

**Housing Finance and the Role of Government Sponsored Housing
Institutions in South Africa.**

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1. Introduction

This paper provides a snap shot of the capacity of housing finance institutions funded by the South African Government. Its main objective is to assess the impact and contribution that these state-owned enterprises are making in an effort to house the nation. It is a well known fact that main players in the housing finance system in South Africa are the banks, particularly true, the big four banks (Absa, First Rand, Nedcor and Standard Bank). However, there are different role-players who are instrumental and well positioned in facilitating access to credit to the low-and moderate-income households. These include, micro-finance institutions, pension or provident fund administrators, provincial development corporations, NGOs, and to some extent, social housing institutions and some building material suppliers.

As mentioned, this paper attempts to assess the capacity of housing institutions to engage in scale housing finance delivery through the contribution they have made since inception.

2. Economic Indicators

Economic growth in South Africa has been relatively stable in the post apartheid era after stagnation in the 1980s, mainly due to international economic sanctions. However, in the year 2000, a 3,0 % economic growth was recorded¹. This was the fastest growth since 1996, buoyed by:

- A Strong recovery in household consumption spending; and
- An increase in exports of over 7% in real terms

2.1 Employment

South Africa is characterized by large-scale unemployment in the formal sector of the economy. The unemployment rate is currently estimated at 23%² of the potential economic active population. The high level of unemployment has a negative effect on demand for and investment in housing. Associated with unemployment is poverty- poverty results to crime, crime results to economic instability and social tension.

¹ Source: South African Reserve Bank

² Source: Statistics South Africa

2.3 Earnings

A significant number of South Africans have problems in affording housing. This is mainly due to:

- High levels of unemployment; and
- Relatively low average wage levels

The majority of South Africans are earning below R3500³ and such households are defined as poor.

2.4 Lenders

Lenders are reluctant to lend to low- income families. This is due to:

- (i) the non-payment of housing loans
- (ii) service payment boycotts
- (iii) credit not provided due to low-income status of borrowers
- (iv) some consider this market as high risk, with low profit margins

2.5 Sources of Finance

Loans may be categorized into three groups, vis-à-vis, the moderate to high-income group, the low-income group and the very low-income group. The moderate to high-income group usually applies to a bank to obtain a mortgage bond. The low-income group works with a range of housing development institutions that facilitate access to finance via the banks or the non-bank lenders. It is the very low-income group, usually the informally employed that finds it difficult to obtain loans from such institutions. Community or group lending schemes provide financing for the very low-income group; these include stokvels, co-operatives, etc.

³ Please note that: US\$1=R9.60

3. Key Market Segments

There are four key market segments identified in the South African Housing Market

Segment 1	Segment 2	Segment 3	Segment 4
Formally employed, middle to high income	Formally employed, low income	Informally employed, low income	Informally employed or unemployed, low income or no income
Regular income of more than R3500/month with access to collateral and security	Regular income of between R1500 to R3500/month, with access to collateral and security.	Irregular income between R800 and R3500/month, with limited collateral and security	Income below R800
Can access conventional mortgage housing finance	Require small and medium loans for housing	Require small unsecured loans, typical from group lending schemes	Fully subsidized market

3. Housing Subsidy

Launched in March 1994 as a financial inducement to would-be owners, developers and financial institutions, the Housing Subsidy Scheme was expected by Government to expedite markedly the delivery of houses in the low-income sector. Its success was considered especially key to overcoming the critical housing backlog. In terms of the Housing Subsidy Scheme, households earning less than R3500 per month are eligible to apply for subsidies.

Subsidy Allocation

Income Group	Subsidy Amount
R0-R1500	R16000
R1501-R2500	R9500
R2500-R3500	R5000

Source: Department of housing

The different subsidy instruments currently operational under the Subsidy Scheme are:

- Individual Ownership subsidies
- Project linked subsidies
- Consolidation subsidies, and
- Institutional Subsidies

4. Housing Backlog

In 1994, Government set itself a target of delivering 350 000 subsidies per annum. But, in its first year of operation only 6 432 subsidies were delivered at an average of 536 per month. Between September 1995 and December 1996 the annual rate was 90 780 and the monthly rate of 7 565. Even the record monthly figure of 15 620 attained in September 1996 fell well short of the projected average of 29 166 that was needed to meet the target. Since then, and more instructively, the figures have not improved drastically, with more than 5 million households still waiting for housing subsidies.

About 7,5 million people in South Africa still have to be provided with adequate housing despite more than five million people being given shelter in the past six years. "Five million South Africans who did not have a roof over their heads, will return at the end of today to a place they call home", said Minister of housing Ms Mthembu-Mahanyele⁴.

Since 1994, houses completed or under-construction stand at 1,220 million, and another 2-3 million units are still needed to curb the backlog.

5. Government Sponsored Institutions

Given its limited resources, the government has realized that it cannot meet massive housing needs of the poor on its own. The following housing institutions were established to encourage Public and Private Partnerships (PPPs), and to attract private sector investment for the low-income housing market, namely the National Urban Reconstruction and Housing Agency (NURCHA), the National Home Builders Registration Council (NHBRC), the National Housing Finance Corporation (NHFC), and the Social Housing Foundation (SHF).

5.1 The Role and Performance of NURCHA

The NURCHA was created in May 1995 to facilitate the flow of finance from lending institutions in the low-income housing sector. It does this by offering guarantees to financial institutions through which risks on loans made to projects are shared. Once completed, these projects should deliver 22 153 houses, with a total value of R318 263 614. By end of 2000, NURCHA had paid R901 750 in claims to banks.

5.2 The Role and Performance of NHBRC

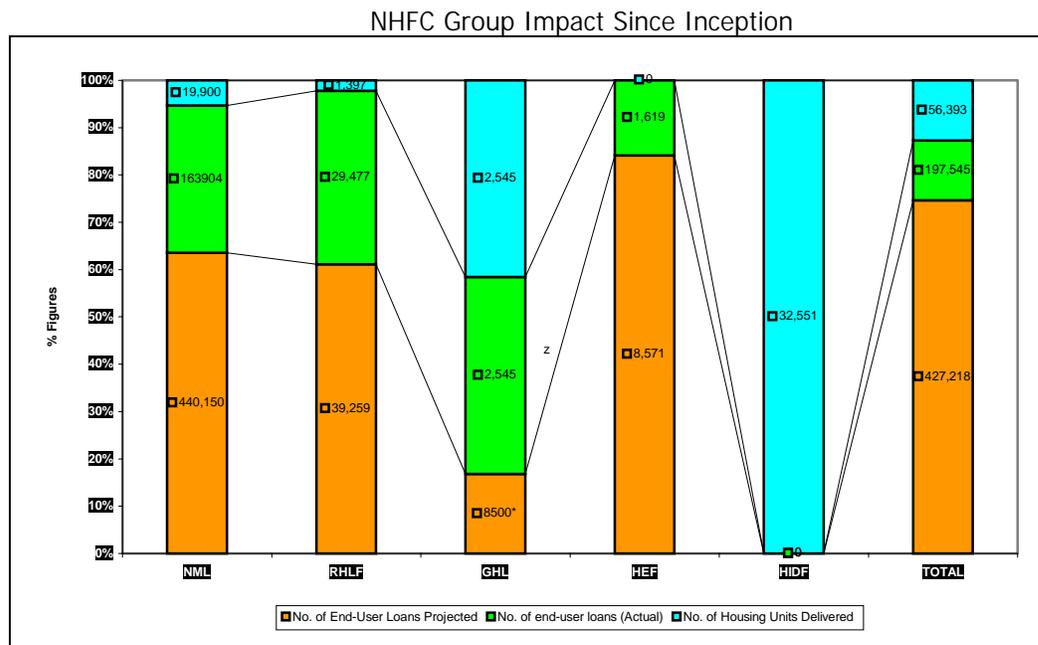
⁴ Mthembu-Mahanyele said this during her policy speech in the National Assembly last month

The main aim of the NHBRC is to protect consumers and to regulate homebuilders, as well as to raise construction standards. Since inception in 1995, a total of 88 851 homes have been enrolled under their Defects Warranty Scheme. The Scheme aims to protect the consumer against shoddy workmanship in the home building industry.

The activities of the NHBRC have already contributed substantially to stabilizing the home building industry. The Housing Consumer Protection Measure Act which the NHBRC becomes a statutory institution with responsibility to provide protection for all new housing consumers against defined defects.

5.3 The Role and Performance of NHFC

The NHFC was established in 1996 by the government to search for new and better ways to mobilize finance for housing from sources outside the State in partnership with the broadest range of organizations. Since inception, the NHFC has impacted the housing finance industry in a variety of ways. The NHFC group exposure has at end of June 2001 approved R1, 438,591 bn, and has approved 81 facilities (total of 59 clients/intermediaries)^{See Chart}.



The majority of this funding has been directed towards incremental housing and it is projected that 427,218 end-user loans will be granted by specific intermediaries. The NHFC has financed a total of 67 451 new existing units since inception. The NHFC continues to play a significant role in the Presidential Job

Housing Pilot Project, and has also been instrumental in the formation of the Micro Finance Regulatory Council (MFRC)*.

5.4 The Role and Performance of SHF

The Social Housing Foundation was established in 1997 through NHFC to promote, support and assist integrated process of sustainable social housing in South Africa. The SHF sought to consolidate its activities through focusing its support on assisting the emergence of new social housing institutions. The organization is now involved with more than 50 social housing initiatives, providing various services through its capacity building programmes. In addition to providing technical support, the SHF integrates specific training programmes to develop capacity of these emerging institutions.

Government's support for social housing was articulated in late 1995 with the introduction of the institutional subsidy mechanism, to encourage the production of housing for rent, and broaden the range of tenure options available to low income earners. Large-scale delivery through social housing is not achievable in the short term. This is partly due to the intensive capacity requirements of establishing social housing institutions as well as the long lead-in time for these institutions to reach sustainability.

6. The Role of Non-Governmental Organizations (NGOs)

There are very few NGOs who are instrumental in facilitating housing finance. As matter of fact, there is only one NGO in South Africa that has made some strides in the area of housing finance, namely the Home Loan Guarantee Company, (HLGC). This is one NGO that has managed to create innovative products.

6.1 The Role and Performance of HLGC

The HLGC was established with the explicit purpose of facilitating access to housing finance. The HLGC is a company incorporated under Section 21* of the Companies Act and is an independent NGO. The HLGC financial capacity, currently in excess of R200 million, has been substantially enhanced through strategic alliance, brokered by Jardine Lloyd of London, with British based Centre solutions, a well-established re-insurer. This gearing enables HLGC to provide R700 million worth of guarantees with the potential to facilitate access to more than R3 billion of home loans. It is clear, therefore, that the company is well placed to fulfill its core function. The HLGC has provided guarantees for housing loans in excess of R1.3 billion.

* A statutory body that regulates the micro-lending environment in South Africa

* Not for profit

Part of HLGC core activities is to provide housing consumer education. They have found that an important reason for default is an insufficient understanding of housing related matters. A survey commissioned by NHFC last year, revealed that there is a lack of information available to assist consumers. HLGC formulated five key areas of educational programmes, namely; tenant, homeownership, installment sale, rent to buy, co-operatives and train-the trainer.

These programmes include modules such as, borrowers' rights, obligations and responsibilities, pertinent life skills, budgeting, affordability, etc.

8. Conclusion

Analytically, it becomes difficult to quantify and measure clearly the extent of impact that these institutions are making especially considering relatively- the current status of housing backlog in this country, massive houses still need to be built. One can therefore argue that, generally, the non-bank lenders have not yet succeeded to cater for the needs of larger number of people who have no access to other financial institutions. This includes low wage earners, unemployed or informally employed, domestic and farm workers. However, some housing finance institutions have made some noticeable progress and have been able to create innovative products.

On the other hand, the NGOs have not yet demonstrated their ability to generate volumes of institutional capacity to attract large funding for scale delivery. In the area of social housing, one of the biggest obstacles to the sustainability of the institutions is the dependence on subsidies and NHFC funding. Another problem is the inability to develop sound institutional capacity to manage the business in the long run. To sum up, NGOs activities need to be geared up to bigger volumes without altering their client's profile. The state should provide support for this sector in building up professional skills and financial expertise.

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