

**THE ROLE OF THE GROUP HOUSING SAVINGS  
SCHEMES IN HOUSING DELIVERY : A  
PIESANG RIVER EXPERIENCE**

by

**ROBERT SIBIYA**

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

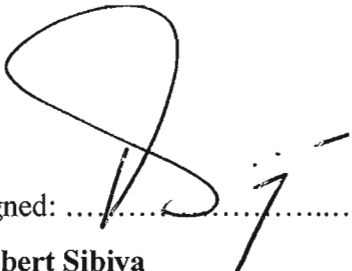
**January 2002**

## DEDICATION

*In memory of my brothers Heavystone, Bonginkosi and Sibongile my sister.*

## DECLARATION

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

Signed: ..........  
**Robert Sibiya**

Date: *29/03/2002*

## ACKNOWLEDGEMENTS

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*It is my hope that academics, housing practitioners, Government officials and non-governmental organizations will find this document helpful.*

## ABSTRACT

*This dissertation is based on research undertaken on the role of the housing group savings schemes that provide end-user finance to the poor households to address their housing needs with special reference to South African Homeless People's Federation (SAHPF) at Piesang River outside Durban. The housing conditions inherited by the new Government in South Africa were characterized by backlog. In order for the Government to address housing shortage, housing subsidy assistance was introduced, which only provided the 'starter house', which was not sufficient enough for the poor in terms of size and quality of the house.*

*It was hoped that the traditional financial institutions would come to the party and provide small-scale loans to the poor to incrementally improve the condition of their housing. The poor households have been seen as "unbankable". Basically the study bids to explore and establish the effectiveness of the savings schemes as an intervention in making end-user finance available to the poor households in S.A. to meet their shelter needs. The study revolves wholly around the group housing savings clubs as an intervention for providing housing for the poor. Practice has proved that incremental upgrading of a core unit using incremental finance is more suitable than long-term loans and does not bind the poor into long-term financial agreements.*

*Given the fact that the poor are not willing to subject themselves into long-term financial commitments, consequently, the poor households have initiated financial self-help groups of the likes of ROSCAs, Stokvels, RCAs and ASCRAs as a mechanism to deal with the predicament that they are facing. The study explores the circumstances under which these saving schemes have evolved and the cause of their proliferation, looking at the international and local experiences. The study draws successful lessons from SAHPF of Piesang River about group lending and the possible expansion of its activities to other parts of S.A. Lending groups have the potential to provide affordable credit to the poor and the group*

*members will use peer pressure to encourage repayment. Group lending is capable of making an individual repay that would have easily defaulted under individual lending. The researcher uses the combination of sample survey and case study to argue that the success of SAHPF particularly in making end-user finance available to its members is due to its strong, central focus on savings and loans. Finally the recommendations are that savings for housing purposes should be seen as an appropriate mechanism, to augment the housing subsidy given the fact that formal end-user finance is not forth coming especially to the poor as anticipated.*

## **LIST OF ABBREVIATIONS**

SAHPF	=	South African Homeless People's Federation
HSS	=	Housing Savings Scheme
NSDF	=	National Slum Dwellers Federation
PDL	=	Poverty Datum Line
PTO	=	Permission to Occupy
PHP	=	People's Housing Process
SEF	=	Small Enterprise Foundation
ROSCA	=	Rotating Savings and Credit Association
ASCRA	=	Accumulating Savings and Credit Association
RCA	=	Rotating Credit Association
PULSE	=	Peri-Urban Lusaka Small Enterprise Project
BRAC	=	Bangladesh Rural Advancement Committee
BBK	=	Badan Kredit Kecamatan
IDT	=	Independent Development Trust
RoU	=	Record of Understanding
ILO	=	International Labour Organisation

## TABLE OF CONTENTS

<b>Title</b>	<b>Page</b>
Dedication	ii
Declaration	iii
Acknowledgements	iv
Abstract	v
List of Abbreviations	vii
Table of Contents	viii
List of Illustrations	xii
List of Tables	xiii
List of Appendices	xiv

### **CHAPTER ONE:**

#### **INTRODUCTION AND METHODOLOGY**

1.1	Introduction	1
1.2	Research Problem	3
1.3	Aims and Objectives	6
1.4	Research Question	7
1.4.1	Subsidiary Questions	7
1.5	Hypothesis	7
1.6	Definition of Concepts	8
1.7	Research Assumptions	9
1.8	Limitations of the Study	9
1.9	Research Methodology	10



1.9.1	Secondary Sources	10
1.9.2	Primary Sources	11
1.10	Data Analysis	13
1.11	Chapter Outline	13
1.12	Conclusion	16

## **CHAPTER TWO:**

### **THEORETICAL FRAMEWORK AND LITERATURE REVIEW**

2.1	Introduction	17
2.2	Theoretical framework	18
2.2.1	Incremental approach	19
2.2.2	State intervention: enabling approach	21
2.2.3	Self-help housing approach	24
2.3	Informal financial arrangements	26
2.3.1	Informal financial organizations	27
2.3.1.1	Rotating Savings and Credit Associations (ROSCAs)	27
2.3.1.2	Moneylenders and pawnbrokers	29
2.3.1.2.1	Pawnbrokers	30
2.3.1.2.2	Moneylenders	30
2.3.1.3	Informal source: Friends and Relatives	32
2.3.1.4	Accumulating Savings and Credit Associations (ASCRA)	32
2.3.1.5	Rotating Credit Associations:(RCAs): South African Perspective	33

2.4	Group lending	35
2.5	Informal credit and women	37
2.6	Mobilizing savings	38
2.7	An alternative approach to access micro-credit	39
2.7.1	The case study of Grameen Bank	39
2.8	Conclusion	45

### **CHAPTER THREE:**

#### **METHOD OF OPERATION: HOMELESS PEOPLE'S FEDERATION**

3.1	Introduction	47
3.2	South African Homeless People's Federation (SAHPF)	47
3.3	Savings and housing development	51
3.4	Utshani trust	54
3.5	Utshani fund	54
4.6	People's Dialogue on Land and Shelter	56
3.7	Conclusion	57

### **CHAPTER FOUR:**

#### **CASE STUDY, FINDINGS AND ANALYSIS**

4.1	Introduction	59
4.2	Case study: Piesang River	59
4.3	Repayment of Loans	60
4.4	Group Savings	62

4.5	Loans for Income Generating	64
4.6	House Construction	67
4.7	Mobilizing savings	72
4.8	Government Housing Subsidy	73
4.9	Limitations and Constraints of the Federation	75
4.10	Summary	76

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

5.1	Introduction	77
5.2	Summary of the Findings	78
5.3	Conclusions	79
5.4	Recommendations	82
	Bibliography	87
	Appendices	95

## LIST OF ILLUSTRATIONS

Title	Page
Figure 4.1 Employment statuses of respondents	63
Figure 4.2a Containers used for business purposes	65
Figure 4.2b Container for business purposes	66
Figure 4.3 Container used as a hair salon	66
Figure 4.4 Trenches for a four-roomed house	68
Figure 4.5a House under construction	69
Figure 4.5b Member of the group savings club mixing cement	69
Figure 4.6 House under construction with the help of the Group savings members	70
Figure 4.7a A house built by the members of the savings club	70
Figure 4.7b A typical detached four-roomed house at Piesang River	71
Figure 4.8a Improved four-roomed house at Piesang River	71
Figure 4.8b Improved four-roomed house at Piesang River	72

## LIST OF TABLES

<b>Title</b>	<b>Page</b>
Table 2.1 The old housing subsidy scheme	18
Table 2.2 The new housing subsidy scheme	18
Table 2.3 Comparative information on selected special credit program	41
Table 2.4 Who asked women borrowers to join	42
Table 2.5 Grameen bank credit model	45
Table 3.1 Rate of growth in the S.A.H.P.F.	52

## APPENDICES

<b>Title</b>	<b>Page</b>
Appendix 1 Map of Piesang River	95
Appendix 2 Interview questions for the SAHPF members	96
Appendix 3 Interview questions for the leadership of the Federation in Piesang River Mr. Magebhula	104
Appendix 4 Interview questions for Mrs. Godliman from the Department of Housing	108

# CHAPTER ONE

## INTRODUCTION AND METHODOLOGY

### 1.1 Introduction

When the current Government of South Africa came into power in 1994, it inherited the anomalies of the past that characterized the fragmented housing sector. Since then, the Government has relentlessly initiated housing policy reforms geared at eradicating constraints that purport to chronically paralyze the housing industry (Kusi: 2000). However, it is worth mentioning that the South African Government is still faced with a huge housing backlog of those in need of decent shelter despite the country's impressive efforts since 1994 with limited housing budget. The statistics depict that by 1999 the housing backlog was estimated to be about 3 million units (Mahomed: 2000).

The housing backlog can be attributed to a number of factors. To name a few, the building of new formal housing seems to be moving at a snail's pace, financial institutions unwillingness to extend their services to low-income earners and finally the economic hardships inherent in the South African economy have exacerbated the situation. The Housing White Paper (1994) advocates that housing has to be delivered to the poor by way of providing a once-off capital subsidy grant to potential beneficiaries. The Government strategy is based on the premise that the state is responsible for making available housing opportunities that are realized in the form of incremental housing.

It is of interest to note that Adebayo *et al* (2000) share similar sentiments to that of the South African housing policy. They express that South African housing policy is built within a framework of the state playing a supporting role rather than a providing role. One cannot agree more that due to financial constraints the Government is only able to provide a starter house to potential beneficiaries (Salane: 2000; Tomlinson: 1996).

How many houses  
is backlog?

The research conducted by Salane (2000) attests to the fact that the Government's approach to housing is informed by the principle of "breadth vs. depth", which in laymen's language means provision of rudimentary housing to more poor people as opposed to delivery of a complete structure to less people. Through this strategy, it was anticipated that the Government would be in a position to provide shelter to prospective beneficiaries who improve these houses on a progressive basis adding value to their properties. On the contrary this has been wishful thinking on the part of the Government, as Smit (1998) argues that a number of beneficiaries have not effected substantial improvements to the starter houses for the past five years. It is noticeable that many South Africans are under the illusion that the R16 000,00 housing subsidy is capable of delivering a complete top structure. Unless the housing subsidy is revised, a complete top structure will remain a pie in the sky for many who cannot afford to add on the residual amount (Smit: 1998).

It is disturbing to note that the housing subsidy grant of R16 000,00 per household is shrinking, eroded by inflation and consequently the beneficiary on the receiving end bears the brunt. The South African Government has realized that very little end- user finance in the form of housing credit is available to the low-income households, which in turn impedes the ability of numerous households to improve their housing conditions.

*"It is a widely acknowledged fact that traditional housing finance institutions are unwilling to lend to low- income households due to the abnormal risk, perception of risk and non rewarding nature of the low-income market, and corporate culture that is not geared towards low-income people"(Adebayo et al: 2000:1).*

A similar view is shared in the work of Siqcau (1997) where he provides the insightful basis for traditional lenders to distance themselves from low-income earners. The traditional lenders uphold the notion that the low-income households are 'unbankable' and the servicing of loans is not guaranteed. In order to create an enabling climate for private investors in housing, an agreement known as the Record of Understanding

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Banking Council

(RoU) was signed in October 1994 which was later replaced by the "New Deal" which was signed in April 1998 between the Government and the Banking Council (Housing Code: 2000). The agreement was intended to serve as a cushion for traditional lenders when taking the risk of lending to those in the low-income bracket. Despite such efforts on the part of the State, nothing has come to fruition in terms of formal financial institutions making micro-finance of housing accessible to the poor. This is the stratum of society that faces the harsh realities of social ills in their day-to-day lives. It is true that women face more obstacles than men when accessing credit.

It is fundamentally critical to mention that the purpose of this exercise is to focus on the group savings for housing, within the South African context but also looking at international best practices and experiences as the springboard. With the above in mind, it is hoped this will provide a better and increased understanding of the rationale for the subsequent chapters of this study.

## 1.2 Research Problem

Unfortunately numerous constraints in housing delivery still manifest themselves considerably. The unavailability of end-user finance for housing has exacerbated the housing problem. The South African Government cannot on its own address the housing crisis without the participation of the private sector particularly the financial institutions. The perspective given by Govender (1997) and Salane (2000) is that 72% of the black population lives below the Poverty Datum Line (P.D.L.) of R800 per month. Pearce (1997) amplifies the argument considerably. Households targeted by the incremental housing policy characterize this sector of the housing market.

Currently, the Government housing subsidy amount of R16 000,00 allocated for low-income earners is inadequate to be translated into a complete housing unit. Ferguson (1999) points out that few Governments can be in a position to grant sufficient subsidies for a complete decent shelter. It is significant that the subsidy requires to be

supplemented with additional external funding. In the light of the constraints experienced with the limited subsidy amount, the National Housing Minister promulgated the Norms and Standards policy, which dictates that the infrastructure costs should not exceed R8 000,00 per unit and the balance, is to be spent on the top-structure (Housing Code: 2000). Despite such efforts on the part of the Government, a decent housing unit costs more than R40 000,00 in the market (Housing South Africa: 1998; Salane: 2000). Developers particularly in KwaZulu Natal are struggling to build a basic structure for the amount of R8 000,00 which is around 20m<sup>2</sup> in size. The steep terrain compounds this problem. Regrettably, these structures of this size are too small for those they are built for, taking into consideration the size of their family. Strong evidence exists, showing that the housing subsidy requires top up finance to get a decent housing structure. Bond and Tait (1997) also profoundly express similar views.

Adebayo et al (2000) argue that informal financial institutions are appropriate because of their simplified financial procedures, which are user friendly to the targeted clients. In other words their financial package is tailor-made to suit the needs of the poor. On the contrary the formal financial institutions' present lending policy is not user friendly at all to people earning less than R2000 per month to access micro housing loans to build decent shelters. It is noted with regret that the South African formal financial institutions are unwilling to make finance available for low-income housing due to boycotts, non-payment of debts and non-performing loans.

Mackay (1999) asserts that in 1997 the banks held approximately 250 000 mortgage loans at a value of R11 billion in townships. Having said that the traditional financial institutions have taken a position of redlining the low-income earners citing the reason that the poor are "unbankable" and "risk clients". The vicious spiraling of unemployment and the concomitant loss of jobs has fuelled the already fragile situation. The criterion used to qualify households is designed to exclude the poor. A typical example, in South Africa a Permission to Occupy (P.T.O.) is issued to those in rural areas as a legal title but the banks do not recognize a P.T.O. as a fully fledged

legal title to be pledged as a collateral to access a loan. Another explanation advanced by banks is that they experience problems in verifying the income of self-employed households. Finally, small loans are less profitable to banks than larger loans; as a result less interest is generated (Ferguson: 1999). A scholar like de Ridder (1997) challenges these explanations. He argues that formal financial institutions have to seek best practice methods for low-income households. He further points out that international experience proves that the poor can and do repay market related credit. What is remarkable about the low-income households is that they are more conscious when it comes to paying back credit than middle-income earners (de Ridder: 1997).

Wadula (1999) further weakens the argument put forward by the formal financial institutions. He maintains that the poor are loyal and cannot afford to default. The myriad of hurdles cited above have motivated the low-income households to mobilize themselves to develop a culture of savings, which is translated into housing finance systems. Rahman (1986) advocates that if given the right condition the poor can and will save and regions of the likes of Asia, Africa, and Latin America attest to this argument. The fallacy that the poor are too poor to save is ill founded (Adams: 1986). Given such scenario, the poor have no choice but to engage the services of unconventional financial institutions to obtain micro-finance.

Salane: (2000) and Ferguson (1999) maintain that low-income households are able to upgrade their shelter from many sources. These include individual and group savings: small loans: communal self help and sweat equity. The use of micro credit by low-income households for incremental building can be a suitable vehicle for economic progress whereas larger loans are likely to disrupt their economic progress and consequently have their living conditions worsened (Smit: 1998; Adebayo et al: 2000).

Non-traditional lenders have proved to be more sensitive to the plight of the poor. This can be attributed to the fact that they have a good understanding of cultural background of the poor. They are able to design a relevant financial package to suite

the poor. Adebayo et al (2000) note the fact that lending of such nature can be linked to saving. Pongwana (2000) advocates that savings should be seen as a yardstick for measuring the ability to pay. History has proved that credit linked to savings result in minimal defaulting.

*"Group savings schemes in particular have worked well for the poor not only because of the 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 2000:6).*

It's interesting to note, however, that the characteristics of the formal financial institutions poorly suit the conditions that the low-income households face. Factors like unavailability of end-user finance lower down the market impact negatively on the poor people. Even those who may qualify in terms of the banks requirements don't have collateral, which exacerbates the situation. Surely, such scenario undermines and compromises the Governments' policy of trying to provide decent shelter to the poor people.

### **1.3 Aims and Objectives**

The fundamental objective of this study is to explore and establish the manner in which housing group savings schemes have managed to improve the living conditions of the poor people:

- 1.3.1 Establishing the opportunities that the group savings schemes as a financial sector present in the form of housing finance.
- 1.3.2 Ascertaining the scale of activities of the Piesangs River group savings scheme.
- 1.3.3 To establish issues that requires to be addressed to enhance the performance of the group savings scheme in Piesangs River.

- 1.3.4 To identify problems experienced by the group savings scheme from the perspective of members and other role-players.
- 1.3.5 Exploring the contribution of the Piesang River savings scheme to improving housing conditions of the members of the savings scheme

## 1.4 Research Question

What role does the group savings scheme of Piesangs River in Inanda play in terms of addressing the housing credit needs of low-income households?

### 1.4.1 Subsidiary Questions

The research question has sparked some subsidiary questions.

- X ❖ Where does the funding for the Homeless People's Federation comes from?
- X ❖ How does the group savings scheme access housing finance from Utshani Fund?
- X ❖ What is the motivating factor that causes the people of Piesangs River to join and become members of housing group savings scheme?
- X ❖ What are the requirements to qualify to be a member of the group savings scheme?
  - ❖ What are the savings strategies used by the group savings scheme?
- X ❖ How are these savings linked to housing credit?

## 1.5 Hypothesis

If group savings contributions and sweat equity can supplement the limited government-housing subsidy, the poor can achieve a better and more quality top structure.

## 1.6 Definition of Concepts

In this study, unless the context clearly indicates the contrary, the following phrases and expressions shall have the respective meanings assigned to each of them as set out hereunder:

**Top-structure:** means the dwelling to be constructed on the stand/ erven by the beneficiary/ developer.

**Beneficiaries:** means the group of people in a housing project who have received the government subsidy in an approved housing project.

**Group Savings Scheme:** Generally, it refers to a group of people who enter into an agreement to contribute a fixed amount of money to a common pool weekly, or monthly and each member receives a lump sum at an agreed time to buy durables or fixed property. However, within the context of this study it means a group of low-income household with common interest who collectively start group savings programme. Funds are pooled together and used to provide small-scale loans to members who wish to augment the Government-housing subsidy towards building or improving their houses.

**Self-help housing:** According to Ward (1982) self-help may involve individual as well as group inputs and corresponds to a system of production, financing, and maintenance in which a significant part is organized and carried out by that person or group. Usually it involves them in an incursion into functions that would normally be the responsibility of either the public or private sectors that are either unable or unwilling to provide that service. In the context of this study it means a process whereby low-income households take responsibility of constructing their houses on incremental basis engaging members of their family, relatives or friends and sweat equity.

**Consolidation:** means making the house complete, stage-by-stage or the evolution of

a house from one level to the other until it reaches a desired state.

**Loan:** Loan could be any amount of money borrowed .In the context of this study loan means a small-scale amount of cash given to members of the savings club towards improving/building their houses or undertaking income-generating activities. The loan is paid in installment arrangements.

### 1.7 Research Assumptions

The following assumptions are made in this study

- ❖ The group housing savings schemes enable the low in-come households to improve their quality of dwelling, thereby improving their quality of life.
- ❖ The housing loan provided by Utshani fund enables the members of the SAHPF to construct bigger and better quality top structures.
- ❖ It is assumed that the experience of the Piesangs River housing group savings scheme will be widely accepted by similar housing projects in general.
- ❖ Group Savings Schemes provide solutions to the existing housing finance problems

### 1.8 Limitations of the Study

The Piesang River is used as a case study to investigate the extent to which the housing group savings scheme of Piesangs River in Inanda north of Durban has managed to enhance housing delivery in terms of providing small-scale loans to its members. The case study envisages providing a comprehensive understanding of the activities of group savings schemes. The fundamental need for this study is prompted, **inter alia**, by the call made by the National Housing Minister, Sankie Mthembu-

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Mahanyele that her Department is anticipating linking the Government Housing subsidy with the individual's savings contribution in future. Currently, the Government housing subsidy is not allocated in terms of contribution or savings made by individual's consequently inadequate top-structures are produced. The argument in this study is based on the premise that if individual /group savings can be linked to government housing subsidy, adequate top structures can be produced. This can be achieved by group savings schemes getting into partnership with the Government.

## **1.9 Research Methodology**

Secondary and primary sources of information were used in answering the research question. Secondary sources included newspaper, journals and books from libraries. The primary sources covered among other things questionnaires, graphics and tables.

### **1.9.1 Secondary Sources**

Extensive research has been conducted on group savings schemes. Consequently, it was critical to analyze the literature that dealt with this topic. The literature formed a basis for conceptualizing the savings and credit scheme activities. The information emanated primarily from books, journals and papers read from conferences pertaining to this subject. These sources are available from libraries, Government resource centers and other housing institutions. Another source of information that was used by the researcher was the Internet, which had the latest information.

 The Natal Newspaper was rather helpful in terms of providing papers that contained topics that touched on group savings schemes. This information was extracted from the archives of the Natal Newspaper at Greyville- Durban. The secondary resources enabled this study to reflect the international and local perspectives on group savings schemes as well as the "best practices" and case studies. The main determinants of savings considered in the literature fall into two groups: group/individual savings.



### 1.9.2 Primary Sources

Primary sources refer to the information that the researcher obtained personally by interviewing the members of the Homeless People's Federation (HPF) that were identified in Piesangs River. The community members of the HPF gave first hand information as to whether the group savings scheme yielded any spin offs or added value in terms of improving their dwellings or paved a way for them into the income generation arena. It was not feasible and practical for the researcher to analyze the views and opinions of all members of the Homeless People's Federation (HPF) because of time constraints and the magnitude of the membership. Currently, the Homeless People's Federation has 1783 members in Piesang River. In light of the aforementioned circumstances, the researcher opted for sampling. Sampling is known to save time and it's rather labor saving.

The systematic sampling method was employed as a tool to assess or gauge the perception of members of the Federation towards savings and credit. A set of open-ended and closed-ended structured interview questions was prepared. The questions were asked in sequence and read out to the respondents. Open ended structured interview questions allowed the respondent to give as much information as they could. This approach also enabled the researcher to probe specific answers and also repeated where the respondent did not understand the question. Leedy (1986) as cited by Govender (1997) and Salane (2000) argues that interviews allow the researcher to extract the information that is required. The personal interviews are said to enable the researcher to probe responses and make follow up questions on the responses given. The questions covered issues related to the benefit of savings, affordability and the quality of houses, reasons for joining the group savings club.

The Federation has 1783 members but the sampling was applied to 1200 members who have accessed loans from the Federation or Government housing subsidies. The sample size is 40 households. The reason for selecting only 40 households is that the researcher was faced with financial and time constraints. However, it is acceptable to

generalize to the whole members of the Federation from this sample because it is assumed that it represents the characteristics of the members. The group members are bound by the common objective, which is saving. The method omitted two houses and the questionnaire was distributed in each and every third house. The reason for this was to avoid a situation where the neighbors could easily contact each other and eventually have unreliable results. The interview questions were prepared in English and translated into Zulu given the fact that the community that was interviewed was not sophisticated.

Another subject that the researcher visited was Mr. Patrick Magebhula who is in the leadership of the Homeless People's Federation in Piesang River. A set of structured open-ended and closed-ended interview questions were prepared for Mr. Magebhula. The interview schedule was formulated in English. The open-ended questions rallied around the role of the savings scheme in terms of providing small-scale loans to its members. Strategies of improving the service to the clients of the group savings scheme of Piesangs River were addressed.

The **modus operandi** of Utshani Fund became a center of focus. An investigation was done to establish the manner in which the Utshani Fund makes the loans available to various housing group savings schemes. Another fundamental question was the limitations and the constraints of the Federation as well as the types of loans provided to its clients. The close-ended questions for Mr. Magebhula revolved around the manner of monitoring loans that are taken, interest charged on loans, acquisition of land and the involvement of the People's Dialogue in terms of capacitating the Federation. The researcher hoped that by asking questions of this nature, the research question would be answered. The last subject that was visited was the Department of Housing at 2 Aliwal Street, Tolaram House, Durban.

The major reason for interviewing the Department of Housing (D.o.H) was due to the fact that the (D.o.H) is a critical role-player in terms of providing subsidies to the

Piesangs River Group Savings Scheme. Face to face interview was carried out with the Department of Housing. A set of structured interview questions was prepared for Mrs. M. Godliman who is a chief director of Policy, Planning and Legal Services. Mrs. Godliman has a wealth of knowledge in housing issues. The interview question for Mrs. Godliman revolved around the perception of the Government towards the savings schemes as an alternative in providing end –user finance to the poor people, and also if there are any strategies in place to advance the causes and capacitate these housing group savings schemes

### **1.10 Data Analysis**

The data collected from the sampling at the Piesang River was processed manually. The responses of individual respondents were analyzed to establish the overall performance of the group savings scheme in terms of providing the end-user finance to the low-income households. Photos were taken to depict houses that were built through savings added to the Government capital housing subsidy. Graphics and tables were used to show the household income levels, age and marital status. This information greatly assisted the researcher in terms of determining the affordability levels of households. With regard to the data collected from the Department of Housing, the researcher was able to make an informed decision as to the position of the Government regarding the housing savings schemes in addressing housing finance.

### **1.11 Chapter Outline**

The research study is composed of five chapters. Each chapter in its own right contributed in terms of enabling to conceptualize the total development of the study. The dissertation is structured in the following manner:

## **Chapter One**

This chapter opens with an introduction to the study followed by a synopsis of the problem statement, research questions, the subsidiary questions, the hypothesis and the definition of concepts. The research methodology is included in this chapter enabling the researcher to comprehend and shed light on the manner in which the study was conducted.

## **Chapter Two**

The chapter presents a review of the literature on savings with the ultimate aim of improving the socio economics status of the poor, beginning with a discussion that focuses on theories/approaches that inform this study. The study attempts to analyze the role and the performance of the informal financial markets internationally as well as in South Africa in terms of improving the living conditions of the poor people whom mainstream banks classify as unbankable. The frustration experienced by women when acquiring loans is also investigated. Because of the prevailing cultural norms women very often have to be submissive to men and this has impacted negatively on the development of women. The low –income households usually cannot afford the debt service required to finance the cost of a decent housing unit. Given such untoward circumstances, the households use their own savings sweat equity and other sources to build their homes. The study presents a wide range of group savings as an alternative to access credit for example Roscas, stokvels, moneylenders, ASCRAs etc.

Lastly, the chapter ends with the case study of the Grameen Bank, which attests to the fact that the poor benefit from small-scale loans for incrementally upgrading their existing socio-economic conditions.

### **Chapter Three**

This chapter opens with a case study of Piesangs River. The chapter looks at the role of People's Dialogue as an NGO in terms of providing strategic advice, fund raising and administration of donor funding. Among other responsibilities the People's Dialogue has to liaise with formal institutions on behalf of the Federation and request subsidy assistance for the members of the Federation. The study also looks at the Federation as a vehicle that has made housing a reality. Utshani Fund is a revolving fund for the Federation, which makes funding available to those group savings club affiliated to the Federation. The composition of the Utshani Trust will be investigated and issues related to what the Utshani Fund requires before it can approve a loan. The People's Housing Process is characterized by an element of the development being people controlled where self-help is fundamental. The chapter explores the manner in which the Homeless People's Federation applies the People's Housing Process (PHP) to produce better quality homes using less money.

### **Chapter Four**

This chapter opens by focusing on the analysis and the research findings obtained through interviews and questionnaires cited in the research methodology. The observation played a critical role in terms of the researcher understanding the development in Piesangs River. Due to the fact that the poor cannot access finance from commercial banks, through micro credit, they have incrementally consolidated their structures over years. Another critical area that was taken into account was the transferring of skills. The transfer of skills was seen to be prevailing due to the participation of the beneficiaries.

### **Chapter Five**

This is the final chapter. The chapter depicts the researcher's conclusions and recommendations with regards to housing group savings schemes in terms of their

present and future role in housing delivery. Lastly the study includes the bibliography and the appendix.

### **1.12 Conclusion**

This chapter attempts to highlight the problem experienced by the poor households when trying to access formal housing finance from the mainstream banks because of their stigma of being “ unbankable ”. The Government, housing technocrats, policy makers, managers of housing finance institutions and the poor households themselves acknowledge such untoward situation. The supply of, and demand for housing finance do not balance. The poor households require short to medium-term credit, which allows them to attend to other pressing needs. Houses built incrementally do not lead to housing poverty. The study further highlights the role of the group savings schemes and credit associations in terms of providing a short-term financial assistance to the poor people.

## CHAPTER TWO

### THEORETICAL FRAMEWORK AND LITERATURE REVIEW

#### 2.1 Introduction

Nhlabathi (1996) argues that amongst other reasons the slow rate of delivery is exacerbated by population growth that has paralyzed the ability of the State to cope with the housing demand. Some of the housing approaches are not sensitive enough to address the needs of poor people. In South Africa today there is a need to revisit the existing approaches to housing provision. The current housing approaches are obviously unable to aggressively increase the rate of housing delivery. The rate of housing delivery is nowhere near enough to satisfy demand. This study attempts to contribute a constructive debate from the housing delivery perspective.

*"There is no single formula for solving South African's housing dilemma. It is only by mobilizing and harnessing the full diversity of resources, innovation, energy and initiative of individuals, communities, the State and the broader private (non-state) sector, that the challenge can be met effectively" (White Paper: 1994:21).*

INTRO

The Government's perspective is that housing should be the task of everybody in order to address the shortage of housing, which amongst other reasons is the consequence of non-availability of end-user finance especially for the low –income household.

The South African Government introduced the housing subsidy scheme as a mechanism for addressing the shortage of housing based on household income per month. If the joint income of the husband and wife was not more than R800-00, the subsidy was R15000, 00 and for those whose monthly income level was between R1501 and R2500-00, the subsidy given was R9500, 00 and the last category was that of those who fall between R2501, 00 and R3500, 00 the subsidy was R5 500,00. This means that the subsidy is linked to the households' monthly income with the poorest receiving the maximum subsidy.

**Table 2.1: The old housing subsidy scheme**  
**Income brackets (monthly) Subsidy Amounts**

R 0 - R800 per month	R15 000,00
R 801 - R1 500 per month	R12 500,00
R 1 501 - R2 500 per month	R 9 500,00
R2 501 - R 3 500 per month	R5 500,00

**Source: Housing Subsidy Scheme (1995)**

As an attempt to combat inflation the Government decided to revise the subsidy bands with effect from 1998. The income categories have now been reduced from four to only three to accommodate more poor people in the maximum subsidy band.

**Table 2.2: The New Housing Subsidy Scheme**

<b>Income Brackets</b>	<b>Subsidy Amounts</b>
RO - R1 500 per month	R16 000,00
R1 501 - R2 500 per month	R10 000,00
R2 501 - R3500 per month	R5 500,00

**Source: Housing Subsidy Scheme: (1998)**

## **2.2 Theoretical Framework**

This study is shaped and informed by the following approaches. The incremental approach, enabling approach and self-help housing approach. These approaches are keenly relevant within the South African context.



HOUSING  
SUBSIDY  
SCHEME

## 2.2.1 Incremental Approach *Market*

This approach may also be referred to as the progressive approach. The Financial Mail (1996) acknowledges that the late Housing Minister Slovo embraced an incremental approach as the best tool to address the housing crisis in South Africa. The housing crisis was to be addressed by way of the new housing subsidy scheme, which is a once off capital grant depending on the monthly income of the household (Housing Subsidy Scheme: 1995).

The subsidy is translated into a starter house, which is inadequate in terms of producing a complete top structure. A starter house simply provides the beneficiary with tenure rights, rudimentary services that is a gravel road, a water standpipe, a pit latrine toilet and a one- room house. The incremental approach is premised on the philosophy that the potential beneficiaries will incrementally upgrade and improve their dwellings on a progressive basis as and when their financial status improves. The starter house is seen as a vehicle that places the beneficiaries on what can be termed 'first rung of the housing ladder' (Tomlinson: 1998). However, this view is said to have some teething problems. Bond *et al* (1997) argue that incremental housing will remain a fallacy as long as micro finance is unavailable.

Supporting the above argument, Smit (1998) attests to the fact that in numerous low-income housing projects no improvements have been effected given the fact that they have been in existence for five years. In order for 'progressive housing' to be a reality, additional funds through savings or access to end-user finance has to be available. The other side of the coin is that conventional banks have categorically refused to make loans available to the poor people citing the risk factor. It is assumed that the poor may default and fail to honor their obligations. Swilling (1990) argues that these allegations have however been discarded worldwide and notes that it is bank managers who peddle this discrimination. Another cause for concern is that their profit margins will be reduced and that small loans are expensive to administer than larger

loans. This in turn means that about 90% of the poor who are in need of housing are denied the opportunity to obtain credit (Swilling: 1990). Given such untoward circumstances, the poor are compelled to resort to informal financial intermediaries. These informal financial intermediaries fulfill their mandate of facilitating access to housing finance and income generating activities for poor people who cannot be serviced by conventional banks.

Christensen (1993) asserts that these informal financial intermediaries can be described as financial markets that operate outside Government control and regulations that govern conventional banks. These informal financial institutions create a healthy environment for the poor to upgrade their dwellings or engage in small enterprises.

According to Rajagopal (1996), these informal financial institutions have the ability to cater for and are designed to accommodate the needs of the poor. It is acknowledged that in countries like Latin America, Asia and Africa, poor people are able to upgrade their dwellings over a period of time (Fergusson: 1999). As has been mentioned in chapter one, sources could be sweat equity; small loans; self help or group savings. Incremental housing places more responsibility on the beneficiary in terms of improving the property. Pearce from her work cites Burgess where he says " From the point of view of the state agency, the principal benefit of progressive development procedures is the separation of initial versus final costs, with the burden of final costs falling on residents " (Pearce: 1997, p.21).

Affordability plays a pivotal role in incremental housing. Reinke (1998) reiterates that loans offered by the Small Enterprise Foundation (SEF) range between R300 and R1000, which are manageable from the side of the beneficiary. Adebayo et al (2000); Smets (1999) argue that the poor do not need loans that will cause them to suffocate. They require short-term loans with lower monthly repayments from two to ten years because of their unstable financial income. Credit linked to savings augurs well in

terms of reducing the possibility of defaulting.

### **2.2.2 State Intervention: Enabling Approach**

This approach can also be referred as support approach. The provision of housing by the State has been applied worldwide. Each Government has its own reason for adopting a particular mode of delivering housing for the poor. In Latin America the provision of housing by the State was seen as a response to the rapid urban population growth. (UNCHS-Habitat: 1996). Historically, South Africa was no exception to this procedure. However, during the new dispensation there has been a shift in housing policy. The approach to housing delivery differed from countries of the like of United Kingdom and other Western European countries where the State is responsible for addressing housing crisis by producing mass housing (Goodlad: 1996). Within the South African context, the Government decided to take the role of an enabler rather than the provider. In other words there is a shift from bricks and mortar to supportive role.

Adebayo (2000) argues that the enabling approach was the consequence of the public housing system that failed. The fundamental purpose of this approach was to create an environment where the state would only facilitate housing delivery instead of directly producing housing. One of the features of this approach is the community involvement. The overall picture is that the state has to predominantly formulate enabling strategies. In the enabling approach the State plays a supporting role in terms of producing housing (Madonda: 1998 and Adebayo: 2000). The State intervention is desirable but should be made available by way of limiting it to facilitation of the housing process.

The enabling strategies for housing should be shaped and informed by the following:

- ❖ To stimulate housing demand
- ❖ To facilitate the process of housing supply

- ❖ To create an overall institutional framework for managing the housing sector and ensuring adequate access to housing by the poor (World Bank: 1993:14)

Smit (undated paper) argues that the role and responsibilities of the State should be confined to policy formulation, enabling legislative framework and co-ordination of all housing activities. He further reckons that the State has to monitor the housing resources spent and see to it that it gets value for money. The State should only be involved in the installation of bulk infrastructure. Mc Gurie (1981) cites the fact that the provision of housing should be left solely to the market

*but ppl say de's a need 4  
gov intervention 2 control  
mkt.*

Within the South African context, the enabling approach is realized in the Housing White Paper, which underpins the provision of housing by making capital housing subsidy available to the poor. However, the maximum subsidy of R16 000,00 is not adequate for the beneficiary to build a complete top structure. Given such untoward circumstances of the poor, Adebayo (2000) maintains that there is a dire need for micro-credit or personal contribution that can supplement the government subsidy. What complicates ~~the~~ matters is that conventional banks are not making credit available to this category of the community because of the lack of creditworthiness. She further mentions that only 18% of houses built during the period of 1996 were able to use housing subsidy linking it to credit. The enabling approach places more responsibility on the beneficiary. The involvement of the beneficiary only becomes meaningful if end-user finance or personal savings is forthcoming.

The hard line taken by the banks when it comes to lending the poor undermines the objectives of the Housing White Paper. In response to the banks attitude, the poor have started self-efforts by way of saving towards improving their housing. Xakaza (1999) supports the above argument when she argues that the enabling approach allows people to be directly involved in the construction of their houses. The site and services programme should be seen as an enabling approach in its own right within the

South African context. The Independent Development Trust (I.D.T.) was tasked to champion the site and services program in 1991 in South Africa. The Government provided a site with rudimentary services amounting to R7 500 (Adler et al: 1996). The beneficiary was expected to build their own top structure using their own funds and resources. This approach was encouraging the individuals to provide their own housing within the enabling environment created by the State. Nothing much could be achieved out of this approach because people could not access loans to incrementally improve their housing. Such scheme was later referred as a "toilet in the veld." Through collective savings the poor can enable the enabling approach to work.

Savings schemes and stokvels have been depicted to be relevant to the life circumstances of the poor. Adebayo et al (2000) argue that the poor require small loans because they cannot afford to be locked into long-term loan repayments because of their unstable and unguaranteed income. The National Minister of Housing Sankie Mthembu-Mahanyele supports the initiatives of the poor for being involved in group savings schemes and stokvels whose objective is to produce housing (Housing in South Africa: 1999). She further points out that there are more than 2 500 savings clubs or stokvels in South Africa. Savings schemes or stokvels prove to be a viable vehicle in terms of augmenting the government subsidy especially because the poor cannot afford the mortgage bond.

In terms of the Rapid Land Release programme, the would-be beneficiaries are settled in a piece of formally planned land with basic services and secure tenure. This assistance from the Government can be construed as an enabling approach because the Government is making land available for the would-be beneficiary. Once the organized development starts, the prospective beneficiaries are already involved in savings with an aim of augmenting the subsidy residual. These improvements made on the dwelling normally culminate from people participating predominantly from savings clubs and stokvels. As in housing, the role and function of the State is to create a healthy environment for the poor to take charge of their housing needs where

self help =  
group saving =  
enabling approach

savings schemes will play a crucial role.

### 2.2.3 Self-Help Housing Approach

Naidoo (1987) asserts that self-help can be defined as a process where the poor people are engaged in building or organizing the building of their homes themselves and contributing their own resources. Self-help is characterized by self-efforts where poor people strive to be self-reliant. Self-efforts can come in the form of physical; sweat equity, personal contribution or assistance from friends or family members. Self-help comes in three forms i.e. independent self-help, organized self and mutual help and lastly, the employed self help. Independent self-help is where the individual builds his/her house without assistance. The individual builds the house through sweat equity. In the mutual help the group assists the members of the group. This assistance also comes in the form of small-scale loans to the members of the group. In the employed self- help is where people participate in the project initiated by an organization. People build the house and get paid.

What is common in these forms of self-help is that they are characterized by individual and collective efforts. Having said that the study will confine itself to mutual self-help where the poor people build their houses on progressive basis because of lack of funds to have a complete top structure. This is the group of people who cannot access loans from formal financial institutions because of their unstable financial situation, and thus end up joining housing group savings schemes. The significance of these housing savings schemes lies in the fact that they are sensitive to the housing needs of the poor.

Harms (1982) cite the causes compelling the poor households to participate in self-help programmes. The poor are unable to meet the housing costs in the market. The Housing Policy allowed the subsidies to be accessed via the project-based subsidy where the developer makes the application on behalf of the beneficiaries with the

understanding that the poor will access small-scale loans. Contrary to that, the majority of the poor do not qualify for end-user finance in terms of financial institution's lending criteria. The beneficiaries were led to believe that they would be able to access end-user finance to add value to their subsidy. Because of non-availability of end-user finance, a number of beneficiaries were unhappy with the product. The unhappiness was directed at two issues – the size and quality of their houses. With regard to quality, the beneficiaries were unhappy with shoddiness of the top structure e.g. houses often cracked. Another concern of the beneficiaries was that the houses constructed by developers were too small in size from what they expected.

Many families are able to improve the condition of their dwellings on a self-help incremental basis using small loans from the savings clubs. Given the fact that they cannot access end-user finance from the banks, they resort to informal financial institutions or make personal contributions to effect improvements. A culture of independency has to be encouraged where people are in charge of their lives. This can be realized by people building houses for themselves. Burgess writes, "They should do a lot more of what other people are at present doing for them, and they should be encouraged to carry out themselves a lot of what they currently, expect other people to do for them" (Burgess: 1982:57). It is indicative that the poor have to break away from the shackles of dependency, which make them beggars.

A healthy climate has to be created for the poor in the form of tenure rights available. One of the elements of self-help is progressive development where people are able to build their own houses in stages as and when their financial circumstances allow them. It is critical that the poor take charge of planning, construction and management of their housing (Turner *et al*: 1972 and Xakaza 1999). Because of small loans provided by savings clubs at their disposal, the poor buy the building material in bits and pieces. The poor starts with a temporal shack while working on the foundations, brick or block wall and finally with the roof, and this can take several years. Access to credit becomes a determining factor in consolidating housing. Xakaza (1999) in her case

study of Ntuthukoville asserts that most of house improvements was the result of personal contribution. Savings clubs were instrumental in enabling the poor people to make some improvements in their houses. Savings clubs tend to assist the poor communities who cannot effect house consolidations. However, these improvements are on a small scale because the poor are only able to obtain small loans suited to their capacity to pay back.

### 2.3 Informal Financial Arrangements

Informal financial markets are the main delivery system available for the poor households to obtain end-user finance. Callier (1990) shares the view that the informal financial markets are dominant in the financial market because they respond positively to the needs of the poor whereas the formal financial market is said to be callous towards the poor. In essence the informal financial markets are user friendly when it comes to serving their clients. It is imperative to note that the informal financial markets operate outside the Government regulations. A typical example is the Rotating Savings and Credit Associations (ROSCAs), which exist worldwide (Rogaly: 1996; Besley et al: 1996). Today ROSCAs are known by different names in various countries. They are known as tanda in Mexico, pasuku in Bolivia, gamoryah in Egypt, isusu in Nigeria, susu in Ghana, xitique in Mozambique etc (World Bank: 1989). The fundamental characteristic of a ROSCA is that all members are required to make regular contributions into a fund, which rotates among all members. According to the World Bank (1989), certain members are able to benefit from this fund because they are able to address their basic needs such as the cost of housing. The poor people cannot afford huge loans because of their unstable income and such informal financial institutions become a viable option.

It is indicative that ROSCAs are capable of enabling the poor people to accomplish their objectives of short-term savings. Moneylenders are also another form of informal financial institutions, which act as another source of finance for the poor. Certainly, in



South Africa the Government has started to make some inroads in terms of regulating the activities of this industry. The Micro Finance Regulatory Council formed by the Government is responsible to monitor the activities of this industry (Business Day: 2001). Moneylenders are notoriously known for charging their clients exorbitant interest (Bolnick: 1992). Having said that, the poor still require the service of this industry. Holt **et al** (1991) endorse the fact that moneylenders are flexible in their lending criteria and to the servicing of loans.

### **2.3.1 Informal Financial Organizations**

#### **2.3.1.1 Rotating Savings and Credit Associations (ROSCAs)**

ROSCAs are popular worldwide. They can be described as informal financial intermediaries whose financial packages appeal to the poor. Dekle (2000) shares the notion that ROSCAs mushroomed as a consequence of the formal financial institution ostracizing the poor in terms of making finance accessible to them. The individuals come together to form a group, which makes loans available to those who are in need of finance (Dekle: 2000). ROSCAs can be analyzed through their trademarks that are savings and lending. Besley (1994) points that ROSCAs can be categorized into two basic types, namely, random ROSCAs and bidding ROSCAs. Perhaps its important to mention that there is a symbiotic co-existence between the two types.

The members of the random ROSCAs are a group of individuals who either work together or people coming from the same neighborhood. People knowing each other's character enforces trust and the success of the ROSCA is guaranteed and that people will honor their commitment. Bortei-Doku **et al** (1995) conclude that due to social pressure some members end up borrowing money in order to pay their contribution at Nunquia in Ghana. The seriousness of the contribution being up to date is clearly illustrated in Besley and others work when they write: " A member may go to great lengths, such as stealing or selling a daughter into prostitution in order to fulfill his obligations in his association (Besley **et al**: 1993:805).

In the case of random ROSCAs, members have to contribute a stipulated amount of money to the fund at regular intervals, for example once a month (Ardener: 1964; van der Brink **et al**: 1997). They further mention that this fund is referred as a pot, which rotates to all members. It is argued that those who have not received the pot still waiting for their turn can be seen as savers. van der Brink **et al** (1997) argue that the last member will only receive his/her money that was saved throughout the cycle. Borrowers are those who received the pot at the early stages of the cycle (Schreiner: 2000). Borrowers cannot pull out of the ROSCA until everyone has received the "pot ". Lets analyze the implications of receiving the pot at the early stages of the cycle. Schreiner (2000) argues that the borrower gets the maximum credit that is paid back to the fund in monthly installments in the form of contributions until the ROSCAs ceases. The beauty of being a borrower is that the " pot " is an interest-free loan. The borrower receives the money in advance that she/he has not yet contributed. The order of rotation is determined by consensus. In other words the members agree who has to be the first to receive the pot. However this may change. Borkei-Doku **et al** (1995) argue that members who have emergencies are allowed to make arrangements with other members to exchange. The scheme is characterized by a strong sense of bond that exists between members.

Another area of interest is the bidding or auction ROSCAs. The feature that differentiates the bidding ROSCAs from random ROSCAs is that the pot is given via a bidding process. In order for the member to receive the pot she/he have to pledge that in the next meeting the member will make a higher contribution or give out a once off payment to the other members (Besley **et al**: 1993).

Another critical element that requires to be visited is the membership of ROSCAs. Certain ROSCAs are mixed in terms of gender and others are not. Members of certain ROSCAs base their membership on sex, age, religion or social standing. Sethi (1995) gives a typical example of the students at Panjah University campus where membership was largely dependent on age and gender. In order for the ROSCA to

function, there has to be an organizer. Most of the organizers are the people who are behind the formation of those particular ROSCAs. The organizer becomes responsible for the general operation of the ROSCA. Where there is no organizer, with special reference to kitty group, the person who receives the "pot " have to organize for the next meeting (Sethi: 1995). The major problem experienced by organizers is where members fail to honor their commitment. This common problem with members who receive the pot at the early stages of the cycle, eventually declare to be unable to continue with the payment of their contribution. There are factors that compel the poor to join ROSCAs among other things to effect house improvements. By "saving up ", the poor are able for example, to purchase household appliances (Besley et al: 1993; 1994). Having said that, ROSCAs prove to be a vehicle through which the poor can improve their welfare. They further point that such accumulated savings are also used for any pressing needs. For example, such savings can be utilized for wedding expenses. Sethi echoes the usefulness of savings when he writes:

*"I am a member of a kitty group where we can buy only sarees or household utensils against the kitty lump sum. This way I have acquired many sarees or household utensils which would be otherwise difficult to acquire because of tight family budget "* (SETHI: 1995:168).

Bouman (1993) in his study of ROSCAs takes further the above argument mentioning the fact that savings accumulated do not only purchase durables but can also be used to improve housing. Various models of group savings have been discussed as well as their implications in terms of improving the quality of life of the poor people.

### **2.3.1.2 Moneylenders and Pawnbrokers**

The purpose of this discussion is to give a picture of how end-user finance is accessed by the low -income earners via the moneylenders or pawnbrokers for various purposes including housing. The poor approach them for small loans in order to effect improvements in their houses or to deal with emergencies due to the fact that

moneylenders or pawnbrokers are willing to take a risk on the unbankable. It has to be noted that the moneylender becomes the last resort if there is no savings club that the poor is a member of. Moneylenders and pawnbrokers can be classified as individual informal financial agents because of the nature of the service they render to their clients.

#### **2.3.1.2.1 Pawnbrokers**

The perspective given by Christensen (1993) regarding pawnbrokers is that pawning should not be classified as a full credit process. He argues that the individual who is in need of immediate cash sells the item to the pawnbroker. The owner of the item can buy the item back at a much higher price than the one it was sold for. Mohieldin **et al** (2000) give a different perspective regarding pawning. They reckon that some pawnbrokers lend against an asset, which can be confiscated if the borrower fails to pay back the loan within a stipulated time. Because of the risk involved, the pawnbroker requires that the pawnee pledge with something valuable. Nagarajan **et al** (1993) share the same view. They argue that land-pawning contract is prevalent in countries like Bangladesh, India, Indonesia and Thailand. The pawner has to forfeit the cultivating rights to the pawnee in exchange for a loan. The pawner can only get back his/her land once the loan is fully paid. If the loan is not paid, permanent transfer of cultivation rights ensues. Such arrangements can be understood under the **pacto de retrovento** (sale with an option to repurchase) and pawning can be traced from the Chinese settlers where land was acquired through money lending.

#### **2.3.1.2.2 Moneylenders**

Short-term loans can be obtained through moneylenders. These short-term loans are more appropriate for the poor because they need not commit themselves for the rest of their lives into long-term loans. Short-term loans enable the poor to purchase building material on progressive bases. They operate in streets or in their private homes. Due to the risk involved, the loan has to be small and lending is reduced to well known clientele (Mohieldin **et al** 2000; Christensen: 1993). In other words the moneylender

conducts some kind of investigation regarding creditworthiness before a loan can be given.

Bolnick (1992) shares some insight into the activities of moneylenders in Malawi. Sometime the loan is given via the agent who knows the borrower well. Among other things, there appear to be sizeable negativity towards the methods used by the moneylenders to collect outstanding debts. The borrower has to commit himself/herself to the debt by putting something in writing. Bolnick writes, " ...the borrower acknowledges the debt and promises to pay R3, 500 with the provision that if I do not pay in one month Mr. [C] will get my house" (Bolnick: 1992:p .61). It is significant that the methods of recovering debt are rather harsh and ruthless. However, the borrower is prepared to take risk in order to obtain the needed loan. The moneylenders levy exorbitant interest on the loan taken. Buckley (1997) maintains that certain moneylenders even charge 50% interest on the money borrowed. He further points that it is out of such circumstances that the people of Kenya and Malawi perceive the activities of moneylenders in a negative light as a rip off. Despite the inherent negative perceptions towards the moneylenders, the demand for small loans outweighs such negative perceptions. Comparatively speaking the lending scale of moneylenders does not match that of the ROSCAs. The demand for end-user finance is evident. The low-income households end up dealing with unscrupulous financial dealers of the likes of moneylenders.

In South Africa moneylenders have been lambasted for using illegal collection methods. The sentiments echoed by the Business Day newspaper (2001) are that moneylenders confiscate clients' bankcards, personal identification numbers (Pins) and identity documents to ensure repayment. Such measures have been strongly condemned by the Government. The Micro Finance Regulatory Council is the result of the Government's intervention to regulate this industry. This body monitors the activities of all moneylenders.

### **2.3.1.3 Informal Source: Friends and Relatives**

Friends and relatives form part of the informal financial intermediation in a rather different approach. Holt **et al** (1991) express the fact that the poor with special reference to women rely heavily on friends and relatives for small loans. These small loans are generally used to consolidate housing or to meet any other pressing needs. The borrower is able to buy building material on small-scale. The repayment conditions are flexible without strings attached (Christensen: 1993). The reason for the flexibility in repayment is due to the fact that the lender is sensitive to the situation of the borrower. However, it has to be noted that friends and relatives are a limited source of finance.

### **2.3.1.4 Accumulating Savings and Credit Associations (ASCRA)**

ASCRA is a model of savings club with its own identity. ASCRA can be classified as a non-rotating fund. The poor as well as the non-poor form the ASCRA. The ASCRA has common characteristics to those of ROSCA except that funds are not made available to members on a rotational basis (Bouman: 1995). He mentions that funds are made available for those who require small loans. The funds of ASCRA grow during its life span because of loans that come back with interest. Normally the life span of the ASCRA is twelve months. ASCRA attempts to inculcate the culture of savings to its members. ROSCA only give in return what the members saved, whereas the ASCRA brings savings with profit. The profit made out of savings is the motivating factor for the people to be pro ASCRA. "Contributions plus interest and sometimes fines rapidly build up funds ... boosting the value of shares in the fund" (Bouman: 1995:p .375).

It is evident that ASCRA are capable of producing lucrative returns. Sometimes contributions are paid in lump sums at the start and this enables the association to have a starting capital. In Sangli the contributions paid in lump sums are referred to as

"shares" (Bouman: 1995). Bouman illustrates the importance of saving the lump sum at the start. He writes, "Without "shares" clubs might have to postpone borrowing by members for fear of not being able to meet competing loan demands without quarrels." (Bouman: 1995:p. 376). With immediate available funds, the association is able to take care of the needs of its clientele.

### **2.2.1.5 Rotating Credit Associations (RCAs): South African**

#### **Perspective**

The Rotating Credit Associations (RCAs) are found in various parts of South Africa operating under different names. Thomas (1991) profiles these rotating credit associations by first giving the definition of RCA. According to her, the rotating credit association is whereby a small group of people makes contribution at stipulated intervals and the contribution is handed to one of the members on rotational basis. Names such as gooi-goois, stokvels (savings clubs) pooling clubs, umgalelos, mabodisana and kubolisana are **inter alia** the names by which the RCAs are commonly known in South Africa. Burman and Lembete (1995) argue that these terms may also cover burial societies and other types of mutual aid societies. It is out of these circumstances that Lukhele (1990) sees the term stokvel as a catch-all-phrase for savings clubs. The concept gooi-gooi was commonly used in Western Cape which was associated with "throwing the money" mabondisana was associated with "to cause to grow or to draw wages" and umgalelo which means to pour (Thomas: 1991).

The perspective given by Lukhele (1990) is that the term "stokvel" is said to be Afrikaans. Scholars of the likes of Burman and Lembete (1995) in their study argue that stokvels were formed as a response to the harsh realities that the poor faced. This view is shared by Lukhele (1990) when he concludes that stokvels enabled the poor to meet their housing needs. The current housing subsidy requires top up funding and the Government hoped that the formal financial institutions would make small-loans available to the poor to complete their housing. Unfortunately the financial institutions did not come into the party. To fill that gap the stokvels are able to give

loans to their members.

Stokvels have proved to have social and economic characteristics. When a member of a stokvel was arrested for one or other reason, the other members would take care of the children at home until the jailed member was released (Lukhele: 1990). The economic aspect is demonstrated where the member of the club arranges a party for entertainment which has to be paid for. Food and drinks are sold at inflated prices at the stokvel parties and at the end of the party the host receives the contributions from the club members and makes a profit on food and drinks. Given such scenario, the stokvels operate differently from the ROSCA and ASCRA.

*“The members of the stockfair, usually from 4 to 8 in number, gather every week at the room or house of a different member, who becomes the owner of the stockfair for the occasion. Each member pays a small weekly subscription, which the owner retains. Beer is served by her [sic] free of charge to members, but visitors are also welcomed, and for an entrance fee 1/- are entitled to drink their fill. “Stockfair is saving” ...[and] there is always special income from extra visitors” (Thomas; 1991:293).*

In light of the above, the host is able to make more profit from visitors and this makes the RCAs unique. It is interesting to note that the RCAs in South Africa are sensitive to the needs of the poor. The capital housing subsidy is inadequate for completion of the top structure, consequently small amount of end-user finance is required but conventional loans are unavailable. The RCAs attempt to address the obstacle by way of providing small-scale loans to its members. It has to be mentioned that the borrower has to pay an interest of 20% to the club the following month (Thomas: 1991). Stokvels are also known to be of assistance to those people who want to start small businesses and require cash. Cross (1987) argues that a number of informal enterprises normally borrow from informal financial markets such as stokvels. Her survey reflected that 47% of women used informal financial markets as a starting capital for informal business. It is interesting to note that poor households borrow for



short-term consumption needs (Murdoch: 2000).

## **2.4 Group Lending**

It is cited in earlier discussion of this study that formal financial institutions are skeptical to make small loans available to the poor especially where there is a lack of a secure collateral (Wenner: 1995 Schroombee: 1998). They further assert that even if the hurdle of the collateral is overridden, the formal financial institutions express grave concern that small individual loans are very expensive to administer and this impacts negatively on the profit margins. Group lending is obviously appropriate to address the aforementioned concerns. The group ensures that the repayment of loans is honored and the group does this by exerting pressure for all members to be up to date with their installments. The group becomes selective in accepting its members and thus limit the number of members who would-be defaulters in the group. Lending to a group lowers the risk of dealing with small businesses and circumvents the problems associated with screening (World Bank: 1989;CREFSA: 1996).

What can be noted is that the lender's risk is reduced considerably. The poor people form themselves into organized groups where members are able to access credit from the financial institutions such as commercial banks, a government development bank or private institution. History has proved that if the poor people are homogeneous, living in close proximity to each other, the group is likely to be vibrant and effective. "The Grameen Bank lends only to groups from the same village whose members are of the same sex and have a similar economic background:" (Huppi, 1990: p.192). The financial institution deals with a group rather than individuals. In other words, the loan is made available to the group, which in turn gives out loans to individual members. It is interesting to note that the group takes a joint responsibility for the loan taken (World Bank: 1989; Huppi: 1990; Reinke: 1998). It is these circumstances that cause the group to apply pressure on other members of the group to honor their obligation. Group pressure is enforced in a number of ways.

It has to be acknowledged that the granting of the loan for other members of the group depends on the performance of the current loan. "Since all members of the group will be barred from future borrowing if the group defaults, members have incentive to use moral persuasion, social ostracism and mutual insurance to honor the external loan commitment...(Wenner, 1995:p.2654). The size of the group impacts on the behavior of the member towards loan repayment. It is easy to manage and control a small group as opposed to a larger group. Huppi (1990) gives an example of a large group in Ghana whose membership was close to 100 and its performance was bad as opposed to a small group that had 10 to 20 members. Comparatively speaking large groups are vulnerable to default. To address this weakness, certain group-based lenders require that the group have to open a savings account and depict their ability to save before a loan can be given (Reinke: 1998).

Scholars of the likes of Navajas **et al** (2000) express similar sentiments. They conclude that the creditworthiness of the poor can be measured by the ability to save. In other places like Malawi and Nepal the lender requires a deposit to be put into a fund and if members default with their payments, the deposit is forfeited. The deposit is refundable if the members don't default with their payments. (World Bank: 1989). Another example is the Peri-Urban Lusaka Small Enterprise Project (PULSE), which provides small loans to poor people. Copestake **et al** (2001) maintain that in order to qualify for a (PULSE) loan, the applicants are expected to form themselves into groups between 25 and 35 referred to as gulus. They further point out that the members of the group have to pay ten percent of the approved loan into the PULSE LOAN INSURANCE FUND (LIF). The paid deposit can be viewed as a partial collateral and only recoverable if the loan is fully paid off. Group lending proves to be capable of minimizing defaulting. The group takes a joint responsibility in terms of overseeing that the loan is repaid where members guarantee each other's loans. Getting a second loan is dependent on the performance of the first loan.

## 2.5 Informal Credit and Women

A recurring problem facing low-income households is lack of access to housing credit and even the Housing White Paper acknowledges this fact. Regrettably, women have more limited opportunities to access credit than men (Mayoux *et al* 1995 and International Labor Organization: 2001). This can be attributed to lack of resources or prejudice peddled by lending agencies. Although the banks do not keep gender-segregated data it is believed that women in Ghana are less involved in savings and loans schemes through the formal banking system than their counterparts (Bortie-Doku and Aryeetey 1995). The operational procedures of formal banks are intimidating especially to the rural women. Bortie-Doku and Aryeetey write, "These include among other things cumbersome savings and loan procedures and general discrimination by banks against low-income customers" (Bortie-Doku and Arteetey; 1995:p.79).

Cultural and social norms have fuelled the situation. Culture determines the destiny of people's lives especially in the developing countries." ...and at an early age women learn to accept deprivation relative to male family members " (Hashemi *et al*, 1996:p.636). Such indoctrination results in women experiencing constraints in becoming income generators thus coercing them to rely heavily on handouts. In certain societies women are not allowed to participate in activities that generate cash (International Labor Organization: 2001.p.2). There has been a belief that it was not necessary to educate women and this is still prevailing in certain countries, for example in Afghanistan. What can be noted is that banks' formalities are a problem for any illiterate person, but since the illiteracy rate is higher among women, this can be seen as having gender-specific implications. Women eventually use informal collective/group-based savings and credit mechanisms. The collateral requirement can be seen as a gender specific constraint.

In countries like Afghanistan women cannot own land and thus they are unable to access formal finance. Another gender-specific constraint is the requirement for the

male spouse's co-signature or women have to obtain a guarantee declaration from their husband or father (International Labor Organization: 2001). What is patent is that women are treated as minors. In the light of the above circumstances, perhaps the only conduit for women to access credit is informal financial market, enabling them to meet their needs such as housing. Because of their involvement in savings clubs women are able to build their own houses in a progressive basis. The impact of savings is highly significant in improving the quality of their lives. Xakaza (1999) have shown that almost 90% of savings clubs are made up of women and 65% of them are head of the families. In order to minimize defaulting poor women require to link up loans to their savings.

It is argued that these informal financial markets take various forms with most of them built into development strategies and programmes (Report of Ad Hoc Expert Group Meeting: 2001). It is further mentioned that this include revolving loan schemes, non-governmental agencies, credit unions and savings organizations. Non-governmental organizations such as Grameen Bank and Bangladesh Rural Advancement Committee (BRAC) through its Rural Development Program provide credit, targeting women. Savings and credit schemes such as Women's Association Chit Fund (Sanghada Chit) have proved to be the source of credit for women. It is evident that members of the club have to have a regular income in order to meet contribution expenses. Despite the fact that these women are poor, they reflect determination and desire to save (O'Reilly: 1996).

## **2.6 Mobilizing Savings**

The White Paper acknowledges that the present housing subsidy is inadequate to get a complete top structure and the Government is calling for would-be beneficiaries to supplement the limited housing subsidy with their own resources. Having said that savings mobilization is receiving considerable attention from policymakers and development practitioners. Morduch (2000) argues that household conditions can be

improved through savings mobilization. Huppi *et al* (1996) attest to the same view. They argue that co- operatives with higher savings interest rates attract depositors. The impact of higher interest rate offered to the depositors is evident in Korea. Because of higher savings interest rate offered, the deposits held by rural co- operatives improved from 9% to 16% within a year.

Another perspective is that of Reidinger (1994) regarding Indonesia Badan Kredit Kecamatan (BKK) on voluntary savings. The program was called Tamades (Tabungan Masyarakat Desa, Villager Savings). What is interesting is that the depositors were offered 1.25% interest rate per month, which was close to the market interest rate. The Tamades program was able to attract 91,500 voluntary savers in the second half year of 1992 (Reidinger: 1994). What can be deduced is that if given appealing interest rates and flexible accounts the poor can save. Another way of mobilizing saving is evident in accumulating savings and credit associations (ASCRA's). Sometimes at the end of the cycle the members agree to set aside a portion of their contribution for small group-owned capital (International Labor Organization: 2001).

## **2.7 An Alternative Approach to access micro-credit:**

### **2.7.1 The Case Study of Grameen Bank**

In the earlier discussion of this study, the plight of the poor has been highlighted in terms of obtaining end-user finance to improve their housing. The non-availability of collateral is a major problem for the poor. The gap between the have and have not is still evident. In an unprecedented manner the Grameen Bank has transformed the banking industry by proving that even the poor can be bankable. This discussion looks at the efforts made by Grameen Bank to improve the living conditions of the poor.

It's imperative to understand how the Grameen Bank of Bangladesh originated. The Grameen Bank micro-credit program was the brainchild of Mohammad Yunus, Professor of Economics at the University of Chittagong in Bangladesh. The Professor

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made some interesting observations. He noticed that the poor households were involved in income generating activities using capital cash borrowed from informal markets. He concluded that, "...if financial resources are made available to the poor at reasonable terms and conditions, they can generate productive self-employment without external assistance". (Hossain: 1988:p.23). Such perspective culminated in the launch of the first project in June 1979 at Tangail District targeting the poor households. The Grameen Bank was motivated by the following reasons:

- To extend banking facilities to the poorest men and women in the community;
- To eliminate exploitation by money lenders;
- To create opportunities for self-employment for the unemployed and underemployed;
- To create an organizational structure, which the poor can understand and in which they can participate fully,
- To reverse the age-old vicious circle of "low-income, low savings, low investment, low income" to an expanding cycle of "low income, credit, investment, more income, more investment, more income" (Wignaraja; 1990:p. 41-42).

The Grameen Bank has 2.02 million members of which 94% are women (Rahman: 1999). However, in the mid 1980's there was a strong focus on women as their potential customers. Todd (1997) concludes that men who defaulted in paying their loans caused the shift of focus from men to women. Another point worth mentioning is that once women have been offered credit, they turned out to be "better credit risk" than men (International Labor Organization: 2001). Women are more sensitive to embarrassment compared to men. "When a woman fails to make her installment on time she experiences humiliation through verbal aggression from fellow members.... People in other villages will also gossip about it." (Rahman; 1999: p.70). None of the group members will like to experience degradation of such magnitude and this becomes a motivating factor for everyone to be up to date with one's installments.

Goetz and Gupta provide statistics of women and men involved in credit program controlled by Grameen Bank.

**Table 2.3: Comparative Information on selected special credit program in Bangladesh period: 1990 - mid 1992**

	Number of Members		Women as % of Total
	Women	Men	
Grameen Bank	1, 186, 826	84, 635	93.3%

**Source: Goetz and Gupta: (1996)**

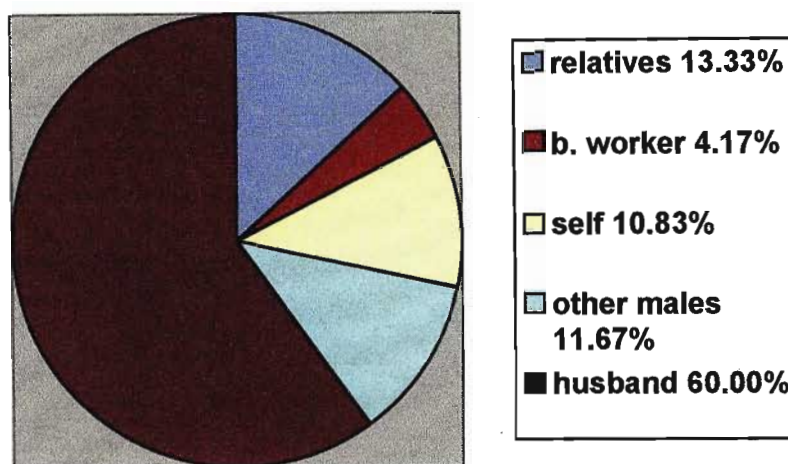
Rahman (1999) gives a different dimension regarding the reasons for Grameen Bank favouring women as opposed to men. He writes:

*"In the field it is hard to work with male members. They do not come into meetings, they are arrogant, they argue with bank workers and sometimes they even threaten and scare the bank workers. It is good that our superior officers have decided not to recruit male members," (Rahman; 1999: p.69).*

Although the Grameen Bank has managed to exclude men from obtaining loans, Rahman's (1999) study reveals that most women are rather forced or influenced by their husbands to join the Grameen Bank to obtain loans. These loans eventually end up in the hands of their husbands and women have no control. Todd (1996) gives the example of women borrowers in Nirdhan. She points that women are forced to give over the loan to their husbands because men are perceived as people who have to

manage the household finances. The following graphic illustrations depict that the Grameen's Bank highest number of clientele were influenced by their husbands.

**Table: 2.4 who asked Women borrowers to join?**



**Source: Rahman (1999)**

The proliferation of Grameen Bank credit projects in all districts in and outside Bangladesh can be seen as an attestation to the success of the Grameen Bank. The Grameen Bank is more sympathetic towards the needs of the poor. It is important to understand how the Grameen Bank positioned itself in order to reach the poor. Hossain (1988) maintains that the organizational structure of the Grameen Bank had 13 board members and 9 of them were selected from the borrower- shareholders. The Grameen Bank allows the borrowers to be part of the management, self-reliance rather than fostering dependency. The area manager is responsible to approve and monitor the usage of loans. Hossain (1988) as cited by Govender (1997) argue that the qualifying criteria for loan is that applicants must own less than 0.5 acre of land or alternatively have assets with a value of less than 1.0 acre of land. Grameen Bank was the first financial institution that introduced the concept of " Social collateral ".



Through “ social collateral ” the individuals form themselves into a group that take a joint responsibility to pay back the loan in case one of the individual defaults with repayments. The prospective borrowers are obliged to form themselves into a group of five individuals with similar economic standing who have a mutual trust and confidence to one another (Hossain: 1988, Rahman: 1999, Govender: 1997). In other words the group has to be homogenous. People must know each other very well and come from the same village. The group has to undergo a compulsory training for seven days with issues related to group saving program; health, children’s education and other social development programs including learning to make signatures (ibid). Groups from the same village are federated into a centre where the centre chief ensures that weekly meeting are convened. Rahman (1999), Hossain (1988) and Govender (1997) argue that the first two individuals in a group each receive a maximum loan of TK 5,000 at an interest rate of 16% per annum.

The Grameen Bank loans are flexible. The loan borrower is at liberty to utilize the loan for any type of project. Wignaraja (1990) maintains that loans can be used for livestock and fishing; processing and manufacturing; trading and housing loans. The repayment of the loan is made weekly in 50 installments. The other two members only qualify for the loan if the first two members do not default and the chairman is the last member to receive the loan (Rahman: 1999). The group is liable for the loan given to individuals. It is out of these circumstances that the rest of the group put a considerable pressure on those who are in arrears with their installments. Rahman (1999) cites some strategies that are taken by the group in case they encounter problems of installment payments. He writes:

- Peer members in the loan group or centre may pay the installment from their own funds depending on the amount needed and on the defaulters own relationship with other members;
- A bank worker may lend all or part of the installment to the defaulting borrower

in order to adjust her account;

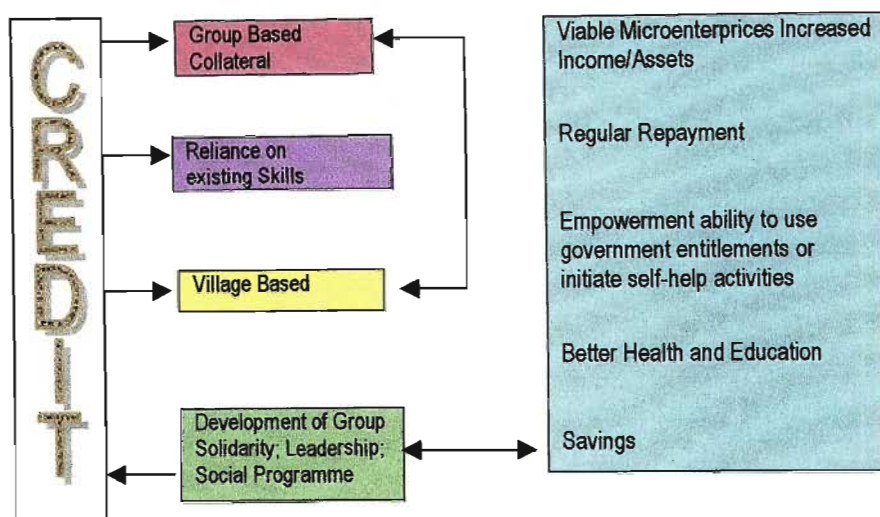
- in extreme situations peers in the loan centre may decide to take the defaulter's saleable household items or personal assets and sell or mortgage them out to collect the installment (Rahman; 1999:p.72).

It is evident that those who fail to honor their obligations run the risk of being humiliated. A considerable amount of sense of discipline prevails in these groups. However, in the case of mishap, the group comes to the rescue of its member. Savings is an essential requirement for the Grameen Bank to approve loans. Wignaraja (1990) study reveals that the granting of credit to borrowers is linked to savings. Each group is expected to create a savings fund called Group Fund. Hossain (1988) expresses the fact that 5% of the loan is compulsorily deducted and put into this fund.

Each member has to save in this fund one **take** per week (Hossain: 1988; Govender: 1997). The weekly savings promotes the culture of savings. The fund is controlled and managed by the group. The fund is further bolstered by penalties collected from the members of the group who transgress the policies of the group. The advantage of this fund is that members of the group can obtain loans, which are interest free (Rahman: 1999; Hossain: 1988).

Obviously, this fund acts as a cushion for the members especially if they are in difficulties in terms of honoring their commitments. The money that has accumulated from "Group Fund" is deposited with the Grameen Bank at 8.5% interest per annum. The Grameen Bank credit system is illustrated in Table 2.5 below.

**Table 2.5: Grameen Bank Credit Model**



**Source: Holcombe (1995)**

Given the Grameen Bank credit program, some shortcomings can be identified. The savings mechanism of the Grameen Bank does not encourage a continuous and cumulative process of savings. In other words, the group money is saved to qualify for the loan then people stop saving once the loan is repaid, then start saving if the second loan is requested. It is indicative that saving is not sustainable after the loan is paid up. Because of unpredictable financial situation of the poor, savings becomes a requirement to obtain credit that serves as a safety valve from defaulting. What is interesting is that Grameen Bank introduced a new kind of loan product for end-users tailor made for poor people. Joint responsibility has significant benefits in the sense that the members service their loan without defaulting. Members are able to establish credit histories by proving that they have the ability to save.

## **2.8 Conclusion**

This chapter has sought to explore way forward to this research. It examines the literature review looking at different models of group saving schemes and credit associations pursued internationally as well as in South Africa. The chapter has

unbundled the manner in which these savings-based schemes function. The poor are helped to access finance on terms they can afford. The study established that in the absence of conventional collateral, social collateral could also be effective, given the fact that social control mechanisms play a pivotal role.

## CHAPTER THREE

### METHOD OF OPERATION: HOMELESS PEOPLE'S FEDERATION

#### 3.1 Introduction

This chapter seeks to shed light into the activities and efforts of the South African Homeless People's Federation in terms of unlocking housing credit to the low-income earners. Experience has proved that it is still difficult for many poor South Africans to access end-user finance from the mainstream banks. The prevailing myth is that the poor are unbankable. The Housing White Paper (1994) recognizes that the Government does not have adequate resources to deliver a habitable top structure. Given such circumstances, the beneficiaries of the government subsidies have to look for strategies to improve their living conditions.

The study attempts to establish who the Federation is, and what they stand for. The Federation is used as a case study to interrogate the hypothesis to its limits. It is interesting to note that the South African Homeless People's Federation incorporates the concept of the People's Housing Process, which supports and enables the beneficiaries to construct much bigger and better quality top structures through sweat equity with less amount of money than engaging the services of the developer. Without doubt the Federation endorses the fact that the poor do have experience with finance (savings and credit).

#### 3.2 South African Homeless People's Federation

The birth of the South African Homeless People's Federation was the consequence of the frustration and ostracism experienced by the poor people from formal financial institutions. The early 90's was a turning point for the poor people. Homeless people from informal settlements felt that there was a need for them to rally around their plight of being homeless. Bolnick *et al* (1996) argue that the Catholic Welfare and Development (CWD), a Cape Town based church organization sympathized with the

poor people. The Catholic Welfare and Development facilitated a gathering of more than 150 representatives from informal settlements all over South Africa. Donor funding from MISEREOR, a Catholic organization in Germany provided funding for the meeting. The gathering was called "A People's Dialogue on Land and Shelter". The first meeting was held in Broederstroom, in the North West Province in March 1991 (People's Dialogue/ Federation Alliance: undated paper). The meeting could be seen as a break through for the poor because they could now speak with one common voice.

From that meeting the People's Dialogue was tasked to network communication and experience sharing among the participants of the meeting (S.A. Homeless People's Federation and People's Dialogue: undated paper). The networking resulted in developing strong ties with international organizations such as National Slum Dwellers Federation (N.S.D.F.) of India. The N.S.D.F. was instrumental in providing expertise to S.A.H.P.F. The contact with India gave rise to the strategy of saving and credit as the basis for organizing the urban poor. It has to be understood that savings and credit strategy is a Grameen Bank brainchild that was imported and adapted to South African situation by the S.A.H.P.F. The poor began to group themselves to form savings clubs, which were called "Housing Savings Schemes". In 1992 the first savings scheme was launched with the assistance of the Indian slum dwellers. Quite obvious, the mission of the South African Homeless People's Federation was to assault poverty using collective/communal savings as a vehicle.

The focus of these savings schemes was predominantly saving for housing. Savings were construed as a potential source that could be harnessed to mobilize and unlock credit. Personal savings represents a potentially large source of fund mobilization for housing purposes and can act as a powerful tool to leverage credit through increasing the individual's ability to contribute to equity in the property and demonstrating a willingness and ability to regularly set aside money for housing purposes (Housing White Paper: 1994). People will be in a position to create good financial track records

that will open doors for them in the formal financial institutions.

The concentration was more on women to participate. Women have suffered various types of humiliation. Consequently women are seen as people who are worse off when it comes to accessing end-user finance. S.A.H.P.F have shown determination to transform the situation. The People's Dialogue / Federation (undated paper) argues that by 1993 there were more than 50 active savings schemes in South Africa. They further point out that when the savings schemes reached two hundred in 1994, the savings schemes were officially launched under the name of "Umfelandawonye Wabantu Basemjondolo" which was known as the South African Homeless People's Federation (S.A.H.P.F.) in English. The S.A.H.P.F. is fundamentally based on the following principles:

- 1.1 Development should be people-controlled, not just people-centred. The way to create sustainable, cost-effective systems of development is to identify, develop, and harness the capacities already present in poor communities. One-off mass development programmes run by professionals, bureaucrats, and developers do not do this.
- 1.2 The poor (squatters) are the world's most prolific producers of shelter. All they lack to provide adequate shelter are material resources, principally in the form of affordable housing finance. The most effective means of providing housing on scale is thus to direct development resources to poor communities.
- 1.3 Support mechanisms for people-driven development efforts should be as flexible and informal as possible in order to encourage experimentation and a bottom up generation of procedures (S.A.H.P.F. **et al**: undated paper p.1).

The Government acknowledges that self-help has been in existence for decades. Building one's own house is the only way to find shelter by the poor. The ability of the

poor people to build their own houses was recognized by people of the likes of Verwoerd, the Minister of Native Affairs who served in the Government of the Nationalist Party during the apartheid era in South Africa. Parnell **et al** writes:

*"... the Native leases site although neither he or the local authority is immediately able to erect a house in accord with the usual location building standards. What actually happens is that he erects a Native type house to the best of his ability at the rear of the site, with the object in due course to erect a standard type of house or to have it erected at the front of the site, usually in stages as his position improves". (Parnell et al: 1999: p.380).*

Through exchange programs, the South African Homeless People's Federation has managed to acquire skills, which have been adopted to fit within the South African context. (Bauman: 1996). The South African Homeless People's Federation is basically known for being a vehicle to deliver low-cost housing. Affordable housing becomes critical. Currently the Federation is able to provide funding to its members to build 52 to 72 square meters cement-block houses for about R 10 000,00, loan funding with the average family income of R 585,00 per month. What can be noticed is that the Federation is able to cause its members to realize their aspirations by emphasizing the crucial role of the community-controlled savings and loans societies. This is evident by producing much bigger top structure, which would not be possible and achieved by using the Government subsidy alone. Currently developer driven housing projects are battling to come up with a 30m<sup>2</sup>, which is a policy requirement. The Federation should be commended for their strategies of reducing the cost of building. People's Dialogue/ Federation Alliance outlines these strategies. They are:

- ✓ 1 Using voluntary unskilled labour from the families that are building
- ✓ 2 Buying materials collectively
- ✓ 3 Promoting the concept of collective saving
- ✓ 4 Negotiating low prices with local builders for the skills that are needed
- ✓ 5 Eliminating the profit in contractor building
- ✓ 6 Re-using existing building materials



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7 Manufacturing their own building blocks (People's Dialogue/Federation Alliance: undated paper: p.7)

It is interesting to note that the Federation among its strategies avoids paying a profit element to developers by engaging beneficiaries themselves, neighbours, friends and relatives in the construction of houses. Given such strategies, a number of family members invest their own small funds, thus improving the quality and increasing the size of the top structure. A fundamental strategy enunciated by the Housing Code (2000) is that if the beneficiaries are to build their own houses, they are able to optimize their decisions thus making trade offs.

### 3.3 Savings and Housing Development

The biggest challenge facing the Government of South Africa is dealing with households in need of proper housing who currently cannot access end-user finance in order to acquire decent, habitable housing. Complicating the problem is that the Government has insufficient resources to meet the needs of all homeless people in South Africa. Such situation leaves the poor with no alternative but to look for strategies that will improve their living conditions. The poor have found their own way out of this dilemma by introducing collective savings. It has to be remembered that the study is intended to address the role of the savings clubs in Piesang River outside Durban. The core theme of the study is to explore the impact of the savings clubs in housing provision and their effectiveness. The National Minister of Housing, Mthembu-Mahanyele maintains that poor people who cannot access end-user finance should contribute their own resources to the housing process at their own pace (Ministry of Housing: 2001).

The South African Homeless People's Federation was hatched as a consequence of the discrimination and prejudice experienced by poor people when applying for end-user finance. There are a number of prejudices suffered by the poor. It is assumed that

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the poor cannot decide which type of loan suits them best. The other assumption is that the poor will overestimate their capacity to repay. However, the Federation has made the best out of the worst by empowering the poor through saving. The South African Homeless People's Federation is made up of Housing Savings Schemes from nine (9) regional Federations. Its membership mainly comes from women but men are not excluded to participate in the scheme. By 1997 Housing Savings Schemes (HSS) consisted of more than 1000 Housing Savings Schemes formed.

**Table 3.1: Rate of growth in the S.A.H.P.F.**

X UPDATE

DATE	NUMBER OF H.S.S.	MEMBERS	SAVINGS
OCTOBER 1992	12	670	R 143 213,00
AUGUST 1993	58	2 178	R 34 039,44
JANUARY 1995	152	7 020	R 270 423,25
NOVEMBER 1995	259	13 503	R 387 632,50

Source: Bolnick, J. et al. (1996)

It is interesting to observe that HSS have gained popularity predominantly among the poor people. Such popularity could be traced from the fact that the members own the HSS. They own it in the sense that the poor are in a position to take decisions on issues that affect them. Bolnick **et al** writes that, "... they have invested their own precious time and money in the exercise. At the same time, they focus people's minds directly on their material needs, and generate in them the interest and capacity to become agents of transformation - as opposed to beneficiaries of outside intervention". (Bolnick **et al**: 1996: p.6). On the basis of what is said, it is evident that the poor can be self-sufficient if a healthy atmosphere is created. Traditionally the poor save with the formal financial institutions but their savings does not entitle them to access loans.

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Their money is loaned to rich people and the poor benefit less by saving with commercial banks. Saving with the S.A.H.P.F enables the poor to obtain small capital loans for starting small businesses (Bolnick **et al**: 1996). It is conclusive that savings yields spin offs for the savers thus creating the scope for the poor to improve their quality of life. Savings with HSS is said to be able to achieve the following:

- Savings bring communities together. Savings ensure high levels of participation and mutual interaction in an organization.
- Through investing their scarce finance, the members have a material stake in their organization and in its planning and decision-making.
- Savings encourage regular interaction and enable strong bonds to be created.

The S.A.H.P.F. (Undated paper) asserts there are advantages in saving through schemes of such nature. History has depicted that such advantages are lacking in mainstream banks. The S.A.H.P F provides three types of savings.



#### Nsukuzonke (Daily Savings)

With this type of savings, people are expected to make a daily contribution as low as 50c. These savings normally assist the savers as a crisis loan. Members are able to tap on this funding in case they experience financial problems. This type of savings was designed because of the fact that the poor cannot afford to save on weekly or monthly basis. The saver keeps the record of his/her contribution.



#### Inqolobane (Granary Savings)

This saving is towards larger production and enterprise loans. All group members are expected to participate in this program. Contribution is made on a monthly basis. These funds are used to support individual and group income-generating activities.

#### Housing Savings

NHPC  
N.H.P.F.  
Utshani  
Trust

These funds are deposited in Utshani Fund account in the form of deposits for Utshani Housing Loans.

### **3.4 Utshani Trust**

Utshani Trust was created within the South African Homeless People's Federation to deal with issues related to financial agreements. For example, when the R 10 million grant from the National Housing Department was given to the S.A.H.P.F. the Trust had to act as a conduit between the Federation and the Department of Housing (Bauman: 1996). The Trust was created to handle all funds that are transferred to Utshani Fund. The Trustees are composed of members elected from the Government and the Federation. In 1996, Utshani trust reached an agreement with the National Housing Department where subsidies were to be released directly to the Federation via Utshani Fund. In other words the Government accredited the Federation to administer and manage the subsidy applications of their members on behalf of the Department at an agreed fee. The agreement was an indication that the Government fully recognized the role of the S.A.H.P.F. in terms of providing affordable housing finance to the poor. Such arrangement has benefited those who have accessed loans from the Federation prior to obtaining Government assistance. The subsidy redeems the outstanding loan depending on what amount the applicant qualifies for.

### **3.5 Utshani Fund**

The S.A.H.P.F. went on a crusade to clamp down on homelessness by supporting households who wish to enhance their available resources through saving in order to build their homes themselves and obtaining small-scale loans. The Federation has created a dedicated housing finance component, which is called Utshani Fund. People's Dialogue (1997) mentions the fact that Utshani fund is registered as a Section 21 Company, which was established in January 1995 using funds from Misereor. The offices of Utshani fund are based in Cape Town. The People's Dialogue/ Federation

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Alliance (undated paper) points out that a body that governs Utshani Fund is called “**Buyele Ekhaya**” (come back home). The body is composed of Federation members whose task is to monitor Utshani fund’s performance and identify blockages. Bolnick **et al** (1996) assert that Utshani fund is a revolving housing finance, which provides housing finance directly to the Housing Savings Schemes (HSS) affiliated to the Federation. Due to the fact that Utshani Fund is a “revolving” fund, loan repayments are the source of further loans (Bauman: 1996). The purpose of Utshani Fund is to consolidate and deliver low-cost housing finance to the poor. Given such situations, Utshani Fund has the following objectives:

- To make housing and other finance available to homeless persons who would otherwise not have access to it.
- To do so in a way that maximizes the social benefits of adequate housing to individuals and society more generally.
- To strive for financial self-sufficiency within the parameters of these broader goals.
- Utshani Fund operates on a non-profit basis. Any surpluses are solely for further loan finance.
- Utshani Fund may not make finance available to non-Federation groups.
- Utshani Fund loans may be made only to Housing Savings Schemes on a collective basis. Loan finance is not to be made available directly to individuals by uTshani Fund (People's Dialogue/Federation Alliance: p.12-13: undated paper).

In the earlier discussion it was cited that the Federation is formed around the Grameen Bank model. The people targeted by the Federation have no credit record and conventional collateral. Given such an untoward environment in which to lend, the Federation uses social collateral where no physical security is required. Bauman (1996) argues that the HSS undertakes an affordability exercise determining the amount that each member can afford to repay every month for a loan. The HSS is

responsible for identifying the prospective borrowers. Loans are usually given to groups of ten to twenty members at a time within a savings club. Bauman (1996) points out that once the members repayment has been determined, Utshani Fund determine an amount that can be borrowed over a 15 year period at an interest rate of 1% per month. The maximum loan amount given to each member of the savings club is R10 000. Loans provided by Utshani Fund are small in size and at a lower interest rate than formal lending institutions. The Housing Savings Schemes are required to adjust its house designs to build within the amount approved.

Piesang River was the first settlement in the Federation to take loans. There were eight members of the savings club that led the way and eventually the Piesng River became a pilot project. The bulk loan is made to the HSS as a collective entity with collective responsibility for repayment. Bauman (1996) argues that loans are disbursed to HSS members in the form of building material. For example in Piesang River, the Federation has made some arrangements with local building material suppliers to supply building material at competitive prices. One month's grace period is given after the loan is granted (People's Dialogue: 1997). What can be noticed is that no cash is disbursed. Bulk repayments are made monthly to uTshani Fund. Since there is no collateral used to access loans, the savings group maintains, "group pressure" to enforce monthly repayment. If members default, the rest of the group will not be able to access further loans. Any further loans are dependent on the performance of the existing loan. The members of the group have to encourage and motivate each other in order for the savings group to be able to access further loans.

### **3.6 People's Dialogue on Land and Shelter**

People's Dialogue argues that the new Government spoke of "people-centred development " was however, not in reality effective enough. The Government housing subsidy is designed to be accessed by developers who have a top down approach. This culminated in the poor people not owning the process. The state was

experiencing problems in honouring its promise of delivering four-roomed houses. There was a need for the poor communities to form themselves into organized groups in order to replicate people-driven housing development (S.A.H.P.F: undated paper). Given such scenario, the People's Dialogue on Land and Shelter appeared to be an appropriate structure in terms of improving the lives of poor people. People's Dialogue on Land and Shelter (PDLS) is composed of 24 staff members. The purpose of the PDLS is to support the initiatives of Homeless People's Federation (S.A.H.P.F: undated paper: p.2).

People's Dialogue offices are based in Cape Town, Durban, Johannesburg and Queenstown. It is interesting to note that People's Dialogue is a network, which links representatives from illegal and informal settlements. The People's Dialogue is an autonomous sub-committee of the South African Catholic Development Agency (SACDA). The German Catholic Organization Misereor was the main funder of the Alliance (People's Dialogue: 1997). Basically the People's Dialogue does not run the Federation or directly provide services to customers but relate in the form of providing professional support to the Federation. People's Dialogue gives the following support:

- Fund-raising and administration of donor finance on behalf of the Federation.
- Administrative support for the major Federation operational programs.
- 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: p.5).

### **3.7 Conclusion**

This chapter has given detailed information regarding the circumstances under which the Federation was formed. Empirical evidence shows that housing group savings schemes are capable of providing affordable end-user finance for the poor households

in the society as a whole. This chapter has put into perspective the philosophy of the Federation in terms of improving the quality of life of the poor. Quite obviously, the Federation has given the poor people a sense of direction and belonging by encouraging the poor people not to rely on handouts and be recipients but to be independent through saving and maximizing the available resources. Currently SAHPF can be seen as also contributing in terms of fulfilling the immense housing demand by the poor and thus as a solution to housing crisis. Different types of savings are said to be the cornerstone for the success of the Federation, taking into consideration the issue of affordability. The attempt was not to regurgitate the activities of the SAHPF but to put into perspective the contribution of the SAHPF in terms of addressing the shortage of housing finance. The following chapter will be able to give hands on experience. The chapter will discuss the case study- Piesang River where savings linked to credit is used as their strategy to eradicate housing backlog by proving small-scale loans to the members for housing needs. The chapter will illustrate the scale and the magnitude of the problem and demonstrate how they have improvised through savings linked to credit. In comparative terms the savings clubs in Piesang River cannot go unnoticed since they have declared zero tolerance on poverty by introducing ongoing loan/savings programmes.



## CHAPTER FOUR

### CASE STUDY, FINDINGS AND ANALYSIS

#### 4.1 Introduction

The Housing White Paper (1994) recognizes that South Africa does not have the resources for Government to deliver pre-designed or prepackaged standard houses to everybody. Consequently, the Government views the promotion of savings and the development of a culture of savings as a critical element in improving the living conditions of the poor people.

The study explores the strategy of savings employed by the South African Homeless People's Federation ( S.A.H.P.F.) in terms of making end-user finance available to the poorest of the poor. The discussion contained in this chapter deals with the summaries of responses that were obtained from questionnaires administered to 40 households of Piesang River. Further more, the information gathered during the interviews conducted with the official of the Department of Housing, Mrs. Godliman and the leadership of the Piesang River Mr. Magebhula will be dealt with in this chapter and this will also form part of the findings and analyzed. These findings will serve as a tool to answer the research question. The findings are informed by the research that was carried out. The Piesang River was chosen as a case study to establish the effectiveness of the savings clubs in terms of providing end-user finance to the poor.

#### 4.2 Case Study: Piessang River

Piesang River is an informal settlement in Inanda, 25km north of Durban. The area is adjacent to Ntuzuma Township which forms part of Kwa Mashu Township Appendix 1 illustrates the exact location of Piesang River in relation to Ntuzuma Township. According to South African Homeless People's Federation (undated paper), Piesang River has a population of over 1650 families. People moved into this area as a result of being displaced by political violence in the region in the 80's and early 90's. Another

THIS IS A CASE  
WHERE THERE  
IS INTERMEDIARY  
ASSISTANCE

factor was that people migrated from the adjacent rural areas under Amakhosi with a view to come closer to job opportunities. In 1992 the Durban City Council made available the sum of R18 million to upgrade the infrastructure of the area. The area has 1473 sites. Piesang River is characterized by a high rate of unemployment, and crime is rife. Jockin, the president of the National Slum Dwellers Federation (NSDF) in India, first started the first savings schemes in Piesang River. Piesang River was the first settlement in Inanda outside Durban to begin building houses and this was in 1995, using loans from Utshani Fund. When the first eight houses were almost finished the Minister of Housing, Sankie Mthembu-Mahanyele came to Piesang River to officially hand over the house keys to the house owners. The S.A.H.P.F. in Piesang River has a staff complement of ten including Mr. Magebhula who also represents the Piesang River nationally.

#### 4.3 Repayment of Loans

In order for housing finance corporations to be sustainable in the lending industry, borrowers have to be capable of honouring their obligations. The repayment of a housing loan is dependent on the borrower's capacity and willingness to pay. All respondents categorically indicated that they decided to join the savings clubs because housing loan assistance was easy to access and repayment of loan was designed to suit their circumstances. The popularity of informal finance among the poor households suggest that more than often the formal financial institutions may not be providing the type of financial services that the poor demand. Mr. Magebhula indicated that Utshani Fund makes housing loans available to savings clubs affiliated to S.A.H.P.F. and not to individuals. "The loan administration costs are minimized if the loan is given to the savings club as opposed to individuals," commented Mr. Magebhula.

The savings clubs identify members who are homeless who qualify and wish to obtain housing loans from Utshani Fund and make one loan application. Mr. Magebhula from the South African Homeless People's Federation indicated that the maximum housing loan given to a club per member is R10 000 at 1% interest rate per month. This interest

rate of 1% per month is charged only for loans for housing purpose. The researcher discovered that this interest rate of 1% per month is fixed irrespective of the performance of the rand in the market. Comparatively speaking the interest rates charged are low compared to those of the mainstream banks. Currently the mainstream banks charge 14.5% interests per annum. Mr. Magebhula alluded to the fact that with the mainstream banks, the interest rates always fluctuate and this has a negative bearing on the consumers who depend on a shoestring budget. Another fundamental factor that was highlighted by Mr. Magebhula was that Utshani fund have no hidden costs that normally affect the consumer's installment.

The study established that the borrower has to contribute 5% as a deposit before a loan can be approved. This can be done by making a once off payment or saving for a certain period. However, participating and attending meetings regularly is fundamental by members. Mr. Magebhula highlighted the fact that the repayment period of the loan is 15 years. However because of the fact that they deal with poor members, they do understand that some members cannot pay off their loans in record time. He argued that they couldn't operate like formal financial institutions. The study established that 80% of the respondents are currently having loans with Utshani fund. Their monthly repayment for the loan is between R100 and R125.

30% of the married spouses and 15% of those who are co-habiting have working partners and this is an advantage to improve the household income of those families. Such improved household income enabled these families to service their loans without defaulting. 10% of the respondents indicated that the Government housing subsidy grant paid off their Utshani housing loans. Currently the default in loan repayment is about 10%. The reason for such high rate of defaulting was due to unemployment as a consequence of being discharged or retrenched. The study discovered that 47% of the respondents were single parents. Most of those who are single mentioned that they were struggling to regularly pay their monthly repayments. " It is difficult to meet ones obligation if one is a single parent, single headed families struggle to make ends meet,"

Saving linked  
subsidy  
scheme.

commented Mr. Magebhula. In order to keep the situation under control through peer pressure and weekly meetings, members in arrears are encouraged to put their loan repayment at the top of their priority list. The study established that members who are in default are seriously attempting to pay towards reducing the arrears.

#### **4.4 Group Savings**

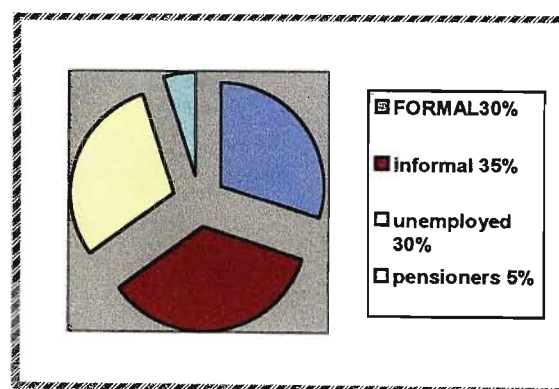
The Housing White Paper (1995) as cited by Salane (2000) argues that savings by the poor households is a corner stone for accessing end-user finance. The National Department of Housing believes that savings is capable of creating housing consumers rather than housing beneficiaries (Savings - linked housing subsidy scheme policy: 2000). Currently Piesang River has seven housing savings clubs, each with its own constitution.

Housing savings clubs have been instrumental in enabling poor people to acquire end-user finance for their housing needs. 85% of the respondents indicated that they joined the savings clubs in order to obtain the housing loan and improve their living conditions. The other 15% of the respondents indicated that they joined the savings clubs because of the benefits, for example the members have the opportunity to borrow in case they need cash for emergency situations. The respondents further indicated that they joined the savings group because they could not on their own save. "If you are involved in a group saving, you become disciplined because the rest of the group members will humiliate and embarrass you if you don't honour your obligation," said Mrs. Mlilo who is in the leadership of the Federation. In order to address the circumstances of the poor, there are three types of savings that have been formed for different purposes. Because the poor cannot manage to save on a weekly or monthly basis, the Daily Savings (Nsukuzonke) is encouraged. Daily Savings strictly caters for crisis, for example this savings can be accessed for funeral purposes or if the member wants to pay for school tuition for children or any other pressing needs. However, members have to borrow against their savings. Under normal circumstances members

do not borrow more than their savings. Because the members are poorest of the poor, they save either R1.00 or 50 cents daily. The respondents indicated that a volunteer collects their contributions on daily basis. Contributions are recorded in their own savings books as well as in the savings scheme record books. Savings are banked regularly. All respondents indicated that they have not experienced any problems in saving because of the nature of the savings package that have been designed for them.

All respondents indicated that they were saving in the Daily Savings Scheme and that was including those who had either paid off their loans and or those who did not take any loan from Utshani Fund. All respondents were asked the reasons for saving. A common reason that was given was that they are saving with the savings clubs so that they can borrow from their savings in times of difficulties and moneylenders who charge exorbitant interest cannot exploit them. 30% of respondents expressed that they have experienced problems in saving as a result of being unemployed. Mr. Magebhula revealed that employment status played a crucial role in terms of establishing the savings ability of households. Figure 4.1 below shows the employment status of the respondents.

**Figure 4.1 Employment statuses of respondents**



(Source: Field Survey, 2001)

Those who are unemployed are likely to be in arrears with their contributions. Another kind of savings is Inqolobane (The Granary). This type of savings is used for large production and enterprise loans. Inqolobane (The Granary), Daily Savings (Nsukuzonke) and Housing Savings are regional funds to which all savings clubs make contributions. These funds are managed by the regional Federation of Piesang River to support individual and group income generating activities. Those who cannot raise a once off 5% deposit for Utshani Fund, normally save with Daily savings (Nsukuzonke). Such savings clubs add value in enabling the members to access end-user finance and the culture of saving is developed. The advantage of such set-up is that it promotes credit-worthiness through savings and consumer commitment to housing provision rather than depending on the Government housing subsidy in the face of budget constraints. Mr. Magebhula's concern was that what the poor would do if the Government assistance came to a halt. The point made by Magebhula is that poor people have to be in a position of not heavily relying on the State for housing.

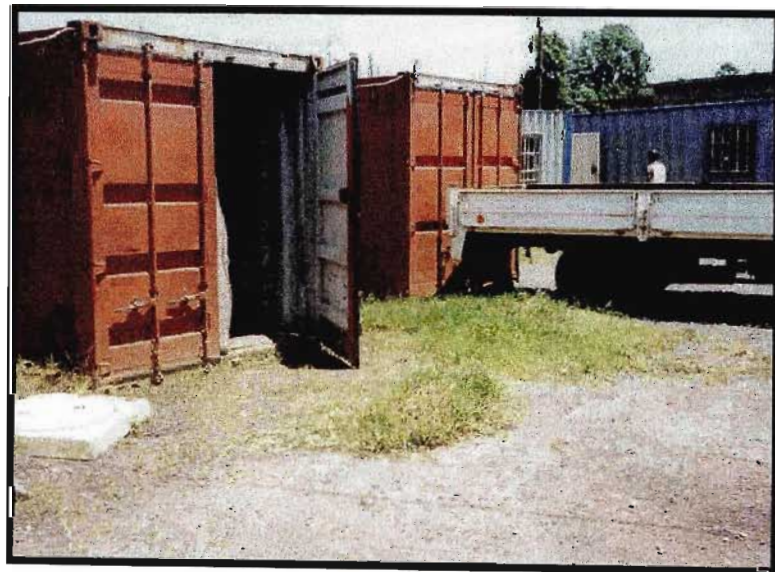
#### **4.5 Loans for Income Generating**

This sub-section of this study attempts to explore the loans for informal small enterprises given to the members of the Federation. Such loans for income generating are economic lifeblood for unemployed Federation members, in a cash economy environment. Obviously, such intervention actively spurs economic growth while impacting on the current unemployment rate in the Province. The study established that the regional members of the Federation directly control the granary savings. 32.5% of the respondents took loans for income generating purposes. The savings clubs expressed a concern that the current available fund was not sufficient to cover all applications and this meant that applicants have to wait. The members of the Federation undertake various types of informal enterprises. To name a few, operating of shebeens, hair salon, car radiator repairing, street hawking, offal dealer, tuck shop etc. The study revealed that the income generating loans have created employment. The effective credit ceiling was seen from Mr. Magebhula's reply when asked the



amount of the loan the members could borrow. Loans for income generating appear to be fairly easily available to about R3000, but becoming a bit difficult above this level unless the individual is showing a strong ability to repay the loan. The study revealed that only 27.7% respondents from the sample requested and received loans for income generating between R300-R3000 bracket. The loan interest rate is 2% per month for members who are involved in small enterprise. Because of the fact that the Federation in Piesang River deals with poor people it does not operate like formal financial institutions. The study established that the repayment period is 8-10 years. It was found that break-ins have affected the businesses that have acquired income-generating loans to a certain degree. The study revealed the fact that those who have taken the income generating loans have not taken any courses related to businesses that they are managing, and that, there was no system in place to monitor those who have taken the loan to verify if they have in fact used the loan for the purpose it was applied for. Figures 4.2a and 4.2b below show some containers used by different borrowers for different types of enterprises as well as others that have closed down because of criminal activities.

**Figure 4.2a: Container used for business purposes**



(Source: Field Survey, 2001)

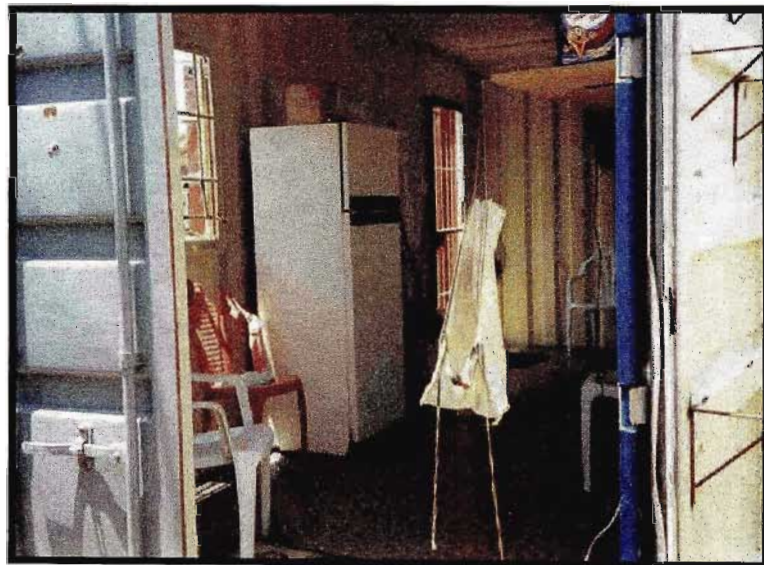
**Figure 4.2b: container for business purpose**



**(Source: Field Survey, 2001)**

Figure 4.3 below is one of the containers used as a hair salon. The owner indicated that he was not struggling to keep his business surviving. He pointed out that the business was good especially at the beginning of each month.

**Figure 4.3: Container used as a hair Salon**



**(Source: Field Survey, 2001)**



HAVE YOU NOT  
CONSIDERED TO  
USE THE SAME  
CONSTRUCTION  
METHODS AS  
SAVINGS CLUBS  
AS THEY TAKE  
MORE & BUILT  
1 YEARLY WHITE  
APPROX 1000  
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#### 4.6 House Construction

Almost all respondents in the sample indicated that they joined the Federation because they were in desperate need of housing credit. They further pointed out that the Federation was the only organization that was sensitive to their plight. The respondents without mincing their words indicated that through provision of housing loans (R10 000 per individual to a club) by Utshani Fund they have managed to build their houses. The study established the fact that all respondents (100%) have managed to build 52m<sup>2</sup> house and more with a loan of R10 000. The 52m<sup>2</sup> house is made up of toilet, kitchen, dining room and two bedrooms. The houses are built with blocks and cement with corrugated iron as a roof. During the study it was established that the loan only goes as far as building the house with no plaster inside and outside and no flooring and no toilet. Despite such shortcomings, this is of benefit to the members of the savings clubs. The developers are currently struggling to build a 30m<sup>2</sup> house within the confines of the available Government housing subsidy (R16 000). The R16 000 subsidy have to cover the cost of land, infrastructure and the top-structure. The field survey conducted to the Department of Housing found that the Department of Housing was overwhelmed with the fact that housing savings club members were able to build better quality top structures. In other words the Chief Director: Project Management Chief Directorate was embracing what the Piesng River savings clubs are doing in terms of promoting the culture of saving to the Federation's members.

What came out of the study was that the members themselves affiliated to the Federation built all houses by themselves. In other words, the building of houses is not outsourced. As has been mentioned before, the Federation at Piesang River is made up of savings clubs affiliated to it. Within the savings clubs the members divide themselves into manageable groups of 4 to 10 members. These members build houses for each other. The house takes seven days to be built that is digging of the foundation, making of the slab, construction of walls and roofing. The digging of the foundation takes one day. Figure 4.4 below shows the foundation for a four-roomed house that has been dug by the members of the group savings club Figure 4.5a and

figure 4.5b shows the group savings members involved in the process of building a house for a group member. During the process of building the house, the Federation puts on site a skilled builder who guides and gives on-site training, facilitating the development of semi-skilled members. The remuneration for the skilled builder is R50 per day and it is deducted from the member's loan whose house is being built. This provides a tremendously powerful tool with which to undertake skills transfer and training amongst the previously disadvantaged. This approach has enabled members of the Federation to build much bigger top structures with a minimum loan amount. The study revealed that all respondents added their savings to augment and supplement the loan to improve their houses. The amount added was between R300-R3000 depending on the saving and debt servicing ability. The study found that 76% of the members borrowed R300 to undertake improvements such as installing windowpanes and plastering the internal walls. 24% of the respondents borrowed R3000 to effect improvements on their house. These improvements included adding an extra room, plastering the house internally and externally. However, these improvements are made over a period of time. Members of the savings clubs are able to build between 52m<sup>2</sup> and 102m<sup>2</sup> because of adding their savings, utilizing sweat equity.

**Figure 4.4: Trenches for a four roomed house**



**Source: Field Survey, 2001**

**Figure 4.5a: House under construction**



**(Source: Field Survey, 2001)**

**Figure 4.5b: Member of the group savings club mixing cement**



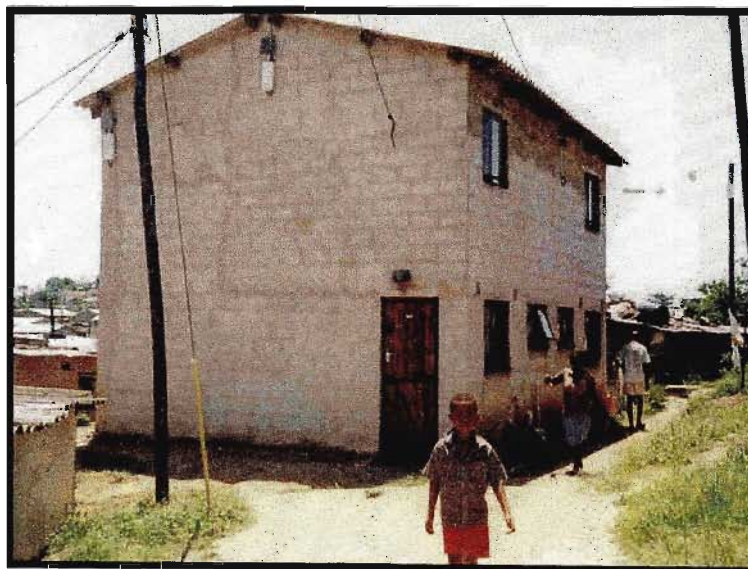
**(Source: Field Survey, 2001)**

**Figure: 4.6 House under construction with help of the group savings members**



**Source: Field Survey, 2001**

**Figure4.7a: A house built by the members of the savings club**



**(Source: Field Survey, 2001)**



**Figure: 4.7b A typical detached four-roomed house at Piesang River**



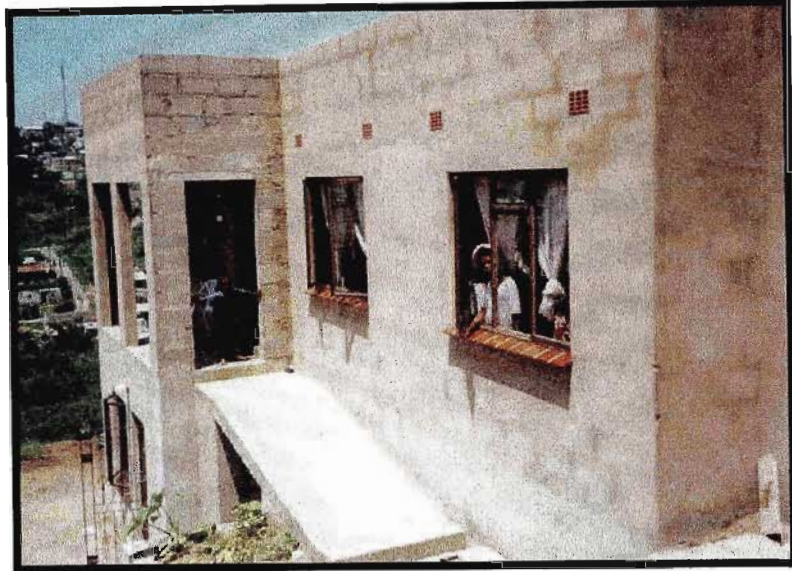
**(Source: Field Survey, 2001)**

**Figure 4.8a: An improved four-roomed house at Piesng River**



**(Source: Field Survey, 2001)**

**Figure 4.8b: A four roomed house with improvements**



(Source: Field Survey, 2001)

The group is normally responsible for digging trenches under the supervision of a trained Federation official. Once the trenches have been inspected and found to be in line with the house plan, construction takes place. The construction of the house takes about a week depending on the weather. The study established that the Federation takes care of ordering the building material. However, all respondents expressed concerns that sometimes there is a delay in the delivery of the building material, which delays the completion of the house per se. What was exciting to note was that different types of house shapes could be found in this project. The respondents mentioned the fact that they were consulted from the planning stage of the house up to the point when the house was about to be constructed. The researcher noticed that there was a sense of belonging and pride that was expressed by the respondents because they did not dream of owning their own properties.

#### **4.7 Mobilizing Savings**

The White Paper (1994) acknowledges that group savings represent a potentially large source of funding. Mobilizing savings for housing purposes is a powerful tool to

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leverage credit increasing the individual's ability to contribute to equity in the property and demonstrating willingness and ability to regularly save for housing purposes.

The Housing Policy supports housing savings clubs because it is necessary for the beneficiaries to develop a feeling of ownership of their houses. In other words, people who save can provide better quality housing and secondly, saving is likely to create housing consumers rather than housing beneficiaries. The members of the savings clubs maintained that Government housing assistance tend to promote dependency on state support and recipients tend not to be proud of their houses. The study found that savings and sweat equity enable the prospective house owner to own a better quality top structure. Daily savings (Nsukuzonke) enable the members to qualify for credit in the form of small loans, gearing additional funds for housing from the Utshani Fund. Mrs. Godliman from the Department of Housing revealed that if beneficiaries can pay something towards the house, they wouldn't easily sell these houses below market value. An investigation conducted in Quarry Heights by the Department of Housing revealed that, some of the beneficiaries sold their houses at R6 000 whereas the Department of Housing spent R18 400 for the top structure including infrastructure.

From the discussion with Mrs. Godliman it transpired that there was a need for legislation on savings schemes. The legislation will have to give guidelines as to how the State can capacitate the savings clubs. Basically, the Department of Housing was encouraged by the efforts of the Federation because they were the first ones to start people off towards saving for a house: only now is the Government supporting the idea of the poor coming together starting savings schemes that will address housing needs. The beauty of housing savings club is that savings show self-reliance and that people do not heavily dependent on the Government assistance in the form of subsidies.

#### **4.8 Government Housing Subsidy**

The subsidy is one of the strategies that focus on providing subsidy assistance to households who are unable to provide housing for themselves independently. This

TOPIC  
SUBSIDY  
LINKED  
HOUSING  
FINANCE

- NGEF  
- NHFC → LADU - Uad.  
- NWCAG  
- NO

strategy has been viewed as a breakthrough in terms of addressing housing crisis in South Africa. The Government acknowledges that the housing subsidy is not sufficient to produce a complete top structure and that there is an extreme need to find ways to supplement the funds provided by the Government. Given such circumstances, the South African Homeless People's Federation motivates and inculcates the culture of savings in order to augment the Government subsidy or the loan from Utshani Fund.

The National Department of Housing entered into an agreement with Utshani Fund whereby housing subsidies were to be made available to Utshani Fund in the form of individual subsidies. To further strengthen the relations, the National Government gave Utshani Fund R10 million as a capital injection. The agreement was giving recognition to Utshani Fund to access housing subsidies on behalf of saving clubs affiliated to the South African Homeless People's Federation. Despite the fact that since 1994, the subsidy has been increased from R15 000 to R16 000 but this increase definitely has not kept pace with building costs increases and inflation. In order for their members of the housing savings clubs to obtain Government subsidy, the Federation identifies the applicants and screen them in terms of the qualifying criteria as prescribed in the Housing Manual Part 7. The applications are forwarded to the Subsidy Section in the Department of Housing for checking and payment processing. The study revealed that the applicants of the Federation from Piesang River are eligible for R16 000 because the total household income is less than R1500 per month. Certain applications are rejected for various reasons, for example if one of the spouse appear on the national database. The name of the person will appear on the national database if she/he was previously assisted by the Government in terms of housing assistance. The study established that the payment for the approved applications is made directly to the account of Utshani fund and not to the Federation in Piesang River. The study established that there is a discrepancy in terms of advising the Federation of those applications that have been approved. In other words the Department of Housing does not have a mechanism in place of advising the Federation formally. As people who forward the application forms to the Department, they deserve to be informed of the



WHY NOT DEP.  
DO own clubs.

outcome of the application sent to the Department. The savings clubs only become aware of the outcome of the applications after they have been advised by Utshani fund. It is during this period when the applicants are advised of the outcome of their subsidy applications. The Federation in Piesang River expressed concerns that application forms sent to the Department were not processed speedily and this impacts negatively on their target

The Federation in Piesang River seems not to see eye-to-eye with the Department of Housing on certain issues related to housing, for example the type of application forms to be used. However the Department of Housing is prepared to work closely with the Federation in terms of making opportunities in the form of subsidies made available to the beneficiaries. The study established that the Department of Housing has an obligation. The Department is prepared to engage the Federation on continual basis, not alienating them or ignoring them but assertively entering into negotiations with them. However, everything has to be done within the framework of the Housing Policy. Subsidy applications forwarded by the Federation has to be the ones prescribed by the Housing Policy The Federation have to submit their audited financial statements and reconciliation statements at the end of their financial year. The housing subsidy provided by the Department of Housing has enabled the members of the Federation to off set their outstanding loans from Utshani fund.

#### 4.9 Limitations and Constraints of the Federation

The Housing White Paper (1994) mentions that the subsidies are structured in such a way to only support the project-based developments and individual transactions on new and existing residential properties. Having said that the Federation strongly believes that this arrangement does not accommodate them fully. The shortage of funds from the Federation is a cause for concern. The Federation is unable to deliver its target because the subsidies are not flowing as expected. The respondents indicated that the Department of Housing was riddled with unnecessary bureaucracy and delays and this resulted in a negative impact on the part of the Federation. The

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study established that the Federation in Piesang River was concerned about the subsidy applications that were sent to the Department but which were not processed timeously. There is a lack of sound communication between the Federation in Piesang River and the Department of Housing. Mr. Magebhula strongly believes that considering the Federation is a key role player in the provision of housing finance, the Government has an obligation to capacitate the officials of the Federation in Piesang River by organizing workshops and training courses that will enable them to enhance delivery in the form of providing housing finance.

#### 4.10 Summary

This chapter has explored the case study- Piesang River housing development. From the above discussion it can be deduced that the South African Homeless People's Federation is able to reach the poorest of the poor by making housing finance available to them. Through collective saving, members are able to achieve their aspirations. There is an overwhelming support for the savings in Piesang River. It is crystal clear that if the poor are given an opportunity, they can be creditworthy. The study also touched on different types of savings that enable the poor to improve their quality of life. Despite such successes, the Federation has also experienced limitations and constraints. The study has established that the housing group savings clubs in Piesang River need to be capacitated in the form of training, workshops and in the housing policies in order for them to deliver a quality service.

## **CHAPTER 5**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The study looked at the perceptions portrayed by formal financial institutions when it comes to lending lower down the market. However, some of these perceptions are warranted. The initiative spearheaded by the group savings schemes is set to change all that, promoting savings as a means towards active participation in the home provision process. Perhaps more important is the service of the group based savings schemes in terms of providing end-user finance to its members for housing purposes, thus filling the vacuum created by the mainstream banks.

The study has also looked at the importance of short-term end-user finance, which enables the borrower to attend to other priorities rather than being tied down to a long-term loan, which precludes the poor from taking out loan for other purposes. This chapter presents the conclusion of this study on the role of the housing group savings scheme (Homeless People's Federation) in Piesang Rivers in terms of providing small scale loans and promoting the concept of saving to its members.

The chapter opens by providing the summary of the research findings to inform the conclusions drawn. Eventually the researcher is able to confirm whether or not the hypothesis was affirmed or negated. Lastly but significantly, recommendations would be put forward for all those involved in the promotion of group-based savings schemes- Department of Housing, group-based savings clubs, policy makers, housing technocrats, decision makers, non-governmental organizations and formal financial institutions of the likes of Ithala bank.

## 5.2 Summary

There is a lot to be learnt from housing group savings schemes experience in Piesang River outside Durban. The study set out to investigate the role of group-based savings schemes in housing delivery. The S.A.H.P.F at Piesang River in Inanda was used as a case study to establish how the Federation made end-user finance linked to savings available to its members where social collateral played a pivotal role. The study found that the S.A.H.P.F. has responded to the plight of the poor households by making end-user finance available without collateral as a requirement. In essence, the S.A.H.P.F. designed financial products that savers participate in to suit varying consumer circumstances. "The rationale here was that it was widening the scope to assist all those whose income was deficient," said Mr. Magebhula. The S.A. H.P.F. promotes and encourages the principle of savings and provides a range of assistance to its members from small-scale loans to innovative ways of building houses.

The study established that the S.A.H.P.F. on behalf of its members applies for the Government housing assistance. Perceptions amongst a number of beneficiaries of the Government housing subsidy scheme is that the resultant homes are too small, are of poor quality and appear to possess little economic value for the owners. The Federation incorporates the policy of People's Housing Process (PHP), which enables the beneficiaries to produce much bigger and quality top structures through sweat equity, that would otherwise not be possible using subsidy funds alone. This process acknowledges the efforts and the initiatives of those who prefer to incrementally build their own houses and are prepared to commit their skills and resources to house themselves. Through savings, people accumulate wealth, which can be used as personal equity when building houses. Consequently, members achieve better houses for themselves, while having a stake in the property and therefore taking ownership of their asset. On that note the Federation has managed to produce a special breed of a community that is saving conscious. To save in order to access end-user finance has brought an entirely new dimension to housing delivery.

The S.A.H.P.F. has established a revolving fund known as Utshani Fund. This fund is able to give loans to eligible members affiliated to the Federation. Members are required to reflect commitment through savings that will provide a deposit required for an Utshani loan. The study established that members augment either the Utshani loan or Government subsidy by supplementing with their own savings. End-user finance is also made available to members who wish to undertake income-generating activities thus creating job opportunities. Whilst recognizing the importance of job creation in Inanda an area with huge unemployment, the savings for income generating programme are supposed to take job creation a step further.

The study established that the loan from Utshani was not sufficient enough to complete the top structure. The members take occupation of houses that are not plastered in and out; windowpanes and floors are not plastered. Such situation requires the members to top up with their own savings before the occupation of the house can take place and that is where the group savings clubs play a crucial role. The dissertation establishes the role of the group savings schemes in the provision of end-user finance, and this would assist the researcher to formulate conclusions and make some recommendations.

### **5.3 Conclusions**

The research study in the previous chapters touched on the fact that the housing group savings schemes proliferated due to the fact that the poor could not access housing finance to address their housing needs. The study looked at the attempts made by the group savings schemes to provide the poor with affordable housing finance. These savings clubs are a force to be reckoned with. The Federation through Utshani Fund provides end-user finance to its members. However all members have to make contributions by way of saving before they can access loans.

The loan repayment arrangement is made to suit the financial circumstances of the poor. The study established that there are no other stringent measures of collecting

outstanding debts other than the group pressure and weekly meetings where members are motivated to pay. In other words the Federation does not have recourse if the current methods do not yield positive results. Achieving affordability lies at the crux of the Federation choosing financial packages that maximize sustainability for the poor. The Federation is not so much concerned about the rate of defaulting, which is 10%. In essence the Federation is sympathizing with these people who cannot service their loans as per their agreements. The study established that the Federation is designed to target the poorest of the poor. Through weekly meetings members are encouraged or pressure is put on members who fail to honour their obligations. Members, who fail to service their loans, subject themselves to the wrath of the rest of the group. There is no doubt that the members of the Federation have shown great resilience. However, the default of 10% has to be a concern for the Federation leadership. The Federation is not a profit making organization and it cannot bear to have default of such magnitude. The Federation needs to come up with systems and controls that can be able to minimize debts.

The study established that the Government is in support of housing groups savings schemes. The Government acknowledges that these savings schemes can also contribute in addressing the shortage of end-user finance and the fact that the poor can produce better top structures adding sweat equity. The fact that the Federation is able to produce 52m<sup>2</sup> and more with R10 000 is an indication that group savings are capable of achieving more than what the developers are currently achieving with the housing subsidy. Because of the fact that the poor cannot save regularly, the Federation has designed savings programmes that suit the circumstances of the poor, for example the daily savings (Nsukozonke), where the poor save R1.00 or 50 cents depending on the financial situation of the member. The Federation demonstrates that it is a catalyst that is able to paralyze poverty through a range of savings options. The study established that saving and credit characterize these group savings schemes. Members meet on weekly basis where they are motivated to be up to date with their contribution and assist those members who are experiencing problems with their

contributions. The study revealed that 30% of the members of the savings club are unemployed and this impacted on their contribution. Saving has become a household function/activity for the Piesang River community.

The Government cannot on its own solve the problem of unemployment. Given such untoward situation the Federation provides loans for income generating where members can create employment. The study established that there were no courses related to businesses that were conducted for prospective income generating venture borrowers. To compound the situation none of the borrowers made sufficient research regarding the type of business they intended undertaking. The implication of this was that similar types of businesses were found in close proximity. It is evident that these members were ill prepared to take ventures of such nature.

Size of the house appears to be a critical factor when building low-cost houses. When building a home, the owner's own cash and sweaty equity dictates the size, but when the Government becomes involved through subsidization, the owner's expectation is for a large house. The respondents that were used in the sample indicated that they were participating in the housing group savings clubs because of the spin offs such as building a bigger top structure than those constructed by the developers. There is no developer involved in the construction of houses at Piesang River. The study established that the group savings schemes themselves are responsible for the house construction. This yields some benefits because there is no labour cost involved and that the members are able to acquire building skills. Another benefit that needs mentioning is that through the savings that is controlled regionally by the Federation, members are able to borrow against their savings to effect improvements on their dwellings. Experience of housing group savings schemes initiated to date, suggests that group savings schemes contribute to the answer of the entire housing backlog, and should be encouraged and supported because it minimizes dependency and burden on the State to a certain degree. Savings for housing purposes is construed as a vehicle that provides affordable housing for the poor.

#### **5.4 Recommendations**

The overall objective of the study has been to depict the role and the service of housing group savings scheme in Piesang River, particularly in housing delivery, thereby “ring fencing” specific areas that require attention for improvement or overhauling. The writing is on the wall that end user finance is still a problem for the poor households and consequently the poor have resorted to savings plus loans in order to supplement the limited Government housing subsidy. The recommendations are made with a view of addressing the problems and heightened client expectations regarding the end-user finance.

The Government does not have a legislation that regulates group savings schemes. There has to be a facilitative framework for group savings schemes especially those involved in housing and this will enable the savings clubs to operate on a more professional basis. The Government in consultation with group savings schemes has to formulate an appropriate legislation that will regulate the activities of group savings schemes and this will minimize fly by night savings clubs. In other words the Government should come up with a draft legislation, which will allow the savings clubs to comment and these comments have to be taken seriously by the Government. The legislation should spell out that savings schemes that are involved in housing delivery should adhere to transparent practices.

Secondly, there has to be “ ring fenced” subsidy budget specifically allocated for people who are savers. South Africans are generally not savers and there is a need for programmes to teach and promote the concept of saving rather than securing credit. In order to achieve this recommendation there has to be a “ dangling of the carrot ”. The interest from the money that has been saved can create incentive. The incentive should also be of a size that translates into a visible improvement to the housing product.



The relationship established between the savings clubs and the Department of Housing needs to be strengthened. The Government is moving in a right direction. The Government is currently working on the "savings –linked housing subsidy scheme" policy, which will be driven by National Urban Reconstruction and Housing Agency (NURCHA). The purpose of this policy is to promote the culture of saving within the poor communities and where the poor can obtain a bigger and quality top structure. The Government is now interested in quality as opposed to quantity. Basically NURCHA will initiate a savings programme aimed at mobilizing people to save so as to supplement their housing subsidies and obtain bigger and quality top structures. Designed credit instruments and lack of consumer propensity to save are generally accepted as factors limiting access to housing finance. This initiative does not affect those subsidy applicants who are not interested in augmenting their subsidy through group saving.

The provincial Government has to be involved and be in the driving seat because housing is the competency of the provincial Government. The Department of Housing will have to set up a dedicated component that will have to drive this National Government programme. The provincial Government will have to monitor this programme by way of evaluating and assessing the progress made by each savings club. For these savings clubs to be sustainable, capacitation needs to be done. Funding will have to be provided by the Government where savings clubs will have to be capacitated in terms of understanding and comprehending financial and accounting principles. However, the Government must not lose sight of the fact that the poor are no strangers when it comes to savings issues. Poor people have been involved in different types of savings and this has enabled them to know the game.

The Government has to make individual subsidy available to these savings scheme and relax the requirement that the individual subsidy is only made available where formal employer is going to contribute housing or the formal financial institutions are going to give loan. This will also allow the beneficiary to buy or build a property at the

location of ones choice. The Government has to step in and attract the formal financial institutions to recognize housing savings clubs who show a good track record of saving. Small-scale loans can be made in bulk to the saving clubs but linked to the amount that is saved. Such housing savings clubs should not operate like ROSCAs who last only for a year and thereafter disband. Due to administrative costs the bank has to deal with the savings club rather than individuals. Beneficiaries, who access end-user finance or credit, develop a discipline of payments and take financial responsibility.

The Housing White Paper (1994) concedes that South Africa does not have an abundant supply of resources. Having said that savings clubs could be mobilized for housing development. In order to streamline this view, the savings clubs need to be registered and be known by the Department of Housing. This will act as a safety valve to eliminate savings clubs that are fly by nights. In short the state intervention is critical but should be made available on request by the savings clubs and this will not diminish the autonomy of the savings clubs. The State should play a supportive role.

The Government is encountering a phenomenon of on selling of Government subsidy houses by the beneficiaries at almost below the market value. The Government spends R18 400 on a house and the beneficiary sells the house far below the delivery cost. If housing subsidies can be linked to savings, two things can be achieved. Firstly, the beneficiary would stop being a beneficiary but a consumer and have a stake in the property by contributing through savings and this will culminate in the beneficiary valuing the property. The other benefit is that the beneficiary will get a better end product in quality and size. This is in line with the Government's approach. The democratic Government of South Africa for the past five years had attempted to stabilize the housing environment, setting up housing delivery systems and providing subsidy assistance. There is a paradigm shift in housing delivery. The Department of Housing is now placing more emphasis on quality delivery rather than quantity and this is what housing savings clubs are attempting to attain.

The income-generating loan is one of the strategies that savings clubs have come up with to alleviate poverty from its members. However, for any business venture to be sustainable training program and on going monitoring is essential. The savings clubs will have to offer training programs to potential loan income generating borrowers before giving the loan. The savings clubs will have to link up with the Department of Economic Development for capacitating funding. The borrower will have to satisfy the savings club that the borrower understands the nature of the business that she /he may be getting into. The savings clubs will have to ensure that the business is managed in a more professional manner and equip the business owners with the ability to compete more effectively in the open market. In other words the borrower must not be worse off. The quality of life of the borrower has to change for the better than to find that she/he has to repay the loan for the business that went down because of lack of guidance from the part of the group savings club. By taking such responsibility, the savings club will be reflecting customer care and not just leaving the clients into debts.

If defaults are not controlled and minimized, the objectives of the savings club could be undermined. The savings clubs cannot compromise the collection of outstanding loans. Defaulters create a serious threat to the development and progress of the savings club. The savings club has to come up with procedures that are watertight in terms of controlling arrears. Their screening system has to be tightened. Loans have to be given in terms of ones affordability and capacity to pay savings. Some form of incentive has to be developed. A sort of winning prize for members who have paid their contributions/loan without defaulting for a year needs to be implemented as a motivation. This establishes a savings pattern, which is inter alia necessary for building up a creditworthiness record. The club prize for the savings club that has the least defaulters will also contribute in stimulating various clubs to compete within themselves.

Another problem that may arise due to non-servicing of loans is that funders may be skeptical to give funding to a savings club that is unable to recover outstanding debts. The savings club must have a good recovery system in place. To remain effective in housing provision, therefore, savings clubs need to strategically examine their roles and functions and develop optimal approaches that need to be reviewed from time to time to establish their effectiveness and relevancy.

Information on poor people's current access to savings and credit in the specific location becomes fundamental. This would include the degree of access and any political obstacles to it; the structure of local financial markets, which may include rotating and credit groups, private money lenders, work well for people; and a best guess at the likely impact of outside intervention such as funders on existing financial services. Savings clubs have the ability to improve the quality of life of the poor people and this is evident in the research study undertaken at Piesang River. The study has substantiated the hypothesis that savings contribution and sweat equity can supplement the limited Government housing subsidy in order to produce a better quality end-product. In a nutshell the Federation has proved that housing savings clubs can have a profound impact in housing by making loans linked to savings available to the poor. It has to be acknowledged that if the Homeless Federation savings are properly managed, they can be replicated to other areas with great success.

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## APPENDIX 1

### MAP OF PIESANG RIVER

## APPENDIX 2

### Interview questions for the beneficiaries of Homeless People's Federation in Piesang River

The information provided will be confidential.

Please indicate with an X in a box provided and circle where there is YES/NO question and give details where there is a fill-in space.

1. How old are you?

20 - 35	
36 - 45	
46 - 55	
56 - 65	
+65	

2. What is your marital status?

Single	
Married	
Divorced	
Widowed	
Co-habiting	

3. What is your gender?

Female	
Male	

4. What is your level of education?

Primary School	
Secondary School	
Tertiary	
Other (Specify)	

5. What is the size of your family?

.....

6. What is your employment status?

Formal

--

Informal

--

Unemployed

--

Other (Specify).....

7. If unemployed do you have a source of income? YES/NO

If yes, state income and source .....

8. What is the total family income per month?

0 - 1500	
1501- 2500	
2501- 3500	

9. Have you benefited from the capital housing subsidy scheme? , If yes what type of subsidy did you qualify for?

Consolidation Subsidy	
Individual Subsidy	
Institutional Subsidy	
Project-Linked Subsidy	

10. What amount did you qualify for?

New Scheme

R16 000	
R10 000	
R8 000	
R5 500	

Old Scheme

R15 000	
R12 500	
R9 500	
R7 500	
R5 000	

11. Have you ever approached a formal financial institution for a loan? If yes, what was the response of the bank? If no why?

.....

12. Are you a member of the housing savings club of Piesangs River? If yes, what caused you to join?

.....

13. Did you save per day /week/ month?

14. How much did you save?

.....

15. Did you experience any difficulties in saving? If yes, what were those difficulties?

.....



16 Is the savings club able to give loans to its members? If yes, what is the maximum amount?

.....

17 Did you make a request for a loan from the savings club? YES/NO

18. If yes, why?

.....

19. What type of loan did you participate in?

Inqolobane (Granary) Savings	
Housing Savings	
Nsukuzonke (Daily Savings)	

20. Why? (to 18 above).....

21 Is savings conditional before a loan is approved? If yes, why

.....

22. How much did you save before your loan was approved?

.....

23 What loan amount did you receive?

.....

24 Were you able to get the loan amount that you requested?

.....

25 If not, what were the reasons?

.....

26 What is the loan repayment period?

.....  
27 What is your monthly repayment for the loan?

.....  
28 What is the interest rate charged per annum?

.....  
29 Is there any insurance death cover built into the loan?

.....  
30 What were the terms and conditions of your loan?

.....  
31 Did you experience any problems in repaying back your loan? YES / NO

.....  
32 If yes, what were the problems?  
.....  
.....

33 Has the group savings club enabled you to acquire the house that you occupy? If yes how?

34. Are there any benefits that you have enjoyed as a member of the savings club? If yes what are those benefits.  
.....

35. For what purpose was the loan used?

House improvements	
Income generating activities	

36. Were you able to build the house of your dream with the loan amount that you were given? YES/NO

If no, why and how do you intend achieving your goal?

.....

37. Who constructed your house?

.....

38. What type of building material did you use?

.....

39. If the house was built by yourself, did you have any building skills? NO/YES

40. If no, did the Federation assist you to acquire building skills?  
What were those skills?

41. Did you pay for training towards acquiring skills? If no, why?

.....

42. Were those building skills helpful? YES/NO

If yes, in what way?

.....

43. How long did it take you to complete building your house?

44. Were you happy with final product? YES/NO

45. If yes, why? If no, what were the difficulties that you experienced?

.....

46. Where did you buy your building material?

- 47 Did you have an opportunity to buy building material at a discount? YES/NO
- 48 If yes, who negotiated the discount for you?
- 49 Did you have any access to affordable building material NO/YES
- .....
- 50 What improvements did you make to you house?
- .....
- 51 If the house was built by the builder, were you happy with the product YES/NO
- If no, what were your concerns?.....
- 52 Did the builder on a regular basis consult you during the building of your house? YES/NO
- 53 How long did it take for the house to be completed?
- 54 How much did you pay the builder for building your house?
55. Did the Federation provide you with home ownership education course? YES/NO
- 56 If yes, how did you benefit?
57. Do you think of requesting a second loan from the savings club? YES/NO
- Why.....
- 58 Are you satisfied with the way in which the Federation operates in the provision of end-user finance? NO/YES
- .....
- 59 If no, why? Which aspects are you not happy with?
- 60 Which improvements are you suggesting can enhance the services of the Federation?
- .....
- .....
- 61 Are you aware who are the directors of Homeless People's Federation? YES/NO
- 62 As a member of the Federation are you updated with developments within the organization? NO/YES

63 If no, what aspects you would like to be informed of?

APPENDIX 3

**Interview questions for the Leadership of Homeless People's Federation in Piesang River**

MR. P. Magebhula

The information provided will remain confidential.

**Please** indicate with an **X** in a box provided and circle where there is **YES /NO** question and give details where there is a fill-in space.

- 1 Why and how was the whole concept of Homeless People's Federation uncovered?  
.....  
.....
2. What are the motivating factors that led to the formation of the Homeless People's Federation in Piesangs River?  
.....  
.....
3. What are the aims and objectives of the Federation?  
.....
- 4 What is the number of membership registered with the Federation at Piesangs River?  
.....
- 5 How was the membership drawn?
- 6 Why?
- 7 Which income group is the Federation targeting?  
.....
8. Give reasons why?
9. Has the Federation restricted itself to this target group? YES/NO  
Give reasons why?  
.....
10. Is savings the only source of funding that the Federation relies on? YES/NO
11. If no, where does the other funding come?
12. What type of loans does the Federation offer to its members?

13. Why?
14. Which loan is most in demand? Why
15. Are loans given to savings clubs or individuals?
16. If to savings clubs only, why?
17. What are the terms and conditions of loans given to savings clubs?  
.....
18. What mechanism is in place to make sure that savings clubs do not default?  
.....
19. What is the level of defaulting by savings clubs?  
.....
20. What happens to savings of the individual who have paid off the loan?  
.....
21. Do members' savings accrue interest? YES/NO
22. If yes, is the interest given to the saver? YES/NO
23. If no, why?  
.....
24. Is savings a prerequisite in obtaining a loan? YES/NO
26. If yes, why?  
.....
25. Is the Federation providing loans for income –generating activities? YES/NO
26. Why?
27. What are the requirements for obtaining a loan for income generating?
28. How is the loan amount determined?
29. What is the maximum loan amount given for income –generating activities?
30. What is the interest rate charged per month/ annum on a loan for income generating?
31. Would it be the same for a housing loan?
32. What type of income-generating activities does the Federation fund?
33. Why?
34. What is the repayment period?

35. What mechanisms are in place to minimize defaulting?
36. Are loans for income generating given to savings clubs or individuals?
37. Are the members satisfied with the manner in which the Federation operates the loan income-generating fund? YES/NO
38. Why?
39. How do you rate the Federation's success in terms of meeting its objectives and in meeting the overall housing needs for low-income households?
40. Are you experiencing growth or decline or are you static in terms of members?
41. Why?
42. What role can the savings by the poor play in the provision of housing finance?
43. What do you think that the Government should do to sustain the growth of housing group savings schemes?
44. What do you think the Government should do to promote the savings?
45. How does the Housing Policy impact on the federation?
46. Are members building different house sizes?
47. Why?
48. Do members build on a progressive basis?
49. Why?
50. In terms of savings, are all members contributing the same amount? YES/NO
51. Why?
52. How do the members of the Federation manage to build quality and much bigger top structures?
53. Has the Federation assisted its members with building skills to build their houses? YES/NO
54. Why?
55. If yes, what type of building skills has the Federation provided?
56. Have the members benefited from those skills?
57. How?
58. How does the service of the federation differ from that of the mainstream banks?
59. What are the packages in terms of loans does the federation provide?



60. Are those loan packages sufficient enough to address the housing needs of its members? YES/NO
61. How?
62. What is the Federation's target in terms of providing loans to its members per annum?
63. Why?
64. What have you achieved in terms of providing loans?
65. Are you satisfied with the level of achievement?
66. Are there any frustrations that the federation has experienced from the Government?  
YES/NO
67. If yes, what are those frustrations?
68. What can be the solution to address those frustrations?
69. What are the limitations and constraints of the Federation?
70. In your scheme of thinking as far as your involvement in housing delivery, how do you see the role and the contribution of the Federation in future regarding the provision of small-scale loans to the poor?

## APPENDIX 4

### Interview questions for the senior official of the Department of Housing in KZN

Mrs. M.Godliman.

1. What does the Government Housing Policy say about housing group savings schemes?
2. Does the Department support the people's initiatives such as housing savings clubs?
3. If yes, why and how.
4. Is the Department promoting the concept of savings? YES/NO
5. If no, why and if yes to what level?
6. Is there any legislation regulating the group savings schemes? YES/NO
7. If yes why?
8. Should savings be linked to the housing subsidy scheme?
9. If yes, why?
10. What is the Department's view regarding savings clubs?
11. Does the Department view savings as a vehicle that can augment the housing subsidy to get a bigger top structure?
12. What mechanisms are in place to see to it that subsidy beneficiaries receive value for money?
13. What is the relationship between the Department and the Federation?
14. How did the relationship start?
15. Is the relationship still sound?
16. If no, what are the causes and what can be the remedy?
17. To what extent does the Department of Housing acknowledge the efforts of the Federation in terms of providing end-user finance?
18. Does the Department view the scheme provided by the Federation as one option in a range of housing options to cover varied needs and affordable housing?
19. Why?
20. Is an agreement entered into between the National Government of Housing and Utshani Fund able to meet the objectives it was designed for? YES/NO

21. Why?
22. Can the Federation be viewed as an organization that can also contribute in addressing the housing backlog?
23. If no why, if yes, in what way?
24. Is there any improvement that the Federation needs to work on in terms of its service?
25. How does the Federation access subsidy for its members from the Department?
26. Does the Department treat the Federation like any other lender?
27. Why?
28. The Federation is doing subsidy applications processing on agency basis for the Department. How much does the Department pay the Federation per subsidy application?