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Department of Human Settlements
240 Justice Mahomed Street
Govan Mbeki House
Sunnyside
Pretoria
0002

Private Bag X644
Pretoria
0001

Telephone: 012 444 5089
Call Centre: 0800 146 873
Fax: 012 444 5001
www.dhs.gov.za

CONTENT EDITOR AND EDITORIAL TEAM

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FOREWORD

Following a pilot edition in 2010, I am proud to present this, the launch edition of the Human Settlements Review. The Review, which will in future be published on a regular basis, has as its aim to stimulate and enrich the national discourse on human settlement issues.

The seven papers that are included in this edition reflect on some of the biggest challenges related to human settlements in South Africa, including funding and access to funding, the legislative and policy framework that governs various aspects of human settlements and the quest for sustainability. It is acknowledged that human settlements are not mere physical structures. They are also social constructs that impact on the lives of those who live in them on several levels other than the physical.

While continually striving to accelerate housing delivery and the upgrading of existing settlements, we therefore need to encourage scholarly enquiry into all the different elements that contribute towards quality of life. A holistic understanding of human settlements is essential if we are to achieve sustainability – a fact that is underscored by Cherry’s discussion of the need for settlements that enable the livelihoods of residents.

As one among a large number of stakeholders that are directly involved in creating and sustaining human settlements in South Africa, the Department of Human Settlements wishes to promote open debate and the sharing of ideas among as wide an audience as possible. It is hoped that this will accelerate the development of new knowledge and solutions that are appropriate for addressing the complex challenges we face.

To ensure the quality of papers, a stringent process of selection and peer review has been followed. In the interest of inclusivity, however, a conscious effort was made to solicit contributions not only from established academics, but also from first time authors involved in different areas of practice related to human settlements. Building strength in research and knowledge production in the field of human settlements is one of the aims we hope to achieve through the publication.

Dr ZN Sokopo
Chief Director: Human Settlements Strategy

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Title of the paper

The limitations of the Rental Housing Act and the Social Housing Act in sustaining access to adequate rental housing.

By

Bonke Dumisa

Abstract

Section 26 of the Constitution of the Republic of South Africa¹ gives everyone the right to have access to adequate housing. Realising that the government is not in a position to provide housing for everyone who is not able to buy or own their property; the government opted to take steps to promote the provision of rental housing for all income group levels. This has been done through legislative measures of enacting the Rental Housing Act² and the Social Housing Act.³ This paper will assert that, despite the noble intentions of both housing laws mentioned here, both laws have some significant built-in limitations that make them less helpful in protecting some aggrieved parties against abuse by other parties. This paper will argue that, contrary to some expectations that the tenants will be the most vulnerable group in most rental housing agreements; it will be asserted that there are as many cases of tenants abusing their landlords as there are cases of landlords abusing their tenants.

It will be argued that the built-in limitations of the rental housing legislation have a direct and indirect negative effect of discouraging current providers of rental housing stock from continuing to provide rental housing to some identified tenant groups, in general; or simply exiting the rental housing industry, at worst. Recommendations will thus be made on how certain legislative provisions of the rental housing laws can be amended in order “to give more teeth” to the legislation to protect the interests of both the tenants and the landlords.

01. The Constitution of the Republic of South Africa, Act 108 of 1996

02. Rental Housing Act 50 of 1999

03. Social Housing Act 16 of 2008

1. INTRODUCTION

It is important that this article starts by citing the Constitution on housing provision⁴:

“(1) Everyone has the right to have access to adequate housing⁵.

(2) The state must take reasonable legislative and other measures, within its reasonable resources, to achieve the progressive realisation of this right⁶.

(3) No one may be evicted from their home, or have their home demolished, without an order of the court made after considering all the relevant circumstances. No legislation may permit arbitrary evictions⁷.”

Further legislative measures were taken to give effect to the right to access to adequate housing. This took the form of three pieces of legislation, namely, the Housing Act⁸, the Rental Housing Act⁹ and the Social Housing Act¹⁰.

It will become clear in this paper that the promulgation of the Social Housing Act was a direct result of the failure of both the Housing Act and the Rental Housing Act to provide access to adequate housing. The paper will show that the Social Housing Act fails to fill the gap left by inadequacies of the Housing Act and the limitations of the Rental Housing Act.

04. Section 26 of The Constitution, op cit.

05. Section 26(1) of The Constitution, op cit.

06. Section 26(2) of The Constitution, op cit.

07. Section 26(3) of The Constitution, op cit.

08. Housing Act 107 of 1997

09. Rental Housing Act, op cit

10. Social Housing Act, op cit.

2. BACKGROUND INFORMATION

The Housing Act created three major challenges for the three spheres of government, namely national, provincial, and local government:

- (a) All three spheres of government are required to give priority to the needs of the poor in respect of housing development¹¹.
- (b) All three spheres of government are required to promote the establishment, development and maintenance of socially and economically viable communities and of safe and healthy living conditions to ensure the elimination and prevention of slums and slum conditions¹².
- (c) All three spheres of government are required to promote higher density in respect of housing development to ensure the economic utilisation of land and services¹³.

2.1 HOUSING DEVELOPMENT FOR THE POOR

The national Department of Housing's first white Paper on Housing¹⁴ forms the core of the government's housing policy; and this is what it said on the principle of tenure choice: *"Security of tenure is a key cornerstone of Government's approach towards providing housing to people in need. In this regard, Government rejects the elevation of the individualized private ownership above other forms of tenure. Subsidy policy will therefore be designed to provide for the fullest range of tenure options, on the basis of a limited state contribution to be geared by private (individual) investment, credit/finance and, where possible, the sweat equity of the owner¹⁵."*

The quotation above reflects the basis of the approach of the three spheres of government in effecting housing development or promoting housing programmes for the poor.

The National Housing Code of 2009 was a more comprehensive follow-up to the White Paper of 1994. The National Housing Code deals with the various National Housing Programme interventions, detailing how housing assistance can be given to lowest paid income earners or even the unemployed (that is, the R0 – R3500 per month income bracket). The maximum total government subsidy available, per beneficiary household, for most of these interventions is R43 506. Below are some of the available housing tenure options:

11. Section 2(1)(a) of the Housing Act, op cit.

12. Section 2(1)(e)(iii) of the Housing Act, op cit.

13. Section 2(1)(e)(vii) of the Housing Act, op cit.

14. Department of Housing. White Paper 1994: A New Housing policy and Strategy for South Africa.

15. White Paper 1994 op cit. p39

(a) The low-cost "RDP Houses"

The National Norms and Standards, contained in the National Housing Code of 2009, stipulate the minimum standards that all standalone low-cost "RDP houses" must comply with. These norms specify that such RDP houses must at least have a minimum gross floor area of 40 square metres, two bedrooms, combined living area and kitchen, and a separate bathroom with a toilet. These RDP houses still form the core of housing programmes. Nationally at least 2 604 763 housing units were completed¹⁶ between 1994 and 2003. The government target was to produce at least 230 000 units per year¹⁷ between the financial years 2009/10 and 2013/14.

(b) Other credit-linked or non credit-linked individual housing subsidies

An individual subsidy mechanism is also available to individual households who wish to apply for a housing subsidy to purchase an existing house or to purchase a vacant stand and enter into a building contract for the construction of a house¹⁸.

(c) Enhanced Extended Discount Benefit Scheme

This programme was introduced to assist people who wanted to purchase properties that were previously owned by the state for rental housing purposes¹⁹. This was meant to promote home ownership among previously disadvantaged individuals who had been renting state properties for a long time prior to the first democratic elections in 1994.

2.2 CHALLENGES FACING HOUSING DEVELOPMENTS FOR THE POOR

For reasons not worth pursuing in this article, not many government structures have adopted the subsidy route in encouraging people to build their own houses and/or improve their existing informal dwellings. Some local government structures have, however, come up with a variant of housing subsidy in the form of "incremental housing" where they provide the poor with serviced land and the basic foundations, and the poor have to do everything else. This has not worked well, primarily because of both the logistical challenges of this approach and also because of the corruption that has surrounded such projects. A number of cases will be cited here. Over R7.8 million was wasted when hundreds of precast toilets were left unused for many years in Gauteng's Boipatong Extension Two²⁰.

16. Socio-Economic Rights Institute of South Africa (SERI): A Resource Guide to Housing in South Africa. 1994 – 2010. Legislation, Policy, Programmes and Practice. Edited by Kate Tissington. February 2011. p16

17. SERI 2011, op cit. p17

18. National House Code of 2009. Department of Human Settlements.

19. Ibid

20. Roshila Pillay. "Toilets in the veld: Model RDP project bogged down". Sunday Independent. 29 July 2011. p10

The South African Local Government Association admitted that these “toilets in the veld” approach to incremental housing pose potentially serious health and safety risks²¹. Another R1million was wasted when about 50 toilets were built but never used in the Eastern Cape’s Middledrift district²². In the Northern Cape’s Kimberly area RDP houses were built without toilets and running water; this resulted in the RDP housing project residents being forced to use the veld as the only alternative to toilets²³. In the Western Cape’s Ma-khaza informal settlement, in Khayelitsha, the City of Cape Town was taken to court for providing 1316 informal dwellings with “open air” toilets; Judge Nathan Erasmus ordered the city to enclose all those toilets²⁴.

The court found that the “open toilets” approach infringed several rights enshrined in the constitution²⁵. Those toilets ultimately enclosed by the residents themselves resulted in dangerous structures²⁶ because of the poor quality of materials used.

Meanwhile, in the Free State province, 1620 open toilets were counted, exposing a high level of corruption among the involved politicians. The Mayor of Viljoenkroon admitted she personally financially benefited from this fiasco, when her company, Danteb Building Construction, was awarded a tender to build such toilets; although she argued that this happened before she became a political office bearer²⁷. Further newspaper investigations revealed that the Moqhaka Municipality’s Chief Whip, their Speaker, the Mayor’s son, and other politicians were direct financial beneficiaries from the open toilet project²⁸.

The province of KwaZulu-Natal has had its fair share of RDP housing development controversies. In 2010, *The Mercury* newspaper carried many articles about a certain Zikhulise Cleaning and Maintenance company that has been getting multiple local government RDP housing development tenders, worth hundreds of millions of rands. Many of the houses built by this company were found to be structurally defective and even unsafe, and some had to be demolished²⁹. Having, built thousands of RDP houses, Zikhulise Cleaning and Maintenance has been accused of sub-standard work in different parts of KZN³⁰; yet, as late as in November 2011, this company continued to get more big multi-million rand low

21. Wayndham Hartley. “Stink raised over ‘toilets in the veld’” *Business Day*. 1 June 2004. P4

22. Msindisi Fengu. “Eastern Cape’s Own ‘toilet city’”. *Daly Dispatch*. 16 July 2011. p10

23. Perla Roberts, “Residents use veld as homes have no toilets”. *Diamond Fields Advertiser*. 4 February 2005. p3

24. Knowthar Solomons. “Judge rules against city in CapeTown toilet saga”. *Saturday Star*. p2

25. Dianne Hawker. “City Seeks appeal in toilet case verdict”. *Sunday Argus*. 22 May 2011. p5

26. Ibid

27. Angeliqe Serrao and Kanina Foss. “Mayor’s Loo role queried”. *STAR*. 12 May 2011. p1

28. Angeliqe Serrao and Kanina Foss. “Toilets and Tenders- there’s more of a stink”. *STAR*. 13 May 2011. p5

29. Gugu Mbonanbi. “Mpisane houses demolished”. *The Mercury*. 12 August 2010. p1

30. Ibid

cost housing contracts with different municipalities³¹ in the same province where some of the houses they built had to be demolished.

The failure to deliver quality RDP low-cost housing by many local government structures across South Africa, including in the six large provinces of Gauteng, the Western Cape KwaZulu-Natal, Eastern Cape, Free State and the Northern Cape, cited above, clearly

indicates that the government on its own is unable to provide adequate access to housing; partly because the money which should be used for housing the poor gets wasted or lost in fruitless expenditure and even corruption, as shown above. This means the government must explore other options for providing access to adequate housing.

2.3 THE NECESSITY OF RENTAL HOUSING

The failure of housing developments, highlighted above; limited public financial resources, and other logistic challenges, have resulted in the state being unable to provide housing for all its citizens. This creates a need for the government, in all three spheres, to provide rental housing for designated groups, based on income, which must usually not be above a specified maximum level.

Another report from the Department of Housing (now called Department of Human Settlements) showed that from 2008 to 2009 about 18 percent of the South African population was renting, with the majority of households in rental housing being poor or in low-income brackets³² and that the majority of households in rental housing are black³³.

This 2010 report noted that there is a significant shortage of rental housing accommodation country-wide, especially in the major urban areas; and that 51 percent of individuals in rental housing earn between R1500 – R7500 per month, with 27 percent earning below R1500 per month³⁴.

The government has as part of its housing policy a number of social and rental housing programme interventions to address the rental housing shortage. These include:

31. Wendy Jasson da Costa. “More big jobs for Mpisane”. *The Mercury*. 7 November 2011. p1

32. “Evaluating the Performance of Social and Rental housing Programmes. Report 2010.” Department of Housing. p14

33. Ibid

34. Ibid

(a) Institutional subsidies

These subsidies are targeted at housing institutions that provide different tenure options, including rental housing, to qualifying subsidy beneficiaries³⁵.

(b) Social housing

Accredited social housing institutions receive government subsidy for providing rental or cooperative housing options for low-income persons, and also those individuals in the “gap income group” (R3501 – R7000 per month) who benefit from the Finance Linked Individual Subsidy Programme (FLISP), which operates on a sliding scale of 35 subsidy intervals³⁶.

(c) Community Residential Units (CRU)

This form of rental housing programme caters for the lowest income groups who cannot be accommodated in the formal private rental and social housing market. It also caters for qualifying individuals who can benefit from the Informal Settlement Upgrading Programme³⁷.

(d) Slum lords

According to SERI, at least 40 percent of all rental housing households in South Africa live in what SERI characterises as slum conditions³⁸. This places a further burden on the government to get directly involved in the provision of rental housing of an acceptable standard.

2.4 CHALLENGES FACED BY THE STATE IN THE PROVISION OF RENTAL HOUSING OPTIONS

The provision of government-owned rental housing has been constrained by the fact that all spheres of government embarked on massive drives to promote home ownership by selling, at cost or at subsidized prices, many of the previously government-owned houses or flats to the long-term tenants, especially those from the previously disadvantaged groups. This left only a limited amount of government-owned rental housing stock.

35. National Housing Code 2009

36. Ibid

37. Ibid

38. SERI 2011, op cit. p44

The Social Housing Act³⁹ caters for those individuals (households) who do not qualify to benefit from the RDP houses or similar schemes aimed to benefit the poor; yet are not able to access adequate rental housing in the open market⁴⁰. These are individuals who fall in the R3501 – R7000 per month income bracket; who find they are deemed not poor enough to qualify for RDP housing; and yet are perceived by most financial institutions to be too risky for home loans. It is mainly this category of the population that benefits from the social housing legislation; presumably while they are still trying save enough money to afford their own homes.

Very limited rental housing stock is administered under the social housing policy. Hence, many South Africans, rich and poor, still have to rely on the private sector for rental housing.

The Rental Housing Act⁴¹ seeks to balance the rights of tenants and landlords; create mechanisms to protect both tenants and landlords against unfair practices and exploitation; and to introduce mechanisms through which conflicts between tenants and landlords can be resolved speedily at minimum cost to the parties⁴².

3. PROBLEM STATEMENT

Many tenants perceive the rental housing laws to be inadequate when it comes to protecting their (tenants’) rights; while some landlords perceive the rental housing laws to be “tenant friendly” or biased against landlords.

It would seem, therefore, that the Rental Housing Act and the Social Housing Act have significant built-in limitations that make them less helpful in protecting tenants and landlords against unfair practices and exploitation.

The aim of this research paper is to explore whether there is any validity to this problem statement.

39. Social Housing Act, op cit.

40. Preamble to Social Housing Act, op cit

41. Rental Housing Act, op cit.

42. Preamble to the Rental Housing Act, op cit

4. RESEARCH METHODOLOGY

Extensive research was conducted on some of the factors that make rental housing the most viable housing option for many South Africans. The appropriate information on rental housing for this study was obtained by:

- Conducting extensive research on both the Rental Housing Act and the Social Housing Act; trying to highlight some provisions that are at the core of protecting the tenants' rights and/or the landlords' rights.
- Using public brochures from Rental Housing Tribunals.
- Reading annual reports of some rental housing tribunals.
- Asking 14 current or former members of the Rental Housing Tribunals in Gauteng and KwaZulu-Natal to respond to a set of 7 questions regarding the effectiveness of both the Rental Housing Act and Social Housing Act.

The information discussed in this section was obtained using a combination of the above information gathering processes.

5. BRIEF OVERVIEW OF THE RENTAL HOUSING ACT

This legislation places a responsibility on the government to promote rental housing⁴³ by promoting *"a stable and growing market that progressively meets the latent demand for affordable rental housing among persons historically disadvantaged by unfair discrimination and poor persons, by the introduction of incentives, mechanisms and other measures that improve conditions in the rental housing market"*⁴⁴.

This legislation is deliberately pragmatically written to reflect a balanced approach in the protection of both the tenants' rights and the landlords' rights⁴⁵.

5.1 TENANTS' RIGHTS AGAINST UNFAIR DISCRIMINATION

This legislation invokes both the Constitution's Bill of Rights⁴⁶ and PEPUDA⁴⁷ when it says: *"In advertising a dwelling for purposes of leasing it, or in negotiating a lease with a prospective tenant, or during the term of lease, a landlord may not unfairly discriminate against such prospective tenant or tenants, or members of such tenant's household or the bona fide visitors of such tenant, on one or more grounds, including race, gender, sex, preg-*

*nancy, marital status, sexual orientation, ethnic or social origin, colour, age, disability, religion, conscience, belief, culture, language, and birth."*⁴⁸

The provision above is the real first challenge, if not a hurdle, that has to be overcome before a formal relationship of tenant and landlord can be formed between two parties.

The challenge here is that landlords have a constitutional right to freedom of association⁴⁹. The landlord's absolute discretion to choose who they can accept as a tenant can sometimes be challenged on the grounds of unfair discrimination⁵⁰. While this legislation does not spell it out, Rental Housing Tribunals do not have jurisdiction to hear matters of unfair discrimination, as these issues can only be dealt with by the Equality Courts and the High Courts.

The implication of this is that a potential tenant who is not accepted as a tenant by a landlord on grounds of race and/or ethnic or social origin cannot make use of the convenient expeditious free structures of Rental Housing Tribunals in dealing with this matter.

It is, however, appropriate that Rental Housing Tribunals do not have jurisdiction to hear unfair discrimination matters, given that there are many serving Rental Housing Tribunal Members who are not legally trained to deal with such matters.

Rental Housing Tribunals do, however, deal with cases covering some aspects of unfair discrimination, where such unfair discrimination manifests itself in conduct that is within the mandate of the Tribunal. For example, there are many blocks of flats where body corporates have, on reasonable grounds, made rules which do not permit children to live on the premises. There have been cases where tenants who fell pregnant during their tenancy tried to argue that it is unfair that they are not allowed to stay with their children in their flats, and that this infringes their right of procreation as married people. In many such cases, the tribunals have ruled in favour of landlords, stating that they have a right to have such rules, for instance in cases where the block of flats is used by students and/or by people of a particular profession whose peaceful enjoyment of their tenancy may be seriously compromised by crying babies or by children running up and down the corridors of the block of flats.

43. Chapter 2 of the Rental Housing Act, op cit.

44. Section 2(1)(a) of the Rental Housing Act, op cit.

45. Preamble of the Rental Housing Act, op cit.

46. Chapter 2 of the Rental Housing Act op cit.

47. Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000

48. Section 4(1) of the Rental Housing Act, op cit.

49. Section 18 of The Constitution, op cit.

50. Section 4(1) of the Rental Housing Act, op cit.

5.2 TENANTS' RIGHT TO PRIVACY

A tenant has the right, during the lease period, to privacy⁵¹; not to have his or her home searched⁵²; not to have his or her property searched⁵³; not to have his or her possessions seized⁵⁴; and not to have the privacy of his or her communications infringed upon⁵⁵.

While the legislation is clear that the landlord has the right to inspect the leased premises in a reasonable manner after reasonable notice to the tenant⁵⁶; there have been many cases that have been heard by the Rental Housing Tribunals where tenants complained about landlords who walk in and out of the leased property without the permission of the tenant(s). Some landlords have countered such complaints by tenants by alleging that some tenants unreasonably obstruct the landlord from inspecting the premises, which is necessary for the proper maintenance of the leased property.

One other common area of conflict between tenants and landlords is the provision that the tenant cannot have his or her possessions seized, except in terms of law of general application and having first obtained an order of court. Many landlords who are owed rent have resorted to illegal attachment of the goods of tenants; presumably as collateral in case the tenant tries to leave the premises without settling the outstanding rent or other dues.

5.3 LANDLORDS' RIGHTS

The landlord's rights in respect of the tenant include his or her right to prompt and regular payment of rent or any charges that may be payable in terms of a lease⁵⁷; the right to recover unpaid rental or any other amounts that are due and payable after obtaining a ruling by the Tribunal or an order of a court of law⁵⁸; the right to terminate the lease in respect of rental housing property on grounds that do not constitute an unfair practice and are specified in the lease agreement⁵⁹. On termination of a lease, the landlord will be entitled to receive the rental housing property in a good state of repair, save for fair wear and

51. Section 4(2) of the Rental Housing Act, op cit.

52. Section 4(3)(a) of the Rental Housing Act, op cit.

53. Section 4(3)(b) of the Rental Housing Act, op cit.

54. Section 4(3)(c) of the Rental Housing Act, op cit.

55. Section 4(3)(d) of the Rental Housing Act, op cit.

56. Section 4(2) of the Rental Housing Act, op cit.

57. Section 4(5)(a) of the Rental Housing Act, op cit.

58. Section 4(5)(b) of the Rental Housing Act, op cit.

59. Section 4(5)(c) of the Rental Housing Act, op cit.

tear⁶⁰; and/or repossess the rental housing property having first obtained a court order⁶¹. The landlord may also claim compensation for damage to the rented housing property or any other improvements on the land on which the dwelling is situated, if any, caused by the tenant, a member of the tenant's household or a visitor of the tenant⁶². Most of the abuses, either by the landlords and/or by the tenants, are related to such claims.

5.3.1 Late payment or non-payment of rent

A significant percentage of complaints lodged at the Rental Housing Tribunals are related to late payment or non-payment of rent.

When landlords lay complaints against tenants about late payment or non-payment of rent; most tenants respond by lodging counter-complaints against landlords, claiming they (tenants) have not paid their rent because of the failure of the landlord to properly maintain the rental housing property.

It is therefore not surprising that the highest number of complaints (352 complaints) at the KwaZulu-Natal Rental Housing Tribunal in the 2010/2011 financial year was related to maintenance issues and that the second highest number of complaints (214 complaints) was related to non-payment of rental.

This is a very important area to explore, because it could have a serious negative impact on the provision of new rental housing stock. There are many landlords who have been financially ruined and pushed out of business by the failure of tenants to pay their monthly rent on time.

There are many landlords who are simple individuals, who are not rich, who take out huge loans or housing bonds to purchase properties with the aim of renting out those properties, in order to augment their meagre salaries. This is the most vulnerable group because if the tenant fails to pay timeously or is in rental arrears, the laws of the country do not make it easy for this group of landlords to remedy the situation quickly without incurring high legal costs. This stems from the fact that the Rental Housing Tribunals do not have the power to grant eviction orders. It is thus possible that a desperate landlord who is owed a lot of rent may receive a favourable ruling if the Rental Housing Tribunal finds that the landlord has valid grounds for terminating the lease agreement on grounds of material breach of contract; and yet find that he or she is powerless to get the tenant out of the property and still has to go to the courts for a "PIE application"⁶³ for an eviction

60. Section 4(5)(d) (i) of the Rental Housing Act, op cit.

61. Section 4(5)(d)(ii) of the Rental Housing Act, op cit.

62. Section 4(5)(e) of the Rental Housing Act, op cit.

63. Prevention of Illegal Eviction from and Unlawful Occupation of Land Act 19 of 1998

order. Many habitual rent defaulters know that the law makes it very difficult and follows a lengthy process to evict abusive tenants; they (habitual rental defaulters) therefore simply resist being pushed out, daring the landlord to break the law or engage in expensive high court applications.

Many property owners and landlords, and attorneys acting for such disgruntled landlords, complain that the PIE Act favours delinquent tenants⁶⁴. They argue that the noble objectives of the PIE Act, which was intended to protect the rights of children, the elderly, disabled and women-based households, are being frustrated by the large-scale abuse of the protective provisions of this legislation by delinquent tenants⁶⁵.

Habitual opportunist rental defaulters know launching applications for eviction⁶⁶ involve high costs and long delays.

Two examples of the abuse of landlords by tenants will be discussed here. In the first case, a Hillcrest, Durban, woman was frustrated by a delinquent occupant of her four-bedroom home who refused to move out of the property despite being three months in arrears with the rent⁶⁷. This frustrated landlord was so desperate that she decided to write to the local daily newspaper, *The Mercury*⁶⁸, to “warn all prospective landlords” about the plight of landlords at the hands of abusive tenants, stating that while she and her husband were struggling financially to service her bond, and water and lights bills, in the discomfort of the cottage they occupy on the same property; the delinquent tenant was relaxed in the comfort of their four-bedroom home, without paying any rent⁶⁹.

Her attorney “blasted the law for being slow, cumbersome and frustrating, saying it was not the constitutional duty of the landlord to provide shelter for free-loading tenants.”⁷⁰

In the second example, a widowed owner of a Westville, Durban, property found herself unable to sell her four-bedroom house because there was a delinquent tenant who refused to move out, despite having not paid his rent for six months. Estate agents were reluctant to get involved in this because of the worry about the “huur gaat voor koop” complications this would cause new owners when the tenant still refuses to move out⁷¹.

64. Leanne Jansen and Kamini Padayachee. “Landlords Claim Tenants abuse act to avoid paying up.” *The Mercury*. 9 April 2012. p3

65. *Mercury*. 9 April 2012. op cit.

66. Ibid

67. Ibid

68. Ibid

69. Ibid

70. Ibid

71. Ibid

(The “huur gaat voor koop” concept states that, in cases where there is an existing tenant, the new landlord steps into the shoes of his predecessor who, in turn, is relieved of his obligations towards the tenant.⁷²)

It transpires from a number of case rulings, by both the Gauteng Rental Housing Tribunal and the KwaZulu-Natal Rental Housing Tribunal, that many desperate landlords have been forced to resort to unlawful acts such as disconnecting services, locking out tenants, and even violent forceful eviction of tenants without having first obtained court orders.

5.3.2 Maintenance

Maintenance is a double-edged sword in the hands of both the landlords and tenants; and it is contended here, based on survey results, that maintenance is often used opportunistically by both parties to avoid fulfilling their contractual obligations under the lease agreement.

There are many landlords who optimise their rental income by not adequately maintaining the rental housing properties, while expecting tenants to timeously pay their rent. It is not uncommon for rental housing tribunals to get complaints about tenants who are subjected to seriously leaking roofs, where tenants find their furniture and even bedding are exposed to rain water from leaking roofs. Some of the landlords in these cases have not acted at all to remedy the situation because of financial implications. It is under such circumstances that some tenants have, out of desperation, opted to withhold rent in order to force the landlord to attend to such maintenance problems.

There are, however, also many cases where the tenants “bought a Fiat Uno and expected the performance of a Rolls Royce”; that is, they pay rent of R800.00 per month, inclusive of water and electricity, and yet expect the landlord to spend in excess of R1000.00 per month maintaining the rental housing property. This happens more at the lower-end of the rental housing market. It is for this reason there is a relatively smaller supply of adequate rental housing stock at levels of R1500.00 or less; with many potential landlords fearing that it will be difficult to get a reasonable return on investment in this lower end market where tenants prefer an all-inclusive “flat rate”.

At the extreme end of this maintenance challenge, there are many tenants who abuse their landlords by engaging in acts that directly contribute to the deterioration of the value of the landlord’s rental housing property. Overcrowding is one of the areas where tenants abuse their landlords, in that there is a direct correlation between an overcrowded rental

72. Kleyn DG, Boraine A, and du Plessis W. Silberberg and Schoeman’s **THE LAW OF PROPERTY. Third Edition**. 1975. Butterworths, Durban. p485

housing property and an increased incidence of plumbing problems that tenants unrealistically always expect landlords to fix.

“Fully furnished rental housing property” is another common area of landlord-tenant friction, where some tenants carelessly operate such household appliances as stoves and refrigerators and expect landlords to fix everything, including coming to replace an R8.00 fuse of a stove.

Paradoxically, it is in cases such as these that tenants have usually been loath to allow landlords regular access to the property in order to assess the maintenance needs of the rental housing property.

5.3.3 Deposits

Many landlords require tenants, before moving into the rental housing property, to pay a deposit⁷³ which may be used by the landlord, on expiration of the lease, to repair damage to the dwelling that may have occurred during the lease period, or to cover any outstanding rental amounts or amounts incidental to the lease agreement⁷⁴.

Non-refund of deposit rates among the top six areas of conflict in landlord-tenant disputes⁷⁵; the other areas are maintenance, non-payment of rental, rent increases, disconnection of services, and notice to vacate/eviction.

Many South African tenants have found themselves at the receiving end of intransigent landlords who will find every available excuse for not refunding the deposit with interest, including the most common demand that tenants must repaint the whole rental housing property and restore it to exactly the condition it was in when the tenant first moved in. In such cases, rental housing tribunals have not hesitated to order the landlords to refund the deposit amount in full with interest⁷⁶ if the Rental Housing Tribunal was satisfied that the tenant had returned the rental housing property in a good state of repair, save for fair wear and tear⁷⁷.

There are many cases, though, where landlords find that when tenants leave the rental housing property, they do not leave it in a good state of repair, as required by law⁷⁸. In many such cases the landlords find that the total costs of effecting repairs to the rental housing prop-

73. Section 5(3)(c) of the Rental Housing Act, op cit.

74. Section 5(3)(g) of the Rental Housing Act, op cit.

75. See Annexure 2

76. Section 5(3)(i) of the Rental Housing Act, op cit.

77. Section 4(5)(d) of the Rental Housing Act, op cit.

78. Section 4(5)(d) of the Rental Housing Act, op cit.

erty in order to rent it out again, are so high that whatever returns they may have gained from renting out the property to the previous tenant are wiped out by the cost of repairs. Damage to rental housing property may range from innocent negligence such as putting picture hooks on the wall that leave imperfections on the wall once such picture hooks are removed. In many such cases, the landlords may be forced to repaint the whole interior of the house, if trying to do paint touch-ups on such affected areas will result in obvious colour mismatches. Damages to the rental housing property by the tenants may also result from “neutral” acts, such as removing air-conditioning installations; removing television aerial installations; removing house alarms wires and devices; and other “neutral” acts that tenants do when they leave the rental housing properties they had been occupying.

There are also cases of extreme tenant negligence or even deliberate sabotage where tenants show absolutely no respect for the property they are renting. There are many cases where landlords find built-in cupboards so badly damaged that they cannot be repaired; carpets so dirty and even burned that they must be replaced; rhino-board ceilings so dirty and damp because of uncontrolled steam that the landlord has to remove and replace the whole ceiling-board. In many cases, tenants simply abscond with the house keys, and the landlord is forced to change all door keys, gate remote control devices, and garage door remote control devices; and landlords find they have to spend thousands of rands on dealing with such situations.

Landlords are entitled to claim compensation for such damages to the rental housing property by the tenant, a member of the tenant’s household or a visitor of the tenants⁷⁹. In most cases, landlords simply choose not to lodge complaints against the tenants at the Rental Housing Tribunals, mainly because they do not know they have the option to do so free of charge. There is also a perception in the minds of many landlords that taking any action against a tenant who has already vacated the rental housing property is tantamount to throwing good money after bad.

5.3.4 Mandament van spolie: Double-jeopardy for the landlord

Tenants who have breached their rental housing property agreements, seem to know more about the Latin Maxim *spoliatus ante omnia restituendus est*; the possessor whose right of possession has been disturbed must first have possession restored to him (before the court will consider the matter at all)⁸⁰; and rarely bother to empathise with the plight of the landlords they abuse through their actions.

79. Section 57 of the Rental Housing Act, op cit

80. TJM Patterson. Eckard’s Principles of Civil Procedure in the magistrates’ courts. Third Edition. 1996. Juda & Co, Ltd Kenwyn. p72

Landlords who are owed massive arrear rental amounts by tenants, including amounts for electricity and water, find that they are not allowed to lock out the tenants who are in breach of their rental housing agreements; and are not even allowed to disconnect the services to such tenant without first obtaining a court order. Tenants who do not pay for services they have used such as water and electricity are allowed by the Rental Housing Act to institute a *mandament van spolie* application for the landlord to be forced to restore such services⁸¹ to the non-paying tenant before the court can even hear the landlord's side. This is double-jeopardy for the landlord because the longer it takes them to stop the "free-loading" by the tenant, the more indebted to the municipality they will be; and it is the landlord's credit record that will be damaged with the municipality, not that of the tenant. The irony is that the municipality, on the other hand, does not have any obligation to get a court order before it can disconnect the electricity and water to the landlord's premises, if the latter is in arrears.

Secondly, the *mandament van spolie* approach is also unfair for many landlords who are owed significant amounts of arrear rentals; because the law expects them (the landlords) to use the very money they do not have to hire expensive legal practitioners to lodge their eviction applications in court; and to secure attachment orders against the tenants. In most cases, this survey has established, the average minimum cost landlords can expect when engaging legal practitioners for such applications is rarely less than R15 000.00. It may prove prohibitive for a struggling landlord who is owed three months' rent of R15 000.00 to also be expected to pay another R15 000.00 to get redress. It is on these grounds that some desperate street-wise landlords have, at times, been forced to resort to illegal or even criminal actions such as "the Laqhasha approach"⁸², where landlords send criminal elements to go and physically remove the misbehaving tenant from the rental housing premises.

81. Section 15(1)(f) of the Rental Housing Act, op cit.

82. Laqhasha was a TV character in South African Broadcasting Corporation's "Sgudi Snice" series. Laqhasha was a debt-collector who was used by creditors and landlords to go with a knob-kiere to beat up those who failed to settle their debts.

5.3.5 Landlords' right to increase rent

The Rental Housing Act replaced the Rent Control Act⁸³; and one of the transitional provisions⁸⁴ at the commencement of the Rental Housing Act was that the rent of controlled premises⁸⁵ could not be increased by more than ten percent per annum, for a period of three years from the date of commencement of the Rental Housing Act⁸⁶. These very clear transitional arrangements have, unfortunately, caused unnecessary legislative confusion, with some of the tenant complainants in KwaZulu-Natal alleging they are being advised by the administrative staff there (at the KwaZulu-Natal Rental Housing Tribunal) that it is illegal to increase the rent by more than ten percent per annum.

It is doubtful whether this inexplicable misinterpretation of the Rental Housing Act's transitional provisions is confined to KwaZulu-Natal. It is contended here that many people in South Africa may conveniently and deliberately want to pretend that there is a current legislative provision that caps rental increases to not more than ten percent per annum in South Africa.

The actual true legal position is that there is absolutely no legal limit on how much landlords can increase rent in South Africa. The landlord can increase rent by any amount; Rental Housing Tribunals can rule in favour of a landlord who increased the rent by 108 percent in one year, yet ruling against another landlord who tried to increase the rent by 8 percent in that very same year.

The Rental Housing Act states that where a Rental Housing Tribunal, at the conclusion of a hearing, is of the view that an unfair practice exists⁸⁷, for instance in a complaint about alleged exploitative rental increase⁸⁸, a ruling being made by the Rental Housing Tribunal on the matter may include a ruling regarding the amount of rental payable by a tenant⁸⁹, but such a ruling has to be made in a manner that is just and equitable to both tenant and landlord⁹⁰, taking due cognisance of:

83. Rent Control Act 80 of 1976

84. Section 19 of the Rental Housing Act, op cit.

85. Section 1 of the Rent Control Act, op cit.

86. Section 19(1) of the Rental Housing Act, op cit.

87. Section 13(4) of the Rental Housing Act, op cit.

88. Section 13(4)(iii) of the Rental Housing Act, op cit.

89. Section 13(5) of the Rental Housing Act, op cit.

90. Ibid

- (a) The prevailing economic conditions of supply and demand⁹¹;
- (b) The need for a realistic return on investment for investors in rental housing⁹²; and
- (c) Incentives, mechanisms, norms and standards and other measures introduced by the government in terms of the policy framework on rental housing⁹³ aimed at promoting a stable and growing rental housing market that progressively meets the latent demand for affordable rental housing among formerly historically disadvantaged individuals⁹⁴.

It is contended here that this legislative provision is very pragmatic; and was deliberately meant to give those who are tasked with distinguishing what constitutes a reasonable housing rent increase from what constitutes an exploitative housing rent increase a reasonably wide range within which they can decide on such matters.

It is contended here that most landlords enter the rental housing property industry because of the profit motive; they risk their money in the property market, instead of simply leaving it in the bank to accrue interest, because they want to optimise their return on investment⁹⁵. It is further contended that even those entities, both in the private sector and public sector, who enter the social housing sector are guided by economic considerations rather than a pure social housing activism agenda when they venture into this field. It will later be demonstrated that it is precisely for this reason that the Social Housing Act⁹⁶ has not been so successful in releasing more rental housing stock to the South African market.

It is even more important to explore this point against the background of a case that is currently before the Constitutional Court of South Africa, where judgement is currently reserved (as at 15 November 2011, at the time of writing this article). The Constitutional Court has been asked to determine whether it is constitutional for a landlord to terminate a lease agreement in order to renegotiate new leases aimed at achieving higher rentals⁹⁷.

This was an appeal of a ruling by Van der Riet AJ, at the South Gauteng High Court (Johannesburg), where the new owner of the Lowliebenhof ten storey block of flats, in Braamfontein; Johannesburg, brought an application in the South African High Court, Johannesburg, for the eviction of the appellants and their families from the flats on the basis

that their leases had been duly terminated by notice on its behalf⁹⁸. At the court *a quo*, Van der Riet ruled that two leases had not been validly terminated, that, in nine of the cases, there were no grounds that would justify the refusal of their eviction⁹⁹, and hence nine of the applicants were evicted. However, the Honourable Van der Riet concluded that in seven of the cases, an eviction order would render the tenants homeless and would not be just and equitable.

At issue here was that it was common knowledge that the landlord acquired a derelict building in the Johannesburg Central Business District, renovated it, and improved its maintenance and security. The landlord however soon discovered that the rent being paid by the tenants in the building was insufficient to cover costs of bond finance, renovations and maintenance. The landlord was thus running this Lowliebenhof project at a loss¹⁰⁰. It was on these grounds that the landlord sought to introduce new rental housing agreements that would allow the landlord to increase the rent in order to be able to break even and ultimately move to a profit-making situation.

The Supreme Court of Appeal (SCA) commended the landlord for its role in acquiring and upgrading the Lowliebenhof residential building, in line with the initiatives of the Johannesburg City Council of revitalising the Johannesburg inner city¹⁰¹. The SCA conceded that the landlord was not a charitable organisation; and could not be blamed for terminating leases that could cause its commercial demise. The SCA observed the landlord was not obliged to disclose its motive for increasing the rent¹⁰².

The SCA confirmed the decision of the court *a quo* that it was not unreasonable or unfair of the landlord to terminate the lease agreement of sixteen of the eighteen appellants; and that this was not in any way contrary to public policy¹⁰³.

It is contended here that the approach of the SCA in this case is in line with the provisions of the Rental Housing Act. The Constitutional Court was asked to focus on the constitutional implications of the landlord's right to terminate a lease agreement legally, in order to increase rent, if such a move would render some of the tenants homeless. This paper contends that any Constitutional Court decision to constrain the right of the landlord to increase rent in line with the need for a realistic return on investment, for investors in

91 Section 13(5)(a) of the Rental Housing Act, op cit.

92. Section 13(5)(b) of the Rental Housing Act, op cit.

93. Section 13(5)(c) of the Rental Housing Act, op cit.

94. Section 2(1)(a) of the Rental Housing Act, op cit.

95. Section 13(5)(b) of the Rental Housing Act, op cit.

96. Social Housing Act, op cit.

97. Ntombizodwa Yvonne Maphango and Others v Aengus Lifestyle Properties (Pty) Ltd. CCT 57/11. [2011]

98. Ntombizodwa Yvonne Maphango (now Mgidlana) and 17 Others v Aengus Lifestyle Properties (Pty) Ltd (611/2010 [2011] ZASCA 100 (1 June 2011) p2

99. Section 4(6) of the PIE Act, op cit.

100. Maphango, et al. 2011 SCA. at 11

101. Maphango, et al. 2011 SCA at 25

102. Maphango, et al. 2011 SCA at 25

103. Maphango, et al. 2011 SCA at 26

rental housing¹⁰⁴, can only be detrimental to South Africa's desperate need to encourage more entrepreneurial investors to enter the rental housing property market with an aim of increasing more adequate access to rental housing.

5.4 CHALLENGES OF THE SOCIAL HOUSING POLICY FOR LANDLORDS

The Social Housing Act had the very noble intention of being responsive to local housing demands¹⁰⁵. This legislation makes it compulsory for all institutions that undertake housing developments with the benefit of an institutional subsidy to be accredited with the South African Housing Regulatory Authority¹⁰⁶.

A thorough reading of the entire Social Housing Act, gives very little guidance to any prospective participant in a social housing institution on how the approved projects primarily for low income residents can be acquired, developed and managed with the support of local authorities¹⁰⁷; or how such social housing institutions can promote the creation of quality living environments for low income residents¹⁰⁸.

The problem with this legislation is that it is creating a rental housing challenge for Rental Housing Tribunals, in that it allows private sector landlords to offer rental housing to individuals based on the salary scale of such an individual. This conditionality has created a serious challenge for both the landlords and the Rental Housing Tribunals, in that, in terms of the Social Housing Act, two individuals may occupy rental housing properties that are similar in all respects, and yet be expected to pay different amounts of monthly rent, depending on the formula being used to calculate the rental housing subsidy being paid by the government to such social housing institutions.

The lack of legislative clarity when reading the Social Housing Act, together with the logistic nightmares it has created for landlords who find themselves being confronted by higher-paid tenants (some of whom do not even qualify to be resident in such social housing establishments) who demand that they have the right to be tenants of such social housing establishments; and who want to pay the lowest possible monthly rent which is calculated based on the salary of the lower-paid tenants. These tenants sometimes opportunistically engage in a "rent boycott" in order to get their way. Unfortunately, it transpires that some politicians and/or government administrative staff members have actively played a role

104. Section 13 (5)(b) of the Rental Housing Act, op cit.

105. Section 2(1)(a) of the Social Housing Act 16 of 2008

106. Section 13(1) of the Social Housing Act, op cit.

107. Section 14(1)(b) of the Social Housing Act, op cit.

108. Section 14(1)(c) of the Social Housing Act. op cit.

in destabilising the social housing sector by telling the less sophisticated masses that the social housing institutions exploit the people by getting the government rental housing subsidy without passing this benefit on to the poor. This instability in the social housing sector has resulted in some potential investors in this sector reconsidering their options, and choosing not to invest in the social rental housing sector.

6. CONCLUSIONS AND RECOMMENDATIONS

This paper has highlighted a number of areas where there are significant weaknesses in the implementation of both the Rental Housing Act and the Social Housing Act with respect to sustaining access to adequate rental housing.

Survey results from the Rental Housing Tribunal members in two of the most important provinces in South Africa, namely Gauteng and KwaZulu-Natal, show that most current and past rental housing tribunal members are positive that the current Rental Housing Act does play a positive role in the protection of the interests of both the landlords and the tenants. The major weakness of the Rental Housing Act highlighted was the fact that "it lacks legislative teeth", because it is not very easy to enforce the rulings of the Rental Housing Tribunals, despite the fact that rulings by the Tribunals are deemed to be orders of the magistrate's court in terms of the Magistrates' Court Act¹⁰⁹.

The Rental Housing Amendment Act¹¹⁰ clarified that the rulings of the Tribunal are not only deemed to be orders of the magistrate's court in terms of the Magistrates' Court Act¹¹¹; but also that such rulings are enforced in terms of that legislation. The Gauteng Rental Housing Tribunal was quick to make arrangements for parties who appeared there to enforce rulings through the Magistrates' courts in Johannesburg and Pretoria with minimum time wastage and inconvenience to the parties. This has empowered both landlords and tenants, and enhanced the status of the Tribunal. Unfortunately, the same cannot be said of the other provincial Rental Housing Tribunals where the civil servant administrative staff have actively stifled any prospect of a healthy relationship between the rental housing tribunal members and the Magistrates' Courts and/or with the High Courts of the country.

Many landlords have criticised the Rental Housing Tribunals, calling them "toothless" because they cannot grant eviction orders¹¹². The frustration of the landlords is that they feel it is a waste of time for them to spend time at the Rental Housing Tribunal trying to prove

109. Magistrates' Court Act, Number 32 of 1944

110. Rental Housing Amendment Act, Number 43 of 2007

111. Magistrates' Court Act, Number 32, op cit.

112. Section 13(14) of the Rental Housing Act, op cit.

they have a valid notice to terminate a lease agreement; only to find that they still have to go to the Courts for a “PIE application” in order to effect eviction.

There are two schools of thought on whether or not Rental Housing Tribunals should be given powers to grant eviction orders. The Gauteng and Western Cape Rental Housing Tribunals are lobbying for legislative amendments to empower the Tribunals to grant eviction orders. Those in favour of extending the powers of rental housing tribunals to grant eviction orders argue that it is costly and time-consuming to evict tenants who are in arrears on their rent; and that this encourages landlords to act unlawfully by evicting or locking out tenants without having first obtained court orders.

The argument against giving Rental Housing Tribunals powers to grant eviction orders is based on the fact that the strength of the Tribunals lies in their relatively simple referral procedure and less formal interrogation system. It is argued that this simplicity and informality could be compromised by the more formal procedure that would be required for Rental Housing Tribunals to grant eviction orders.

Another argument on why rental housing tribunals should not be given powers to grant eviction orders came from the survey of Rental Housing Tribunals. The Tribunals themselves and some legal experts argued that, in some provinces, the provincial Rental Housing Tribunals are run by powerful low-level civil servants who, together with the incumbent MECs, determine the type of people who are appointed as members of the Rental Housing Tribunal. This has resulted in some politically connected people with absolutely no legal understanding and without any other expertise¹¹³ specified in the Rental Housing Act being appointed to the provincial Rental Housing Tribunals. Giving legislative powers to grant eviction orders to such people may prove to be a legislative disaster.

The consensus among most of the highly-qualified former Rental Housing Tribunal members and some of the current suitably qualified members is that, despite the limitations of the Rental Housing Act and the Social Housing Act in sustaining access to adequate rental housing specified above, the Rental Housing Act is still a good legislative platform from which government can attempt to increase and sustain access to adequate rental housing.

113. Section (9)(1) of the Rental Housing Act specifies the type of expertise expected from the members appointed to the provincial rental housing tribunal, including the necessary expertise and exposure to rental housing matters; expertise in property management or housing development matters; and expertise in consumer matters pertaining to rental housing or housing development matters.

The Social Housing Act is, on the other hand, perceived to be a badly drafted piece of legislation that does very little to achieve the noble objectives highlighted in its preamble and in its general principles¹¹⁴; the roles and responsibilities of national government¹¹⁵; the roles and responsibilities of provincial governments¹¹⁶; the roles and responsibilities of municipalities¹¹⁷; and the roles and responsibilities of other role players¹¹⁸. This social housing legislation needs to be rewritten completely, and particular emphasis placed on how areas of landlord-tenant disputes can be effectively resolved. This legislation must be clearer regarding how rental amounts are calculated in line with the sliding subsidy scale as the income levels of individuals increase.

In the long term, it may be beneficial for South Africa to follow the Australian and New Zealand approach; and have the Rental Housing Tribunals removed from the Department of Human Settlements, and relocated to a new structure which is an equivalent of the Australian and New Zealand “Civil and Administrative Tribunals”, which fall directly under the Department of Justice, run by appropriately qualified lawyers with full High Court powers to ensure easy enforcement of Tribunal rulings.

114. Section 2 of the Social Housing Act, *op cit.*

115. Section 3 of the Social Housing Act, *op cit.*

116. Section 4 of the Social Housing Act, *op cit.*

117. Section 5 of the Social Housing Act, *op cit.*

118. Section 6 of the Social Housing Act, *op cit.*

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Title of the Paper

Jobs versus livelihoods: Sustainable settlements within the transition paradigm

By

Janet Cherry

Abstract

This paper examines the conceptual basis for a potential pilot socio-economic model of sustainable settlements in which human settlements are sustainable in almost every way: in terms of livelihoods, natural resources, energy and water usage, health and education, transport, and waste disposal. In this model, sustainable communities use the skills, assets and resources of their members to generate livelihoods. This entails rethinking the economic development paradigm and its implications for societies where the issue is not over-consumption but under-consumption.

The concept of “transition towns” has developed in other parts of the world as a response to the threat of climate change and the need to change our current human settlements to carbon neutral environments. In such places, the transition is from an economy of overconsumption to a sustainable economy. This involves a range of changes in consumer behaviour, economic systems (including production systems, financial systems, and markets), transport, energy, water and waste management systems.

In communities of under-consumers, the aim cannot be to have a transition to a lower consumption society. The challenge lies in implementing the “transition paradigm” in poor communities in South Africa where most people are dependent on income from government grants. While many see the solution to poverty as job creation, the “transition paradigm” explores innovative ways of creating sustainable livelihoods by harnessing unexplored assets of poor communities.

The paper observes three existing communities in the Nelson Mandela Metropolitan Municipality with the objective of analysing how such models are integrated (or not) into the local economy. Thereafter aspects of a model that envisages ways that poor communities can create sustainable livelihoods, using local skills and resources, are presented. This model requires strategies for creating localised systems, including micro finance systems, local markets, community exchange networks, cooperative construction, production and distribution systems; and infrastructure and technology systems.

1. INTRODUCTION: A VISION FOR SUSTAINABLE HUMAN SETTLEMENTS?

Progressive developments in policy since 1994 have seen the South African government embracing the concept of sustainable settlements. Significantly, in 2009 the former Department of Housing adopted the name Department of Human Settlements, indicating that it was concerned with more than the provision of concrete block structures, and that some shortcomings of the “serviced house” model of development were being recognised: *“Subsequently, government has used various platforms to acknowledge that housing is not just about the construction of individual houses or blocks of housing units, but also about the creation of new types of mixed residential environments which stimulate sustainable communities.”* (Tsela Tsheu, 2010)

The concept of human settlements includes the social dimension of settlements, as articulated in numerous policy documents. For one example, the CSIR Guidelines for Human Settlement Planning and Design (2000:1) notes that:

“The purpose is not merely to assist professionals in producing efficiently serviced ‘townships’, but rather to create sustainable and vibrant human settlements.”

The Nelson Mandela Bay Municipality Sustainable Community Planning Guide (NMBM June 2007) goes further, emphasizing the principles of integrated development planning, community participation, and local accessibility through the concept of Sustainable Community Units which are “planning areas of a size defined by accessibility of services within a maximum walking distance of 2 km or 30 minutes” (NMBM, 2007:9). Here integration refers to functional, social and economic integration, with the latter embracing the notion of:

“conscious provision of spaces and opportunities for the full range of economic requirements for a community, such as urban agriculture, small-scale selling, markets, entrepreneurial centres, business support and the more traditional opportunities such as commercial activity areas” (NMBM, 2007:17).

The principle of sustainability, the Guide states, includes not only environmental but social and economic sustainability (NMBM, 2007:19). In essence, this means that the “sustainable” in “sustainable settlements” is less about environmental conservation than about a community finding a way to thrive both socially and economically. The concern of this paper, then, is with the viability of a model for an economically sustainable human settle-

ment. As such, it is not based on the findings of empirical research, but instead seeks to establish a framework for a future medium-term “action research” project.¹

Economic sustainability is distinguished here from financial sustainability, which is the concern of government budgets for low-cost housing and associated models of housing finance. Sustainability in the most basic economic sense in this context means that people can sustain themselves, can feed, clothe and shelter their families, and can maintain the health and education of their children. The profound challenge faced by poor urban communities, as described in this paper, is that most people in these communities are not economically self-sufficient, and are dependent on income from government grants to meet these needs. Most poor people – in line with the current economic orthodoxy – see the solution to their poverty as getting “a job” or “decent work”. This “solution”, based as it is on economic orthodoxies premised on industrialisation, growth and increased consumption of energy and goods, has little to do with sustainability in the environmental sense, and even less to do with climate change and a long-term vision for sustainable settlements. The paper takes as its starting point the lack of economic sustainability of existing urban settlements, and poses a framework for piloting an alternative.

2. THE TRANSITION VISION

In contrast to conventional development models, the “transition town” movement has been experimenting with a new model of human society and economy. This model takes as its premise the imperative of a fundamental shift – in other words, a transition – to a zero-carbon society. Taking as its starting point the crisis induced by climate change, such a model necessitates changes in the production and consumption of goods; changes in the provision of services, especially energy, water and transport; and changes in the design and construction of infrastructure, dwellings and other buildings.

This movement has been initiated in small towns in the advanced capitalist countries, in which the majority of people are over-consumers, according to Durning’s (1992) concept of socio-ecological classes, which defines classes according to patterns of consumption. The challenge he poses is for such societies of over-consumers to “transition” to becoming sustainers.

1. The paper is based on a series of 2011 seminar papers and discussions in the Nelson Mandela Bay Transition Network, the Fort Hare Institute of Social and Economic Research (FHISER) and the Eastern Cape Department of Human Settlements. The case studies of ‘unsustainable settlements’ draw on the author’s research in Kwazakele and Tembisa, as well as on case studies on the sustainability of settlements conducted by MA Development Studies students in Nelson Mandela Bay and Buffalo City Metro municipalities.

It is not possible to think of transition in the same terms in a society where the majority of people are “marginals” according to Durning’s definition (Korten, 1995): those who consume less of the earth’s resources because they simply do not have enough resources to meet their basic needs. Conventional policies based in the disciplines of economics and social development would advocate the “development” of such societies. Without going into the critique of “development as modernization”, and the assumptions about economic growth and industrialization as unquestioned necessities for development, it should be noted that energy consumption and cash income are not measures of quality of life. A convincing argument has been emerging since the 1970s that the current model of economic development is fundamentally unsustainable, and development practitioners have long questioned economic orthodoxies in their attempts to create new models of development. One of the foremost contemporary advocates of sustainable development, David Korten (1992), articulates this critique of economic growth in his article *Development, heresy and the ecological revolution: an open letter to the industrialized world*. He challenges economic orthodoxy with rhetorical phrases such as “growth is not the solution” and “economic integration is part of the problem”. These rhetorical phrases contain two specific conceptual shifts: from “growth and job creation” to “livelihoods”; and from “global competition and trade” to “localised production for local needs”.

The implications of this radical critique for societies which are facing the challenges not of over-consumption, but of under-consumption, are unclear. What is clear is that the transition that is needed in such societies (the “undeveloped” or “underdeveloped” societies, according to which brand of economic theory you subscribe to) is to sustainable livelihoods. The focus can no longer be on increasing incomes, increasing consumption and creating more jobs – the “American middle class universe” of the second half of the 20th century. Instead, the focus should be on sufficiency, as in Durning’s (1993) concept: of having enough, and of high enough quality, to sustain society across generations. The challenge of development is not to replicate the errors of past models, but instead to do things differently – and sustainably – from the start. What this offers development practitioners in African societies is the opportunity and the challenge to create workable and innovative models which can be implemented, tested and replicated.

Nelson Mandela Bay Municipality in the Eastern Cape is an example of the current unsustainable economic model: industry centred on motor and component manufacturing based on individual vehicles using fossil fuels; an anticipated growth path centred on heavy industry at the Coega Industrial Development Zone (IDZ); refining and export of commodities such as manganese, which are transported from outside the region for processing and then exported by ship to other continents; and reliance on high consumption of fossil-fuel based energy, including an oil refinery. The population of the metro contains a large urban working class, over half of whom are unemployed. None of the above industries are able to absorb high numbers of workers or create high numbers of “de-

cent jobs". The economic model is unsustainable in both the environmental and the social sense. Some policymakers are now emphasising the potential of the creation of "green jobs" as an alternative to this model of growth – as evidenced in the signing of the Green Economy Accord by government, business and labour on 17 November 2011. University of Witwatersrand sociologist Jacklyn Cock (2011) evaluates COSATU's commitment to climate justice and whether it is compatible with the call for "decent jobs". She argues that a radical understanding of transition entails a rethinking of the entire economic model. At a local level, it can be seen just how unsustainable the current human settlements are. Three local communities in Nelson Mandela Bay (**NMB**) are described below, for the purpose of providing a baseline from which new models could be explored.

3. UNSUSTAINABLE SETTLEMENTS

Kwazakele, Nelson Mandela Bay

Kwazakele is an old municipal township built in the late 1950s to accommodate the urban black population that was forcibly removed from Korsten. Residents of Kwazakele are stable urbanised families, most of whom have lived in Port Elizabeth for three or more generations. The (at the time) innovative site-and-service housing that was built from 1956 to 1958 has proven successful in many ways: in the late 1980s and early 1990s the area was electrified; ownership of the houses was transferred to the residents; many residents improved their homes through adding interior walls and ceilings and additional rooms; and municipal services (water and sewerage) are provided to most households. There are many facilities, including schools, community halls, churches, a stadium and a sports centre. There is a high literacy rate, a sophisticated network of social institutions, and a high level of political participation. Residents are not hesitant to express their views, voice their complaints and organise if there is a need for action; but service delivery protests are rare, because, except for small pockets, the township has decent houses and services (Cherry, 2011; Cherry, 2000). One such pocket is Silvertown, an informal settlement where residents refused to participate in the Census in October 2011 on the grounds that their demand for houses and electricity had not been met (Ndamase, 2011).

There is one problem with this community, which should be a model of working-class stability, and it is economic. Residents of Kwazakele are overwhelmingly working-class people, who anticipate when they finish school that they will get a "decent job" in a factory or elsewhere. However, they are simply not being absorbed into the formal economy. The population of Kwazakele is thus highly dependent on government grants, and to a lesser extent on a small informal economy. Initiatives to build local businesses have met with little success: vegetable gardening projects, sewing and carpentry projects have been tried and have collapsed; many retail businesses (*spaza* shops) have been taken over by Somali immigrants. This has triggered social tension and xenophobic violence.

It is difficult to envision an "old township" such as Kwazakele, which was constructed as a labour dormitory for neighbouring industrial areas, transforming itself into a sustainable and self-sufficient settlement. The infrastructure is already established, and the provision of electricity to homes in Kwazakele from the Eskom grid – installed in the late 1980s and early 1990s – is mentioned by many residents as the single thing that has improved their lives in the past three decades. The majority of residents of Kwazakele will remain dependent on formal employment, increasingly in the service sector as industrial jobs continue to decline; combined with dependence on government grants.

The situation in Kwazakele is replicated in many other old townships in the NMBM area and elsewhere; just one example is Helenvale, a notoriously overcrowded and crime-ridden township in the Northern Areas. Despite an enormous investment of R78 million via the Helenvale Urban Renewal Programme in infrastructure and significant improvements in policing and levels of security, most residents are unemployed, dependent on government grants, and living in absolute poverty. Without going into details of this settlement, which is also an old formal township, it is used here to illustrate the point that infrastructure and social improvement cannot in itself create an economically sustainable settlement. It is easier to imagine the creation of a sustainable settlement in a new settlement than in an old township such as Kwazakele or Helenvale.

Kuyga, Nelson Mandela Bay

One such new settlement is Kuyga. This housing development in Ward 40 was built in phases over twelve years, starting in 1998, to provide housing for newly-urbanised people and displaced farmworkers who moved into the city and were living in informal housing. RDP houses were built, some including innovative building material (foam in wire). However, after ten years, the project is under the rectification programme for houses with major structural defects (PCHS, 2009).

Despite delays and problems with implementation of contracts, the settlement is now serviced: water-borne sewerage, running water and electricity are provided; there are roads, a school (up to Grade 9), a sports field and a clinic. In Leslie Bank's phrase, this settlement is a good example of "development as a serviced house" (Bank, 2010). The problem is that the approximately 2000 residents are so poor that they cannot even pay for the electricity which is available, and rely instead on paraffin. They cannot afford to buy enough water to grow vegetables. They were identified by development practitioner Deon Pretorius as one of the 40 most impoverished communities in NMBM, with an average household income of less than R 800 per month (Rogers, 2010:1). There is a staggeringly high level of unemployment, and those who do have jobs struggle to get transport, using taxis, which are expensive as the settlement is far out of the city. Most households, as with the households in Kwazakele, Helenvale, and Tembisa (which is described below), are dependent on government grants.

The third example of a settlement is one which is as yet undeveloped – and has the potential, it is argued, to develop as a sustainable settlement.

Tembisa, Nelson Mandela Bay

Tembisa is an informal settlement in Arcadia North. It is part of Ward 34 and situated on top of a hillside overlooking a salt pan in the working-class suburbs known as the Northern Areas in Port Elizabeth, which were the former “coloured” Group Areas under apartheid. It is one of many pockets of informal settlement in the sprawling network of low-cost municipal housing built for “coloureds” in the apartheid era.

There are some 240 houses in this settlement. They are all wood and iron structures, without sewerage, in-house running water or electricity. There are three taps providing water for the whole community. Households who have not built pit latrines simply use the bushes on the edge of the salt pan. There are no roads or facilities. The situation of the settlement on the top of the hill, while providing a spectacular view, is very exposed to wind and there is no shelter from trees at all. The settlement came about when a small community of residents of an outlying farm were evicted. They identified the piece of empty land where Tembisa now stands, and occupied the land. Clearing the bush and erecting their own structures without permission, the new residents engaged in a protracted struggle to be allowed to remain in their new settlement, and then to be recognised and gain municipal services and housing.

The establishment of the African settlement of Tembisa in the midst of the largely “coloured” surrounding townships reflects the demographic changes in the Northern Areas and the blurring of Group Areas Act boundaries. Ten years ago, this ward had a population of around 16 500, of which about 9 000 were coloured and 7 000 African. The African proportion of the population grew significantly between 1996 and 2001. The ward had a labour force of around 7 000, of whom 4 700 were unemployed in 2001 – a 67% unemployment rate. Nearly 13 000 claimed to have no income at all, while the biggest category earned an income of between R 400 and R 800 per month (1 400 people). About 900 earned between R 800 and R 1600. Fewer than 1000 people in the ward had an income of over R 1600 per month. (Stats SA, 2001). These statistics on income and poverty levels are nothing extraordinary in South Africa.

The statistics on service delivery for Ward 34 in the same period impressive. Between 1996 and 2001, there was a significant improvement in the provision of electricity, sewerage and running water to homes in the ward, with a 100% change (in the case of sewerage, through the replacement of pit latrines and the bucket system with flush toilets) and a nearly 500% change (in the case of electricity provision) (StatsSA, *ibid*).

There was a concerted effort to build houses in the same period, with nearly 3 000 formal houses being built between 1996 and 2001. In addition, interestingly, 140 new “traditional dwellings” were built in the same period (there had been only 6 in 1996) (StatsSA, *ibid*). Despite these real improvements in service and housing provision, there are still pockets of unserviced informal settlements such as Tembisa. These are the places where residents are tired of waiting, angry, unemployed, demanding and confrontational. The residents complained in 2009 that they had waited for twelve years for development, but nothing had happened.²

While the Nelson Mandela Bay Municipality does include the development of Tembisa in its planning, and sewerage and electricity provision is in the pipeline, a small community such as this one is simply going to be “delivered” bulk services. Not much is going on in the way of community renewal, of developing a vision of integrated development, of harnessing indigenous knowledge or local skills and resources, of cooperative projects, of micro-businesses or vegetable gardens or income generating projects of other kinds. However, being a small and fairly cohesive community, based not only on language and culture, but on a common history in the creation of the community could form the basis for an innovative community development project – a pilot of a sustainable settlement.

What is common to all three of the communities described above is that they are poor. Two of the three have formal housing and services, yet they reveal the fallacy of the notion that provision of infrastructure and housing alone provides the basis for sustainable settlements. The third has the potential to develop in a different manner, starting from a baseline of nothing: no housing, services, infrastructure, amenities or economic activity at all. Paradoxically, it may prove easier for such a community to create a sustainable settlement than for the other two communities, where decisions about housing and services have already been made on behalf of the residents, and their economic livelihood was not considered as integral to these decisions.

In Kwazakele, a large settlement of around 100 000 people in 20 000 dwelling units, with well-established infrastructure, it will be difficult to change both systems and behaviour. It is also hard to imagine a settlement which was established to provide labour to “white industry” becoming a self-sufficient local economy, producing food, goods and services to meet the needs of people resident there. Even so, in such established “labour dormitory” communities, it is often women who have no expectation of formal employment who take the initiative in local initiatives focussed on the cultivation of vegetables, cooking or service provision. These women can potentially provide the leadership for local economic development based on principles of self-sufficiency and localisation.

2. April 2009 election meeting in Tembisa attended by the author in the company of the then Mayor Nondumiso Maphazi and the Deputy Minister of Science and Technology, Derek Hanekom

In Kuyga, while the choices about infrastructure were made over a decade ago, there is potential for local economic development instead of reliance on obtaining jobs. However, the settlement may be too small to provide an adequate market for its own goods and services and the geographic isolation of the settlement from other markets and opportunities poses a further challenge.

On the other hand, it may be that in communities such as Tembisa, the cost of creating a sustainable settlement is lower than the cost of implementing conventional infrastructure such as in Kuyga – or if not lower initially, more cost-effective over the medium to long term. It is also more cost effective than the restructuring of infrastructure, housing and services in an established township such as Kwazakele. The frequently-made observation that “one size does not fit all” when it comes to settlement planning and costing, can clearly be applied to these three case communities in the same municipality. Paradoxically, the least developed communities may prove to be those which have the highest chance of becoming sustainable.

4. INNOVATIVE SOLUTIONS: PILOTING SUSTAINABLE SETTLEMENTS

Pilot projects at local level in such relatively small, cohesive and as yet undeveloped communities may provide a model of what sustainable settlements can be. The notion of sustainable settlements is premised on an understanding that human settlements are more than housing construction; that they involve integrated planning, and local economic development in which people can produce and access goods and services where they live. The transition to carbon-neutral development providing a high quality of life can be explored at community level, providing direction for local, provincial and national governments. As the poorest communities have the lowest carbon footprint, their responsibility for transitioning is correspondingly lower than that of over-consumers. The objective of such pilot projects is thus to demonstrate the greater benefit to such communities of this model of development; with the residents embracing the model out of self-interest rather than altruism or concern for the future of humanity.

The transition movement is based upon a set of principles, namely localisation; diversification; resilience; indigenous technology (knowledge systems); appropriate (green) technology (low and/or high); multi-usage, recycling (rather than wastage); livelihoods (rather than jobs); meeting of needs (rather than consumption or markets); and lastly, quality of life (rather than standard of living defined by material goods). These principles lay the foundation for community renewal and what are termed transition towns or sustainable settlements.

If just one of these principles – localisation – is examined in the context of poor communities in South Africa such as those described above, some pointers can be found as to how settlements can be self-sustaining as well as environmentally sustainable. Localisation as a principle is tied to local economic development as well as the notion of local geographic self-sufficiency.

How could an urban informal settlement such as Tembisa be developed as a sustainable human settlement premised on localisation? From a starting point of nothing, a pilot project can be implemented that involves renewable energy systems (solar electricity and/or biogas) and recycling systems for water and both solid and liquid waste – eThekweni municipality is testing some innovative measures in this regard in greater Durban, KwaZulu-Natal (see Africa Institute, 2011:1). Housing design and construction would involve materials which are cheap but strong and aesthetically pleasing, and dwellings which are situated in a way that allows for maximum community participation in food production, income-generating projects and recreational activities. The orientation of dwellings would be not only energy-efficient, on the principles of permaculture design, but maximally designed for human comfort and social interaction.

This kind of sustainable settlement would of necessity involve integrated development planning by the local authorities, of the kind outlined in the NMBM *Sustainable Community Planning Guide*; cooperation with other government departments (water, human settlements, energy etc.); and involvement of innovative technical specialists. The Guide makes the point that such integrated settlement planning is premised on meaningful community participation in the process from the outset. By “meaningful” is meant full ownership and control of the project at all stages. This in turn is premised on a fairly small and fairly cohesive community. While national policy on the upgrading of informal settlements and the People’s Housing Programme acknowledges the importance of empowering communities (DoHS 2009:Part 3 Volume 4:9, 30), the level of cohesion of the community, a common history, and a legitimate leadership which is able to maintain unity and represent the interests of the majority of the community, are all critical determinants of whether such projects succeed or fail.

But even where such integrated and participatory planning and implementation is successful, it is no guarantor of economic sustainability, in the sense that such settlements provide livelihoods for the inhabitants. There are many initiatives by municipalities in South Africa and elsewhere to provide both services and houses sustainably, using alternative technology, local labour and materials. The best cases involve development of the social capital of the communities and their active control of the development process. The serious challenge is how human settlement development can be integrated into local economic development, in such a way that the settlements created are sustainable in the economic sense.

While it is not envisaged that such a small settlement would be completely self-sufficient, there are a number of economic activities that the residents could engage in, providing goods and services to their own community, as well as products or services to markets in the city. For example, residents of Tembisa indicated interest in a number of small businesses to serve the local community, including cleaning and selling offal, upholstering furniture and hairdressing. Many other small businesses can be envisaged, providing for the needs of local residents – internet cafes, food preparation, catering for functions, tailoring, servicing of electronic equipment. In addition to the service sector, there is room for decentralised and small-scale manufacturing and construction. Manufacture of solar cells (though perhaps not at such a local level, such manufacturing might be more appropriately situated at the nearby Coega IDZ), manufacture of building materials, building skills utilizing the new materials and technology, installation and maintenance of solar systems – all could conceivably be used in the development of an informal settlement such as Tembisa, and then replicated and passed on through training by those who have acquired the skills, to other similar settlements. In this way, the physical aspects of development (infrastructure, housing and service provision) can provide not just contract labour for a short term, but sustainable livelihoods for those who acquire expertise.

Adjustments to the electricity supply system, which are surely imminent, should allow for poor communities to feed into the electricity grid, generating enough power to cover the costs of their own electricity use, and even generating enough power to sell back into the grid and generate income. The technology for such a system in localised and low-cost settlements is twofold: the municipal electricity grid and feed-in mechanisms; and building technology in the form of Building-Integrated Photo-Voltaics (Froise, 2011). While there are still concerns around regularity and volume of solar electricity supply, as well as the initial cost in low-income areas, the argument is that small-scale pilot projects are the ideal environment in which to implement such technology and “get it right”.

Poor communities such as those described above have little in the way of capital in order to become entrepreneurs and establish businesses. While creating accessible financing and support for micro-enterprises can certainly play a role in this regard, the model of asset-based community development takes as a starting point the existing assets in such communities. All assets, including physical assets such as land (however small a piece) and intangible social assets such as community cohesion and culture, are taken into account and used as building blocks. In this model, even dependency on social grants can be turned into an advantage: instead of those grants being spent in national supermarket chains, which source their produce in other parts of the country, they can be spent in local markets which are supplied by local cooperatives.

People in such settlements can create sustainable livelihoods, using local skills and resources instead of depending on finding jobs elsewhere that require expenditure on transport; and lessening dependence on government grants. Complementary local economic systems, including financial systems such as micro finance systems, local markets, community exchange networks, and cooperative production and distribution systems, can assist residents in making these livelihoods sustainable and equitable. Complementary social and technological systems including access to education and health systems, appropriate infrastructure and technology, and information access can ensure that such settlements are neither isolated nor impoverished.

As the market in such small settlements is limited, the community should investigate the potential market for their products in surrounding communities. If, for example, there was a fresh produce market in the Northern Areas of Nelson Mandela Bay, a number of small settlements such as Tembisa could produce different products for a market that is larger than their immediate community; similarly, localised production of food for institutions (schools, prisons) could provide a steady income stream for small communities in the vicinity. Furthermore, some members of the community may have or find formal employment in other parts of the city. The residents of such communities, as demonstrated above, are already highly dependent on income from the state. The idea is that this income is spent within their own community, rather than outside of it; but of course not everything will be able to be purchased or accessed within such a small community. None of these factors detract from the general viability of the economic model of such a sustainable community.

Instead of a community of dependent non-workers living in a “breezeblock house with a flush toilet”, the model envisages an alternative: residents creating a sustainable livelihood within their local community, and accessing the type of goods and services that can make for a high quality of life. Just one such example is that of localisation of food production and consumption. While localisation is a contested notion in economic orthodoxy, it is a principle of the sustainability movement globally. As noted above, the effort made in terms of changes in behaviour is more difficult in affluent societies such as the USA; Kingsolver (2007) has described her family’s experiment in eating for one year only food produced locally. In many rural African communities, there is limited or no market access, and almost all food consumed is produced locally. In a city such as Nelson Mandela Bay, there is a high level of consumer choice, but hardly any food is produced locally, and costs are also high, resulting in the urban poor having a notoriously poor diet. A variety of tasty and nutritious food products, of the same quality as food that is sold to middle-class health-conscious consumers as “organic” and “free range”, can be produced and sold in local areas at a lower price. The real costs of transport and advertising are reduced, as well as the associated carbon costs. Localisation in this case results not only in livelihoods for the food producers and distributors, but in also increased health for the community.

Concerns around fresh produce regulation for health reasons can be addressed through a flexible local regulation system, and the benefits of fresh produce will certainly outweigh the costs of transport and preservation. The challenges which poor communities face in accessing markets would be addressed through local economic development linkages, with additional institutional support (such as accessible mechanisms for feed-in of locally generated power to the municipal grid) being provided as part of the integrated development plan of the local authority.

In this scenario, the finance model of low-cost housing would be restructured along the lines of the People's Housing Process, where housing supply is linked to localised networks of producers, builders and service providers, using local materials which do not need to be transported from far. Successful localisation would entail community control over design, allocation of houses and service contracts, even local construction of building materials. The cost-effectiveness of bulk provision of services and houses would be offset by the efficiencies of localisation. By this it is meant that wastage, poor workmanship, transport costs and corruption are minimised if settlements are designed and constructed by their residents, who have a vested interest in the sustainability of the product of their workmanship, as they are going to be living there, hopefully for some decades to come. Such projects involving the "sweat equity" of the beneficiaries of new homes are being implemented through the People's Housing Process with varying degrees of success. The advantages of this programme can be further integrated into a local economic development strategy.

The implications of this argument at local level are far-reaching. At a global level, the implication is an extremely positive one for the less-developed countries of the global South. In effect, it will prove much harder for the industrialized countries of the "North" to transition to sustainable societies, than it will for those societies which are starting from a baseline of relatively low development. While South Africa is in the middle in this regard – some would argue it has gone so far along the carbon-dependency development route that it is going to be difficult to change – one can only imagine the potential of a new country such as South Sudan for developing in a sustainable way, avoiding the pitfalls of the old models and providing a new model for other developing societies. The real challenge is whether such a model of sustainable and localised development can be implemented within the context of the broader economic system.

5. CONCLUSION

In South Africa, there are lessons to be learned from previous housing developments, both pre and post 1994, in the planning and implementation of new models of sustainable human settlements. There are also lessons to be learned from the transition town movement in so-called developed societies. However, there are specific economic challenges associated with creating sustainable settlements in under-consuming societies. In spite of these challenges, it has been argued above that integrated sustainable settlements may have the best chance of success in those communities which have the lowest level of development to begin with. In Durning's words (1993:179):

"In the final analysis, accepting and living by sufficiency rather than excess offers a return to what is, culturally speaking, the human home: to the ancient order of family, community, good work, and good life; to a reverence for skill, creativity and creation; to a daily cadence slow enough to let us watch the sunset and stroll by the water's edge; to communities worth spending a lifetime in..."

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Title of the Paper

Value Capture – A sound government intervention to regulate urban land markets

By

Dr Ingrid Jacobsen

Abstract

Population growth and growing economic potential, as well as government involvement in the delivery of infrastructure, facilities, and services, lead to continuous increases in urban land prices. Attempts to recapture this unearned increment resulting from the rise in land values and using it for public purposes have a long history. Rapid urbanisation over the last few decades necessitates a re-thinking of the role of government in creating land markets that allow for all sections of society to benefit from urban opportunities and generate the necessary space for active urban planning. The diversity of spatial patterns in urban agglomerations across the world requires the application of a range of fiscal and regulatory instruments to recapture land value increments. Application of these instruments varies according to the degree to which government is able to intervene in land markets, as well as in the amount of unearned increment value they recapture. They either provide a once-off income to the State, or create revenue on a continuous basis. Some instruments are easily implemented while others require sophisticated systems of land valuation proceedings, cost-benefit analyses, and other considerations. Value capture instruments differ in their ability to influence the spatial structure of urban areas. Based on international best practice case studies, this paper explores the potential of value capture instruments to finance infrastructure and to enable land and property markets to make well-located land accessible to the urban poor. Value capture mechanisms applied in South Africa are analysed relating to their usefulness to improve the financial situation of municipalities, and their implications for land accessibility in urban areas. The paper concludes with recommendations on the adaptation of international experiences in value capture to uniquely South African conditions. It highlights areas for future research relating to the use of value capture in South Africa.

Dr Ingrid Jacobson is an Urban Land Economist at the Development Action Group (DAG), 101 Lower Main Road, Observatory, 7925, Cape Town South Africa; ingrid@dag.org.za, Tel.: +27 21 4487886, Fax: +27 21 447 1987

1. INTRODUCTION

Most of the world's population growth takes place in cities. Similarly, trade and industrial activities in urban areas make up the largest contribution to national economic growth¹. Government supports and enables these developments through interventions that include delivery of infrastructure, services, and facilities in urban or peri-urban areas.

These activities and developments, together with the benefits that accompany them, generally create continuous increases in land prices in urban areas across the world. The high cost of land and property in urban areas has led to segregation and exclusion of financially weaker groups from well-located land and inner-city opportunities. The systemic exclusion of the poor is neither socially desirable nor economically sustainable, and therefore governments have applied a range of approaches to address the exclusionary and unaffordable nature of urban land markets.

Land value capture instruments provide opportunities for comprehensive and rigorous government intervention toward regulating urban land markets. In principle, these instruments aim to recapture value enhancement resulting from the increase in land prices, and to use the captured value for public purposes, instead of leaving profits from increases in land prices to private land owners only². Public participation and inclusion of civil society in the benefits resulting from land value increases derive from a long-standing principle that the social value of land is superior to other claims to land or benefits deriving from it.



Bridge in Khayelitsha,
Cape Town.
Photo DAG

1. See: UN – Habitat 2008

2. Value capture in its original sense describes public financing mechanisms which capture a part or all of the increases in land values that result from public investment. For the purpose of this article the term value capture is broadened to the recapturing of general increases of land values caused by different reasons like public investment in infrastructure, population growth, economic investment and the unlocking of economic potential of certain area and the like.

Value capture instruments vary according to the types of revenue they generate, the percentage of land value they recapture and their influence on urban land markets. Their features are highly dependent on local conditions, political will and authority of the implementing public bodies. Applied in complex circumstances, value capture carries risks and can have negative outcomes. It can distort land markets, create unhealthy dependencies of municipalities on powerful developers or even fuel gentrification or displacement of poor households and financially weak medium and micro enterprises.

In South Africa, value capture instruments have not yet been applied to their full potential, and are mostly confined to the sphere of local government. However, considering financial obstacles faced by local government in buying land, and the ability of value capture to act as a powerful tool to influence land markets, it is necessary to examine closely and critically the wide-ranging application of these instruments in the South African context.

2. BACKGROUND INFORMATION

According to demographic projections, the world's population growth over the next 30 years will be concentrated in urban areas³. The urbanisation process is not only characterised by demographic shifts from rural to urban areas, or by the growth of urban populations, but also by changes in various aspects of society, including fluctuations in the employment sector, and shifts from agriculture-based activities to mass production and service industries⁴. In South Africa, for example, six major cities, where 31 per cent of the total population is concentrated, contribute as much as 55 per cent of national GDP⁵. Urban land is a finite resource, and the pressure on land created by population growth and growing economic potential increases land prices⁶.

The social dimension of land gained momentum in public debates as a response to the strong urbanisation process of the 1970s. The UN-Habitat Conference for National Action on Human Settlements in Canada in 1976 stated: *"Land, because of its unique nature and the crucial role it plays in human settlements, cannot be treated as an ordinary asset controlled by individuals and subject to the pressures and inefficiencies of the market. The unearned increment resulting from the rise in land values must be subject to appropriate*

3. UN-Habitat 2008, p. 5. All urban data are from the United Nations Department of Economic and Social Affairs (UNDESA), 2008b.

4. UN-Habitat 2008, p.4

5. Naudé and Krugell, 2004 in UN-Habitat 2008, p.18

6. For example, in Jamaica between 2002 and 2010 residential land values had increased by between 100 and 300 per cent depending on the parish, while commercial land values had increased by as much as 1,500 per cent in some areas (UN-Habitat, 2011, p. 82). See also Smolka (2003), and Hong and Lam (1998).

*recapture by public bodies unless the situation calls for other additional measures such as new patterns of ownership or the general acquisition of land by public bodies"*⁷

Internationally, the diversity of spatial patterns in urban agglomerations accordingly led to the elaboration of a range of fiscal and regulatory instruments to recapture land value increments. Different responses to these land market interventions are practised, depending on local conditions and the political orientation of the governing regime. State-led approaches include interventions such as land price freezing, exercising pre-emption, as well as expropriation and compensation. Less drastic interventions are land banking, the use of regulatory instruments such as zoning, and the application of value capture. Value capture instruments are revenue generating mechanisms first and foremost, but contingent on the context, they have the ability to act as strong regulators of land markets. Revenues generated from land value capture could be used to increase the capacity of the State as an economic player in urban land markets.

The most widespread use of value capture instruments is once-off applications in the form of development charges, also known as betterment levies, paid in monetary terms or in kind in the form of land or infrastructure. Some value capture instruments create revenue on an on-going basis, such as periodical or annual property taxes and revenues from leasehold contracts. Real tax or tax on immovable property usually forms the most important part of the local government's tax base⁸. Other taxes, such as a tax on capital gains deriving from land transactions intended to curb land speculation, is a powerful value capture instrument applied on a once-off basis.

Some value capture mechanisms are complex, for instance ongoing payments toward social facilities from the profit of large infrastructure or urban renewal projects. In these cases, the information needed to determine the appropriate applications can be wide-ranging and require sophisticated systems of land valuation proceedings, cost-benefit analyses, and so on. Legislative changes are required in some applications.

7. UN-Habitat, 1976

8. For example, in the United States, property taxes account for as much as 30 per cent of the total revenue or 75 per cent of total tax revenues for local governments (Hong and Lam, 1998, p.1). For South Africa, it accounts for almost 20% of the total operating income of the (then) 284 municipalities of the country (Franzsen, 2005, p.2.)

3. PROBLEM STATEMENT AND PROCEEDINGS

South African cities are especially affected by increases in land prices⁹. The high costs of well-located land needed for subsidised housing is one of the factors that contributes to the practice of providing housing for low-income households in large housing projects on the urban periphery, reinforcing the spatial and social segregation created by the apartheid system. This approach also threatens the financial sustainability of local governments, and the sustainability of the current South African housing policy in terms of its financial implications on implementation¹⁰. Exploding land prices limit the State's ability to act as a participant in the land market, thereby leaving limited scope for active inner-city planning. The right to the city, that is participation in the economic, social and cultural life, is denied to South Africa's poor, and increasingly also to the lower middle-class. Moreover, gentrification is increasing, further marginalising poorer households¹¹.

These developments point out the urgent need for government intervention in urban land markets. However, interventions have to be adapted to the South African context, which is shaped by a market-driven economy that leaves minimal space for State-led regulatory measures. The innovative and creative use of value capture instruments presents opportunities to explore solutions for the financial and land crises challenging South African cities.

It is imperative that South Africa draws on international experience in creating applications appropriate to the local context, as the introduction and successful implementation of these instruments are complex and risky. For this reason, case studies from three different continents are outlined in the first part of the findings. They are chosen based on their relevance for tailoring value capture instruments to the South African context. Emphasis is afforded to the application of these instruments to financing public infrastructure and to enabling land and property markets to make well-located land and, in this way, housing opportunities, accessible to the urban poor.

The second part of the findings focuses on the South African context. It presents different value capture instruments already in place in the country, and examines their potential to enable government to influence urban land markets and create affordable housing opportunities for middle and low-income households. The conclusion explores opportunities for future use of value capture instruments in the South African context.

9. Bhana, Hendricks and Tonkin, 2010; ABSA 2007

10. South Africa's housing backlog has grown from 1.5 million in 1994 to around 2.1 million now, meaning as many as 12 million South Africans are still in need of better shelter (Times live 2012). Spending on housing service delivery increased from R 4,8 billion in 2004/05 to R10,9 billion in the 2009/10 financial year – at an average rate of 23% (South African Government Information 2011).

11. Kothari, 2007, Visser. and Kotze (2008) Mirafab (2007).

4. RESULTS AND FINDINGS

4.1 INTERNATIONAL EXPERIENCE

4.1.1 Well-established value capture mechanisms in Brazil

São Paulo, Brazil, offers impressive examples of how local authorities can increase their revenue base through value capture, and shape the development of the city to the benefit of all citizens¹².

With the Incremental Building Rights and the Onerous Grant Mechanism for Interlinked Operations introduced in the 1980s, the State separated building rights and property rights in the vibrant and active urban areas. This legislation was crucial for creating revenue for Joint Urban Operations and Interlinked Operations for projects that promote development in peripheral areas, for infrastructure development, for revitalising central and historic areas, for reducing gentrification; for building affordable housing; and for initiating slum upgrading. The introduction of this legislation and mechanisms was rooted in the idea that the right of a developer to construct anything is awarded by the community through government.

The Onerous Grant Mechanism reduced the rights of construction and established a basic and maximum Floor Area Ratio (FAR). Developers could depart from the determined FAR, but had to request approval from and pay tariffs to the municipality to obtain permission. Interlinked Operations involved the sale of additional construction rights to developers. The income of the Interlinked Operations was used to build social housing and to upgrade slums. Between 1987 and 1998, the municipality of São Paulo raised USD 150 million and constructed 15,000 houses. The Onerous Grant has increased the income of the municipality of São Paulo from USD 22 million in 2005 to USD 73.2 million in 2009. Local government created additional income by selling construction rights in large areas inside the city perimeter, namely the Joint Urban Operations mentioned above. Financial resources raised through these sales were used to implement large infrastructure projects such as the construction of a bridge over the Pinheiros River at a cost of about USD 100 million.

12. The following section is largely based on the input of Paulo Sandroni during Development Action Group's National Conference: Re-Imaging the City: A New Urban Order in Cape Town, October 2010. As a member of the administration of Sao Paulo Mayer Luiza Erundina in 1988, Paulo Sandroni was significantly involved in the practical introduction of value capture instruments in Brazil.



Brige over Pinheiros River.
Photo: Paulo Sandroni

Initially, authorities in São Paulo were reluctant to use these instruments to recapture all incremental land values. However, when the potential of these tools was realised, the authorities actively encouraged the extension of land value capture instruments. Since 2004, all additional construction rights have been sold as Certificates of Additional Construction Potential (CEPACs) through auctions on the São Paulo stock market. Due to competition between developers for the acquisition of these rights, prices have increased and all created land values are recouped.

Contrary to government's fear that developers would oppose these charges, developers did not consider the extra charges an additional financial burden slowing down investments¹³. Rather, they increased public resources, which the municipalities used to upgrade slums in a holistic way. Crime prevention, employment creation, setting up social support institutions, and establishing building institutions, formed part of the strategy to improve housing conditions. In this way, government intervention improved the social conditions of the city, and created a more secure environment. Developers welcomed these new developments, but the business world was not easily convinced of the new approach to city development. However, after success was proved, the business world recognised the mutually beneficial aspects of the procedures, and supported the new legislation.

13. Personal communication with Paulo Sandroni, 29 June, 2011

4.1.2 Land leasing in Hong Kong

The Hong Kong government has a strong constitutional mandate to regulate its land use and land related revenues. The case of Hong Kong presents an example of active intervention in land and housing markets through leasing government land.

In Hong Kong, all land and about 50 per cent of the housing stock in the city are owned by the government. Approximately three million people, roughly half of the population, live in housing units that are either rented or sold to them by the government. In land leasing contracts the government retains the right to own, but multiple rights, such as the right to develop, use, transfer, inherit and benefit from the land, are awarded to developers for a limited period. During the leasing process, there are four occasions on which government is able to recapture the profit from increased land values, i.e. at the initial land auctions, through lease modifications, through contract renewals, and as annual land rent¹⁴.

The land-leasing system enabled the government to regulate land supply and capture development windfalls at the same time. Through leasing public land, an average of 39 per cent of the increase in land values occurring between 1970 and 1991 could be recaptured. Together with other land related revenues such as rents and taxes, 79 per cent of the average annual infrastructure investment costs could be covered for the same period¹⁵.

However, a number of systemic weaknesses occur in these leasehold systems, despite their effectiveness. As the Hong Kong government became increasingly dependent on the revenues derived from value capture, it had to minimise the transaction costs of capturing land value by leasing land rights gradually. The government's need to collect windfall gains at the inception of land leases meant that developers were required to have substantial up-front capital to pay for high land premiums. Under this system, only financially resilient developers could compete for land at public auctions, and only a few received new land leases from government. For this reason, a select number of developers started to gain control over the supply of housing units¹⁶.

14. Hong and Lam, 1998, p.3-5

15. Hong and Lam 1998, p.9-14

16. Hong and Lam 1998, p.18; Ching and Fu, 2002, p. 6-7. A study conducted by the Hong Kong Polytechnic University (HKPU) for the Consumer Council revealed that between 1991 and 1994 70 per cent of new private housing units were supplied by seven developers. 55 per cent came from just four developers, and one of them built 25 per cent of all new flats (Hong and Lam, 1998, p.15).

Large developers who dominated the public auctions seized the opportunity to bargain with government over the timing of land development. At times, they delayed their development projects in anticipation of higher future returns. When developers postponed the construction and supply of housing units, property prices increased. Rapidly increasing prices in property markets fuelled real estate speculation, which in turn continued to escalate property prices further. During the 1990s, Hong Kong had some of the highest increases in property prices in the world¹⁷.

A powerful measure against this form of market domination is fair competition. This requires that government does not only rely on recapturing land values at auctions. Lower premiums allow more developers the opportunity to buy development rights and broaden the competition between bidders. The development time allowed to complete housing and hand-over to end-users can be limited in the leasehold contracts. Lease payments, property taxes, and capital gains tax introduced on property sales may serve as additional sources of land revenue¹⁸. However, these amendments are difficult to introduce to an existing system of value capture, and may encounter strong resistance from developers¹⁹.

4.1.3 Risky large-scale projects in Europe

In Europe, value capture is increasingly becoming part of large scale infrastructure projects which contribute more and more to inner-city developments and infrastructure delivery.

Large scale projects include infrastructure developments such as harbours, railway stations, multi-purpose halls, soccer stadia, and urban renewal projects. During periods when government resources are scarce and in times when the performance of the economy is unstable, rendering government finances unstable in return, it is hoped that these projects have the potential to enhance employment creation and economic prosperity through the investments and accompanying trickle-down effects that are attracted. In addition, they are expected to sponsor cultural and social facilities and events - responsibilities formerly seen as government obligations alone. In many cases, they are combined with holistic master plans for the development of surrounding urban areas²⁰.

17. Hong and Lam, 1998, p.23

18. Hong and Lam, 1998, p 23-25. Land transaction taxes are not a reliable source of income for the municipalities and could be questioned from equity and efficiency points of view. See also Tsui 2006p. 2.

19. Smith, 2000

20. Comprehensive insight into typical large-scale value capture projects developed in Europe that meet the criteria outlined above, is provided by Huxley, 2009.

Value capture in these projects is mostly initiated during land use changes in centrally located areas, and sometimes enhanced by the construction of transport infrastructure in the area surrounding the project. Infrastructure provision and the delivery of social facilities are typically delivered through joint ventures and public private partnerships after an intensive negotiation process. The increment in land value induced by these measures is usually recaptured by the private developers first, after which a certain share thereof has to be paid through once-off charges, levies, development contributions, and donations in kind to the public. On-going revenue for government activities or public purposes generated through value capture, if at all part of the negotiations, are rare²¹.

In order to ensure fair value capture negotiations between public and private stakeholders, it is important to understand and properly quantify the public value of all elements of the development scheme, even those considered to be heavily in the private interest²². This involves the acquisition of information that may incur high costs. The most significant challenge is to address real needs of developers, but limit their efforts to increase their gains at the expense of the public good. Success in this regard depends on government's ability to negotiate powerfully, but also on the ability of civil society to put pressure on government to act in the public interest.

Large projects in inner-city areas are seldom constructed on vacant land, and in most cases existing communities are affected by new developments. Public participation is crucial, even in cases where public bodies and private enterprises have negotiated and worked out large scale projects successfully, including different forms of value capture and master plans, to develop the surrounding areas. In the case of the '02 World Arena' in Berlin, public bodies and private developers agreed on the development of a multi-functional arena with mixed-use development in surrounding areas, called the Media Spree Project. Both stakeholders considered the negotiation process to have been very successful²³.

Notwithstanding the success of the Media Spree Project, the sale of land formerly owned by government led to the displacement of residents and small scale enterprises established in the area. Increased rents caused gentrification, and public open space was lost. Consequently, the implementation of project plans is still hampered by protests, legal contestations, and acts of sabotage. In 2008 a public referendum held about the investment plans,

21. Huxley, 2009, p.34

22. Huxley, 2009, p.14

23. Huxley, 2009, p.30



World Arena. Photo: MediaSpree versenken



Protests against Media Spree.
Photo: MediaSpree versenken

87 per cent rejected the planning. Government had to step back from its initial plans, and compensation to the amount of Euro 164.7 million²⁴ had to be paid to the developers²⁵.

4.2 EXAMPLES OF VALUE CAPTURE IN SOUTH AFRICA

4.2.1 Implications of value capture adaptation in South Africa

South African land markets have special characteristics that require consideration for the successful introduction and extension of value capture instruments. South African land markets, already strongly distorted by apartheid structures, became increasingly inaccessible to the poor due to unregulated power granted to market forces during the last decade²⁶. Strong protection of private ownership and the general belief that investment, and therefore employment, could be created best by market forces, rendered the government reluctant to intervene in urban property markets in a strongly regulatory manner. Importantly, the vastly unequal distribution of income among the South African population restrains the active reshaping of urban areas²⁷.

24. The total investment was planned to a sum of Euro 1.5 billion (Huxley, 2009, p.30). Value capture repayment to public bodies is estimated to be about Euro 6.25 million (Huxley, 2009, p.32).

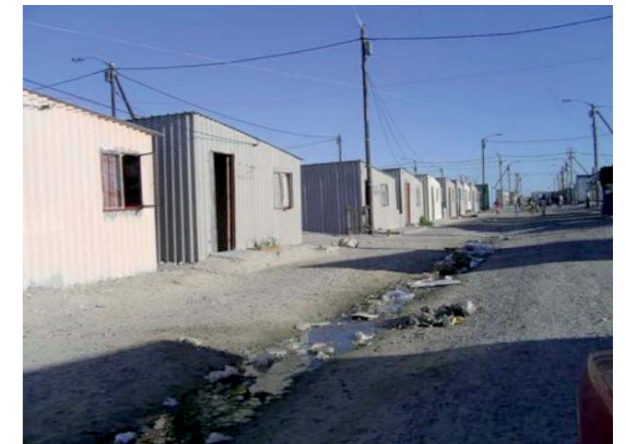
25. For further information see: www.ms-versenken.org, www.de.wikipedia.org/wiki/02_World 14.10.11, Der Tagesspiegel, 17 July 2011.

26. Napier, 2007, p.6

27. Smit and Purchase (2006, p.29) point out that in the USA, the proportion of the total population that fall into the affordable housing category (i.e. the category of people requiring government support to access well-located land for housing Comment of the author), amounts to no more than 10 to 20 per cent of the total population. The same is true for the UK, Canada, the Netherlands and several industrialised countries. In South Africa, the comparable proportion is 70 to 80 per cent.



Construction site on prime land, Cape Town.
Photo DAG



Low-cost housing at the urban periphery, Cape Town,
Photo: DAG

On the one hand, these distinct circumstances hamper the introduction of value capture instruments in South Africa. On the other hand, they underpin the need for such intervention. Considering the limitations to value capture interventions pointed out above, it is sagacious to build on value capture mechanisms that are already in place in South Africa, and extend them with consideration of international best practice experiences.

The following section examines the potential of different value capture instruments already implemented in South Africa, as well as their usefulness in creating resources to enable government to create access to land and housing for the urban poor.

4.2.2 Once-off development charges

Once-off development charges are usually imposed on developers of newly acquired or owned properties when a development permit is issued or a property is subdivided. Development charges are often once-off contributions to the rising costs of infrastructure investment related to the development of the sites in question. These charges can be levied through a wide range of instruments, including development application fees, connection charges, development levies, and development taxes. The instruments vary widely between different areas, based on their intent and implementation arrangements²⁸.

28. UN-Habitat, 2011, p.13; Savage, 2009, p.6

Development charges for small developments are typically paid in monetary terms. For large developments such as low-cost housing projects, it is common practice in South Africa to pay in-kind contributions. This type of payment could be in the form of setting designated land aside for public purposes such as roads, community parks, schools, local economic development projects, or the construction of infrastructure, and handover of these improvements to the local authority. Arrangements between developers and government bodies are varied and strongly dependent on local conditions. Donations in kind are given preference as they reduce operational and management costs, and are not affected by inflation. In most cases, development charges are only sufficient to finance the costs of new investment, and do not contribute to maintenance costs of new infrastructure²⁹.

Development charges have economic and spatial consequences. From an economic perspective, the charges are intended to ensure that the costs of new developments are equitably distributed between the developer of new projects and the existing ratepayers. From a spatial perspective, development charges can contribute to reducing urban sprawl through increasing costs of peripheral developments to account for their full costs. Such costs included those of extending bulk supply networks or installing new infrastructure³⁰.

A range of variations regarding the effective rate at which development charges are levied, exists across different municipalities in South Africa. Savage³¹ indicates that the role of effective rates is not well understood in the current municipal environment, and that there is a need for research on these rates. According to Savage, evidence suggests that they are under-utilised, causing a fundamental distortion in land markets. This happens either through pricing property developments below their real cost, or allowing developers to capture the benefits of insufficient charges without passing this cost on to property owners.

4.2.3 Periodically levied land and property taxes

South Africa has been taxing property in the form of land and buildings annually since 1836³². Three land and property rating systems were applied: the site rate, the flat rate, and the composite rate. Site rates tax only the property in terms of land, not taking into account buildings, improvements, or investments added to it. Flat rating is a tax on land and investments added to it, calculated on the value of both aggregated. The third, the composite rate, differentiates between the value of the land and the value of buildings and investments. Taxes on both parts of the property are levied separately, with land charged at a higher rate than the buildings or investments on the land.

29. Savage, 2009, p. 7; Haysom 2009

30. UN-Habitat, 2011, p.11; Savage, 2009, p.7-8

31. Savage, 2009, p.3

32. Franzsen, 2005, p.2

Local government had the directive to resolve which of the abovementioned tax systems should be applied in their area of jurisdiction, and at what rates the taxes are set. Different taxation systems were used in different municipalities until 2004. However, the Local Government Municipal Property Rates Act introduced in 2004 replaced that flexible taxation system with a standardised market value tax system. The market value of the property is the amount the property would have realised if sold on the date of valuation on the open market by a willing seller to a willing buyer³³. The only decision left to local government is to set the applicable tax rate. This approach is comparable with the former flat rate, not distinguishing between the value of the property in land and the value of the buildings and investments on the land. This system is criticised on the ground that it does not take into account local conditions and unique constraints of different municipalities. It may act as a disincentive to invest in land, and may minimise the possibilities of municipalities to influence and regulate land markets³⁴.

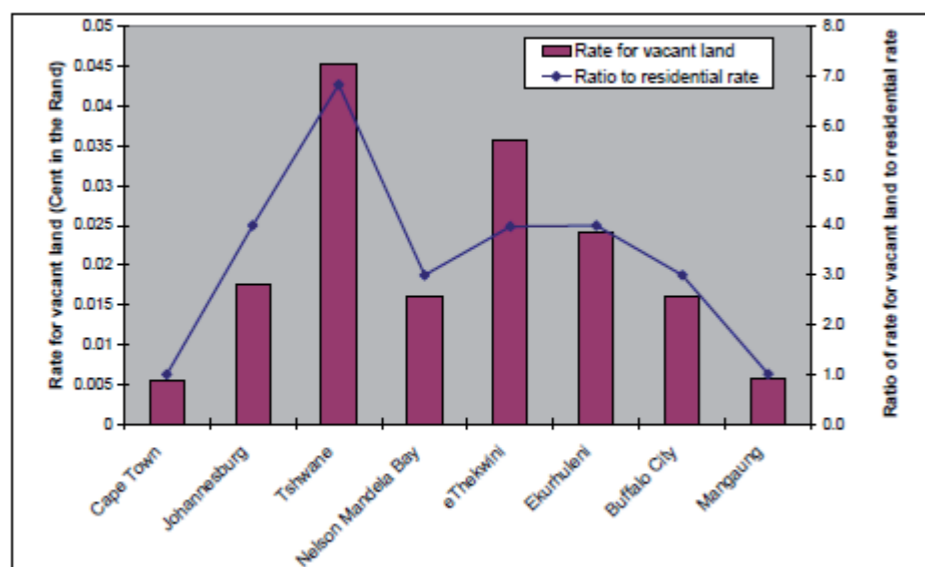
Special taxes on vacant land have a strong leverage and play an important regulatory role in terms of urban land markets. Vacant land tax can curb speculation and bring unused land back into the urban land market, and is an additional source of revenue to finance the obligations of the municipality³⁵. A comparison of rates for vacant land levied by different South African cities is given below.

33. Republic of South Africa, 2004

34. Bhana, Hendricks and Tonkin, 2010, p.11;

35. UN-Habitat, 2011, p.97; Nokwane, 2010. This is successfully done by the City of Johannesburg where the vacant land tax is proportional to the tax rate of the area in which the vacant land is located. The revenue deriving from taxing vacant land is used to fund infrastructure such as the Gautrain, the Bus Rapid Transit system, public realm upgrades, and inner-city regeneration (Nokwane, 2010).

Figure 1: Comparison of rates for vacant land 2009/10



Source: Municipal rates policies, calculations by Urban Land Mark³⁶

4.2.4 Area and project based value capture

Area based value capture is applied in Special Rating Areas determined by a municipality. Additional rates on property are levied for the purpose of raising funds to upgrade the area. An important consideration is that of consulting the community concerning the proposed boundaries and the proposed upgrading of the area - the municipality has to obtain the consent of the majority of community members in the proposed Special Rating Area who will be liable for paying the additional rate³⁷. This mechanism is effective in raising additional revenue for special improvements, but its regulatory impact on unequal urban land markets is fairly low. Special Rating Areas could fuel segregation as the upgrading of these areas leads to increased land prices and displacement of struggling businesses and poor residents³⁸.

Inclusionary zoning, also known as inclusionary housing, is an effective area or project based way to unlock land values increased through the demand for residential purposes and use these to the benefit of lower income groups. In areas of inclusionary zoning, town planning ordinances require that a given share of newly constructed housing units have

36. Source: Urban Land Mark 2009

37. Republic of South Africa, 2004.

38. Cape Times, 2010

to be affordable to people who are not able to buy or rent property at market prices³⁹. Questions arise around financing for construction of inclusionary housing and financial sustainability. Cross-subsidisation of different housing units is only possible if the project has a minimum size, or if uses other than residential are part of it⁴⁰. For these reasons, inclusionary housing is likely to require some form of subsidisation by government.

Another form of area based value capture is the creation of designated Restructuring Zones for targeted, focused investment. These zones are identified by local authorities and supported by provincial government. Social housing in restructuring zones on well-located land requires institutionalised management, and must take the form of medium-density multi-unit complexes which include townhouses, row-housing, multi-storey units, walk-up buildings, and other typologies, and exclude detached units. A defined density threshold in respect of all social housing projects has to be stipulated in special guidelines. Land values are unlocked in these restructuring zones, and directly passed on to residents from a different socio-economic background, who are protected from displacement⁴¹.

5. CONCLUSIONS

International experiences provide evidence of a wide range of value capture opportunities which could have a regulatory impact on land markets and improve the financial situation of local governments. These cases demonstrate that value capture is highly dependent on local conditions, and on the political will and authority of governments to apply them.

Brazil provides best practice examples of the extent to which value capture instruments might contribute to the improvement of the financial basis of local governments. It also shows how value capture instruments became more sophisticated over time. The country's value capture experience started with recognising the importance of the social value of land over and above consumption. The foremost lesson from Brazil is that the recognition of the social value of land has the potential to address inequality, poverty, and marginalisation. Nevertheless, the replication of some of the successful applications of value capture implemented in Brazil needs active promotion by the government.

39. Smit and Purchase, 2006.

40. Tonkin, 2008, p. 215

41. Republic of South Africa, 2005, p.10. Social Housing is a special form of housing subsidised by the Government, which was originally targeted to families earning between R 1500 and R 7500. However, mostly developed by private enterprises which have to look for high returns of investment, existing housing units are mostly occupied by the upper part of this income bracket only.

The Hong Kong model is not directly replicable in the South African context as government owns only a small portion of well-located inner-city land. Nevertheless, the assignment of leasehold contracts conditional on the use of the land for social purposes creates opportunities for the publicly assisted delivery of housing for urban citizens on scale.

The way in which increased land values are recaptured in Europe through large infrastructure projects could become an option for ways to finance and implement urgently needed infrastructure developments in South Africa⁴². However, in the local context, significant attention should be afforded to the active participation of affected communities.

In order to introduce value capture instruments, governments will have to be prepared to engage in complex and protracted negotiation processes with urban land developers over the details of contract negotiations. As the relation between these two stakeholders are increasingly influenced by the market paradigm, the need for flexibility and public pressure to create jobs could entrap local governments to make major concessions to developers, which limit future options for influencing urban land markets.

South Africa has high urban land prices and vast income disparities, rendering between 70 and 80 per cent of the population dependent on government assistance for accessing well-located land and housing. Given government's significant financial obligations in this regard, value capture mechanisms provide opportunities for generating permanent income possibilities for government, benefitting local governments in particular. On-going revenues are needed to finance operating or management costs related to social purposes such as education, health, and especially housing. Government should not sell well-located public urban land. Instead, the economic potential of publicly owned well-located land should be unlocked through solid leasehold agreements that allow government to retain its authority and generate a permanent income. Leasehold contracts could serve as the container encompassing a package of value capture instruments tailored to local conditions.

Seemingly modest value capture proceedings, such as leveraging development charges, are subject to complex systems. This makes it challenging to explore their potential to its full extent and generate fair and equitable outcomes for all stakeholders involved. There are no blueprints for how to introduce value capture successfully, but several principles, such as process-orientation, transparency, and active participation of all stakeholders, should be applied to create mutually beneficial situations and ensure the sustainability of outcomes.

42. However, during the construction of infrastructure projects for the implementation of the Soccer World Cup 2010, the opportunity to introduce value capture in large scale projects has not been used (Personal communication with Moegsien Hendricks, 4 November 2011).

Revenue derived from value capture approaches could be used to upgrade areas on the urban periphery to accommodate the large number of South African citizens in need of housing close to the city, but incapable of affording well-located housing due to land shortages and high land prices in inner-city areas. Living conditions in these marginal areas can be improved through employment creation and the provision of social facilities related to health and education. The necessary financial resources for this approach could be generated by capturing value in inner-city areas.

6. IMPLICATIONS FOR PRACTICE AND ADVANCEMENT OF RESEARCH

There are various implications for the use of value capture instruments in South Africa. Consideration needs to be given to the entire chain of procedures - from introducing the appropriate legislation and due implementation in daily administrative work; to billing and collection of the respective incomes and enforcement of payment. Knowledge of challenges regarding the introduction of value capture instruments is still weak. Applied research on obstacles to and enablers for creating social benefits through value capture relating to every segment of the chain would add value to academic work done on urban development. Such research could contribute even more to the work done by practitioners, who are willing to implement innovative instruments to finance pro-poor access to land and housing.

In cases where the incremental values of land are collected, mechanisms have to be put in place to ensure that the additional resources are used for public purposes and pro-poor activities such as the provision of secured access to land and housing for disadvantaged urban citizens. Sound negotiation processes are necessary to balance the different interests of all stakeholders involved in the process. Political will is imperative to ensure the successful introduction of value capture and to guarantee the use of its benefits for the public good. Value capture is not the panacea for solving urban development challenges, but it presents significant potential for creating mutually beneficial conditions for all stakeholders. This has only been explored in part, and requires further consideration.

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Title of the Paper

An evaluation of the viability of incremental housing as a solution for resolving housing affordability challenges for the gap market in South African urban areas

By

Gilbert Khathi

Abstract

This paper will analyse housing affordability challenges for the gap market in South Africa and possible causes thereof. It will also outline policy instruments that were put in place to resolve housing affordability challenges for this market, as well as the success and failure thereof. Considering affordability challenges experienced in this market, the paper will also examine the feasibility of the incremental housing approach by drawing on the experience of micro lenders who receive funds from the Rural Housing Loan Fund as lenders to this market as well as the experiences of the beneficiaries receiving this fund as borrowers. The Rural Housing Loan Fund model was chosen as the subject of investigation as it is similar approach proposed by the author. The paper will present an argument as to why this is a viable option for South Africa and what government can do in terms of creating an enabling environment that would make this approach work for urban communities.

1. INTRODUCTION

Improving housing affordability for low income earners has remained a challenge in South Africa despite numerous interventions. Despite this challenge, rural communities are continuously making strides in developing their houses incrementally while urban communities are deprived of this opportunity. Fife pointed out in the Financial Mail of August 2007 that those who had houses during that time were smiling as they saw the value of their properties grow due to an upswing in the property market while many millions who were excluded were watching with growing resentment at their exclusion (Fife, 2007). The situation of unattended households in the gap market is like a ticking time bomb waiting to explode when these communities lose patience. This paper evaluates the extent to which an incremental housing approach provides a viable solution for resolving housing affordability challenges for the gap market in South African urban areas.

2. BACKGROUND AND CONTEXT OF HOUSING AFFORDABILITY CHALLENGES IN SOUTH AFRICA

When the government of national unity came into power, the majority of South Africans could not afford housing on their own owing to sidelining of certain (mainly black) communities and the redlining of townships in terms of access to credit. This was perpetuated by the boycotting of mortgage loans in townships during the 1980s. The National Department of Housing developed a range of policy instruments to address this problem. One instrument was the normalization of the lending environment. This included the establishment of the National Home Builders Registration Council (NHBC) in terms of the Housing Consumer Protection Measures Act No. 95 of 1998 to protect the interest of housing consumers, and to regulate the home building industry, seeing that structural defects in houses were one of the reasons for boycotting bond repayments prior to 1994. Servcon Housing Solution was also established to manage and rehabilitate 33 306 non-performing loans and properties in possession emanating from the bond repayment boycott. These properties were valued at R1,8 billion. A special purpose vehicle company called Thubelisha Homes was also created to deliver government subsidised stock for clients who could not afford the repayment of their mortgage loans and had to be right sized (i. e had to relocate from a bonded unit to smaller government subsidised units). A home loan guarantee company called Gate Way was also established to provide guarantees to banks that would incur losses while lending to township communities.

While attempts were being made to attract banks to lend in townships, the National Housing Finance Corporation (NHFC) was established to provide lending to low income South Africans living in urban areas. The Rural Housing Loan Fund was also established to provide lending to rural communities. Through these efforts, banks gradually abolished the

redlining of townships. To date, housing development finance institutions have disbursed about R6,912 billion to finance 847,835 housing opportunities (Human Settlements Department, 2011a).

Although the National Urban Reconstruction Housing Agency (NURCHA) was established to respond to the supply side challenges by funding small contractors and developers, its business is not geared towards funding new development as it depends on loan repayments for survival. In the business plan of the NURCHA, the availability of funding capacity is cited as a major challenge to their affordable business (National Urban Reconstruction Housing Agency, 2011).

The outcry about affordability problems forced government to intervene directly by establishing a subsidy programme called the Financed Linked Individual Subsidy Programme (FLISP), aimed at assisting those who earn income ranging from R3,501 to R7,000, with down payments toward their housing provision. Although the policy is in place, its implementation had to date not been effective as the number of applications approved totalled only 926 since the inception of the programme. Challenges outlined during the review of the implementation strategy of FLISP includes unavailability of housing products for the target market earning from R3,501 to R7,000 per month; high levels of indebtedness of households; the rising cost of housing stock due to inflation; a lack of bulk services and affordable serviced stands; the poor level of savings and reluctance to take up long term mortgage finance (Human Settlements Department, 2011b). One would argue that the same challenges also resulted in the limited performance of housing finance institutions at large.

2.1 MAIN FACTORS THAT CAUSE AFFORDABILITY CHALLENGES IN SOUTH AFRICA

2.1.1 Housing Supply Shortages

FinMark Trust in 2009 noted that the scale of delivery from both government subsidised markets and non-subsidised markets is insufficient (FinMark Trust, 2009). The problem of housing supply constraints was also noted by the Housing White Paper of November 1994 (Department of Housing, 1994). The law of demand and supply suggests that if the supply of any product does not respond adequately to the demand, prices for that product will increase. Snyman of the Bureau for Economic Research argues that, during the upswing in the economic cycle, the demand for houses increases and more so in the affordable market (Snyman, 2010). Developments in South Africa over the past ten years suggest that the constraints in terms of housing supply were the main contributing factor to house price growth. The trend of demand and supply mismatch and its impact on house price growth are depicted in table 1 below.

In 2004, for instance, the economic growth of 4.6% while interest rates declined, created conditions for the demand for housing to increase further. However, housing supply during that period declined by 5.5%. In response to that, house prices grew by 46.8%, which suggests that supply did not match demand. This fuelled the growth in house prices. As the rate of economic growth surged further to 5.3% in 2005, it created conditions of more demand for housing, while the response in housing supply was limited to an actual growth of 8.6% in that year if we consider that part of the 14.9% growth in supply went towards recovering the 5.5% decline in 2004. House prices in that year grew by 25.1%. When the supply responded vigorously in 2006, house price growth declined to 14.9%. When the supply diminished in 2007, there were further increases in the growth of house prices.

Table 1

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Average HP growth	2.3	12.6	14.8	46.8	25.1	14.9	18.7	10.2	2.8	2.6
Economic growth rate	2.7	3.7	2.9	4.6	5.3	5.6	5.6	3.6	-1.7	2.8
Interest rates	13.00	17.00	11.50	11.00	10.50	12.50	14.00	15.00	10.5	9.00
Housing stock in numbers ¹	40525	48140	59305	56063	64427	83106	84371	45313	26903	31458
% growth in housing stock		18.8	23.2	-5.5	14.9	28.9	1.5	-46.3	-40.6	16.9

Source: NHBRC, SA Reserve Bank and ABSA, 2011

Moreover, the number of houses with a value below R250 000 registered by the NHBRC from 2005 to 2010 shows that housing supply at the lower end of the affordable market declined from 13 800 in 2005 to about 4000 in 2010 while the total supply of housing stock per year increased up to 2007 as reflected by the table above.

The continuous shift in average house prices for the affordable market which has increased to R312 400 in the third quarter of 2011 from R305 100 in the second quarter of 2011 also provides an indication that house prices continue to escalate. The result is that a household with a basic income of R9 500 that could afford a house valued at R267 516 (at a 9% interest rate in a 20 year bond) will soon not be able to afford a house due

1. Housing stock supply as reflected by NHBRC home enrolments

to continuous house price growth. This circumstance further suggests the possibility that many South African professionals earning below R10 000 will in future experience difficulty in finding an affordable house within their salary range if a strategy for resolving the constraints to affordable housing supply is not developed.

Many researches argue that government should not be a supplier of housing stock even though this approach has been successfully implemented in countries such as Singapore. UN Habitat for instance indicates that governments in many countries have failed to play the role of a supplier of housing stock as they had neither the capacity nor the budget to meet the demand (UN Habitat, 2008).

Research by FinMark Trust indicates that government intervention on the supply side in South Africa has crowded out developers at the lower end of the affordable market because of potential risks it has created through its product (FinMark Trust, 2008). Governments of countries such as Singapore and Chile where there is an acute shortage of housing as is the case in South Africa did intervene directly by providing housing stock (Yuen, 2007). The question that the South African government needs to ask is how it can intervene without crowding out private developers?

2.1.1.1 The role of government subsidized stock in improving housing supply

The use of government subsidized housing stock provided for the poor to boost supply for the affordable market is not a viable option because the owners are neither willing to sell their only asset nor to risk using it as collateral (Kayamandi Development Services, 2001 and Shisaka Development Management Services, 2011).

2.1.2 Indebtedness and risk aversion of financial institutions

Indebtedness is one of the impediments to housing affordability. The ratio of household debt to disposable income was 76.8% in the first quarter of 2011 (South African Reserve Bank, 2011). The number of consumers with impaired credit records has remained above 46% (National Credit Regulator, 2011a). The application of the National Credit Act, as well as the global financial crisis also meant that banks have become strict in the application of their lending criteria. Figures from the National credit Regulator in June 2011 show that the number of mortgage applications rejected increased from 40.29% in the first quarter of 2010 to 43.25% in the same quarter of 2011. Figures on mortgage granted by size of agreement show that the number of mortgage loans granted to individuals earning below R150 000 per annum declined by 39% in the same period (National Credit Regulator, 2011b). The percentage of credit applications declined and levels of mortgage loans granted to low-income earners suggest the possibility that credit providers have become more risk averse while a high level of indebtedness cannot be ruled out as a contributing factor.

Smit (1999) points out that many bankers, government financial institutions and non-traditional lenders believe that initiatives of the South African government aimed at opening up the lower end of the mortgage market to the private sector have failed. The reason for the failure according to Smit (ibid) is that mortgage bonds as a lending instrument in this country has suited neither the needs and circumstances of low income households nor the risk averse instinct of the financial institutions. He further argues that there is greater confidence in micro lending because it is more manageable for end users and is proving to be profitable for lenders (Smit, 1999). The argument that mortgage bonds are an unsuitable instrument for low income earners and lenders in the affordable market suggests that a different approach should be followed in developing a financed linked subsidy programme.

2.2 THE EXTENT OF THE PROBLEM

The absence of a working solution to the problem of affordability for those outside of the subsidy market² has left many South Africans in the gap market unattended. The magnitude of the problem is illustrated by Sing in his unpublished research supported for the World Bank in 2010. In his research, he categorizes the South African Housing market into four parts. He points out that out of 13.8 million households in South Africa, 8.3 million (60%) fall within the government subsidy market. Another 2.2 million households (16%) (with monthly household income levels between R3501 to R7000) fall within the gap market that is covered by the Finance Linked Subsidy Programme. This group qualifies for a mortgage bond of between R149 000 and R177, 000. One million households (7%) that earn between R7000 and R10 5000, qualify for a bond valued at 151,000 to 215,000. Earning between R10 500 and R15 000 per month, 0.7 million households (5%) make up the affordable housing market. They qualify for a bond of between R272 000 and R443 000. This market, as well as the 1.6 million households (12%) with a monthly income above R15, 000 is accommodated by the private sector (Sing, 2010).

The information above supports the argument that the majority of households in the gap market (over three million) will be without houses if challenges relating to affordable housing supply are not resolved.

2. Subsidy market refers to households with income from R0 to R3,500 and qualify for the government subsidized houses

3. RESEARCH METHODOLOGY

This research consisted of both desktop research and interviews. Desktop research was used to analyse the cause of affordability problems in South Africa as well as the magnitude of the problem. An analysis of international experiences was used to determine whether government should intervene or not and to highlight different methods of improving housing affordability that are applied internationally. Considering the pros and cons of different methods and South African circumstances, the research determined which approach is most appropriate for resolving housing affordability challenges in South Africa.

The delivery model of the Rural Housing Loan Fund and its intermediaries was used to test the feasibility of the selected approach. In particular, affordability challenges for those at the bottom end of the selected group were considered. Interviews were used to collect information on experiences of the implementers of this model both from the side of the lenders and that of the borrowers as beneficiaries.

All the current intermediaries of the Rural Housing Loan Fund formed part of the research since there are only a few. Within these, 15 beneficiaries were selected from Gauteng, Kwa-Zulu Natal and the Eastern Cape.

4. WHY IS INCREMENTAL HOUSING THE MOST VIABLE OPTION FOR IMPROVING HOUSING AFFORDABILITY IN SOUTH AFRICA?

4.1 DIFFERENT APPROACHES TOWARDS IMPROVING HOUSING AFFORDABILITY

4.1.1 Lump sum subsidy towards down payment and administrative costs

According to this approach, the state provides to those in the target group a sum of money that they can use to buy a house in the way they see fit. Diamond (2003) argues that this kind of subsidy is regarded as the most efficient and transparent subsidy, since the size of the grant is clear, the use is least constrained, and the it causes the least distortion to the market. Specific rules or conditions should apply to those who receive the subsidy in the form of money. Diamond (ibid) further argues that lump sum subsidies that require access to finance are not good and fail if they are not designed with additional subsidies that assist in the provision of finance from the side of government (Diamond, 2003).

4.1.2 Interest rate subsidies

Diamond (2003) points out, that interest rate subsidies are sometimes applied directly to lenders to entice them to reduce the effective rate through direct subsidies. Although he views it as cheaper than the lump sum subsidy, simple to understand and relatively simple to implement, Diamond (ibid) argues that it is dependent on the life of the loan and availability of financing. He further points out that if the subsidy is too high it encourages excessive borrowing and discourages early repayment. If there is limited competitiveness in the market, it can be very costly or expensive to finance (Diamond, 2003). This suggests that such subsidies should be applied to fixed interest rates as it will be cumbersome to effectively budget for if interest rates change.

4.1.3 Savings based subsidy schemes

Following this approach, subsidies are provided to alleviate savings constraints. Such subsidies are considered most effective in increasing home ownership for low income households in many countries (KPMG, 2008). However, it is still critical to stimulate savings for home ownership in order to have home owner equity in the house. For that reason, the element of savings should not be eliminated. This can be a good approach for South Africa if it is applied with incremental housing but it depends of the accessibility of land.

4.1.4 Mortgage insurance subsidy

In this approach the premium will be paid for through the subsidy. The down payment requirement is therefore lowered by paying for the increased risk to the lender through mortgage insurance. Hoek Smit advises that a combination of mortgage insurance and upfront lump sum subsidy towards the down payment is effective because both reduce the mortgage premium since the risk on the outstanding loan balance that can not be recovered in case of foreclosure is smaller (Hoek Smit, 2004).

4.1.5 Rent-to-buy and rent-to-mortgage housing schemes

These schemes have been implemented in the UK since the early 1990s and involve the government providing significant discounts to tenants in public housing wishing to buy the house as opposed to continuing to rent it. The value of the discount depends on the length of time that the tenant has rented the home. The rationale behind the rent-to-buy scheme is to allow low-income earners to purchase homes that they would previously have been unable to afford. Under the terms of the rent-to-mortgage scheme the tenants would be able to buy a stake in their home by converting a proportion of their rent payment to a mortgage payment. This payment is smaller than with the rent-to-buy scheme (KPMG, 2008). Both kinds of schemes achieved limited success in the UK. With the rent-to-buy scheme many tenants still found it difficult to afford a house, especially when property prices increased. With the rent-to-mortgage scheme there was a small take-up of the offer with the vast majority of tenants being rejected on the grounds of affordability. Since the scheme was also piloted in and around London, it was not feasible for those wishing to leave the city (Balchin and Rhoden, 2002).

The rent-to-buy concept has also been made popular in the USA. In a generic agreement, buyers and sellers sign a lease agreement for a fixed period of no more than 36 months. The tenant pays a “down-payment” which he/she loses should he/she not buy the house at the end of the lease agreement. When the lease expires, the buyer has the option of buying the house. The purchase price is agreed before the lease agreement is signed by both parties and is fixed (KPMG, 2008). The concept of “rent credit” means that the buyer is offered the use of a portion of the monthly lease amount as part of the payment of the purchase price, if the property is purchased (KPMG, 2008). Despite the fact that social housing stock is very limited in South Africa, this can be a good approach for alleviating housing shortages for the gap market. This is supported by the study on cost benefit analysis of RDP and social and rental housing (Social Housing Foundation, 2009)

4.1.6 Strategies proposed for the supply side

A Quick Guide for Policy Makers Number 5 developed by UN Habitat suggest four ways in which housing affordability can be improved from the supply side. These are: mass production, introducing more practical, more realistic and more flexible building standards; alternative building technologies and self-build.

4.1.6.1 Mass production of housing stock

This approach achieves low cost housing by reducing construction costs through economies of scale. In some instances high rise buildings are used to reduce land costs as more units can be accommodated on a small piece of land (UN Habitat, 2008). It is argued that in many countries where governments have attempted to provide housing stock, they have been unsuccessful due to a lack of capacity to deliver massive stock and financial constraints.

4.1.6.2 Introducing alternative technologies and building components

UN Habitat (2008) argues that the introduction and popularization of standardized building components that households can buy and assemble on site does help to reduce housing costs. Reports suggest that this approach has been successful in many countries in Europe and South America. The effectiveness comes from the idea that if these components are mass produced they achieve economies of scale as in mass production of housing stock (UN Habitat, 2008). For this approach to be effective in terms of cost reduction, the model should also allow people to do housing development on their own.

4.1.6.3 Self-build

According to UN Habitat (2008), housing for the poor is not a product but a process. It is not something that is completed at once, but it is developed in stages as household needs and resources change. UN Habitat (ibid) further argues that the majority of houses built in Asian cities is not built by government or the private sector but by people themselves and self-built housing is the most popular method of housing production amongst all income groups and across all types and qualities of housing. UN Habitat advocates this method, which entails that people hire small contractors, such as carpenters, to build for them. In so doing, “they control their process and build a house that precisely suites their taste, their needs, their aspiration, and their resources” (UN Habitat, 2008: page 19).

4.1.6.4 Developer incentives

This strategy is applied to entice developers to increase housing supply. It takes the form of property tax exemption and tax credit amongst others. The provision of incentives to developers to assist developers to respond to the supply becomes effective if supply factors are elastic³. If land regulations and procedures hinder the supply of land and make it too costly relative to the target income groups, it may be difficult to have the developers responding adequately on the supply side. The World Bank supports this view and argues that developer incentives cannot resolve housing problems at scale because of extremely tight land regulation in major Indian cities (World Bank 2010). A research paper on the workings of the township residential property market and a synthesis on the making urban land market working for the poor pointed out that regulation and procedures have become a burden to developers in South Africa (FinMark Trust, 2004 and Charlton, 2006). This implies that developer incentives for improving housing supply will not work in South Africa if regulation and procedures still impede smooth functioning of the land market.

4.2 STRATEGIES THAT RESPOND DIRECTLY TO THE CAUSE OF THE AFFORDABILITY PROBLEM FOR THE GAP MARKET IN SOUTH AFRICA

The strategies outlined above, namely subsidies for down payment and reduction of administrative costs; interest rate subsidies; savings based subsidies; mortgage insurance subsidies; rent-to-buy and rent-to-mortgage schemes are critical for improving affordability. However, they all respond to the demand side and are dependent on the availability of affordable housing stock. Limited supply of affordable stock for the gap market in South Africa suggests that, unless there is adequate supply of affordable housing stock, these instruments are not viable for resolving housing affordability problems in South Africa.

In spite of the above criticism, the revised FLISP strategy of August 2001 has adopted the provision of subsidy for down payment, but with a higher subsidy of R83 000 (the subsidy amount in the initial strategy was R57 000), which will be provided on a sliding scale. The implementation plan outlined for the revised strategy is that a household earning R10 000 can qualify for a house valued at R270 000. With a subsidy of R19 000, the household will only be required to raise R251 000 from banks (Human Settlements Department, 2011b). The success of the revised strategy is still questionable considering that the private sector has recently only managed to deliver about 4000 housing units valued up to R250 000. The question that remains is whether developers will be willing to provide a large number of houses valued under R250 000.

3. Supply factors are elastic: they will advance the supply should there be a need. This means that title and registered land is efficiently supplied and infrastructure is available.

Supply of such affordable housing may also be restricted by limited funding by banks. Adebayo (2011), amongst others, argues that measures to lure banks into lending in townships have not yielded the envisaged results partly because of the perceived instability of the township environment. For this reason, among others, banks were convinced that they would have difficulty offloading properties in default. Tomlinson (2007) and Rust (2009) share similar views. One could argue that the same reason may also prevent the revised FLISP approach to succeed as it continues to depend on mortgage lending as the ultimate funding model for housing development. This is because developers will depend on mortgage funding to recoup their investments. Adebayo (2011) instead supports the view that micro-lending should be capacitated and developed with efforts similar or greater than those put towards attracting mortgage lending so that micro-lenders could play a bigger role in this market.

Another possible challenge for the revised strategy is that housing affordability, especially for those at the bottom end of the income bracket of the gap market, may still be limited even after the subsidy has been increased. The table below suggests that households with a monthly income of R3 500, for instance, will only qualify for a house valued at R166 799 including the down payment of R83 000 for a 20 year bond and at 13% interest⁴. Should the cost of lending be charged at prime, which is currently 10%, the value of a house for which such a household can qualify, increases to R184 458.

4. A 13% interest rates which is prime plus four is an attempt to represent higher risk of mortgage lending which is a normal procedure with banks

Table 2: Affordability Levels for the Gap Market

Basic salary per month	R3,500	R4,318	R4,652	R5,562	R6,592	R7,881	R 9,464
Pension (7.5%)	R262	R323	R348.94	R417.19	R494.40	R591.09	R709
Tax	R	R	R	R113.34	R300.20	R534.20	R821
Disposable income (DI)	R3,237	R3,994	R4,303	R5,031	R5,797	R6,755	R7,932
Installments as 30% of DI	R971.25	R1,198	R1,291	R1,509	R1,739	R2,026	R2,379
Affordability at 13% (20yrs)	R83,799	R103,402	R111,393	R130,247	R150,059	R174,871	R205,330
Affordability at 13% (30yrs)	R88,751	R109,513	R117,976	R137,944	R156,928	R185,205	R217,465
Short term loans at 32.1% interest (72 months)	R31,707	R39,110	R42,146	R49,263	R56,771	R66,141	R77,665
Short term loans at 32.1% interest (36 months) ⁵	R22,867	R28,205	R30,395	R35,527	R40,942	R47,700	R56,011

Source: Human Settlements 2011⁶

The revised strategy is still dependent on the private sector to respond on the supply side despite the fact that this approach has failed in the past. Hoek Smit (2004) argues that the first task of government policies is to improve supply systems. Only then would it be possible to improve affordability on the demand side through subsidizing housing finance in order to increase access to housing and lower the cost of housing finance. She further argues that demand side interventions are influenced by inflation, which causes a recurring problem of affordability and requires a constant increase of the intervention amount (Hoek Smit, 2004).

Mass production as a supply side instrument has the ability to respond directly to the housing supply shortage in South Africa. However, fiscal and capacity constraints on the side of government also mean that government is currently unable to adequately provide housing assistance for the poorest of the poor as the housing backlog remains high (BNG, 2004 and Human Settlements Strategic Plan 2011). This suggests that if government wishes to provide more assistance for the gap market chances are that the number of houses delivered for the subsidy market will have to be reduced.

5. 32.1% interest rates represents the highest interest a micro lender can charge as at November 2011

6. Basic salaries above R3500 represents salary scale of government employees from level 1 to 6 all notch 1 as at June 2011.

The use of alternative building material appears to be effective provided that those materials are available at scale and are affordable and that land is readily available. The challenge with this approach in South Africa is that alternative technology products are still not popular and few factories manufacture them.

An incremental housing approach seems the most appropriate model for responding directly to the main cause of housing affordability problems as it allows communities to use their own limited means to build their homes incrementally at their own pace. One could argue that this is the main element that makes housing more affordable for the poor. As beneficiaries can supplement their own resources with loans, this approach allows for the use of a combination of own investments, loan funding as well as government assistance where it is available. Many countries have successfully implemented this approach according to the UN Habitat (2008) and it is advocated by many researchers such as Turner (2001) and Adebayo (2011).

4.3 IS INCREMENTAL HOUSING AFFORDABLE?

Turner (2001) argues that, although incremental housing is dependent on employment and economic growth, self-help incrementalism is superior to centralized public housing in terms of affordability, flexibility and essential human creativity (Turner 2001). Smet (2001), on the other hand, considers *“housing affordability a dynamic concept which enables the poor to build what they can afford when they can afford it”*.

South African rural communities have proved that it is possible for low income earners to provide houses for themselves incrementally over time. They use their savings as well as capital from micro lenders to finance their housing developments. The strategy used to improve affordability is to first stockpile building material before commencing with the actual construction (Rural Housing Loan Fund, 2010). Information collected from micro lenders who are intermediaries of the Rural Housing Loan Fund showed that households with a monthly income of R3 500 have received loans of up to R24 000 for housing purposes to be repaid over a period of 36 months (Human Settlements Department, 2011c). The loan amount these households qualify for is paid directly to material suppliers and owners only receive materials equivalent to their loan amount. Credit revolves as they make repayments on the loans (Rural Housing Loan Fund, 2010).

Information collected from beneficiaries of the Rural Housing Loan Fund suggests that individuals in the low income category manage to build their houses incrementally through the instrument of micro lending instrument even without the assistance of government. Mzonjane Nicholas Mtolo, from Bhongweni Location in Kokstad, who earns only R2 810 a month, initiated his housing process with a R10 000 loan obtained from Lendcor (Human

Settlement Department, 2011d). The 2010 Annual report of the Rural Housing Loan Fund indicates that it takes ten years for some households to complete the housing process (Rural Housing Loan Fund, 2010).

Some beneficiaries advise that people who wish to follow an incremental housing approach should start by saving or use their bonuses while others advise that people should take loans that they can afford to supplement their limited income (Human Settlements Department, 2011d).

It emerged from the experience of beneficiaries that these home owners do not have building plans and therefore cannot accurately determine the material they need. A case in point is Mr Zamekile Phahla who took loans for R20 000 loans for roofing materials hoping that the R10 000 he had saved would be sufficient for finishing the walls. He was left with a pile of roofing material and repayments on the initial loan before he could obtain further funding for completing the walls (Human Settlements Department, 2011d). In order to respond to this challenge, it is proposed that government should provide building plans with a breakdown of materials required. This will allow material suppliers to advise their clients accordingly about the building material required. Adebayo (2011) argues that continuous support such as building material support, house extension plans, small builder training and house related information and advice should be provided in order for incremental housing to be successful.

4.4 FEASIBILITY OF INCREMENTAL HOUSING IN SOUTH AFRICAN URBAN AREAS

The success of incremental housing in South African rural areas is enabled by easy access to land. In the old order, households in rural areas were given permission by the traditional councils who act as land administrators in terms of communal land rights act to occupy and work the land at no cost. In the new order, land rights can be transferred to the community or individual persons (Cousin et al, 2011).

Land in South African urban areas is privately owned and not easily accessible to low income earners. Land in urban areas is mainly accessed through the formal market and government housing interventions to alleviate poverty and informally through land invasions. The challenge is that urban land in South Africa is scarce and dominated by the formal market. Administrative problems with land use management systems and regulations make such land difficult to access and unaffordable for low income earners (Charlton, 2006). Mark argues that urban land becomes available to the highest bidder. Over and above buying power, low income earners lack the bidding power which begins with access to information about a particular plot of land.

Poor communities in South African urban areas also access urban the land market through land invasion (Napier, 2008). However, this is usually temporary and housing development cannot take place before the land tenure is formalized. Lastly, poor urban communities also access land through government subsidized housing programmes (World Bank, 2007). However, government subsidy programmes earmarked for the gap market are not useful for purchasing land as they are designed as a down payment or deposit for a complete house.

Over and above the challenge of high costs of land and access, Biermann (2000) argues that the cost of providing bulk services is high and in some areas even population density fails to reduce costs due to the unique interrelationship between the infrastructure threshold, capacities, location and density over time and space (Biermann, 2000). Therefore, provision of serviced land becomes a critical area for government intervention to enable low income households in urban areas to develop housing for themselves.

Turner (2001) argues that housing affordability depends on policies capable of reducing the cost of land, infrastructure provision, building materials and labour. In spite of challenges posed by steep building cost escalations, especially during economic booms as reported by the Bureau for Economic Research of Stellenbosch (BER, 2010), rural communities of South Africa have proved that self-housing, even for low income earners, is possible with access to land with tenure. This suggests a need to reconsider restructuring the current Finance-Linked Subsidies Programme (FLISP) in order to allow low income households to access serviced land through this subsidy and to initiate their housing process.

Incremental housing can be implemented within the Informal Settlements Upgrading Programme (UISP) and green fields projects. Implementation within the UISP will allow government to accommodate those individuals who already reside in informal settlements and do not qualify for a government subsidized house. Generally, integrating gap market interventions with low income housing has the potential to improve sustainability of settlements by integrating people of different income levels, which will allow unemployed residents to get jobs from those with some form of employment within settlements. Moreover, when the government housing projects are completed, skills acquired by local people can be employed to build top structures for the beneficiaries who own serviced stands.

Nell (2010) and many other researchers argue that incremental housing improves affordability on the side of government as well. Nell, for instance, points out that current government funding will not be far from meeting the demand if the housing policy is changed to limit government subsidy funding while maximizing private funding and credit (Nell, 2010). Adebayo (2011), in support of the statement above, argues that incremental housing is good for economising on the government budget.

The provision for the serviced stands in the subsidy quantum, which was R28 162 according to 2010/11 figures, shows that it will be cheaper for government to provide serviced land for the gap market than a down payment of R83 000 for a complete structure per household, especially for those at the bottom end. Those who earn R10 000 per month could make a contribution to their serviced land depending of the subsidy amount they qualify for. Even if the subsidy could be doubled for 2010/11 to date of this publication, the investment by government would still be around R56 000 instead of R83 000. Should government decide to provide the whole subsidy (R83 000), the remaining amount after financing the serviced stands could be used to support beneficiaries with building material to commence their housing process than to wait for a bonded house.

5. CONCLUSION

Research has shown that policy interventions that focus more on the demand side while neglecting the supply side will achieve limited success in resolving housing affordability challenges. International experiences also suggest that prescribing housing solutions that undermine the participation of beneficiaries and the private sector as active investors will only increase the burden to the state while providing limited solutions to the housing problems of the country.

The capacity constraints on the private sector to deliver adequate housing stock in South Africa suggest that interventions should focus on the supply side. The ability of an incremental housing approach to respond to the supply side challenges while improving affordability on the demand side suggests that this should be the main strategy for housing development for the gap market. However, access to serviced land is the enabling environment for urban communities to achieve self-housing. Moreover, appropriate assistance is also critical to ensure that this approach becomes a success. Assistance should focus on offering building material support, providing building plans with a breakdown of required materials and infrastructure and increased access to credit.

Equally important is the development of an appropriate funding model that will be responsive to the needs and circumstances of the end users. While mortgage has been a successful model for funding housing development internationally, it is blamed for being unresponsive to the needs and circumstances of low income earners. Micro-lending on the other hand is favoured for responding adequately to the needs and circumstances of low income earners. It is argued that micro lending needs to be supported.

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Title of the Paper

Housing subsidies: impeding development or developmental necessity?

By

Matodzi Michelle Amisi

Abstract

Since 1994 the South African government has embarked on a massive housing programme that provides housing to the poor earning between R0 and R3 500. Much has been achieved through the programme with 15.2% of all formal housing stock in the country being delivered through government housing. However, housing remains unaffordable and inaccessible to many. This paper explores South Africa's response to the housing shortage through the capital subsidy. The paper argues that although the housing policy framework is committed to a process of empowering communities, the emphasis on supporting markets and the reliance on the private sector to build houses for the poor have created several challenges for the programme. This approach to housing development does not support equitable (broad based) development and undermines the capabilities of the poor, which is detrimental to government's aspiration to be developmental. These challenges, however, do not diminish the importance of housing intervention in the country; in fact, government intervention in housing the poor remains imperative. Therefore the paper explores an alternative to the current delivery model and argues that a capacity enhancing, community empowering and bottom-up intervention is needed in South Africa.

1. INTRODUCTION

The South African constitution endorses adequate housing as a right which everyone residing in the republic is entitled to (Landman and Napier, 2009; Ndinda, Uzodike & Winaar, 2011). Constitutionally, government is required to ensure the progressive realisation of this right (Landman & Napier, 2009). Since 1994 the interpretation of the right to housing has predominantly been through the provision of a once-off capital subsidy that goes towards the construction of free standing housing units on greenfield developments for poor households (Rust, 2002; Porteous, 2005). Using the capital subsidy, government provides a finished building which is transferred to the poor on a freehold title (Sanya, 2010). Between 1994 and 2010 government invested approximately R99 billion through the housing programme and built 2.37 million houses (National Department of Human Settlements, 2011:1). Most of the houses are what is referred to as Reconstruction and Development Programme (RDP) or Breaking New Ground (BNG) housing, is are constructed by the private sector contracted by government. Such housing accounts for 15.2% of the total formal housing stock (Landman & Napier, 2009:4). This is quite an achievement for a developing country and represents a mammoth investment in comparison to that made by the apartheid government (Gilbert, 2003).

Despite the high rate of delivery, the housing backlog has continued to grow and there have been concerns about the sustainability of the programme, the ability of the programme to address inequality, poverty and unemployment, corruption, the quality of the end product and the increasing dissatisfaction of communities with the pace and mechanisms of delivery (Sanya, 2010; Tissington, 2011). The the approach to housing housing delivery through contractors seems unable to meet the demand and furthermore seems not to have the desired social impact (Sanya, 2010). The challenges facing the programme have recently received political attention with the Minister of Human Settlements calling for a cut-off date for free housing (Sexwale, 2011). Nevertheless, as the Minister himself has recognised “government cannot cut off the poor yet” (Sexwale, 2011). The current economic conditions characterized by high levels of unemployment (Porteous, 2005) which were constructed by the racially biased educational policies and resource distribution of the previous government (Brown-Luthango, 2007) and the fact that housing is a constitutional right bestowed to all citizens of the republic creates a complex environment where government cannot fully jettison its housing assistance to the poor. Therefore the question is not so much about when to cut off free housing but rather about how to reform the housing programme to make it responsive to the development challenges that the country faces and to address some of the challenges the programme itself has faced.

This paper makes the argument that the current problems with the housing programme do not invalidate government intervention in housing but are evidence of the failings of a system that attempts to provide housing in a top-down, market favouring approach. Designed differently, government intervention in housing has the potential to be developmental. The paper begins by looking back at the apartheid conditions that set the tone for the housing subsidy system implemented by the post apartheid government. Then the paper looks at the current programme and explores three challenges that it faces as a result of the programme being designed to provide low cost housing through the private sector. Having done this, the paper explores what a developmental housing subsidy programme should consider.

2. BACKGROUND AND CONTEXT

During apartheid, limited and declining housing stock was provided for Africans in urban areas. Van Driel (2001) shows that, in 1967, a budget of R14.4 million was spent on whites as compared to R5 million on Africans; by 1975 the gap had widened with R67 million spent on white housing and 7.8 million on Africans. Generally, African ownership of housing in urban areas was discouraged until the late 1970s, when the state (now increasingly influenced by neo-liberalism, and also wanting to create a stable black middle class) started to promote self help schemes similar to those employed by the Thatcher government, and started to sell its housing stock cheaply to members of the African working class (Van Driel, 2001). Owing to the minimal state investment in African urban housing, by the late 1980s, many poor African urban dwellers lived on the outskirts of towns in informal settlements. This led to a situation where at the dawn of liberation, South Africa was facing a glaring shortage of houses and high levels of asset poverty amongst the urban poor, with housing policies at the time bearing little relation to socio-economic issues, sustainable development or job creation (Van Driel, 2001; Parnell and Mosdel, 2005).

The fact that Africans were denied access to the city and particularly ownership of property in urban areas set the foundation for a post apartheid housing policy centred on encouraging ownership. Allowing Africans to own housing in urban areas was a justifiable imperative of government post liberation; this is how the apartheid government excluded Africans from cities (by denying them ownership of properties) and that was how the African National Congress (ANC) government intended to both redistribute the country's wealth and recognize Africans as lawful occupiers and owners of urban spaces. The centrality of housing to the South African democracy is seen in the fact that housing is a right that is enshrined in the constitution (Bond, 2003). According to Section 26 of the bill of rights *"everyone has the right to have access to adequate housing and the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right"*. The key legislative measure that the post apartheid gov-

ernment has taken to fulfill this constitutional mandate is the adoption of the Housing White Paper of 1994; the promulgation of the Housing Act of 1997 and the Housing Code (Rust, 2003). Over the past 17 years these three documents represented the framework within which housing to the poor is provided.

3. POST 1994 HOUSING PROGRAMME

From the White Paper through to the Housing Code, community empowerment has been recognised as a key element of housing policy. The Housing White Paper indicates that the South African socio-economic and historical context necessitates *"an approach of assistance to households in need in a way that will maximise the options available to enhance and strengthen their own efforts and initiative to improve their housing situation as quickly as possible"* (Republic of South Africa, 1994:19). Furthermore, the White Paper envisions a housing solution that is diverse and complex, which is only possible through *"mobilising and harnessing the full diversity of resources, innovation, energy and initiative of individuals, communities, the State and the broader private (non-State) sector"* (Republic of South Africa, 1994: 19). These principles of community empowering housing development were translated into law through the Housing Act no 107 of 1997. The Housing Act charges all three spheres of government to consider housing developments that, amongst other things, *"encourage and support individuals and communities, including but not limited to co-operatives, associations and other bodies which are community based, in their efforts to fulfil their own housing needs by assisting them in accessing land, services and technical assistance in a way that leads to the transfer of skills and empowerment of community"*.

In spite of a stated commitment to a community empowering housing process, the housing policy has at its centre a subsidy system which provides a once-off capital subsidy to poor households (Huchzermeyer, 2003; Rust, 2003). The housing policy defines the poor who qualify for fully subsidised houses as those households earning between R0 and R3 500 per month (Republic of South Africa, 1994). Income is not the only means testing a household is subjected to in determining qualification for subsidies. Beneficiaries should be a citizens of the Republic, 21 years of age or older; married or co-habiting and/or single with financial dependants. Low-income earners who have previously received state assistance for accessing housing are excluded from the current housing subsidy scheme (Republic of South Africa, 1994). In 1994 the capital subsidy amounted to R16 000, which paid for a serviced stand and a basic or starter house (Adebayo & Adebayo, 2001; Rust, 2003). By 2002 the maximum subsidy amount had risen to R20 300 per household (Rust, 2003). In 2010 the subsidy was adjusted to R55 706, which was considered adequate for purchasing a 40m² house in a greenfield development (Department of Human Settlements, 2010:3).

The quantitative achievements of the South African housing programme are well recognised. In its first five years of existence the housing programme constructed 1 155 300 houses for the poor and disbursed 1 334 200 subsidies (Gilbert, 2004:19). This was a great achievement for the country. By 2010, delivery through the programme had reached 2.37 million houses (National Department of Human Settlements, 2011:1). This amounted to an expenditure of approximately R99 billion in the first 16 years of democracy (Department of Human Settlements, 2011:1). Most of government expenditure on housing is through the once-off capital subsidy which provides “free” RDP/BNG free-standing houses, built by private sector and allocated by the state to poor households. According to Landman and Napier (2009), housing delivery by the state has contributed 15.2% of all registered formal stock in the country. The housing programme has therefore contributed significantly to the amount of formal housing stock in the country.

4. MEETING HOUSING NEEDS THROUGH THE PRIVATE SECTOR: CHALLENGES

However the delivery achievements of the programme are often overshadowed by the number of challenges that have faced the programme since 1994. This paper will reflect on three challenges which are considered to be imperative in this paper. The three challenges are interrelated and relate to the macroeconomic framework that South Africa adopted in 1996 with the introduction of Growth Employment and Redistribution (GEAR) (Ndinda et al, 2011).

The first challenge is the central role that the housing policy gives the private sector in delivering housing to the poor (Venter and Marais, 2006). Though some have viewed the policy as statist (Smit, 1999) the housing policy is fairly market-oriented (Bond and Tait, 1997). Bond and Tait (1997) argue that the subsidy system favours the markets and empowers large developers over communities. Huchzermeyer (2001) and Marais, Ntema and Venter (2007) support this argument by suggesting that the programme is bent on controlling rather than developing communities. With the exception of the People’s Housing Programme (PHP), construction of the RDP or BNG houses is delegated to private contractors who are contracted to the Department of Human Settlements through a tendering system (Rust, 2003; Tissington, 2011). Therefore, although the policy framework encourages community empowerment, the White Paper’s emphasis on financial sustainability and other market friendly terms denotes a move away from the rights-based approach enshrined in the Constitution and reflects the heavy influence that market-based thinking has on housing policy (Bond, 2000 and 2003; Venter & Marais, 2006).

The supremacy of markets in the country’s economic landscape has to a large extent prescribed a housing delivery mode that transfers benefits to communities through privately

owned construction companies and not directly to the poor (Ndinda, et al, 2011). In the programme’s current design, capital subsidies are not paid to the individual households and communities do not have control over who is awarded the tender, where the material is bought or what labour is utilised. Private developers are employed on behalf of the community by the province or municipality, they receive the bulk of the profit, small as it may be, and communities are but beneficiaries of the houses and not of the economic power that comes with access to the subsidies (Pithouse, 2009). It is not surprising that a market favouring system for addressing the housing problems of the poor has not been successful in South Africa. As Smith (2006) argues, the markets will never be able to satisfactorily respond to the housing needs of the poor. Market principles dictate investments to earn returns (Smith, 2006). By nature of their business, private contractors have to make profits, this means that the subsidy amount is shared between the contractor and the beneficiaries. Smith’s (2006) assertion is supported by the United Nations Habitat that warned that *“the limitations of approaches that try to address the housing needs of the poor through the market mechanisms are becoming increasingly evident”* (UN Habitat, 2001:84).

The use of private contractors in housing delivery has led to a second challenge for the housing subsidy programme. The housing programme has been criticised for disempowering poor communities (Del Mistro & Hensher, 2009) and perpetuating an entitlement mentality where communities have been made to believe that government can and will provide housing for everyone for free or at least at a cost everyone can afford (Dewar, 2009). Over the years government has taken all the responsibility for the provision of low cost housing; state institutions make decisions on projects, determine budgets, appoint service providers etc. This has undermined the initiative of individual households and communities (Dewar, 2009). Numerous community uprisings that South Africa has witnessed in recent years have been interpreted in many ways as the dissatisfaction not only with the pace of delivery but with the marginalization that has resulted from the current mode of delivery (Nemeroff, 2005; Mangcu, 2009).

The third challenge faced by the housing programme has been corruption and the quality of the end product. One has to only look at the media to get a sense of the problem of corruption in housing. In particular, the awarding of construction tenders has been heavily contested, with accusations being made that affiliates to the ruling party receive preference in the allocation of tenders without consideration for their capacity to deliver (Kane-Berman, 2011). Recently, eThekweni has been embroiled in a number of scandals around the awarding of tenders after auditors concluded that in the past ten years the municipality has awarded tenders that were marred by irregularities and illegalities (Zulu and Mthethwa, 2011). This referred to tenders with a net worth of R3.5 billion (Zulu and Mthethwa, 2011). eThekweni is not the only state player experiencing corruption in housing tenders. The Minister of Human Settlements appointed the Special Investigation Unit (SIU) to investigate tendering processes in 10 246 housing projects across all provinces

(Bua News, 2011). The SIU findings led to the arrest of 1 910 housing officials illegally benefiting from subsidies and cases being brought against contractors operating in low cost housing (Bua News, 2011). According to Bottelier, (1998:1) “corruption is a great enemy of development”. It increases transaction costs, tends to lead to state levying higher tax rates to compensate for losses, weakens the ability of the state to address social injustice and ultimately undermines the legitimacy of the state to govern (Bottelier, 1998). In the case of the housing programme one can argue that persistent allegations of corruption and the cost thereof to tax payers have been undermining the legitimacy or justification of the existence of the programme.

The cost of corruption in government subsidised housing is embodied in the Rectification Programme. The Programme was instituted to repair housing built before 1994 that did not meet the minimum norms and standards (Department of Human Settlements, 2009). However, over the years the focus of the Rectification Programme has shifted from pre-1994 stock to post 1994 subsidy stock that is dilapidated (as a result of shoddy workmanship). The National Home Builder Registration Council (NHBRC) estimates that 2 638 500 subsidy houses are high risk while between 40 000 and 50 000 houses need to be rebuilt (Kane-Berman, 2011). The NHBRC further estimated the cost of the rectification process at R59 billion (Kane-Berman, 2011). Thus R59 billion will be given back to the very same private sector contractors who failed to build quality houses in the first place for rebuilding and repairing badly built houses. This means that government will be paying twice for the same product. This expenditure will not make a dent in the ever increasing housing backlog and will only serve to distribute government funds to the established construction companies who will be awarded tenders for rectifying the houses.

However, in spite of the listed challenges government’s intervention in housing remains imperative in a democratic South Africa. Housing affordability for the majority in South Africa is heavily constrained: 86% of South African households do not earn enough to afford a mortgage for a house that costs R200 000 (Lall, Van Den Brink, Leresche & Dasgupta, 2007). This is below the minimum cost of an entry level house in most cities and requires a monthly income of over R11000 and a loan repayment cost of R3, 400 (Landman and Napier, 2009). Moreover, as Harvey (2010) states, private capital cannot be left to its devices with the poor. Private capital is bound by economic laws and prices set by markets will reflect market demand and not need (Smith, 2006). The main concern of private capital is earning profit; it does not have social common good as the ultimate desired outcome. The world at large is still paying (both financially and politically) for the sub-prime lending practice of the United States of America (USA) which led to a loss in property worth \$11 trillion in 2008 alone for US households and sent ripple effects across the globe stretching its reach well beyond housing, where the problem originated, affecting investments in developing countries and causing job losses which further compound the challenge of adequate shelter (Harvey, 2010). And there is Mitlin’s (2008) argument

to consider, that even with increased income the poor’s access to adequate shelter and a quality living environment without state assistance is limited. What is therefore the solution to the housing challenge?

Evans (2009) argues that the 21st century developmental state needs to be capability enhancing. Du Toit (2008) supports this and suggests that the key to growth in South Africa is enhancing the capabilities of ordinary citizens by enabling them to make a productive contribution to the economy. Having considered the apartheid created skills shortages and the legacy of a huge surplus of labour, Arrighi, Aschoff and Scully (2008) also argue that a South African development policy would need to invest more in the welfare of the population and rely less on private capital. As shown with the housing subsidy system, placing assets and capital in the hands of the capitalist elite does not address broad based development, but can result in further dispossession of the poor. The solution to current challenges facing the housing programme therefore lies in the ability of government to use subsidies in a manner that builds the capabilities of communities and individuals through a bottom-up development approach (Adebayo & Adebayo, 2001; Sanya, 2010). The following section looks into issues that will have to be considered in seeking to change the approach to the housing programme to one of enhancing capability and empowering communities..

5. TOWARDS A DEVELOPMENTAL HUMAN SETTLEMENTS PROGRAMME: EMPOWERING COMMUNITIES

The first consideration is that of a framework that informs housing delivery in the country. In market based thinking access to housing is treated as a function of ability-to-pay and government interventions are judged on financial sustainability (UN-Habitat, 2001). This thinking is not suitable for South Africa. The housing shortage of the poor and their levels of poverty have been structurally engineered over decades of apartheid and maintained through post apartheid capitalist policies. Grounded in the Constitution, a rights based (pro-poor) approach to housing has more potential to support the kind of developmental housing policy South Africa needs. This will not only provide shelter to the poor, but will achieve redistribution of resources and wealth, as is the objective of current housing policy. Without a pro-poor national framework, it is highly unlikely that the capabilities of the poor would be enhanced and supported in the development of human settlements (Pithouse, 2009). Understanding housing as a right and not a privilege only to be enjoyed by those who can pay for it supports the need for a sustained investment by government in housing for the poor. In addition it calls for removal of the emphasis on financial sustainability as a precondition for government to intervene to house the poor.

Secondly, the existing housing intervention needs to be redesigned and redirected from its current trajectory. As shown in the paper, by providing housing through the private sector, housing provision currently supports large and established construction firms more than it supports communities. Housing provision that builds on the capabilities of the poor will be better positioned to address social injustice, poverty and inequality and lead a developmental agenda (Boonyabancha, 2005; Greene & Rojas, 2008). A decentralized and pluralist policy framework that mandates government to work with communities through locally based organisations and other community organizations (as they are more trusted in communities and have the capacity to work at local levels with diverse (and sometime competing) needs) will be beneficial (Sanya, 2010). Such a framework can assist government in rapidly addressing housing needs while empowering communities and kickstarting economic development from the bottom up. The kind of decentralization argued for here goes beyond the devolution of certain functions to municipalities but demands that government give power to communities. This power would include that organized communities are given authority over project management, project monitoring, project development, resource management etc.

Government investment in top structures should support incremental building processes by households. One way to do this is through subsidies in the form of vouchers for households with no income. By giving vouchers, government takes decision-making power from the state and vests it in the people (DiPasquale, 1996; Besharov, 2003). This can empower households to make decisions about the kind of housing suitable for them and the cost thereof, but also ensures that government's investment is used within the benefiting communities instead of being awarded to privately owned companies through tenders. Martin and Mathema (2010:214) argue that *"the faster money revolves the more employment is created and each unit of spending has the potential to generate other spending"*. Although they were referring only to trading within informal settlements, this is also true of the actual building of homes. By giving vouchers to the poor, there is a better chance of the money being used within benefiting communities to procure labour and some building materials; each unit of spending can potentially generate income for other households within or close to the benefiting settlement. This will strengthen the development of the skills base and entrepreneurship within poor communities. Furthermore, if communities are in charge of procuring and monitoring the construction of their homes, corruption and quality challenges that have faced the housing programme might to a large extent be addressed. As Besharov (2003) argues, the collective decision of local communities is likely to change and correct problems in respect of quality of service provided faster than top-down government driven delivery. However, this might not be suitable for all households. There are households who will still require fully built houses from government, i.e. the elderly and physically disabled.

Thirdly, giving financial resources directly to the poor can only work if supported by a

rigorous plan to acquire well-located land for the low-cost housing. Housing will fail to achieve its intended goals, even if economic power is transferred directly to the ordinary citizens, if the issue of land is not resolved. The commoditization of urban land poses a serious challenge to the urban poor and over the years (owing to the markets and the politicization of housing) housing for the poor has been located on the peripheries (Pithouse, 2009). A progressive land for housing strategy that aims to integrate different economic classes and curb land speculation is needed. This will increase access for the poor to urban amenities and economic opportunities long after construction of the houses (Rust, Zack and Napier, 2009). Additionally, communities will need to be supported through simplified building approval processes, provision of architectural services, etc, for them to be able to build their homes (Greene and Rojas, 2008).

However, a warning must be sounded. Turning around any government machinery is a complex and politically daunting task. There is a strong political interest in housing. Resistance to change can be expected from the political elite as power would be transferred from the bureaucrats and capitalist elite to communities. Also, the role of provinces will be increasingly diminished if power to address housing challenges is given to municipalities and most of the power to implement, to communities. Resistance to change can therefore also be expected from provinces and the Department might need to think about how to reconfigure the role of Provincial Departments in a new model of delivery. Fundamentally, politics will be very important in determining whether the Department of Human Settlements adopts a more developmental and community empowering approach to housing.

6. CONCLUSION

Having inherited a society with unequal access to economic opportunities and shelter, the post apartheid government has used housing as a strategy to address poverty and inequality. However, the overall framework of current housing policy is founded in neo-classical economic thinking and is oriented towards supporting markets and not communities. Making use of private contractors who are tasked with building houses for the poor is an ineffective use of subsidies. Furthermore, it does not support much needed broad based development and has created a complex tendering system that is open to corruption. This is not arguing for housing subsidies, to be abolished. As shown in the paper, government intervention in housing remains imperative. In fact, the paper argues for a strengthened but redefined investment by government in housing. The paper calls for a developmental housing programme that embraces a bottom-up approach and focuses on enhancing capabilities of the poor by giving them resources and control over decisions about their housing. This can set in motion processes that support local development and address unemployment in benefiting communities. To facilitate this, government would need a policy framework that embraces pluralism, allowing different interventions towards the

same outcome, and supports communities, rather than provide for them through contractors. It is unlikely that change of this magnitude will happen without resistance, It would therefore be necessary to pro-actively develop measures aimed at mitigating such resistance.

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Title of the Paper

Investigation of a financial model for small and medium sized contractors in South Africa

By

Mr Sithembiso Ndlovu and Prof Wellington Didibhuku Thwala

Abstract

The financing needs of contractors, especially emerging contractors, need to be explored. In the case of the Small, Medium and Micro-Enterprises (SMMEs) within the contracting sector, a type of “finance-PLUS” arrangement, which sees the lender, or an intermediary, offer additional support services to emerging enterprises, would be worth exploring.

This study follows a focused approach towards the investigation of a financial model for small, medium sized contractors in South Africa. Interviews were conducted and questionnaires were sent out to different contractors who have been successful in the business for more than five years and also contractors who are currently struggling and trying to survive and grow.

The findings of the study point to the fact that conventional financing mechanisms do not allow for cost-effective provision of finance to large numbers of entrepreneurs seeking small quantities of finance. Effects of poverty and lack of assets mean that many people do not have the collateral needed to access finance. Although different initiatives are in place to assist small and medium sized contractors, challenges still exist. An overarching concern is that previously disadvantaged individuals do not have adequate access to credit offered by formal financial institutions and therefore are forced to seek relatively expensive (and often inadequate) credit from alternative financial sources.

Mr Sithembiso Ndlovu is from the Department of Quantity Surveying and Construction Management, University of Johannesburg, ndlovusthe@webmail.co.za, Mobile: 0716830419

Prof Wellington Didibhuku Thwala is from the Department of Construction Management and Quantity Surveying, University of Johannesburg, didibhukut@uj.ac.za, Tel No.: 011-5596048

1. INTRODUCTION

The fundamental restructuring of the economy is as important as recent political changes in South Africa (2004). In South Africa, small, medium and micro-enterprise development was identified by government as a priority for creating jobs to address the high unemployment rate. The national unemployment level is currently estimated at 28.4 % (Statistics South Africa 2004:1) and is increasing at an alarming rate. According to the Ntsika Annual Review (2001:111), SMMEs constitute 97.5 % of all businesses in South Africa. This sector generates 34.8 % of the Gross Domestic Product (GDP), contributes 42.7 % of the total value of salaries and wages paid in South Africa, and employs 54.5 % of all formal private sector employees (Diederichs, 2001:64). Main obstacles faced by this sector of the economy include market access and lack of management and skills (Ministry of Trade and Industry, 1994:24). South Africa's financial sector has always been reluctant to provide comprehensive services for the fragmented, risk-prone and geographically dispersed small enterprise sector (Ministry of Trade and Industry, 1994:25).

According to the Ntsika Annual Review (2002:111), there is a need to explore and understand the access-to-finance dilemma in a broader context. The reluctance of financial institutions to advance loans or overdrafts to small business is not just based on alleged conservatism of commercial bankers or racially biased financiers. *"It is the result of their experience with poorly motivated loan applications, the frequent lack of systematic business plans and realistic market assessments, the statistically verified high rate of small-business failure and irrecoverable collateral, and other complications which make small-business finance unprofitable for banks"* (Ntsika Annual Review, 2002:111). Conversely it has been noted by Orford, Wood, Fischer, Herrington and Segal (2003:47) that one way to address the problem of access to finance is to focus on improving the financial management practices of entrepreneurs. According to Kirby and Watson (2003:100), making finance more easily available, especially to businesses with inadequate administrative and management practices, is therefore unlikely to result in optimal use of the relatively scarce resources. Rather, it is likely to produce the undesirable result of increased numbers of highly indebted and bankrupt entrepreneurs. It is therefore important to assess the current situation of the South African financial sector and come up with possible solutions that will help increase the financial success of small businesses and hence improve income and wealth distribution.

The main objectives are to identify the obstacles faced by entrepreneurs in accessing finance from financial institutions; to identify the causes that lead to the high failure rate; to determine the basic demographics of entrepreneurs in the Gauteng area with reference to gender, age, language group and level of education, and to establish a new model for financial access for SMMEs. This research will be an empirical study using primary and

secondary data. The primary data comprises evidence obtained through structured questionnaires, which are qualitative and quantitative in nature so as to gain an insight and understanding into the operations of the funding institutions and the entrepreneurs. The design of the questionnaire was based on open-ended and closed questions. Interviews were carried out in those instances where the selected entrepreneur did not understand the questionnaire well as a result of linguistic barriers. Various sources of secondary data, including scientific journals within the entrepreneurship and SMME context, reports from the Department of Trade and Industry (DTI) of South Africa, newspaper articles on SMMEs and annual reports of funding/financing institutions were also assessed and deductively applied. Responses to the questionnaires were analyzed and evaluated using techniques such as tables and statistical graphs.

A hundred questionnaires were sent out to entrepreneurs in the small, micro and medium enterprises sector in Gauteng. Thirty completed questionnaires were returned giving a response rate of about 30%. Therefore the sample consisted of the 30 entrepreneurs who have had experience in accessing funds from various funding institutions.

2. REVIEW OF LITERATURE

A number of research interventions have been conducted globally on the importance of access to finance by small business owners. In a survey done on SMMEs in Great Britain, access to finance was identified as the main reason for the failure of these businesses. Woodcock (in Buckland and Davis, 1995:41), argues that there is a continuity of lack of knowledge on the part of small businesses pertaining to possible funding options. Mason et al (in Buckland and Davis, 1995:41), observes that entrepreneurs often have difficulty in convincingly conveying their specialized knowledge to a bank manager. In Great Britain banks are a recognized source of start-up and working capital. According to Hughes and Storey (1994:10) they are, however, not a particularly easy source, putting a priority on security/collateral for the state to intervene. Thus, SMMEs require support if they are to survive and grow. According to Miroslav and Drnovsek (in Kirby and Watson, 2003:131), one of the obstacles that hindered the creation of new ventures in Slovenia was the lack of capital financing for small business initiatives on the part of banks and other financial institutions. Banks were reluctant to lend to small businesses and practically no venture funds existed. New entrepreneurs primarily obtained the requisite resources from family members and friends (Kirby and Watson, 2003: 133).

The absence of access, or at least poor access to finance, was an important negative factor affecting SMMEs in Romania and Bulgaria. In 1889 according to Kirby and Watson (2003:191), only 8-10 % of the firms in Bulgaria had access to bank loans. Commercial

banks set rigid requirements for servicing the loans (e.g. collateral and terms) extended to firms and the cost of debt was high (Kirby and Watson, 2003:191). In South Africa, the White Paper on National Strategy for the Development and Promotion of Small Business (1995) reinvented the wheel for the SMME sector. The Small Business Development Act of 1996 indicates that up to 78 % of small businesses started in South Africa eventually fail. It is therefore necessary for the South African government to adopt specific economic and social policies to stimulate SMME development as an essential part of the economic and social development of the country. The demand for an entrepreneurial-driven economy in South Africa is increasing particularly because of the employment creation benefits it offers. The SMME sector is globally regarded as the driving force in economic growth and job creation (Lunsche and Barron, 2000:1). The South African economy has declined over the past twenty years. The year-on-year change in the value of real gross domestic product (GDP) determines the real growth rate of a country (Nieman, et al, 2003:4). In the 1960's South Africa's GDP averaged 6 % per year. During the 1980s, the GDP decreased to 2.2 %, with no growth shown in the 1990s. Lack of growth in the economy has led to fewer employment opportunities. This has given rise to a high unemployment rate of about 30 %. Small businesses in South Africa create wealth by contributing approximately 42% to the country's gross domestic product (GDP), (Nieman et al 2003:10).

A small business is any business that is independently owned and operated, but is not dominant in its field and does not engage in any new marketing or innovative practices (Carland, 1984 in Nieman, 2004:10). Rwigema and Venter (2004:7) define a small business as a distinct business of a size smaller than a specified threshold. An important distinction that has to be made is the fundamental difference between entrepreneurship and small business management. These constructs are both critical to the performance of the economy, but serve different economic functions. They both need entrepreneurial action for start-up, but the small business venture will tend to stabilise at a certain stage and only grow with inflation (Nieman, et al. 2003:10).

3. RESEARCH METHODS

3.1 QUESTIONNAIRE SURVEY

The study adopted a questionnaire survey approach to achieve its objectives. As indicated earlier, a hundred questionnaires were distributed. The mail survey was enhanced by telephonic communication before and during the survey. Field activity was conducted in a form of a questionnaire, which SMMEs had to fill in and send back.

In scientific research variables must be measured (Graziano & Raulin 1998: 68). This study made use of one instrument, designed specifically for the population targeted: the entrepreneurs. This measurement instrument took the form of a questionnaire.

There is no simple answer as to which of the available methods of data collection the researcher should use when collecting data. The survey was done via email and a telephone survey was done as a follow-up to non-respondents. For the more informal business sector, questionnaires were handed out on site. A questionnaire was sent out, focusing on the entrepreneurs in the Gauteng area as unit of analysis. The questionnaire was structured in the following sections:

Demographic information

Here closed questions were used to gather information such as gender, age, home language and education. This section of the questionnaire refers to background or biographical information. However, despite the use of sensitive questions in this section, the information gleaned enabled a comparison of respondent groups. Although we are aware of the sensitivity of the questions in this section, the information allowed us to compare groups of respondents. Participants were simply expected to click the space containing the applicable response. The questions in this section were in a multiple choice format which allowed participants to choose one or more alternative in some instances. The rationale behind these demographic questions is that it places the results in a frame of reference and might provide insights into differences between demographic groups or correlation with regards to entrepreneurial behaviour.

Profile of business activities

The purpose of this section was to evaluate how much the SMME owner knows about finance and cash flow management. Closed and open-ended questions were used to gather information, such as the number of years of experience as an entrepreneur; their position or role in the business and whether the business is micro, small or medium sized. Entrepreneurs were also asked how they raised start-up capital, which financial institutions they approached for financing and at which institution their application was successful.

Finally, entrepreneurs were to indicate what obstacles they experienced during the application process and whether they needed training in motivation, entrepreneurial or business skills.

Descriptive statistics used in the present study include frequency counts, mean scores, standard deviations and cross tabulations. Frequencies are defined by Kerlinger (1986:127) as the number of objects in sets or subsets. Simply put, this is the number of times a certain answer appears in the data. The mean calculates an average across a number of observations and the standard deviation is the square root of the variance around the mean, in other words, how well the mean represents the data (Field 2005:6). A cross tabulation is just a more advanced method of presenting frequency data. It presents the frequencies in a matrix. For instance: Number of entrepreneurs in each race group within each gender.

3.2 INFERENTIAL STATISTICS

The following inferential techniques were used:

(a) Chi-Square Test

The Chi-Square Test procedure tabulates a variable into categories and computes a chi-square statistic. This goodness-of-fit test compares the observed and expected frequencies in each category to test either that all categories contain the same proportion of values or that each category contains a user-specified proportion of values (SPSS 11.5:2004). This is the significance test used when making use of the cross-tabulation technique.

(b) The t-test for independent measures

The t-test assesses whether the means of two groups are statistically different from each other. The t-test is defined as the difference between the two samples' means divided by the standard error of the difference¹.

When the two means are from dependent groups (two measurements from the same group), the t-test for dependent measures is used. Although we have no way of knowing which is the true situation, Fields (2005:31) explains that by looking at the test statistically and the associated probability, one can decide which of the two is the most likely. A general decision rule is set against which p-value is evaluated when deciding whether the

1. (<http://www.research.med.umkc.edu/tlwbiostats/ttest.html>)

observed effect in the sample is true also for the population. For the current study this is 0.05. Therefore all p-values less than 0.05 are considered as an indication of an effect in the population.

All statistical analyses in the study were computed using the Statistical Package for the Social Sciences (SPSS) statistical package for Windows version 11.1 (SPSS, 2001).

4. RESULTS

The analysis is based on the 30 responses received on the 100 questionnaires that were sent out to entrepreneurs.

4.1 DEMOGRAPHIC PROFILE OF RESPONDENTS

The sample structure is described in terms of gender, age, home language, race and education level. The sample consists of 70% males and 30% females. The average age of entrepreneurs is 42 years of age. The youngest respondent is 27 years old while the oldest is 64 years old. A relatively small standard deviation of 7.6 indicates that 66% of the sample is between the ages of 34.6 years and 49.8 years. In terms of language distribution, respondents mostly speak Zulu (39%), Sotho (24%) and English (18%). Some African languages with very low incidence of 0.5% - 3% were grouped into one category, namely "Other African". Other African languages include Afrikaans, isiNdebele, sePedi and siSwati.

In terms of ethnic group, 44% of the sample is African and 42% is Caucasian. Coloured and Asian respondents represent a small percentage of the sample (6% and 8% respectively). Due to the small representation within the Coloured and Asian segments, these ethnic groups will be excluded from any subsequent inferential statistical analysis. Generally entrepreneurs in the sample have only Grade 12 or a lower qualification (37%) or a certificate or diploma (35%). One in three respondents has a university degree, either a Bachelor's degree (27%) or post graduate degree (3%). There is no difference between the ethnic distribution of males and females as the significance value is not below the set level of significance of 0.05.

No significant difference is seen between the education level of male and female entrepreneurs in the sample (Chi-square = 1.692; $p = 0.639$).

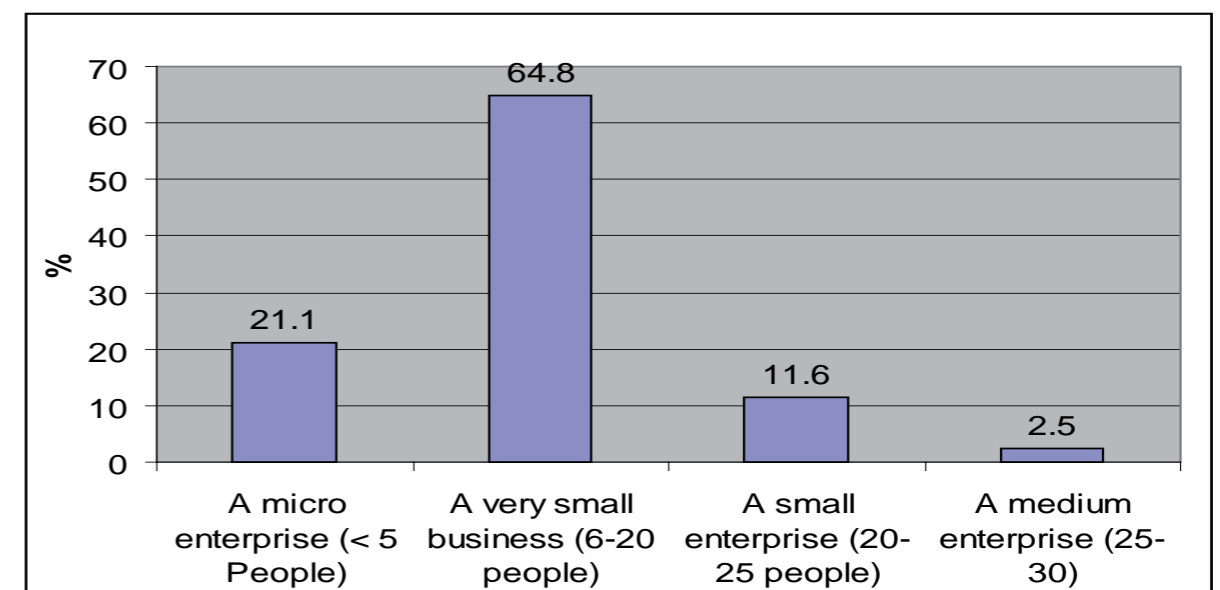
The males tend to have a slightly lower general level of education. Only 22% of the males have a Bachelor's degree compared to 37% of the females (Chi-square = 10.329; $p = 0.066$). A cross-tabulation between ethnic group and education also reveals that there is no sig-

nificant difference between the education levels of entrepreneurs from different ethnic groups in the sample (Chi-square = 20.224; $p = 0.163$).

4.2 PROFILE OF BUSINESS ACTIVITIES

Aspects covered include the role of respondents in the business, the length of time the business has been in operation, the economic sector in which entrepreneurs operate and the size of the business in terms of employee numbers. Most respondents are the owners of their own businesses (86%) and in addition 12% are also managers of their businesses. Most businesses are small rather than medium enterprises. As far as the number of employees is concerned, 64.8% have between 6-20 employees and 21.1% have 5 or less employees.

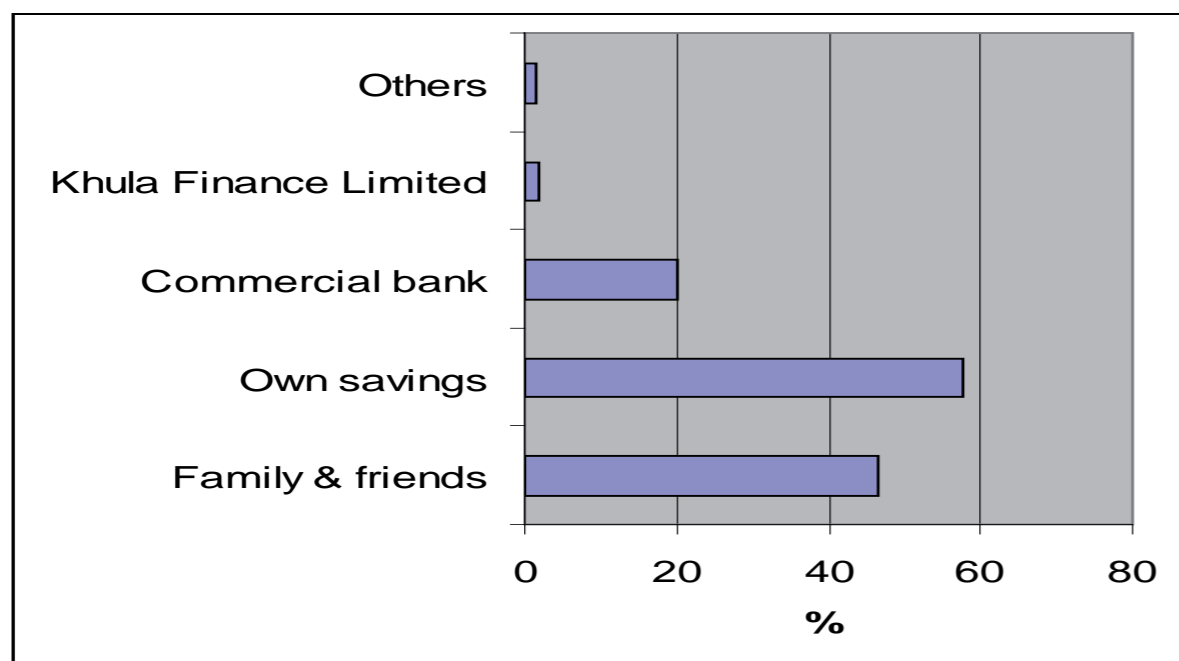
Figure 1: Size of the business



4.3 METHODS OF OBTAINING BUSINESS FINANCE

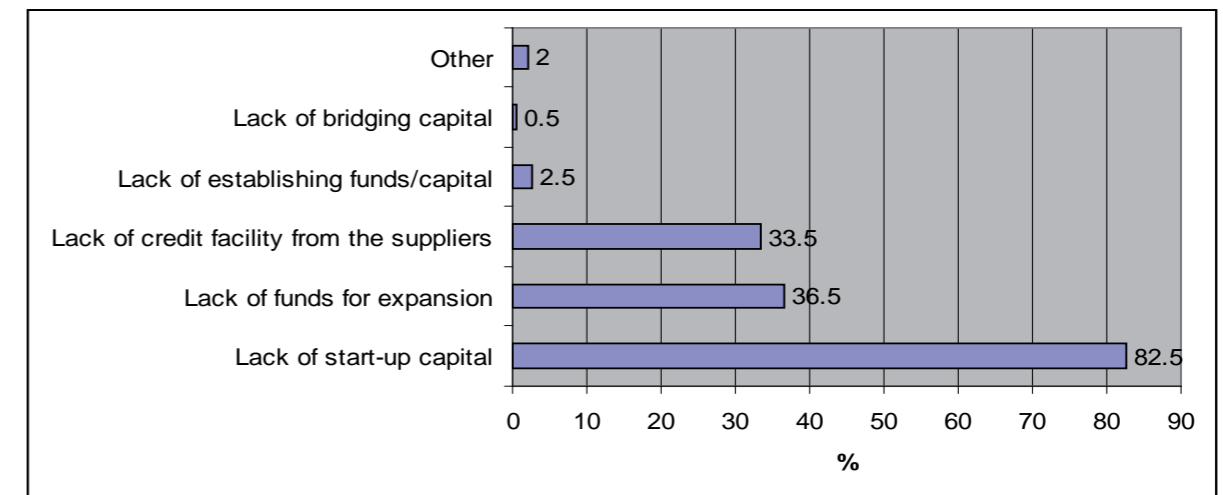
This is the core focus of the survey, namely the financing of small and medium enterprises and the obstacles they experience. The first question in this section asked respondents to identify the current life cycle phase of their business in terms of financing. Nearly all businesses (98%) are in the expansion phase, which involves obtaining working capital for initial growth and major expansion. This figure is in line with the length of time the businesses have been in operation, considering that most have existed for more than five years. The methods employed to raise start-up capital is indicated below in Figure 2. 57.5% made use of their own savings and 46.5% obtained money from friends and family. Only 20% obtained money from commercial banks, and 2% used Khula Finance Limited. As indicated earlier, respondents could indicate more than one method of financing. 23% of entrepreneurs used a combination of “own savings” and “family and friends” for start-up capital. Only 17% of those who obtained money from commercial banks also supplemented this with their own savings.

Figure 2: Methods of raising start-up capital (multiple answers possible)



Entrepreneurs were given a list of problems with respect to financial support for their businesses and asked to indicate which ones they have experienced. The results are presented in Figure 3.

Figure 3: Financial support problems experienced (multiple responses)



A lack of start-up capital is by far the biggest problem among the entrepreneurs in the sample (82.5%), a lack of funds for expansion and a lack of credit facilities from suppliers are experienced by 36.5% and 33.5% respectively. The financial entities which the entrepreneurs approached for financial assistance are indicated in Table 4 below.

Table 4: Financial entities approached for assistance (multiple responses)

Financial entity	Frequency	Percentage
ABSA Bank	119	59.5
Standard Bank	113	56.5
First National Bank	69	34.5
Nedbank	29	14.5
Khula Finance Limited	17	8.5
Micro Lenders	11	5.5
Business Partners	4	2
Others	4	2
Stokvels	1	0.5

Respondents were more likely to approach one of the four major banks in South Africa than alternative lending entities. Of the four banks, ABSA and Standard Bank were approached the most (59.5% and 56.5% respectively). Nedcor was approached by only 14.5% of respondents and 5.5% of entrepreneurs tried to borrow money from micro lenders. Black

entrepreneurs were more likely to attempt to access funds through micro lenders (6 of the 11). Although entrepreneurs might have approached the above mentioned financial entities, their applications were not necessarily successful. They were therefore also asked to indicate where their applications had been successful. Not all respondents applied and received money from financial entities and thus the base size for the above question is only 14. To determine the success rate of the particular financial entities in awarding finance, the percentage of finance awarded is calculated by the following formula:

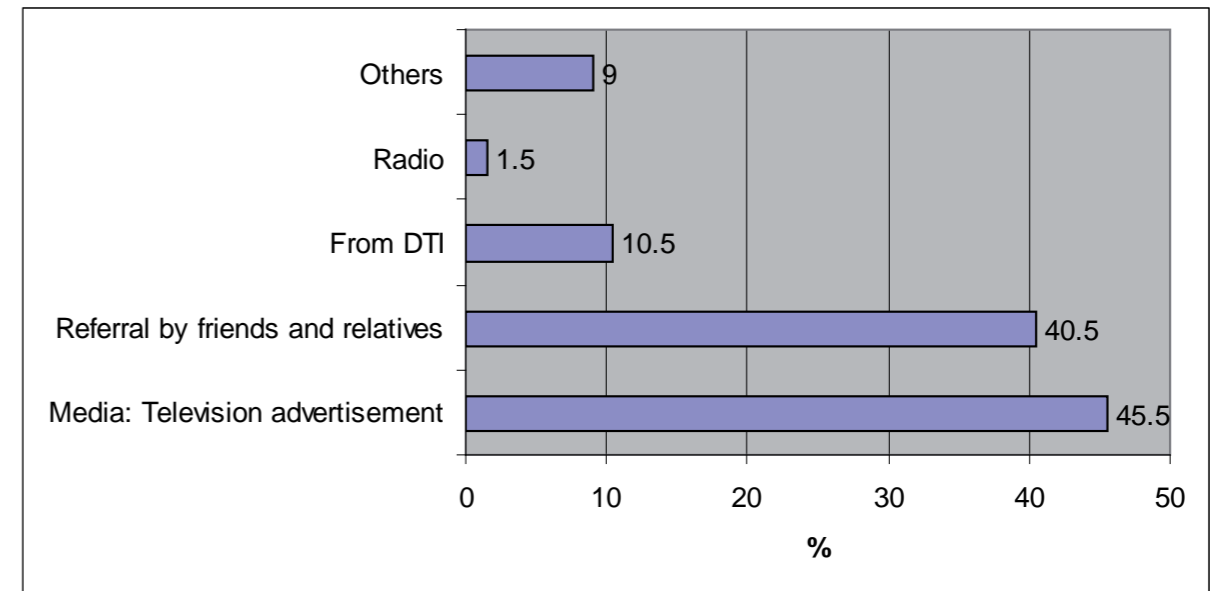
$$\frac{\text{Amount awarded}}{\text{amount applied for}} * 100$$

Table 5: Financial entities granting finance (n = 14)

Financial entity	Percentage	Success Rate %
ABSA Bank	38.3	48
Standard Bank	22.8	30
First National Bank	5.4	12
Nedbank	8.7	45
Khula Finance Limited	6	53
Micro Lenders	8.7	101
Business Partners	2	75
Others	7.4	48
Stokvels	0.7	100

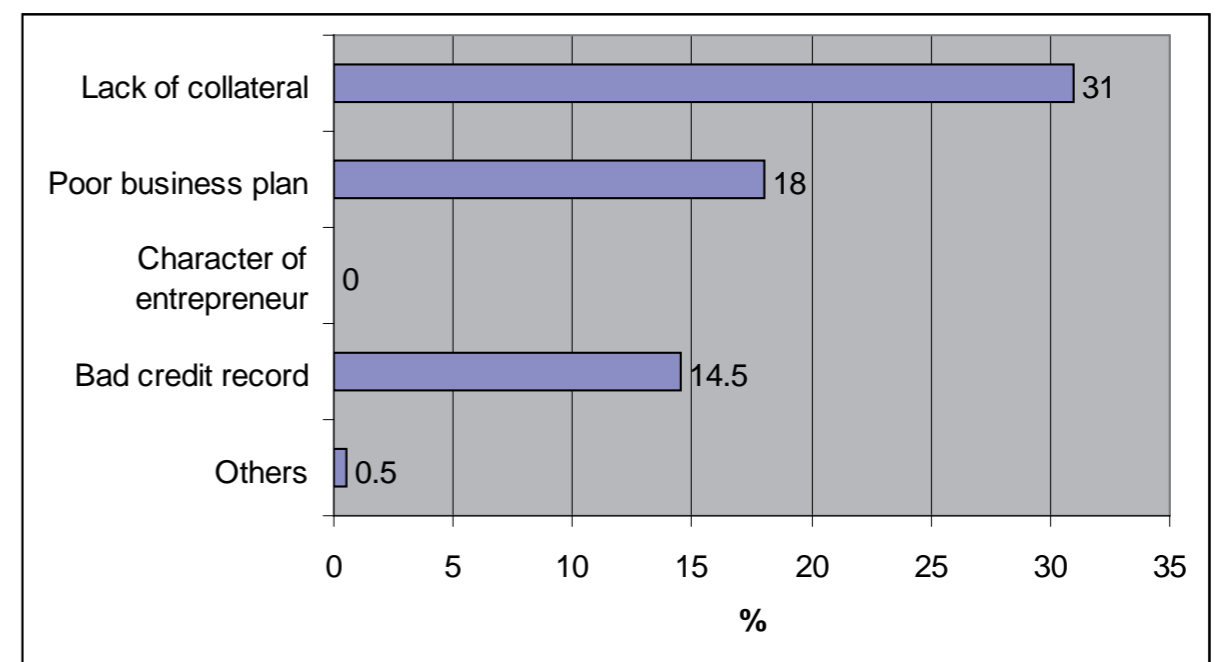
ABSA awarded the highest number of applications of the four banks (48%). Although relatively few people applied at Nedcor, 45% of applications were successful at this bank. First National Bank is the least successful, awarding only 12% of applications. The 100% success rate indicated for micro lenders suggests that respondents did not understand the previous question completely, i.e. that they should mention all places applied. However, this does present interesting information as it seems that more people turned to micro lenders for finance when rejected by the formal institutions. Respondents were asked how they had become aware of these financial lending entities. Most have heard about the institutions, particularly the major banks, through television advertising (45.5%). Yet family and friends also play a large part, with 40.5% indicating that they were referred to the financial entity by family or friends. The Department of Trade and Industry played a role in increasing awareness of micro lending in 10.5% of the cases.

Figure 4: Ways in which entrepreneurs learnt of financial entities (multiple responses possible)



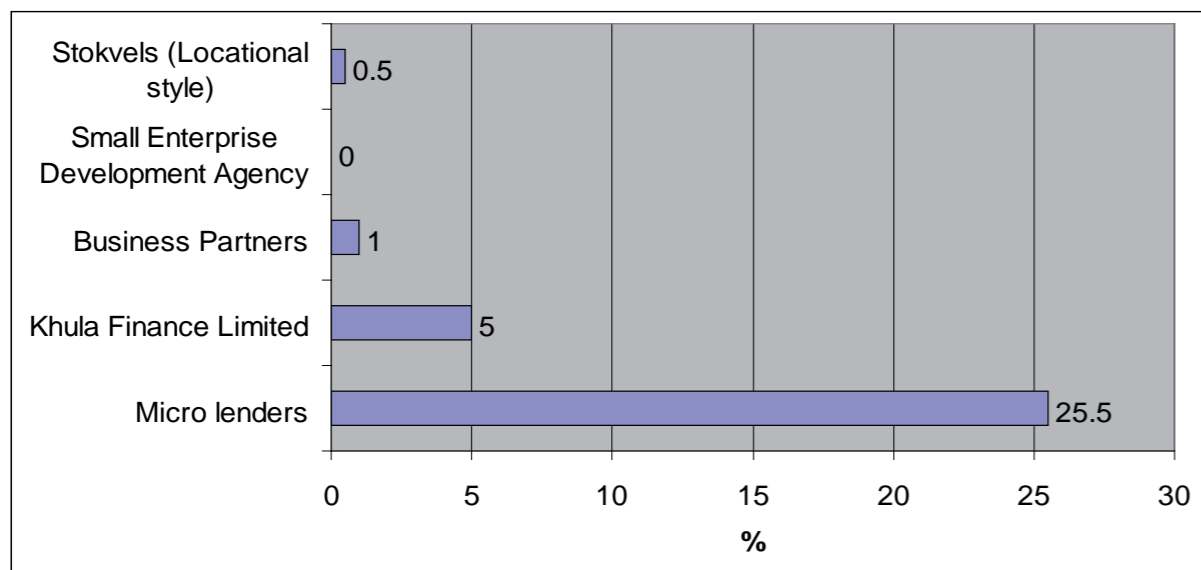
Those respondents whose applications were rejected by a financial institution were asked to indicate the reason provided for the rejection.

Figure 5: Reasons for rejection during the application of finance



The most prominent reasons for failing to award credit applications are a lack of collateral (31%), a poor business plan (18%) and a bad credit record (14.5%). The character of the entrepreneur was never given as the reason for declining applications. Once rejected, respondents were asked to indicate which other institutions they approached for finance. Figure 6 indicates that most respondents who had to turn to other institutions for finance approached micro lenders.

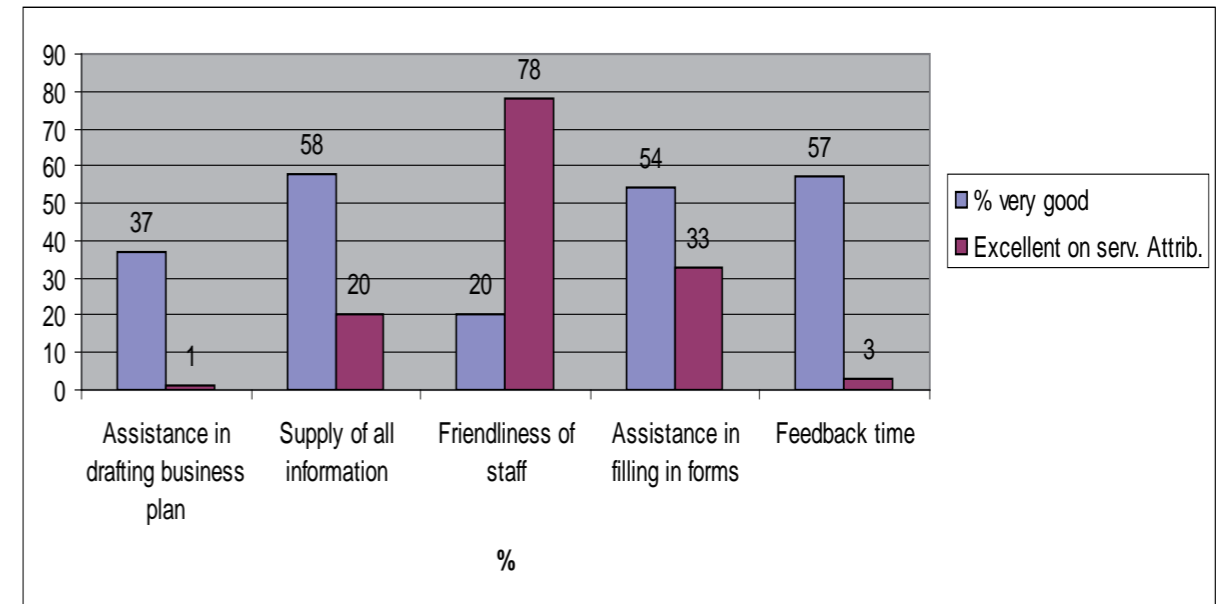
Figure 6: Alternative financing entities approached after rejection



4.4 PERCEPTIONS AND ATTITUDES TOWARDS FINANCIAL ENTITIES AND THE APPLICATION PROCESS

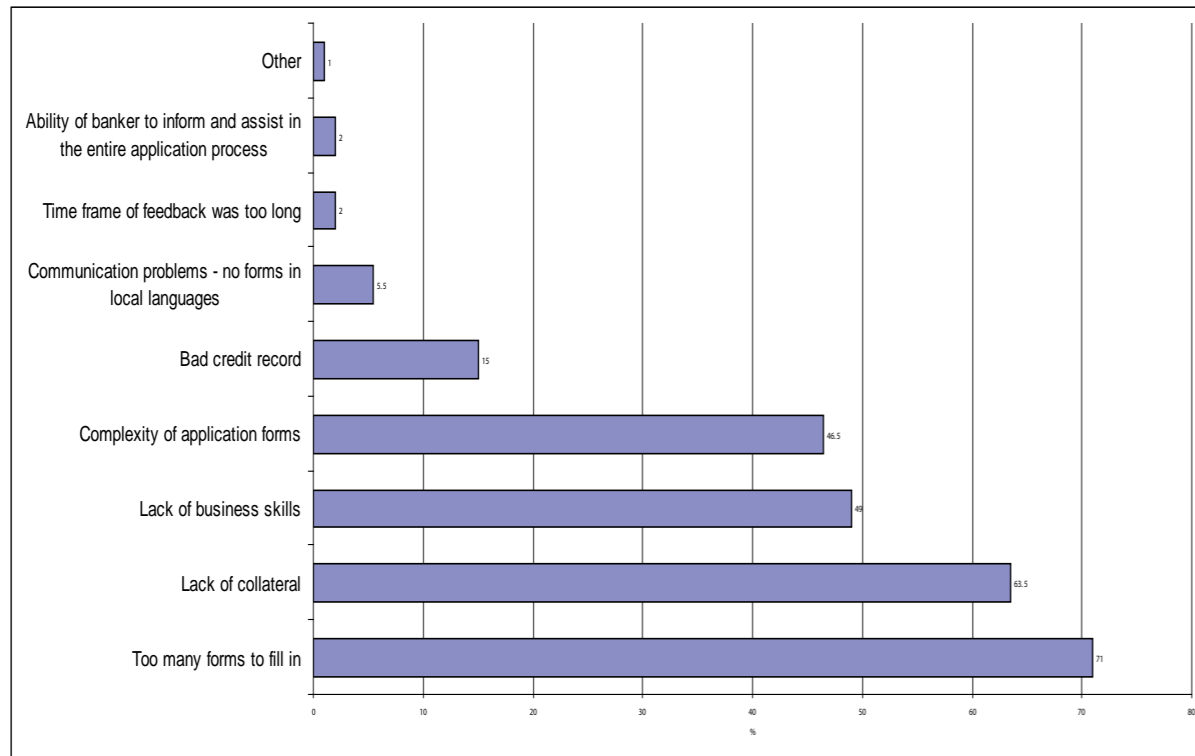
Respondents were asked to rate the service quality of financial institutions that they applied at. This was a general question on the perception of institutions as seen by the respondents as the question did not specify which of the financial entities to rate (respondents applied at multiple entities).

Figure 7: Service attributes of financial institutions



Institutions were friendly and provided respondents with assistance in filling in forms (98% very good/excellent). They were also forthcoming with information that applicants required (87% very good/excellent) but were rated less satisfactorily in terms of timeously feedback and providing assistance in drafting business plans. Certain obstacles arose during the application for finance. The figure below illustrates the obstacles that respondents experienced in the application process.

Figure 8: Problems experienced during the finance application process



Too many forms to complete (71%) and a lack of collateral (63.5%) were the two main problems experienced during the application for finance. A lack of business skills and the complexity of the forms were also relatively large obstacles experienced (49% and 46.5% respectively) by the respondents.

4.5 COMPARISON OF DEMOGRAPHIC GROUPS IN TERMS OF OBSTACLES EXPERIENCED DURING APPLICATION FOR FINANCE

To ensure that the researcher gains a comprehensive view of the obstacles experienced by entrepreneurs during the application for finance, the views and experiences of males and females, different race groups and age groups were compared.

The table below indicates the average perception of service quality between males and females. The t-test for independent measures was used to test for significant differences.

Table 6: Differences in the perceptions of service quality of males and females: t-test for independent measures

	Male		Female		T- Test	
	Mean	Std Deviation	Mean	Std Deviation	T- value	P-Value
Friendliness of staff	4.70	0.535	4.87	0.391	- 2.06	0.041
Feedback time	3.59	0.629	3.63	0.525	- 2.34	0.691
Supply of all information	3.85	0.824	4.06	0.656	- 0.39	0.102
Assistance in filling in forms	4.15	0.682	4.28	0.627	- 0.43	0.243
Assistance in drafting business plans	3.04	0.915	3.28	0.763	- 1.64	0.092

Although the male entrepreneurs in the sample were slightly less satisfied with all services there was only one aspect where males and females experienced statistically significant differences. The p-value of 0.041 for “Friendliness of staff” is less than the 0.05 level of significance which indicates that there was a statistically significant difference between males and females. Males are less satisfied with the friendliness of staff. The degree to which different obstacles were experienced by males and females is given below in Table 6.8. As respondents could indicate more than one obstacle, no test for significance is performed, and the results are interpreted qualitatively.

Table 7: Obstacles experienced by male and female entrepreneurs

Obstacles	Males	Females
Too many forms to fill in	71 %	70 %
Lack of collateral	61 %	70 %
Complexity of application forms	48 %	43 %
Lack of business skills	44 %	60 %
Bad credit record	18 %	8 %
Communication problems – no forms in local language	6 %	5 %
Time frame of feedback was too long	3 %	0 %
Ability of banker to inform and assist in the entire application	2 %	2 %
Other	0 %	3 %

Males and females had very similar problems with some notable differences in terms of lack of business skills and bad credit records. Females had more problems with a perceived lack of business skills (60% vs. 18% of males) and males with bad credit records (18% vs. 8% of females).

4.6 DIFFERENCES BETWEEN ETHNIC GROUPS

As the Coloured and Asian ethnic groups have such small representation in the sample, only the results of the African and Caucasian ethnic groups are compared. The table below indicates the average perception of service quality between African and Caucasian ethnic groups. The t-test for independent measures was used to test for significant differences.

Table 8: Differences in the perceptions of service quality of African and Caucasian ethnic groups: t-test for independent measures

	African		Caucasian		T- Test	
	Mean	Std Deviation	Mean	Std Deviation	T- value	P-Value
Friendliness of staff	4.73	0.475	4.79	0.546	- 0.78	0.43
Feedback time	3.46	0.613	3.69	0.544	- 2.50	0.01
Supply of all information	3.74	0.833	4.05	0.705	- 2.53	0.01
Assistance in filling in forms	4.10	0.663	4.26	0.657	- 0.53	0.13
Assistance in drafting business plans	3.00	0.900	3.19	0.844	- 1.40	0.16

African and Caucasian respondents differ significantly in terms of their satisfaction with regard to the feedback time and the supply of all information required. African respondents are slightly less satisfied with the service of financial entities in these regards.

Table 9: Obstacles experienced by entrepreneurs from different race groups

Obstacles	African	Caucasian
Too many forms to fill in	72 %	70 %
Lack of collateral	78 %	45 %
Complexity of application forms	57 %	37 %
Lack of business skills	55 %	42 %
Bad credit record	25 %	5 %
Communication problems – no forms in local language	13 %	0 %
Time frame of feedback was too long	1 %	4 %
Ability of banker to inform and assist in the entire application	1 %	4 %
Other	0 %	1 %

African respondents were more likely to have experienced obstacles such as a lack of collateral (78%) and a bad credit record (25%). Caucasian entrepreneurs experienced less obstacles overall.

5. DISCUSSION AND FINDINGS

Many entrepreneurs and owners of emerging and start-up small businesses perceive the lack of access to finance as the major obstacle to the growth and development of their business. Often this belief is misplaced as it obscures the shortcomings of the entrepreneur, the business concept, and the management structure of the enterprise concerned. However, historical imbalances created by the system of apartheid - such as the lack of appropriate collateral to secure loan finance from the banking system - have added another dimension to this problem. The high costs of loan finance are also cited as a problem by many established small businesses - which are often forced to pay risk premiums to financial intermediaries. The principal problems associated with finance are therefore problems of access and cost. SMMEs receive approximately 2,6% of investment capital flows, both through formal and informal agents. According to the Council of South African Banks (COSAB), there are an estimated 375 000 loans on the books of two major commercial banks that can be considered micro-enterprise credit worth R4 billion, averaging R11 700 per loan (COSAB, 1998). Yet in the period between January 1997 and January 1998, only 633 indemnities have been granted under Khula's Credit Guarantee scheme, indicating a lack of activity in areas government has prioritised as urgent. Khula provides assistance through various delivery channels. These include commercial banks, retail financial intermediaries (RFIs) and micro credit outlets (MCOs). Through its Thuso Mentorship Programme, Khula also provides mentorship services to guide and counsel entrepreneurs in various aspects of managing their businesses. Khula is a wholesale finance institution, which means that entrepreneurs do not get assistance directly from Khula but through various institutions. Over the past five years, Khula has disbursed over R1 billion directly into the SMME sector. During the 2003/04 financial year alone, disbursements increased by 40% to R280 million. The number of beneficiaries also increased by 21% to 110 000 during the same period (Khula, 2004).

In order to benefit from the dynamism and labour absorption capacity of SMMEs, South Africa must substantially redirect public and private investment flows. A key factor mitigating against increased investment in the SMME sector is the structure of the financial sector. The sector is composed of a concentrated formal banking sector targeting corporate accounts and competing with smaller niche banks and investment banks. Few second tier banking institutions exist that can absorb savings and extend credit to SMMEs. Furthermore, there is a dearth of strong alternative financial institutions providing credit to the self-employed for productive purposes. SACOB (South African Chamber of Business),

on the other hand, is of the view that the bigger problem which small businesses have in relation to finance is one of access - most notably to smaller loans where the maximum interest that may be earned by the financial institutions is insufficient to cover its administrative costs and to make provision for bad debts. So, whilst South Africa has a relatively well developed financial services sector, commercial banks have generally shunned the small loans sector of the market because they view it as unprofitable. A further concern is the risk aversion of institutional investors (particularly pension and insurance funds), who tend to focus on "safer" and larger investments which yield relatively few social and economic benefits. These investors have few social responsibility vehicles that effectively cross-subsidise from their wealthy clients to those requiring start-up support. In competing for the corporate market, formal financial institutions have structured their products to serve the needs of large corporate clients.

The objectives have been met. The study has shown the problems experienced by entrepreneurs in accessing small business finance. In terms of the training that entrepreneurs need, the study has revealed that most of them require business skills training (96.5%), while an additional 12% need entrepreneurial skills training as well. Thus it can be safely concluded that entrepreneurs are often ill-equipped to develop a business concept and present it confidently. Being intimidated by lack of confidence in language and numeracy skills keeps entrepreneurs from approaching banks for financial support. The performance of an entrepreneurial venture is critically influenced by the experience of the entrepreneur.

According to Driver *et al* (2001:23), South African entrepreneurs often lack experience, which keeps them from successfully pursuing business opportunities. The study showed that the average number of years of personal entrepreneurial experience is five to ten years. The study also endeavoured to determine the stage of the entrepreneurial process the entrepreneur is in. From the study it can be concluded that the majority of the entrepreneurs are in the expansion phase. The longer the period of experience, the higher the success rate of entrepreneurs.

5.1 FINDINGS IN RELATION TO THE PROBLEM STATEMENT

(a) Small, medium and micro-enterprises (SMMEs) perceive obstacles in accessing finance from financial institutions.

In relation to this statement, the lack of start-up capital is by far the biggest problem among entrepreneurs in the sample (82.5%), followed by a lack of funds for expansion and lack of credit facilities from suppliers. Entrepreneurs experienced two other major problems, namely too many forms to complete (71%) and a lack of collateral (63.5%) when applying for finance.

(b) Gender differences exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Gauteng area.

Based on the findings, the above statement is accepted. The results indicated that male entrepreneurs were slightly less satisfied with all the services offered except one aspect where males and females experienced significant differences. The p-value of 0.041 for “friendliness of staff” is less than the 0.05 level of significance which indicates that there is a statistically significant difference between males and females. Males are less satisfied with the friendliness of staff. Males and females had very similar problems with some notable differences in terms of lack of business skills and bad credit records. Females had more problems with a perceived lack of business skills (60% versus 18% for males) and males with a bad credit record (18% versus 8% for females).

(c) Ethnic differences exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Gauteng area.

Based on the findings, the above statement is accepted. African and Caucasian respondents differ significantly in terms of their satisfaction with regard to the feedback time and the supply of all the information that they needed. African respondents are slightly less satisfied with the service of financial entities. African respondents were more likely to have experienced obstacles such lack of collateral (78%) and a bad credit record (25%). Caucasian entrepreneurs experienced less obstacles overall.

5.2 IMPLICATION OF THE NEW FINANCING MODEL

Management capability strengthens the financial capacity of SMMEs. Lenders are prone to be favourably biased towards SMMEs that can demonstrate skills in areas such as financial management (including basic book keeping), marketing and technology upgrading. It is therefore recommended that government and other service providers incorporate additional simplified components to their training packages to cover such areas as book-keeping and compilation of business plans. Educational background of entrepreneurs also has a direct influence on how they respond to training. From the interview with the lenders, it was noted that funding institutions regard at least some basic management and financial grounding within SMMEs as a guarantee that their funds will be utilised profitably resulting in the growth of these businesses. Also, more non-financial services, better tailored to the needs of financial intermediaries, should be put in place so as to facilitate greater access to credit and equity finance for entrepreneurs. Specialised capacity building support (training, workshops and conferences) should be provided in areas such as individual lending methodologies for small scale and start-up equity investments for equity financiers. Access to information about SMMEs should be increased to ensure that all service providers, potential service providers, and financial service providers have a

sufficient knowledge to assess the risk of SMME applications for finance. Any intervention that improves the ability of financial service providers to accurately assess risk would increase their willingness to extend credit and other financial services to SMMEs. Funding institutions should advertise their services so that entrepreneurs are aware of where to go when they need money to start up or grow their businesses. From the results of the study, it is clear that a bad credit record is one of the obstacles for entrepreneurs to access small business finance. Therefore, it is recommended that there should be improved regulation of credit bureaus in order to enhance their credibility and the integrity of the information being distributed by them.

6. CONCLUSION

This study reflects an ongoing process of arriving at a strategy for small business financing. The study should be seen as an initial framework for bringing the public and private sector together on the issues of increased access to funding by SMMEs. The smaller end of the enterprise spectrum, ranging from survivalist, micro and very small enterprises have very little access to capital, whether from alternative financial institutions or the formal financial sector. This is a critical issue in the South African context, as most previously disadvantaged entrepreneurs operate in these sectors. Their lack of access to funding perpetuates a situation of unequal racial and gender access to finance. Yet these sectors have the greatest potential for labour absorption in the short run. Given the greater potential of existing formal financial institutions to utilise and expand their infrastructure and outreach to SMMEs, when compared to the alternative institutions, it is critical that formal sector financiers adopt more innovative approaches and partnerships.

However, it must also be recognised that for various reasons associated with the administrative costs of banking and limited entrepreneurial sophistication, most formal financial institutions are unlikely to be successful at serving the full needs of survivalist and small or micro enterprises. For this reason it is necessary to accelerate the expansion of alternative financial institutions to address these sectors. While equity funds have been seen as a way to stimulate the growth and development of small and medium-sized enterprises, particularly those owned by the previously disadvantaged, the preferred investment ranges are too high to significantly reach these enterprise sectors. A related issue to access is cost of credit. Although the Usury Act provides protection to borrowers of more than R6 000 in the form of a 32% interest ceiling, many informal lenders have found means of operating outside of the Act. Likewise, equity investors, particularly venture capitalists, often demand substantial rates of return which drain resources otherwise available for reinvestment.

While programmes currently in place address some of the obstacles to institutional investment in SMMEs, there are certainly areas in which dramatic improvement is required, notably around the provision of non-financial support tailored to the needs of formal financial intermediaries and equity financing. A model for large-scale service delivery to micro-enterprises should be developed from the various small-scale programmes presently in existence, especially in the built environment sector. A need to increase the scale of the programmes has also emerged, notably around the Credit Guarantee Scheme. Furthermore, means of addressing the responsibilities of banks to meet the needs of their entire communities, such as legislation, should be pursued. The revised and expanded programmes, however, only begin to provide the incentives for greater private sector involvement, and the penalties associated with failing to meet a more comprehensive cross-section of community needs. A broader policy framework that begins to address the structural impediments to increased SMME investments must be developed to supplement and support the revised incentives and subsidies that flow to the private sector through Khula and Ntsika. The policy framework should allow for an opening up of the financial sector to enable the development of a greater diversity of institutions. In addition to reducing barriers to entry, however, a more explicit set of regulatory “incentives” should be developed to overcome the reluctance of institutional investors and formal financial institutions to recognise the potential profitability of SMMEs within all sectors, ranging from construction to catering, and everything in between. This document must be submitted to various SMME organisations and the local government sector. Over the years, the focus will have to be on the development of a Plan of Action in association with SMMEs, NGOs and financial institutions.

However, it is not the Government’s intention to merely throw money at the problems experienced by SMMEs. For this reason, sufficient care must be taken to ensure that programmes that are introduced meet the needs of SMMEs country wide. In addition to that, an SMME Desk should be established in the Department of Finance and Economic affairs to look after the interests of Small, Medium and Micro Enterprises. In closing, it is critical to understand that using this system, the business owner’s RDS component will be completely automated. Relationship building and data management are at the heart of the SMEs Business Principle. Their focus therefore is squarely on selling to qualified leads.

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Title of the Paper

The Three Pillars of Sustainable Human Settlements

By

Prof Ivan Turok

Abstract

The paper explores the challenges involved in creating more sustainable human settlements in South Africa and makes the case for a more focused and coordinated approach. It argues that the three essential pillars are economic development and work, homes and services, and affordable public transport. They should be planned and programmed together to gain vital synergies from integration and to avoid the kinds of dysfunctional outcomes that are being produced at present. Integration is best achieved at the city level, supported by other government spheres and agencies. The paper considers the reasons for the lack of progress to date in bringing about a more coherent and compact urban form, and examines the differences between selected cities in terms of their broad settlement structure. It concludes by discussing the improved prospects for spatial transformation with the imminent devolution of additional levers of control over human settlement planning to city governments.

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Deputy Executive Director: Human Sciences Research Council, Private Bag X9182, Cape Town 8000,
Honorary Professor, University of Cape Town, SA and Honorary Professor, University of Glasgow, UK.
iturok@hsrc.ac.za, tel: 027 21 466 7866.

“Glaring apartheid spatial patterns persist and are being perpetuated ... poor people continue to be forced to live in dysfunctional and disjointed settlements with limited social and economic infrastructure” (Treasury, 2011a, p.216).

1. INTRODUCTION

The need to integrate and densify South African cities, and thereby create more liveable and sustainable human settlements, has been an explicit government objective since 1994. However, there is general agreement that little tangible progress has been made to date (National Planning Commission (NPC), 2011a, 2011b; SACN, 2011). In some ways the situation has got worse through the location of new “RDP” housing for poor households on the urban periphery, far from economic and social opportunities: “This has resulted in a degree of ghettoisation that has tended to trap communities in sub-optimal employment circuits” (OECD, 2011, p.102).

It is widely understood that sprawling, fragmented urban areas are inefficient, inequitable and environmentally damaging. They demand high levels of mobility, require large public transport subsidies, contribute to high carbon emissions, consume costly bulk infrastructure, reinforce social divisions and create poverty traps on the periphery (Jenks et al, 1996; Willis, 2008; Newton, 2008; Howley et al, 2009; Ng, 2010; NPC, 2011b). Despite this, South African spatial patterns inherited from apartheid continue to be reproduced and entrenched through current investment decisions, thereby locking-in these development trajectories and storing up additional problems for the future.

Many explanations have been offered for the country’s inability to transform the dispersed trajectory of urban development. They include the short-term costs of densification, ratepayer resistance to new residential patterns, opposition from private developers and their financiers, lack of political appetite for spatial transformation, pressure to deliver large numbers of RDP houses and associated services, weak municipal capacity for strategic planning, environmental objections to developing vacant land within cities, and poor alignment of built environment functions between the three spheres of government (e.g. Harrison et al, 2008; Berrisford, 2011; NPC, 2011b; Treasury, 2011a; Turok, 2011).

Part of the problem appears to be uncertainty about the priorities for urban integration and the core elements of sustainable human settlements. In the context of scarce state resources, constrained administrative capacity and institutional fragmentation, it is vital to be clear about the fundamentals on which to focus, and the best way to coordinate implementation. Ignoring the principles of sound spatial planning and urban design is likely to mean delivering housing, sanitation, transport and other public services in convenient administrative silos that fail to create liveable and functional places. The recent furore over the provision of open or unenclosed toilets in the veld is a good example of what can happen with disconnected systems of service delivery. Alternatively, setting up a comprehensive agenda for planning human settlements without being clear about the core elements can prove unwieldy and impossible to implement.

The argument put forward in this paper is that a focused and coordinated agenda will help to create more durable or sustainable human settlements. The three essential pillars of a coherent approach to integrated urban development are: (i) economic development, work and income, (ii) homes, services and liveable places, and (iii) affordable, reliable and safe public transport. These are vital structuring elements to create viable communities within resilient cities. They need to be planned together within particular territories to manage the tensions and trade-offs, to realise the synergies of coordination and compaction, and to avoid dysfunctional outcomes, such as the provision of subsidised housing far from economic opportunities. This is best done at the city level, although not independently of other government spheres. National government and its agencies also have important supporting roles to play, ideally framed by an urbanisation policy to give legitimacy and tangible backing to this work (Turok and Parnell, 2009).

The three dimensions of sustainable human settlements are more specific and concrete than the three traditional principles of sustainable development, namely economic growth, social progress and environmental protection. These featured as prominent themes of the Earth Charter and Agenda 21 that emerged from the Rio Summit in 1992, and the United Nations 2005 World Summit (United Nations, 1992, 2005). The three elements of sustainability are couched at an abstract level to encompass the overall, long-term challenges to humanity of formulating a growth path that does not compromise the needs of future generations. The three pillars discussed here are consistent with these principles in that they can contribute to achieving the broader goals, but they do not cover the full scope of the sustainability agenda, which also includes environmental renewal and citizen participation in decision-making. The traditional principles and the three pillars discussed here both stress the need to move beyond old sector-specific ways of making decisions to new approaches that cut across sectors and integrate social and environmental considerations into all development processes.

The next section looks more closely at the challenges involved in developing sustainable human settlements. The following section considers the differences between cities in terms of broad spatial structure, and the final section discusses recent policy shifts to devolve more of the levers of control over settlement planning to city governments.

2. PROBLEM DIAGNOSIS

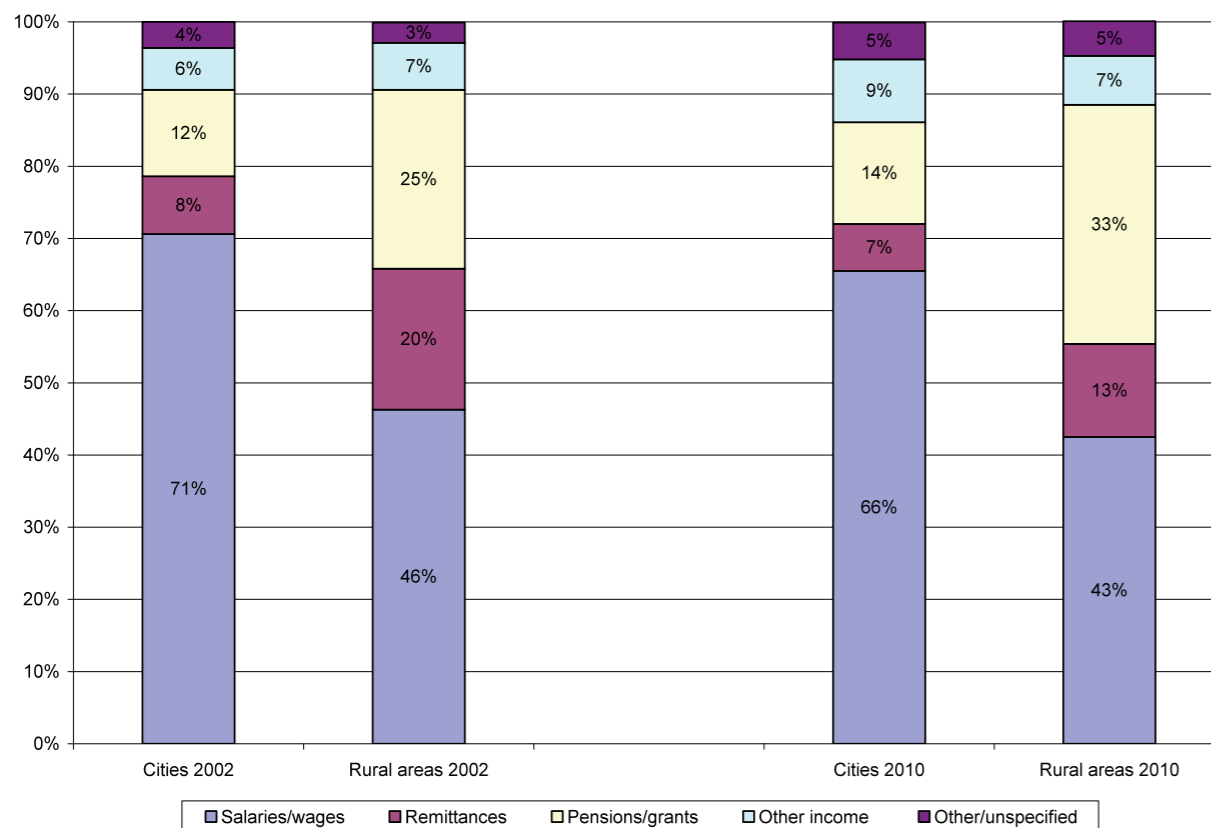
There are five underlying weaknesses in the way that South African cities have been planned and managed since 1994.

2.1 ECONOMIC DEVELOPMENT

The changing structure and spatial distribution of the urban economy have not received the attention they clearly deserve. The growth in labour demand has lagged behind the growth in labour supply and there has been a widening skills gap between business needs and workforce competences. Growth has proved fragile having been driven by consumption and services rather than investment in production (EDD, 2010; Treasury, 2011b; SACN, 2011). Many new commercial, retail and business park developments have located on the urban edge or in high income suburbs poorly served by public transport, thereby worsening the spatial mismatch between jobs and population. Meanwhile, large swathes of the inner city have been written off by private investors, reinforcing a spiral of economic decline and physical decay. At the same time, the potential contributions of informal enterprises and township economic development have received scant attention. As a result, levels of unemployment, poverty and inequality have continued to rise to exceptional levels by international standards (Treasury, 2011c; NPC, 2011b).

Figure 1 compares the main sources of income for households in cities and rural areas in 2002 and 2010. Two-thirds (66%) of households in the cities secured their main income from employment in 2010, down from 71% in 2002. In rural areas the proportion was only just over two-fifths (43%) in 2010, down from 46% in 2002. This wide spatial economic gap helps to explain the continuing rural-urban migration flows. Meanwhile, a third of rural households relied mainly on social grants in 2010, up from a quarter in 2002. Only one in seven households (14%) in the cities relied mainly on social grants in 2010. Urban economies are clearly stronger and more self-sufficient than rural, although conditions have deteriorated recently with the failure to create enough jobs to keep pace with population growth.

Figure 1: Main source of household income, 2002-2010



Source: Author's calculations from General Household Survey, 2002 and 2010

More robust and inclusive economic growth is fundamental to the viability of cities and to citizen well-being. Basic services can improve living conditions, and social grants can relieve severe hardship, but creating more paid work is the only truly sustainable and dignified pathway out of poverty. Stronger economic development is also vital to increase the tax base to finance better social and community services, and to transfer resources to poorer rural areas, through household remittances, improved public services and welfare programmes.

Government investment in urban infrastructure has been neglected for decades, resulting in bottlenecks, ageing systems vulnerable to catastrophic failure, and inadequate water and energy capacity to accommodate faster economic growth (Treasury, 2011a; NPC, 2011a, 2011b). Environmental and planning regulations have also tended to obstruct private investment through complex procedures duplicated at provincial and municipal levels (Treasury, 2011a). And local education and training systems have neither overcome

the apartheid legacy nor adapted fast enough to the changing labour market to give people the capabilities required to access emerging opportunities. Young people have been the biggest casualty. Only one in eight people aged 15 to 24 have a job (12.5%), compared with an adult employment rate more than four times higher (54%) (Treasury, 2011c).

2.2 HOUSING

The government's bold promise to provide everyone with a free, fully-serviced house has created enormous societal expectations which are proving impossible to meet (OECD, 2011). Housing backlogs and informal housing in the cities are higher than ever, despite levels of building that are very high by international standards (SACN, 2011; Sexwale, 2010). Furthermore, investment in physical structures ("bricks and mortar") has not been embedded in a broader process designed to create viable settlements. Pressure to economise on the land costs and to simplify the development process has resulted in building on greenfield sites on the urban outskirts, far from jobs and amenities, which perpetuates disadvantage and exclusion (NPC, 2011a; OECD, 2011). Sterile, mono-functional townscapes have been created that lack vitality and tie people to fixed assets that they can't sell or rent out even if their circumstances change.

Many poor households and communities have become passive recipients of government delivery, and less inclined to contribute to their own solutions (NPC, 2011b). Alternative approaches are needed that satisfy popular expectations while building active citizens and ensuring fiscal viability. The "Delivery Agreement" between the Presidency and the Human Settlements Department stated that a more varied housing policy would be developed:

"The current approach with a focus on the provision of state subsidised houses will not be able to meet the current and future backlog and there are questions related to its financial sustainability. We need to diversify our approach to include alternative development and delivery strategies, methodologies and products including upgrading of informal settlements" (Presidency, 2010).

Informal settlements have expanded in size and multiplied in number, with around 2 700 shack areas countrywide accommodating about 1.2 million households (SACN, 2011). Many urban shack areas serve an important function as reception areas for migrant populations, offering cheap entry points to gain a toehold in the urban labour market – a low cost, accessible location to search for work and to acquire skills and contacts (Cross, 2010). Many municipalities take a tough stance in preventing such areas emerging and containing the growth of existing settlements. This makes it more difficult for people to move to

cities, and often results in poor people occupying “hidden spaces” such as backyard shacks and invaded buildings in inner cities. Instead of reducing overcrowding, these policies increase the vulnerability of the poor and worsen their living conditions in the city.

Municipalities have been more successful in extending basic services to the poor than in reshaping urban spaces or building local economies (SACN, 2011; Treasury, 2011a). Yet communities have become increasingly frustrated at the apparent slow pace of delivery. Many service protests are happening in cities where the pressures of in-migration are greatest (SACN, 2011). Social stresses are exacerbated by the occupiers of RDP houses having to pay for their electricity and water charges, and meet the social expectations of living in formal housing. They face indebtedness, disconnections, and sometimes even loss of their homes. The prescriptive model of “delivering” housing “to” communities has often produced inflexible and unaffordable facilities, rather than vibrant places where people can access the opportunities to thrive.

2.3 TRANSPORT

In the absence of spatial transformation, the transport system has been under enormous pressure to accommodate rising demand for travel and long distance commuter flows from outlying settlements. Trip distances can be three times those of the average trip in countries with denser cities (Treasury, 2011a). And many households spend 20-30% of their monthly income on transport, which is much higher than elsewhere in the world (OECD, 2011; SACN, 2011). However, transport policy is centralised and unresponsive to the high travel costs and journey times facing poor communities (Van Ryneveld, 2010). Transport policy has also been overly concerned with the convenience of private motorists. Public transport has suffered from historic under-investment, much of the rail infrastructure is worn-out and unreliable, and it cannot cope with the growing demands upon it. Over 90% of government funding is allocated to the provinces and to separate national entities such as the Passenger Rail Agency of SA and the SA National Roads Agency, which are remote from the local travel realities of poor communities.

With disjointed institutions and separate funding streams, transport responses to urban sprawl have been piecemeal. In fact, transport subsidies (worth nearly R7 billion a year) tend to compensate for the fragmented urban form and therefore sustain inefficient development patterns instead of promoting integration. Unreliable and congested transport networks also impede agglomeration efficiencies and hold back economic growth. There has been no serious attempt as yet to reorganise urban transport systems, or to align transport and land-use policies to raise residential densities in well-located areas (Van Ryneveld, 2010). The role of municipalities has been marginal, despite travel patterns being predominantly local.

Several important recent transport initiatives have been funded by a sizeable increase in public investment associated with the World Cup. However, these new systems are poorly integrated with each other and with other built environment functions. Gautrain, freeway improvements, and to a lesser extent Bus Rapid Transit (BRT) schemes, tend to stand alone and serve contradictory purposes, rather than combine to create an integrated transport network offering efficiency, reliability and affordability (SACN, 2011). BRT offers considerable long-term potential, although it has proved much more costly than anticipated and progress has been delayed by industrial relations disputes and conflict with minibus taxi operators.

2.4 LAND-USE PLANNING

There has been no coherent approach to the planning and management of urban land. Responsibilities are dispersed across different parts of government, sowing the seeds of confusion and conflict over the development of scarce sites, and making it difficult for any single institution to act strategically to promote a more coherent urban form (SACN, 2011; Treasury, 2011a). Municipalities lack the powers, resources and expertise to acquire and swap vacant land parcels, and therefore struggle to meet growing demands for land from different users. They also lack the technical skills and political backing to capitalise on the rise in land values and windfall profits to land owners that result from public investment in infrastructure. This is symptomatic of a more general failure to leverage wider economic spinoffs (such as local procurement and jobs) and opportunities for mixed-use development (residential, commercial and social) arising from infrastructure improvements.

Municipal spatial plans tend to exert little positive influence over development patterns on the ground. The planning system is geared to respond to development applications, not to play a constructive role in designing new possibilities, let alone to help revive run-down places. Part of the problem is that planning is still governed by the pre-democratic laws designed for social control and segregation (Berrisford, 2011). Current proposals for change may help to consolidate outdated frameworks and zoning schemes, but without creating the tools to help shift urban development patterns by promoting densification, mixed-use development and public transport. There is no consistent policy within cities and towns towards the redevelopment of vacant and under-used land and buildings, which perpetuates neglect and dereliction. The separate system of Integrated Development Plans revolves around the municipal budget, is hampered by external compliance procedures, and is too short-term to take on board the challenges of spatial restructuring.

2.5 CITY GOVERNMENT

A series of governance problems have inhibited effective settlement planning. Overlapping mandates and political tensions between government spheres have created uncertainty and weakened accountability. The provinces are responsible for important investment decisions in housing and transport, and for regulating environmental impacts, but municipalities and households have to bear the costs of poor location decisions (Treasury, 2011a). Many municipalities have suffered considerable political and managerial instability in recent years, and lack the experienced leadership and technical competences to develop compelling visions for their cities and to pursue long-term strategies (COGTA, 2009, 2010; SAPRU, 2009). They have also failed to develop a sense of shared purpose and a culture of engagement and partnership with external stakeholders that would help to implement complex spatial restructuring proposals. They have been slow to encourage popular participation in community-based planning and to channel the energies of frustrated resident groups in constructive directions through involvement in practical projects of lasting value to their communities (SACN, 2011).

Under pressure to improve and maintain services, many municipalities are preoccupied with short-term operational problems and fire-fighting (COGTA, 2009, 2010; SAPRU, 2009). More stringent national procedures for managing and regulating municipal affairs have reduced their flexibility and discretion to respond to local needs and priorities. A growing culture of compliance with national and provincial procedures, and a preoccupation with achieving a clean audit have diverted resources from front-line delivery into back office administration and reporting. Pressure to avoid an adverse audit has restricted the creativity required to tackle complex spatial problems, and the willingness of senior officials and politicians to take risks. Greater procedural complexity around tendering and project planning has also made it slower and more difficult for municipalities to invest in infrastructure and other capital projects. As a result, under-spending on municipal capital budgets has increased from 14% in 2008/09 to 25% in 2010/11 (Treasury, 2011b), and it is much higher in some places.

3. DIFFERENCES WITHIN AND BETWEEN CITIES

The low average residential density of SA cities is reasonably well known (see e.g. Berthaud and Malpezzi, 2003; Turok, 2011). However, the extraordinary variation in densities within each city is less well understood. It is more appropriate to characterise SA cities by their highly uneven population distributions than their low average densities. For example, Cape Town's average population density is 39 persons per hectare, but this varies between 100-150 in the shack areas and 4-12 in the former white suburbs (City of

Cape Town, 2009). This enormous imbalance presents a far greater challenge for human settlement planning than uniform low density, especially as different neighbourhoods are spread apart rather than contiguous. Uneven density is a source of inefficiency and injustice because it obstructs the workings of the labour and housing markets, and complicates local transport networks. It also makes it extremely difficult to distribute public services and facilities such as schools, libraries and recreational amenities fairly across the city. It therefore contradicts the three pillars of sustainable settlements outlined earlier.

Middle and high-income households generally live in low density suburbs that are costly to service with public transport and other infrastructure, and are geared to car-based commuting. Major highway construction since the 1960s has contributed to the separation of work, leisure and home-life. Elsewhere, the poor majority of households are confined to townships and informal settlements that are generally overcrowded, with over-burdened schools, clinics and other community facilities, and vulnerable to the spread of shack fires and communicable diseases. The pressure on housing land in these areas complicates the installation of bulk infrastructure, municipal facilities, public spaces and formal economic activity. Many shack areas are poorly sited in relation to flood hazards and unstable land, and remote from livelihood opportunities, which compounds people's disadvantage.

South Africa's dispersed urban configuration also differs widely between cities. The varied spatial form of cities reflects their unique physical topographies, major transport axes, social/cultural composition, and the rate and character of economic development and demographic growth. Historical policies are also important, including how strictly apartheid planning principles were applied, and what other planning ideas were influential, such as the separation of land-uses associated with so-called modernist thinking. Some cities have a reasonably compact built-up area, while others are much more fragmented. Some have one or more poor townships located well beyond the periphery that was imposed through forced removals or "displaced urbanisation". Others have a range of outlying informal settlements which have grown without approval as a result of in-migration, often since the demise of apartheid, such as Diepsloot north of Johannesburg (Harber, 2011).

It is vital to improve our understanding of these differences in order to tailor settlement policies appropriately. Standard approaches will not work in different circumstances. A useful way to start thinking about these differences is through three-dimensional density maps (figures 2-5). Four examples are provided. They convey a powerful sense of the socio-spatial inequalities of each city. The height of each column on the map represents the population density of that particular zone of the city. The area of the base (or 'footprint') of each column is the geographical extent of that zone. Consequently, the volume of each

column reflects the total number of people living in the zone. The colour coding reflects different density levels – green is very low while red is very high.¹

In order to interpret the patterns shown in each map in a systematic way, it is important to identify the essential features that distinguish one city from another. Table 1 provides an initial framework to pinpoint key differences in spatial form. These distinctions also help one to understand some of the strategic challenges facing each city, including where major investments in transport, housing and jobs might be located to reduce some of the most glaring inefficiencies, and what kinds of transport system may be most appropriate in different situations. The framework is a considerable simplification of reality, but it helps to contrast the distortions of the archetypal apartheid city with cities elsewhere that have evolved in a more organic way without extreme state controls. Apartheid cities were shaped by policies of (i) strict social segregation to keep races apart and (ii) separation of economic and residential zones to keep commercial and industrial activities out of non-white areas. This denied black townships the chance to develop an economic base, and greatly increased the need to travel within cities.

Table 1: Basic differences in urban form

	Ordinary city	Apartheid city
Main built-up area of the city	Contiguous	Fractured
Variation in density levels across the city	Smooth gradient	Highly variable
Areas of low density in central locations	Few	Many
Areas of high density in peripheral locations	Few	Many
Tendency to separate or mix land-uses	Mixed land-uses	Separation of land-uses
Distance between poorest residential areas and main economic centres	Typically short	Typically long

What follows is a preliminary assessment of the spatial form of each city, with some observations about the challenges they pose. A more detailed analysis is required of each pattern to understand its origins, dynamics and the effects of contemporary economic and spatial trends. It should include a quantitative analysis of the changing level and distribu-

1. The population data is drawn from the 2001 Census and the spatial units used are 'sub-places'. Although the 2001 Census is now out-of-date for some purposes, this is less of a problem for the basic form or configuration of cities, which does not change greatly from year to year. Sub-places are built up from Census enumeration areas. Many of them include open spaces and non-residential land-uses, so the average population density of each sub-place is affected by the amount of non-residential land included within it.

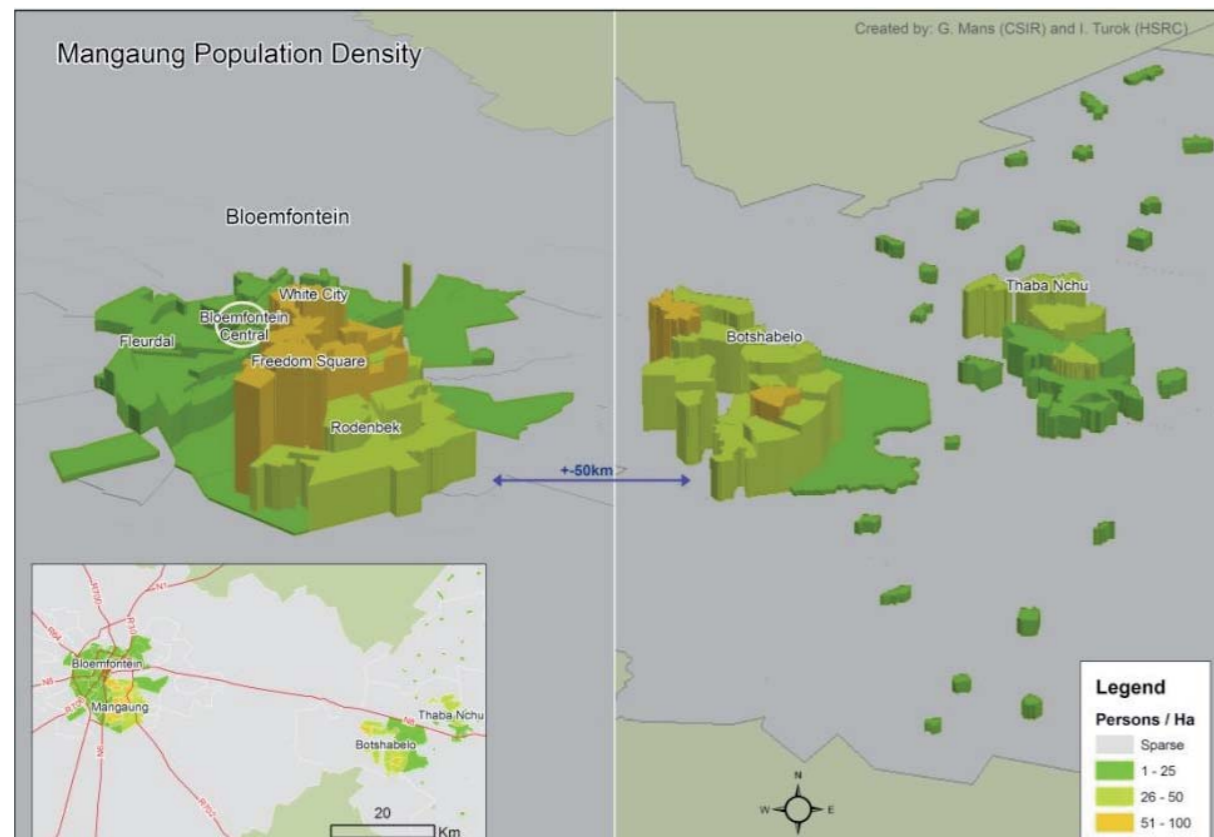
tion of employment, as well as population, a detailed assessment of the demographic and housing characteristics of each area, and information on the daily flows of people across each system. This is a precondition for exploring the scope for alternative policy interventions to address the problems faced. We start with the cities that have relatively straightforward spatial forms and move on to those with more complicated issues. Smaller cities tend to have lower overall densities, to be less complex and to have shorter commuting distances than larger urban areas.

3.1 MANGAUNG

Within the Mangaung metropolitan area, the city of Bloemfontein (Figure 2) has a fairly conventional and compact urban form, without any extremely dense zones. The variation in density levels across the city also seems lower than in South Africa's other cities. The low-density western and northern suburbs are former "white" areas and the south-east quadrant encompasses a group of former "black" townships. The main residential areas are reasonably accessible to the central city, which is the dominant employment area. Much of the RDP housing in the metro has been built just beyond the south-east edge of Bloemfontein's built-up area, which is a rather isolated location.

The most unusual feature of the wider Mangaung area is the large population concentrations at Botshabelo and Thaba Nchu (a former Bantustan) located about 50 km away. These large townships have a sizeable share of the metro population but lack any significant economic base of their own, so people are forced to commute to Bloemfontein for work at considerable personal and financial cost. This is a major barrier to job-seekers. People may also be obliged to travel to Bloemfontein for major consumer purchases and for high order public and private services. This is a classic example of displaced urbanisation and it represents the biggest single long-term challenge for creating sustainable settlements in the metro.

Figure 2: Mangaung



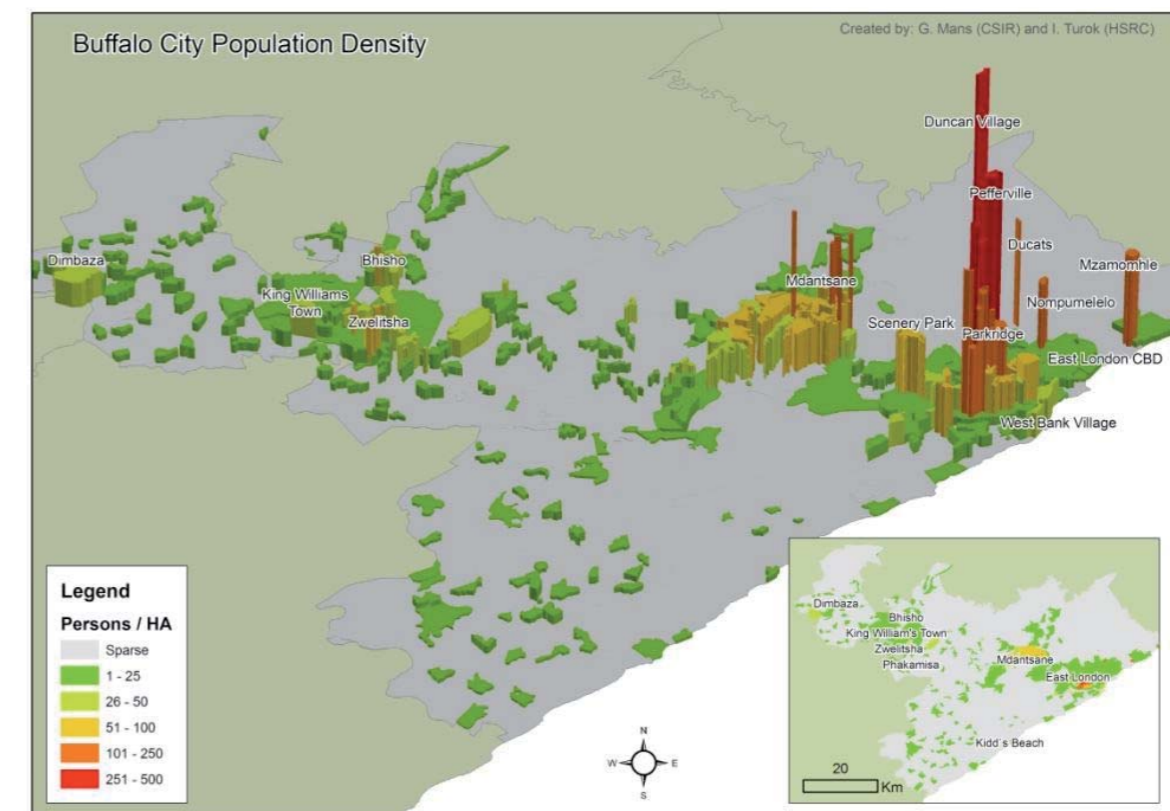
Source: SACN, 2011

Looking ahead, there may be scope to develop one or more economic and service nodes in Botshabelo and Thaba Nchu because of their population size and isolation. The large combined spending power of local residents coupled with the available labour supply and potential transport savings offer advantages for local economic development. There are also important opportunities for residential densification (and associated commercial activity) in and around the central city area of Bloemfontein given the relatively low current density of some of these zones and the value households attach to proximity to centrally-located jobs, amenities and the two universities. In the meantime, efficient and affordable transport connections are vital for people from outlying areas to access opportunities in Bloemfontein. Encouraging economic and residential development along the N8 corridor to connect Bloemfontein and Botshabelo may seem an attractive idea at first sight, but it is bound to be a slow process because of the distance involved and the sluggish metro economy. It may be more cost-effective to focus investment on existing nodes and new opportunities in Botshabelo and Thaba Nchu.

3.2 BUFFALO CITY

Buffalo City (Figure 3) comprises a reasonably compact contiguous built-up area (East London), several disconnected settlements further afield, and a wider rural hinterland. The residential density of the central city is very low and there are several large vacant sites owned by Transnet that could be readily developed, as well as an attractive sea-front offering major residential and commercial opportunities. Otherwise, the metro has several striking features that appear to represent major strategic challenges. First, there is a very large concentration of population in the township of Mdantsane (approximately 250 000), some 20 km from the city centre, with no significant local economic base. Second, the residential densities in and around the informal settlement of Duncan Village are extremely high. This is reasonably well-located, but overcrowding is a serious problem for upgrading and service provision. Third, there are several smaller settlements in the hinterland, including King Williams Town, Dimbaza and Bisho (the provincial capital), which have very fragile local economies.

Figure 3: Buffalo City



Source: SACN, 2011

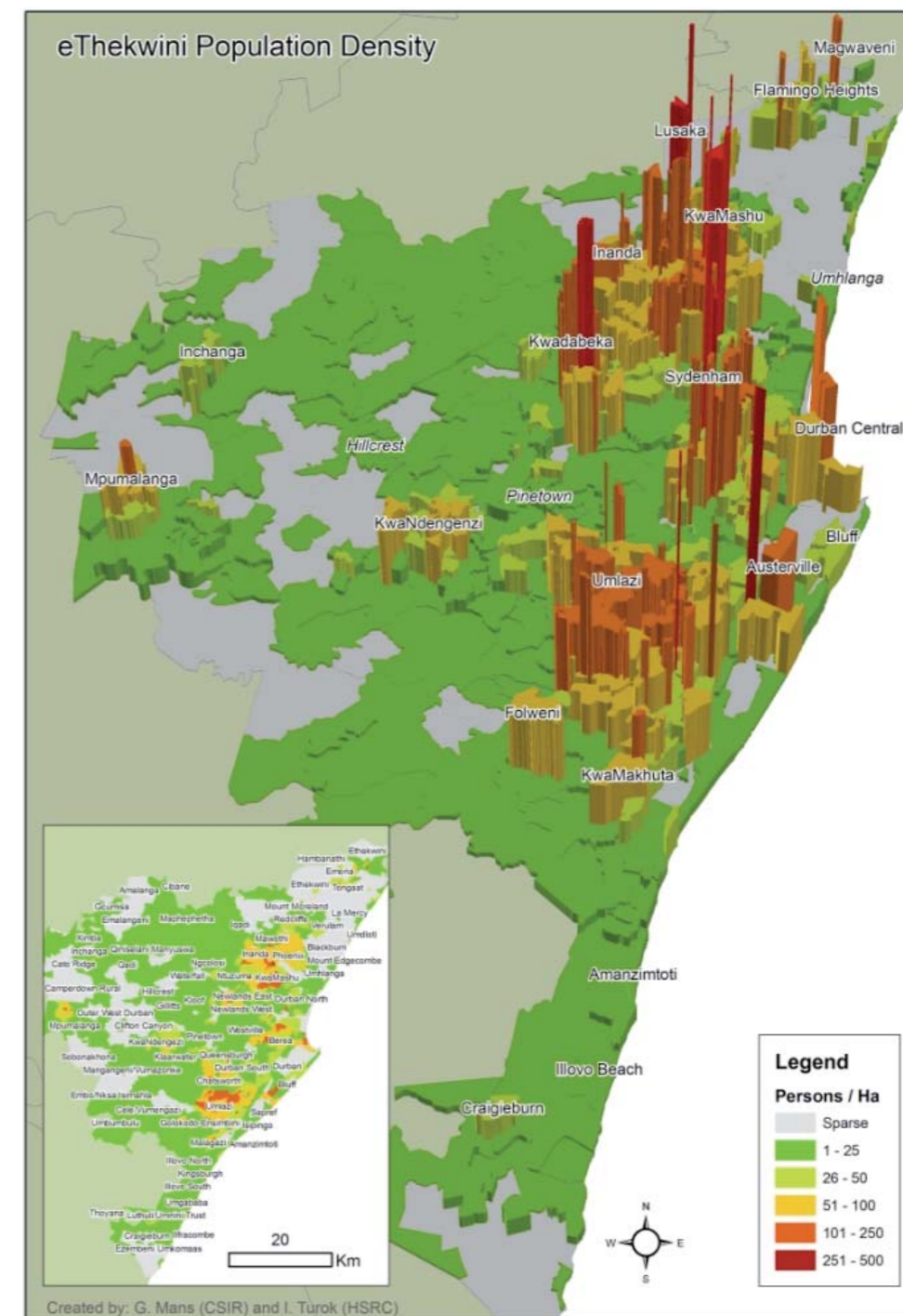
Looking to the future, efficient high capacity (rail) transport connections between Mdantsane and East London seem essential and feasible given the size of the township and the moderate distance involved. There is an existing rail connection, but the service is slow and infrequent. Mdantsane also has scope to develop a stronger economy of its own in view of its population size and its distance from central East London. It seems important to develop low-cost multi-storey housing in and around Duncan Village because of its central location. Residential densification in and around the city centre would bring people closer to opportunities and make central services and amenities more viable by increasing the consumer base. Encouraging economic and residential development in King Williams Town, Dimbaza and Bisho, and along the corridor to East London, is likely to be difficult because of the distances involved and the stagnant regional economy.

3.3 ETHEKWINI

eThekwini (Figure 4) appears to have a more fragmented spatial form than most cities. There is no single dominant contiguous area of medium-high population density. Instead there are three large, separate residential zones of medium-high density: (i) the central city and inner western suburbs, (ii) the northern townships including KwaMashu, Inanda and Lusaka, and (iii) the south-western group of townships around Umlazi. Each of these zones includes localised areas with particularly high density. The rest of the metro seems to consist of low density suburban sprawl, traditional rural areas, and about eight quite separate outlying moderately-sized settlements of medium density, such as Flamingo Heights in the north and KwaNdengezi in the south-west. eThekwini's fragmented character partly reflects the regional topography of undulating hills and valleys which complicate coherent physical development.

Future challenges include building up the local economic base of the northern and south-western groups of townships identified above, and strengthening the transport connections between the main settlements and emerging employment centres in the north of the metro, such as Umhlanga and the new King Shaka airport and Dube Trade Port. Rail and road connections have been improved recently between KwaMashu and Durban city centre. There is also scope for residential densification around the central city and in the inner suburbs to improve access to opportunities being generated there (e.g. by the expansion of the sea port (Africa's largest)), and to boost demand for city centre services.

Figure 4: eThekwini

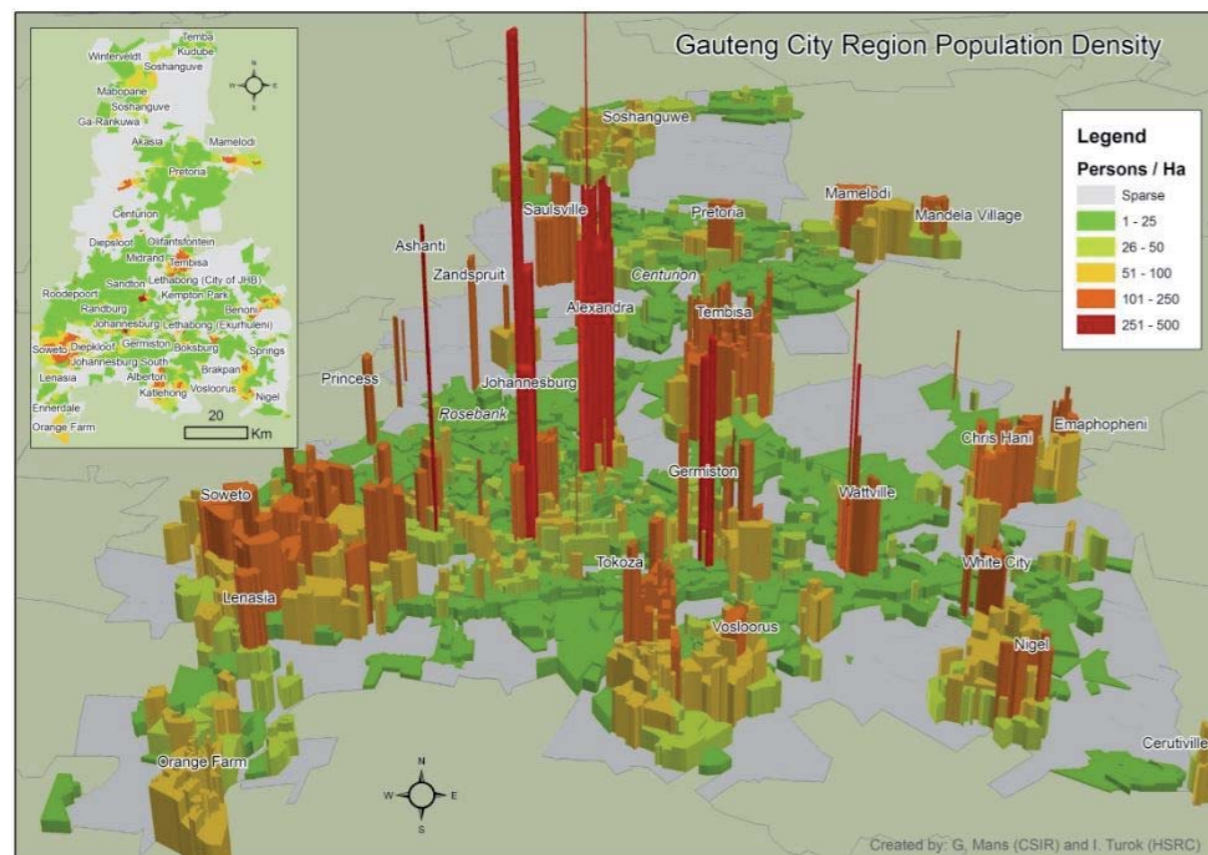


Source: SACN, 2011

3.4 GAUTENG

The three metros of Johannesburg, Tshwane and Ekurhuleni are combined together in Figure 5 because of their proximity and interdependence. The map reveals an exceptionally fragmented settlement pattern. Gauteng bears very little resemblance to an integrated metropolitan area or a monocentric city-region. Like eThekweni, there is no single dominant contiguous area of medium-high population density. The map also reveals the sheer scale and density of Soweto's population and its separation from central Johannesburg. The economic centres of Midrand, Sandton and Rosebank are shown to be insignificant in residential terms. Population densities in Alexandra and parts of Johannesburg city centre are exceptionally high. The scale and density of Tembisa and the long distances between Pretoria and its major displaced townships, Soshanguve, Winterveldt and Hammanskraal in the north are also apparent. The isolation of Orange Farm in the south is also very clear.

Figure 5: Gauteng



Source: SACN, 2011

One of the reasons Gauteng developed a dispersed form was the lack of immediate constraints on urban growth at the time of rapid expansion of the mining industry in a context of large sparsely populated and generally infertile tracts of land (Van Ryneveld, 2010). Under apartheid, large numbers of black people were displaced to far-off locations, and subsequent planning policies have done little to contain economic decentralisation to Sandton, Midrand and other centres. The contemporary splintered structure of Gauteng and the separation between residential communities and employment nodes are a source of major inefficiency and imply a need for high levels of movement across the region (OECD, 2011). There is a compelling case for improved transport connections between the main settlements (which tend to be in the south) and the areas of employment growth and private investment (which tend to be in the north). Improved accessibility and connectivity are crucial to releasing the region's agglomeration potential, including enabling the labour market to function more efficiently and reducing the costs of congestion.

Over time, the spatial form could also be made more coherent and functional through carefully targeted residential development, infilling and densification, especially along new transport routes. Some of the undeveloped parts of Johannesburg and Ekurhuleni visible on the map are former mining areas that are unsuitable for housing, but there is scope for densification in other well-located areas. The broad Johannesburg-Pretoria corridor is a good example, along with the central city and inner suburbs of Pretoria, and the various corridors created by the emerging Bus Rapid Transit network ("Rea Vaya"). Finally, the major outlying settlements in places such as Thokoza, Vosloorus, Nigel, Watville, Chris Hani, Tembisa, Mamelodi, Saulsville, Soshanguve and Soweto are capable of supporting stronger local economies given their scale and distance from established economic centres.

To summarise, promoting greater integration of each city through the three pillars of sustainable human settlements is important to improve efficiency and fairness. Existing fragmented patterns need to be knitted together more effectively through strategic investments in transport, housing and economic development. In all cases there is scope for residential densification in and around the central cities and along new and existing transport corridors. Bringing more people to live in well-located areas would be beneficial for accessing work and social amenities, strengthening city centre economies, limiting traffic congestion and reducing energy consumption and carbon emissions. It is likely to require a combination of state sponsored redevelopment, a concerted municipal strategy towards vacant and under-used land, stronger incentives and controls on private house-builders, and much more creativity and innovation on the part of both public sector planners and commercial developers.

4. DEVOLVING BUILT ENVIRONMENT FUNCTIONS TO THE METROS

There have been several recent policy developments which strengthen, or could in future strengthen, the role of city governments in relation to the built environment:

- *Housing:* A commitment has been made to speed up the accreditation of metros to manage public housing programmes without the need for provincial approval. A new urban settlements development grant has also been created to fund large municipalities to develop informal settlement upgrading schemes by subsidising the cost of acquiring and servicing land (Treasury, 2011a).
- *Transport:* The National Land Transport Act (2009) gives municipalities a leading role in planning and regulating all public transport services in cities. Public Transport Integration Committees will be set up in each city to facilitate the incremental transfer of responsibilities from existing transport planning and regulation authorities (SACN, 2011).
- *Spatial planning:* A Constitutional Court judgement in 2010 on the Development Facilitation Act established that municipalities have principal responsibility for land-use planning and management. This should help to reduce the duplication and confusion that has existed hitherto. Revisions are also being made to the land-use management legislation to reinforce this decision and strengthen municipal spatial planning (NPC, 2011b).
- *City support:* The Treasury has started a Cities Support Programme in conjunction with several other departments to help cities plan and manage the built environment in a way that promotes economic and employment growth, access to services, environmental sustainability and public accountability (Treasury, 2011b:39). Capacity building, fiscal incentives and organisational assistance will be put in place to improve municipal performance and outcomes.
- *Local business tax:* The Treasury is considering proposals for a local business tax to diversify municipal revenue streams and replace the old RSC levy. Another advantage would be to strengthen the interactions and accountability between municipalities and the business community.

These policy shifts are significant in creating the possibility for cities to manage urban growth more effectively and to support the transition to a cleaner, more inclusive and more prosperous future. There are limits to municipal powers in relation to economic growth and social inequality, but the built environment sits squarely within its domain. Devolving additional powers and functions to the metros should make it easier to start reconfiguring the urban environment, increase densities and reduce sprawl because they will be more aware of the costs and consequences of disjointed sectoral decisions: *“Empowering cities*

to perform these functions will support integrated planning and spatial development, as well as ensure greater accountability to communities” (Treasury, 2011a:214). Put simply, strengthening the mandate of city governments in these respects will help them to pursue the three pillars of sustainable human settlements more coherently and consistently.

Devolution to the metros will be an incremental process rather than a single event, just as the simultaneous pursuit of the three pillars will continually evolve as knowledge and experience of how to do this improves. The transfer and clarification of responsibilities should bring about several general benefits for policy-making and implementation. It should help to improve the responsiveness and accountability of these functions by bringing decisions closer to households, communities and businesses. Being closer to the ground should raise decision-makers’ awareness and understanding of spatial considerations. The scope for coordination and integration should be improved by decisions being made in a single institution, where it is easier to balance the trade-offs between economic, social and environmental considerations. A broader span of responsibilities should enable decision-makers to think more strategically about competing investment priorities and focus on those that will generate most value and impact. Opportunities for external collaboration and partnership with civil society and the local business community should also be enhanced by decentralised decision-making.

One of the more specific benefits could be to stop building free, fully-serviced houses in marginal locations. The metros will have scope to support better located new settlements built at higher densities. They will have discretion to shift the funding from new housing for the few to settlement upgrading for the many, and to experiment with different ways of encouraging affordable housing. Greater focus on informal areas will help to improve personal safety and security, increase local amenities and strengthen livelihoods. More creative thinking and flexibility in public investment decisions should mean more opportunities for local job creation and community capacity building. Municipal control over public transport systems should permit improvements in reliability, safety and through-ticketing between trains, buses and taxis. Their control over rail and bus subsidies should enable a shift over time from compensating for spatial inefficiency to promoting urban restructuring. Stronger links between transport, land-use, infrastructure and housing functions should enable densification around transport hubs and corridors. Greater control over these policy levers will strengthen the position of municipalities in negotiations with investors, and facilitate mixed-use, mixed-income projects to be developed in appropriate places.

Devolution will not be sufficient on its own to achieve many of these benefits. It will need to be accompanied by improvements in municipal leadership, institutional systems, technical capabilities and external relationships. Greater political stability, determination and strategic vision will be required to make the policy and procedural changes necessary

to drive spatial transformation. The metros will need to improve their skills and competencies in negotiating deals with landowners, developers and investors to maximise the social and economic benefits of public investment in infrastructure. They will have to develop the knowledge and assemble the teams of skilled planners, surveyors, engineers, architects, environmentalists and other professionals who can work together creatively to reconfigure urban infrastructure networks, redesign service delivery systems and start shifting physical development patterns. And they will need to create robust partnerships with developers, investors and local communities to bring forward imaginative new projects and schemes that can help to stitch together the urban fabric and create viable and valued places where people want to live, work and socialise. Careful planning and sequencing of such initiatives could just possibly set in train a self-reinforcing dynamic of greater confidence, innovative thinking and bold action that will generate meaningful change on the ground.

Achieving this kind of momentum will be strengthened by national cooperation. It is important for the government to resist the temptation to shift all responsibility for built environment functions to the metros and remove their own obligations. Central government has unique financial, regulatory and symbolic powers required for human settlement restructuring. These include control over the vacant and underutilised land holdings of government departments and state owned enterprises. Influence over the investment decisions of state-owned entities responsible for electricity, skills training, freight transport, telecommunications, etc are also important to strengthen the economic pillar of sustainable settlements. An explicit national urban policy framework would help secure support across government for integrated city development strategies. Consolidated funding streams at national level (e.g. for housing and transport) would simplify the task of alignment and integration at the local level. Metros with proven capabilities and integrity should be given greater discretion to experiment and innovate with this challenging agenda by relaxing some of the systems and regulations that restrict their flexibility. Additional responsibilities could be devolved in due course, such as environmental regulation, to further improve functional alignment and simplify administrative procedures so as to expedite development. National legislation governing spatial planning and land-use management needs comprehensive modernisation to introduce a simpler and more pro-active approach. Above all, national government needs to work hand-in-hand with the metros to raise the substantial additional investment funds required to develop, maintain and upgrade the infrastructure essential for urban transformation.

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