

**AN EVALUATION OF THE EXTENT TO WHICH HOUSING GROUP SAVINGS  
SCHEMES FACILITATE HOUSING IMPROVEMENTS FOR LOW INCOME GROUPS  
WITHIN THE UMSUNDUZI MUNICIPALITY AREA**

**BY**

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*DEDICATION*

*THIS DISSERTATION IS DEDICATED TO MY  
LATE MOTHER THULI GRACE "SONTO"  
HADEBE: YOU MAY BE DEAD BUT YOUR  
SPIRIT IS STILL WITH US. "YOU ARE THE  
ANGEL OF LIGHT".*

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## **ABSTRACT**

*This research evaluates the extent to which funds from Housing Groups Savings Schemes have assisted club members to improve their housing conditions. The study argues that funds from savings clubs for housing can make a tremendous contribution in assisting club members to improve their housing. The study established that club members experienced a problem of being unable to complete their housing improvement. This was due to the fact that funds from their savings were insufficient to allow them to complete their housing improvements and consequently club members had to obtain small loans from Agishana Credit Company in order to buy roofing material. The study therefore assumes that funds from savings clubs can work better when supplemented by small loans.*

*The study uses three core-housing approaches, namely self-help housing approach, enabling approach and incremental approach. All these approaches call for housing beneficiaries to mobilize their financial resources to improve their housing conditions. According to these approaches the principal role of the state is limited to provision of basic services and infrastructure and necessary support.*

*The study established that in order for housing group savings schemes to be more effective they need to be supported by municipalities, non-government organization and other relevant housing role players. In the two case studies for an example, the withdrawal of municipality at BESHG from supporting savings clubs for housing crippled the small functioning of savings clubs.*

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## **1.1 Introduction of Study**

Various governments in the world including the South African government have been using a provider-based approach to housing delivery for low-income people. However the experience during the 1970`s and 1980`s convinced international agencies that the direct action by states to build houses was not an answer to the housing supply issues of many countries especially for low income households UNCHS (Habitat) (1995).

The provider-based solutions created very limited housing for increasing numbers of urban populations due to the fact that those houses turned out to be of very high quality and relatively expensive. Additionally, it benefited few individuals. In the South African context, prior to 1994, the government's housing policy adopted a provider-based policy approach. Houses were contractor built and beneficiaries rented these houses from the government. Furthermore, this approach did not solve the housing problem facing the low-income households, instead it contributed to the enormous housing backlog in South Africa.

Provider-based solutions have been overtaken by events to such an extent that they have been recognized to be inefficient and beyond the capacity of governments UNCHS (Habitat) (1995). In many countries, governments have abandoned the provider-based policy and adopted the support based approach or enabling approach to housing delivery.

The support based approach implies a shift from the government directly building a complete house with its entire infrastructure provided, to building less and expecting residents to add remaining components (Smit: 1998).

In an attempt to address the enormous housing backlog in South Africa, the post apartheid government adopted the enabling or support

approach and the incremental approach. The government embraced the enabling approach, which emphasizes the state's role to enable communities to have access to basic housing. According to Rodel and Skinner (1983) the enabling approach incorporates the role of the poor in their own housing provision. They further argue that it essentially reduces state intervention in housing to that of an enabler rather than provider of housing. The enabling approach encourages and supports individuals and communities in their efforts to fulfil their own housing needs by assisting them in accessing land, services and technical assistance that leads to the transfer of skills and empowerment of communities (Smit: 1998).

Incremental housing is referred to as a process through which a physical housing structure is created over a period of time (Durban Metro Housing 2000). In the South African housing policy the intended end point is a permanent dwelling, and the financial process by which the establishment of permanence is achieved is through a once off capital subsidy, which is meant to secure a site, basic services and a core house. This initial capital subsidy is then intended to be followed over time by continued additions to the physical structure of the dwelling, in accordance with household affordability, until permanence is achieved. In essence, permanence could be achieved through a self-help housing process, whereby beneficiaries start to use their own labour and financial resources in constructing and improving their own housing.

In general, many beneficiaries have not effected any improvements to their starter houses primarily because of, amongst other factors, financial constraints, inability to access housing loans from formal financial institutions and a high unemployment rate. This in essence defeats the objective of the government of ensuring that the poor gain access to adequate housing. The implication is that the poor need to mobilize additional finance to effect improvements to their starter houses. One of

the strategies used by poor beneficiaries to mobilize additional finance for housing improvements is to join housing group savings schemes.

## **1.2 Research Problem**

In the South African context, the post apartheid government introduced a housing subsidy programme with the purpose of providing housing finance for low income people, who are unable to access housing, through the private housing market. However Bond and Tait (1997) maintain that even the maximum subsidy is not sufficient to build a decent house, given the fact that a minimally decent house costs approximately R40 000,00. Furthermore the National Housing Minister promulgated a norms and standards policy, which dictated that the infrastructure should not exceed R8 000,00 per unit and the balance to be spent on the top structure (Housing Code: 2000). This serves as a clear indication that the housing subsidy is not sufficient to be translated into a complete housing unit.

The principal objective of the capital subsidy is to provide a core house to the households thus giving them legal tenure and expecting them to add the remaining components. Adebayo (1999) maintains that, in reality, a core house serves as a starting point or basis for an entire house and most of the work towards achieving housing begins after this stage. However the majority of the beneficiaries cannot afford to improve their housing primarily because of the high unemployment rate and the low income levels.

The LERC Report (1997) estimates that approximately 89% of black people live below Poverty Datum Lines of about R8 00,00 per month. The PDL is a way of measuring poverty, which provides estimates for the lowest possible amount on which the average family can in the short term survive under humanly decent conditions (Smit: 1992). Taking the PDL into account it becomes clear that many low income people cannot

afford to improve their housing circumstances. Furthermore, low income earners cannot access housing loans from the formal financial institutions because of their income levels and the forms of employment they are engaged in.

Formal financial institutions refer to both private and public institutions that have a structured *modus operandi* and a set of rigid rules that govern their transactions. They are protected by legislation supported by the state and the national and international banking community (Bauman: 1989). Part of a bank's or building society's legislative procedure includes putting clients through an affordability establishment process. This process involves using people's incomes as indicators as to what they can and cannot afford. This determines for them whether people are capable of paying off loans.

Basically many low income people do not qualify for bank loans because, apart from their incomes, they do not have collateral to offer banks to obtain loans. Others are disqualified because they cannot show proof of their true earnings as they are informally employed. Formal financial institutions completely marginalize the informal or self employed sector who may have good earning power but do not qualify for these loans because they do not have a regular source of income (National Housing Forum: 1993).

One of the main reasons for the formal financial institutions reluctance to operate in the low income market is because the administration of small loans, which low income people demand, costs the same as for large loans and therefore the smaller the loan, the smaller the profit. They believe that there will also be a high default rate among low income people (LERC: 1992). However de Ridder (1997) maintains that what is remarkable about low income earners is that they are more conscious when it comes to paying back credit than middle income earners. To

further weaken the misconception of the formal financial institutions Hossain (1990) mentions that low income borrowers of the Grameen Bank in Bangladesh have proved this misconception to be wrong. He states that the bank has ensured a 98% recovery of loans at due date.

The plight of low income earners has thus prompted the re-emergence of savings clubs for housing. In these clubs, the poor are able to save collectively primarily with the purpose of improving their housing circumstances. Furthermore, savings clubs for housing have worked well for the poor not only because of their ability to harness the poor's potential, but also because of their ability to extend smaller frequent loans suited to the paying capacity of the poor, without requiring collateral or regular employment (Adebayo et al: 2000).

Members of group savings are able get small loans from the group's fund in order to improve their housing. Moreover, group savings schemes have proved to be even more sensitive to the plight of the poor because they are able to accommodate their interests when designing their policies. The ability of the poor to save can be measured through group savings schemes.

### **1.3 Research Question**

To what extent have housing group savings schemes contributed to household improvement of starter housing in the Umsunduzi Municipality area?

### **1.4 Subsidiary Questions**

- At what point do housing group savings schemes enter the project scene?
- What motivates people to form or join savings clubs for housing within the area of Umsunduzi Municipality?
- What are the challenges facing the savings clubs for housing?



- Are there any links between these savings clubs and formal financial institutions?
- To what extent have such links facilitated mobilization of funds for housing improvements?
- What is the extent of housing improvement in the two case study areas that can be directly attributed to beneficiary participation in savings clubs for housing?

### **1.5 Hypothesis**

Housing group savings schemes can make a vast contribution towards the improvement of low cost housing, provided people are educated about their role in housing improvement.

### **1.6 Definition of Key Concept**

**Group savings schemes:** In general terms group savings schemes refer to a group of people who take a collective decision to contribute a certain fixed amount money to a common pool on a daily, weekly, or monthly basis. After a certain agreed period of time, each group member would receive his or her share and use it to meet his or her personal needs such as buying furniture, car or groceries. Sibiya (2003) defines a housing group savings scheme as a group of low-income households with a common interest who collectively start a group savings programme. Funds are pooled together and used to provide small scale loans to members who wish to augment their government housing subsidy towards building or improving their houses.

In the context of this study housing group savings schemes refer to a group of people who start a group savings club with the purpose of building extensions to their existing houses, to plaster their houses internally and externally, to install electrical works, to do plumbing and water works, to pave their driveways and even to buy furniture and appliances through savings, or carry out any other housing related

improvements. In this study the concept of housing group savings schemes will be used interchangeably with savings clubs for housing.

**End-user Finance:** Refers to the credit that is made available to low-income households with the purpose of effecting housing improvements.

**Low cost housing:** In the context of this study will refer to subsidized housing intended for low-income families earning between R0,00 and R3500,00 per month (Housing White Paper: 1995).

**Low-income earners:** Refers to poor people, who with their income cannot afford to provide their own housing but depend on the government housing subsidies.

**Education:** In this context refers to the process of training and equipping low income earners with knowledge and skills of mobilizing finance using housing savings clubs to effect improvement to their housing units.

**Housing improvement:** Refers to a process where beneficiaries effect improvements to their houses. Basically housing improvements have two components, i.e. internal and external improvements. In this study it refers to the replacement of an existing superstructure with an improved structure, for example, the replacement of an informal structure with a formally constructed housing unit.

### **1.7 Aims and Objectives**

- To establish whether or not the beneficiary's incomes were sufficient to allow them to save for housing improvements.

- To establish the extent to which savings clubs for housing have facilitated housing improvements in the area of Umsunduzi Municipality.
- To discover whether beneficiaries improved their housing by the use of local contractors, did it themselves, or used other methods.
- To establish the role of the municipality and housing related NGOs in assisting savings clubs members to achieve their housing improvements.
- To assess the level of housing improvements achieved through savings clubs for housing in Umsunduzi Municipality Area.

## **1.8 RESEARCH METHODOLOGY**

The research methodology is a discussion of how the research was conducted. It explains what the researcher used as sources of information and also the methods of data collection that were used in conducting the research. This study used both primary and secondary sources of data. It is also a discussion of how the data was analysed and interpreted. For the purpose of this study Glenwood 2, located ten kilometers North of Pietermaritzburg City Center and Ntuthukoville located nine kilometers East of Umsunduzi City Center, were identified as the appropriate case studies. All of these housing projects are within the area of Umsunduzi Municipality.

### **1.8.1 Identification of Case Study Areas**

The two case study projects were initiated 10 years ago or, to be specific, in 1996. As the main objective of this study is to come up with relevant and concrete information on the contribution of savings clubs for housing in facilitating housing improvements for low income people, this period of 10 years was long enough to allow the study to accomplish its objective. Both the case study projects are low cost housing projects. All beneficiaries received a lump sum subsidy from the government to build their starter housing, and the entire burden of housing consolidation rested upon the beneficiaries themselves. The basis of selecting the two case studies was that the beneficiaries had a common problem of being unable to access finance from banks in order to improve their housing circumstances. To address this problem people started savings clubs for housing, which in turn allowed them to improve their housing circumstances. (Detailed information is provided in chapter four of this dissertation.)

## **1.8.2 Primary Sources**

The primary sources in this study were drawn from four different groups namely the beneficiaries (Members and Non Members of Housing Group Savings Schemes), Built Environment Support Group (BESG), Housing Support Center (a center that provided the necessary support to the members of housing group savings schemes in Umsunduzi) and chairpersons of savings clubs for housing in the two case studies. The study discusses each of the above-mentioned categories, paying particular attention to the reasons why they were chosen, the nature of information needed and the method used in gathering the necessary information.

### **1.8.2.1 Sampling Method**

The Glenwood 2 housing project provided 744 starter houses to low income beneficiaries with a population of 2645 people (BESG Annual Report: 1998), while Ntuthukoville housing project provided 66 starter housing to low income beneficiaries with a population of 330 people. The target population for the research was divided into two main categories, namely those who had improved their housing circumstances and those who had not. In identifying the above beneficiaries a random stratified sampling was used. In this sampling method, samples are drawn from each stratum separately and results pooled. A stratum is a subset of the population that shares at least one common characteristic, for example, members and non members of housing group savings schemes. This method was selected because it ensured that all the beneficiaries within the project had an equal opportunity of being selected.

The following beneficiaries were selected for the survey: In Glenwood 2, 38 who had consolidated their housing and 21 who had not; and in Ntuthukoville, 24 who had made improvements and 18 who had not. A total of 101 beneficiaries, representing 10% of the two case study's population, were selected. A minimum sample of 100 subjects is needed

for the statistical analysis to be meaningful (Bailey: 1987). Furthermore, given that the data extracted would be broken down into various categories, it is necessary to have sufficient subjects to ensure that there are not too few responses in each category, making the data unreliable and difficult for the researcher to make generalisations (Bailey: 1987).

The type of information that was needed from the beneficiaries was in relation to their employment status and income levels, housing finance, level of housing improvements, formation of savings clubs for housing, management of housing group savings schemes. Also required were reasons for joining housing group savings schemes, role of savings schemes in housing improvements, types of housing improvements, support given to savings clubs and challenges facing housing group savings schemes.

To elicit information in each of the aforementioned areas the researcher visited the beneficiaries of the two case study areas in their homes and asked them to answer a questionnaire. Questionnaires consisted of both closed and open-ended questions. Closed questions (that needed yes or no answers, or for a respondent to choose the appropriate response from a list of given alternatives) were directed towards addressing matters such as financial status, sources of income, housing improvement costs and types of housing improvements.

In administering the questionnaire, the researcher was assisted by two educators (teachers). The educators were familiarised with the questionnaire and briefed on ethical considerations that should be adhered to. In this regard the educators were alerted to the fact that a respondent's information was confidential and should not be discussed under any circumstances. The educators were briefed on the need to

record responses exactly as they were given to them by respondents thus limiting unnecessary confusion when the information is analysed.

All the questionnaire surveys with the beneficiaries were conducted on Saturdays so as to get hold of those beneficiaries who work during the week. Questionnaires were left for those who worked during weekends, to complete in their spare time. The completed questionnaires were left with family members and the researcher collected them after a week.

### **1.8.2.2 Focus Group Discussions with the Chairpersons of Housing Group Savings Schemes in Glenwood 2 and Ntuthukoville**

The researcher also visited chairpersons of different savings clubs for housing both in Ntuthukoville and Glenwood 2. The Focus Group Discussions were held with the chairpersons of savings clubs in the aforementioned case studies. To identify the chairpersons of savings clubs for housing, Mrs. Maphumulo of BESSG referred the researcher to Mr. Wanda who was a chairperson of Siyathuthuka Savings Club who in turn assisted the researcher to identify the chairpersons of all savings clubs in Glenwood 2. In the case of Ntuthukoville, Mrs Maphumulo referred the researcher to Miss Ndlovu who was a chairperson of Zizameleni Savings Club who in turn assisted the researcher to identify the Ntuthukoville chairpersons of Savings Clubs. In Ntuthukoville, the community hall was used as the venue to meet. In Glenwood 2, a Housing Support Centre was used as a venue. In Ntuthukoville a focus group discussion was held with 3 chairpersons of housing group savings schemes. In Glenwood 2, 5 chairpersons participated in a group discussion.

The chairpersons furnished the researcher with useful information because they knew more about the role being played by savings clubs towards housing improvements in the two case studies. The aim of the researcher was to find out if there were any challenges facing the savings clubs for housing, composition of savings clubs, operation methods of

savings clubs and measures to deal with defaulting members. The researcher prepared a set of open ended questions to elicit information on each of the above areas/topics.

### **1.8.2.3 Built Environment Support Group (Pietermaritzburg)**

The researcher consulted Mrs Gretta Maphumulo of Built Environment Support Group (BESG) in Pietermaritzburg. Mrs. Maphumulo was a liaison officer between BESG and Housing Group Savings Schemes. She was interviewed because she had been instrumental in facilitating and mobilizing savings clubs for housing in Ntuthukoville and Glenwood 2. Furthermore, by virtue of her position and job description she knew the overall functioning of housing group savings schemes in these two case study areas.

The nature of information required from Mrs. Maphumulo was in connection with the functioning of savings clubs for housing in the area of Umsunduzi Municipality. Also to ascertain the nature of links between BESG and savings clubs for housing, the extent to which BESG contributed to these links, the manner in which these links have served the group savers, the extent to which these links have allowed for a better level of housing improvements and the kind of support BESG provided to savings clubs for housing in the two case studies. She was also able to provide useful information on the extent to which housing group savings schemes have contributed in housing improvements in Ntuthukoville and Glenwood 2.

### **1.8.2.4 Built Environment Support Group in UKZN (Durban)**

The researcher also visited the Built Environment Support Group (BESG) at the University of KwaZulu-Natal premises in Durban to conduct an interview with Mr. Nana Ndlovu as a key informant. He has worked with a number of savings clubs for housing in the Eastern Cape, mobilizing communities to start such clubs and has attended a number of training programmes on savings clubs for housing. He was also a project manager



at Piesangs River, where low cost houses were built through consolidation of housing subsidies and funds from savings clubs for housing. The informant was able to furnish the researcher with useful information on the role of savings clubs for housing towards housing improvements and possible strategies to be employed to make savings clubs more effective and sustainable after houses have been improved. Most importantly, this interview did not address specific projects but it tapped into the respondent's experience of savings clubs for housing.

#### **1.8.2.5 Housing Support Centre**

An interview was also conducted with Miss Xaba of the Housing Support Center located in Glenwood 2. The HSC was used by members of housing group savings scheme members to make their concrete blocks. Miss Xaba was selected because she was a member of the steering committee which comprised representatives from all housing group savings schemes in the North East Areas i.e. Glenwood 2 and Ntuthukoville. The main aim of the steering committee is to ensure the effective and smooth functioning of the housing support centre.

Furthermore, Miss Xaba was the chairperson of the steering committee. By virtue of her position she was in a position to know everything about the overall functioning of the housing support centre. Miss Xaba was able to provide detailed information on day-to-day activities taking place at the housing support centre, links between the housing support centre and housing group savings schemes. She was also able to provide information on the type of support and advice they give housing group savings clubs in the Northern East Areas.

#### **1.8.2.6 Mr. Ludwaba of Agishana Credit Company**

Mr Ludwaba, a former employee of Agishana Credit Company in Pietermaritzburg was visited in his home there. He was in a position to give

valuable information about the functioning of Agishana Credit Company because he had, amongst other things, overseen the running of the company in Pietermaritzburg. The structure and procedure of the interview was similar to that of the previous one. The only difference being that Mr Ludwaba refused to be recorded and the researcher had therefore to note all Mr. Ludwaba's responses by hand. The nature of information required from him was on issues of lending activities of Agishana in the case study areas, income profile of beneficiaries, criteria to qualify for a loan, what they recognized as collateral, loan recovery strategies and how they addressed default.

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 respondent's institutions/homes. A questionnaire was drawn up to guide the questions and the questioning. Open ended questions were asked in sequence and read out to the respondent.

### **1.8.3 Secondary sources**

To gather information that assisted the researcher in answering the research question, the relevant literature on savings schemes, housing subsidies, formal and non-formal financial markets were reviewed. Newspapers, relevant magazines, journals, books, dissertations, reports and electronic data i.e. internet, and other articles were read. Journals, dissertations and books were accessed from the university library. Other books were accessed through inter library loans, whereas the annual reports were obtained from the Built Environment Support Group (BESG) office in Pietermaritzburg. These reports provided fundamental information on the functioning of savings clubs for housing in the area of

Umsunduzi Municipality. The internet provided current information on savings clubs for housing and related issues. In brief the secondary sources provided a broad understanding of national and international experience on the functioning and the role of savings clubs towards housing improvement.

### **1.9 Data analysis**

All data collected from Ntuthukoville and Glenwood 2 was analysed using both qualitative and quantitative methods of data analysis. The responses provided by each respondent during the interview process were analysed with the purpose of establishing the overall contribution of housing savings clubs towards improving housing for the poor. Tables were used to depict household income levels, which in turn helped the researcher to understand levels of affordability among the members of housing group savings scheme.

Furthermore, photographs were taken to show housing improvements achieved through group savings that would have been impossible without them. These photographs depict external housing improvements such as plastered wattle and daub house, painting, fencing, concrete block extensions, the roof and driveway paving. The information collected through focus groups and interviews was analyzed to establish the effectiveness and contribution of housing savings groups towards housing improvement.

### **Chapter Outline**

The research consists of five chapters.

#### **Chapter One**

Chapter one consists of the introduction, research problem, aims and objectives, research question, subsidiary, hypothesis, definition of concepts and research methodology

## **Chapter Two**

Chapter two presents literature review on savings schemes with the ultimate aim of improving housing for the poor, beginning with a discussion that focuses on theories/ approaches that inform this study. This chapter also attempts to analyze the role and performance of informal financial institutions in South Africa and internationally in terms of providing end user finance to low income households. Different forms of group savings schemes employed by poor people as an alternative to raise funds for housing improvement, such as Rosca's, RCA`s, Money Lenders and stokvels, are presented in this chapter.

## **Chapter Three**

This chapter opens with a background of Ntuthukoville and Glenwood 2 as identified case studies. It also sheds light on strategies and the operation method employed by Agishana Credit Company to provide end user finance to the members of group savings schemes in the area of Umsunduzi Municipality.

## **Chapter Four**

In this chapter the research findings are presented and analyzed. This chapter also illustrates data collected through focus groups, interviews and photographs.

## **Chapter Five**

The summary, conclusions and recommendations are made in this chapter. Conclusion indicates the overall analysis whilst recommendations are based on the findings of the research.

### **1.10 Concluding Remarks**

The primary focus of this chapter was to introduce the reader to the whole study by pointing out the research question, subsidiary questions as

well as the basic hypothesis that the study seeks to prove or disprove. The methods and the sources of information that the researcher used in conducting the study were also shown in this chapter. In this respect both primary and secondary sources were used extensively. In essence this chapter shows the route that the researcher undertook to reach his destination in terms of what the study sought to ascertain. This chapter also indicated how the researcher sampled the targeted population in the two case studies.

## **CHAPTER TWO: Theoretical Framework and Approaches**

### **2. Introduction**

South Africa, like many developing countries in the world, is faced with a problem of housing backlog. The study acknowledges that there is no single approach that the government can use to address housing backlog in South Africa. Thus the main objective of this chapter is to discuss how the self help housing approach, the enabling approach and incremental approach could be used effectively in the context of savings to help low income earners gain access to housing. This chapter will discuss the role that the government can play to enable poor household beneficiaries to provide their own housing in South Africa.

### **2.1 John Turner's Approach to Self-Help Housing**

The self-help housing notion was documented early in the 1960s by John Turner in Lima, Peru. Turner is well known for emphasizing the positive aspect of self help house building and self organised settlements, as he found in the case of Peruvian *barriadas* in the 1960s, and which contrasted with the existing failure of mass housing. In his work he sees self-help housing as being positive in contrast to the top down, non-participatory and unaffordable public housing programmes.

According to Ward self-help housing approach is a process where individuals and groups among those to be housed have a responsibility for planning, organization and implementation of particular tasks leading to the provision and maintenance of houses and infrastructure (Ward: 1982). The implication is that self help housing calls for the community members (beneficiaries) to take responsibility to manage the building of their own houses.

According to Turner (1976) self-help housing comes in three forms i.e. individual self-help, mutual self-help and assisted self-help. Individual self-help is where the individual builds his or her own house without assistance.

Mutual self-help is where a group of households provide housing for themselves. Assisted self-help is where the households get advice, support and/or training from an external agency to build their own houses. Two fundamental points about self help housing are that people use their own resources and in some cases, like in unaided self help projects, do not call on those of the government.

In self-help strategies the beneficiaries build houses of their own choice at their own pace for themselves. Turner's argument is that the users themselves know their own housing needs far better than bureaucracy and their commissioned experts, and will, for that reason, build popular housing which is much more adequate for these people's needs than official state housing projects can ever be (Turner: 1976). Furthermore, high standards set by the state tend to be a hindrance rather than a guarantee for human housing and need to be minimized and restructured.

Turner postulates that in self-help housing schemes, labour costs can be significantly lower than in conventional building schemes because the beneficiaries have the opportunity to reduce costs by providing their own labour and by using their own contacts to procure building materials. Furthermore, Turner argues that in self-help housing users can use scarce resources in a much better way than would be possible with standard solutions. For that reason, the same quality of self-help will be cheaper and more affordable than commercially built units (Turner: 1976).

Turner argues that the role of the state in self-help housing should be limited to ensuring local and personal access to technology, land, secure tenure, and credit. Given land and security of tenure, Turner argues that people can build the same house as the government agency at half the cost (Turner and Fichter: 1972). Turner argues that secured land plays a significant role in housing improvements in that it gives households

security and protects them from physical eviction or forced removals. According to Turner, the feeling that one possesses land gives him/her security, sense of identity and belonging. In such circumstances occupiers of land improve their houses (Turner: 1972). The provision of the security of tenure also brings about improvements in the physical environment of the neighbourhood. Self-help housing provides better services because installation of services in themselves improve the living conditions of the households and channel improvements in housing (Gilbert and van der Linden: 1987). Once services are installed, the pride in the neighbourhood usually leads to further housing improvements (Doebele: 1993).

This approach views housing as a process (Turner: 1976). When dwellers control major decisions and are free to make their own contributions in the design, construction or management of their housing, both this process and the environment produced, stimulate the individual and social well being (Turner and Fichter: 1976).

Turner argues that the residents in self help housing neighborhoods have a better position for improving their financial and simultaneously economic situation because of the possibilities for professional training during the construction, a more favourable location of informal housing with respect to income earning activities, and the ability to combine work and living space in the same building (Turner: 1976).

Self-help housing seeks to mobilize private sector initiative in responding to housing demand. The term private sector should not only be read as meaning formal business, but implies three elements:

- The formal business sector such as financial institutions, contractors, material manufacturers and suppliers.



- The informal business sector, which includes informal moneylenders, local material manufacturers and informal material suppliers.
- The households, which includes owners, owner builders, tenants, buyers and sellers.

All three of these elements of the private sector have important roles to play in the self-help housing process (Turner: 1973).

In self help housing, the ability of the poor to access end user finance from financial institutions plays a crucial role. However, formal financial institutions are traditionally reluctant to lend to self help housing owner builders because of the uncertainty regarding the competence with which the building process will be managed and the time taken in building. Turner (1976) observes that the greatest financial resources are from the actual and potential savings of the population from their own earnings, and these are under their own direct control. He recognizes the potential for the mobilization of collective savings for housing improvements.

## **2.2 The Marxist Approach to Self Help Housing Approach**

This approach began as a response to the Turner school of thought. Its principal advocates are Emillo Pradilla and Rod Burgess. According to the Marxist approach, it is the responsibility of the state to provide high quality housing for low-income people. The exponents of this approach argue that self help housing is a form of double exploitation by the dominant class, i.e. working at their normal jobs and working after hours on the improvement of their homes (Pradilla: 1973). Thus self-help housing is expensive.

Turner makes an assumption that self-help housing is cheap. The criticism leveled against this assumption is that self-help labour causes extra expenses, canceling out most the savings achieved in the same process. These occur, for example, through the lack of professional experience,

not making use of bulk purchases and economies of scale, over dimensioning, waste of material, building failures, etc (Burgess: 1984). Abrams also reports from the United States of America (USA) that in the overall balance, self-help housing turned to be more expensive than contractor built houses (Abrams: 1988). Furthermore, Pradilla investigated various self-help projects in Mexico and confirmed that self-help builders use industrially produced material and do not use local resources (Pradilla: 1973).

Another criticism by Abrams refers to the assumption made by Turner that self-help builders have the autonomy to decide, and realize, what is best for them. He suggests that low-income people especially lack this autonomy since they lack freedoms that rich people enjoy. Their own freedom is restricted to accommodating themselves in the space left over by others (Abrams: 1988).

With regard to land rights, Burgess maintains that land rights to poor communities are transferred through money payments and land is specifically developed for the purpose of exchange. He further argues that the real beneficiaries in the self-help housing are landowners who sell their land at market price (Burgess, 1986). The security of tenure channels capitalist interests in that it opens new markets or business venture for the building industry.

Self-help introduces commodity to the community and the cost of the land is carried through to the project beneficiaries. Burgess goes further to say the right to own land becomes an economic burden to the households. By virtue of possessing land, each household is entitled to pay land services to the municipalities, which are in themselves not affordable to poor communities, in some instances this results in poor household having to sell their lots (Burgess, 1984). Accordingly, by

accepting and supporting the self-help solution the state recognizes its failure to, in the Marxist sense, provide a living wage.

Burgess does not see self-help housing as an instrument to achieve housing improvements and housing satisfaction. For Burgess, people build informal houses because they are poor, they do not have a choice and they cannot afford decent housing. In a capitalist world, he argues, housing improvement is determined by money. People may wish to develop and improve their houses to satisfy their family needs, but they may be restricted by financial resources. In South Africa for example, people cannot improve houses to their satisfaction because they cannot afford the costs. Housing improvements he argues, occur in favourable circumstances, usually for the better off sector of the population. Being able to improve and maintain a house and to afford costly building material requires a well-paid job (Burgess: 1884). This means that self-help housing programmes are geared towards the more established working class groups. Poor households such as those that do not have incomes cannot participate fully in self-help projects.

Burgess (1984) disagrees with Turner's idea that self-help allows households to use a house as a work place and for income generating opportunities. He also argues that most sites and services schemes are located on peripheral land, which increases financial constraints to poor communities. It compels them to pay double costs, that is, services cost and transport costs. Thus, it reduces the resources available for a faster rate of improving housing and creates difficulties in the organization of work and living space.

Collective savings for housing improvements according to the Marxist concept are seen as a form of exploitation by the government. Marcussen (1990) postulates that housing savings clubs would not only reduce the cost of housing by providing unpaid labour but they would

also reduce the cost of extended reproduction of labour power. This would lead to the overall reduction of production costs and creating conditions of accelerated capital accumulation.

Housing savings clubs, in terms of the Marxist rationale, reduces the financial responsibility of the capitalist state. Marxists contend that the incremental housing proposed by Turner is the product of a lower quality building standard which the capitalist state is too happy to meet out to low-income people (Burgess: 1982).

It is important to indicate that the study disproves the Marxist approach to self-help housing and supports Turner's approach to self-help housing because it does not view mobilisation of housing group savings schemes as a reservoir of unpaid labour power but as an essential element in housing improvements.

### **2.3 Enabling Approach**

The enabling approach incorporates the role of the poor in their housing provision into state programmes, thereby reducing the government share of housing burden while allowing for a much larger body of the population to be catered for (Rodell and skinner: 1983). Furthermore, enabling strategies seek to improve the functioning of markets which supply the five major components in the housing process, land, finance, the skills of labour force, infrastructure, and building materials, and to provide an appropriate regulatory framework (UNCHS: 1995). This approach therefore involves reducing state intervention in housing to that of an enabler rather than provider of housing. Under the enabling approach, the government would set up a facilitating framework that could mobilize the resources of all non-governmental actors in housing provision. i.e. the formal and informal private sector, community based and non governmental organizations, and individual households. The

government for its part would concentrate its efforts on those functions which non governmental sectors cannot undertake effectively, in particular security of tenure, infrastructure and public services, community facilities, construction credit and a viable legislative framework (Adebayo: 2000).

In 1982, for example, the Department of Housing in Nepal undertook a new housing process with a view that government would work toward setting the conditions so that the housing need was satisfied for all individual households. In this respect Nepal was thus one of the first countries to devise a national enabling housing strategy subsequent to the World Bank resolution. The Nepal government viewed shelter as an asset and integral part of Nepal's productive economy. Given the parameters, the government actively intervened in an enabling capacity by (inter alia) removing existing impediments in the supply, transfer and regulation of land for shelter purposes, improving skills development at local level and encouraging financial institutions to offer small loans for building material (Spence: 1983). The conclusion that can be drawn from this case study is that in order for the enabling approach to be effective the governments should actively play their promoting and facilitating roles in housing delivery process.

The study used the enabling approach because the South African government uses this type of approach as a mechanism to combat the housing backlog through state assistance in the form of capital subsidy schemes. The government capital subsidy scheme targets those at the lower end of the housing market. According to the Urban Foundation all households who earned less than R1000.00 per month were entitled to a capital subsidy of R7500.00. This amount had to cover land cost, metered water, access route, storm water drainage and sanitation. It remained the responsibility of beneficiaries to build a top structure. Many beneficiaries ended up building shacks because of financial constraints,

while many serviced sites remained unoccupied (Urban Foundation: 1992).

The national housing scheme was introduced in 1995. This subsidy scheme was founded on the principle of a capital subsidy because the subsidy amount provides serviced sites and a starter house. According to the new housing subsidy scheme, the subsidy amount is graded according to beneficiaries' monthly income bracket. Tables below show household incomes vs. subsidy amounts.

**Table: 1.1 Income brackets and subsidy amounts**

Income Brackets	Subsidy Amount	Subsidy Amount	Subsidy Amount	Subsidy Amount	Contributions
	1995	1998	2002	2005	
R0-800	R15000.00	R16 000.00	R25.800.00	R31929.00	None
R801-R1 500.00	R12000.00	R10 000.00	R15000.00	R29450.00	R2479.00
R1 501-R2 500.00	R9500.00	R5 500.00	R3500.00		
R2 501-R 3500.00	R5 500.00				

**Source: Department of Housing (2005)**

The money is used to provide services and if there is any residual, the top structure is built. With a subsidy amount plus the requirements for the provision of basic services, it becomes difficult to provide a complete house that can accommodate a household. This is because of the limited residual amount, thus the so-called "30 square meter match box houses are provided. It is for such reasons that the government subsidy has come under criticism by politicians, other organizations and communities. In many low cost housing projects beneficiaries argue that when they lived in informal settlements they had bigger structures compared to what is provided by the subsidy. They also argue that they were not paying for any services, and now they are provided with small/ incomplete houses with an added cost. Basically, the government-housing subsidy provides a starting point to enable beneficiaries to use additional resources or to improve their starter houses.

Burgess (1987) argues that in a capitalist world, housing improvements are determined by money. Housing beneficiaries may wish to improve their houses to satisfy their family needs but financial resources may restrict them. In the South African housing context, for example, beneficiaries cannot improve houses to their satisfaction because they cannot afford the costs involved and they are unable to afford costly building materials (Burgess: 1987, Lea: 1989).

Therefore, the South African government has to create an environment that would enable poor beneficiaries to access additional finance to consolidate their housing or to support the initiative of the poor beneficiary households to start housing group savings schemes.

#### **2.4 Incremental Approach**

One of the pillars of the current housing policy is the concept of the incremental growth of housing. The concept of incremental growth belongs to the broader concept of self-help housing. There are three typical formats that self-help normally takes: firstly, sites and service schemes; secondly, core housing schemes; thirdly, informal settlement upgrading (CSIR: 1997).

Generally, sites and services schemes is the housing delivery approach used by the South African government prior to 1994. According to this approach the government provides individual freehold tenure, water, storm water, roads and sanitation on site.

In the case of Informal settlement upgrading, a general characteristic of virtually all informal settlements is an absence of adequate access to services and bulk infrastructure. Roads are typically poor quality and impassible in wet weather due to erosion. A general lack of capacity in the area of bulk water provision and bulk sewage disposal, coupled with awkward topography, often constrains development to only communal

water points and pit latrines, which have environmental implications. Therefore informal settlement upgrading is a provision of basic services and infrastructure to an informally settled community. Upgrading gives the area legal recognition in the sense that households occupying the land illegally are given the right to own land. Furthermore, the right to own land protects households from eviction and gives them security to invest in housing (Hindson and McCarthy: 1994).

The core housing approach involves a basic structure being built with the intention that it be brought to a further level of completion at a later stage, usually by the inhabitants or their direct agents. It is usually a house which is minimal in its level of services, finishes and/or size, but specifically provides for the upgrading of these aspects. The process usually starts with a contractor building starter units. The residents then occupy the houses and build on extensions as their needs change and finance becomes available (CSIR: 1997).

There are three main categories of core houses namely:

- Habitable core houses, which include all the main built components and are thus habitable from the outset. They can take the form of a shell house, a small core house or a multistorey core house
- Non-habitable core house, which have one or more of the major built components missing and therefore require some input from residents before becoming habitable. Examples include floor houses (a slab only) and roof houses (normally a frame and roof).
- Service cores either built as freestanding elements or attached to core houses. These may include the provision of water and sanitation and other services. Sometimes services are provided at a utility wall or simply at a point on a site (CSIR: 1997). The IDT



schemes of the early 1990s are a good example of this approach in South Africa.

In all three typical formats of self-help, beneficiaries need to make financial contributions towards their housing improvements.

The government plays a supportive role in housing delivery to enable communities to improve their housing circumstances on a continuous basis (CSIR: 1997). In essence, beneficiaries are called upon to make an active contribution to help themselves by growing their own housing incrementally towards an ultimate goal, with assistance from the government in the form of an initial subsidy and ongoing support (CSIR: 1997).

Within the principles of incremental housing it is held that the level of satisfaction with housing policy is much higher when people are also involved in making decisions than when those decisions are handed down from above (Dewar: 1997).

The issues that require attention if incremental growth is to be stimulated, include:

- The participation of residents from an early stage in the project, aiding an understanding of the intended development principles,
- Access to appropriate end user finance both for initial core houses and to build extensions;
- Secure tenure;
- Choice for residents of delivery routes and housing products;
- Transfer of building skills direct to residents if requested;
- An institutional framework which provides advice and support to residents for as long as possible;

- Transfer of organizational skills to communities so that when project agents leave, communities can continue the consolidation process themselves;
- Creation of as much habitable space as possible within core houses; and
- Adequate and acceptable levels of municipal services, a decision for which residents should ideally have direct input if they are to be satisfied with what is supplied (CSIR: 1997).

A lack of commitment to the principles of a supported housing process is likely to give rise to long-term problems in many spheres of South African Society. The South African Department of Housing states that, in the housing context a favourable scenario is one where the residents choose the type of housing products and process they want and support in building incrementally towards adequate housing and which has the potential to create a habitable, stable and sustainable public and private residential environments for viable households and communities as envisaged in the policy. It further states that the worst scenario will be a case in which large numbers of small core houses are built, with no residents participation or ongoing support for consolidation (CSIR: 1997).

Incremental housing places the responsibility on the beneficiary to improve their housing conditions (Dewar: 1997). In the South African housing context there are several factors that hinder beneficiaries from achieving improvements, i.e. low incomes, unemployment and prioritizing other needs.

## **2.5 Housing Improvements**

According to Napier (1997), consolidation processes are building activities aimed at bringing starter houses to a further stage of completion using either formal or informal construction. On the other hand Durban Metro Housing Unit (2000) sees housing consolidation as a

progressive development that originates from the supposition that sites and services, squatter settlement upgrading projects, providing security of tenure and a range of basic services, would enable and encourage low income households to improve their housing through self help financing and construction.

Housing improvement is influenced by a number of factors including an increase in the number of family members. Turner (1972) sees housing as a process and it changes according to the family's housing needs, for example, family size or cycle. Basically birth of new family members is the main factor underpinning the family size change. In support of this view Arimah (1997) argues that changes in household size and a shift from a couple to family with children, change one's housing needs. He goes on to say that external improvement of a house is largely determined by the number of children in a household. Therefore households are expected to improve their houses by adding extra rooms to accommodate their large families.

Housing improvements go parallel with the accessibility of end user finance. In South Africa for example, housing improvements have proved to be a failure because of the unavailability of credit to poor beneficiary communities. The study also acknowledges that households with stable incomes do not have a problem with housing improvements because they are able to buy affordable building material and to employ someone to build for them using their own funds. In addition to this, in most housing projects where beneficiaries are involved in savings clubs for housing, the level of housing improvement is high. For example in Piesang River in eThekweni (Durban) a large number of households who made improvements to their houses were those that joined group savings for housing (BESG: 2000).

## **2.6 THE SOUTH AFRICAN EXPERINCE: The GCC, GAF and SAHPF**

### **2.6.1 Informal Financial Institutions and Low Income Earners.**

The inability of poor households to access end user finance from formal financial institutions (banks) often makes them resort to non-formal financial markets as a viable solution to their financial problems. Callier (1990) argues that informal financial markets are dominant in the financial market because they respond positively to the financial needs of the poor whereas the formal financial markets are said to be callous towards the poor. In essence the lending criteria used by non formal financial institutions is different from that of formal financial institutions, namely banks. Typical examples of such non formal financial markets are Rotation Saving and Credit Associations (ROSCAS) and Rotational Credit Associations (RCAs). Basically ROSCAS, RCAs and Money Lending Associations are used by poor households as a means of raising money for housing improvements. (Detailed information on each of the above examples of non formal financial institutions is discussed below.) The purpose is to show different types of group savings schemes used by the poor to raise finance to improve their housing circumstances.

### **2.6.2 Rotating Saving and Credit Associations**

A ROSCA is one of the savings methods commonly used by poor households in South Africa to meet their basic needs such as housing improvements. Dekle (2000) as cited in Sibiyi, notes that ROSCAS mushroomed as a consequence of formal institutions ostracizing the poor in terms of making finance accessible to them.

A culturally proven ROSCA in South Africa is the mogadisano or letsima scheme. In this scheme, a group of people together under certain rules contribute money into one person's account in a particular month. In the following month, all members again contribute into the account of another member in the group, and the procedure is repeated until every member in the group has benefited (Kurtz: 1990). He further states that in

the first meeting of a savings club, each member chooses the month in which she/he wants to receive the fund. Basically the order of rotation is decided on by mutual consensus. Club members with an urgent need to improve their houses normally receive the fund at the beginning of the cycle.

One of the advantages of a ROSCA is that its members are able to access credit from the association fund. In a ROSCA there are no restrictions on how members use their loans; however in the housing context it is imperative that they use their loans for the purpose of housing improvements (Stanford: 1992).

Arderner (1989) points out that a primary qualification for membership of a ROSCA is the ability to continue to make contributions throughout the year and not to let one's fellow members down. He further mentions that the general rule of a ROSCA is that each member will continue with his contributions until all members have received a lump sum. A member must have a source of income to be able to make contributions regularly. Thomas (1991) points out that mutual trustworthiness and personal friendships are perhaps the most important membership qualifications. He further states that members are usually all known to one another or at least vouched for by a respected member. Members either live in the same neighbourhood, belong to the same church, or work in close proximity to one another. Thus it becomes easy for members to assist each other financially and otherwise.

### **2.6.3 Rotating Credit Associations (RCAs)**

Rotational Credit Associations are found all over the world. Lukhele (1990) points out that in South Africa a popular example of RCAs is a stokvel. He further points out that they are found both in rural and urban areas, in squatter camps, mine hostels, factories, and police barracks, amongst the employed and unemployed. The RCA is an association formed upon a core of participants who agree to make regular contributions to a fund,

which is given in whole, or in part to each member in rotation (Miracle et al 1980, Kurt 1983, Kerri 1976). Lukhele (1990) defines stokvels as a type of savings club in which a group of people enter into an agreement to contribute a fixed amount of money to a common pool weekly, fortnightly or monthly. According to Thomas (1991) Rotating Credit Association is a small group of people who make contributions at stipulated intervals and the contribution is handed to one of the members on a rotational basis. The implication of the above definitions is that the functioning of the stokvels varies from one group to another. Moreover in the housing context they serve the purpose of making finance available to the club members to improve their housing circumstances.

Popularly known as stokvel, this method of saving money has become part of a specifically African culture and one which has managed to combine western notions of saving and credit (Lukhele: 1990). Often the people whose turn it was to receive the fund would host a party at his/her house. An entrance fee was charged and once people were inside, they would be entertained by local musical bands. At this party food and drinks would be sold at reasonable prices. In this way the host/ hostess made a substantial profit (Kriege: 1983). Basically most clubs have some form of bank or building society account. Furthermore these associations have helped the poor and unemployed, as well as those with work, to better their circumstances and put aside cash to improve their housing.

For example, in JCC Camp informal settlement in Mossel Bay, the informal settlement dwellers formed a stokvel group called Vusisizwe with the purpose of improving their houses. The group members entered into an agreement with local suppliers to purchase building material at discounted prices. One of their achievements was to buy the building materials of two large buildings which were to be demolished, for a total cost of R500.00. All ten members of this club had advanced building skills which they used to construct their houses (BESG: 1998).

The dwellers of Ntuthukoville settlement, in uMsunduzi benefited from the site and services scheme in 1992. They had no money to improve their houses and consequently they formed savings stokvel groups for housing. All contributions for one month made by group members were handed over to one member on a rotational basis. This rotation continued until all members had received the lump sum. Furthermore this money was given to members in a form of building material. This was done to ensure that group members used their savings for the purpose of improving their housing. Ultimately all beneficiaries who belonged to stokvel groups for housing managed to improve their houses using funds from their savings (BESG: 1998). The implication of the above two examples is that savings clubs for housing have made a positive contribution to household improvement of starter housing.

As in a ROSCA, stokvels go to great lengths to admit only reliable and trusted members, following personal recommendations, since continuity is crucial to the working of a stokvel. This is why stokvels are often formed by neighbours, members of the same community or members of the same congregation (Kurt: 1983). The implication is that, if members are close to one another it becomes easy to enforce discipline in the stokvel group and to assist one another financially and otherwise. Furthermore because money issues are sensitive, it is important for members to know one another's personal affairs, especially any circumstances which might incline a member to default on payments or not repay loans and thus jeopardize the other member's share. Stokvels fundamentally consist of members who have pledged mutual support to each other to attain specific objectives ([www.savinginstitute.co.za](http://www.savinginstitute.co.za)). Lukhele (1990) cites an example of when a group member was arrested for one or another reason, the other members would take care of the children at home until the jailed member was released. The stokvel members usually meet once

a month to make their contributions. The minimum investment into a stokvel is very low, and is determined by the people forming the stokvel. Lukhele (1990) points out that there are two types of stokvels. In the first type, a group of people enters into a loose unwritten agreement to contribute a specific amount of money should a member or any one in his immediate family die. The members bring their contributions to the family of the deceased, who can use it to pay funeral costs. This form of burial scheme is often small, and no bank accounts are opened. Basically, everything on this type of stokvel is based on *ubuntu* or mutual trust (Lukhele: 1990).

In the second type of saving scheme members contribute a fixed amount of money either weekly, monthly or annually. In this type of stokvel group, bank accounts are opened and formal written agreements or constitutions are drawn up detailing how the scheme will operate and amounts that shall be contributed. The names of stokvel groups often reflect the self-help element and togetherness, for example Masibambane (Let us join hands together). This implies that mutual financial assistance is the main purpose of stokvel groups. Lukhele (1990) concludes that stokvels enable the poor to meet their housing needs. However, it is important to note that there are no restrictions on how stokvel group members use their money. Members may take a collective decision as a group to use their funds to buy building material in order to improve their housing by building additional rooms or to put a fence around their houses.

When a member of a stokvel group is in urgent need of money, he or she can take a loan from his or her stokvel group. Some stokvels lend out money to their members at a stipulated rate of interest. The interest is invested in the group's account. At the end of the year the money is shared according to individual performance. In many stokvels it is a policy that every member takes a loan and interest is charged according



to the loan size. The more money a member borrows, the greater the bonus he or she stands to gain at the end of the year ([www.savinginstitute.co.za](http://www.savinginstitute.co.za)). With their profit, members can be able to effect the improvement to their housing conditions.

#### **2.6.4 Default Policy**

The problem of default is always present in a stokvel group and may not be intentional. Default can be caused by a number of factors, for example, among the poor death or illness, or loss of employment of contributors may lead to default. According to Burman and Lembete (1995) there are two categories of default: the first category concerns members who fail to maintain weekly or monthly payments or fail to pay a fine for being late. The second category occurs when a group member does not contribute regularly to the stokvels.

It is important to note that there are no legal documents of stokvels to deal with members defaulting payments. However when members default, most groups adopt strategies that are appropriate to the case. For example members who do not maintain regular payments may be fined the rate of R2 for every R10 a month. At times a committee appointed might visit someone whose loan payment is overdue. Coercion may be part of such a "visit" (Lukhele: 1990). Where a group member dies, a stokvel group pays out to the dependents what is owed to the deceased; or to a member who resigns for acceptable reasons. Miracle et al (1980) report that the risk of default is lessened in a small town because the defaulter is unlikely to be accepted as a member of another association.

Furthermore, if association members default with contributions they are usually given a period of grace before their names are blacklisted (Burman and Lembete: 1990). Compared with the formal banking sector savings and loans groups have much lower administrative and

transaction costs, overheads are low, the officials are unpaid and no facilities are built or rented. In a stokvel the costs of processing or recovering a loan are low because members of the group can easily assess the creditworthiness of applicants. For this reason the applicant should be known to at least part of the group.

### **2.6.5 Advantages of membership in an RCA**

Thomas (1991) notes that membership in an RCA provides a member with a source of funds, which they can draw upon in times of emergency and which might not be available to them from another source. On the other hand, Cross (1987) maintains that a stokvel is more likely to act as security for establishing a personal line of credit than as a means of providing a lump sum, as it often happens that rotational payments do not coincide with the members' need for cash. Generally poor people are most likely to be in need of emergency credit and least likely to be able to obtain credit from sources such as banks or building societies, and if unemployed, they cannot rely on loans from employers.

Thus in some cases members may draw upon association funds in times of need as well as receive payouts on a rotational basis (Lukhele: 1990, Stanford: 1991). Members can use such funds to improve their housing conditions.

### **2.6.6 The Role of Rotating Credit Associations in housing improvement**

There are many families that cannot afford to have a formal house built, but can afford to buy a site and build an informal structure. It is here that informal finance can play a part by providing money to buy building material. RCAs have made a tremendous contribution in enabling low-income earners, who cannot access loans from formal financial institutions, to improve their housing circumstances. Cross (1987) points out that RCA funds can be used to obtain credit.

Stokvels can provide the poor with a good track record of saving which in turn can help them access loans from formal financial institutions. The National Stokvels Association of South Africa (NASASA) reveals that stokvel funds can be used to secure loans from formal financial institutions (Lukhele: 2000). Recently, the government, through agencies such as National Urban Reconstruction and Housing Agency (NURCHA), developed programmes that will secure housing loans for people earning less than R2000,00 a month who have a proven track record of saving through schemes such as stokvels. Low-income families who have been saving through stokvels and burial societies for a long time will qualify in this programme ([www.savinginstitute.co.za](http://www.savinginstitute.co.za)). It is important to encourage the stokvel group members to make sure that their payments are always up to date and to maintain consistency in terms of stokvel contributions.

NASASA initiated the project known as the Stokvel City Housing Project. This project focuses on building informal homes in site and service areas or upgrading the backyard shacks that house many township dwellers in formal housing areas (Burman and Lembete: 1995). NASASA's role in the project is to act as a financial intermediary to those stokvels affiliated to it. In this way cheap building materials are purchased by the association who set up building depots in the project areas. Building skills are taught from the depots and in this way members pick up useful income generating skills (Burman and Lembete: 1995). Furthermore, the members are able to minimize building costs by using their building skills to build or improve their own houses.

### **2.6.7 Money lending Associations**

Money lending associations are found all over the world. In South Africa they are popularly known as 'Omashonisa'. In these associations club members normally pool their wages and lend at a profit. Anyone who needs money and whose bona fides satisfies the syndicate, can be

loaned an amount to be repaid with interest after a fixed period (Stamford: 1992). These types of syndicates often last for a year, at the end of which the capital plus interest is paid out to members and the syndicate is dissolved. In this type of syndicate, partnership agreements are drawn up and minutes taken in compliance with the law governing partnership (Stamford: 1992).

The primary source of income is the interest charged on money loaned, plus fines for late payment of contributions by members, late arrival at meetings, or absence from a meeting without prior apology. Some stokvels lend out money to their members at a stipulated rate of interest (Stamford: 1992).

*Umfeladawonye* in Eastern Cape, is a good example of a money lending association. In this group, which has ten members, the emphasis is on making money available to members in the form of a loan. As in all other savings clubs, the secretary records all the contributions made by members. The information includes who borrowed the money, when it will be paid back and who introduced the borrower. This information is given to all members at the next meeting. Special safety precautions against loss in a club are that each member must have his/her own book and that there is also a club book, records are kept in all these books, so that details will not be lost (BESG: 1998).

The interest charged is standardized and if money borrowed is not returned within the period agreed upon, the group takes measures against the borrower. If a loan is too big, the borrower must provide an item as security, such as television, radio or sewing machine. The secretary keeps the article until the capital is paid off. However, if the club cannot recover the loaned money, the member who introduced the borrower is liable and must repay the money (EBSG: 1998).

Furthermore, it is compulsory for members to borrow money. If a member borrows R100, 00 he/she must repay that amount plus R10, 00 interest the following month. The interest is invested in the group's account. At the end of the year the money is shared among members according to each individual's performance. The more borrowers a member introduces, the greater the bonus he/she stands to gain at the end of the year. Through their profits or shares poor households are able to buy affordable building material such as concrete blocks, cement, sand and roofing material to improve their houses (BESG: 1998).

### **2.6.8 Links between Savings Clubs for Housing and Non Traditional Lenders**

Non-traditional lenders such as Agishana Credit company and employ certain strategies that are not used by traditional lenders. It has been mentioned in the previous discussions that most low-income earners are barred from receiving assistance from traditional financial institutions because of lack of collateral. Non-traditional lenders aim to address the problem of access to housing credit by providing loans to low-income earners without collateral. The lending criteria of the non-traditional institutions takes into account the inability of the poor to obtain and maintain larger loans. They strive to provide small to medium term loans in South Africa.

Forming groups of borrowers and making the group responsible for repayment is one alternative to property as collateral. It relies on social pressure and group solidarity as a form of guarantee. This has proved to be successful for short term revolving loans. This type of scheme would only work in a housing finance context if the loans were provided on a piecemeal basis or if the second credit line of small short term business and consumption loans is linked to the housing credit (UNCHS: 1984).

Peer pressure/ solidarity guarantees have also internationally been a successful form of loan guarantee. The Grameen Bank loan scheme, as an example, is based on the group concept. Borrowers are required to organize themselves into groups of five. The loans are individual loans, but there is a collective responsibility. After an initial education period, two members of the group are given loans. After five weeks of regular repayment, two other group members are able to get loans. After a further five weeks of regular payments, the fifth member of the group is able to get a loan. The loan scheme thus works on the principle of peer pressure, as, if one group member fails to make repayments, then none of the others will receive loans (Lankowitz and Ellis: 1999).

#### **2.6.9 The Group Credit Company**

In South Africa, the Group Credit Company in Cape Town implemented a group lending scheme. They issued loans in multiples of R500 up to a maximum of R5000 with maturities ranging from 1 to 5 years. Interest rates were exceptionally high i.e. 33%. Loans were granted to formally constituted stokvels, church groups and housing credit clubs. The groups had regular meetings with loan officers. People with incomes as low as R200 were able to access credit through this system.

The GCC experience was a failure. Differing income levels, varying degrees of commitment and personal differences often resulted in groups self-destructing. Even with cohesive and sustainable groups, group pressure was sometimes used as a weapon of boycott and resistance to the lender rather than a means of collateral. The problem with group breakdowns and boycotts resulted in the scheme being converted into a personal loan scheme with the group playing a far more limited role (UNCHS: 1999).

### **2.6.10 The Get Ahead Foundation**

Another example is the Get Ahead Foundation (GAF) in South Africa (Cape Town). GAF, a non profit organisation, was the first on the African continent to use the stokvel concept as a mechanism for its group lending programme and, like traditional stokvels, its group of borrowers stand or fall on the basis of mutual trust. According to the GAF programme loans are given to savings groups with a maximum membership of ten. Each group member is loaned a sum of R500 and a group leader is elected to collect the group savings and loan repayments each month. The interest is 40% but 15% of interest is set aside for the member and is given back after a year when a loan has been repaid. Subsequent loans are made to members who have fully paid their loans. These loans have also been put to a variety of uses with about 52% of the recipients spending the money on building additions to their informal houses (BESG: 2003).

### **2.6.11 The South Africa Homeless People's Federation (SAHPF)**

The South African Homeless People's Federation is another good example of non-formal institutions. This Federation was established in 1994 in an attempt to address hardship experienced by the poor with regard to accessing end user finance from the banks. The three actors who form part of this people-led-housing process are the South African Homeless People's Federation, People's Dialogue and the uTshani Fund (of which there is a sub component, the uTshani Trust). All are key to the vision of an appropriate form of housing delivery for the poor, by the poor (People's Dialogue/ Federation Alliance, undated paper).

The SAHPF is a network of autonomous housing savings and loan collectives (HSL) in which women play a central role, but from which men are not excluded. Most of the affiliate savings schemes in the federation operate in broadly similar ways, but have their own internal rules. These organizations are united by a common development approach that all

organizations are involved in savings and credit, managed at a grassroots level by members themselves.

The Federation is divided into ten regional structures. Regional Federations are made up of a regional secretary and regional convenors. Regional convenors meet at least twice a month. They are entrusted by the regional HSL to facilitate the different functions of the HSL. These include:

- Savings schemes support
- Management of Exchange Programmes between HSL
- Land identification and the securing of tenure
- Community based shelter training, including needs assessment surveys, determining levels of affordability and house modeling
- Technical and general building support including planning, design and costing of housing development
- Support for housing loan repayment (S.A.H.P.F. et al: undated paper)

Bolnick et al: (1996) argue that saving with the SAHPF enables the poor to obtain small capital loans for housing improvements. Furthermore the SAHPF asserts that there are advantages in saving through Housing Savings Schemes because, more than collecting money, these schemes are collecting people and bringing trust to the community.

The S.A.H.P.F. (undated paper) asserts that the Federation provides three types of savings namely:

**Daily Savings:**

“Daily savings give one confidence in the process. Also, when collectors come into our houses, we have an opportunity to discuss the state of our HSS and our federation. In meetings, we may be shy to speak openly. We might miss the unemployed and self-employed if we save only weekly,



since they will be tempted to use the money before the meeting. Thus the very poor will not benefit, only the employed will" (S.A.H.P.F: undated paper)

According to this type of saving the poor are expected to make a daily contribution as low as 50c. It is primarily intended to accommodate the poor, whose livelihood comes from the informal sector (vendors, hawkers, scavengers, etc) both the earning and spending of their money is daily, not weekly or monthly. When a savings system accommodates such earning patterns and makes it easy to deposit daily earnings when they are still in the pocket, no matter how small, then it makes it possible for everyone to save. Daily savings help people to know each other, and to see the relationship between participation and total savings.

### **Granary Savings**

With this type of saving all members of the savings scheme are expected to make their contributions on a monthly basis. A monthly savings system tends to work best for those better off group members with more regular jobs while they often exclude the poorest.

### **Housing Savings**

These funds are deposited in uTshani Fund account in the form of deposits for uTshani Housing Loan (S.A.H.P.F: undated paper).

The Federation provides training to the affiliate organizations. There are four main components of the training programme:

- Savings schemes learn in practice how to map and profile settlements, and gather basic socio economic data about the residents. This is undertaken to develop an understanding of the living conditions of the people in the settlement.

- Within a financial component, members of the housing savings schemes teach one another basic financial management, including bookkeeping and banking.
- A third component is the house modeling process, whereby members collectively design and model the houses of their dreams, then consider issues of affordability and practicality and amend their designs accordingly.
- The fourth component, once housing loans have been obtained and an acceptable house design identified, is training in building and construction techniques. S.A.H.P.F. (Undated paper)

### **uTshani**

To realise all of the above, the Federation created a dedicated housing finance component called uTshani Fund. The People's Dialogue/ Federation (Undated paper) points out that the uTshani Fund has a small professional management team that manages the Fund on behalf of the Federation. The team is accountable to a governing body, which is made up of one elected community (Federation) representative from each region. Basically uTshani Fund is the revolving home loan fund that actually lends Federation members enough to build (People's Dialogue: 1997)

There is no arbitrary amount that members must have saved before they can take out a home loan. Any Housing Scheme is eligible to apply for an uTshani Fund Loan. In order to apply, a scheme has to provide affordability forms once they have met certain financial, technical and social criteria. The criteria are set by the Governing Body of uTshani Fund and monitored by uTshani Fund management and uTshani regional and national teams. These criteria include:

- Track record of savings and borrowing of HSL

- Maximum participation of women
- Security of tenure
- House model and design
- Costing
- Member's income and affordability
- Capacity to source or produce materials (The People's Dialogue: 1997)

Schemes which are new to housing loans normally receive finance for a group of 10 members. Once the member's monthly repayments have been worked out, uTshani Fund staff determines the amount that can be borrowed over a 15-year period at a simple interest rate of one percent per month.

If necessary, the housing savings scheme then adjusts its house design to build within this amount. The final decision on whether or not a loan should be granted rests with the governing body. The governing body is firmly rooted in the Federation with representatives from each of the nine regions in which the savings schemes are active, and three national convenors (People's Dialogue: 1996)

Once a loan has been agreed, uTshani Fund advances the money to the savings schemes, which are responsible for all further aspects of local loan management. The Savings Schemes are responsible for the disbursement of funds to its members in the form of building material not cash (People's Dialogue: 1996).

A number of housing savings schemes in South African have managed to get loans from uTshani Fund. For example Piesang River, in Inanda, KwaZulu-Natal, had a population of 1650 families living in an informal settlement. In late 1991 subsidies of R7500.00 per family were secured from the Durban City Council, and private contractors were hired to install

basic services. However this did not solve the problem of shacks in the area. In July 1992 Jockin, the president of the National Slum Dwellers Federation in India while in South Africa on an exchange programme mobilised the community of this area to form a savings schemes for housing and to affiliate them to the SAHPF in order to qualify for uTshani loans. In February 1995 eight members of the savings schemes in the settlement took loans from the uTshani Fund. The members` monthly contributions were used to repay the uTshani loan. All savings clubs managed to use their building skills to build houses of high standard (BESG: 1998).

Another good example is a Kgotsong Housing Saving Scheme, in the informal settlement of Kgotsong. In this settlement the beneficiaries had a problem of building permanent top structures. When Jockin of NSDF visited the area in 1992 he advised the community to form housing group savings schemes. In August 1992 a Kgotsong Housing Savings Scheme was formed. They limited their membership to 100. This scheme was the first federation group to be promised support by politicians in the government of national unity. They were promised 100 subsidies by the first MEC for housing for the province. However this promise was never met. As a result they decided to secure a loan from the uTshani Fund to effect improvement to their houses. They built basic structures at the lowest possible cost, making sure that the houses built were both habitable and affordable (BESG: 1998).

The South African Homeless People's Federation placed more emphasis on simplicity and transparency. Therefore, housing savings schemes are encouraged to have weekly and bi-weekly meetings with open access to information. Bookkeeping, release of funds, distribution of building materials and management of the construction process is undertaken by the members, supported by other Federation groups in the course of regular exchange programmes. The Fund itself provides information to

enable savings schemes to follow their loan balance and repayments (People's Dialogue: 1996).

The uTshani Fund has the following objectives:

- To strive for financial self sufficiency within the parameters of these broader goals.
- To make housing and other finance available to homeless persons` who would otherwise not have access to it.
- uTshani operates on a non profit basis. Any surpluses are solely for further loan finance.
- uTshani may not make finance available to non-Federation groups (People's Dialogue 1997).

After housing finance has been secured from uTshani Fund, technical procedures are followed by the HSL with support from the Federation's national and regional structures. These priorities vary from settlement to settlement based on the priorities as determined by each savings scheme. Normally the group members source or produce materials and build houses for one another. The uTshani and HSL teams of the Federation check the management of the funds. The technical or Building team of the Federation checks the purchase and production of materials and construction of houses. Family members pay for skilled labour (but not for building / technical team support) out of their loans/ subsidies. Members of the group contribute labour on a sweat equity basis (People's Dialogue: 1997).

Today the Federation enjoys significant moral support at National and Provincial Government level. The Federation has earned a high profile as a practical example of people centred development. The Department of Housing regards the Federation as one of its key partners in the People's Housing Process. The Federation enjoys a similar relationship with the

Department of Land Affairs. Since Housing Delivery is effectively a provincial responsibility, the Federation has developed a working relationship with most Provincial Housing Boards, having set up joint steering committees to monitor the efforts of the Federation to gain direct access to housing subsidies for its members (People's Dialogue: 1997).

### **The People's Dialogue**

People's Dialogue on Land and Shelter is a small national NGO whose sole purpose is to support the initiative of the Homeless People's Federation. People's Dialogue is legally registered as an autonomous sub committee of the South African Catholic Development Agency (SACDA), which is the social action arm of the Southern African Catholic Bishop's Conference (SACBC). Basically People's Dialogue is a team of support professionals who have been commissioned to support the SAHPF. These professionals do not direct the Federation's activities but support the process devised and prioritised by the members of the HSL, the regional convenors and the NEC. According to the People's Dialogue, (1997) support from professionals includes the following:

- Fundraising and administration of donor finance on behalf of the Federation.
- Assistance in interaction with formal institutions, including National and Local Government Departments and agencies.
- Operation of national Low Cost housing finance programme (uTshani Fund).
- Technical advice and support for construction and community planning activities (People's Dialogue, 1997).

The above information has shown how the group savings have assisted poor household beneficiaries to save for their housing improvements.

## **2.7 INTERNATIONAL EXPERIENCE**

### **2.7.1 The Grameen Bank of Bangladesh**

The Grameen Bank is a specialised financial institution in Bangladesh that was established by government order in 1983 to provide credit to the rural poor for the purpose of improving their economic situation. The Bank originated in 1976 as an action research project in an area near Chitagong University to test the hypothesis that if the poor are supplied with working capital they can generate productive, self employment without external assistance (Lankowitz and Ellis: 1999).

Some of the objectives of the Grameen Bank include bringing financial services to the poor, particularly women, and the poorest to help them fight poverty and stay profitable and financially sound. The Grameen Bank provides an organisational structure that the poor can understand and in which they can participate fully, thereby increasing their economic, social and political strength through mutual support. Another objective is to reverse the vicious circle of low income, low savings, low investments to an expanding cycle of low income, credit, investment, more income, more investment (Wagnaraja: 1990).

The Grameen Bank performs a series of economic and social functions in accordance with the above objectives. All activities start with groups of low-income people and their centres. People form homogeneous groups of five people each and such groups join to make a centre of thirty people. Only one person from a household can become a member, and relatives must not be in the same group. The centre becomes a focal point of all socio economic investigations, dialogues and decisions (Wagnaraja: 1990).

Each group elects a chairperson and a secretary, and these positions rotate among members on a yearly basis so that all members have the learning experience that accompanies the responsibilities of these

positions. The chairperson is responsible for discipline in the group and for supervision of loan utilization by the members. Members conduct business with a bank worker, through the chairperson, at weekly meetings that all members are obliged to attend (Lankowitz and Ellis: 1999).

Loan disbursement is not a simple matter. When a group is formed, it is kept under close observation for a month by the bank worker to see if members are conforming to the discipline of the Grameen Bank. The prospective borrowers are obliged to participate in a group training program for a minimum of seven days of continuous instruction by the bank worker. The training is intended to make the members thoroughly conversant with the rules and regulations of the bank. This includes understanding the purpose of the various bank procedures, the responsibilities of the group chairperson and the centre chief, the group savings program and learning to make signatures (Wagnaraja: 1990).

The group is accorded formal recognition when all members are found to be well versed in the rules and procedures. Two members of the group then receive loans and their repayment behaviour is observed for a month or two. If they pay the weekly instalments on a regular basis, the next two members become eligible for loans. The chairperson is the last member to receive a loan. A repeat loan is not approved for any member until the accounts of all members of the group are settled. The group functions as an institution to ensure mutual accountability. The individual is kept in line by a considerable amount of pressure from other members of the group. The existence of the group thus acts as the collateral for the bank loans (Wagnaraja: 1990).

The credibility of the group as a whole and its future benefits in terms of new loans are in jeopardy if one member breaks the discipline and defaults on loan repayments. So groups sometimes decide to fine or to expel a member who fails to attend a meeting and who wilfully defaults



on payment of the instalments. Other members of the group sometimes also extend financial support in times of genuine difficulty when the member cannot pay the instalment. A member may leave the group when the loan is fully repaid, if a member leaves earlier, the responsibility of paying the balance falls to the remaining group members. When an entire group defaults, the responsibility of repayment falls to the centre (Hossain: 1988).

Loans take up to two weeks to be processed. The bank manager sometimes even makes field trips to investigate the viability of loan amounts. Once the loan is approved the Bank manager issues the money along with the loan passbook. The loan is given for a period of one year and is to be repaid in fifty weekly instalments of 2% of the loan amount. The fifty instalments cover the principal loan. The interest on the loan and contributions to the group fund are collected in the remaining two weeks of the year (Lankowitz and Ellis: 1999).

The Grameen Bank principle is that clients should not go to the bank, but that the bank goes to the people. Consequently it is the responsibility of the bank worker to collect the weekly instalments during the centre meetings and record the instalment in the member's loan passbook. The loan must be used within seven days of receipt for the purpose specified in the loan proposal form. A monitoring process involving the group chairperson, centre chief, bank worker and bank manager takes place. Non utilised loans go back to the bank. Recovery of loans is ensured by tight supervision of loan utilisation by the Bank staff and by mutual responsibility by the groups and their centres (Lankowitz and Ellis: 1999).

The loan pattern of the Bank covers four broad fields namely livestock, fisheries, processing and manufacturer, trading and lastly home loans. (Wagnaraja, 1990). In relation to the home loans aspect, the Bank's Home Loan package provides home loans to groups who have met the loan

conditions of previous loans and who are on schedule with payment. The group is liable for the loan given to individuals and therefore puts considerable pressure on those who are in arrears with their loan instalments (Sibiya, 2003). The Home Loan Package includes four reinforced concrete pillars, two bundles of galvanised iron sheets, one sanitary latrine and additional material for walls and roof (World Bank Report: 1993).

One of the regulations of the Grameen Bank is that each member must save one 'taka' every week besides 5% of the loan amount, which is kept aside at the time of disbursement. The savings are accumulated in the Group Fund. The amounts collected from fines imposed on members for breach of discipline are accumulated in the Group Fund for the benefit of all members. This amount is deposited with Grameen Bank at 8.5% annual interest (Wagnaraja, 1990). The member can borrow from the Group Fund for use at times of sickness or social ceremony, so that it is not necessary to take these expenses out of capital or go back to the informal markets for such loans. The group decides the terms and conditions of these loans, which are normally granted interest free and repayment is flexible. The fund is managed by the group. The reason for utilising the group fund range from house repairs and extensions, medical bills, social ceremonies such as weddings or religious festivals, purchase of raw materials for manufacturing to repayment of old loans from other sources. Most of the money is used to repay the Grameen Bank loans (Lankowitz and Ellis: 1999).

The loan repayment performance is excellent. The main factors behind the excellent recovery of Grameen Bank loans are:

The ability to confine credit services to the extremely needy, including decentralisation of power and responsibilities and intensive training of bank workers.

- The provision of loans for activities that is suitable to the circumstances under which the poor earn and live.
- Above all, the dedicated services of the bank workers are strongly motivated by the dedication of the managing director and regard their work as an opportunity to serve the poor rather than simply to earn an income for themselves (Todd: 1996).

### **2.7.2 Lessons From the Grameen Bank of Bangladesh**

Grameen banking methodology is almost the reverse of conventional banking methodology. Conventional banking is based on the principle that the more you have, the more you can get. In other words, if you have little or nothing, you get nothing. As a result, more than half the population of the world is deprived of the financial services of conventional banks. Conventional banking is based on collateral; the Grameen system is collateral free. Grameen Bank starts with the belief that credit should be accepted as a human right, and builds a system where one who does not possess anything gets the highest priority in obtaining a loan. Grameen methodology is not based on assessing the material possessions of a person; it is based on a person's potential. Grameen believes that all human beings, including the poorest, are endowed with endless potential (Wagnaraja: 1990).

A report by the International Labour Organization (2001) reveals that women have more limited opportunities to access credit from financial institutions than men. This can be attributed to lack of resources or prejudice by lending agencies. Contrary to that the Grameen Bank has given first preference to women rather than men in an attempt to empower women who were previously disadvantaged because of their sex and tradition. 96% of Grameen Bank's borrowers are women. Grameen Bank works to raise the status of poor women in their families by giving them ownership of assets. It makes sure that the ownership of the

houses built with Grameen Bank loans remains with the borrower, i.e. the women (Wignaraja: 1990).

Grameen Bank branches are located in the rural areas, unlike the branches of conventional banks, which try to locate themselves as close as possible to business districts and urban centres. The first principle of Grameen banking is that clients should not go to the bank, but that the bank should go to the people instead. Grameen Bank's 18,151 staff members meet 6,39 million borrowers at their doorsteps in 69,140 villages spread out all over Bangladesh, every week, and deliver the bank's service. Repayment of Grameen Bank loans is also made very easy by splitting the loan amount in tiny weekly installments. Doing business this way means a lot of work for the bank, but it is more convenient for borrowers (Hosseini: 1988).

In conventional banks, charging interest does not stop unless specific exemption is made to a particular defaulted loan. Interest charged on a loan can be a multiple of the principal, depending on the length of the loan period. In Grameen Bank, under no circumstances, can total interest on a loan exceed the amount of the loan, no matter how long the loan remains unpaid. No interest is charged after the interest amount equals the principal (Hosseini: 1988).

The approach used by the Grameen Bank in addressing financial problems encountered by the poor at grassroots has proved that the poor are not bad payers as perceived by the formal financial markets such as the banks. This approach has a fair chance of success in South Africa provided the formal financial institutions review and design their policies in such a way that they accommodate low income groups to access end user finance to improve their housing conditions.

By giving group credit, the Grameen Bank created more employment opportunities for poor people in Bangladesh. A large percentage of the income/profit generated through these activities was channeled towards housing improvements. Although some groups used their loans for farming purposes and to buy and sell livestock.

## **2.8 Mahila Milan Federation in India**

Mahila Milan is the federation that was formed in 1984 as a partner of National Slums Dwellers Federation (NSDF) and SPARC. In this partnership,

- NSDF organizes and mobilizes as many communities in as many cities as it can. It helps them become articulate, explore new alternatives and begin negotiation with municipalities on issues of urban equity.
- Mahila Milan assist collective women already deeply involved in managing community strategies of basic amenities to get recognition for their role in their settlements, learn to develop skills to be able to develop consensus for priorities of communities, and expand assets owned by communities ([www.mahila-info.org](http://www.mahila-info.org))

The Mahila Milan Federation has encouraged large numbers of group savings within the communities to articulate their social problems for example housing and poverty. All of these groups are linked to the federation. These groups get support from the experienced NSDF members to design solutions to their problems, a process in which women play a central role.

Savings and credit is the central activity of the federation. The process starts with crisis credit fund establishment from the small change available to most households, collected in daily visit by treasurers. Women who are interested in taking part are drawn into the training process and shown

how much crisis credit funds work in other communities ([www. Mahila-info.org](http://www.Mahila-info.org)).

The savings groups are encouraged to be comprehensive and cover as many residents as possible in the settlement. If many women in the settlement wish to be involved, it is proposed that they divide into groups of about 10 households. Within each of these groups, one woman is identified as a treasurer and the savings groups are linked to one another through these treasurers. Although most of women are illiterate, they have very good oral memories. Through working with school children the treasurers learn sufficient skills to be able to keep written records of savings and loans. The savings groups and their treasurers are all members of Mahila Milan. Most savings have a central meeting place which is called the community resource center. This center becomes the place where most financial transactions take place with savings being deposited and loans collected ([www.mahila-info.org](http://www.mahila-info.org)).

Within Mahila Milan networks, there are three kinds of savings schemes operational: the crisis savings and credit scheme, the income generation scheme and housing savings schemes. Each community begins with crisis credit. Women save small bits of money kept aside from the change from daily purchases, sometimes as little as Rs1 or 0,50 paise. This process is often set up by the poorest women in the community. Even if the savings fund is only Rs 200, women begin to borrow small amounts. This could be for medicine, to purchase bus tickets to work, or to give money to children for schoolbooks. These small loans are repaid very quickly. Women are encouraged to make their own rules about this fund, and Mahila Milan ensures that they know how to do this rule making for themselves. Groups vary the interest they charge. It is either 1% per month or flat service charge is levied ([www.mahila-info.org](http://www.mahila-info.org))

This 'record' of successful savings and credit transactions is used by the network of Mahila Milan to seek external credit lines. Currently, the funds from Rashtriya Mahila Kosh extend credit line of Rs50, 00,00 a year to Mahila Milan. The fund is used to offer credit for income generation only. This credit is available to the dispensing organization at interest rate of 12% p.a. for loans. Community collectives working in Mahila Milan have decided to charge a compulsory savings component of 1% per month additionally. This is kept as a community pool for consumption loans that all families need, but can get nowhere else. As a consequence, Mahila Milan achieves several benefits:

- Members do not lie about what they want credit for.
- Consumption credit is always available
- Women in communities control the process, even though credit is dispensed to men and women ([www.mahila-info.org](http://www.mahila-info.org)).

Once savings groups have been organized and gained some experience with credit for income generation, their 'internal' credit line begins. Loans for house upgrading and refurbishing are made by Federation available to savings groups. The Federation tries to encourage those who wish to construct their dwellings to form cooperatives and seek collective funding rather than construct their homes individually. This has many benefits: the work is cheaper; people get better materials, and collective construction works well when the group is organized. The difference in cost between individual building and collective housing development is so great that it does not make sense for households to build on their own ([www.mahila-info.org](http://www.mahila-info.org)).

## **2.9 Concluding Remarks**

The literature review has shown that self help housing, enabling and incremental approaches to housing delivery are the solution to the housing problems facing low income households in South Africa. It is also the basic argument of this chapter that the success of the self help and

incremental approach depends on government support and the ability of the poor to access finance for housing improvements. The chapter therefore, explored various savings strategies employed by poor households in South Africa to accumulate funds for housing improvements. It was also shown that non-traditional lenders such as GCC and S.A.H.P.F, have played a crucial role in the South African housing context with regard to providing housing credit to housing savings schemes.

The chapter further demonstrates, in many respects, how the Grameen Bank of Bangladesh and Mahila Milan Federation got involved in making small loans for housing improvements available to the poor people of India. In essence this chapter has set the scene for the case study areas in chapter four in order to provide the insight on the contribution of housing group savings schemes in housing improvements.



## **CHAPTER THREE**

### **Historical Background of the case study areas**

#### **3 Introduction**

This section discusses a brief historical background of the case study areas of Ntuthukoville and Glenwood 2 incremental housing projects. The purpose of providing a historical background was to give the reader an understanding of the context in which the study was conducted. This section also serves to introduce the housing circumstances of poor housing beneficiaries and the initiative that was taken by some members to improve their housing circumstances.

#### **3.1 Historical Background of Ntuthukoville**

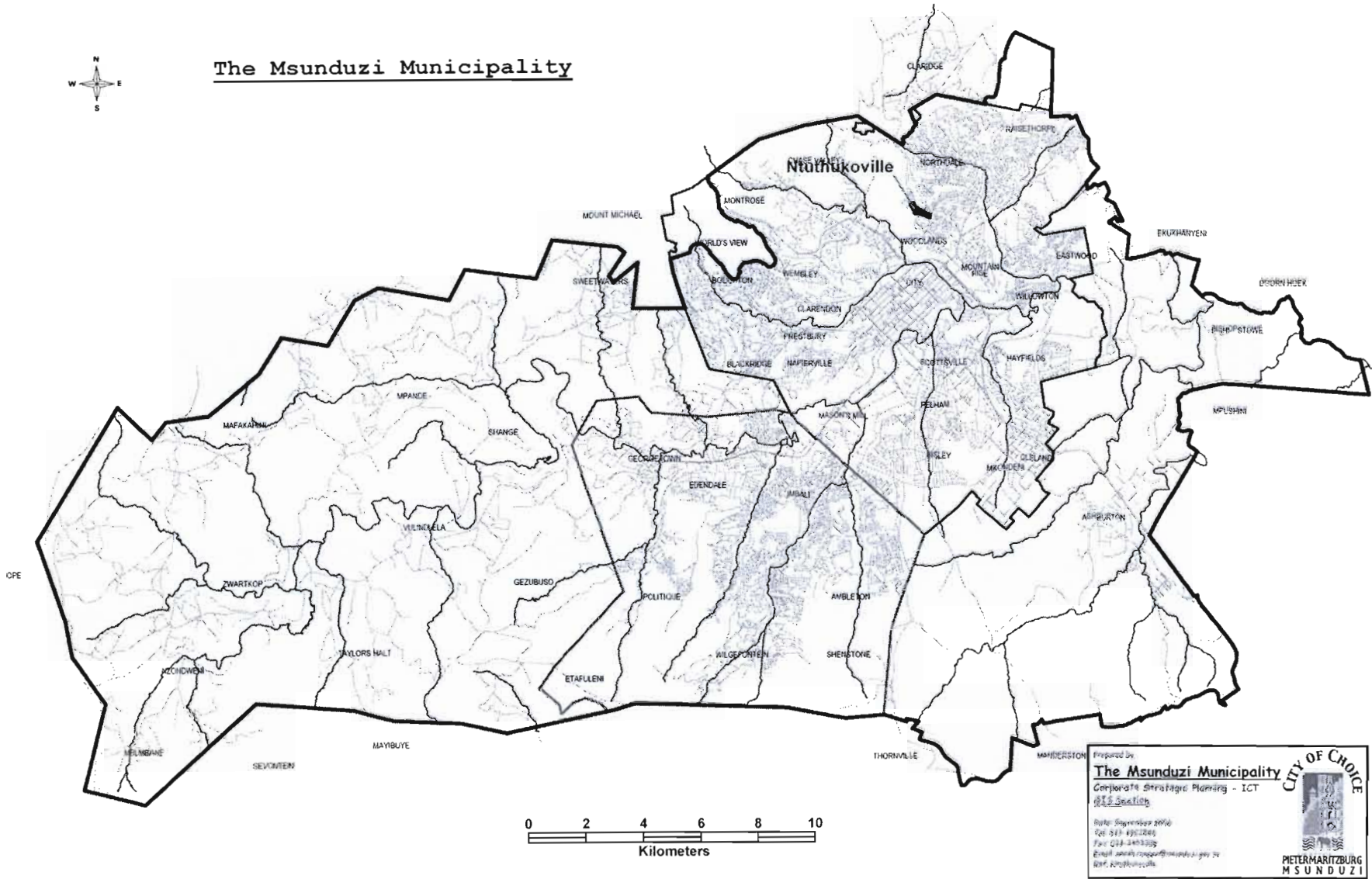
The study area of Ntuthukoville is located in the historically "coloured" Woodlands ward of Pietermaritzburg (Umsunduzi Transitional Local Council). It is adjacent to the lower income area of Happy Valley and is directly opposite the higher income area of Upper Woodlands. Map 3.1 shows the locality of Ntuthukoville.

The history of the community of Ntuthukoville is entrenched in conflict. The community consists of refugees of violence which plagued Pietermaritzburg and the rest of the country during the 1980s and 1990s. These refugees were the victims of violence in the Table Mountain (Maqonqo) area and other surrounding areas of Pietermaritzburg, such as Esgodini and Edendale (Field Survey: 2005).

During the early 1990s a group of approximately 30 families invaded and settled on a narrow strip of vacant council owned land, today known as Ntuthukoville. With their few remaining possessions and whatever material they could assemble, these families took to setting up houses on the vacant land. For a few weeks after the construction of their new homes, they experienced the satisfaction of typical suburban living. Although this was not in the form of standard services such as potable water and water



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Map 3.1: Location of Ntuthukoville

borne sewerage, it did include safety, security and peace that the areas from which they had come could not offer them. This state however did not last for long and soon the community began to experience a new form of violence typical of the local authorities during the apartheid era (Field Survey: 2005).

Forcible eviction of the families followed, with the purpose of relocating them to the southern periphery of the city in the Ambleton and Shenstone areas. The main aim of the then city council was to ensure that the status quo remained and that black people were kept at the edge of the city. Five attempts were made to relocate these people but the community, with the assistance of NGOs, political and religious organizations, were adamant that they were not going to move. Each and every time, when their houses were demolished, they rebuilt their places of shelter with the assistance of the Happy Valley community (Field Survey: 2005).

The struggle to remain on this strip of land received widespread support from all quarters in the Pietermaritzburg area. A wide variety of organizations, among others the African National Congress, the Black Sash, the University of Natal Student Representatives Council, the South African Student Congress, the Pietermaritzburg Residents and Rate Payers Associations and, most importantly, the Happy Valley Civic Association, lent support to this community's fight. Their struggle came to a head when the city council employed the services of a notorious security company noted for its harsh methods used in the removal of people occupying land illegally. At this stage Archbishop Ntule intervened in an attempt to convince the local authority to allow these people to remain on the land (Charlton: 1997).

Having failed dismally, using legal and brute force, the local authority capitulated, and all efforts to remove these people ceased. The area

was declared a 'transit' area which is where temporary services, such as pit latrines and water stand pipes were provided as an interim measure prior to the implementation of formal services. This meant that the local authority could no longer evict those living there; the settlement grew to over capacity. The settlement was originally made up of approximately thirty families living in shacks. But it immediately grew to approximately 166 households (BESG: 1999).

There are various reasons for this growth, one being the illegal sale of sites by persons in positions of power, and as well as its easy access for people to their places of work as well as employment opportunities (BESG Annual Report 1996-1997).

The focus of this community then changed from that of resisting evictions to the development of the area. The term 'development' used in this context was used by the community and its leaders at the time, meaning the provision of basic services, such as water, water borne sewerage and road infrastructure to the area. This included supply of building materials for the value of any residue subsidy that may exist for the upgrading of the existing structures. The residue subsidy would be that amount of money remaining for the use by beneficiaries after the cost of providing the services referred to above (BESG Annual Report 1996-1997).

### **3.1.1 Processes involved in the Development of the Area**

From interviews with beneficiaries, chairpersons of savings clubs and Mrs. Maphumulo, it emerged that BESG was a key role player during the development phase of the area. BESG is a non-governmental organization that was established in Pietrmaritzburg during 1989 and its aim is to develop and promote policies and practices which empower grassroots groups and simultaneously address their habitat needs (BESG 1999).

The development of the area gained momentum from a workshop prepared and presented to the community by BESG. It transpired in an interview with Mrs. Maphumulo that various options and mechanisms for developing the area were mooted at this workshop. In light of the fact that the community had had several unpleasant experiences with the local authority it was decided that the only acceptable mechanism for the development of the area would be via a representative structure of the community (Field Survey 2005). Consequently the Ntuthukoville Development Trust was established in December 1995 and registered with the Master of the High Court. All persons who were elected to serve as trustees were members of the community and nominees of existing community structures (BESG annual Report 1996-1997).

The key reason for the establishment of a Development Trust was to allow the community to enter into contracts. The main contract was that of a funding agreement with the Provincial Housing Board for the provision of housing subsidies to the beneficiary community. The need also existed for the legal entity to enter into agreements with Indlovu Regional Council for the provision of bridging finance, with consultants who were engaged to undertake the planning of the area and contractors engaged to put up the infrastructure (BESG 1999).

The Development Trust was tasked with the overall management of the project and had the responsibility to refer all major decisions back to the community. This meant that decisions pertaining to the level of services and policy decisions had to be taken in consultation with the community. On the other hand BESG was appointed project manager for the development of the area. BESG played a vital role in providing advice to the trustees on the day-to-day running of the project and technical matters that related to engineering and other aspects of the development. BESG was responsible for the development of skills among the trustees. These included empowerment through workshops on

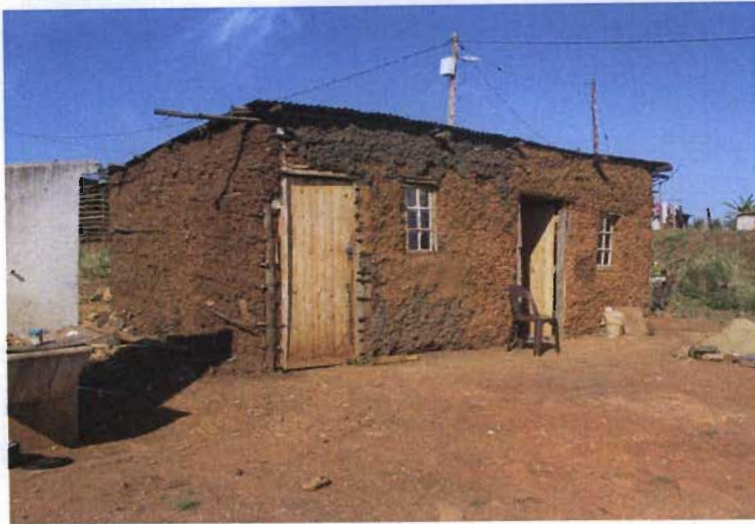
housing policy issues, development principles, project costs and various other issues that pertained to the upgrade (BESG 1999).

The project spanned a two year period and the system of land tenure was that of freehold. All aspects of the planning of the project were undertaken with close consultation and input of the trustees. For instance, the layout of the dwellings in the area prior to the upgrade had been extremely close together, and the new layout rendered it virtually impossible to accommodate all these households exactly where they had been situated. After consultation with the community an agreement was reached to relocate some forty families to other sites within the area at their own cost (BESG 1999).

In 1966 services were implemented , namely, a tarred main route, and sprayed subsidiary roads, toilets, water stand pipes to each household and tyre retaining wall facilities on certain sites. Upon completion of the services, an amount of approximately R2600,00 remained per beneficiary qualifying for a R15000,00 subsidy for the purchase of building material. The study findings showed that all the beneficiaries qualified for the full government subsidy of R15000,00 (Field Survey: 2005).

Furthermore the beneficiaries were not given the residual amount in cash. They could however access it in a form of building material. In the interview with the chairpersons of housing group savings schemes it transpired that each beneficiary ended up getting four poles, two window frames, five corrugated iron sheets and one doorframe. Consequently, a number of beneficiaries ended up building wattle and daub houses. Figure shows unimproved wattle and daub house in Ntuthukoville (Field Survey: 2005).

**Figure 3.2: unimproved wattle and daub house in Ntuthukoville**



**Source: Field Survey (2005)**

### **3.2 Historical Background of Glenwood 2**

Glenwood 2 is a settlement located in the North of Pietermaritzburg about 8 kilometers from Ntuthukoville. The area is adjacent to Glenwood and the industrial area of Willowton. Map 1 below shows the locality of Glenwood 2 in Umsunduzi.

The Built Environment Support Group (BESG) (1999) indicates that Glenwood 2 occupies a substantial parcel of land, about 166 hectares, which currently has 602 housing units. Glenwood 2 comprises four subsections, namely; Thamboville, Thembalihle, Q Section and North East Sector (Ward 20). The names of these sub sections were coined by the residents. They identify well with these names rather than with "Glenwood 2" which is considered a "technical planning name".

During the early 1980s victims of political violence between the ANC and IFP flocked into this vacant piece of land as political refugees and settled there illegally. The land was owned by the Council. The Council endeavored several times to evict them however, they resisted eviction successfully (Field Survey: 2005). In the early 1990s the council accepted

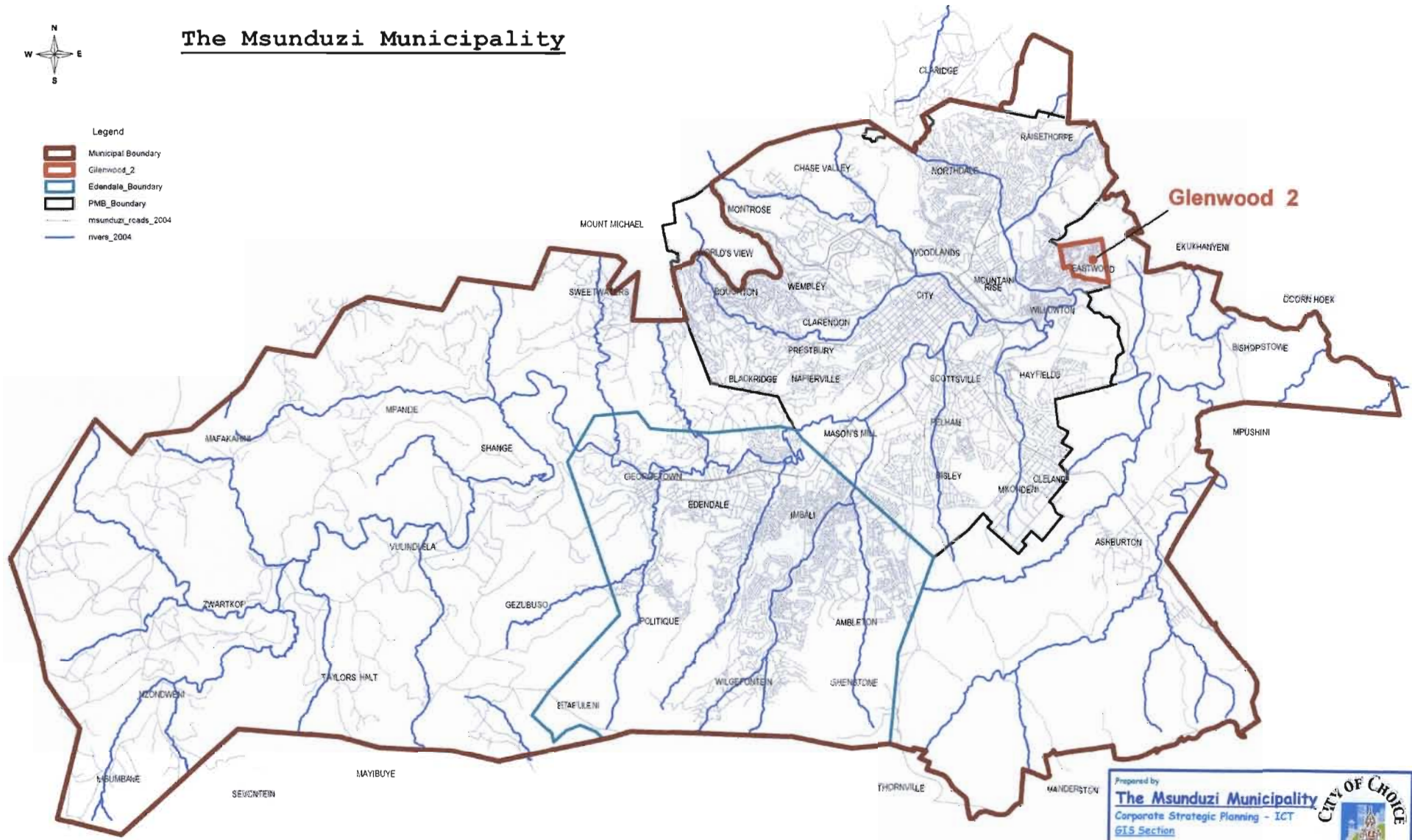
and recognized these political refugees as permanent residents of this area. Immediately after that it was declared a transit area. Temporary services, such as pit latrine and water standpipes were provided as an interim measure prior to the implementation of formal services (BESG 1999).





# The Msunduzi Municipality

- Legend
- Municipal Boundary
  - Glenwood\_2
  - Edendale\_Boundary
  - PMB\_Boundary
  - msunduzi\_roads\_2004
  - rivers\_2004



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PIETERMARITZBURG  
MSUNDUZI

### Map 3.2: Location of Glenwood 2

### **3.2.1 Processes involved in the Development of the Area**

Even though the community had been recognised, housing problems still existed. The residents of Glenwood 2 had a serious problem with the former racially based council and naturally were not keen to involve it in their development. On the other hand BESG was anxious to demonstrate the resourcefulness of the communities and effectiveness of Community Based Development. The community leaders, with the support of BESG, decided to upgrade the settlement. Both BESG and resident associations prepared proposals for the settlement upgrading and the Provincial Housing Board approved the project-linked subsidy application in September 1996. The project was approved because it helped undo apartheid geography through integration of different race groups (BESG 1999).

BESG (1999) claims that the project was designed with a view to maximize physical mobility through the area and promoting integration with the wider urban environment because, in the past, the area had only been reserved for Coloured and Indian communities. Furthermore, the advantage of this area is that it offers employment opportunities in the nearby industries and the city centre.

In 1995, the beneficiaries nominated a number of community representatives to form a Development Trust. Glenwood 2 Development Trust would be responsible for the overall management of the upgrading Project. The Development Trust was eventually registered in the Supreme Court to undertake development in Glenwood 2. The Trust was tasked with the overall management of the project and had the responsibility to refer all major decisions back to the community. This meant that decisions pertaining the level of services, the mechanisms to be employed in providing these services and policy decisions had to be taken in consultation with the community (BESG 1999).

BESG was appointed project manager for the development of the area. BESG provided advice to the trustees on the day-to-day running of the project and technical matters that related to engineering and other aspects of the development (BESG 1999).

Part of this area is located on a steep slope with poor soil conditions, and requires leveling to erect houses. This called for the installation of higher than normal services throughout the development. BESG (1999) indicates that communities committed large amounts of their subsidies towards the installation of high quality tarred roads and a waterborne sewerage system, leaving them with approximately R400, 00 per beneficiary to complete their top structures. This amount was not enough to erect a bigger house, implying that they had to borrow money in order to add or improve their housing.

Furthermore, the beneficiaries were not given the residual amount in cash but, through negotiated agreement with a local building supplier, people could access building material. These beneficiaries were not credit worthy because they were either unemployed or low earners. The subsidy beneficiaries ended up building wattle and daub houses with their subsidy residuals. Figure 3.2 below shows the picture of the housing conditions of Glenwood 2 informal settlement prior to the formation of housing group savings schemes.

**Figure 3.4 : Unimproved wattle and daub houses in Glenwood 2.**



**Source: BEG (1993)**

In an attempt to help subsidy beneficiaries of Glenwood 2 improve their housing circumstances, BEG embarked on a campaign of educating low income earners about savings clubs for housing. Some people joined savings clubs for housing and ultimately managed to effect some improvements to their houses. Others did not join savings clubs because they did not have the money for monthly contributions (Field Survey 2005). (Detailed information on housing improvements in Glenwood 2 is provided in Chapter 4).

### **3.2.2 Concluding Remarks**

The historical background of Ntuthukoville and Glenwood 2 has been discussed outlining when the projects were started and who the developers were. It is clear from the outline of the two projects that there were disparities in what each community received at the end of the upgrading of the respective areas. In the two case study areas the beneficiaries qualified for a R15000, 00 subsidy from the Provincial Housing

Board of KwaZulu-Natal. After the installation of the various services, in Ntuthukoville the beneficiaries only received a subsidy residual was of R2600,00. In Glenwood 2 they only received a subsidy residual of R400,00. The disparities are evident in the house sizes of wattle and daub houses constructed with these subsidy residuals and this is more apparent in figure 3.1 and figure 3.2.

This situation called for the beneficiary communities to be able to provide for themselves beyond the provision of a government subsidy. The aim of this background was to set the stage for the next chapter. The next chapter looks at savings strategies used by low-income earners to raise money for their housing improvements.

## **CHAPTER FOUR: Findings and Analysis**

### **4. Introduction**

The study examines the contribution of savings clubs towards housing improvement both in Ntuthukoville and Glenwood 2. It also evaluates potential of savings clubs for housing in making end user finance available to the poor in order to improve their housing. Basically this chapter covers the summary of responses obtained from the household beneficiaries in Ntuthukoville and Glenwood 2. It also covers responses gathered during the focus group discussions with the chairpersons of savings clubs for housing in the two case studies, Mrs. Maphumulo, and Mr. Ndlovu of BESH, Miss Xaba of Housing Support Center and Mr Ludwaba of Agishana Credit Company were also interviewed and their responses are contained in this chapter.

Findings of the study are provided and analyzed in this chapter. The findings are informed by the research that was carried out during the five weeks of research. Moreover, findings served as an important tool to answer the research question.

#### **4.1 Employment Status and Income Levels of Beneficiaries**

The study found it significant to explore the beneficiaries employment status and income levels in order to understand their ability to consolidate their housing conditions. The availability of housing credit to low income beneficiaries is a pre- requisite of housing consolidation. Yet low-income beneficiaries have few resources, or nothing to consolidate their housing situation. Moreover, those who cannot house themselves have no access to housing finance. The SABC (2000) divides South Africa's housing market segments into four. The first segment comprises formally employed moderate to high-income earners who have a regular income of more than R3500, 00 per month. The second segment consists of formally employed low income earners who have a regular income of about

R800,00 per month. The third is comprised of informally employed low income earners with an irregular income of about R800,00 to R3500,00. The last category is comprised of low or no income earners who earn less than R800,00. The last three categories are the ones that need more financial assistance to incrementally improve their housing circumstances. Therefore channelling resources to the people who cannot afford to improve their housing situation becomes a necessity from all role players in the delivery of housing.

## **4.2 BENEFICIARY EMPLOYMENT LEVEL IN GLENWOOD 2**

### **4.2.1 Permanently Employed Respondents in Glenwood 2**

Based on the findings of this study 10 (7%) of the 59 (100%) respondents indicated that they were permanently employed. Table 4.1 below clearly depicts the respondents' areas of employment. 2 (3%) of the 10 (17%) respondents were employed as security guards in the industrial area of Willowtown. 4 (7%) of the 10 (17%) respondents indicated that they were employed as domestic workers. They all worked in the neighbouring suburban residential area of Glenwood. This residential area and the case study area are just across each other separated by a road.

**Table 4.1: Permanently employed Beneficiaries in Glenwood 2**

<b>Respondents Employment Status</b>	<b>Number of Respondents</b>	<b>Percentage</b>
Security guard	2	20
Domestic Work	4	40
Furniture Shop	2	20
Plumbing	2	20
<b>Total</b>	<b>10</b>	<b>100</b>

**Source: Field Survey (2005)**

2 (3%) of the 10 (17%) were employed in furniture stores in the city of Pietermaritzburg. 2 (3%) of the 10 (17%) respondents were employed as plumbers by plumbing companies in the city.

#### 4.2.2 Self-Employed Beneficiaries in Glenwood 2

According to the table below, 19 (32%) of the 59 respondents were found to be self-employed or informally employed. Table 4.2 below shows the types of self-employment avenues on which people are engaged with. 3(16%) of the self-employed respondents said that they owned tuck shops to earn a living. Another 3 (16%) indicated that they owned shebeens where people buy alcohol such as traditional beer. 2 (10,5%) said they were selling food like sandwiches, vet koek, fruits and sweets to the learners at local schools.

**Table 4.2: Shows self-employment in Glenwood 2**

Types of self employment	Number of respondents	Percentage
Tuckshop	3	15,7
Shebeen	3	15,7
Selling Food at School	2	10,5
Motor Mechanics	3	15,7
Shoemaker	1	5,2
Builder	6	31,5
Catering	1	5,2
<b>Total</b>	<b>19</b>	<b>100</b>

**Source: Field Survey (2005)**

3 (15,7%) of the respondents indicated that they worked as motor mechanics in their yards. They did things such as panel beating, painting and repairing dented cars, etc. 1 (5,2%) indicated shoemaking as the business that brings bread on the table. 6 (31,5) indicated that they built houses for other people to earn a living. 1 (5,2%) had a catering



company. She caters for funerals, weddings and many other events/ functions.

#### **4..3 Temporarily Employed Respondents in Glenwood 2**

10 (16,9%) of the 59 respondents indicated that they were temporarily employed. Table 4.3 below shows the type of temporary employment carried out by the respondents.

**Table 4.3: Shows Respondents Temporal jobs in Glenwood 2**

<b>Temporary Jobs</b>	<b>Number of Respondents</b>	<b>Percentage</b>
Construction	5	50%
Grass Cutting	1	10%
Domestic Work	1	10%
Security Guard	3	30%
<b>Total</b>	<b>10</b>	<b>100%</b>

**Source: Field Survey (2005)**

3 (30%) were temporarily employed as security guards in one of the buildings that was being renovated in the city. 5 (50%) indicated that they were working for the construction company that was building the church in the case study area. However, at the completion of the building they would be without jobs. 1 (10%) was employed by a person who got a tender to cut the grass on the freeway. 1 (10%) was working for a domestic worker who was on a maternity leave. Therefore this means that even if housing savings schemes were introduced in the area, there are people who could find it difficult to contribute towards the scheme because of their employment status and job insecurity conditions under which they work. However, for the sake of housing improvements, it becomes necessary for an official framework which could guide the implementation of housing savings clubs in project areas.

#### 4.2.4 Unemployment Level in Glenwood 2

According to the table 4.4 below, 20 (34%) of the 59 respondents were not employed at all.

**Table 4.4: Shows the Respondents Survival Means in Glenwood 2**

Survival means	Number of Respondents	Percentage
Child Support Grants	6	30%
Disability Grants	1	5%
Old Age Pensions	8	40%
No income	5	25%
<b>Total</b>	<b>20</b>	<b>100%</b>

**Source: Field Survey (2005)**

3 (30%) stated that they received child support grants from the government. 1 (5%) indicated that his survival depended on his disability grant. 8 (40%) were pensioners who did not depend on their incomes only, but had undertaken activities such as knitting, selling drinks, vegetables and fruit to supplement their incomes. 5 (25%) had no source of income at all however their survival depended on handouts from the government and neighbours.

#### 4.3 MONTHLY INCOME OF GLENWOOD 2 RESPONDENTS

Table 4.5 seeks to illustrate the distribution of incomes for the respondents in Glenwood 2.

**Table 4.5: shows Glenwood 2` Respondents' Monthly Income**

Monthly income in rands	No: of Respondents	Percentage
Less than 1000.00	42	71%
1001.00 –1500.00	6	10%
1501.00 – 2000.00	7	12%
2001.00 – 2500.00	3	5%
2501.00 – 3000.00	1	2%
3001.00 – 3500.00	0	0

3501.00 and More	0	0
<b>Total</b>	<b>59</b>	<b>100</b>

**Source: Field Survey (2005)**

According to Table 3 the majority of 42 (71%) of the 59 earned less than R1000 per month. This group comprised mostly domestic workers, pensioners, disabled and those who were getting child support grants. The next category comprised those who earned between R1001 and R1500 a month. This group constituted 6 (10%) of the respondents and comprised mainly temporarily employed respondents. The third category includes those who earned between R1501 and R2000. This comprised 12% of the total respondents in Glenwood 2. The fourth category earned between R2001 and R2500 per month. This group constituted 3 (5%) of the total respondents. 1 (2%) declared a monthly income of R2501 to R3000. He indicated that his income varied, some months he had more and some months he had less, as he was self employed. This means that even if housing saving clubs are introduced in the area, there could be individuals who could find it difficult to pay club fees on a monthly basis because the little they get is spent on other things like food, child education, buying clothes, etc. This also means that within the project areas, not all residents in the area could become housing clubs members and this still create disparities among residents. However, emphasis on joining housing savings clubs should be maintained until everybody sees the difference it makes to the lives of those who are members. This could attract more people to take part in clubs of this nature.

#### **4.4 BENEFICIARIES` EMPLOYMENT LEVEL IN NTUTHUKOVILLE**

##### **4.4.1 Permanently Employed Respondents in Ntuthukoville**

In Ntuthuykoville the study findings showed that out of 42 respondents, 14 (33,3%) were employed on a full time basis. Of the 14 employed respondents, 5 (35,7%) were employed as domestic workers. 2 (14,2%)

were employed in the main post office in the city. Table 4.6 illustrates types of full time jobs performed by the respondents.

**Table 4.6: Permanently Employed Respondents in Ntuthukoville**

Type of Employment	Number of Respondents	Percentage
Domestic work	5	35,4
Post Office	2	14,2
Plumbing	4	28,5
School Caretakers	2	14,2
Factory	1	7,1
<b>Total</b>	<b>14</b>	<b>100</b>

**Source: Field Survey (2005)**

4 (28,5%) were employed as plumbers. 2 (14,2%) were employed by the Department of Education as school caretakers and 1 (7,1%) was a factory worker at Willowton.

#### **4.4.2 Unemployed Respondents in Ntuthukoville**

In Ntuthukoville, out of 42 respondents, 10 (23,8%) indicated that they were not employed. The total number of the respondents who indicated that their survival depended on government grants constituted 8 (80%) of the unemployed respondents in Ntuthukoville. Of the above 8 respondents, 4 (40%) of them indicated that their survival depended on child support grants. Table 4.7 shows survival strategies employed by the unemployed.

**Figure 4.7: Unemployed Respondents in Ntuthukoville**

Survival means	Number of Respondents	Percentage
Child Support Grant	4	40%
Old Age Pensions	3	30%
Disability Grants	1	10%
No Income	2	20%

<b>Total</b>	<b>10</b>	<b>100%</b>
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**Source: Field Survey (2005)**

3 (30%) depended on old age pension grants. All the pensioners indicated that they supplemented their income by selling fruit and vegetables, knitting and sewing jerseys and went to sell at areas like the Umsunduzi taxi ranks. 1 (10%) received a disability grant. 2 (20%) of the 10 respondents had no income at all. The level of unemployment in the case studies shows that beneficiaries are struggling to meet their daily basic needs. They have limited sources of income to keep up with their standard of living. This means that they cannot achieve housing improvements without participating in housing savings schemes.

**4.4.3 Self Employed Respondents in Ntuthukoville**

In Ntuthukoville, 12 (33,3%) of 42 respondents was self-employed. 1 (8,3%) was a motor mechanic. 2 (16,6%) of the respondents indicated that they were qualified builders. They had their own construction companies. 1 (8,3%) was a qualified dressmaker. She also knitted, made school uniforms and made wedding gowns. Table 4.8 below shows types of self-employment by respondents.

**Table 4.8: Self Employed Respondents in Ntuthukoville**

<b>Types of Self Employment jobs</b>	<b>Number of Respondents</b>	<b>Percentage</b>
Motor Mechanic	1	8,3%
Builder	2	16,6%
Dressmaking	1	8,3%
Selling Fruits and vegetables.	3	25%
Spaza Shops	2	16,6%
Shebeens	3	25%
<b>Total</b>	<b>12</b>	<b>100</b>

**Source: Field Survey (2005)**

25 (25%) of the respondents were selling fruit and vegetables in town. 2 (16,6) of the respondents owned spaza shops and the remaining 3 (25%) owned shebeens.

Such activities indicate that people do not just sit back in their poor housing conditions, but they try to do something to meet their daily needs. Therefore, if other means of saving for the improvement of their houses are introduced, they will show interest as has been seen in the subject case studies. Perhaps, to assist people who are self employed in areas such as these the local municipality, as the closest sphere of government, should try and train these beneficiaries to operate small businesses and assist them to gain financial management skills. This in turn would help them sustain and grow their businesses and result in the growth of their savings clubs.

#### **4.4.4 Temporarily Employed Beneficiaries in Ntuthukoville**

Based on the findings of this study 6 (14,2%) of the 42 respondents indicated that they were employed temporarily. 4 (66,6%) of the respondents were temporarily employed as security guards in a building that was being renovated in the city and the remaining 2 (33,2%) respondents were employed in Willowtown industries on a temporary basis.

#### **4. 5 INCOME LEVELS OF NTUTHUKOVILLE RESPONDENTS**

Table 4.9 below illustrates the respondents` monthly incomes. According to the table 31 (74%) of the respondents earned less than R1000 per month. 6(14%) earned between R1001 and R2000 a month. 2 (5%) had a monthly income of R1501 toR2000 per month. 2% earned between R2001 to R2500. The remaining 2 (5%) of the respondents declared a monthly income of between R2501 and R3000 per month.

**Table 4.9: shows Ntuthukoville Respondent's Monthly Income**

<b>Monthly income in rands</b>	<b>No of Respondents</b>	<b>Percentage</b>
Less than 1000.00	31	74%
1001.00- 1500.00	6	14%
1501.00- 2000.00	2	5%
2001.00- 2500.00	1	2%
2501.00- 3000.00	2	5%
3001.00- 3500.00	0	0
3501.00 and more	0	0
<b>Total</b>	<b>42</b>	<b>100</b>

**Source: Field Survey (2005)**

The above statistics reflect that 73% of the respondents in the two case study areas earned less than R1000,00 per month. From this data one can deduce that the majority of beneficiaries had little means that could be geared towards improving their housing circumstances. Furthermore, their employment and income levels showed that they were unable to access any form of loans from banks to augment their incomes for housing. In Glenwood 2, 13 (22%) of the 59 (100%) beneficiaries indicated that they had applied for bank loans from the banks i.e. ABSA and Standard Bank. However, their applications had been unsuccessful and the banks had not given them reasons for turning them down. The remaining 46 (78%) beneficiaries did not apply for a loan at all. In Ntuthukoville 18 (43%) of the 100% applied but did not qualify for banks loans. The remaining 24 (57%) of the respondents did not bother to apply because they knew that they would not qualify.

When Mrs. Maphumulo was asked what BEG had done to help the poor beneficiary households to access finance to improve their housing situation, she pointed out that they had tried to make arrangements with

the traditional lenders to assist with finance. However, these traditional lenders made it clear that the low income category to which they can offer housing improvement loans to, should earn not less than R3000,00 per month. Given the above income statistics it was unlikely for the respondents in both case study areas to access end user finance from the banks because of their lack of sufficient income status.

#### **4.6 Factors Stimulated the Formation of Housing Group Savings Schemes**

Prior to their joining savings schemes, the beneficiaries of the two case study areas lived in small wattle and daub houses. They knew little or nothing about savings clubs for housing improvements until BESG undertook the initiative of educating them. The purpose of BESG was to mobilize these communities to form savings clubs for housing and help them work towards achieving a common goal to improve their housing conditions and build houses of their own choice. BESG mobilized the communities of the two aforementioned case studies to form community committees.

These community committees established a steering committee, consisting of committee members from both Glenwood 2 and Ntuthukoville. The Committee also had housing advisors trained by BESG. The steering committee worked jointly with BESG in an attempt to address housing problems in Northern Areas (Glenwood 2 and Ntuthukoville). In this joint venture BESG operated as a facilitator of housing group savings schemes whereas the Steering Committee inspired the community members to join savings clubs for housing.

#### **4.7 The Establishment of Housing Group Savings Schemes**

The savings clubs for housing in both case studies had formal structures consisting of the chairperson, secretary, treasurer and ordinary club members. They were all elected democratically by all club members on the basis of their presumed ability to perform. Their primary responsibility



was to ensure the smooth functioning of their savings club for housing. One of the key responsibilities of the chairperson was to set dates of meetings and to arrange meeting venues. The secretary was expected to write minutes of the meeting and the treasurer was responsible for collecting contributions from the club members. Their work was voluntary. All savings clubs for housing in the two case studies had a constitution which served as the backbone of the savings club for housing because it clearly outlined what the members should and should not do. In drawing up their club constitutions, members were guided by BESG. Furthermore all club members were expected to abide by the constitutions of their clubs.

#### **4.8 Housing Group Savings Schemes**

Basically, the objective of the formation of savings clubs for housing is to mobilise finance for housing consolidation. In Glenwood 2 and Ntuthukoville the poor household beneficiaries resorted to savings clubs for housing with the purpose of raising finance to improve their housing circumstances.

There were 8 Housing Group Savings Schemes in Glenwood 2 when this survey was conducted. In Ntuthukoville the total number of savings clubs was 4. In the two case studies, the membership in each club was less than ten. The purpose was to enable the chairpersons to exercise effective control of their groups. Club members determined monthly contributions collectively. Furthermore, all members collectively decided on how these contributions would be used. Table 4.10 shows names of savings clubs, number of members per club and member's monthly contributions.

**Table 4.10: Names of savings clubs, number of members per club and monthly contributions in Glenwood 2 and Ntuthukoville**

Glenwood 2			Ntuthukoville		
Club name	No. of Members	Monthly Contributions	Club Name	No. of Members	Monthly Contributor
Siyazama	Ten	R50	Simunye	Ten	R200.00
Siyathuthuka 1	Nine	R100	Zamazama	Ten	R200.00
Siyathuthuka 2	Four	R100	Siyezwana	Ten	R200.00
Siyabonga	Five	R100	Sinakhokuhle	Nine	R150.00
Masibambane	Four	R200			
Zazanani	Ten	R200			
Zizamele	Six	R250			
Mfumbaphansi	Four	R250			

**Source: BESG (2005)**

In all 8 (100%) savings clubs of Glenwood 2, membership was open to both males and females whereas in Ntuthukokoville, 50% out of 100% savings clubs membership was only open to females (BESG: 2004). The chairpersons of these clubs revealed that females are trustworthier than males when it comes to payments or contributions and that when they do something they go all out to ensure that it is successful. It is important to indicate that when this research was conducted, the savings clubs still existed but the assistance from both the municipality and BESG had been withdrawn, therefore these savings clubs are finding it difficult to sustain themselves. Furthermore, all members of savings clubs for housing in the two case study areas had already improved their houses. The intention to retain their clubs was to start saving money to buy furniture, to put fencing around their houses and to pave their yards.

#### **4.9 Support Given to Housing Group Savings Schemes**

The Umsunduzi Municipality provided a lot of support to the Housing Group Savings Schemes of the two case studies. The Steering Committee, together with BESG, applied for funding from the municipality to build a housing support centre. The application was approved and the housing support centre was built in Glenwood. The primary purpose of building the housing support centre was to make it easy for the housing group savings schemes to operate because when they were formed it had been agreed that the members of each group would work jointly as a team to produce concrete bricks. The type of services provided to housing group savings schemes includes a covered slab where club members produced their concrete blocks. The covered slab protected blocks from being damaged by the rain. Priority for use of the covered slab area was given to savings clubs members. However, non-club members were also able to use the slab provided it was not booked. Furthermore, there were housing advisors trained by BESG at the centre. The housing advisors` main task was to provide advice to savings clubs on the following areas:

- House plans and costing
- Site inspection and orientation
- Checking foundations after casting of concrete
- Backfills in preparation for slabs
- Checking positions of plastic underlay
- Inspection of trenches and putting in of pegs
- Checking block work at window height and wall plate height
- The quality of building material needed to build or improve a house.
- They assisted them with the measurements and designs of houses they wanted to build or improve.

The savings clubs had access to free water and river sand. Furthermore, the municipality assisted them with a truck to fetch sand from the river to the block yard at the housing support centre. The owner of Cosmos Building Material supplied the savings clubs with ash free of charge. He also used his own truck to deliver ash to the housing support centre. BESG supplied members of the savings clubs at the centre with equipment to make blocks free of charge. BESG also supplied a person skilled in concrete block making to teach them how to use the equipment and how to mix the cement and sand to produce strong concrete blocks. If equipment broke BESG would also repair it at no cost.

#### **4.10 Operation Method of Savings Clubs for Housing**

The operation method of savings clubs for housing in the two case study areas was distinct. However, the common objective of all savings clubs was that of housing improvements. In Glenwood 2, the savings clubs members used their collective savings to buy cement bags, which they used in the production of concrete blocks at the housing support centre. Figure 4.1 shows an example of club members producing blocks at the housing support centre.

**Figure 4.1: An example of club members making blocks at the housing support centre**



Source: Department of Housing (2002)

The members of each club worked together to produce concrete blocks. The moment one thousand (1000) blocks were produced, they were divided accordingly among the group members. For example in a group of ten members each member would receive one hundred blocks. This would continue until the end of a cycle. Figure 4.2 shows an example of group members dividing blocks at the housing support centre.

**Figure 4.2: An example of group members dividing blocks**



**Source: BESH (2000)**

In Ntuthukoville the savings clubs for housing adopted different methods of operation namely Roscas, RCA's and money lending. However the common objective of all clubs was to mobilize finance for housing improvements. One of the major reasons that made them resort to different modes of operation is that the housing support centre in Glenwood 2 was not easily accessible to the club members of Ntuthukoville, being situated some distance away.

25% of the 75% savings club in Ntuthukoville operated as a money lending group. According to the policy of this savings club, the contributions for the first five months were deposited into the club

account. This was done to establish the club's funds. This money was used to give small loans to club members and non-club members. Non-members who needed loans had to be referred by a club member. It had to be a trustworthy friend, relative or any community member with the ability to repay the loan.

The loan sizes ranged between R300,00 and R600,00. They charged 10% interest of the loan taken per month. Furthermore a loan had to be repaid over three months. It was the responsibility of the chairperson and the member who had referred the client, to ensure that the loan was repaid in time. If the client failed to repay the loan, it remained the responsibility of the member who had referred the client, to repay the loan. If the member failed to recover or to repay the loan, it was taken from his or her share at the end of the year.

November was the last month to settle all outstanding debts. The last meeting of club members was held in December when members were told how much money each member would receive. According to club policy, all members were forced to use their funds towards improving their housing. The members could only access their funds if they wanted to improve their houses.

BESG had entered into an agreement with Midlands Building Material Supply Store that the club members could access building material from that hardware store. If the member wanted to start housing improvements he or she had to inform the chairperson. In turn the chairperson and treasurer would authorize the bank to issue a cheque in favour of Midlands Supply Store. Furthermore the chairperson, treasurer, secretary and housing advisors would accompany the member to Midlands Hardware Store to ensure that the correct building material was taken.

The 75% savings clubs for housing in Ntuthukoville operated as ROSCAs. The Savings Club members normally held their first club meeting early in January. It was at this meeting where the members decided whether monthly contributions would be increased or not. Furthermore, the club members had to choose the month in which they wanted to receive their funds. Members who urgently needed to improve their housing were normally at the top of the list. Everything was done with consensus.

All the contributions in one month went to the member, who was number one on the list. The rotation process was continued until all members had received their funds. As in Glenwood 2, to ensure that money was used for housing improvements purposes, all club members were issued with bank cheques made out to Midlands Building Material Store.

#### **4.11 Measures to Deal with Defaulting Group Members**

The chairpersons of housing group savings schemes clearly stated that in their clubs they used the constitutions to address the problem of members who defaulted payments. Members who failed to make their monthly contributions on the stipulated dates were fined R20,00 in all savings clubs of the two case study areas. If the members concerned had informed their chairpersons in writing that they would have a problem to pay on a stipulated date, a fine was not charged. In Glenwood 2, if the member failed to make a contribution he/she would not get his/ her share of blocks for that particular month. In the case where members failed entirely to make contributions for three consecutive months they were automatically expelled.

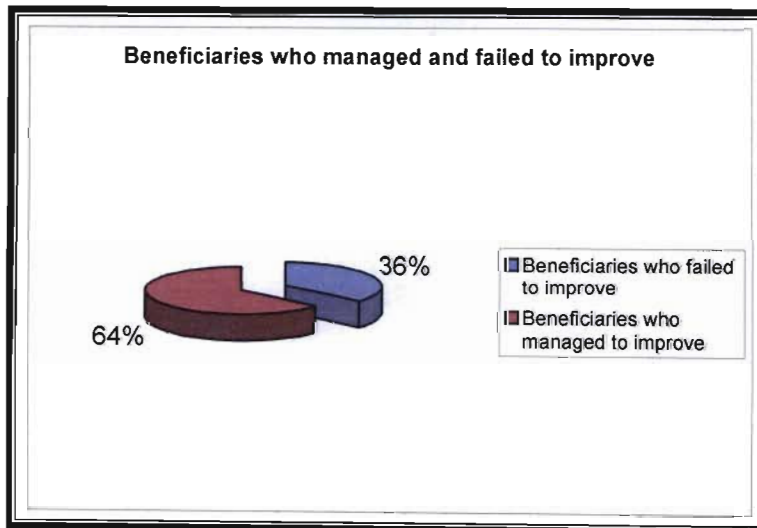
In Ntuthukoville, defaulting members were not tolerated because failure by one member to make contributions could have negative consequences on the group as a whole, as 93% of the clubs used the rotation system. Where a member could not manage to continue with the contributions due to financial constraints he/she had to inform the

chairperson in advance so that the club members would have enough time to look for another person to replace an outgoing member. The new member would reimburse an outgoing member's contributions to ensure that the rotation process was not affected. Basically all these points were enshrined in the constitutions of Ntuthukoville savings clubs. In reality there were no cases of default in Ntuthukoville as all the members were committed to their savings clubs.

#### **4.12 Level of Housing Improvements in the Two Case Study Areas**

In Glenwood 2, 38 (64%) of the 59 (100%) of the beneficiaries who answered the questionnaire had already improved their housing circumstances. The remaining 21 (36%) of the 59 (100%) had not consolidated their housing. Figure 4.3 shows the number of Glenwood 2 beneficiaries who improved their housing circumstances and those who did not.

**Figure 4.3: beneficiaries of Glenwood 2 who improved their housing and those who did not**



**Source: Field Survey (2005)**

In respect of 38 (64%) of the consolidated beneficiaries in Glenwood 2, 34 (57%) of them were members of housing group savings schemes. They used funds from their savings to improve. The remaining 4 (7%) of the 38



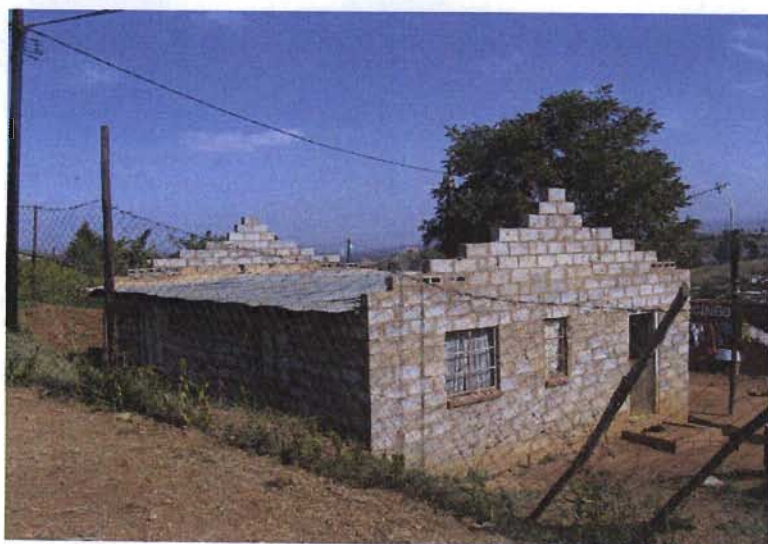
(64%) were non-members of savings clubs for housing. However they had used their own funds to improve their housing. Figure 4.5a, 4.5b and 4.5c below show houses improved by Glenwood 2 club members using funds from their savings.

**Figure 4.4a**



**Source: Field Survey (2005)**

**Figure 4.4b**



**Source: Field Survey (2005)**

**Figure 4.4c**

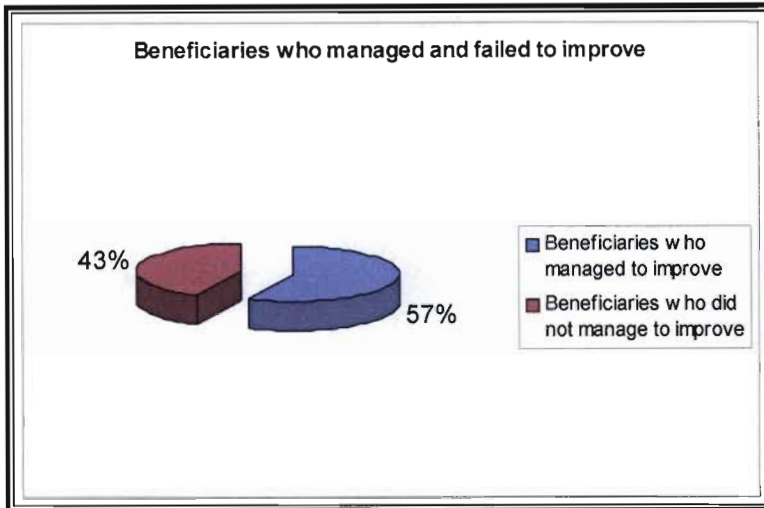


**Source: Field Survey (2005)**

On the other hand 21 (36%) of the 59 (100%) beneficiaries did not improve their housing at all. Furthermore 19 (32%) of the 21 (36%) indicated that the main factor that hindered them from improving their housing was that they were unemployed and had no income. However they were willing to improve their houses. The other 2 (4%) of the 21 (36%) beneficiaries were pensioners, they stated they were able to save individually on a monthly basis and ultimately qualified for the Agishana loan. They combined their personal savings and Agishana loans, which allowed them to improve their houses.

In the case of Ntuthukoville 24 (57%) of the 42 (100%) had successfully completed their housing consolidation. The remaining 18 (43%) had not consolidated their housing. Figure 4.4 shows the number of beneficiaries who managed and those who failed to consolidate their housing.

**Figure 4.5: beneficiaries of Ntuthukoville who improved their houses and those who did not**



**Source: Field Survey (2005)**

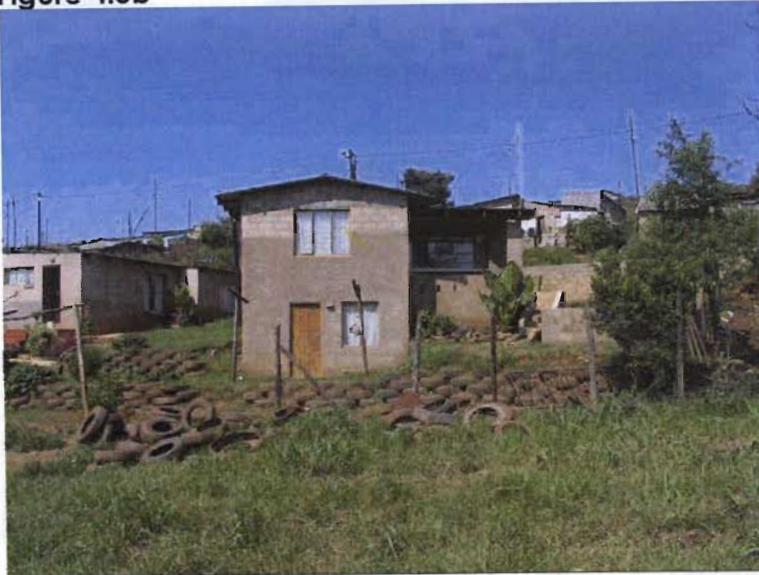
In Ntuthukoville, 23 (55) of the 24 (57%) who had successfully completed their housing consolidation belonged to housing group savings schemes. Furthermore they used funds from their savings to improve their housing. Figure 4.6 a, 4.6b and 4.6c below show housing improvements in Ntuthukoville.

**Figure 4.5a**



**Source: Field Survey (2005)**

**Figure 4.5b**



**Source: Field Survey (2005)**

**Figure 4.5c**



**Source: Field Survey (2005)**

The remaining 1 (2%) of the 24 (57%) did not belong to a housing group savings schemes. However with the money she had generated through her tuck shop she managed to improve her housing. On the other hand 17 (40%) of the 24 (57%) beneficiaries who had not consolidated, stated that they did not have stable incomes, therefore, joining savings clubs would have created many problems for them.

The remaining 1 (3%) of the 18 (43%) respondent had not improved his house because housing improvement was not his priority which was on other basic items such as education for his children, clothing and basic services such as water and electricity. His preference to use his money on these basic services hindered him from saving money for housing improvements purposes.

#### **4. 13 Sources of Finance**

The overwhelming majority of the respondents stated that they used funds from their savings and loans from Agishana Credit Company to improve their housing circumstances and constituted some 98% of the respondents in the two case study areas.

In an interview with Mrs Maphumulo, it transpired that many club members experienced problems with regard to completing their housing consolidation. The costs of roofing material were unaffordable to many club members. Consequently, BEGG determined to make an arrangement with Agishana Credit Company to open a branch in Pieteramritzburg (Umsunduzi). The key mission of Agishana Credit Company is to make housing loans accessible to the poor who, by virtue of their employment status and income levels, do not qualify to access loans from banks. The principal objective of Agishana is to assist poor household beneficiaries with small loans to improve their houses (BESG: 2000).

Mr Ludwaba of Agishna stated that loans from Agishana Credit Company targeted low income beneficiaries who earned less than R1500,00 per month. Their loan sizes ranged between R500 to R1500,00. Loans of this size are offered without security. Basically the loans were determined by an individual borrower's requirements, the amount of work to be covered and the affordability of the borrower to repay the

loan. Furthermore, Agishana loans are used exclusively for housing purposes.

In the two case study areas the following criteria was used to assess borrower eligibility. The borrower had to own a property, specify what the loan was to be used for and how much was needed to complete the task. He had to have an income of less than R1500 per month. Furthermore, the borrowers had to be able to furnish proof of income, e.g. pay slip. Where borrowers did not have easily verifiable income they had to have a pre-existing credit or savings record, had to get people who were prepared to stand surety for them and/or provide trade and personal references. In the case of self employed people the loans officer was required to monitor their businesses and assess their cash flow. Pensioners were required to produce proof that they were receiving a pension. Where people were in formal employment they had to consent to enter into a repayment agreement. Where possible, e.g. domestic workers, their employers were encouraged to assist them to pay via a repayment agreement.

Agishana also had a group savings component in lending activities. The savings acted as a 20% deposit for the loan amount required. When group members were ready to borrow money, BESEG introduced them to Agishana. The loan was granted to the group, the group then disbursed the loan to its members. Furthermore, the beneficiaries were not given their loans in the form of cash but had to collect building material such as cement, concrete blocks and roofing material, from Midlands Building Supplier Store and use it for housing consolidation.

In Glenwood 2, 29 (49%) out of 59 (100%) respondents applied and qualified for an Agishana loan. 18 (31%) of the 29 (49%) respondents qualified for R1000,00 per person. 11 (18%) of the 29 (49%) qualified for a loan of R700,00 per beneficiary. The remaining 30 (51%) beneficiaries

indicated that they did not even bother to apply because they did not have money to repay the loan. Furthermore, all the beneficiaries who applied were members of housing group savings schemes. They used their loans to buy roofing material.

In the case of Ntuthukoville, 19 (45%) of the 42 (100%) who applied and qualified for R1000,00 Agishana loans were the club members. They all stated that they used their loans to buy building material. The remaining 23 (55%) did not apply for the loan, as they did not have money to repay it. Mr Ludwaba of Agishana Credit Company indicated that the borrowers in the two case study areas indicated that they never defaulted in their loan repayments.

#### **4.14 Cost of Construction**

In the two case study areas the housing construction costs ranged between R10 000,00 and R25000, 00. In Glenwood 2, 29 (76%) of the 100% consolidated respondents spent up to R10000, a further 5 (13%) of the respondents who had consolidated their houses spent between R1001-R15000. The remaining 4 (11%) of the respondents spent between R15001 and R25000 to improve their housing.

In Ntuthukoville, 24 (50%) of the respondents who had consolidated their houses spent up to R15000, a further 7 (29%) of the respondents spent between R1001-R15000. The third group spent between R15001- R25000 constituting 5 (21%) of respondents. This was very interesting when compared to declared incomes and contributions to savings clubs. It illustrated that people were likely to have under declared their incomes.

#### **4.15 Housing Construction methods in the Two Case Study Areas**

In an interview with Mrs Maphumulo it transpired that prior to the formation of housing group savings schemes, BEG had randomly selected 200 beneficiaries from the two case study areas and trained

them as housing constructors. When the savings clubs were formed some of them joined certain clubs as members. Using their building skills these trained beneficiaries played a crucial role in building houses for their group members.

The construction methods used by club members to improve their housing varied from one club to another. In Glenwood 2, 4 (50%) of the 8 (100%) savings clubs used mutual self help where group members assisted a club member who had construction skills to built or improved their houses. 25% of the 100% savings clubs used both mutual self help and local contractors to consolidate. The remaining 2 (25%) used local contractors only. In this instance, savings clubs with no skilled builders had to hire local contractors or skilled builders to improve their houses. Table 4.11 below shows the construction method used by savings clubs of Glenwood 2.

**Table 4.11: Construction methods used by Glenwood 2 savings clubs**

<b>Name of Savings Clubs</b>	<b>Construction Method</b>
Siyazama	Mutual Self Help
Siyathuthuka 1	Mutual Self Help
Siyathuthuka 2	Local Contractors
Siyonga	Mutual Self Help and Local Contractors
Masibambane	Mutual Self Help and Local Contractors
Sizanani	Mutual Self Help
Zizamele	Local Contractors
Mfumbaphansi	Mutual Self Help

**Source: Field Survey (2005)**

In Glenwood 2, out of 34 (57%) consolidated club members 27 (79%) of them used mutual self help to improve their housing. The other 5 (14%) of



the 34 (57%) respondents used local contractors to consolidate their housing. According to the constitutions of these savings clubs all members had to assist so as to minimize construction costs. The remaining 2 (6%) of the 34 (57%) hired local contractors to improve their housing. Figure 4.7 below shows a house constructed by local contractors.

In Ntuthukoville, 4 (50%) of the 8 (100%) savings clubs used local contractors to consolidate their housing. The remaining 4 (50%) of the 100% used the mutual self help construction method. The table 4.12 shows the construction methods used by Ntuthukoville savings club members.

**Table 4.12: Construction Method used by Ntuthukoville Savings Clubs**

<b>Name of the club</b>	<b>Construction Method</b>
Simunye	Local Constructors
Zamazama	Local Contractors
Siyezwana	Mutual Help
Sinakhokuhle	Mutual Help

**Source: Field Survey (2005)**

The findings showed that 21 (93%) of the 100% club members who had improved their housing used a mutual self help housing construction method. The remaining 2 (8%) of the 100% hired local contractors to build their houses.

#### 4.16 Size of Houses

The houses built by the club members of the two case studies varied in terms of sizes. This was due to a number of factors such as construction methods, member's ability to raise additional funding to supplement funds from savings and to access Agishana loans. In Glenwood 2, the study established that club members who used self help construction method built houses ranging from 60 to 70m<sup>2</sup>. This was due to the fact that the only thing they had to do with the money was to buy cement

bags. Club member who used local contractors built small houses of between 40-50 m<sup>2</sup> and had to pay local contractors for their labour.

In Ntuthukoville, house sizes ranged between 80-98 m<sup>2</sup> for those who used mutual help. Furthermore, many members were able to raise additional finance to supplement their savings. Those who used local contractors built houses ranging between 60-70 m<sup>2</sup>. This was because they had to pay the local contractors for building their houses. All beneficiaries in Ntuthukoville were in a position to top up their savings. That is why they ended up having bigger houses than those built by club members of Glenwood 2.

#### **4.17 Reasons for extensions**

The reasons for housing improvements were common in the two case study areas. In Glenwood 2, and Ntuthukoville club members and non club members extended because of family sizes. Some extended because they had to look after their extended families. They also had a sense of pride in having bigger houses that could accommodate their relatives at any time. They also pointed out that it had always been a dream to have bigger houses since previously they had had to live in small wattle and daub houses. They extended because they wanted to make an investment in their area. They actually compared their houses with those of the adjacent suburbs, saying that they did not want a large contrast between their areas and adjacent suburbs.

#### **4.18 Concluding Remarks**

The principal objective of this chapter was to analyze and interpret the findings of the study. The main aim of the research was to show the significance of savings clubs for housing in providing its members with finance, which in turn allowed them to achieve housing improvements. According to the study it was not enough that people joined savings clubs for housing, however the purpose of the chapter was to establish

the relationship between the savings clubs for housing and housing improvements.

The chapter clearly demonstrated that savings clubs for housing have a crucial role in achieving housing improvements for low income people. In Glenwood 2 the findings of the study showed that the contributions paid by club members were low and as a result they found it hard to complete their housing improvements. In order for them to complete their houses they had to access small loans from Agishana Credit Company. In Ntuthukoville the members were paying higher contributions which allowed them to build bigger houses.

## **CHAPTER FIVE**

### **5. Introduction**

This chapter aims to present the conclusions of this study and evaluate the extent to which housing group savings schemes have contributed towards housing improvements in Ntuthukoville and Glenwood 2. Summary, conclusions and recommendations are made in this chapter based on the findings conducted in the two case study areas. Furthermore, recommendations are made that could assist and inform the housing policy on Savings Clubs for Housing. In essence, it is important that the housing policy is informed by tangible realities that exist on the ground.

#### **5.1 Summary**

The subsidy residual received by beneficiaries in the two case studies, allowed them to build small wattle and daub houses. The beneficiaries needed to improve their housing circumstances but they did not have sufficient money to do so. The employment status of beneficiaries in the two case studies consisted of permanently employed beneficiaries (21%), unemployed beneficiaries (29%), self-employed beneficiaries (33%) and temporarily employed beneficiaries (17%). All respondents earned less than R3000, 00 per month. Thus the majority (61%) of the respondents in the two case study areas who applied for housing credit from banks did not qualify.

In an attempt to assist low-income earners, BESE started educating beneficiaries about housing group savings schemes which allowed club members to access funds to improve their housing conditions. The housing Group Savings schemes operated as ROSCAs, RCAs and Money Lending Associations.

The municipality, for example, built the housing support center for use by savings club members to produce concrete blocks to improve their

homes. They also provided them with water, electricity and sand free of charge. BESG trained housing advisors who in turn assisted the savings club members with housing related problems. Business people, for example the owner of Cosmos, supplied club members with ash for block construction. Cosmos transported the ash to the housing support center free of charge.

The majority (61%) of beneficiaries from the two case studies, who managed to improve their housing circumstances, were members of housing group savings schemes and they used funds from their saving clubs to improve their housing conditions. This finding affirms the hypothesis of this research that housing group savings schemes can make a vast contribution towards the improvement of low cost housing, provided people are educated about their role in housing improvements. Further, 10% of respondents were non-club members but had used their own money to improve their houses. 30% of respondents, who had not made improvements, were non-club members and did not have money to improve their houses.

Funds from member's savings were not sufficient to allow them to buy roofing material and consequently, BESG co-opted Agishana Credit Company into the project to give loans to low income beneficiaries in the Umsunduzi area to complete their housing improvements. 47% of beneficiaries who applied for Agishana loans were members of housing group savings schemes.

## **5.2 Conclusion**

Throughout the study it has been shown that group savings have become a significant element in providing low-income beneficiaries with funds to improve their housing conditions. In Ntuthukoville, housing group savings schemes have played a pivotal role in assisting beneficiaries to raise money to improve their housing circumstances.

One of the major findings of the study was that the beneficiaries' income levels in both case study areas were extremely low. However, according to the study, those beneficiaries who belonged to savings clubs for housing were able to improve their housing conditions while the majority of the non-club members, due to financial constraints, were unable to improve their housing conditions. Only a few non-club members managed to consolidate their houses using their income. All respondents had an income level of less than R3000, 00 per month. The majority could not afford to save individually for their housing improvement. Furthermore, their income level could not allow them to have access to credit from traditional financial institutions. Based on the above findings, the study concluded that there is a relationship between incomes, housing improvement and housing group savings clubs.

In terms of housing improvement cost, the study concluded that savings clubs with members who are skilled in housing construction have more advantages than those that do not have skilled members. For example, in the two case studies, savings clubs with skilled members used their skills to improve their own and other member's houses at no extra cost. While savings clubs with no skilled builders had to pay extra money to hire local constructors to consolidate their houses. The study also found that only the savings clubs of Glenwood 2 benefited from the support given to savings clubs. The Ntuthukoville savings clubs benefited little or not at all because of the long distance between the two areas which made it difficult for the club members of Ntuthukoville to access the Housing Support Centre.

### **5.3 Recommendations**

Having analyzed the findings of the study, the following recommendations are proposed to assist the improvement of the implementation of the Housing Policy of South Africa. The

recommendations made in this study aim to contribute positive ideas that could assist in influencing and shaping a meaningful and more pragmatic National Housing Policy for future policy improvement and implementation.

Because of the positive results which were displayed by members of the housing savings clubs in the improvement of their houses, the study recommends that government role players in housing delivery should start looking at facilitating the creation of housing saving clubs.

The study revealed that there is a positive link between employment, savings and housing improvement. The study recommends that the Department of Housing should ensure that low cost housing delivery goes parallel with the creation of employment opportunities for low or zero income earners. Employment will give them income, which will enable them to actively participate in housing savings clubs and to be able to pay premiums on a monthly basis. This will help more beneficiaries to start playing a meaningful role in the realization of their housing dreams.

Furthermore, the study recommends that the culture of housing group savings schemes must be promoted in other low-income housing projects to help poor beneficiaries improve their dwelling units. One of the strategies that could be utilized by the Department of Housing is to employ training institutions such as Khuphuka to provide entrepreneurial skills such as baking, sewing, catering, etc, to housing beneficiaries. Using such skills the beneficiaries would be able to start home based businesses that would allow them to generate some income to save or contribute to savings clubs for housing improvements.

The co-option of Agishana Credit Company by BESS into the project enabled savings club members to access credit to complete their housing consolidation. To create an enabling environment for low

income beneficiaries to access housing credit, the study recommends that the government should encourage more non traditional financial institutions to adjust their lending policies to make them user friendly to low income beneficiaries.

The international literature review revealed that the Grameen bank in Bangladesh provided loans to low-income earners for poverty alleviation. The Grameen Bank loan recovery in 2004 was 94%. The study proved that the involvement of this institution, which extended its financial resources to low income earners, was a success in allowing low-income earners to have access to housing credit. In the South African context, formal financial institutions do not give financial credit to low-income earners and they regard them as a risk. The study acknowledges that the Bangladesh lending experience to rural poor is different to the South African experience of lending to the urban low-income earners. It is recommended that the above scenario should encourage South African formal financial institutions to modify their lending policies to accommodate the financial needs of low-income groups so as to break the perception that lending to the poor is a high risk. With the Financial Sector Charter, signed between the government and the traditional financial institutions, one would hope to see effective implementation resulting in more banks extending their financial services to low income earners.



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# Questionnaires to the Members of Housing Group Savings Schemes

## **SECTION A**

### **Financial/Employment Status**

1. What kind of employment do you presently do?

- A. Permanently Employed
- B. Temporarily employed
- C. Casually Employed
- D. Self Employed
- E. Unemployed
- F. Pensioner

1. If you are permanently employed what type of employment is you engaged in?

- A. Civil Servant
- B. Factory Worker
- C. Other Specify

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2. If you are unemployed how do you raise money to contribute to the club?  
Please Specify

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3. If you are self employed, what type of self employment are you engaged in?

- A. Tuck Shop
- B. Motor Mechanics
- C. Other Specify

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B. What is your monthly income? (in rands)

- A. Less than R100
- B. R101-R800
- C. R801-R1500
- D. R1501-R2500
- E. R2501 3500
- F. More than R3500

C. Is this money sufficient to improve your house? Yes/No

D. In no, why?

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**SECTION B**

**HOUSING FINANCE A**

E. Did you qualify for a government housing subsidy? Yes/ No

F. If yes, what subsidy amount did you qualify for?

- A. R15000
- B. R12500
- C. R9500
- D. R5000

A. Was the subsidy amount sufficient to provide you with a complete top structure?

11. Did you apply for a loan from the bank?

12. Did you get the loan? Yes/ No

13. If the answer is yes, how much was the loan?

14. If the answer is (NO) to 11 what were the reasons given for turning down your application

15. From which bank did you apply?

**SECTION C**

**SAVINGS CLUBS FOR HOUSING**

17. How many members are there in your savings club for housing?

Please Specify

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18. What were your reasons for joining the savings club for housing?

Please Specify

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19. How did you meet and form the housing group savings scheme?

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20. What was the criterion for joining the club?

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22. Does your savings club have any formal structure like the chairperson, treasurer, secretary etcetera? Yes/No

23. If yes, what role does each office bearer play in the smooth functioning of the club?

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24.If no, why?

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25. How much does each group member contribute monthly?

- A. Less than R50
- B. R50-R150
- C. R150-R300
- D. R301-R450
- E. R451-R500
- F. More than R500
- G. Please Specify

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26.What was the length of a cycle?

- A. One year
- B. Two years
- C. Three years
- D. Other Specify

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27.How much did you receive at the end of a cycle?

- A. Less than R1000
- B. R1000-R2000
- C. R2001-R3000
- D. R3001-R4000
- E. R4001-R5000
- F. Other Please Specify

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29.Are you satisfied with the amount received? Yes/ No

30. If no, why?

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31. Have you used all such monies for housing improvements? Yes/ No

32. If yes, how much of the savings have you used for housing improvements?

- A. R1000.00
- B. R2000.00
- C. R3000.00
- D. R4000.00
- E. Other Specify

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33. Where did other monies used for housing improvements come from?

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34. Has participating in a housing group saving scheme improved your housing situation? Yes/ No

35. If yes/no why?

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36. Do you think housing group savings schemes are the right way for the poor or low income people to access end user finance? Please Explain

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37. Apart from housing, are there any other benefits you have derived from being a member of housing group savings scheme? Please Explain

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**SECTION E**

**HOUSING LOAN B**

38. Did you apply for a housing loan from a non bank institution? Yes/ No

39. Did you get the loan? Yes/ No

40. How much was the loan?

41. If the answer is no to (35) what were the reasons given to turn down the application?

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42. From which institution did you apply?

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**SECTION F**

**HOUSING IMPROVEMENTS**

43. If you built a new house how big is it in terms of square meters?

- A. Less than 30m<sup>2</sup>
- B. 31m<sup>2</sup>- 60m<sup>2</sup>
- C. 61m<sup>2</sup>-80m<sup>2</sup>
- D. 81m<sup>2</sup>- 100m<sup>2</sup>
- E. 101m<sup>2</sup>-120m<sup>2</sup>
- F. Other Specify

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44. If you added extra rooms how many are they?

- A. One
- B. Two
- C. Three
- D. Other Specify

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45. What construction method did you use to improve your housing?

- A. Local Contractors
- B. Mutual Help

- C. Yourself
- E. Other Specify

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46. Please state the reasons, why you chose one of the above?

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47. What other external housing improvements did you do in your house?

- A. Paving
- B. Fencing
- C. Painting
- D. Plastering
- E. Water Tap
- F. Other Specify

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48. Did you do any internal housing improvements in your house? Please Explain

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## **Topics Explored within Housing Group Savings Schemes in Ntuthukoville and Glenwood 2.**

- Government Housing Subsidy
- Sources of Income/ Income generating strategies
- Formation of Housing Group Savings Schemes
- Management of Savings Schemes
- Administration of Clubs Funds
- Operation Methods of Housing Group Savings Schemes
- Role of Savings Clubs in Housing Improvement
- Support From the Municipality or City Council
- Support From the Non Governmental Organizations (NGOs)
- Links between Housing Group Savings Schemes and Financial Institutions
- Links between savings clubs for housing and the National Association of Stokvels
- Housing components commonly improved through funds from group savings
- Savings Based Lending
- Links between Savings and Credit
- Building Process / Construction Methods
- Effectiveness of Housing Group Savings Schemes in Housing Improvement
- Contribution of housing group savings schemes in housing improvements
- Problems Facing Housing Group Savings Schemes

**Interview Questions for Mrs. Maphumulo of Built Environment Support Group (BESG)**

1. How was the idea of Housing Group Savings Schemes born in Umsunduzi Municipality?
2. What circumstances motivated BESG to mobilize communities on North East Areas to start savings clubs for housing?
3. What were the aims and objectives of BESG by mobilizing housing group savings schemes in North East Areas?
4. Is there any support BESG provide to housing group savings schemes?
5. If yes, what type of support?
6. Do you equip savings clubs with necessary housing improvement skills? Please explain.
7. As BESG, are you satisfied about the level of housing improvements achieved through housing group savings schemes?
8. Please explain the extent of housing improvement
- 10.If no, what mechanisms do you have to improve the performance of savings clubs for housing?
- 11.Are there any links between housing group savings schemes and financial institutions?
12. To what extent have you contributed to the extent of such links?
13. How have these links served the group savers?

14. Have these links allowed for a better level of housing improvements?

15. What efforts have you made to involve the Umsunduzi Municipality in promoting housing group savings schemes?

16. What do you think the government should do to promote housing group savings schemes?

17. In your opinion what are the challenges facing savings clubs for housing?

18. What needs to be done to overcome such challenges?



**Interview Questions for Miss Xaba of Housing Support Services Center (HSSC)**

1. What is the main function of this housing support center?
2. Is there a specific mode of operation between housing support services center and housing group savings schemes?
3. If yes please explain the method of operation
4. Are the staff members of this housing support center to provide services to savings clubs for housing?
5. If yes, who trained them and what type of services they provide to housing group savings schemes?
6. Does the existence of housing support services center contribute to housing improvement in Umsunduzi Municipality?
7. If yes, what type contribution does it make?
8. How do you make savings clubs for housing feel part and parcel of housing support services center?
9. Do you have any programme that ensures that all savings clubs have equal access to housing support services center?
10. Does the housing support services center get any support from the Umsunduzi municipality?
11. If yes what type of support? If no why?
12. In your opinion, do you think the savings clubs members would have been able to improve their houses without the support of housing support services center? Please Explain.

13. Are there any challenges facing the housing support services center?

14. If yes, how do they hinder the smooth functioning of the center?

15. How could such challenges be resolved?

**Topics Explored in Focus Group Discussion with the Chairpersons of Housing Group Savings Schemes.**

1. Composition of Savings Clubs for Housing
2. Operation method of savings clubs
3. Contributions and management of club funds
4. Measures to deal with defaulting members
5. Challenges facing housing group savings schemes
6. Linkages between savings clubs of the two case study areas

### **Interview questions for Mr. Ludwaba of Agishana Credit Company**

1. What were the lending activities of Agishana in the Umsunduzi Municipality Area?
2. What was your target group?
3. What was the lowest income group you catered for and why?
4. What was your criterion for lending?
5. Were your loans tailored for housing consolidation only? Please explain.
6. Did you consider loan security for low-income earners or borrowers? If not, why?
7. How did you ensure loan repayment?