THE FAILURE OF HOUSING POLICY IN POST-APARTHEID SOUTH AFRICA

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There are enormous implications of the failure of what can be accurately described as a 'market-centred' approach to housing policy for public health, the environment, safety and security, the welfare of women and children, education, public hazards, urban planning, the labour market and related economic sectors (building materials, manufacturing, etc). The failure of housing policy is also a cause of growing political alienation, which could see government undermined in coming elections and in its attempts to forge unity and reconciliation.

For these and many other reasons, it is critical to revisit housing policy. Although it is true that the so-called 'incremental' policy – which derived directly from the National Housing Forum (which in turn was dominated by experts from the pro-business Urban Foundation) – was initially endorsed by a popular hero of the liberation struggle, the late Minister Joe Slovo, it is no secret that this endorsement occurred during a period of 'unrealistic expectations': both that robust, durable, job-creating economic growth would ensue, and that reconciliation would be fully embraced by white business interests (particularly bankers and developers). Such expectations were subsequently dashed, as shown below, and by July 1995 a *Business Day* journalist described the incremental approach as 'remarkably like the discredited site and service schemes advocated during the apartheid era', while at the same point Housing Minister Sankie Mthembi-Mahanyale labelled the policy she had inherited 'toilets-in-the-veld'.[1] (The Minister subsequently retracted her criticisms and repeatedly provided assurances that the market-centred policy would not be challenged.)

In this context, the key policy documents – the Department of Housing's 'Record of Understanding' with commercial banks, the *Housing White Paper* (*HWP*),[2] the proposed Housing Bill, and two reports by the Department of Housing's 'Task Team on Short Term Housing Delivery' (also known as the Ministerial Task Team) – together represent an uneven but sustained official commitment to the market.[3] Beginning with the most recent report, we consider the most important aspects of this policy, and explore how the policy has failed on its own terms and in terms of the mandate government was given to build one million houses within five years.

The analysis we offer is different from that provided recently by most other critics,[4] who have largely focused on institutional shortcomings,[5] government's failure to accurately understand household-scale dynamics,[6] the 'top-down' character of the policy and delivery process,[7] or the Department of Housing's perceived anti-urban bias.[8] It strikes us instead that the most extreme problems that characterise the housing policy adopted following the 1994 election are related to its various market-centred features, and that an alternative based on the *Reconstruction and Development Programme* (*RDP*)[9] would have solved many of these.

WILL MINISTERIAL TASK TEAM RECOMMENDATIONS MAKE ANY DIFFERENCE?

In October 1996 the Ministerial Task Team released a document that, according to the accompanying press release, is well 'within the framework of current housing policy' (as described originally in the *HWP* and codified in the Housing Bill) yet that nevertheless 'identifies the need for a far greater and more proactive role for the state as being essential to speed up the delivery process of affordable housing'.[10] Given that the Task Team is headed by the Department of Housing's director-general, it can be assumed that this report represents official thinking about the way forward for housing policy.

But contrary to relatively shallow interpretations in the media,[11] the Task Team's policy proposals *do not*, in reality, provide the means to truly empower the state – especially local government – to deliver housing. In particular, the notion that government has now adopted a state rental housing policy is extremely misleading, given the methods and parameters that are being applied. In reality, the rental policy appears to have been tacked on to existing policy primarily as a response to the delivery crisis. Instead, as shown below, the 'new' housing policy amplifies many of the worst features of the existing approach, of which at least six critical shortcomings deserve mention at the outset.

First, the central intention remains that the state gradually withdraws entirely from housing provision.

Second, there is still no attention to limited consumer affordability – which remains the key problem preventing large-scale market delivery of township housing – and there is still no increase in the housing subsidy for those millions of South Africans who will be unable to afford the products of proposed public-private 'joint ventures'.

Third, the proposed joint venture delivery mechanisms put large corporate developers in the driver's seat, and neither provide sufficient new funding to build much-needed state and community capacity so as to ensure meaningful partnerships, nor require developers to construct inexpensive houses at the lower (approximately R20-30 000) end of the affordability scale.

Fourth, there is still no protection against 'downward raiding' of low-income subsidy beneficiaries by higher-income groups (even as this phenomenon will become more important due to the promised improvement in location of housing projects).

Fifth, there are still no creative plans to provide access to state-owned land or to intervene to make more land available in other ways, thus permitting more of the subsidy to be spent on the actual house and services.

Sixth, likewise there is still no effort to intervene in the construction and building materials markets notwithstanding severe market imperfections.

Various other features reflect government's ongoing reliance upon a market-centred approach, adopted in 1994 in spite of the existence of what is generally considered the 'people-driven' alternative spelled out in the RDP.[12] These include unnecessary constraints on the quantity and quality of subsidies and extremely generous incentives for banks. Together they help explain the failures of the market-centred housing programme to date.

Following a critique of these components of market-centred housing policy, we can consider the 'new' strategies – the devolution of responsibilities to local authorities without devolution of sufficient resources, and increased incentives for developers – in more detail, and ask whether they represent any real departure from the failed policy and whether they will deliver the goods. Finally, some truly different alternatives should be considered, particularly those that emanate from the RDP. The contrast between such alternatives and the failed policy (with its recent amendments) is clear, and will continue to provide South Africa's progressive labour and social movements with sufficient confidence to demand that the debate on housing policy be reopened.

PROBLEMS INTERNAL TO MARKET-CENTRED POLICY

To begin, it is important to contest conventional wisdom regarding the financing of housing. As has often been remarked, housing policy is premised on an overall understanding of 'fiscal constraints', which when considered carefully in fact appears as a *mis*understanding. Perhaps most importantly, the maximum R15 000 subsidy (for those households with less than R800 per month income) is not sufficient to build decent accommodation; hence the policy requires beneficiaries to also gain access to credit if they want a house (not merely a serviced site). The reason for this, the *HWP* argues, is that 'The required annual delivery rate ..., relatively high proportion of poor households and budgetary constraints do not allow sufficient subsidy money per household to enable the construction, at State expense, of a minimum standard complete house for each household not able to afford such a house.'

In reality, *there is not a 'fiscal constraint' to affordable housing for all in South*

Africa. If we assume that a minimally-decent house costs approximately R30 000, and that – using National Housing Forum calculations – the country's income distribution requires an average of 50 per cent subsidy for urban housing, conventional wisdom is easily shown to be incorrect. The actual cost to the budget of meeting the RDP goal of one million new low-income houses built over five years (an average of 200 000 per year), at an average cost to the state of R15 000 per unit – not including the other R15 000 per unit, which would come from private sector resources via the national housing bank, to be repaid at the market rate of interest – would be just R3 billion per year.

Are sufficient funds available to meet this need? Consistent with the RDP, government's goal for resource allocation (as confirmed in the RDP, *HWP* and draft *Urban Development Strategy*) is to acquire 5 per cent of the total budget for housing by the year 1998, which would exceed R9 billion. This is obviously sufficient to meet not only the RDP goal, but to go far beyond that goal, easily financing 350 000 houses per year by 1998.

Even if income distributions are more skewed than the National Housing Forum originally estimated, there remain sufficient funds budgeted for the state to afford the required subsidies to achieve Affordable Housing for All. Indeed, the 1995-96 budget alone contained more than R4 billion for housing (although more than R2 billion of this was rolled over, as was also the case in 1994-95, which again suggests that existing subsidy amounts have been excessively stringent). The 1996-97 budget was (including past rollovers) R4,6 billion. Simple mathematics shows the inaccuracy of the fiscal constraint argument about capital costs.

The argument that the subsidy is only the first step in an 'incremental housing' system that will ultimately generate 'top structures' is unrealistic given the lack of appropriate and affordable credit. The incremental housing strategy is further undermined by the likelihood – based on the Municipal Infrastructure Investment Framework under consideration by the Department of Constitutional Development – that future stands occupied by families earning under R800 per month *will not include water-borne sewerage or a reliable supply of electricity*. The draft *Urban Development Strategy* – a document released in October 1995 which continued to reflect government thinking on service provision through 1996 [13] – was based upon conventional fiscal-constraint wisdom: 'Relative to the needs, the level of resources available from the Government is not sufficient to provide the necessary basic infrastructure in municipal areas.' Yet in designing the infrastructure framework, the Department of Constitutional Development and its advisors (especially a World Bank team) had failed to factor in the additional benefits – including public health, environment and macro-economic and micro-economic multipliers – gained from higher levels of services, and hence overplayed the net capital cost to the fiscus of providing high levels of infrastructure.[14]

Nor did government's infrastructure design team heed the RDP in its consideration of the recurrent (operating and maintenance) costs of water, sanitation and electricity services. The RDP insists that 'the national [water] tariff structure must include ... a lifeline tariff to ensure that all South Africans are able to afford water services sufficient for health and hygiene requirements [and] in urban areas, a progressive block tariff to ensure that the long-term costs of supplying large-volume users are met and that there is a cross-subsidy to promote affordability for the poor.' Similar directives apply to electricity. If such directives are followed, it will be feasible through cross-subsidisation to provide lifeline water, sanitation and energy to all. Instead, present policy will put a severe limit on what can be upgraded, particularly since nearly all communities inhabited by low-income households will be without sewerage lines.

In addition, the 'upfront capital subsidy' approach to financing incremental housing inherited from the late-apartheid era is far less efficient than a flexible loan whose interest rate – a blend of a subsidy and market-rate borrowings from, for example, pension funds (backed by a state guarantee, as the RDP suggests) – could vary over time to reflect changing borrower affordability.

The fact that nearly all subsidies are geared to an individualised 'nuclear family' model, will generate speculation, 'downward raiding' and shacklordism. Due to the phenomenon of downward raiding (purchase of the subsidised plot by higher-income households for cash, typically at a large discount), it is very likely that subsidised properties will soon be in the hands of higher-income groups, as initial occupiers find it difficult to meet the range of ongoing water, electricity and rates charges associated with the current 'full cost recovery' policy approach. In this event, the subsidy programme will have done little to solve the low-income housing crisis, and instead it may well raise the population of homeless people, who in turn will no longer be eligible for a future housing subsidy. As noted below, the RDP insists upon protections against subsidies being lost in this manner.

Access to housing subsidies remains largely dependent upon the actions of private sector developers, and in particular relies upon specific plans and the delivery of infrastructure. These technical requirements prevent communities from independently addressing their housing needs. In the absence of appropriately skilled government personnel available to assist communities, beneficiaries of subsidies have few options but to turn to private sector developers. The housing NGOs that are able to provide these services are few and far between, and with rapidly declining funding for NGOs there seems little promise that they will play a significant role in the future (as do NGOs in many Latin American countries).

Existing Private Sector Incentives

Generous incentives for banks and developers characterised the late apartheid era, as – while the state retreated substantially from black 'African' public housing provision – all manner of subsidies, financial engineering schemes, deregulatory changes and other measures were adopted to promote private sector housing. Those measures resulted in a burst of township housing construction and financing during the late 1980s, characterised by extremely poor quality construction practices (with no consumer recourse), poor or non-existent consumer education, terrible location of housing (on the far sides of segregated townships), no protections against interest rate increases or against the emergence of 'negative equity' (when due to various factors the value of most township bonds rose to levels higher than the value of the houses which served as their collateral), and an inability to sustain the building pace beyond mid-1990.

Nevertheless, notwithstanding the well-documented failure of the state's retreat from low-cost housing during the 1980s and reliance upon the private sector, the new government's Department of Housing proceeded nearly immediately to reward financiers in a variety of ways – using four new institutions that were allocated funding of more than R650 million during 1994-96 – in exchange for delivery promises that were not fulfilled, as shown below. (When these measures failed, the Ministerial Task Team subsequently shifted financial support and incentives to developers.)

First, the Mortgage Indemnity Scheme announced in October 1994 guarantees banks against politically related non-payment of new housing bonds in those areas covered by the scheme, up to 80 per cent of the value of the bond. By September 1996, 113 areas of South Africa had been either denied cover by the scheme (that is, formally redlined) or 'deferred', leaving 437 areas covered.[15]

Second, Servcon is a joint venture between government and commercial banks, developed in late 1994 in order to 'rehabilitate' non-paying bonds and ultimately to 'right-size' households to properties they can more easily afford. There are approximately 14 000 houses in technical default within Servcon's portfolio, of which half are being successfully brought to fruition in the form of a settlement with the existing residents. If the other 7 000 – as well as another 26 000 low-cost bonds in arrears or default on the banks' books – are not resolved, the Mortgage Indemnity Fund will be utilised to refund the banks.[16] As proposed, government will capitalise Servcon with R50 million, but no details are available about the use of these funds or the ability of Servcon to raise other funds (thus far it has been supported entirely by the private sector).

Third, the National Housing Finance Corporation was established in early 1996 to provide wholesale funding to retail banks, to encourage banks to increase their low-income loan portfolios. The Corporation is meant ultimately to finance 700 000 houses, but this goal is seen as extremely unrealistic, especially in the wake of fatal problems experienced by one of the prime vehicles for the Corporation's funds, the Community Bank. The Corporation has also indicated its unwillingness to offer loans at below-market interest rates (notwithstanding a directive to do so in the RDP, by blending wholesale finance with subsidy funds).

Fourth, the National Urban Reconstruction and Housing Agency, another post-apartheid institution, guarantees bank-originated bridging finance for developers. The agency claims it will make available R2 billion in low-cost housing finance by 2000.[17] Apart from a R25 million state grant, much of the agency's funding is sourced internationally, by development foundations (Open Society, for example) and governments (Sweden, for example) which would otherwise be better occupied in funding actual housing.

In addition, one of the most generous incentives that government granted banks was to permit their imposition (in mid-1995) of a 4-5 per cent interest rate premium on housing bonds to low-income borrowers. In view of the banks' 1 per cent (and greater) discounts to many higher-income borrowers, this represents a substantial 'reverse Robin Hood' mode of redistributing income from the poor to the rich. Further, government failed to promulgate legislation or policies aimed at reform of the financial sector (especially prohibitions on discrimination) called for in the RDP. Central government also took unusual steps – not even attempted by the apartheid regime – to support banks in their default proceedings against borrowers, even where non-payment was due to temporary involuntary unemployment or other conditions beyond the borrowers' control (the RDP, in contrast, insisted that demand-side guarantees be provided to support borrowers rather than bankers under such circumstances). In addition, government's market-centred housing policy was echoed by a variety of other incentives and sometimes hidden subsidies offered by different tiers of government (the Inner City Housing Upgrading Trust in Johannesburg, for example) and international agencies (USAID guarantee and financing schemes, for example).

Critique of Bank Incentives

The incentives enjoyed by the banks have thus far not succeeded in fostering – and in future are unlikely to significantly increase – low-income housing delivery. Indeed, the 'Record of Understanding' in which banks committed themselves to providing 50 000 bonds in their first year of activity, on the basis of the incentives, resulted in fewer than 20 000 bonds granted in applicable areas in the intended price range. There appear to be two main causes of this dramatic failure.

First, without any 'stick', the hope that providing 'carrots' will dramatically raise the level of bank low-cost home financing is unrealistic because of the costs to the banks of administering a large portfolio of small loans. It should not be surprising that banks do not favour low-income bonds. As profit-orientated companies their rate of return is much higher when they service fewer, larger loans. In the light of this, either mechanisms such as a Community Reinvestment Act are needed to compel banks to make available loans (and savings products) to low-income customers – along with providing (presently nearly non-existent) township and rural branch, agency or automatic teller facilities for payments and savings – and/or this function should be outside the retail commercial banking system (such as through a national housing bank or transformed Post Office Savings Bank system). Neither the old nor the new housing policy even considers either promulgation of a Community Reinvestment Act as mandated in the RDP, or the establishment of an effective state housing retail agency.

Second, low-income housing policy is based on the assumption that most people eligible for subsidies will be able to secure bond finance or other forms of credit to top up the housing subsidy. However, the poor can seldom afford bank loans or meet bank lending conditions (such as having secure regular employment), particularly at the present rate of interest (the highest, in real terms, in South Africa's history) and given the policy of permitting extremely high interest rates for low-income borrowers. Other forms of less formal credit have simply failed to materialise on the scale needed.

Thus despite the financial incentives directed at retail banks, during the period mid-1994 to mid-1996 only 18 per cent of houses built under the subsidy scheme were linked to credit (a figure which actually began to decline in 1996).[18] Put differently, 70 per cent of the poor could not secure bank loans, yet 43 per cent of the Housing Facilitation Fund was directed to those beneficiaries who, because they were in higher-income categories, were more likely to secure these loans.

The December 1995 report of the Ministerial Task Team itself acknowledged profound practical limitations to carrying out the market-centred housing finance policies, including 'projects being delayed due to excuses put forward by banks ... the Mortgage Indemnity Fund being positioned as a red-lining process ... inadequate or inappropriate pressure being applied to banks to lend in areas where lending is most needed ... [and] additional (more onerous) barriers being perceived to be erected by banks to historically disadvantaged borrowers.'[19] Yet as shown above, neither that report nor the subsequent Ministerial Task Team report of October 1996 provided any remedies. Instead, through the absence of strong countervailing policies or programmes, these Task Team reports effectively endorse the *status quo*.

The Consequences of Market-centred Policy

The consequences of a market-centred approach to low-income housing delivery are, in most respects, detrimental to the needs of South Africa to build houses for poor people and workers. These include:

- An *inequitable allocation of funding between different low-income groups* (favouring those with higher incomes because they have the capacity to gain access to credit and hence are the target of private sector developers' projects).
- An extremely *low rate of delivery*, witnessed by the fact that only 74 254 subsidies were delivered between March 1994 and July 1996, the vast majority providing little more than serviced sites, notwithstanding the expectation that more than 400 000 houses would be built by this stage to reach the figure of one million within the first five years of democracy.
- The *destruction of existing housing construction capacity* due to the failure to recognise contradictions within the market and provide a state-driven counter-cyclical construction boost: 1994 witnessed the liquidation of 228 construction firms, and there were 232 closures and the lay-off of more than 10 000 construction workers in 1995, thus reducing total industry employment to fewer than 200 000 workers.
- *Communities being disempowered* in project planning as well as in their more general needs for capacity (given that many local leaders moved into government), which led to unwanted products as well as an increasing gap between developers' promises and community expectations, often resulting in intense conflict.
- A *reluctance on the part of private sector developers* to be involved in conflict-ridden areas where the need for housing was often the greatest.
- *Abuse of the scheme by local authorities and developers* (according to the Housing Director-General in September 1996), leading to a reduction in value of the subsidy by 50 per cent in some cases.
- *The failure of the Mortgage Indemnity Scheme* (which is indirectly acting as a red-lining instrument) *and Servcon*, as there were practically no available low-cost properties for households to rightsize to.
- A *lack of success by the National Housing Finance Corporation* in reducing interest rates or increasing access to credit for low-income households (and indeed in keeping afloat the targeted intermediary lenders, such as the now-defunct Community Bank).
- The *demise of humane levels of service provision* – such as water-borne sanitation, a reliable supply of electricity, stormwater drains and tarred roads – as part of the vision of incremental housing, due to the fact that households with under R800 per month income were not projected to afford the running costs of (mostly-unsubsidised) water and electricity.
- The inevitability of *reproducing apartheid-style ghettos*, although these in future will not be segregated along racial lines but in class terms, specifically whether the new slum settlements include – as a matter of public policy – sewerage systems, electricity lines, stormwater drains and tarred roads.

Just as importantly, the implications of a market-centred approach to housing include *the withering of state capacity*, in fields as diverse as construction, building materials management, public works delivery, retail financing, and management. The ability of provincial and local governments to take up the additional responsibilities they are now being given appears severely limited.

NEW STRATEGIES TO RESOLVE POLICY FAILURE

Ironically, perhaps, the second report of the Ministerial Task Team on Short-term Delivery identifies problems relating to the market-centred character of its policy:

> Large private sector developers and the banking industry remain largely uninvolved in the delivery of housing [in the R18-50 000] price range, often blaming each other and the state for their non-involvement ... It is clear that private capital is seeking alternative avenues where risk/reward relationships are more favourable ... The sterile and unimaginative products and processes being propagated by many private sector actors in the affordable housing market reinforces the marginalisation and stigmatisation of the poor.[20]

Yet notwithstanding the Task Team's critique of present trends, its philosophical 'points of departure' exacerbate the market-centred character of present housing policy: 'The state's involvement should be structured to enable gradual withdrawal without disruption ... Measures introduced should not constitute an additional subsidy and the principle of full cost recovery should apply ... Measures introduced should entrench savings as the primary mechanism for prioritisation of access to housing opportunities created.'[21] Although other principles are somewhat more flexible, such points of departure ensure that there will be no dramatic improvement of access to housing for South Africa's poor.

Indeed, the primary objective of the Task Team, from its origins in 1995, appears to be improving private sector returns by further reducing risks. In the December 1995 report, the Task Team proposed that risks be reduced by enabling provincial MECs to override social compacts, thus allegedly reducing conflict and opposition to projects (although this provision does not address the underlying causes of problems); attempting to contain opposition to the policy (and/or the standards implicit in incremental housing) by requesting high-level intervention to prevent dissent and ruling out major policy amendments; and allowing more rapid draw-downs of subsidies by developers so as to reduce their reliance on full bridging finance.

The Task Team's second report suggested that accredited local and provincial authorities should enter into joint ventures with private sector contractors so that housing can be delivered at scale. This will supposedly speed up the rate of delivery and – assuming cost savings with large-scale delivery – will increase the amount of money available for each unit. But not only does devolution of responsibilities conflict with the financially stricken state of most local authorities, the incentives to developers will pose additional costs that represent a redirection of subsidy funds towards the private sector. Both factors are considered next.

Devolution of Responsibilities to Financially-impoverished Local Governments

Under the current legislation and the proposed Housing Bill (expected to pass through Parliament in 1997), accredited local authorities will be given the 'power' and responsibility to administer the low-income housing policy. But insignificant resources and capacity – budgeted at merely R10 million for national, provincial and local governments – are available through the Housing Facilitation Fund to exercise this power. The options available to them are to enter into joint ventures with private sector developers. Virtually all decision-making and quality control will be in the hands of these developers, while the local authority will be obliged to carry the risk and to provide finance, and little more. (This system quickly prompted at least one metropolitan council and at least one provincial government to decide not to take on such responsibilities as they do not wish to be accountable for housing developments over which they had little control.)

Where local governments do not have the financial or administrative capacity to administer the housing programme (as defined by the National Department), the provincial tier will act on its behalf until the lower tier is accredited. But provincial government capacity has been significantly undermined through public service rationalisation policies. And where the provinces are not able to administer the housing programme, there is no back-up (under the current policy) in the form of national-level intervention or even facilitation.

Incentives for Private Sector Developers and Managers

The new policy provides R100 million of central government funds for joint venture housing projects between provincial/local state housing departments and developers, a sum that is to be matched by the private sector. Furthermore, another R400 million in guaranteed housing sales financing is to be provided by central government through the National Housing Finance Corporation to underwrite the bulk purchase of property through proposed 'Housing Corporations'. Unspecified subsidies will go to support 'professional' expertise related to management of rental housing (but not, apparently, to community-managed or tenant-managed housing corporations). Funding for various private sector incentives will be in excess of R510 million, not including the capital subsidies which already effectively entail permission for a substantial mark-up by private-sector developers.

Likely Outcomes of the Amended Policies

Such proposals hold out little promise for a successful mass housing programme, particularly regarding rental housing, because

- Rents will probably increase if the private sector plays a major role in managing Housing Corporations (as the rents will be the only source from which profits can be accumulated).
- There will probably not be sufficient maintenance on properties (as the need to generate profits for the management institution will leave little money for maintenance costs).
- Rental stock may well be sold as freehold housing (no protections have been introduced to ensure the housing stock continues, in perpetuity, to be available for rent to low-income people).
- The most immediate problem is that rental housing (as a tenure system) will be jeopardised by the short-term delivery (not long-term residential) interests of private sector partners.

Notwithstanding the proposed amendments to the failed policy, there are no guarantees that the cost savings of delivery at scale will be passed to the beneficiary or that the increase in the subsidy (to R15 000 for all institutional projects) will go to increasing the size or quality of the housing unit. It is likely that in a market-centred joint venture programme, much of the savings will be absorbed by the developer. While this approach does increase the probability of an increase in the rate of delivery of low-income housing (from an extremely low base level), it does little to solve the housing crisis of at least 40 per cent of the poor who will not be able to afford units proposed under the scheme. Most importantly, perhaps, there is no target for the proportion of joint venture housing construction at the lower cost range of delivery.

Those households earning below R1 000 per month will have few options other than the self-build strategy, facilitated by government's new and as yet untested 'People's Housing Process'. Yet this strategy has long-term costs to poor households, and represents a general decline in the social wage and in the state's capacity to meet its citizens' needs. Moreover, as a delivery system, self-building undermines society's broader attempts to spur macroeconomic growth, create formal sector jobs and restructure apartheid urban geography, which have long-term economic costs not taken into account in current policy formulation.

DEPARTURE FROM GOVERNMENT'S MANDATE

At his victory speech on 2 May 1994, Nelson Mandela observed, 'We have emerged as the majority party on the basis of the programme which is contained in the *Reconstruction and Development* book. That is going to be the cornerstone, the foundation, upon which the Government of National Unity is going to be based. I appeal to all leaders who are going to serve in this government to honour this programme.'[22]

Previous pages have shown that the first democratic government's housing policy was based on market-centred principles and is failing on its own terms. One reflection of the frustration of attempting to reform the existing policy is witnessed in the contrast between the *HWP* (and subsequent policy amendments) and the mandate given to the Housing Ministry in section 2.5 of the RDP book. This is apparent regarding policy objectives, the roles of the market and of communities, the notion of the housing backlog, housing standards, cost recovery for services, the National Housing Finance Corporation, interest rates, savings, bond guarantees, construction regulation, building materials prices, emerging builders, tenure bias and other aspects of the RDP mandate. Each is considered in turn.

Housing Policy Objectives

The *HWP* Preamble states the policy's objectives, namely that the approach adopted 'aims to contribute to the certainty required by the market, as well as give the Provincial and Local Governments their capacity to fulfil their Constitutional obligations'. Nowhere in the objectives is the RDP's broad aim of fostering 'people-centred development' mentioned (when finally referred to, much later in the *HWP*, it is only in passing). Only in the belated People's Housing Process – still being developed with only a few small pilot projects – is a system established to help people build their own houses (supported by training), but this is apparently limited to the very poor, in ghettos segregated from formal township housing developments as well as from better-located settlements formerly reserved exclusively for whites, which together consolidate the geographical legacy of apartheid.

The Role of the Market

The *HWP* celebrates 'the fundamental pre-condition for attracting [private] investment, which is that housing must be provided within a normalised market'. (This is technically incorrect, since private capital could still be attracted into non-market housing, via state housing bank securities.) The

Ministerial Task Team confirms that the withdrawal of the state from housing provision is a fundamental principle. In contrast, the RDP critique of 'The housing problems created by apartheid and by the limited range of the capitalist housing markets' was based on the dismal recent experience in private sector township housing, namely, the approximately R10 billion in unsustainable, disastrously-implemented investments by developers and banks during the late 1980s. Hence the RDP concluded that a housing policy far beyond the realm of the market should be urgently implemented, including two crucial non-market mechanisms: firstly, a national housing bank to provide borrowers with low-interest loans by blending subsidies with private financial resources such as pensions that can be attracted out of stock market and luxury real estate portfolios by virtue of market-returns plus government guarantees, and, secondly, mechanisms that ensure that state expenditures on housing take the form of 'non-speculative' subsidies that either must be repaid upon leaving, or are passed through into the stock owned by housing co-operatives. Neither has been given serious consideration in the *HWP*. Indeed the latest Ministerial Task Team report reinforces the downward raiding problem, particularly due to the attempt to build on better-located land in a manner that leaves the land without the necessary protections against speculation.

The Role of Communities

Civic associations and other community groups are completely ignored throughout the *HWP*, reflecting only the document's mere lip service to people-driven development. This is in glaring contrast to the RDP, which states: 'Beneficiary communities should be involved at all levels of decision-making and in the implementation of their projects. Communities should benefit directly from programmes in matters such as employment, training and award of contracts. Key to such participation is capacity building, and funds for community-based organisations must be made available.' The Ministerial Task Team continues to ignore community organisations, with the exception of a vague proposal to 'target community interests' on the boards of Housing Corporations.

The Size of the Housing Backlog

After noting, correctly, that residents of hostels and rural areas are inadequately housed, the *HWP* defines the 'present housing backlog' merely in terms of urban informal units not located on titled land (1,5 million). This is half the amount the RDP estimates as a backlog, and implicitly signals an abdication of the RDP's commitment to meet the housing needs of hostel-dwellers and rural residents as well as urban shackdwellers on registered plots. Indeed the overall lack of attention to rural housing in the *HWP*, the Ministerial Task Team reports, and especially in the draft *Rural Development*

Strategy, increases the likelihood of more rapid migration to the cities.[23] The policy focus on private, individualised land tenure, as well as the orientation to avoid giving subsidies in outlying areas (such as former homelands), together mitigate against rural housing ever being delivered at scale, and where it is most needed.

Inadequate Standards
The *HWP*'s stated commitment to width over depth directly conflicts with the earlier *HWP* (and RDP) commitment that housing (not a shack) is considered a basic human right.[24] The apartheid regime also emphasised width over depth, hence the massive numbers of informal site-and-service programmes built on cheap land a great distance from employment and commerce (which are now being revisited as 'market anomalies'). As noted above, sufficient resources do exist to increase the subsidy to the amount required for all South Africans to eventually live in a decent house (with a commitment of 5 per cent of budgetary expenditure as the basis for more generous subsidies), in other words to achieve both width and depth.

Cost-recovery for Services
The *HWP* insistence upon cost-recovery on tariffs for basic services (water, electricity, rubbish removal, etc.) ignores the huge subsidy that black township dwellers historically provided to white municipalities (by virtue of having no township tax base), as well as the failure to bill residents at local level and many other manifestations of systemic breakdown. In contrast, the RDP recognised such problems and hence advocated redistributive ('lifeline') tariffs established at national level for services such as water and electricity. The *HWP* implicitly rejects the RDP's commitment to more equitable, efficient national tariff structures. The *HWP*'s attempt to impose cost-recovered tariffs even upon the poor, who cannot afford to pay for ongoing water, water-borne sewerage and electricity, are likely to result in continuing rent boycotts. Moreover, it suggests a lack of understanding of the township household budget. The Ministerial Task Team entrenches the problem by providing more responsibilities for local authorities, but no specific increase in resources.

Design of the National Housing Finance Corporation
As noted above, the *HWP* endorsement of a National Housing Finance Corporation ignores the crucial RDP provision that the housing bank must blend public and private funds to reduce the interest rate. And the *HWP*'s emphasis on mobilising consumer savings (as opposed, for example, to pension funds presently wasting in the stock market and luxury real estate) is misplaced, given the very limited disposable income of poor people and the extremely high costs of housing.

Interest Rate Affordability
The single most crucial determinant of housing market affordability – the interest rate – is completely missing from the *HWP*'s list of 'economic issues' which 'militate against a massive increase in effective demand for' housing. The interest rate for housing bonds rose from 12,5 per cent to 20,75 per cent from early 1988 to late 1989, thereby causing an unprecedented affordability crisis and leading to massive numbers of involuntary defaults. With the Department of Housing permitting banks to discriminate against low-income borrowers by raising the rate to 23 per cent (compared to 18,5 per cent for high-income borrowers), affordability remains impossible to attain through the market. In real (after-inflation) terms, the low-income housing bond interest rate of roughly 15 per cent is unprecedented in South African history. What this omission suggests is that the *HWP* authors were either inexperienced at actually designing housing packages (where they would confront the interest rate constraint), philosophically opposed to blending subsidy and private funds to achieve a below-market interest rate, or anxious to avoid confrontation on the issue of monetary policy with the Reserve Bank. Whatever the reason, the *HWP* ignores the RDP suggestion that 'Interest rates [on housing finance] must be kept as low as possible'. Subsequent policy amendments ignore the issue entirely.

Moreover, the *HWP* commitment to the 'up-front capital subsidy' approach (in contrast to lower interest rates spread over time) is a direct violation of the RDP, which insists that 'Government funds and private sector funding must be blended in order to make housing finance affordable'. Worse, the *HWP* endorses a bank plan to charge 'a higher interest rate on [low-income] bonds than the prevailing bond rate', an unprecedented form of class discrimination. Moreover, the National Housing Finance Corporation confirmed in 1996 that below-market interest rates (based on a blend with subsidies) are not being considered.

Emphasis on Personal Savings
The *HWP* explains that declining rates of personal savings 'reduced the availability of savings for investment in housing'. This is highly questionable, given the massive increases in credit granted by the banks during the late 1980s (when savings rates were falling at their fastest levels). Indeed, the South African financial system has shown an impressive ability to disregard savings and instead to create housing credit (mainly for the white market) based on factors such as the property market cycle, the unusually high spread on interest rates (the difference between what banks pay savers and lend to borrowers) and inter-bank competition. The failure of the *HWP* drafters to recognise this reflects a conservative economic bias reminiscent of the Normative Economic Model, and bodes ill for future interventions in housing finance markets. The Ministerial Task Team is apparently considering a new

study on savings, reflecting a continuing reliance upon market mechanisms and insensitivity to the plight of the very poor who cannot save.

Supply-side Bond Guarantees

The flaws in the October 1994 housing finance insurance deal (Mortgage Indemnity Fund) between the Department of Housing and the commercial banks are too numerous and serious to be discussed in depth here. In short, however, the Mortgage Indemnity Fund disempowers communities (by taking away their sole leverage to prevent foreclosure and occupation), ignores the underlying reasons for bond boycotts or defaults, gives too much leeway to banks, fails to prevent redlining (and even permits redlining), and hence will simply not make much of a difference to the availability of credit in areas where it is most needed. As a supply-side (pro-bank) scheme, the Mortgage Indemnity Fund also directly violates the RDP provision that 'Unemployment bond insurance packages and guarantee schemes with a demand-side orientation must be devised'. As noted earlier, the demand-side feature – which is common to housing guarantees in many other countries – would allow people who lose their jobs or other sources of income through no fault of their own, to continue living where they are. The R400 million National Guarantee facility proposed by the Ministerial Task Team, to be administered by the National Housing Finance Corporation, will effectively underwrite future private-sector housing, again on the supply-side.

Regulation of the Construction Industry

The *HWP* suggests self-regulation for the construction and building materials sectors. In contrast, the RDP states:

> Cartels, price agreements and market share agreements must end, and consideration must be given to public, worker and community-based ownership where the market fails to provide a reasonably priced product. Community-controlled building materials suppliers must be encouraged, possibly with government subsidies to enhance competitiveness. An enforceable Code of Conduct must be established to guide developers.

The *HWP* falls far short in addressing the traditions of severe problems in these industries, which are known to be virtually impossible to self-regulate. Subsequent policy amendments continue to ignore this issue, and the National Home Builders Registration Council is applicable only to homes built with bank bonds.

Building Materials Price Inflation

The *HWP* notes that 'it is necessary to determine whether a rapid increase in supply will lead to an increase in the price of housing' without also acknowledging the RDP's demand that if inflation is generated artificially by highly-concentrated building materials suppliers (as has happened, by all accounts, in past years), the government should intervene to break down such cartels. Where there are supply bottlenecks, in short, government should ensure a smooth supply of inputs for housing construction. However, the Draft Housing Bill prevents the Department of Housing from any interventions in the construction and building materials markets.

Emerging Construction Firms
Incredibly, the *HWP* comments, 'the growth and support of the emerging (black) construction sector is not seen as a primary housing responsibility and therefore does not justify the allocation of housing funds ...', even though the RDP commits the opposite: 'The development of small, medium-sized and micro enterprises owned and run by black people must be incorporated into the housing delivery programme.' The RDP further states, 'Special funds must be made available to support small and medium-sized enterprises. Resources should be provided as loans for bridging finance, and grants for training and entrepreneurial development' and, furthermore,

> If necessary, the democratic government must provide some subsidies as a catalyst for job-creation programmes controlled by communities and/or workers, and target appropriate job creation and development programmes in the most neglected and impoverished areas of our country.

Housing is a particularly good example of such programmes, yet the *HWP* only makes a weak committal to 'proactively seek to facilitate the participation of this sector in the housing process' without any specific endorsement of financial support to emergent black businesses. The People's Housing Process and the Housing Support Centres (of which there are at present fewer than a handful) are apparently going to address this need, but it is likely that the clients will be individual self-builders rather than emerging contractors.

Bias in Tenure
The RDP insists that 'Sufficient affordable rental housing stock should be provided to low-income earners who choose this option'. The *HWP* does not consider rental stock, and even leaves out public housing stock from a list of housing functions to be fulfilled by local government. And while the RDP suggests that 'Locally controlled Housing Associations or co-operatives must be supported, in part to take over properties in possession of banks due to foreclosure', the *HWP* simply ignores such a solution to the properties in possession problem. Later, the *HWP* notes that 'Government rejects the elevation of the individualised private homeownership above other forms of

secure tenure', yet the *HWP* policies are nearly entirely geared to precisely this tenure form. As noted, subsidy policy encourages market transactions, speculation and downward-raiding, not permanently affordable housing. The subsequent proposals made by the Ministerial Task Team are based on rental systems geared largely to the private sector, which are not likely to be affordable to the poor.

Other Omissions from the RDP Mandate

The RDP calls for legislation protecting tenants' rights, squatters' rights, and the rights of people living in informal settlements. The RDP also suggests the need for further legislation regarding evictions, exploitation in rentals and many other housing-related problems, as well as interventions in the land market. The RDP notes that 'All legislative obstacles and constraints to housing and credit for women must be removed.' Elsewhere in the RDP, the rights and needs of disabled people are also cited. All these are missing from the *HWP*, and have been only mentioned vaguely or thus far ignored in subsequent legislation and Ministerial Task Team reports.

THE TIME FOR POLICY DEBATE HAS ARRIVED

The *HWP* Preamble stated, 'The time for policy debate is now past'. While mass housing construction is already long overdue, this was an unnecessary closure of debate and threatened to shut out those social forces which had fundamental objections to the *HWP* approach. Moreover, this position has not proved durable over time, as land invasions, occupations of vacant buildings, rent strikes and other forms of popular resistance have continued. Yet notwithstanding public pressure to revisit the policy, the December 1995 report of the Ministerial Task Team on Short-term Delivery categorically confirmed that 'No review of the fundamental position of government in respect of [minimum standards and levels of housing subsidies] is on the table or will be on the table for some time to come.'

However, due to the untenable character of market-centred housing policy, there have subsequently been heated official debates (though rarely in the public sphere) and some minor alterations to policy. But this has never occurred in a context of true public consultation and of participation on the part of those forces within society opposed to market-centred policy. In particular, key issues – the role of the state, the nature of rental policy, housing standards, worker and community participation and control, and the alleged 'fiscal constraint' to higher subsidies, etc. – have not been convincingly addressed by government officials, leaving constituents and organisations within civil society nearly uniformly angry and alienated.

Given the widely-recognised failure of existing policy, there should be an intensified search for options that do not place as much reliance on the market as is currently the case. For example, housing strategies recommended by many progressive organisations at the March-April 1996 Parliamentary Public Hearings on the *HWP* are significantly different from those advocated by the Department of Housing and the Ministerial Task Team. The fact that the Hearings received so little attention from decision-making bodies and the media – and hence the difficulty of launching a fruitful public debate – is no doubt *because* the strategies are so different from those that seek to protect the interests of the private sector, even though these vested interests are usually in direct conflict with those of the poor and workers who most need housing.

Many of the alternative strategies centre on ways to increase the size of a unit that can be built within the subsidy (by preventing leakage to profit-motivated institutions, for instance). Others address the 'risk' problem by suggesting that the responsibility for implementing the housing programme and managing rental stock be shifted to communities and/or to locally-elected government. Yet even these limited recommendations become progressively less realisable as each new market-centred policy proposal is adopted and implemented by the Department of Housing.

Finally, the possibility of expanding state capacity to deliver and finance housing through rationalisation of the central state's and other agencies' housing capacity into a national housing agency has gone entirely unconsidered within official circles. Trade unions and some of their allies have advocated this route for more than a year, but society has for too long been lulled into thinking that a market-centred approach would finally deliver, or that sufficient amendments are being made to make the failed policy work.

But given the continuing deficiencies of market-centred housing policy, and given the fact that an alternative policy framework achieved wide support (in Chapter Two of the RDP) yet was never applied, it is likely that more meaningful debate will emerge again, but catalysed by civil society and progressive politicians rather than by government bureaucrats and policy drafters who avoid self-reflection even when confronted with glaring failure.

NOTES

1. *Business Day*, 21 July 1995.
2. Republic of South Africa, *The Housing White Paper*. Pretoria: Department of Housing.
3. The same is true of the draft *Urban Development Strategy* of October 1995; see Bond, P., Response to Government's Draft Urban Development Strategy Document, and Mayekiso, M., Miller, D. and Swilling, M., Response to Government's Draft Urban Development Strategy Document, both in *Urban Forum* 7: 1, 1996.
4. An exception is the Congress of South African Trade Unions, which has consistently argued for a more state-centred approach and has advanced

important critiques and policy options papers to this end.

5. Tomlinson, M., From institution-building to house-building: The second year of the government's housing subsidy scheme. *Policy: Issues and Actors* 9:7, 1996. Tomlinson's surveys and reports are of enormous value in documenting the roles and interests of particular actors, yet invariably fall short of asking and answering bigger questions about the capacity and appropriateness of the market as the central organising vehicle for housing delivery, and what alternatives might be feasible.
6. Spiegel, A., Watson, V. and Wilkinson, P., Devaluing diversity? National housing policy and African household dynamics in Cape Town. *Urban Forum* 7:1, 1996. It is useful, on the basis of case studies, that researchers 'alert policy makers to what may be the unintended consequences' of trying to 'reduce the complexities of the real world situations [that policy] seeks to address by standardising or normalising its objectives and its proposed outcomes'. And yet there are universal basic needs, such as shelter. and universal dynamics associated with various types of policy (whether market-related or not). Also – especially in South Africa – there is a relatively universal popular demand that arose repeatedly over several decades and informed the first democratic election: affordable housing for all. It behooves students of the policy process to ask and answer how such a universal challenge, 'extraordinary complexities' and all, can indeed be addressed in a systematic manner through advocacy of the 'alternative policy framework' that Spiegel *et al.* eschew (pp.17-18).
7. South African Homeless People's Federation, *Four Way Street*, Cape Town, People's Dialogue, 1995. There are, in such critiques, idealised notions of self-help alternatives which unfortunately tend to take the burden of establishing a system for housing provision from society as a whole and impose it upon 'community' (with gender implications that are rarely acknowledged). Criticisms that have been levelled at this approach in historical and international contexts include Engels, F. (ed.), *The Housing Question*, New York: International Publishers, 1935; and Burgess, R., Petty commodity housing or dweller control? A critique of John Turner's views on housing policy. *World Development* 6: 9-10, 1978, and The limits of state self-help housing programmes. *Development and Change* 16, 1985.
8. See, for example, Crankshaw, O. and Parnell, S., Housing provision and the need for an urbanisation policy in the new South Africa. *Urban Forum* 7:2, 1996. In particular, claiming (with only one piece of anecdotal evidence) that government has an 'anti-urban attitude' (p.234), Crankshaw and Parnell fail to realise that the Department of Housing has lacked a coherent rural housing policy, has put a tiny fraction of its subsidy funds into rural areas, and does not even count rural housing

within the 'backlog' to be addressed (notwithstanding an explicit directive on the rural backlog in the original RDP). Nor do they acknowledge the extraordinary failure of the land reform programme, which in the RDP aimed at redistributing 30 per cent of agricultural land within five years but which – due to the market-driven character of the policy (willing buyer, willing seller plus market-rate credit) adopted following the election – will be lucky to achieve 10 per cent of that target. Crankshaw and Parnell's concerns about the durability of migrant labour, the cementing of peri-urban apartheid spatial relationships, and the gender bias intrinsic in tribal tenure forms are very well founded, yet arguments that lead to suggestions for tenure reform to facilitate 'transferable assets' and access to collateral for credit hark back to old-fashioned modernisation theory.

9. Republic of South Africa, *White Paper on Reconstruction and Development: A Strategy on Fundamental Transformation*. Pretoria, Government Printer, 1994. Referred to in the text as the RDP.
10. Department of Housing, Measures to Enhance Scale Delivery of Affordable Housing. Press release, Pretoria, Oct. 1996.
11. See, e.g., Rowley, M., State likely to intervene in housing. *Star* 17 Oct. 1996.
12. Notwithstanding the endorsement of the housing section of the 'Meeting Basic Needs' chapter in the RDP by both the first housing minister and director-general, the detailed policy directives were largely ignored. This was not surprising given the dominance of pro-business policy advocates behind the scenes. Enormous power to decide and amend housing policy was vested in the private sector, either implicitly or explicitly, for various reasons: the dominance of the National Housing Board, which (although being replaced with a new – but not necessarily representative – advisory institution in 1997) effectively weights the interests of the private sector above all others; the secondment of key private-sector personnel to national government to assist in policy formulation; growing ties between business lobbies and government (e.g., the National Business Initiative Task Team on 'unblocking delivery'); and the national department's almost exclusive reliance upon consultants drawn from the private sector (rather than Democratic Movement structures) to develop policy proposals. Under these circumstances, housing policies, programmes and project decisions have largely been determined by the needs of the private sector. Provincial governments, in contrast, have little or no meaningful influence over such issues as policy development, minimum standards, etc. Local governments, community groups and other NGOs were also disempowered in policy development, and this led to regular eruptions, for example, between the South African National Civic Organisation and

the Department of Housing over the Record of Understanding. See, e.g., Mayekiso, M., *Township Politics*. New York: Monthly Review Press, 1996, pp.277-78.

13. See, e.g., *Business Day* 21 Oct. 1996, in which the Department of Constitutional Development's chief director of infrastructure defended the low levels of service provision.
14. A broader analysis of such costs and benefits has subsequently been generated by a team of independent academics and researchers on contract to the Department of Constitutional Development; it is not clear at the time of writing as to whether this will affect the level of services that the Department will ultimately propose. Preliminary indications are that the net benefits of on-site water and some electricity (8 Amp connections, which are too weak to run more than one appliance at a time) will be accepted, but that pit latrines will remain policy for those earning less than R800 per month in densely-populated urban areas outside the main metropoles, and that services will be provided on a relatively unsubsidised (not lifeline) basis to even the very poor. See National Institute for Economic Policy (1996), Why Government's plans for service provision must be fundamentally rethought, Briefing paper, Johannesburg.
15. *Sunday Times* 22 Sept. 1996.
16. *Ibid.*
17. *S.A. Housing Scenario* Aug. 1996.
18. *Housing Facts* 20 Sept. 1996.
19. Department of Housing, Report of the Ministerial Task Team on Short-Term Delivery, Pretoria, Dec. 1995.
20. Department of Housing, Report of the Ministerial Task Team on Short-Term Delivery, Pretoria, Oct. 1996, pp.1-2, 7.
21. *Ibid.*, p.4.
22. *Business Day* 3 May 1994.
23. There are, at last, informal policy statements on rural housing now beginning to emerge, as well as administrative capacity-building. But in the absence of broader policy debate, it is difficult to have any confidence that rural systems will be an improvement on urban systems.
24. The RDP defines a house as follows: 'As a minimum, all housing must provide protection from weather, a durable structure, and reasonable living space and privacy. A house must include sanitary facilities, stormwater drainage, a household energy supply (whether linked to grid electricity supply or derived from other sources, such as solar energy), and convenient access to clean water. Moreover, it must provide for secure tenure in a variety of forms. Upgrading of existing housing must be accomplished with these minimum standards in mind.'