of loans

extended to the poor. From that observation, the study concludes that it is necessary to increase the number of lending institutions that receives guarantees. Although the situation looks promising, these figures leave much to be desired when compared to its bridging finance guarantees which so far have facilitated 48 000 loans at a guarantee value of R62.6 million since inception as compared to the 8180 end-user finance loans facilitated at a value of R28.8 million. Nurcha still needs to increase its capacity as regards end-user finance guarantees. Basically, it has to gear up its end-user finance guarantee activities so that it has an increased impact on the availability and accessibility of end-user finance.

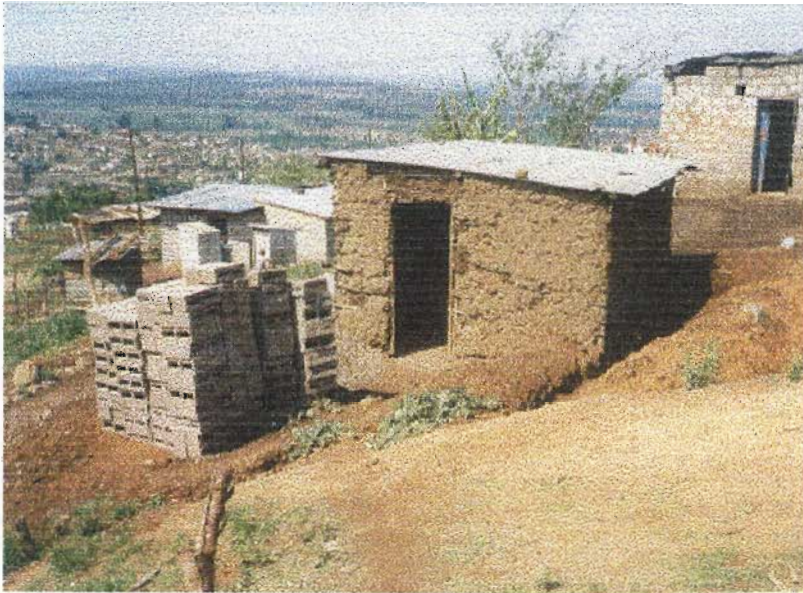
As indicated above, the number of loans extended due to the NHFC and Nurcha's influence seems to be significantly picking up of late. The 1998/99 financial year saw an increase in housing loans extended and in terms of the resulted impact to housing unit delivered as compared to the first years of operation. It seems as a formula to impact positively is struck. However, it is disappointing to realise that the housing demand is still far above the supply. The targets set during inception have still not been met, and in totality, what has been delivered so far is just a drop in the ocean. This situation is exacerbated by the fact that banks are still reluctant to engage themselves in this housing market. They have done little to deliver the 50 000 they agreed to deliver in the record of understanding. Prof. Dan Smit, a Development Consultant and former Chief Executive Officer of the Durban Metro Housing, argued that the end-user housing finance is not yet cracked because there are no creative interventions to make finance reach the poor. He further indicated that there is still a long way to go to make end-user finance available at scale.

4.6 Access to End-user Finance

The study has already acknowledged the housing delivery strategy as stipulated in the housing policy: that housing should also be provided through the market. Under such conditions, accessibility and availability of end-user finance becomes the cornerstone for the improvement of the poor people's housing. In an attempt to open the flood gates of credit to the poor, the NHFC funds retail lenders and Nurcha on the other hand guarantees the loans offered by these retail lenders with an intention of broadening and widening their lending capacity. Prof. Dan Smit, a Development Consultant, maintains that these institutions are

trying very hard to take risks in a difficult arena to mobilise end-user housing finance and on the same token managing their risk portfolio. For instance, there are observable improvements on housing at Thembalihle due to the loans extended to residents by Agishana. The figures below aim to illustrate the typical houses at Thembalihle and those built with the help of Agishana's finance.

Figure 4.9 A typical one-roomed house at Thembalihle



Source: Field Survey (2000)

Figure 4.10 A typical four-roomed house at Thembalihle



Source: Field Survey (2000)

Figure 4.11 A house under construction



Source: Field Survey (2000)

Figure 4.12 and 4. 13 Four-roomed housed in Thembalihle built with help from Agishana



According to the field survey conducted at Thembalihle, 100% of the respondents indicated that they now have easy access to housing finance from Agishana, while 18% of the respondents indicated that they initially applied for housing finance from other banks, and their applications were unsuccessful and those banks did not give them reasons for turning down the applications. Mr David of Agishana indicated in the discussion that they pride themselves in the fact that they are providing end-user finance where it is needed the most. Loans of up to R14 500.00 have been extended to their beneficiaries. On the other hand, Ithala does not extend small unsecured loans to their low income borrowers. They offer secured as well as partially secured ones only. Mr Seboya of Ithala argues that it is ideal to give medium loans than small totally unsecured bond loans of about R20 000.00. He indicated that the value of these loans is eroded by legal registration of such bonds and end up being expensive to the poor.

4.7 Mortgage Loans

Mortgage borrowers usually find themselves in trouble at one stage or another due to the complicated, expensive and long-term nature of mortgage loans. Mortgage bonds over-stretch the affordability capacity of borrowers and at the end of the day become costly for the poor to repay. Ms Tomlinson of the South African Banking Council (SABC) argued that when interests skyrocket, borrowers find themselves over-borrowed. In such circumstances, it becomes difficult to continue repaying the loan thus putting the borrower's property and provident and/or pension fund at risk. For instance, she indicated that between 1987 and 1989, bond rates increased from approximately 13% to 20.5% thereby increasing repayments by nearly a half. To avoid such hard realities, new lending instruments have been devised and tested in the market recently. Micro loans, either secured or unsecured, are particularly gaining popularity in the low income housing market. These are small short-term loans of about R10 000.00 or less which are offered at a fixed interest rates. The NHFC (1998) asserted that these interest rates usually ranges from 18 – 23% of the loan amount for all secured loans, and 35 – 42% for all unsecured loans advanced to the poor. They may be secured by a cession of the borrower's provident and/or pension fund, rather than property. Moreover, they are payroll deducted. An extension to cater for those outside the payroll can have a positive impact in this housing market because the majority of people in this income band are either self employed or

do not have the payroll facility. Mr Martin and Mr Seboya of Ithala indicated that they prefer extending few larger loans rather a considerable number of small ones. Mr Martin suggested that it is considerably safer to extend a R350 000.00 loan to a person in Umhlanga Rocks than to lend R350 000.00 to ten households in Umlazi. The administration costs and risks are low and returns are high with regard to bigger loans. Mr Seboya also indicated that they are reluctant to extend smaller loans of about R10 000.00 and to lend to people outside payroll. They consider people on an employer's payroll safer to lend to. To that end, poor people who want smaller loans always find it difficult to access housing loans. 93% of respondents in Pioneer Park pointed out that they have not defaulted in their loans because it is deducted directly from their payroll. No one from both Pioneer and Thembalihle have this far failed to repay their loans to such an extent that their property is repossessed, or pension or provident fund attached, or guarantees revoked by Nurcha. This situation is commendable because it shows a breakthrough in lending to the low housing market with less hiccups with regard to repayment. It also clearly shows that payroll deductions can prove to be efficient and also indicates that people take their loan obligations very seriously. More than half of the respondents from Pioneer Park and Agishana recorded that they do not prefer mortgage loans because they are too complicated to understand. They prefer small loans which have a short repayment period.

4.8 Collateral

Collateral is recognised by all lenders as important in their lending activities. The study found that all loans extended have some form of collateral. The only difference lies in the type of collateral the lender insists on. Ithala considers provident and/or pension funds, deposit and property while Agishana considers deposits only. The deposit is aimed at showing borrowers' commitment to their housing. It is essential to indicate that savings are considered as a deposit for a housing loan. Mr Seboya maintains that deposits are important because they induce the poor to honour their loan commitments because they would not like to lose their deposit. Agishana insists on a 20% deposit for individual loans and 10% deposit for project loans. More than three-quarters of the respondents at Thembalihle stated that the deposit is reasonable to ask from them. 43% of respondents at Pioneer Park said they would be very happy if the banks could do away with deposits because they do not see where that money

goes. This is a direct result of the fact that loans are complex and complicated to understand. When lending institutions add the hidden costs to the loan, like the registration of the loan, borrowers felt like they were taken for a ride and cheated. Basically, borrowers have little understanding that their first loan installments goes to the registration of the loan, and the principal loan amount remain the same for some months regardless of the fact that they are repaying it regularly. Moreover, when interest rate charges hike due to the volatility of the economic market, repayments follow suit and change. Although both Mr Seboya and Mr Venter of Ithala indicated that their Chic training courses covered those aspects, the study found that almost three-quarters of the borrowers knew little about interest rates. This state of affairs necessitates the need to improve the Chic training programme. In cases like this, micro loans offer a solution because all loan costs are calculated before loan disbursement. Thus the borrower knows before hand that he or she will be repaying a certain amount of money for a particular period.

Pension and/or provident funds offer a better option than property as collateral. The fact that the lender could access these funds when the borrower defaults to recover the loss present a reliable security for the loans extended. This acts as a sense of inducement to the lender to lend to the low income people because they know that they have easy access to the borrowers money to cover up for the money still owed at time of default, and borrowers will do everything to safeguard their life-long contributions. Incidences of defaults are minimal and are only anticipated in cases where the borrower is retrenched, has interfered with the stop-order or the employer is liquidated. Thus far, this system has proved to be more reliable in extending housing credit to low- and moderate income people because default rates are observably minimal in pension or provident funds secured loans. The discussion with Mr Venter of Agishana showed that Ithala only recorded a 5% loan repayment problem. The study infers from the above figures that it is safe to lend to this market. Thus, Ithala should be intensifying its lending activities in the upper low income market, and trying to initiate products suitable for the lower low income market.

Ithala also regards property as collateral for loans extended to its clients. The property can be considered as an adequate security only if it is both in an acceptable condition and its

purchase price value is equal to or more than the loan extended. This option also has its drawbacks in cases where defaulters are reluctant to move out of the house. This has proved to be expensive because security companies have had to be employed to guard property in possession (PIP). Security companies has to guard that the previous owners do not illegally re-occupy the house, and in cases where they have vacated the house, they guard that people do not damage the house, and against some mischievous behaviour at night. Another discouraging factor about foreclosing is the fact that communities become hostile and render the foreclosing process futile. Mr Venter indicated that they are extra careful as to where the property is located. He mentioned that they have had bad experiences in some areas where they wanted to foreclose a property. For instance, attempts to foreclose properties in some areas like Illovo and Madandeni have been met with community hostility, thus rendering the process futile.

Over and above, there is a guarantee offered by Nurcha for all the loans extended to the low income people. Nurcha offers a 45% guarantee for all the loans extended by Ithala and 90% for all loans extended by Agishana. In case of Ithala, another guarantee is offered by the Home Loan Guarantee Company (HLGC). This implies that both these institutions will incur little, if any, losses in cases of default because they even have the borrowers' deposit. These guarantees aim to induce these financial institutions to extend their credit and lending capacity to the low income housing market. The reality on the ground is that Ithala is still reluctant to engage itself fully in this low income housing finance market. Mr Venter indicated that they have to keep their loan book "healthy" and run their business profitably because they have an obligation to give their shareholders a return on their money. What vividly comes forth is the fact that on one hand they are in business to help the poor who are considered risky get access to housing funds, while on the other they have to run their corporation at profit. To help them amiably achieve both results, institutions like the NHFC and Nurcha strive to level the play field by either lending them money at reasonable rates or guaranteeing their lending activities to this low income market. Thus far, no lending institution has revoked Nurcha's guarantee and that in a way shows that it is safe to extend end-user housing finance to the low income housing market.

4.9 Loan Repayments

All lending institutions strive to lend profitably. Lending profitably rests on the commitment by borrowers to fulfil their loan obligations. In essence, the ability and willingness of borrowers to repay loans is the cornerstone of every successful lending programme, and the opposite holds true for failure. Ithala insists that repayments for a loan should not be more than 25% of the borrower's or, in case of a household, joint household's income. In essence, Ithala has an upper hand on repayments because it insists and relies heavily on employer's payroll deductions. Monthly repayments are deducted from the payroll, making it difficult for a borrower to skip payment. It reported at least 5% repayment problems in 1998, and that could be related more, but not solely, to the 15% of its borrowers who used the cash payments method. Even the payroll deduction approach does not offer a 100% guarantee that all people on the employers' payroll will pay regularly. People on payroll deductions have a tendency of contravening the payment regulations by interfering with their stop-order repayments. These borrowers would withdraw their money before the stop-order date is actualised. Agishana also have a good record on loan repayments. Although it initially had a bad loan book, there are improvements due to the change from individual lending to project-based lending strategies. It recorded an 81% loan recovery in the past three months, and a 100% on the recently disbursed ones due to their project-based lending strategies. Agishana have recently stopped concentrating on individual-based lending and have turned a full swing to project-based lending. The project-based lending strategy is commendable and offers more advantages than the individual-based lending programmes. The discussion with Mr David of Agishana highlighted the advantages of project-based lending approach more clearly. Basically, in terms of project-based lending, they identify a project and invite Nurcha to evaluate it if they can guarantee lending activities on that project. The main advantage of this set-up is that borrowers regard themselves as a community and they encourage and help each other to repay the loans, thus considerably reducing loan repayment problems. It also affords Agishana to dedicate one field worker to cater for people in a particular area than a situation where one field worker has to cover many areas that are also far spaced from each other. The researcher observed that this approach offers a better solution, if not the best, with regards to administrative cost. The administration cost is lowered because one field worker adequately service a particular quota of clients, and in most cases, clients are organised into savings

groups. The telephonic and statement mailing cost to clients is also greatly reduced. Furthermore, their computer system, project-based lending and home visit approach help them to always keep track of all their clients. This individual attention to borrowers helps develop trust and also encourages a sense of commitment. The study found that the 10% of the 19% Agishana's respondents who defaulted indicated that they had been retrenched and had to cope with other family expenses like school fees, travelling and medical costs. It is interesting to learn that lending institutions like Agishana which are dealing only with the low income earners have recorded a successful loan repayment rate amongst its borrowers. Such an experience proves and also offers a challenging lesson to other lending institutions that are reluctant to lend to the poor that it is safe to indeed lend to the low income market. It shows that concentrating efforts on a project lending and developing a mutual relationship with clients have far reaching impact than what meets the eye in terms of repayments.

4.10 Interest Rates

The importance of interest rates has already been established and discussed in the previous chapters. This section aims to explore how interest rates are charged and determine their resultant impact on the poor borrowers. Loans extended by the NHFC and Ithala are offered at prime rate. With regard to loans offered by Ithala, 14^{1/2} % interest rates are charged for home loans above R75 000.00 and 15^{1/2}% is charged for loans less than R75 000.00 and Home Improvement loans as well. The interest rates are generally offered at reasonable percentage, when taking into cognisance the fact that the normal market interest rates are offered at a range of 12% - 18%. On the other hand loans offered by Agishana are offered at 20% interest rate. The charges are pre-calculated and added to the principal amount so that there are no hidden costs borne by the poor borrower. Ms Tomlinson of the South African Banking Council maintains that the advantages of these small loans are many and varied. Amongst others, they are much less complex to understand; the total cost is calculated up-front and there is no compounded daily interest; they are offered in shorter terms with fixed interest rates; the costs are transparent compared to mortgage loans; and not to mention that they are more affordable to the poor borrower. On the contrary, banks claim that small loans are expensive to administer compared to bigger ones. To that end, lending institutions charge comparatively higher interest rates to low income people's small loans than high income people's bigger

loans. Interest rates are intentionally charged higher to cover the risk, interest charges from the lender, to realise profit, administrative and other related costs as well as to attract more lenders to this market. Ms Tomlinson further highlighted that lending institutions sometimes charge interest rates of about 20% or more to these small loans. These interest charges are considered exploitative when taking the economic situation and circumstances of the poor into cognisance. The irony of this set up is why should the poor who have so little pay so much for the money borrowed while those who earn higher incomes pay low interest rates on their bigger loans. For instance, the field survey found that some respondents in Thembalihle are paying monthly instalments of about R800.00 per month. These instalments are expensive considering the income of many families. The reality on the ground is that, regardless of these "attractive" higher interest charges, most banks are still reluctant to actively lend to this market.

4.11 Defaults

Defaults have a negative impact on the running of financial institutions and is one of the major factors that deter banks from actively participating in the low income housing market. Devising innovative strategies to reduce default rates has become a point of concern and interest to housing finance institutions. The NHFC had limited number of defaults. In essence, the NHFC (1999:18) Annual Report pointed out that the institution's group only had one client who breached the terms of its loan agreement and the Corporation has so far recalled its loan. On the whole, all institutions agreed that keeping track of the borrower has far reaching effects in reducing defaults. Mr Pillay of the NHFC revealed that the NHFC requires all institutions it lends to to give reports about their operations in order to keep track of their activities and loan portfolios. There are monthly, quarterly and annual reports required. Mr Venter of Ithala indicated that the reporting is too demanding in the sense that they are expected to keep track of borrowers as well as update their reports. Thus, he recommended that it is relatively cheaper to service bigger loans than smaller loans which are constantly monitored. Regardless of the above, Ithala have an upper hand as far as defaults are concerned. In 1998, only 5% of the borrowers had some loan repayment problems. Agishana relies heavily in project-based lending and networking with borrowers as a strategy to collect cash repayments. It is paramount to indicate that defaults are not only a direct result of the inability to repay loans. Ithala and Agishana established that there are other factors that can cause

people not to honour their loan commitments. These factors include retrenchments; illness of the principal borrower or close family member; the lack of interest in the house due to builder's shabby work; and the negative influence from non-paying neighbours. The study found that in case of Agishana, incidences of poor workmanship are minimal because Nurcha and BESG were committed to assisting beneficiaries in terms of offering plans, technical expertise and assistance, and recommended cheap yet reliable constructors. The respondents at Pioneer Park indicated that they are not totally impressed by their houses. Houses are developing cracks in the inside walls and it is illustrated by the figure below. They further indicated that grass is growing in some of the outside walls of some houses.

Figure 4.14 An inside wall at Pioneer Park showing cracks from the roof.



Source: Field Survey (2000)

Both Agishana and Ithala have a guarantee support from Nurcha so that they can claim against non-performing loans on Nurcha guaranteed home loans. It is essential to indicate that there are steps considered when claiming for guarantee for a non-performing loan. Nurcha insists

that lending institutions should strive to maintain a good record on their loans. Basically, they have to try to resurrect a loan for about three months before claiming on the loan, and an institution's loans that are on arrears should always be kept below 10% of the total number of borrowers on the book. If that is not adhered to, the cover will be withdrawn and could only be resumed when those institutions have designed and implemented necessary remedial actions that may result in a significant decrease of borrowers in arrears to below 5%. Impressively enough no lending institution so far has revoked the guarantee. That implies that this market is healthy to lend to. Mr David of Agishana indicated that in most cases the poor are prepared to part with the little they have to repay a loan. All this proves that the low income housing market is healthy to lend to.

4.12 Modelling of Housing Finance Institutions

The formation of housing finance institutions to specifically cater for the poor in terms of providing end-user finance in South Africa is informed by positive impact such similar institutions have had in some countries. Modeling shows that South Africa draws on international finance literature. Professor Smit, a Development Consultant, indicated that most of the housing finance institutions are modeled on an international experience. Ms Mthwecu of Nurcha indicated that modeling from successful experiences was intended to help reduce mistakes. Moreover, the experiences drawn are inculcated to the local or national character, so that it is contextual to and impact positively to the national problems. Professor Smit indicated that the NHFC strategy of assisting non-traditional financiers is modeled in the American experience where similar kind of support is made from parastatal agencies to non-traditional lenders (NTRL's) in terms of wholesale finance. Mr Pillay explained on the discussion how the NHFC helps establish and support NTRL's on how to set up, and strives to assist through out the process until these institutions are fully-fledged to operate on their own. Ms Mjoli-Mncube of Nurcha asserted that their operations are informed by various experiences. She argued that these experiences helped them develop their own model. For instance, they have looked at, among other models, the German Bauspar system; the Singapore and the Chilean model to see how they can develop their savings model. They argue that savings by the poor add value to the subsidy and on the other hand limit borrower's funds exposure. Agishana draws its operational strategies from Uganda and Bangladesh.

Uganda is regarded by the Great North Credit Company and Agishana as one of the best lenders in this market. The mere fact that South African housing finance institutions eclectically draw from various tried and tested approaches afforded them an added advantage while on the other hand reducing possible chances of failure in their approaches. Therefore, both the NHFC and Nurcha are better informed about strategies to follow and which ones to avoid in their endeavours to open access for the poor to end-user housing finance. This could be attributed to the fact that their operations have recently gained momentum. The impression inferred from this momentum is that these institutions have struck a good note in the market. Therefore, what is needed to add impetus so that they stand out and be counted, rather than counted as another brick on the wall, is to significantly increase their activities.

4.13 Capacity Building

Capacity building is primarily aimed at ascertaining that intermediary lending institutions continue to lend profitably to the low income market. The NHFC and Nurcha aim to capacitate new and existing housing finance institutions to become viable and sustainable in their operations. The NHFC through the HIDF, HEF and SHF is actively involved in capacitating the management of housing institutions. Capacity building is provided on matters related to governance, policy development, developing systems and procedures, training, as well as technical assistance. Nurcha provides guarantees to Agishana and Ithala's lending activities as well as technical and management backing to Agishana. Capacity building is intentionally provided to give focus to intermediary lenders.

4.14 Consumer Education

Educating the poor about housing and home loans is necessary for understanding the complicated financial market. It is critical in the sense that it provides borrowers with basic knowledge required in comprehending the working of loans and also introduces them to different housing options. Ithala offered a Chic Training Course to its prospective borrowers, while BESG educated the Thembalihle beneficiaries on behalf of Agishana. The HLGC, in conjunction with Agishana, also provided basic training on basic financial aspects.

4.15 Savings

The Housing White Paper (1995) acknowledges that savings by the poor can play a crucial role in accessing end-user finance. All the respondents from housing finance institutions as well as the researchers and professionals are of the view that subsidy supplemented with savings can enable a large proportion of state housing subsidy beneficiaries to gain access to housing credit. Therefore, Nurcha encouraged housing financial institutions to introduce and include savings in their lending practices. It is with the view that this saving component has many advantages to offer. Ms Tomlinson of SABC argued that savings demonstrate the affordability and ability to continue paying for the loan; develops a culture of loan repayment; serves as a reward for investing in housing; reduces dependency on loans and incidences where by the poor get over-borrowed due to many small loans; links poor people to traditional banks; and attracts lending institutions to lend to committed borrowers. Both Agishana and Ithala have a savings component in their lending activities. Ithala, in conjunction with Nurcha, have designed a product called Ithala Progress Home Loan. It is intended to cater for households with a joint income of R842.00 per month and above. Borrowers earning from R842.00 per month are encouraged to save at least R200.00 for about 6 months in order to qualify for a home loan of about R1 000.00. These loans are extended over a maximum of 60 months and the size of the loan depends on the power of the borrower to save. The savings act as a 20% deposit for the loan amount required. Table 4.3 below shows the loan range. Agishana's clients are also encouraged to join savings groups or clubs before requesting for a home loan. BESG is very influential in the running of the two savings clubs in Thembalihle. They teach beneficiaries about the importance of saving and when members are ready to borrow money, introduce them to Agishana. Agishana then consider the money saved as a deposit for a loan. Over and above that, BESG provides costing so that both Agishana and the beneficiary know the quantity, quality and cost of materials needed to complete the house. All respondents indicated that saving towards housing is a wise idea. 89% of the respondents in Thembalihle indicated that they started by saving before requesting for assistance from Agishana. To save in an institution that gives housing finance was not a prerequisite for obtaining a loan, but saving provided an added advantage. More than half of respondents in Pioneer Park show that amongst other things they even save for their children's education, a concept lacking in Thembalihle. Mr Pillay of the NHFC argued that savings could not be

Table 4.5 Ithala Progress Home Loan Savings Schedule

LOAN RANGE															
Minimum	1000	1001	2001	3001	4001	5001	6001	7001	8001	9001	10001	11001	12001	13001	14001
Maximum	1000	2000	3000	4000	5000	6000	7000	8000	9000	10000	11000	12000	13000	14000	15000
Repayment period	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60
Loan secured by compulsory savings	200	400	600	800	1000	1200	1400	1600	1800	2000	2200	2400	2600	2800	3000
Open savings account	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Salary into savings acc.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Gross joint income min month	842	932	1021	1110	1199	1288	1377	1466	1556	1645	1734	1823	1912	2001	2091
Repayment on max/month	46	89	131	175	218	261	304	347	390	434	476	519	562	605	649

Figures shown are in rands.

Source: Ithala (1999)

regarded as a positive move towards providing end-user finance for the poor. He indicated that it becomes insignificant for a person to save less than R200.00 a month. For instance, if a person saves R200.00 per month for about ten years, it would mean that such a person should have saved about R24 000.00. He further added that by then (2010), the value of the savings would have been eroded because of the fact that banks offer low interest rates to savings, and charge higher interest for loans extended, as well as inflation. Moreover, saving R200.00 per month could yield R2 400.00 a year, which is considerably insufficient to add on a room. Therefore, it is not wise to save for this income category. Although Ms Mjoli-Mncube concurred that savings are eroded, she argued that savings by the poor are most welcome. She maintains that it is meaningful and significant when the poor contribute on their core subsidy houses. A situation where the poor save at least R20.00 per month as a group and approach a building materials supplier to offer a discount on the prices of material bought could have a meaningful and significant role in their housing. The study firmly holds Ms Mjoli-Mncube's view that savings are necessary if the poor are to significantly contribute to their housing. This view emanates from the understanding that the R2 400.00 a household saves in an annum could help add a room after two years, and can easily attract loans from lending institutions.

4.16 Policy and Legislation

The Housing Policy acknowledges that access to housing credit is not within reach to most poor people and asserts that access could significantly improve their housing conditions. The

policy regards unlocking housing credit as a fundamental precondition to providing the necessary housing credit at scale to the poor households. Ms Mthwecu of Nurcha challenged that there is a need for a housing policy change with regards to the way banks operate. She suggested that the government should enforce banks to take part in the low cost housing market. On the other hand, Prof. Smit recommended a change to a model whereby there is a mixture of government capital subsidy and end-user finance. He suggested that project funds should be linked to the local authorities. In this regard, local authorities will administer projects and as well as use their billing systems to collect repayments.

The government is reluctant to enforce the due processes of law where necessary. This situation renders courts of law inefficient to take right decisions to defaulters and all who act against the law. This condition deters traditional lending institutions from getting actively involved in the low income housing market for the fear of losses anticipated in cases of default. Mr Martin of Ithala indicated that although they have not had default problems at Pioneer Park, they had problems in some other areas in terms of repossessing property when the borrower defaults and they have to take them to courts of law. He argues that people disobey the country's justice system which, seemingly has collapsed or is reluctant to act under such instances. This sombre situation undermines legal procedures and processes regarding law enforcement and on undertaking court rulings or decisions on household eviction. Where attempts had been made, it has always proved to be costly and ineffective because security personnel have to be employed to guard such houses. A conducive condition could only be attained when the government intentionally revitalises the judiciary system so that due processes of law could be undertaken.

4.17 Summary

The section provided background information of both Thembalihle and Pioneer Park housing projects. It also outlined the strategies used to mobilise end-user housing finance to the poor households. Successes and problem areas regarding reaching the low income households were highlighted, and the impact of the strategies employed were outlined and discussed.

households. Successes and problem areas regarding reaching the low income households were highlighted, and the impact of the strategies employed were outlined and discussed.

Chapter 5

Summary, Conclusions and Recommendations

5.1 Introduction

The study looked at the impact the government-initiated housing finance institutions has had addressing the needs of the poor as far as end-user finance is concerned. It looked at the strategies they have used to open the floodgates of end-user finance to the poor households. The study observed initially that there was a considerable gap in the provision of end-user housing finance, and thus indicates that there is a need to increase the scale at which Non-Traditional Lenders are providing housing end-user finance to the low income households.

This chapter aims to present the conclusions of this study on the access and availability of end-user housing finance based on the findings provided in the previous chapter. The chapter will start by providing a summary of the research findings to inform conclusions drawn from the findings. Finally, recommendations will be put forward to assist all those who are involved, in one way or the other, in the provision of housing end-user finance. This category draws broadly from, amongst others, community-based and non-governmental organisations; social movements; housing officials; housing professionals and students; and particularly from housing finance institutions officials as well as housing policy makers and planners. The recommendations are aimed at making housing end-user finance available and accessible by the poor, thus, in the long run closing the financial gap that exist in the low-cost housing market.

5.2 Summary

The study found that non-traditional lenders have created opportunities where they should have not existed by making loans available to the low income housing market. Their strategies to reach to the low and moderate income earners are bearing fruits because people who would not have accessed end-user housing finance due to their credit 'ratings', have accessed finance. Over and above that, NTRL's designed products that financially suit the

circumstances of the poor. All the institutions indicated that they have enough or adequate resources to assist the poor access necessary end-user housing finance. Furthermore, the financial year 1998/99 showed a boom in this housing market. In broad terms, disbursements and guarantees offered, and eventually the home loans extended, in this year doubled the efforts of the previous years. However, the study contends that although the products are reaching where none existed before, there are some elements that still make these loans undesirable, and that needs to be addressed urgently. The following factors need to be urgently addressed: the high costs of interest rates, the complexity of bond loans and some criteria that the poor could not afford: employer's payroll deductions. Furthermore, the study found that most set targets regarding the disbursement of loans and guaranteeing by both the NHFC and Nurcha still remain unmet. The study claims that both institutions' impact so far could be said to be just touching the tip of the iceberg, thus the demand for housing is still relatively high. Much could be blamed on "big" lending institutions' reluctance to engage themselves fully in this market regardless of the coax and the spadework done to make this market safe and healthy to lend to. Some scores of defaults and leakage of housing loans are counted. These financial institutions argue that it is risky as well as costly to administer small loans to the low income market. This eventually greatly undermines the initiatives and efforts of the NHFC and Nurcha to open the floodgates of housing finance to the poor: an open challenge for both these institutions to re-examine their strategies and impact. Basically, both the NHFC and Nurcha have so far had a limited but desirable impact as far as clearing financial obstacles which limit or repel housing lending institutions to participate in this market. To make this market an attractive one rests heavily on concerted effort from the lending institutions, Government- Department of Housing and of Law and Order in particular, and beneficiaries themselves.

The study established that Nurcha is working hard to popularize the savings concept in the housing finance lending arena. To that end, Agishana encourages borrowers to save before requesting a home loan and Ithala is introducing a Progress Home Loan product in the market. Furthermore, the study also found that the government housing subsidy amount granted is not only small to significantly build a bigger house, but the subsidy is also eroded by the levelling

of land and provision of infrastructure. These findings form a solid base for the study to draw conclusions and make some recommendations on the provision of housing end-user finance.

Conclusions

The study has indicated in the previous discussions that access to housing end-user finance still remains a big problem for the poor, and a big challenge to the government, housing finance institutions, policy-makers, developers, development organisations and housing researchers, professionals and scholars in South Africa. Devising strategies to facilitate easy access and, on the other hand, providing in abundance housing end-user finance to the poor households still tops the priority list in housing related issues. The study argues that although it compliments the trends and methods used by the Department of Housing and non-traditional lenders, much still remains to be done. For instance, only about half of Thembalihle settlement has so far accessed end-user finance. This state of affairs clearly shows the need and demand for housing finance in the country. This implies that end-user finance is still widely unavailable to the poor.

There are various reasons that the study found to be causing this sad state of affairs. First and foremost is that all the products made available to this market are market-related. For instance, all loans extended by the NHFC to intermediaries have interest charges that are market related. These lending intermediaries indicated that although the NHFC offers relatively "cheap money", it sharply contradicts with the reality that they are in the market to realise a profit: to keep running and to attract shareholders as well as satisfy their demands. In essence, it implies that for a borrowing institution to on-lend without running at a loss, it should charge its borrowers a little bit higher interest rates. The same could be said about Nurcha. To that end, both the NHFC and Nurcha should take more risk as a strategy to attract more funds. Strategies to increase their risk profile will be provided in the subsequent section.

Furthermore, there are critical areas that need to be addressed concerning the loans extended to the poor for housing purposes. Leakages greatly undermine the contribution made by these institutions. The study discovered that almost five per cent of all housing loans extended by Ithala are used for other purposes other than housing. Mr Seboya of Ithala claims that leakage

comes when the borrower's hands are tightened up by other factors like in a case where a family member is ill and needs urgent medical attention, or there is a pressing debt. Mr David of Agishana indicated that some clients used to request loans in order to repay another loan. Generally, both Agishana and Ithala maintain that there is nothing an institution can do once money is in a borrowers hands. To that end, Agishana insists that all loans extended be linked to a building materials supplier and builder to reduce or totally eradicate possibilities of leakage.

The study also found that there is little interest and reluctance regarding lending institutions entering this market. It has become a buzz-word that banks are reluctant to enter and lend into this housing market. Looking at the fact that it is almost five years after the establishment of the two government-initiated housing institutions, the reality on the ground is that banks are still reluctant to fully engage themselves in this market because they consider it risky for various reasons. Regardless of agreements and strategies to normalise and make this market attractive by, for instance, sharing the risks, banks have undertaken comparatively little ventures to lend to this market. West (2000:3) shows that banks have so far provided 78 000 low cost home loans valued at approximately R4 billion, as compared to the 50 000 a year they agreed to provide in 1995. Banks always put across same reasons to defensively justify their actions. Van Loggerenberg (2000:19) of ABSA Bank contends that the current environment of violence and crime in South Africa has discouraged many lending initiatives in the new market. The judiciary system is very relaxed in terms of generally addressing the property in default with regard to foreclosing. It has proven costly for lending institutions to repossess, to chase away the defaulters and to maintain such housing stock.

The Department of Housing and Nurcha assert that savings show commitment by the poor to their housing, and attract lenders to offer loans to this committed market. On the whole, savings attract lending institutions to lend to committed borrowers because they demonstrate the affordability and ability to continue paying for the loan; develop a culture of loan repayment; reduce dependency on loans; offer a platform to link poor people to traditional banks, and eventually serve as a reward for investing in housing. The study established that subsidy supplemented with savings enabled a large proportion of housing subsidy beneficiaries to gain

access to desirable housing. More importantly, savings reduce the amount to be borrowed as well as the term of repayments. Products like the Ithala's Progress Home Loans can have a desired impact given the stimulus that the saving concept had been around for a considerable time among black communities. A household's ability to borrow is determined by its muscle to save. Therefore, what is needed is to consolidate and give a direction to what the communities had been doing all along. Moreover, incidences of finding the poor over-borrowed are minimised.

Recommendations

The study established that there is still a great demand for housing end-user finance. Thus far, there has been just a piecemeal approach on the mobilisation and provision of end-user finance. Essentially, to significantly increase the scale at which non-traditional lenders are providing housing end-user finance, it requires new approaches and innovative thinking that will consolidate and intensify the present approaches.

The study established that lending institutions have the potential and resources to contribute considerably in the low income housing market, and their reluctance has far-reaching effects as far as providing the most needed housing end-user finance. To counteract their reluctance, the Department of Housing should, in collaboration with the Department of Justice, initiate strategies in terms of Bills and Acts that should address risks and defaults: which are the main repellents to financial institutions towards total engagement in the low cost housing market. Such Bills should specifically introduce stringent laws in terms of property rights, law of contract, and most importantly, policing and justice which will be followed by courts of law when they have to undertake the due processes of law. The draft Home Loan and Mortgage Disclosure Bill (HLMDB) is an example in point and it looks promising. The Bill is primarily aimed at promoting fair lending practices by housing finance institutions that provide home loans. The Department of Housing (2000) indicates that the Bill requires, inter alia, that lending institutions disclose certain information in their reports and annual financial statements regarding the home loans they have extended; to promote the sustainable provision of home loans to under and un-served segments of the population; to empower the Minister to

introduce measures through regulations; and to establish an Office of Disclosure to monitor compliance with the disclosure.

This initiative deserves to be complimented for the principles it outline, notwithstanding the fact that such lending institutions have shown a tendency of not adhering to what they agree upon or promise. The reluctance or lack of commitment displayed by lending institutions so far leaves much at stake. Therefore, a new direction has to be paved to significantly make housing finance available to the poor. The study proposes that a compulsory lending scheme in a sort of Community Reinvestment Act should be implemented. For instance, a situation where financial institutions are required to contribute at least 10% of their profits to housing could have a desired impact. This approach is in line with what is called social spending or investment, which every company is expected to do. In this case, financial institutions should plough back to the poor through housing, which most companies are currently doing. According to the Corporate Social Investment Handbook (1999), South African companies spent R82 million on housing projects in 1998, and these figures only represent at least five percent of the total R1630 million invested by local companies for the financial year 1998 only. This approach can have a big impact in housing finance. However, there should be some generous incentives for institutions that provide such housing funds in order to attract more funds. An incentive in terms of tax reductions or exemptions could be appropriate.

Furthermore, the Home Loan and Mortgage Disclosure Bill should not be seen as an end in itself, but as means to an end. The Bill should be considered as a mechanism to foster and nurture a sense of partnership between the government and the private sector, as well as to encourage non-traditional lenders and other housing finance institutions to truly commit themselves in the low income housing market, rather than to force them to lend to the low-cost housing market. Basically, the Bill is commendable for bringing forth strategies that could make housing end-user finance readily available to the poor. In order for the Home Loan and Mortgage Disclosure Bill to be implemented quickly, efficiently and successfully without drawbacks, stringent supervision measures need to be put in place. In essence, a research study on how to strategically, in legal and financial terms, implement the Bill would be most

appropriate and befitting. This is a strategy to reduce loopholes and avoid drawbacks that beset the 1995 Record of Understanding's promising agreement.

The study acknowledges and appreciates the supervisory role the NHFC and Nurcha offered to Agishana and Ithala, and thus recommends that they should work closely with some retail lenders, as well as local governments and developers to significantly provide end-user housing finance. The view has already been expressed that they should considerably increase their impact by significantly broadening their client base in order to have the necessary and desired impact. There are many strategies that they can follow to amicably do that, but one way should be through diversifying and intensifying their activities as well as decentralising offices to respective provinces and regions in South Africa. With regards to decentralisation, both the NHFC and Nurcha should open offices in all the regions of South Africa. This is with a view that once they are in the respective regions, they will have the capacity to network effectively with other stakeholders like the retail lenders, developers, and local authorities. Basically, through networking they will be impacting more positively in terms of providing services, than when they are operating from one central office. A scenario is envisaged that these active satellite offices will establish a rapport with intermediary lenders, developers and local government authorities. Thus, they should work closely with retail lenders so that they should maintain their supervisory role and develop platforms where they can further influence their funding programmes. Agishana has indicated that lending is more efficient on project-based lending than on individual-based lending projects. Therefore, the NHFC need to move a step further into a new phase and establish a rapport with strong and efficient local governments and developers. The study envisages a scenario where all housing projects are packaged either through the local government or development trusts. For instance, in case of the local government, the NHFC will work hand in glove with the local government in providing end-user finance. Housing projects are packaged up-front so that people can get loans from the NHFC through the Gateway, local authorities or other intermediary lenders. This approach can have far reaching benefits because local authorities have an added advantage of using the already existing billing system. However, the local authority should not be seen as the risk taker in this situation. Nurcha should guarantee local authorities on such endeavours.

On the whole, both the NHFC and Nurcha should establish a path where intermediary lenders should link their activities with building material suppliers and constructors. This might look costly, but would limit cases of leakage and enhance the scope of activities. The study has established that some households end up using housing loans for other purposes. In essence, a situation where money is linked and paid to building materials suppliers and builders than to the borrower's hands is appreciated. Leakages are drawbacks to housing delivery because an institution will count the number of loans extended as the impact they have made on beneficiaries, hence the money has been used for other things.

The NHFC, and Project Gateway in particular, is on the right path and seemingly is doing satisfactorily well in terms of mobilising end-user housing finance for the moderate income earners. Generally, the NHFC has shown considerable impact in servicing this market. Thus, they should initiate strategies to descend the income level ladder to the lowest income market as well. A product like Gateway Home Loans should be initiated to cater for the low income people outside the employer's payroll. In essence, end-user housing finance needs of people outside employers' payroll are equally or even important as those on employer's payroll, and, are the ones who should be catered more because some banks are already catering for the moderate income group who are in the employer's payroll. Basically, the GHL needs to intensify its lending on the moderate income market as well as devise new strategies to cater for those outside the employer's payroll. This is aimed at broadening their scope to cater for the low income earners. It is paramount to indicate that Agishana's lending strategies and involvement to this market has proven that it is possible to lend successfully to the "unbankable" low income people.

The study established that the government-initiated housing finance institutions have been prudent enough in their end-user housing finance mobilising strategies, in essence, they should get more involved than they are doing now. However, the answer does not only lie on making this low-cost housing market look attractive, but also involves developing strategies to make it less risky, lucrative and safer to lend to through designing credit instruments that are appropriate to the circumstances of the poor, as well as streamlining their activities. The two institutions should devise strategies that will specifically allay housing finance institution's fears

in general, and attract the establishment of more retail lenders in particular, to this housing market. To achieve that, they should address factors related to the defaults and non-payment. This state of affairs could possibly be attained when the poor are actively involved in their housing process. Basically, both the NHFC and Nurcha should strive to improve cost recovery strategies as well as encourage domestic mobilisation of resources in terms of savings. To attain that, the Department of Housing should instill a sense of responsibility and encourage borrowers to repay their loans, foster the concept of saving before requesting for a loan, as well as revitalise the due processes of law. A solid foundation in terms of savings exist in the communities. The study argues that savings offer various advantages because it demonstrate the affordability and ability to continue paying for the loan, instill a culture of loan repayment, as well as reduce dependency on loans and government funds. What is needed is to encourage and formalise saving activities.

The savings concept holds more hope to the provision of end-user housing finance. In essence, the housing policy's recognises the importance that savings could play in mobilising housing finance for the poor. The Housing White Paper acknowledges that savings by the poor can play a crucial role in terms of opening access to end-user finance. The Housing White Paper (1994:30) indicates that it intends to implement a savings linked credit scheme (SCS) through which individuals will be able to secure credit when they participate in such schemes. To that end, the study recommends that the savings component should be afforded the status it deserves in the housing policy, and that should be seen being practically done than said. Thus far, little efforts had been made to see this happening. Recently, lending institutions are introducing these schemes with caution. Ithala is one of those institutions. These schemes have a potential to impact positively in the housing provision. The efforts made by the Cape Town Community Housing Projects (CTCHP) are commendable. The Cape Town Community Housing Projects have a close working relationship with the local council. They essentially encourage beneficiaries to save before requesting for financial assistance. Furthermore, they package their housing projects in such a manner that their beneficiaries who had saved in the scheme could combine the government subsidy grant and their saved funds to erect a bigger structure. In essence, the housing policy should encourage the poor to save before going to a housing finance lending institution. This could be best achieved by introducing incentives to

those who save. For instance, packaged loans with low interest rates to those who save can make a significant difference. The fact that for a long time the poor had been organised into structures like stokvels and savings clubs for saving purposes offers a fertile ground for this scheme to succeed.

Over and above that, the state housing subsidy grants should be linked to savings for those who can, and have the ability to save. To amicably achieve this desirable state, the state needs to put more emphasis on savings by mobilising other players in the housing fraternity to develop housing savings schemes intended solely for housing purposes. This category calls a lot of players into the field. It broadly includes, amongst others, housing finance institutions; housing support institutions; public and private sector departments; parastatals; developers; non-governmental and community-based organisations; as well as new and already established saving schemes and clubs. These institutions' concerted efforts in encouraging and bringing the poor together to save for a cause is mostly needed in an attempt to bridge the credit gap in the housing sector. The benefits that may accrue from such initiatives really goes beyond the financial benefits and spread to other spheres of housing and social integration in general. Communities should further be assisted in terms of maintaining their property. Moreover, strategies should be established to assist those who can not afford to participate in the savings scheme. They should be afforded an opportunity to contribute through sweat equity. This could apply equally to those who can participate in the savings scheme. This set-up has advantages of encouraging state subsidy beneficiaries individually and as a community to contribute in their housing.

To achieve that, the government should establish a National Housing Savings Scheme which will co-ordinate and stimulate savings activities. This scheme will work closely with the National Housing Development Bank (the essence of the bank will be discussed in the following paragraphs). In essence, the scheme may be considered as a subsidiary or sister company of the bank. The government should provide the scheme with the initial working and administration funds, but the scheme will depend largely from the savings the poor put for its functions. As a strategy of attracting a broad client base and stimulating savings, the scheme should offer high interest rates as well as lend at reasonably low interest rates. To

successfully achieve this in a volatile market, the government should deliberately and calculatedly draw regulations that assist the scheme in terms of Usury Acts. Furthermore, the National Housing Development Bank will have the required funds to do that because it has a broad base of funds generated from the Compulsory Reinvestment Act, as well as the capacity to raise the necessary funds in the financial market. All these approaches are aimed at reducing the risks related to lending to the poor. However, the activities of the national bank should not be seen as an end on its own right. This institution should proactively take more risks than any other institution as a means of increasing its impact on the set mandates by increasing its involvement by working closely with intermediary lenders and beneficiary communities.

Furthermore, the study maintains that to provide end-user housing finance in a sustainable and efficient manner calls for the unification of the two government-initiated housing finance institutions. The study argues that there is need to amalgamate both the National Housing Finance Corporation and the National Urban Reconstruction and Housing Agency to one National Housing Development Bank (NHDB). A careful analysis of the advantages that may accrue indicates that the move will greatly remove the superfluous competition between the two, and will effectively help channel activities and resources towards one goal. The fact that it is a housing development bank allows the said institution to be diverse in order to include in its operations, some principles of a development corporation and those of a bank. Thus, the proposed National Housing Development Bank will act as a one-stop market for housing finance, and will reduce operational costs of both these institutions. Another advantage is that the merging of the two will provide and combine a wide range of expertise, ideas and resources from both these institutions which in the long run will have a positive impact towards the mobilisation of housing end-user finance. The National Housing Development Bank will continue to attract its funds in the same way that the National Housing Finance Corporation and National Urban Reconstruction and Housing Agency are doing. The activities of the proposed housing development bank have to be streamlined and integrated so that there are concerted actions in the provision of housing finance. This is primarily aimed at reducing the competition amongst the various sections of the institution and to have a positive impact in the housing market.

There is also a need to encourage and form specialised housing finance institutions that will solely deal with end-user housing finance. This approach draws much from the success stories of the specialised end-user housing finance institutions like Agishana Credit Company. Over and above that, this approach will also ensure that the principles outlined in the draft Home Loan and Mortgage Disclosure Bill (HLMDB) are applied with ease. For instance, it will be easier for the government to regulate these specialised institutions. Thus, the advantages that accrue are not only that these specialised institutions will make end-user housing finance available, but will also be fair and transparent to the poor in their lending practices. Moreover, they will always try to experiment new lending products in the market, thus diversifying their products and reaching out. This move is commendable because it will make it easier to assist and regulate the activities of the retail lenders; a principle highly held in the Home Loan and Mortgage Disclosure Bill.

The study would also like to pay particular attention to one factor that instigates the need for housing credit. It is paramount to indicate that the study acknowledges and appreciates the efforts made by the Government, and the Department of Housing regarding provision of housing finance in terms of capital subsidies to the poor. Observations from the delivery trends show that the pace of delivery is just moderate and seem far from reaching and matching or meeting the housing demand. This is due to many factors. These factors are, inter alia, the department has little funds to carry out or fund all projects in the waiting list, the government capital subsidy is so little to produce a bigger structure, and at most, is eroded due to support infrastructure and service provision and it takes a long time for either the National or the Provincial Housing Development Board to approve a housing project. Furthermore, housing as a concept is defined broadly in that it involves the provision of other related services and infrastructure other than core houses. To that end, in most housing projects the Department of Housing tries to produce "liveable" environments with necessary supporting infrastructure like roads, water, electrification and sewage because the other departments responsible with the provision of such services either have other priorities on their delivery lists or limited funds. This condition coupled with the fact that most areas of Kwazulu-Natal need some "working" before construction begins, further erode the state housing subsidy funds. For

example, about R28 000.00 from the house price at Pioneer Park was used to level the area while in Thembalihle about three-thirds of the subsidy amount was used to provide related infrastructure. An amiable solution lies in the collaborative functioning of all departments: Health, Housing, Public Works, Education, Water Affairs, etcetera which are responsible for providing the necessary services and infrastructure. These departments should consciously establish an Infrastructure Provision Fund (IPF) that should be centrally managed by the housing department, but closely monitored by all departments involved. The fund should specifically aim to provide the services and supporting infrastructure to new housing projects. Thus all low cost housing projects can on the one hand have basic supporting infrastructure and bigger core houses on the other.

By and large, this study opened many avenues that need to be thoroughly looked at. Thus, it recommends that more research be conducted to broadly unveil the intricacies related to the access and availability of end-user housing finance. As indicated initially, research on how to successfully implement the Home Loan and Mortgage Disclosure Bill is necessary to reduce loopholes. Furthermore, research will be imperative on how to implement the Community Reinvestment Act, how to effectively rejuvenate the legislation related to the undertaking of the due processes of law, as well as how to set up the National Housing Development Bank, together with its subsidiary companies.

The study has substantiated the hypothesis that the scale at which non-traditional lenders are providing end-user finances to the low income households need to be increased. It also showed the achievements as well as established problems that relate to lending to the low income market. The study maintains the view that there is a potential to make end-user finance available to the low income housing market at scale because so far lending institutions have successfully lent to the poor. Thus far, it provided feasible strategies that can be employed to broaden their lending capacity. In a nutshell, what is needed to significantly provide housing end-user housing finance to this market is to focus energies of both the NHFC and Nurcha towards the poor's housing credit rather than the piecemeal actions they have displayed so far, as well as through both the NHFC and Nurcha's continual development of products and by testing initiatives that attract lenders to this housing market. Furthermore, it could be achieved

through the amalgamation of both the NHFC and Nurcha's activities, fostering saving schemes, establishment of more lending institutions, as well as commitment to innovatively devise and introduce new lending products to cater for this market. The study maintains that the recommendations provided could meaningfully create a condition whereby end-user housing finance is readily available and accessible to the poor.

Herein lies the cue.

REFERENCE LIST

- Adebayo, P. W. (1999) *Enabling the Enabling Approach to Work*. A Paper Presented in a Conference.
- Build Environment Support Group (BESG). (1999) *An Assessment of Low Income Housing Projects in Pietermaritzburg and Review of the Role of Local Government with the Recommendations for Future Practice*. Final Draft, June 1999
- BESG (1999a) Towards the Right to Adequate Housing. Nov Issue.
- Boleat, M. (1985). National Housing Finance Systems: A Comparative Study. Croom Helm Ltd: Australia.
- Bond, P. and A. Tait. (1997) *The Failure of the Housing Policy in Post-Apartheid South Africa*. Urban Forum. Vol. 8, No. 1
- Cohen, D. (1982) *Financing the Acquisition of Premises* in Business Property Handbook. The Pitman Press: Great Britain.
- Corporate Social Investment (1999) Corporate Social Investment Handbook 1999.
- Department of Housing (2000) *Legislation*. <http://www.housing.gov.za/legislation.html>
- *De Waal, S. (1999). *Revisiting Current South African Housing Policy: Towards the Development of a Holistic Housing Policy*. Unpublished MSc Thesis: University of Natal.
- Durban Metro Housing. (1999) *A Strategic Housing Framework for the Durban Metropolitan Area: Draft for Discussion Purposes*. Feb Issue.
- Financial Mail. *Rising Costs- Shrinking Core Housing*. Feb 09, 1996.
- Gibb, K. (1991) Housing Finance in the UK: an Introduction.
- Gavor, C.K. (1997) *The Role of Non-Governmental Organisations in Low-Cost Housing Provision for the Poor: Case Study of the Small projects Foundations (Eastern Cape Province)*. Unpublished MSc Thesis: University of Natal.
- Gateway Home Loans (2000) Gatewayhomeloans.co.za
- Govender, S. (1997). *The Group Credit Associations: An Innovative Approach to the Realm of Housing Finance Using the Wiggins Fast Track Housing Project as a Case Study*. Unpublished MSc Thesis: University of Natal.
- Hendler, P. (1999) *Best Practices in Employee Housing*. Housing Southern Africa: May Issue.

- Hendler, P. (1999) *Living in Apartheid's Shadow: 25 Years of Housing and Urban Policies in South Africa*. Housing Southern Africa: May Issue.
- Holt, S.L. and H. Ribe: (1991) "Developing Institutions for the Poor and Reducing Barriers to Access for Women". World Bank Discussion Paper No. 117. Washington, D.C.
- Hossain, M. (1988) *Credit for Alleviation of Rural Poverty: The Grammen Bank in Bangladesh*. Research Report: International Food Policy Research Institute.
- Housing Agenda (1999) *Housing Agenda*. National Housing Finance Corporation: Johannesburg.
- Housing Southern Africa (HAS) (1998) *Some Thought from the Director-General: Suggestions on how to Overcome Housing Problems*. Housing Southern Africa. Feb Issue
- HSA (1999) Housing Southern Africa. May Issue.
- HSA (1999a) *Gateway to Offer Home Loan Borrowers Further Attractive Option in 2000*. Housing Southern Africa. Feb Issue.
- HSA (1999b) *Unibank: Housing Southern Africa*. May Issue.
- HSA (2000) *National Housing Finance Corporation (NHFC): Creating Housing Opportunities for Low and Moderate-Income Families*. Housing Southern Africa. Sep Issue
- Housing White Paper (1994) Department of Housing White Paper: A New Housing Policy and Strategies. Pretoria
- Ithala Development Finance Corporation Limited (Ithala). (1999) Annual Report 1999.
- Ithala (1999a) *History*. <http://www.ithala.co.z/corpinfo/history.html>
- Ithala (1999a) *Housing Development*. <http://www.ithala.co.za/housing/housedev2.html>
- Ithala Nawe (2000) *Izindaba Eniziphatwele Inhlangano Yokubolekisa Nokutshalwa Kwezimali Kwazulu-Natal*. July 2000
- Jorgensen, N.O. (1975) Housing Finance for Low Income Groups: With Special Reference to Developing Countries. Bouwcentrum: Rotterdam.
- Leedy, P. D. (1986) Practical Research: Planning and Design. Macmillan, New York
- Legodi, T.V. (1998) *The Role of Housing Associations in Meeting Housing Needs and Upgrading the Socio-economic Conditions of Low-income People*. Unpublished MSc Thesis: University of Natal.
- Madonda, N. (1998) *Housing Delivery Within Local Government: Case Studies of*

- Ladysmith – eMnambithi and Kwadukuza Municipalities*. Unpublished MSc Dissertation. University of Natal.
- McGurre, C.C. (1981) *International Housing Policies*. Toronto, DC Heath & Co.
- Mjekula, A. (1998) *Are Banks Helping or Retarding Progress? Housing Southern Africa*: May Issue.
- Mortgage Indemnity Fund Annual Review (1996)
- National Housing Finance Corporation (NHFC) (1998) Annual Report
- NHFC (1999) Annual Report
- NHFC (1998) *The Interest Rate Debate in South Africa*
- National Urban Reconstruction and Housing Agency (NURCHA) (1998) Annual Report
- NURCHA (1999) Annual Report
- NURCHA (2000) Annual Report
- NURCHA (1998) *The Macro Challenge*. <http://www.sn.apc.org/nurcha/house.html>
- NURCHA (1999a) *National Urban Reconstruction and Housing Agency*.
<http://www.housing.gov.za/RelevantLinks/institutions/nurcha.html>
- NURCHA (1999b) *Nurcha's Role*. <http://www.sn.apc.org/nurcha/house.html>
- NURCHA (1999c) *Nurcha's Funding*. <http://www.sn.apc.org/nurcha/house.html>
- NURCHA (1999d) *Nurcha Project Support Policy*. <http://www.sn.apc.org/nurcha/house.html>
- Oelofse, M. and C. Van Gaas. (1992) *Working Group on End-User Finance and subsidies*. Report Prepared for the National Housing Forum.
- Pearce, K.S. (1997) *Low-Income Housing Finance: The Missing Link Within the Current State Assisted Incremental Delivery Approach*. Unpublished MSc Thesis: University of Natal.
- Phillip, M. (1999a) *Ithala Launches Bold Initiative to Bank the Unbankable*. Ithala Media Release, May 1999.
- Phillip, M (1999b) *R22 Million Housing Injection for Kwazulu-Natal and Small Savers Rack up R560 Million in Savings*. Ithala Media Release, June 1999.
- Quigley, J.M. (1997) The Economics of Housing Vol II: The International Library of Critical Writings in Economic 85. Edward Elgar Publishing, Inc.
- Record of Understanding
- Reekie, W.D., G.S. Lingard, and M.B. Cohen. (1989) Elements of South African business

- Finance. Sigma Press: Pretoria.
- Reinke, J. (1997) *Does Solidarity Pay? The Case of the Small Enterprise Foundation, South Africa.*
- Reinke, J. (1998) *How to Lend like Mad and Make Profit: A Micro-Credit Paradigm Versus the Start-up Fund in South Africa.* The Journal of Development Studies: Vol. 34, No. 3. Feb'98.
- Renaud, B. (1984). *Housing and Financial Institutions in Developing Countries.* Chicago International Union of Building Societies.
- Rust, K. and S. Rubenstein. (1996) A Mandate to Build: Developing Consensus Around a National Housing Policy in South Africa. Ravan Press: Johannesburg.
- Shell Road Atlas (1997) Shell Road Atlas of Southern Africa: 13th Ed.
- Sigcau, L.S. (1997) *The Extent to Which The Mortgage Indemnity Scheme Facilitates Access to Housing Credit From Private Financial Institutions to Low-Income Households in the Formerly Redlined Areas.* Unpublished MSc Thesis, University of Natal.
- Smit, D. (1998). *Housing Sector Review Paper.* Unpublished Paper. Durban Metro Housing Unit.
- Stout, H. (1998) *Funding the Little Fella: The NHFC Says they may have a Solution to Fill this Funding "Black Hole" in the Loan Market.* Housing Southern Africa. May Issue.
- Theiler, M. (1989) *The Barefoot Bank.* Discovery, June.
- Thomas, J.J. (1995). "Replicating the Grameen Bank-Latin American Experience". Small Enterprise Development: Vol. 2. No. 2.
- Tomlinson, M. R. (2000) *International Union for Housing Finance: South African Housing Data and Information-1999.* The Banking Council: South Africa.
- Tomlinson, M. R. (1998) *Rental and Rent-to-Buy Projects now Vital to Affordable Housing Effort- Home Loan Guarantee Company.* Housing Southern Africa. October Issue
- Tomlinson, M.R. (1997). *Mortgage Bondage?: Financial Institutions and Low-cost Housing Delivery.* Research Report No. 57.
- Turner, J.F.C. (1989) Building Community: A Third World Case Book. Habitat International Coalition, London.

- United Nations Centre for Human Settlements (Habitat). (1984) Promotion of Non-Conventional Approaches to the Housing Finance for the Low-Income Groups. Nairobi
- UNCHS (1992). Improving Shelter: Actions by Non-Governmental Organizations (NGOs): Global Strategy for Shelter to the Year 2000. Nairobi.
- UNCHS (1994). Case Studies of Innovative Housing Finance Institutions. Nairobi
- Urban Sector Network (USN) (1998) Urban Sector Network Yiba Yingxeny
- Usury Act No. 73 of 1968
- Van Loggerenberg, E. (2000) *The ABSA Experience.* Housing Southern Africa. April Issue
- Van Vleit, W. (1998) The Encyclopedia of Housing. SAGE Publications: London.
- West, E. (2000) *Government to Build Carrot and Stick into New Housing Law.* Business Report, 13 September 2000. p3
- World Bank (1993) *Employment, Building Materials and Enabling Development.* International Technology Publications: London
- Xakaza, N. S. (1999) *An Investigation into Low Income Housing Consolidation: A Case of Ntuthukoville in Pietersmaritzburg.* Unpublished Masters Thesis. University of Natal: Durban

APPENDIX 1**Interview Questions for Mr M. Pillay: General Manager of NML-NHFC**

1. What is your institution's mode of operation?
2. What lending services do you offer for housing?
3. Who comprises your clientele?
4. What is your target group in terms of income levels?
5. What is your lending criterion?
6. How many financial assistance applications do you receive in a year?
7. Are you able to finance all your applicants; if not, why?
8. What proportion of the overall applicants are you able to finance?
9. How many applications have you turned down in the financial year 1998/99?
10. How many lending institutions do you lend to?
11. How many institutions did you help kick-start their operations?
12. How many were already established?
13. What are their names?
14. Which ones from both the new and established are found in Kwazulu-Natal?
15. Are your sources of finance adequate for your services/operations?
16. How do central government housing budget cuts affect the availability of housing credit in general, and your activities in particular?
17. What do you consider as security for loans?
18. How do you ensure loan repayments?
19. How far has the NHFC managed to influence the process of on-lending money by retail lenders?
20. What lending products are available to the self-employed, informally employed and the unemployed?
21. How do you see the role of Non-Traditional Lenders (NTRL's) in providing housing end-user finance to the poor?
22. How do you assist your borrowing institutions to be self-sufficient? And how effective are your strategies?

- 23 Do you keep track of the institutions you lend to?
- 24 If yes for (23), how?
- 25 What role can consumer/customer education play in the mobilisation of housing finance?
- 26 What are the critical changes that have taken place over time in terms of what the aims and objectives of your institution were?
- 27 Why were they necessary?
- 28 Were there alternative strategies to reach further down the market, especially to the informally employed, self-employed and the temporarily employed?

- 29 What role can direct savings by the poor play in the provision of housing finance?
- 30 Should savings be incorporated into the housing subsidy scheme?
- 31 Is there a need for a government housing policy change regarding the provision of housing finance to the poor?
- 32 How do you rate your success in meeting your objectives, and in meeting the overall housing finance/credit needs among low-income households?
- 33 Is the NHFC based on any international experience(s), if so, what is its model/s?

APPENDIX 2

Interview Questions for both Ms N. Mjoli-Mncube (Deputy CEO) and Ms S. Mthwecu (End-User Manager) of Nurcha

1. What are your sources of finance?
2. What is your mode of operation?
3. What lending services do you offer for housing?
4. What is your criterion for lending?
5. What is your income target group?
6. How many financial assistance applications do you receive in a year?
7. Are you able to guarantee all your applicants? If not, why?
8. What proportion of the overall applicants are you able to guarantee?
9. How many applications have you turned down in the financial year 1998/99?
10. How many lending institutions do you lend to?
11. How many institutions did you help kick-start their operations?
12. How many were already established?
13. What are their names?
14. Which ones from both the new and established are found in Kwazulu-Natal?
15. What do you consider as a guarantee/security for loans for your clientele? ✓
16. How do you ensure repayments? ✓
17. How far has NURCHA managed to secure guarantees for housing the low-income households?
18. How does government budget cuts affect your operation, and your guaranteeing activities in particular?
19. What services are available for the self-employed and unemployed?
20. What are the critical changes that have taken place over time in terms of what the aims and objectives of the institutions were towards the provision of housing credit to the poor?
21. Are there chances that the NTRL's can become the secondary market?
22. What could you, till this far, claim to be your biggest break through and problem areas ✓

regarding guaranteeing the poor? why were they necessary?

- 23 How do you rate your success in terms of meeting your objectives, and in meeting the overall housing finance/credit needs among low-income households?
- 24 From your analysis of your operations so far, how do you see the role of your institution in the future regarding the provision of end-user finance to the poorest?
- 25 Is Nurcha based on any international experience/s?, if so, what is its model/s?

APPENDIX 3

Interview Questions for:

Mr G. Seboya of Ithala

Mr S. Martin of Ithala

Mr C. W. Venter of Ithala

Mr L. David of Agishana Credit Company

- 1 What lending services do you offer for housing?
- 2 What is your target group?
- 3 What is the lowest income group that you cater for and why?
- 4 What is your criterion for lending?
- 5 How many home loan applications do you receive in a year?
- 6 Are you able to finance all your applicants, if not why?
- 7 What proportion of the overall applications have you financed?
- 8 How many home loan applications have you turned down?
- 9 What are some of the reasons for turning them down? ✓
- 10 How would you describe/characterise your loan book? ✓
- 11 Are your sources of finance adequate for your operations towards reaching the poor? ✓
- 12 What are the sizes of your loans? ✗
- 13 Do you give non-collateral loans? If not, why? ✓
- 14 Do you give loans specifically tailored for incremental housing purposes? ✗
- 15 What do you consider as a guarantee/security for loans for low-income people?
- 16 How do you ensure loan repayments? ✗
- 17 What is the content of your Chic training course?
- 18 What do you teach borrowers about loans? ✓
- 19 How are the chances of finding the poor over-borrowed due to many small loans? ✓
- 20 Are mortgage loans appropriate for the low-income groups? ✓
- 21 What lending services are available for the self-employed, informally employed and unemployed? ✓
- 22 What role can savings by the poor play in the provision of housing finance; and should savings be incorporated into the housing subsidy scheme?

- 23 What are you doing to savers to induce them to use their savings for housing purposes?
- 24 What is the kind of relationship between your institution and NURCHA?
- 25 How did your relationship with NURCHA started?
- 26 How is NURCHA involved in your lending functions and project they undertake?
- 27 How do guarantees offered by NURCHA encourage you to reach further down the market?
- 28 How does it impact on your operations to reach further down the market?
- 29 Are you satisfied with the way Nurcha operates in the provision of end-user finance?
- 30 Is there a need for Nurcha to extend its scope and involvement in its guaranteeing activities?
- 31 What are the activities that you think NURCHA should also include in their operations?
- 32 Which ones should they do away with?
- 33 How do you rate Nurcha's success in terms of meeting its objectives, and in meeting the overall housing finance/credit needs among low income households?
- 34 What is the kind of relationship between your institution and the NHFC? ✓
- 35 How did your relationship with the NHFC started? ✓
- 36 How is the NHFC involved in your lending activities? ✓
- 37 Does your relationship with NHFC encourage you to reach further down the market? ✓
- 38 How? ✓
- 39 What can you claim to be the benefits to your institution and its operations that accrue due to your involvement with the NHFC? ✓
- 40 Does your relationship with the NHFC encourage you to lend to markets you were not actively involved with before? ✓
- 41 What can you claim to be the NHFC success in terms of meeting the overall housing finance / credit needs of the low-income households? ✓
- 42 What can you identify to be the NHFC's problem areas as far as providing end-user finance to the poor? ✓
- 44 Should the NHFC change its lending role? ✓
- 45 How? ✓
- 46 Are you satisfied with the way NHFC operates in the provision of end-user finance? ✓

- 47 Is there a need for NHFC to extend its scope and involvement in its lending activities?
- 48 What are the activities that you think NHFC should also include in their operations? ✓
- 49 Which ones should they do away with? ✓
- 50 How do you rate NHFC's success in terms of meeting its objectives, and in meeting the overall housing finance/credit needs among low income households? ✓
- 51 What are the other housing finance institutions that you are involved with?
- 52 How possible can you extend your involvement to reach the self-employed, informally employed and the unemployed? ✓
- 53 What could you, till this far, claim to be your biggest break through and problem areas regarding reaching the poor? ✓
- 54 How do you rate your success in terms of meeting your objectives, and in meeting the overall housing finance/credit needs among low-income households?
- 55 What are the critical changes that took place over time in terms of what the aims and objectives of the institutions were towards the provision of housing credit to the poor?
- 56 Why were they necessary?
- 57 Of all your lending products, which one would you claim to be flexible and reaching to the poor of the poorest?
- 58 How do you think Ithala Progress Home Loans will impact on your operations?
- 59 From your analysis of your operations so far, how do you see the role of your institution in the future regarding the provision of end-user finance to the poorest? ✓
- 60 What does Ithala means?/ What does Agishana means?
- 61 How does the name shape your lending activities?

APPENDIX 4**Interview Questions for Mr Les Botha of Elangeni Projects**

- 1 How did the Pioneer Park housing project started?
- 2 How did you get involved in Pioneer Park project?
- 3 How did you hear / learn about Ithala's existence and functions?
- 4 How did Ithala get involved in Pioneer Park?
- 5 If you approached them, were there other lending intitutions you approached?
- 6 What were their responses?
- 7 If they had approached you, what was the underlying reasons for them to approach you?
- 8 Were there other lending institutions that approached you?
- 9 Can you broadly explain Ithala's involvement in Pioneer Park?
- 10 What was the cost of the project?
- 11 What was Ithala's lending criteria?
- 12 What was the lowest income group that was catered for, and why?
- 13 How is its involvement towards helping those earning below R1 000.00?
- 14 What type of houses were provided?
- 15 What is the cost range of the houses?
- 16 What is the range of the loans that beneficiaries received?
- 17 How is the level of loan repayments?
- 18 What are the financial problems that you encountered during the project?
- 19 What can you say to be Ithala's observable benefits to the Pioneer Park community?
- 20 How do you rate Ithala's operations in terms of meeting its objectives, and in meeting the overall housing finance/credit needs among low income households in Pioneer Park?
- 21 What can you identify to be Ithala's problem areas as far as providing end-user finance to the poor households at Pioneer Park?
- 22 Are you satisfied by the way that Ithala operates towards the provision of end-user finance in Pioneer Park?

- 23 What are the activities that you think Ithala should also include in its operations?
- 24 From your analysis of Ithala's operations so far in Pioneer Park, how do you see its role in the future regarding the provision of end-user finance?
- 25 Is there a need for Ithala to extend its scope and involvement in its lending activities?
- 26 Why?
- 27 How?
- 28 Was the project more successful for having been involved with Ithala?
- 29 Was the National Housing Finance Corporation (NHFC) involved in Pioneer Park?
- 30 If yes, how did it get involved?
- 31 What was the nature of their involvement?
- 32 What were the benefits that accrued due to their involvement?
- 33 Was the National Urban Reconstruction and Housing Agency (Nurcha) involved in Pioneer Park?
- 34 If yes, how did it get involved?
- 35 What was the nature of their involvement?
- 36 What were the benefits that accrued due to their involvement?
- 37 Were there other housing institutions that you were involved with at Pioneer Park project?
- 38 If yes, who are they, and what was the nature of their involvement?
- 39 What was their impact on the project?

APPENDIX 5

Interview Questions for Housing Professionals and Researchers

Prof. D. Smit : **Former CEO of Durban Metro Housing**

Ms M. R. Tomlinson : **South African Banking Council, Managing Director.**

1. What does the government housing policy say about Non-Traditional Lenders (NTRL's)?
2. Are NTRL's in South Africa modelled from any experience/s?
3. Are NTRL's lending strategies appropriate for the circumstances of the poor?
4. What are the reasons for the poor to be underserved by financial institutions and problem areas regarding reaching the poor?
5. What are the biggest breakthroughs to date regarding providing end-user finance to the poor?
6. Is the NHFC doing enough to mobilise housing finance for end-users?
7. If no for (6), what are the necessary changes needed?
8. Are lending portfolios offered by the NHFC enough to attract retail lenders to lend to the lowest income housing market?
9. How do you rate the NHFC's success in terms of meeting its objectives, and in meeting the overall housing finance/credit needs among low income households?
10. What impact can direct lending to individuals, rather than lending to retail lenders by the NHFC have?
11. Is the Nurcha doing enough to mobilise housing finance for end-users?
12. If no for (11), what are the necessary changes needed?
13. Are guarantees offered by Nurcha enough to attract retail lenders to the lowest income housing market?
14. How do you rate Nurcha's success in terms of meeting its objectives, and in meeting the overall housing finance/credit needs among low income households?
15. Are the self-employed, informally employed well-catered for by retail lenders?
16. What could be done to help NTRL's reach the lowest strata?

- 17 Were/are there alternative ways that could have/would be taken to open the flood gates of housing finance to the poor?
- 18 Is there a need for a policy change regarding the provision of housing finance to the poor?
- 19 What role can consumer education by lending institutions play in the provision of end-user finance, and are housing finance institutions doing enough in this regard?
- 20 What role can direct savings by the poor play in the provision of end-user finance?
- 21 Should savings be incorporated into the housing subsidy scheme?
- 22 Are there other possible strategies that could be employed to mobilise housing funds?
- 23 Are NTRL's best suited to lend to the poor?
- 24 Are mortgage loans appropriate for the poor?
- 25 How can NTRL's extend their scope of operation?
- 26 Are there possibilities that NTRL's can become secondary market institutions?
- 27 How do you see the role of NTRL's in the future regarding the provision of end-user finance to the poorest?

APPENDIX 6

Interview Questions for both Pioneer Park and Thembalihle Respondents

The information provided will be kept to the strictest confidential.

Please fill in **X** for each question with a box provided, put a circle around **YES** or **NO** question, and write where there is a **FILL-IN (...)** space.

1 Gender

Male	
Female	

2 Age Category

Less than 21	
21 - 30	
31 - 40	
41 - 50	
51 - 60	
61 and above	

3 Marital Status

Single	
Married	
Divorced	
Widowed	

4 Educational Level

No formal education	
Primary education	
Secondary education	
Tertiary education	

5 Employment Status

Permanently employed	
Temporarily employed	
Casually employed	
Self-employed	
Unemployed	
Pensioner	

6 In which sector do you work?

Public Sector	
Private Sector	
Informal Sector	

7 Monthly Income (in Rands)

Less than 1 000.00	
1 001.00 - 1 500.00	
1 501.00 - 2 000.00	
2 001.00 - 2 500.00	
2 501.00 - 3 000.00	
3 001.00 - 3 500.00	
More than 3 500.00	

8 What type of a house do you and your family live in?

9 How did you get the house?

Buy	
Build	
Other (specify)	

10 If you had bought your house, how much did it cost you to buy it?

11 If you had self-built the house, how much did it cost you to build it?

12 Have your house been valued? YES / NO

13 If yes for (12), what is its market value?

14 Would you prefer to buy or build your own house?.....

15 Why?

16 Have you made improvements on your house? YES / NO

17 If yes for (16), what are the improvements?

- 18 If no for (16), why?
- 19 Are you receiving any financial assistance towards housing from your employer? YES / NO
- 20 In which form?
- 21 Have you ever been to a bank for a housing loan? YES / NO
- 22 Did you get the loan? YES / NO
- 23 How much was the loan?
- 24 If the answer is NO to (22), what was the reason given for turning down the application?
-
- 25 From which institution did you apply?
- 26 Have you ever been to a non-bank for a housing loan? YES / NO
- 27 Did you get the loan? YES / NO
- 28 How much was the loan?
- 29 If the answer is NO (27), what was the reason given for turning down the application?
-
-
- 30 From which institution did you apply?
- 31 Have you applied to another financial institution for a home loan after your application was turned down? YES / NO
- 32 Did you succeed? YES / NO
- 33 Have you taken a loan from a "mashonisa"? YES / NO
- 34 How much was the loan?
- 35 Have you taken a loan from a person you know? YES / NO
- 36 How much was the loan?
- 37 How many home loans have you had?
- 38 How did you repay the loan/s?
- 39 How much was your monthly repayments for each loan?
- 40 What was the interest rate on your loan/s?
- 41 Did you have problems repaying back your home loan/s? YES / NO
- 42 What were the problem/s?

- 43 Have you ever skipped a month/s when repaying your home loan? YES / NO
 44 Why?
 45 What did your lender do about it?
 46 Do you know the implications of defaulting on your loan repayments? YES / NO
 47 Did the lender educate you about servicing loans? YES / NO
 48 Did you understand the terms and conditions of the loan? YES / NO
 49 Which aspects of the terms and conditions of the loan did not satisfy you?

- 50 Do you think they must be changed? YES / NO
 51 If yes for (50), how? And if no, why?

- 52 Do you save? YES / NO
 53 If yes for (52), for what purposes?

- 54 If no for (52), why?

55 When do you save?

When you have a need	
Always	

56 How much do you save?

57 Where do you save?

Stokvel	
Savings Club	
Ithala	
Bank	
By keeping the money at home	
Other (specify)	

- 58 Are you saving with the institution from which you obtained a loan? YES / NO
 59 Was saving on the institution a prerequisite for obtaining a loan? YES / NO
 60 Did they required a deposit before they gave you a loan? YES / NO
 61 If yes for (60), what was the percentage required?

62 Is it a reasonable percentage to ask of you?

63 If no for (62), why?

64 Do you think it is important to invest in a house?

.....

64 Would you prefer a loan or to save for building a new house or improving your existing house?

65 Why?

.....

THANK YOU VERY MUCH

APPENDIX 7

Map of Thembalihle

APPENDIX 7

Map of Thembalihle

APPENDIX 7

Map of Thembalihle

APPENDIX 7

Map of Thembelihle

No 1515

Portion 105 of 881

Rem of Portion 88 of 141

Portion 87 of 141

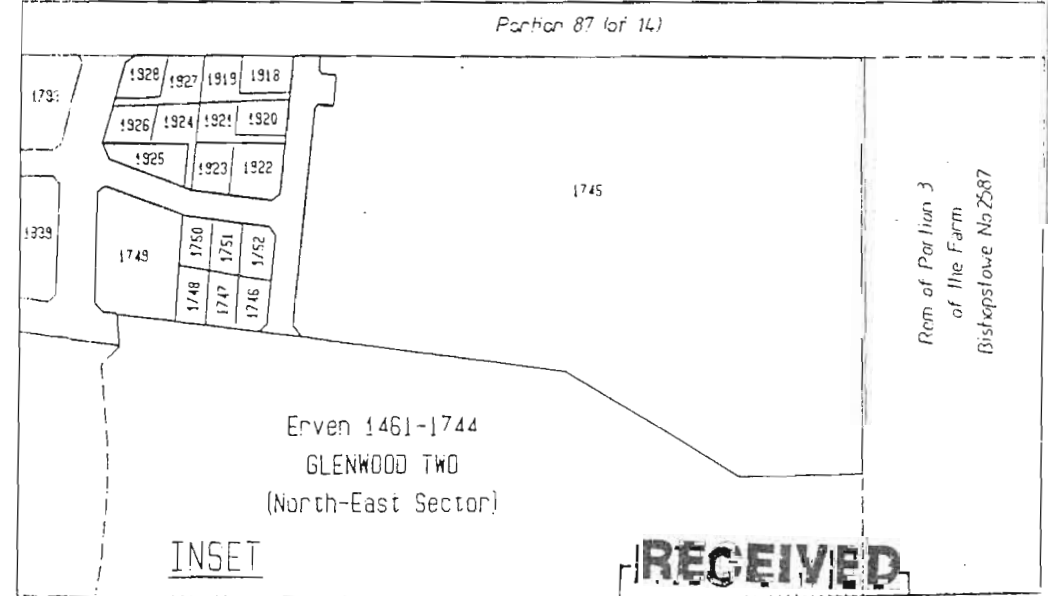
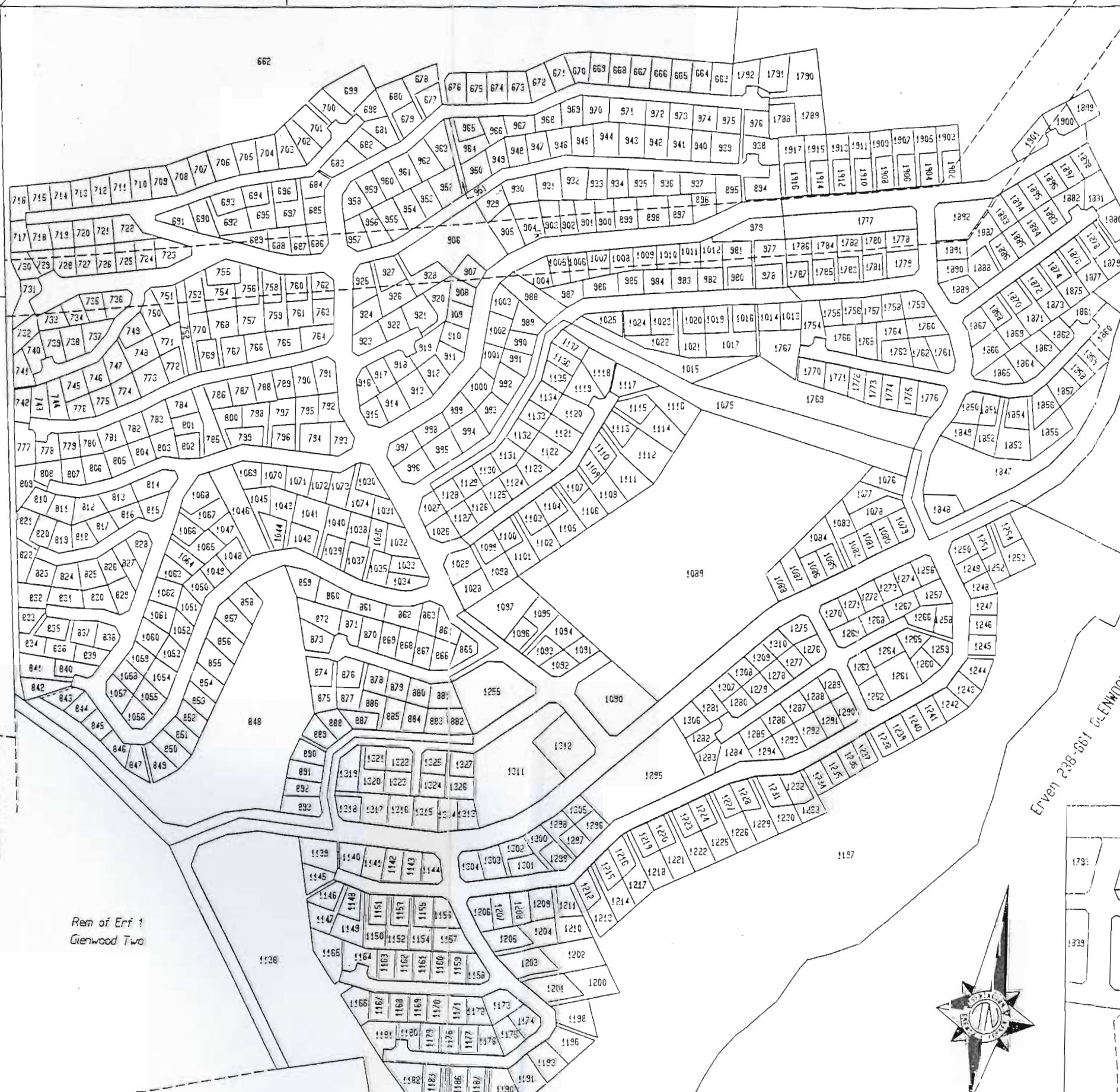
Portion 528 of 3011

Rem of Erf 1692

Portion 564 of 5631

Rem of Erf 1 Glenwood Two

Rem of Portion 20 of 41 of the Farm Bishopstowe No.2687



Erven 2-237
GLENWOOD TWO
(O-Section)

PLAN OF
ERVEN 662 - 1017 AND 1019 - 1074
GLENWOOD TWO - FT
(THEMBELIHLE - Uparade)

ERVEN 1075 - 1188, 1190, 1191, 1193,
1196 - 1198 AND 1200 - 1327
ERVEN 1745 - 1767 AND 1769 - 1928
GLENWOOD TWO - FT
(THEMBELIHLE - Greenfields)

PIETERMARITZBURG/MSUNDUZI TRANSITIONAL LOCAL COUNCIL
SCALE: 1:3000

G57CO

RECEIVED

11.0.2011