

Homeless International

**BRIDGING THE FINANCE GAP
IN HOUSING AND INFRASTRUCTURE**

SOUTH AFRICA: The South African Alliance

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Contents

Preface	4
Thanks	4
Other Outputs of the Research Process	4
Notes and Disclaimers	4
1 Executive Summary	5
1.1 Housing in South Africa	5
1.2 The South African Policy Context	5
1.3 Financing Alliance Developments	5
1.4 Greenfield Development in the Alliance	6
1.5 The Alliance Portfolio as A Whole	6
1.6 Risk Within the Alliance	7
1.7 Potential Alternative Forms of Finance	8
1.8 Conclusions and recommendations	8
2 Housing in South Africa	10
2.1 Distribution of South African Households	10
2.2 Availability of Finance for Housing	11
2.3 Summary and Key Issues	12
3 The South African Alliance	14
3.1 The South African Homeless Peoples' Federation	14
3.2 People's Dialogue on Land and Shelter	14
3.3 Utshani Fund	14
3.4 Legal Status and Relationships	15
3.5 Typologies of Federation Membership	15
3.6 A Preliminary Asset Analysis of The South African Alliance	19
4 The South African Policy Context	22
4.1 Current Housing Policy	22
4.2 Proposed New Policy	24
4.3 Implications For The Alliance	27
5 Financing Alliance Developments	30
5.1 Organigram of Alliance Finance Systems	30
5.2 Historical and Current Use of Donor and Local Funding	30
5.3 The Alliance Development System	35
5.4 Alliance Finance Packages	37
5.5 Resource distribution and control in the Alliance	38
6 Greenfield Development in the Alliance	42
6.1 How Greenfield Developments Start	42
6.2 Characteristics of Greenfield Developments	42
6.3 Financing Greenfield Developments	44
6.4 Viability Assessment	47
6.5 Cost/Benefit Analysis of Alliance Greenfield Developments	48
7 The Alliance Portfolio as a Whole	50
7.1 Summary of Development Types in the South African Alliance	50
7.2 Utshani Fund Repayment Rates	51
7.3 Comparing Different Development Options	54
7.4 Institutional Factors in the Alliance Portfolio	58
8 Risk Within the Alliance	60
8.1 Risks Arising from the Structure of the Alliance	60
8.2 Risks Arising from the Funding and Development Strategies	66
8.3 Risks Associated with Greenfield Projects	70
8.4 Risks Borne By Different Components of the Alliance	72

8.5	Risks Associated with Members' Situations and Development Options	73
8.6	Risk Management of the Alliance portfolio as a whole	74
9	Potential Alternative Forms of Finance	77
9.1	The Asset base of the South African Alliance - Revisited	77
9.2	Scaling Up	78
9.3	Creating and Expanding the Economic and Social Base	80
9.4	Development of Pilot and Demonstration Projects	80
9.5	Risk Management and Mitigation	80
9.6	Refinancing	81
9.7	Learning, Knowledge Creation and Capacity Building	81
9.8	Promotion and Creation of New Alliances	81
9.9	Options For Supporting Greenfield Development	82
9.10	Future Financing Needs of The Alliance	84
10	Conclusions and Recommendations	86
10.1	Conclusions	86
10.2	Recommendations	88
	Appendix 1 - CPI and Building Materials Costs	90
	Appendix 2 - PEST Analysis of the South African Alliance	91
	Appendix 3 - Risk Profile of Alliance Finance Systems	92
	References	95
	Papers	95
	Interviews	96
	Websites	96

Tables

Table 1: South African Income Distribution.....	10
Table 2: Housing Stock by Population Group of Head of Household	10
Table 3: Number of Rooms per Household by Population Group of Head of Household	11
Table 4: Monthly Income Amongst The Employed By Population Group Aged 15-65 Years	12
Table 5: Population by Residence Type.....	12
Table 6: Federation Membership By Income Category	16
Table 7: Federation Membership By Tenure Category.....	16
Table 8: Federation Membership By Development Option.....	17
Table 9: Asset Base of the South African Alliance	20
Table 10: Asset Value of Federation Housing Development Activity, 1995-2000	21
Table 11: Subsidies disbursed, 1994-1998	22
Table 12: People's Dialogue Core Funding, 1995-2001.....	31
Table 13: Funding Map of the Alliance	31
Table 14: Financial Support for the South African Alliance.....	31
Table 15: Typical NGO Support Activities in Alliance Development Projects	33
Table 16: Technical Support for Federation Housing Development	35
Table 17: Types of Alliance Projects	35
Table 18: Financial 'Products' Used by South African Alliance.....	37
Table 19: Resource/Risk Distribution in the Alliance	39
Table 20: Greenfields Developments in the South African Alliance.....	42
Table 21: Development Streams in the Alliance.....	50
Table 22: Utshani Fund Portfolio (as at May 2001, excluding subsidy-only houses).....	51
Table 23: Utshani Fund Loan Portfolio by Development Category.....	54
Table 24: Technical Support for Federation Housing Development.....	55
Table 25: Value Added by Development Option.....	56
Table 26: Asset Value of Federation Housing Development Activity, 1995-2000.....	57
Table 27: Value Added and Loan Exposure.....	57
Table 28: Utshani Fund Loans By Region	58
Table 29: Interest Costs of Bridging the Subsidy.....	69
Table 30: Utshani Fund Loan Charges and Recovery 1995-2001.....	69
Table 31: Asset Base of the Alliance.....	77
Table 32: Utshani Fund Loan Financing	84
Table 33: Risk Profile of Alliance Finance Systems.....	92

Figures

Figure 1: Greenfield Financing Process.....	48
Figure 2: Arrears and Repayments.....	51
Figure 3: Monthly and Cumulative Repayment Rates.....	52
Figure 4: Interest Charges and Subsidies.....	53
Figure 5: Repayment Rate Including Subsidies	54
Figure 6: Loan Disbursements By Region	59
Figure 7: Utshani Fund Loan Volumes and Subsidies.....	65
Figure 8: Annual Utshani Fund Lending and Projection	85
Figure 9: CPI Versus BMI, 1999-2001	90

Preface

Thanks

Intrusive research like this is hard for busy organisations like People's Dialogue and the South African Homeless Peoples' Federation to accommodate. I thank the South African Alliance for its time and patience, but especially Helena Hendricks, Vanessa Baatjies, Michael Hoffmann, and Diana Mitlin for doing extra work to supply figures, discuss issues, and comment on drafts. Thanks also to Ruth McLeod, Joel Bolnick, and Aninka Claassens for creating the opportunity to do the paper. I hope it helps.

Other Outputs of the Research Process

Besides this paper, the following 'outputs' were produced during the research process:

1. An analytical review of the proposed new South African housing policy;
2. Restructured, time-series capable databases of Utshani Fund monthly housing loan summaries, by region and for the Federation as a whole;
3. A variety of graphical and tabular representations of key variables based on these databases, for use by the Alliance in its current restructuring process;
4. Notes towards a comparative systemic analysis of the South African and Indian Alliances.

Notes and Disclaimers

The South African Alliance - as well as South African housing policy - was in a state of flux when this paper was written. The paper is therefore largely a backward-looking exercise, which tries to understand the institutional processes and contradictions that impede further development of the South African Alliance, as well as its ability to assume greater developmental risk, as envisaged under the proposed Homeless International Municipal Infrastructure Financing Fund initiative. Several aspects of the Terms of Reference for this research turned out either to be difficult to fulfil and/or relatively less important, in context, than other issues not originally envisaged. Individual case studies of Alliance greenfield developments will have to wait for another time, as will a detailed review of the Alliance's experience with municipal partnerships.

Perhaps most importantly, it has been tricky to anticipate what financing systems might apply to, and suit, the Alliance in the next few years. The South African Alliance is a political institution, in the most basic sense of the world, and it is reconsidering a long-held and largely successful strategy. It has always generated its systems and rituals through praxis and reflection, of which studies of this kind form only a peripheral part. So, I have just made some suggestions.

All currency figures are in historical values (i.e. not adjusted to an index). The exchange rate used is one US Dollar = eight South African Rands.

1 Executive Summary

1.1 Housing in South Africa

Distribution of South African Households: The majority of South African households who are inadequately housed are also those most disadvantaged politically and economically by apartheid. Such households also form the majority of those dependent on the housing subsidy for their housing needs, since they cannot participate even in a restructured housing market.

Availability of Finance for Housing: South African housing policy distinguishes between those who will be able to benefit from restructured housing and finance markets, and those who are almost totally dependent on the subsidy. The majority of urban informal dwellers fall into the latter category.

Key Issues: Given the nature of South African housing policy, anything that enhances the urban poor's access to state housing resources is to be valued, since they have no viable alternatives. In the South African context, this is largely a political issue. This is an important rationale for the South African Alliance.

The South African Alliance: The South African Alliance is described, and its institutional assets identified. It is noted that the Alliance has created significant housing and development value over the last seven years.

1.2 The South African Policy Context

Current Housing Policy: Current policy is criticised for its inability to deliver resources to those most in need of remedial assistance, the black urban poor, on the scale or of the quality required.

Proposed New Policy: The proposed new housing policy is reviewed, concluding that it constitutes a shift from a supply- and budget-driven approach to a demand- and need-driven approach. The proposals also place much greater emphasis on local authorities as delivery vehicles over multi-year periods. The existing fixed subsidy system is to be abolished and replaced by a normative standard system with variable subsidy amounts. Households earning under R1500 p.m. will probably receive assistance in the form of serviced land and building materials only (site-and-service with vouchers).

Implications For The Alliance: If adopted, the new policy will confront the South African alliance with a significantly changed environment, both politically and financially. It will place a premium on local-level partnerships within the multi-year settlement-planning framework, and remove or alter the financial subsidy streams currently underpinning the Utshani Fund system.

1.3 Financing Alliance Developments

Historical and Current Use of Donor and Local Funding: The South African Alliance is almost totally grant-dependent, and has not moved towards loan or guarantee financing. This is for strategic and ethical reasons related to the subsidy environment. The subsidy environment makes it theoretically unnecessary, politically damaging, and practically risky to use loan finance.

The Alliance Development System and Finance Packages: The South African Alliance has three major shelter development streams: consolidation, *in situ* upgrading, and greenfield. The functioning of the Utshani Fund and subsidy systems are explained in relation to these.

1.4 Greenfield Development in the Alliance

Characteristics of Greenfields Developments: Various systemic issues related to greenfield developments are identified. These include:

- Internal contradictions within the Alliance, particularly regarding 'ownership' of developments, and trade-offs between individual, community, and Federation interests;
- Difficulties in maintaining social cohesion, transparency, and accountability when members live off-site;
- Problems in the building process arising from mismatched expectations and objectives;
- The unsuitability of the planning, subsidy, and CPA systems to grassroots development.

Financing Greenfield Developments: The institutional and project-linked subsidy systems are discussed in relation to Alliance greenfield development. The high risk in the fast-track Department of Land Affairs subsidy system is apparent in the fact that the housing and services portion of all subsidies due to the Federation for greenfield development is still outstanding, leading to major opportunity costs for Utshani Fund, which is providing bridge financing.

Viability Assessment: The Alliance does not have a formal viability assessment system for greenfield developments, but increasing attention is being devoted to the costs and benefits of individual developments, both for housing and for development experience for the Alliance as a whole.

Cost/Benefit Analysis of Alliance Greenfield Developments:

- Greenfield developments are about much more than just physical construction of housing. They seek to address the needs of the landless, whilst the other forms of development do not. There is thus an incentive to develop a sustainable greenfield model in the South African Alliance, even if the initial costs of doing so are relatively high.
- The primary rationale for Alliance greenfield development has not been delivery of land, services, and housing, but creating learning situations that may result in more sustainable and appropriate methods to achieve these goals through collective self-action. The costs of creating such a space are the price of 'purchasing knowledge' through the learning methods of the Alliance. It is thus misleading to 'charge' all costs directly to the process of shelter delivery in any specific greenfield development.
- The *quid pro quo* is that knowledge is produced and transferred sustainably to other communities. We can ask legitimately whether the South African Alliance has generated maximum learning value from its greenfield developments, or whether it can improve its performance in this regard.
- In the longer-term, it will be possible and necessary to determine whether the Alliance's approach to greenfield development is efficient and effective, both in terms of shelter development and social mobilisation.

1.5 The Alliance Portfolio as A Whole

Utshani Fund Repayment Rates: Current repayment problems with Utshani Fund and the subsidy system are identified. They are traced to the failure of the subsidy system to compensate the Federation, both individually and collectively, for their efforts to house themselves.

Comparing Different Development Options: Greenfield developments are relatively costlier and riskier for the Alliance than other forms of development. Loan sizes are larger; repayment rates lower, and support costs higher than *in situ* and consolidation. Nevertheless, they provide greater learning opportunities. Over time, the Alliance should seek to reduce the distance between the costs and benefits of greenfield and other development types.

Institutional Factors in the Alliance Portfolio: A variety of factors have influenced the distribution of Utshani Fund loans and other Alliance resources, including the location of key Federation leaders and People's Dialogue offices. The failure of provincial governments to provide subsidies in certain areas is also a major factor.

1.6 Risk Within the Alliance

Risks Arising from the Structure of the Alliance: The Alliance is a learning institution that places a higher value on learning than security, or even delivery. In order to understand current problems in the South African Alliance, it is important to look at contradictions inherent in this process.

- Many risks within the Alliance arise from a central contradiction. Although Utshani Fund is supposed to be a bridging mechanism for the housing subsidy, in the face of slow subsidy delivery, it has become a proxy for the subsidy itself - an entitlement. Until recently, Alliance leadership has found it difficult or politically inexpedient to counter this tendency. This, plus the subsidy system's failure to deliver, has caused a cash-flow crisis for Utshani Fund.
- These problems arise in part from contradictions between the Alliance's mobilisation and delivery functions. There is a tendency for some in the Federation to stress delivery, or to use Utshani Fund to mobilise, rather than to build grassroots capacity to access state resources, which are the ultimate source of Alliance shelter development.

Risks Arising from the Funding and Development Strategies: There are a variety of risks inherent in the Alliance funding and development strategies. Broadly, these can be divided into Federation-level risks, core funding risks, Utshani Fund risks, and risks arising from the subsidy system.

- **At Federation Level:** Misappropriation of funds; nepotism, bribery and corruption; reluctance to use savings; moral hazard (seeing savings as a joining fee to get an Utshani Fund loan); inappropriate selection of members; banking risks; construction quality; corruption risks;
- **The Core Funding Strategy:** Sustainability; increasing funding requirements; bias against professional resources;
- **Utshani Fund:** Reliance on equity grants; repayment and interest systems; credibility risk; AIDS. A particularly important risk is that flexible repayment systems are incompatible with interest charges in a revolving fund system;
- **The Subsidy System:** Moral hazard (prioritising Utshani Fund loans over subsidises as a focus of mobilisation); failure of the bridging finance and subsidy release system; high interest costs to members; political and credibility risk; corruption risk.

Risks Associated with Greenfield Projects:

- **'Learning Risk':** the Alliance bears 'learning risk' in its greenfield strategy, in the sense that if it fails to capitalise on such developments, or to transmit this learning to other communities, or puts too much knowledge in specific individuals or communities, then it has wasted the extra money, time and effort involved in the Alliance process (as opposed to formal development). Alliance systems have not always sufficiently emphasised learning. Particularly in respect of technical issues, much Alliance knowledge is lost when people move on. There is insufficient emphasis on documentation and knowledge-production amongst People's Dialogue staff.
- **Organisational Risk:** Risks arise from contradictory interests between greenfield communities and the Alliance as a whole. Members and their leaders may have an incentive to maximise their individual benefits, particularly plot sizes and house design. The Alliance as a whole - but particularly People's Dialogue - is interested in political credibility to gain access to more resources, and using experiences to generate knowledge about sustainable development options. These goals conflict.

- **Corruption Risk:** There is risk of nepotism and bribery in access to greenfields developments, as well as corruption surrounding building materials purchase.
- **Financial Risk:** Utshani Fund has bridge-financed land acquisition where there is relative certainty of the fast-track subsidy, but has yet to receive any funds for the top-structure aspects of its greenfield developments, at considerable opportunity cost.
- **Risk Transference:** The strategy of interest-free bridging finance for land acquisition and infrastructure development transfers the risk and cost of the state's failure to deliver subsidies onto other members of the Federation, in the sense that these funds are not available to other groups whilst they are locked up in bridge; moreover, whilst unavailable, they decline in real value because of inflation.
- **Wastage and Credibility Risk:** Some greenfield developments have been characterised by wastage because of disputes over house designs and social construction systems. Perceived lack of 'ownership' of the development (by contrast to *in situ* and consolidation projects) has also led to carelessness and materials wastage.
- **Legal Risk:** Greenfield development exposes the Alliance to legal risks, since South African township establishment laws do not cater for people-driven development.
- **Political Risk:** Power struggles between community leaders, political parties, elected officials, and others can result in hostility towards Federation initiatives.

Risks Borne By Different Components of the Alliance: There is a tendency for housing development risks to be transferred from Federation level to People's Dialogue. This is because the resources used for housing development are communal, belonging to the entire Federation through the vehicle of Utshani Fund. Utshani Fund is also the legal vehicle for asset ownership and responsibility for state subsidy resources. In practise, however, the notion that Utshani Fund and its resources actually 'belong' to the Federation is not well developed. Instead, Utshani Fund tends to be seen as belonging to People's Dialogue. By contrast, there are insufficient 'lateral' risk-distribution structures in the Alliance. There is no formal regional mechanism for dealing with such risks, although People's Dialogue has insisted on a regional contribution on occasion.

1.7 Potential Alternative Forms of Finance

New Strategies: Generally, Alliance funding strategies are limited by two factors. Firstly, in a subsidy context, it is both disadvantageous and impractical to make use of loan or loan guarantee financing. Secondly, the Alliance believes members should not bear any additional interest costs for the state's failure to provide entitlements properly. For these reasons, Alliance funding strategy in a subsidy context will continue to rely on a mixture of grants, state housing subsidies, and people's savings for most of its needs.

Future Financing Needs: The Alliance could fund most of its projected development costs over the next two years from a combination of recovery of outstanding subsidies (approximately R32 million) and a doubling of the current repayment rate. Strategies to achieve these goals should be the Alliance's interim priority.

Greenfields Development: It is essential to improve subsidy delivery, reduce the per-unit costs of development, explore options for cross-subsidisation meaningfully, and begin to develop tools for viability assessment. An important improvement would be to settle Federation members on greenfield sites during the development process.

1.8 Conclusions and recommendations

General Conclusions

- Focus on the state rather than Utshani Fund as the object of grassroots Federation mobilisation;
- Increase emphasis on learning, particularly from greenfield developments;
- Focus attention on developments and financial systems for obtaining land for the landless.

Recommendations

- Increase pressure on government around land, services, and subsidy delivery to the urban poor;
- Prioritise local-level action, in anticipation of the new housing policy;
- Improve learning systems by trying to achieve a return on investments in knowledge, including increased emphasis on exchange programmes and documentation;
- Change the leadership structure to reflect the fact that Federation leaders are resource distributors, policy-makers, and interlocutors between the grassroots and People's Dialogue, who cannot adopt a purely 'political' approach. Federation leaders should be balanced by paid functionaries, either People's Dialogue staff or Federation members, whose role would be to handle resource distribution issues at Federation level, so that 'political' leaders could remain free to fight for the interest of their members;
- Change Utshani Fund's role to focus on land and services rather than direct housing lending. Although this will be a painful step for some, it is dictated by the experience of the last seven years of Utshani Fund lending. This knowledge is what the Alliance has bought with its resources and effort.
- The Alliance must move towards a strategy of settlement on greenfields land before development. This will involve political struggle.
- Utshani Fund should modify its repayment rate calculations to include the subsidy as a principal repayment. This would illustrate the collective nature of the Utshani Fund bridge financing system, as well as the role government's failure to pay subsidies has paid. There is no need to discard the 'Federation only' repayment rate; the new calculation can simply be added to the data available within the Alliance.
- Utshani Fund should also consider adopting some of the time-series analytical tools developed during the course of this research project.
- Greenfields development must take into account the opportunity costs of interest-free bridging finance to remind the Alliance how much delay in getting subsidies from government costs in terms of opportunities to build other houses with these resources.
- It would do no harm to re-examine the nature and development of People's Dialogue professional staff. Staff members have unusual responsibilities and acquire unusual skills that are not easy to replace on the open market. Simple steps like the proposed sabbatical system would increase the quality and consistency of their contribution to the Alliance.

2 Housing in South Africa

2.1 Distribution of South African Households

Table 1 shows several estimates of the South African population according to income, including, significantly, those upon which current housing policy is based.¹ Although the estimates vary, the largest proportion of the South African population consistently falls into the <R1 500 p.m. category.

Table 1: South African Income Distribution²

Income band	All Households: Dept of Housing 1995 ³	All households: 1996 Census	Employed individuals: Stats SA (1999)
< R1 500 p.m.	69,7%	59,8%	62,0%
R1 501-R3 500 p.m.	17,4%	20,7%	21,7%
>R3 501	13,9%	19,5%	16,2%

Table 2 shows South Africa's housing stock by type and 'population group' according to the 1996 census. Black households are 72% of the total. Of such households, 21% are presently in informal structures. Such households comprise 15% of all South African households, and a larger proportion of urban households. Significant numbers of 'coloured' households also live in such conditions.

Table 2: Housing Stock by Population Group of Head of Household

Housing Type	Black	Coloured	Indian/Asian	White	Unspecified /Other	Total
House or brick structure on a separate stand or yard	2,673,181	452,258	140,641	1,034,346	31,160	4,331,586
Traditional dwelling/ hut/ structure made of traditional materials	1,612,700	13,955	1,329	10,483	5,922	1,644,388
Flat in a block of flats	153,096	58,042	34,279	208,120	4,631	458,167
Town/ cluster/semi-detached house (simplex, duplex or triplex)	96,886	98,546	46,508	135,073	4,526	381,541
Unit in retirement village	7,354	802	340	31,748	190	40,433
House/ flat/ room, in backyard	401,251	37,787	13,575	28,124	2,723	483,460
Informal dwelling/ shack, in backyard	373,294	26,479	788	1,060	1,708	403,329
Informal dwelling/ shack, not in backyard, e.g. in an informal settlement	1,013,343	31,103	1,083	912	3,243	1,049,686
Room/ flatlet not in backyard but on a shared property	107,584	12,059	3,268	15,207	1,513	139,632
Caravan/ tent	11,418	2,752	75	2,727	154	17,126
None/ homeless	1,982	249	19	198	22	2,470
Unspecified	81,908	7,173	1,735	14,492	2,445	107,753
Total	6,533,998	741,206	243,639	1,482,492	58,237	9,059,571

Table 3 also looks at the distribution of housing stock by population group, this time by number of available rooms per household. Approximately 55% of black households and 38% of 'coloured'

¹ Porteous and Naiker (2000): 9; 1996 Census at www.statssa.gov.za

² The source of all the following tables (except where indicated) is the 1996 Census at www.statssa.gov.za.

³ Department of Housing (1997) *Living Cities: Urban Development Framework*.

households live in three rooms or less, a rough measure of housing adequacy.⁴ Overall, 45,5% of the South African population lives in such conditions, of which those historically disadvantaged by apartheid are in the majority.

Table 3: Number of Rooms per Household by Population Group of Head of Household

Rooms	Black	Coloured	Indian/Asian	White	Unspecified /Other	Total
1 ⁵	1,438,167	68,205	4,109	27,481	6,076	1,544,039
2	1,199,935	104,653	12,045	52,867	6,015	1,375,514
3	947,655	106,250	25,810	120,393	6,429	1,206,537
4	1,380,642	215,596	63,922	247,191	12,974	1,920,326
5	599,183	155,685	64,913	285,206	11,058	1,116,046
6	421,776	51,058	37,263	284,651	5,914	800,663
7	210,232	19,515	16,315	182,248	3,051	431,360
8	118,639	8,359	9,341	121,611	1,649	259,599
9	82,979	5,370	4,516	69,789	1,721	164,376
10 +	64,020	2,893	4,469	72,736	811	144,929
Unspecified	70,770	3,621	937	18,319	2,537	96,183
Total	6,533,998	741,206	243,639	1,482,492	58,237	9,059,571

2.2 Availability of Finance for Housing

Porteous and Naiker⁶ argue that a household income of at least R3 100 is required to obtain a mortgage for the least expensive house currently available, which they assume to cost R60 000.⁷ This excludes the majority of South Africans, not to mention those historically disadvantaged by apartheid. Although some non-traditional loan 'products' are available for formally employed persons earning less than this, very few of them reach those earning less than R1 500 per month, and almost none cater for those in informal employment. Such households, therefore, are largely ineligible for *any* formal sector loan finance, including housing.⁸ The identity and characteristics of the households that fall into the category of *informally employed earning under R1 500 per month* is thus critical.

The evidence below suggests a significant correspondence between eligibility for extra-subsidy housing finance and 'racial' identity as defined under apartheid. Simply put, a large proportion of black ('African') South Africans living in informal shelter are at income levels that make them ineligible for most commercial housing loans. A very large proportion is ineligible for any form of loan finance. Table 4 shows the distribution of South Africa's population by income and 'racial group'. Black households earning less than R1 500 per month - those most likely to be totally dependent on the housing subsidy without additional finance - represent nearly 47% of the South African population, and 75% of its 'black' population. Overall, nearly 60% of South Africa's population (i.e. including other 'population groups') falls into this category.

⁴ Four rooms has become somewhat of a standard, particularly in the Department of Housing's recent pronouncements. It must be noted that because the data measures households rather than structures *per se*, some structures will house more than one household.

⁵ Or more than one household to a room.

⁶ Porteous and Naiker (2000): 11.

⁷ Notably, substantially more monthly income would be required to cope with interest rate fluctuations similar to those South Africa experienced in 1998.

⁸ There are some exceptions to this pattern, and South Africa has a thriving (if usurious) informal moneylender system.

Table 4: Monthly Income Amongst The Employed By Population Group Aged 15-65 Years

	Black	Coloured	Indian/Asian	White	Unspecified /Other	Total
None	67,867	9,154	3,299	22,015	1,018	103,354
R1 - R200	636,718	56,697	5,762	28,561	3,991	731,729
R201 - R500	1,186,478	195,228	12,587	42,558	8,590	1,445,441
R501 - R1 000	1,293,717	216,618	39,445	76,298	11,248	1,637,326
R1 001 - R1 500	1,088,001	231,507	73,339	131,265	12,913	1,537,026
R1 501 - R2 500	667,021	180,879	76,952	253,713	11,944	1,190,508
R2 501 - R3 500	303,914	88,647	49,189	261,581	7,683	711,013
R3 501 - R4 500	154,853	48,656	30,908	228,432	5,309	468,158
R4 501 - R6 000	90,060	33,424	28,238	242,336	4,609	398,666
R6 001 - R8 000	34,873	12,595	13,771	160,617	2,256	224,111
R8 001 - R11 000	19,464	5,596	7,631	118,943	1,387	153,021
R11 001 - R16 000	9,406	2,335	3,857	74,709	719	91,026
R16 001 - R30 000	4,817	1,253	2,078	45,169	395	53,712
R30 001 or more	2,070	465	858	17,677	151	21,221
Unspecified	123,216	46,463	15,573	152,579	9,703	347,533
Total	5,682,476	1,129,515	363,486	1,856,452	81,917	9,113,847

Table 5 shows a recent estimate⁹ of various categories of South African household by residence type. It indicates that the average income of households in both township and urban informal settlements - the vast majority of which is black - is near or below that needed for most housing finance.

Table 5: Population by Residence Type

Group	No of Households	% Of Households	Average Income p.m.
Suburban	2 891 000	32,7%	R6 139
'Township'	2 135 000	24,2%	R1 810
Informal	1 012 000	11,5%	R899
Rural	1 600 000	18,1%	R1 245
Traditional	1 200 000	13,6%	R788
TOTAL	8 838 000	100%	R2 665

This data illustrates one of the most important facts about housing in South Africa today: most of the black population falls into an income and employment category that makes them dependent on the state housing subsidy to meet their housing needs, since they are too poor to benefit from policy features intended to improve access to commercial housing finance in the private market. This status is a result of both economic and political factors.

2.3 Summary and Key Issues

1. The distribution of housing in South Africa is heavily influenced by race, class, and geographical location, as shaped by apartheid - not merely economics;
2. Access to housing (both existing and new) and housing finance within the commercial market is also strongly affected by this;
3. Current South African housing policy is based on the twin *economic* goals of improving access to housing in the commercial market and providing immediate 'remedial' access to housing for the poorest, via the housing subsidy;

⁹ Source: *SA Focus Consumer Survey*, study for ESKOM by Triple C (1999) as cited in Porteous and Naiker (2000): 9.

4. The majority of the black population is unlikely to benefit from economic attempts to restructure the private market for new housing, and are therefore dependent on access to the state housing subsidy. This is a political issue.

3 The South African Alliance

The Alliance of People's Dialogue and the South African Homeless Peoples' Federation (Federation)¹⁰ is founded, at least in part, on a recognition that the combination of circumstances presented in the previous section places a premium on steps to improve the South African poor's access to public resources intended to address their housing and other poverty-related needs. But the Alliance approaches this issue in a particular way, informed by experiences from other developing countries:

1. Regardless of political intent, experience shows that the urban poor remain at the bottom of the list of priorities for governments of developing countries. This is because the pattern of political and social power favours those with wealth and/or direct access to political power.
2. Instead of focusing their energies on challenging this state of affairs through direct protest, organisations of the urban poor and their allies can achieve better results by beginning with a grassroots-driven, non-hierarchical process of reclaiming the latent power of resource-poor households and communities, and using this to identify options and strategies to address self-identified priority needs.
3. This process simultaneously creates:
 - a. Self-knowledge about the needs and capacities of poor communities;
 - b. Effective strategies for maximising the impact of public and other development resources intended to address these needs, by leveraging the poor's collective knowledge and capacities;
 - c. A framework for a more effective, long-term challenge to the unequal distribution of resources and power in society, by creating a self-conscious social movement of the poor, aware of its needs, socio-political situation, and collective capacities.
4. The starting point for this process is daily savings by the poorest and most vulnerable amongst the urban poor, mainly women.

3.1 The South African Homeless Peoples' Federation

The Federation is a nationwide network of about 1100 savings schemes (*nsukuzonke*), in all of South Africa's provinces, but concentrated around the major cities of Cape Town, Durban, Johannesburg, and Port Elizabeth. The Federation has approximately 100 000 members, 85% of whom are female, and who earn less than R1 000 (US \$150) per month. The Federation has a flat leadership structure, with a Core Group of nine national leaders, and teams based in *ufundu zufes*, regional Federation centres that fulfil key learning and administrative roles. The Federation also maintains *Inqolobane*, regional pooled savings funds financed by contributions from *nsukuzonke*.

3.2 People's Dialogue on Land and Shelter

People's Dialogue is a small NGO, with a staff-to-CBO ratio of approximately 1:5000. It is largely comprised of administrative and financial staff, with three directors, three field co-ordinators, and one technical planning specialist. People's Dialogue also makes use of consultants and private contractors, particularly in greenfield developments and interactions with other formal institutions. It was founded in 1991, initially as part of the South African Catholic Bishop's Conference, but is now independent. People's Dialogue also has a Management Board that fulfils a supervisory role. It has offices in Cape Town, Johannesburg, and Durban.

3.3 Utshani Fund

¹⁰ The actual name of the Federation is *uMfelandaWonye waBantu BaseMjondolo*, or *uMfelandaWonye*, but this paper will use its English equivalent.

Utshani Fund specialises in revolving housing loans and bridging finance for the housing subsidy system. It is also the repository of all major assets owned by the Federation, such as land and buildings. Utshani Fund has its own Board of Directors, which is currently inactive. In practise, Utshani Fund operates as a part of People's Dialogue, with staff accountable to People's Dialogue directors and management board. It has a current portfolio of approximately R65m (US \$7,6m), the bulk of which is accounted by its loan book, which has financed nearly 9 500 houses. Utshani Fund also serves as the conduit for subsidy transfers from Provincial Housing Development Boards to the Federation.

3.4 Legal Status and Relationships

The legal status of the South African Alliance is often a matter of confusion or concern for outsiders. This is understandable given the substantial resources involved and the Federation's overlap with banking and microfinance.

The Federation is a network of formally autonomous savings schemes. Each of these is considered to be a 'voluntary association' in South African law. This common-law category describes any group of people acting informally to a common purpose. A voluntary association may enter into contracts, open bank accounts, and, significantly from the Alliance's point of view, collect and administer members' savings outside the purview of the Banking Act. This 'voluntary membership' status is the legal basis of the Federation's savings system; were non-members - the 'general public' - to participate, the Federation would be in violation of the law.

The Federation as such is merely a voluntary governance mechanism for the network of savings schemes. It neither receives nor dispenses resources *qua* the Federation, and so requires no legal standing. Although Federation bodies and 'office-holders' do advise about resource distribution, they do not actually handle funds.

People's Dialogue, on the other hand, receives, banks, and disburses donated money to Federation savings schemes, in consultation with Federation structures and office-holders. For this reason it is registered as a non-profit organisation (NG) under South African law. People's Dialogue does not collect savings from savings schemes, however, for to do so would be acting as a bank under South African law. All Federation savings remain at local level, under the control of voluntary members.

Utshani Fund is a registered Section 21 (not-for-profit) company. It also receives, banks, and disburses donated money as loans to Federation savings schemes, and receives repayments from them. It does not collect savings. Because Utshani Fund's lending activity is also restricted to Federation members, not the general public, it is also exempt from both the Banking Act and the Microfinance Regulatory Council.

Both People's Dialogue and Utshani Fund have Federation members on their boards and management committees, but these serve in their individual capacity, not as appointed members of the Federation. In practise, of course, the mechanisms of consultation and decision-making heavily involve Federation members and leaders.

This set of relationships and statuses is constantly evolving, and in many respects, the Alliance has been at the cutting edge of South African NGO practise. To date there have been no significant legal challenges to the Alliance's practises or arrangements, although it is important that the Alliance remain vigilant about the evolution of laws affecting it and participate where necessary in the process.

3.5 Typologies of Federation Membership

The membership of the South African Homeless Peoples' Federation can be categorised usefully in at least three ways: by income, land tenure, and development type. These categorisations will be employed in Section 7 to analyse the distribution of Alliance assets across various development categories.

3.5.1 Typical Federation Member's Situations

Income

Although most Federation members are at the bottom of the income scale in South Africa's urban areas, earning on average less than R1000 a month, the source and regularity of income has an important influence on behaviour. One notable paradox is that the poorer and informally employed tend to be better savers and loan repayers than the better off. Federation leaders attribute this to the fact that regularly employed households tend to get into more debt, leading them to treat Federation obligations as a 'soft option' compared to furniture and clothing accounts, etc.

Table 6: Federation Membership By Income Category

SEGMENT	CHARACTERISTICS
Self-employed	♦ Hawkers, traders, service providers (hairdressers, etc.)
Informally Employed	♦ Occasional labourers, etc.
Formally Employed	♦ Mainly domestic workers and unskilled labourers, with a tiny promotion of salaried workers
Pensioners	♦ Dependent on pension from Department of Welfare for cash income ♦ May support significant dependents including grandchildren and AIDS orphans
Unemployed	♦ Scavengers, dependents of pensioners, panhandlers, <i>tsotsis</i> , etc.

Tenure

Tenure situation is an even more important factor than income. Most Federation members who have taken 'consolidation' loan/subsidy packages (see below) live on serviced sites obtained during a late 80s/early 90s attempt by the apartheid state to create stability in urban areas. By contrast, there are relatively fewer Federation members living on unserviced but secure sites, since local government policy in most South African cities is opposed to occupation before servicing. The needs of landless members have become a greater focus of Federation attention as the 'easy pickings' of consolidation developments have diminished.

Table 7: Federation Membership By Tenure Category

SEGMENT	CHARACTERISTICS	FINANCING NEEDS
Formal tenure		
♦ On serviced sites	♦ Typically beneficiaries of late 1980s-early 1990s IDT site-and-service schemes ♦ Secure tenure under previous scheme ♦ Eligible only for top-up subsidy (i.e. for house only)	♦ Bridge finance for subsidy (usually short-term) ♦ Top-up loan needed since top-up subsidy is typically only $\frac{1}{2}$ of standard amount ♦ Subsidy usually obtained relatively quickly
♦ On unserviced sites	♦ Rare except for Federation greenfield developments (e.g. Victoria Mxenge)	♦ Collective bridge financing for land and services ♦ Bridge loan for housing portion of subsidy ♦ Top-up loan to complete house
Informal tenure, but secure		

SEGMENT	CHARACTERISTICS	FINANCING NEEDS
♦ Established informal settlements	<ul style="list-style-type: none"> ♦ <i>De facto</i> tenure, usually in long-established informal settlements accepted by local authorities ♦ Not able to obtain subsidy until tenure formalised, but often pressure Utshani Fund to make bridge finance available 	<ul style="list-style-type: none"> ♦ Collective bridge financing for services ♦ Bridge loan for housing portion of subsidy ♦ Top-up loan to complete house ♦ Bridge financing often long-term
Landless		
♦ Backyard shack dwellers	Rent shacks in backyards of established townships	<ul style="list-style-type: none"> ♦ Support for organisational and community development ♦ Collective financing for land acquisition and servicing
♦ Living with family	Living in crowded family houses in established townships	
♦ Hostel dwellers	Residents of crowded migrant hostels converted into <i>de facto</i> rental accommodation during the 90s	
♦ 'Squatters'	Living in shacks on illegally occupied land, threatened with eviction	

Development Options

The most significant division of all is the development option most suitable to specific Federation communities, which is closely linked to land tenure. Consolidation developments are the most common, since they are easy to do. For almost all other Federation communities, however, acquiring houses involves first acquiring land tenure, then either upgrading an existing settlement *in situ* or relocating to a new area - greenfield development.

Table 8: Federation Membership By Development Option¹¹

SEGMENT	CHARACTERISTICS
Greenfields	<ul style="list-style-type: none"> ♦ New developments on purchased land for landless groups ♦ Mass relocation of Federation members ♦ Often no pre-existing community ♦ Separation of living situation and development situation ♦ Significant asset acquisition by Federation (e.g. land and commercial sites) ♦ Low commitment by members until delivery ♦ Centralised control by HSS leaders with less scope for communal management ♦ Development structure often hierarchical with employment-type relationship ♦ Requires CPA ♦ High demands on NGO

¹¹ See Section 7.3 below for a more detailed discussion of Alliance investment in these various options.

SEGMENT	CHARACTERISTICS
Consolidation	<ul style="list-style-type: none"> ◆ Building houses on pre-serviced land ◆ Unity of living situation and development situation ◆ Pre-existing community ◆ Minimal asset acquisition by Federation ◆ High commitment by members to development, sites already owned ◆ Low demands on NGO ◆ Decentralised control by HSS ◆ Development structure flat with self-build
<i>In Situ</i> Upgrading	<ul style="list-style-type: none"> ◆ Servicing land and building houses ◆ Unity of living situation and development situation ◆ High commitment by members if tenure secured ◆ Pre-existing community ◆ Minimal asset acquisition by Federation ◆ Decentralised control by HSS ◆ Development structure flat with self-build ◆ Medium-low demands on NGO
Landless	<ul style="list-style-type: none"> ◆ No tenure, services or housing ◆ Unity of living situation and development situation ◆ Uncertain commitment by members ◆ Less mobilised, more atomised membership

3.5.2 Significance

Various types of Federation communities express and experience significantly different dynamics arising from their material and political situations. Income categories are important, but the most significant categories in the Federation's membership relate to three factors: land tenure, position in the ongoing shelter development process, and political context. The significance of these factors lies in the ways they influence community behaviour, and thus ultimately the risk assumed by the Alliance in the development process. Generally, where Federation groups are less stable and committed, the risk is higher, and vice versa. Nevertheless, the *return* to higher-risk investments such as greenfield is that much higher, since households are obtaining land as well as housing.

Land Tenure

The most basic division in the Federation is between the landless and those with secure tenure. Landless groups are generally much more difficult to organise initially but ultimately more persistent and committed than communities living on serviced sites. The latter tend to be less committed because their immediate need (tenure) is already met, and their interest in the Federation is often limited to accessing Utshani Fund resources to complete their houses. This makes 'consolidation' communities much easier to organise initially, leading to a bias in their favour in Federation mobilisation efforts.

Position in the Shelter Development Process

Broadly speaking, the shelter development process goes through stages, from landlessness to tenure, to servicing, to house construction and finally to occupation. Although there are many permutations, the stage at which households take *occupation* of their sites is a critical factor. This is because Federation communities tend to be much more committed and active when the living situation and development situation is unified, i.e. the community is living in the same place being developed. This is obviously the case where there is secure tenure, as in the case of consolidation or *in situ* upgrading.

By contrast, in most greenfield developments, the 'community' may in fact consist of widely scattered households who have few pre-existing bonds. Federation experience has shown that it is much more difficult and costly to undertake development with members living off-site, and there have been

concerted efforts to get members to move on-site once land is purchased by Utshani Fund. This succeeded in Joe Slovo Village (Port Elizabeth) but not as well at Vukuzenzele (Cape Town). Local authorities are also often opposed to occupation of unserviced land even if the Federation owns it.

There are at least two subcategories between consolidation and *in situ* upgrading. There are settlements such as Piesang River (KZN), where the settlement is long established and infrastructure and houses are either incomplete or needed. There are also settlements such as Fisantekraal (Western Cape), where the development is new, but contractors are providing infrastructure, leaving housing to the Federation. The social and technical dynamics can differ in each of these.

Political Context

Another important factor shaping Federation behaviour and thus risk is the attitude of local and provincial authorities towards development. The attitude of provincial housing development boards towards the people's housing process is vital, since they allocate subsidies. Thus, for example, the PHDB of Gauteng, South Africa's most populous and urbanised province, stubbornly refused to allocate subsidies to PHP projects, including the Federation, until very recently. In the coastal provinces, however - particularly those under the control of minority parties, such as the Western Cape and kwaZulu-Natal - PHDBs have generally been much more willing to support Federation developments. Obviously, this strongly influences the allocation of Utshani Fund loans, since they are supposed to be bridge finance for the subsidy.

Local authorities are another matter. They are ultimately in a position to block or allow development based on their central role in land allocation, township establishment, and service provision. Unfortunately, at local authority level such issues tend to be treated as technical matters of engineering and town planning rather than social development. This is partly due to the general dominance of 'old school' technical personnel over elected councillors. The slow pace of delivery has tended to force such obstacles, however.

Equally significant in some places is the 'threat' that elected councillors may feel at the presence of the Federation in the development process. This can lead to endless seemingly 'technical' but actually political logjams intended to discourage the Federation and to force households to go along with 'approved' development processes. In such situations the strength and persistence of Federation is a vital factor in determining the risk profile of development activity.

It should be noted that these factors are changing under the pressure of events, if not the example of the Federation. South Africa's housing drive has succeeded in delivering large numbers of 'houses', but their quality and location is a matter of increasing concern. This, combined with the declining real value of the housing subsidy, has led governments in key provinces to start to move away from developer-driven delivery and towards the people's housing process. It remains to be seen whether provincial and local governments are able to integrate the lessons of the Federation experience into this new path.

3.6 A Preliminary Asset Analysis of The South African Alliance

The Sustainable Livelihoods Approach (SLA) has been developed primarily to understand the strategies of individual households and communities in a context of varying degrees of poverty and vulnerability. Most importantly, it encourages a focus on a variety of assets, including non-financial assets, which both contribute to varying degrees of vulnerability and can be leveraged to improve this vulnerability. As a qualitative approach, it is a signal improvement on the dominant income (quantitative) approach to poverty and its reduction.

In an organisational context, the basic framework of the SLA can be adapted to the Alliance system of resource mobilisation. This is useful for two reasons. An SLA approach can help to identify organisational assets that can be used to leverage outside resources, and/or to serve as 'collateral' for a variety of loan-based financing options. The SLA approach can also be employed to identify and understand risks, trade-offs, contradictions, and untapped resources in an existing organisational structure.

3.6.1 Assets in the South African Alliance

The South African Alliance shares many fundamental similarities with the Indian Alliance, which have been well explained and graphically illustrated by McLeod.¹² In particular, the Alliance process and the "safety net" this creates for individual Federation members are essentially identical. Table 9 summarises the underlying asset base of the South African Alliance.

Table 9: Asset Base of the South African Alliance

ASSET	CHARACTERISTICS
HUMAN ASSETS	<ul style="list-style-type: none"> ◆ 100 000 members in over 100 communities, the largest and most widespread grassroots development organisation in South Africa ◆ Long-term legitimate leadership ◆ Committed NGO with deep experience ◆ Strong support from non-South African organisations and individuals
KNOWLEDGE ASSETS	<ul style="list-style-type: none"> ◆ Unique, specialised knowledge of community needs, capacities, and development solutions from <i>nsukuzonke</i> up to Alliance leadership ◆ Accumulated experiences of various grassroots development practises over a decade
SOCIAL ASSETS	<ul style="list-style-type: none"> ◆ Exceptional social solidarity within the Federation ◆ Strong relationships of trust and accountability ◆ Key alliances with other organisations and the state ◆ Strong learning systems
POLITICAL ASSETS	<ul style="list-style-type: none"> ◆ Strong donor support ◆ Key alliances with other organisations and the state ◆ Public support from Ministers of Housing and Land Affairs, President Mandela ◆ Strong support from UN system ◆ Membership in SDI network ◆ Wide respect amongst progressive development practitioners outside South Africa
INSTITUTIONAL ASSETS	<ul style="list-style-type: none"> ◆ Dynamic, flexible decision-making structures able to identify and address contradictions ◆ Well-developed relationships between various parts of the Alliance - e.g. People's Dialogue, Utshani Fund, etc. ◆ Sound legal footing
PHYSICAL ASSETS	<ul style="list-style-type: none"> ◆ Nearly 10 000 houses constructed of a better quality and larger size per Rand than other delivery systems in South Africa ◆ New equity value of Federation housing over R19m <i>per annum</i> ◆ Ownership of several valuable buildings in Cape Town and Johannesburg (e.g. Derek Hanekom Resource Centre)
FINANCIAL ASSETS	<ul style="list-style-type: none"> ◆ Grassroots savings system - <i>nsukuzonke</i> - nearly R7m saved ◆ <i>Inqolobane</i> system of pooled savings at regional level ◆ Utshani Fund (R65m capital) ◆ Core funding for People's Dialogue and Federation exchange activities

¹² McLeod, (2001), p. 4-6.

The importance of this perspective is two-fold. Firstly, it allows us to identify the social and institutional assets that underlie the South African Alliance's successes. Secondly, however, it allows us to begin to think about such assets as potential offsets for risk in future development transactions.

3.6.2 Outcome of Mobilisation of Assets

The practical outcome of this mobilisation of the assets of the poorest of South Africa's poor can be seen in the Table below. The Alliance has managed to create about R30m (US \$3,7m) in new housing asset equity per year since 1995.¹³ This has been achieved by leveraging a combined loan and subsidy capital of approximately R69,2m (US \$8,7m). The resultant ratio of net housing asset equity created to Utshani Fund equity is approximately 3 to 1.

Table 10: Asset Value of Federation Housing Development Activity, 1995-2000

1.	Federation Houses Constructed 1995-2000	9395
2.	Average construction cost (land, services, house, NGO support) ¹⁴	R 20 000
3.	Total cost of Federation housing development 1995-2000 (1 x 2)	R 165 000 000
4.	Estimated average market value of Federation house ¹⁵	R 40 000
5.	Estimated market value of Federation housing assets created 1995-2000 (1 x 4)	R 375 800 000
6.	Net equity in Federation housing assets (5 - 3)	R 210 800 000
7.	Average equity created per year (6 ÷ seven years)	R 30 114 286
8.	Value of Utshani Fund loans 1995-2000	R 56 985 823
9.	Value of subsidies released via Utshani Fund 1995-2000	R 12 283 688
10.	Ratio of net equity created to Utshani Fund equity (6 ÷ (8 + 9))	R 3

This 'value' is partly a theoretical construct. The housing market in South African low-income black areas is notoriously weak, with extremely low levels of tradability, mainly due to the dearth of financial packages available to buyers, as well as high levels of unemployment and consequent low mobility. Nevertheless, there is a ready market for Federation houses, but a lack of motivation to sell, since they are of a comparatively high standard, and there is little financial pressure on the members. On average, Federation houses that have come on the market have sold for 200 - 300% over cost of construction.

We will return to this issue in Section 9.1 below.

¹³ The difference between the cost of construction and the notional market value of the resulting housing assets

¹⁴ This figure includes costs not necessarily borne by the Alliance costs, such as land and planning costs, where these were expended under previous development processes (e.g. IDT site-and-service schemes).

¹⁵ Based on interviews with Federation members and People's Dialogue staff

4 The South African Policy Context

The South African housing policy environment faces a potentially major change, although the Department of Housing has yet to announce anything definite. The proposals have been analysed in detail in a separate document.¹⁶ Following is a summary.

4.1 Current Housing Policy

4.1.1 The Capital Subsidy System

South Africa's current housing policy is based on the capital subsidy system - a single, household-based consolidated subsidy for land, services, and housing. It is available to all South African residents who are inadequately housed, who have at least one dependent, and who have never benefited from a previous subsidy programme (unless it was a site-and-service scheme, in which case they are eligible for a house-only 'consolidation' subsidy.) The value of the subsidy varies depending on the beneficiaries' income, and is currently capped at R16 500 (US\$ 2 000).¹⁷ The subsidy is financed through the national housing budget, and allocated to provinces based on a combination of need and historical delivery performance.

The subsidy is delivered through Provincial Housing Development Boards (PHDBs), which are appointed by the provincial ministers (MECs) for housing. Although the PHDBs must act within the framework of national policy, they have wide discretion in applying the policy in their provinces. This is because the South African Constitution regards housing as a 'concurrent' function between national and provincial government. Significantly, provincial governments are not bound by 'in principle' agreements between the national Department of Housing and civil society initiatives such as the South African Homeless Peoples' Federation.

Accessing the subsidy is a time- and resource-consuming task. The system is heavily biased towards bulk delivery through formal sector developers, who co-ordinate 'project-linked' subsidy applications on behalf of beneficiaries, obtain land, install services, and build houses. Table 11 lists the subsidies disbursed in the first four years of the national housing programme. Of these, 84,3% was project-linked. Only 5,8% of all subsidies was linked to credit in any form.¹⁸ The bulk of subsidies were delivered to the very poor in the lowest eligible income band, who therefore had to accept whatever the subsidy would pay for on its own.¹⁹

Table 11: Subsidies disbursed, 1994-1998²⁰

Subsidy Type	Number	Percentage of Total
Project-linked	782 176	84,3%
Individual	101 290	10,9%
Consolidation	38 822	4,2%
Institutional	5 752	0,6%

¹⁶ In the course of this research, Homeless International commissioned the author to do a subsidiary analysis of the proposed South African housing policy for People's Dialogue.

¹⁷ A 15% upward variation is allowed for places where geophysical conditions make construction more expensive.

¹⁸ Department of Housing data, as cited in Porteous and Naiker (2000): 2

¹⁹ A value that is greatly less now than in 1994. The real value of the government subsidy has declined by 42,5% since introduction due inflation, particularly in building costs. The increase of 6,7% in the lowest subsidy amount to R16 000 in 1998 does not compensate for this loss in real value. See the comments on the 2000 budget on <http://www.idasa.org.za>.

²⁰ Source: Department of Housing. Note that this represents the number of subsidies disbursed, not houses actually built. The figures also do not specify the quality or size of the houses. In the Western Cape, for example, only 38,2% of subsidies disbursed between 1994-1998 had actually resulted in completed houses. See Thurman (1999): 16.

Subsidy Type	Number	Percentage of Total
Total	928 040	100,0%

A major criticism of current policy is that the search for profits under a fixed subsidy regime has led developers to deliver ever-smaller 'houses' (often less than 20 square metres) on sites far from economic city centres, where land is cheaper. Nevertheless, regardless of the quality of the outcome, once a beneficiary has obtained a subsidy, he or she is no longer eligible for state assistance ever again.

The subsidy system makes only rhetorical space for the people's housing process. There has been little attempt to streamline procedures and regulations, particularly regarding norms and standards, to accommodate the PHP. Despite strong verbal support from the Minister of Housing, Sankie Mthembu-Mahanyele, as well as the UNDP-sponsored People's Housing Partnership Trust, people's housing process initiatives remain at the back of the queue in most provinces. This is due to a combination of bureaucratic ignorance, lack of political will to implement the people-driven ideals of the Reconstruction and Development Programme (RDP), and budgetary pressure to deliver quantity rather than quality.

4.1.2 The Subsidy System and the South African Homeless Peoples' Federation

An understanding of the evolution and contradictions of the Federation (presented in Section 8 below) is impossible without an appreciation of the role of the capital subsidy. The subsidy is a powerful and emotive entitlement that the government has aggressively promoted as a major index of its commitment to redress the inequities of apartheid. For most very poor households, the potential value of the subsidy relative to their own economic and financial situations makes it preferable to wait for it rather than to build incrementally (as is often the case, by contrast, in developing countries). Politicians who interact with the Federation also constantly repeat the message of the subsidy entitlement, and promises of subsidy allocations are a major feature of Federation-politician interaction.

Given this context, the South African Alliance has built its financial and development strategy around the subsidy as the ultimate source of the resources that will shelter Federation members. Utshani Fund is seen as a bridging finance mechanism for the subsidy, not as a freestanding revolving loan fund (although it does provide 'top-up' loans). Federation systems and informal practises have evolved around an implicit understanding that an Utshani Fund loan is a temporary measure until subsidies are obtained. 'Political sustainability' (i.e., obtaining greater access to subsidies over time by building political assets) is more important than financial sustainability. Because the subsidy is an entitlement, moreover, the criteria for granting Utshani Fund loans is not primarily based on expectations of repayment, but rather on need and, to a lesser extent, the prospects of subsidy release.

4.1.3 The Underlying Rationale for Current Housing Policy²¹

It is important to recognise, however, that South African housing policy does *not* intend subsidies to be the primary mechanism to deliver houses to South Africa's poor. Instead, as outlined in Section 2 above, subsidies are seen as a temporary measure, pending the growth of the macroeconomy and the 'trickle-down' of resources to the poor, as well as reform of housing finance markets. The main thrust of non-subsidy housing policy, therefore, has been to reshape the institutional framework of the commercial housing and finance markets, on the assumption that eventually everyone - including the poorest of the poor - will be able to buy a house without direct government assistance.

The framework for South Africa's national housing policy is contained in the 1995 White Paper.²² This framework sees housing mainly in macroeconomic terms, as a demand-driven phenomenon ultimately

²¹ Based on Baumann (2000a)

dependent upon growth of real *per capita* incomes and savings. Nevertheless, the policy recognises that beneficiaries can be divided into two broad categories:

1. Those who, by reasons of employment and income status, have the potential to access additional financial resources for housing above the subsidy, through (appropriately transformed) financial systems, whether commercial or semi-commercial. The policy assumes that this group will grow over time as a result of macroeconomic growth strategies.
2. Those who are unable to participate in housing finance markets and are therefore completely dependent on the government subsidy *at least until* growth in real per capita GDP is sufficient to enable them to graduate into the first category.

The policy thus implicitly asserts that people are inadequately housed because they lack sufficient income to participate effectively in the market for housing.²³ It also acknowledges that the market for housing and housing finance is imperfect. Accordingly, the state must *improve people's incomes* (macroeconomic policy) and *improve the behaviour of markets relevant to housing* (housing policy²⁴). South African housing policy thus seeks a sustainable, long-term solution to the country's housing problem in improved macroeconomic performance. This is not only because higher real incomes mean increased effective market demand for housing, but also because the state will have more money to spend on housing.²⁵ Indeed, the White Paper assumes a significant increase in the National Housing Budget allocation,²⁶ originating in macroeconomic growth.

There is an implicit contradiction in South Africa's housing policy, however. The Growth, Employment, and Redistribution (Gear) strategy - the centrepiece of government's macroeconomic growth plan - commits the state to a notably conservative monetary and fiscal policy. This results in a paradox: a significant increase in the National Housing Budget allocation is incompatible with GEAR *until* the latter succeeds in increasing macroeconomic growth appreciably. Until then, macroeconomic considerations limit the housing budget. GEAR, however, has fallen well short of its macroeconomic growth targets. Pressure to reduce the subsidy component of the policy is therefore ever-present and growing. There have been persistent rumours that the Ministry of Finance has presented arguments to Cabinet to abolish the subsidy altogether.

If increased real incomes are the answer, then, the bulk of South Africa's urban poor faces a long and uncertain wait. In this context, organised voices of the urban poor are more likely to be heard.

4.2 Proposed New Policy

4.2.1 Problems with Current Policy: the Government's View

The South African government recognises that its current housing policy is inadequate in many ways. Below are the main self-criticisms prefaced to the new housing policy.

1. The current policy has a structural tendency to produce small, low-quality housing on the urban periphery, reinforcing the apartheid pattern.
2. The policy focuses on individual ownership. This increases the per-unit cost of land and reduces the resources available for housing.

²² http://www.polity.org.za/govdocs/white_papers/housing.html

²³ See Kentridge (1996)

²⁴ Including the many institutions intended to drag private sector finance into low-income housing lending.

²⁵ Such a view can fairly be characterised as having more in common with the 'redistribution through growth' approach than 'growth from redistribution'.

²⁶ At the inception of the policy the housing budget was R1,4 billion per annum - 1% of the total state budget. The goal was therefore to increase the housing share of the total state budget to 5%. Housing delivery was to reach a peak of 350 000 units per annum resulting in 1 million housing units over five years.

3. Current land use policy is inadequate, and a market-driven system of land allocation is not meeting the needs of housing delivery.
4. The current system of housing implementation governance has led to a tendency to treat human settlement in an *ad hoc* manner. Lack of co-ordination between levels of government, and amongst the various programmes affecting urban development, has led to a failure to integrate housing delivery into an holistic framework of spatial and economic development.
5. As real the value of the housing subsidy has declined, the private sector and local authorities have tended to adapt to changing financial and regulatory circumstances by focusing on infrastructure development and site servicing, avoiding housing construction or leaving it to smaller contractors with less experience and capacity.
6. Lack of capacity at provincial and local authority level has seriously hampered delivery efforts.

Following are the main proposals of the new policy.

4.2.2 Shift from Supply to Demand-Driven Policy

A major problem with South African housing policy implementation has been its quantitative focus – on delivery, on the size and distribution of the capital subsidy, and so on. This has provided an excuse and, for a time, protection for the *ad hoc*, uncoordinated delivery-at-all costs approach by provincial and local authorities. The result has been an increasingly obvious lack of quality, both in terms of individual houses and the pattern of human settlement in South Africa. The proposed new approach is to stress greater responsiveness to *housing and human settlement needs*, rather than *delivery needs*.

Essentially, the policy proposes to shift from a quantitative supply-driven model to a qualitative demand-driven model. Instead of rewarding delivery stakeholders (developers and authorities) for delivering houses, the system is to be retooled to reward local authorities and communities that are able to respond effectively to human settlement needs, both individual (needs assessment) and collective (integrated development planning).

4.2.3 Integrated Forward Planning & Bottom-Up Needs Assessment

The interesting thing about this approach is that, in the absence of an effective commercial market for housing or housing finance for the majority of homeless poor, the proposals outline what is, in effect, a new 'institutional market' within which subsidies will be allocated. Within this 'market', government will supply subsidies in response to articulated human settlement needs, as determined at local level through an 'integrated development planning system'. Housing resources will not be 'pushed' to provinces or localities according to the housing budget, as at present, but 'pulled' by formulated bottom-up plans. As these plans are established in practise, it will become possible for the housing budget to slot into the government's Medium-Term Expenditure Framework.

In such a demand-driven 'institutional market', the allocative function of Provincial Housing Development Boards is redundant; allocation takes place in response to demonstrated capacity, on the part of local government, to identify and articulate human settlement needs. Provincial Housing MECs and Premiers will replace the PHDBs' legal function as controllers of provincial housing funds, which will become transmission mechanisms for the aggregated approved funding plans of the various localities. The South African Housing Fund will remain, as a national funding mechanism with the necessary flexibility to respond to changing development needs in the provinces.

An important point about this proposed arrangement is that 'effective demand' within this system will depend not only on housing *need*, but also on capacity to *articulate* that need. Localities able to develop coherent and legitimate human settlement plans (including not only physical housing, but all the related infrastructure, economic, transport, and social amenities) will attract resource flows. The flip side must be that localities that cannot, either because of lack of capacity or political conflicts, will not attract resource flows as easily.

This has two important implications. Firstly, the 'waiting list' system, much beloved by some large municipalities, is rejected as incompatible with this system. Secondly, there will be a critical need not only for technical capacity building, but also for suitable partnerships between civil society and local governments. These will be necessary in order to develop legitimate needs assessments feeding into the "rolling five-year housing development plan". This implies an important role for organisations of the homeless poor - a value added function that local authorities may or may not recognise.

4.2.4 Differentiated Housing

In addition to creating an environment in which state resource flows respond more adequately to holistic human settlement need, the subsidy system is to be modified to cater for the variety of housing situations and needs. Most importantly, the new policy proposes to jettison the fixed subsidy amount. In its place, it proposes a flexible funding system based on the *actual cost* of meeting a normative standard for minimum housing stipulated by the National Department and the NHBRC. In other words, although the *subsidy* will no longer be standardised, the *housing product* will be.

A logically critical corollary to this plan is a proposal to open the process of meeting each locality's identified housing development needs to competition between various providers. When the subsidy amount is fixed, housing becomes a residual whose quality depends on the cost of all other factors (land, infrastructure). When the housing product is fixed and the subsidy varies, the only way to prevent unmanageable escalation of costs is to put housing developments out to competitive tender. The proposed policy recognises the right of NGOs and people's housing organisations to participate in this competitive process. When combined with the concomitant emphasis on the People's Housing Process, this may augur well for the South African Alliance.

4.2.5 Housing Standards

A corollary of this demand-driven, outcome-oriented model is the need to define adequate housing. If the subsidy is to vary according to the cost of providing a standard housing outcome in a variety of situations, it is essential to define the desired outcome carefully. This means the DOH must confront the perpetual problem of needs versus means.

In this respect, the proposals do not represent much progress over the previous situation. It repeats the well-known formula; based on the constitution, that the state has an obligation to meet housing needs "progressively", in a manner that is "reasonable given state resources".

Thus, the definition of an 'adequate house' will be an outcome of the entire government budgetary process, in which resources are allocated 'reasonably' by the Department of Finance in the annual budget. To state an obvious example, if the current arms deal were to be abandoned, more resources would be available for housing, and the definition of adequate housing *given state resources* could change. This means that the policy proposal opens the door to public debate on state spending priorities, since housing outcomes will be linked to all other aspects of expenditure.

4.2.6 Pre-qualification Conditions for Subsidy Access

Viewed as a package, the proposals constitute a sweeping change from the current situation. Whereas state housing resources are now entitlements, under the proposed new policy they will be significantly qualified. Localities and communities that wish to access these resources must behave in certain ways and perform certain functions. It is not clear what will happen, however, if they do not. Clearly one significant implication is that poor households will be affected if their local authorities fail to participate effectively in the housing development planning process, either technically or politically.

Taking this thinking to the next level, the new policy proposes to convert the current individual subsidy entitlement into a *qualified* entitlement. The proposals would eliminate the current system of

different subsidy amounts, and adopt one that differentiates beneficiaries by a *required* pre-qualification contribution. In this new system, the subsidy 'amount' will be the same for all (bearing in mind that the amount itself will be product-driven rather than fixed) but different income categories will be asked to contribute either 'sweat equity' or savings before accessing the subsidy. This is linked to a proposal to adopt a 'Chilean model' of subsidy + savings + loan to meet the total cost of housing, land and services.

This is undoubtedly the most controversial aspect of the new policy. Two significant features of the proposals *may* mitigate this, however, depending on how the policy is implemented:

1. The proposals do not require a savings contribution from households earning under R1 500 per month. Such households, who constitute 85% of subsidy recipients, will instead be required to provide 'sweat equity'. This essential concept is not defined in the new proposals, but the thrust seems to be that households will be expected to build their own houses with building materials or vouchers. Thus, the policy does not seem to envisage households building a pre-defined product as informal employees of developers, but rather 'site-and-service plus building materials' for the very poor.
2. The remaining 15% of households in the higher income bands will be expected to provide a savings contribution calculated as a proportion of annual income. This will be linked to a subsidy and loan package administered by local authorities and the banks.

It can be argued that this aspect of the policy simply formalises what already happens in many communities. Nevertheless, a site-and-service plus building materials policy for the majority of housing beneficiaries will undoubtedly generate fierce debate, with many on the left insisting that the state is abrogating its responsibilities. It is also likely that this policy will be open to widespread abuse and significant variation from locality to locality. The DOH will have to take steps to ensure that it is not abused in a wholesale return to the 'toilet towns' of the early 1990s.

4.2.7 Rationalisation of Delivery - Two Streams

One of the most encouraging themes in the policy proposals is its extensive criticism of fragmentation of responsibility for delivery of housing and related services, both laterally and horizontally. In calling for rationalisation, however, the proposed policy would create two separate holistic funding streams - one for greenfields and one for *in situ* upgrading. These would consolidate the capital subsidy programme with the Consolidated Municipal Infrastructure Programme, Water & Sanitation Programme, and the Land Settlement Grant Programme.

This emphasis on *in situ* upgrading is most welcome, as this has been one of the greatest failings of housing policy. Nevertheless, as with the 'sweat equity' proposal, this will generate significant debate in the housing community. Many regard *in situ* upgrading as a hallmark of progressive policy, whereas there is a strong tendency for local authorities and residents of established settlements to reject this if the settlements to be upgraded are located too close to middle-class areas. The DOH will have to back this policy with a firm commitment to fighting the NIMBY syndrome as well as a likely tendency for some local authorities to argue that *in situ* upgrading encourages land invasion.

4.3 Implications For The Alliance

4.3.1 Elimination of the Fixed Subsidy

Eliminating the fixed subsidy and introducing a normative standard for housing would remove one of the most damaging aspects, from the Alliance's perspective, of the current system. Currently, Federation members are faced with a cash entitlement whose real value is steadily declining, creating enormous pressure to take on unsustainable debt to build houses similar to those of the early Federation. A move to a defined standard house with a variable subsidy would allow the Federation to focus on 'competing' with other housing suppliers to produce such a house at lower cost and higher

quality. Additions to such a standard house could also be left to individual households and their *nsukuzonke* to finance.

4.3.2 A 'Chilean' Model of Housing Finance for South Africa

In broad terms, the proposal to adopt the 'Chilean model' of a combined package of mandatory savings, subsidy, and loan is simply a restatement of existing intentions. Most importantly, there is no indication of new thinking on the all-important issue of the source of housing loans, since the South African banking system is even less likely to play this role now than it was in the 1990s. Nevertheless, the proposals create opportunities for the Alliance, but also pose certain risks. The existing Utshani Fund system, for example, should be well positioned to fulfil the envisaged role of a one-stop, integrated financial institution able to organise savings, loans, and subsidies for Federation members. It is not at all clear, however, that this would be in the best interests of the South African Alliance.

4.3.3 Pre-qualification Conditions for Subsidy Access

If the South African Alliance is true to its focus on the poorest of the poor, all Federation members will probably qualify in the under R1 500 per month subsidy system, which seems to imply that they will receive their benefits in the form of land, services, and resources to build their own houses (possibly cash, but more likely building materials vouchers). The "own contribution" envisaged in the policy is "sweat equity", which the proposals reduce to simple labour (as opposed to the complex social assets of the Federation).

On one hand, this will effectively eliminate the current option, open to Federation members, of taking an 'RDP house' from a developer to avoid having to build their own. This will increase the attractiveness of the Federation model. Similarly, the Alliance should be well placed to use such a system to get the most out of state housing resources for its members.

On the other hand, however, this system will expose the Alliance to 'credibility risk' if it fails to deliver, and put increased pressure on technical support resources to mitigate this risk.

4.3.4 Transfer of Subsidy Allocation to Local Authorities

Abolishing the Provincial Housing Boards and transferring their allocative function to local authorities is clearly a double-edged sword, which will differ widely from place to place.

On one hand, such a system would enable the Alliance to form partnerships with local authorities based on the Federation's ability to produce quality houses at lower cost than the private sector.

On the other hand, there is the potential for as many 'mini housing policies' as there are local authorities - some 800-odd in South Africa. Many such authorities will have little interest in a partnership with the Federation, even if it has potential delivery benefits. This is due to technocratic ignorance and arrogance, as well as vested interests in private development on the part of local councillors. Such a variable system would put enormous pressure on local Federation leaders and People's Dialogue to assist in local Federation struggles for their fair share of housing resources.

4.3.5 A Demand-Driven Development Framework

The shift to a demand-driven settlement development framework is similarly contradictory.

On one hand, the Federation should be well placed to represent the homeless poor and articulate their needs in the envisaged participatory process of developing development plans at local and provincial level. Similarly, the Federation should be able to compete effectively with private developers in 'tendering' to fulfil development plans, given its non-profit and 'sweat-equity' nature.

On the other hand, such a system dramatically increases the 'credibility risk' of failure to deliver on Alliance promises, and will require increased investment in technical development assets.

Another risk arises from the widely varying capacities of local authorities in South Africa. Under the proposed system, local authorities that can successfully negotiate and articulate consensual integrated human settlement development plans will have priority access to the subsidy system. This may prejudice Federation members in areas that lack such capacity for political or technical reasons, but also creates space for the South African Alliance to play the sort of facilitative role developed by the Indian Alliance.

4.3.6 *In Situ* and Greenfields Development

The proposed new policy places a new emphasis on *in situ* upgrading of informal settlements - an area badly neglected under current policy. A *quid pro quo* of such an emphasis is regularisation of informal tenure. This should benefit those Federation members living in established informal settlements, who have struggled for recognition and tenure security in the past, and are effectively prevented from building houses. The Federation's experience in informal upgrading in places such as Piesang River - with its concomitant need to negotiate relocation, service installation, and so on at community level - will be invaluable.

The Federation has experience in greenfields development, and may be able to translate this into a competitive advantage in the process of development resource allocation at local level. The Alliance's experiences in this regard, are mixed, as we shall see.

4.3.7 Capacity and Politics

Perhaps the most important issue of all is whether the South African local government system has even the potential to implement such a housing delivery system. The current policy - which is much less complex and, being functionally fragmented, does not require holistic human settlement skills - is fraught with problems due to simple lack of competence, and, just as importantly, lack of political will to do better. Provincial and local government officials not only struggle to understand how the "people's housing process" fits in with existing delivery mechanisms, but often show little interest in learning. This is despite much-publicised support for the Federation by politicians such as Housing Minister Sankie Mthembu-Mahanyele and various provincial MECs, as well as ongoing capacity-building programmes under the auspices of the People's Housing Partnership Trust.

The proposed policy will pose serious challenges for officials. They must approach housing delivery from the perspective of holistic and sustainable human settlement development, and negotiate politically legitimate medium-term plans with the broader community, both homeless and NIMBYs. This is a far cry from the rigidly officious current system, in which the intended beneficiaries of the policy must approach officials as supplicants, who must do all the adapting.

5 Financing Alliance Developments

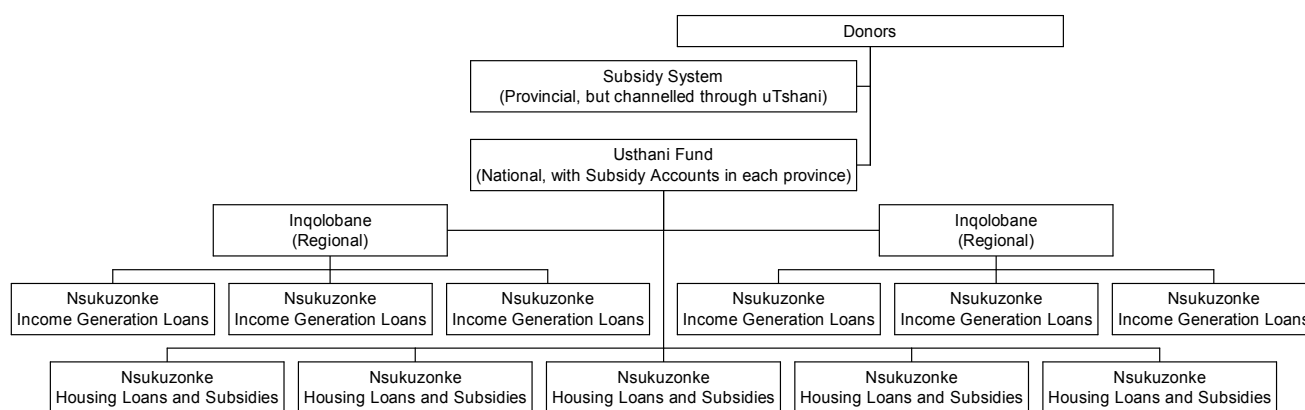
The South African Alliance is regarded as a particularly well-resourced initiative in the South African (and African) context, where many NGOs are struggling to maintain historic levels of donor financing. The Alliance has benefited from an excellent reputation amongst the European donor community in particular, including the support of key individuals who have developed a deep understanding of its goals and strategies. This funding base has been diversified considerably in recent years.

This situation has enabled People's Dialogue to adopt a relatively risk-friendly approach to its work. Utshani Fund, in particular, has been able to experiment freely.

5.1 Organigram of Alliance Finance Systems

The South African Alliance operates a multi-tiered financial system based on *nsukuzonke*²⁷ (local savings schemes). These collect the savings of individual Federation members, and make small-scale income generation and crisis loans to them out of the savings pool.

Utshani Fund is a national bridging loan fund whose equity has been obtained from a combination of overseas donors and contributions by the South African government. It makes group loans for a housing to *nsukuzonke*, which then distributes the loans to its members according to their internal systems. Utshani Fund does not collect savings from *nsukuzonke*.



In addition, Utshani Fund also serves a conduit for state housing subsidies. These are also delivered directly to *nsukuzonke*, but for legal reasons the funds are managed through separate accounts in each province. Funds are either paid directly to *nsukuzonke* for housing construction (if the subsidy is up front) or transferred to Utshani Fund to retire a previously granted bridging loan.

Finally, each Federation region operates an *inqolobane*²⁸, which is a regional savings pools. Each *nsukuzonke* in a region contributes a portion of its savings to the *inqolobane*, which then makes larger-scale income generation loans to members via their *nsukuzonke*. Utshani Fund also makes loans to *inqolobane* to top up these income generation pools. *Nsukuzonke* collect repayments from borrowers, and transfer them to the *inqolobane*, where they may be returned to the loan pool or repaid to Utshani Fund, depending on the origin of the funds.

5.2 Historical and Current Use of Donor and Local Funding

The South African Alliance has relied almost entirely on donor grants and state housing subsidies for its financing over the last decade (see

²⁷ 'Every Day' in isiZulu

²⁸ 'Communal Granary' in isiXhosa

Table 14). By contrast, with one exception (discussed below), the Alliance has not used any loan facilities, either domestic or foreign, including overdraft facilities; nor has it sought or used loan guarantees. Neither People's Dialogue nor the Federation has undertaken any significant income-earning activity at institutional level, although there has been an extended discussion of the possibilities of cross-subsidisation through commercial components of greenfields developments.

People's Dialogue has done exceptionally well in fundraising. Its core funding has increased significantly over the 1990s, at an annual average rate of nearly 30%. This has undoubtedly had an impact on the Alliances' attitude towards alternative forms of finance.

Table 12: People's Dialogue Core Funding, 1995-2001

Year	1995	1996	1997	1998	1999	2000	2001
PD Budget	R 1 738 822	R 2 534 308	R 4 737 750	R 4 270 977	R 5 186 478	R 7 219 799	R 6 714 148
Increase	--	46%	87%	-10%	21%	39%	-7%

Table 13: Funding Map of the Alliance

THE ALLIANCE-BUILDING PROCESS	GRANTS
<ul style="list-style-type: none"> ◆ Building the core capacity of the Federation ◆ Setting precedents by implementing pilot demonstration projects ◆ Documenting the process ◆ Understanding and sharing the process ◆ International networking 	Non-specific (core) grants from various donors
	Development grants from donors (project specific, e.g. MISEREOR to Victoria Mxenge, Fr. Anzorena to Piesang River)
	Grants for Revolving Loan Funds (MISEREOR, European Union, Department of Housing)
	Research grants (Homeless International)
	Shack dwellers' International funding
SCALING UP IMPACT	GRANTS and SUBSIDIES
<ul style="list-style-type: none"> ◆ Working at scale to deliver housing and infrastructure to large numbers of settlements in cities and provinces 	Non-specific (core) grants from donors (for NGO running costs and Federation administration and exchange activities)
	State housing capital subsidy (for land, services, and housing)
	Specific project grants from the state (e.g. planning grants from the Department of Land Affairs)

Table 14: Financial Support for the South African Alliance

FORM OF FINANCE	IN USE	SOURCE
FUNDS FOR BUILDING THE SOCIAL AND ECONOMIC BASE		
Community Savings	Yes	Federation
NGO Grants	Yes	MISEREOR, CORDAID, Interfund, HI, Novib, IEPALA, Mott Foundation
Bilateral Grants	Yes	SIDA, USAID, Swiss Development
Multilateral Grants	Yes	European Union - indirectly through Misereor, Cordaid and IEPALA
Corporate Grants	Yes	Nedcor, BP
NGO Loans	No	
State Loans	No	
NGO Equity Finance	No	
Private Sector Equity Finance	No	
PILOT/DEMONSTRATION FUNDS		
Community savings	Yes	Federation
NGO Core Funds	Yes	MISEREOR, CORDAID, Interfund, HI, Novib, IEPALA, Mott Foundation
NGO Grants	Yes	MISEREOR, CORDAID, Interfund, HI, Novib, IEPALA, Mott Foundation
Bilateral Grants	Yes	SIDA, USAID, Swiss Development,

FORM OF FINANCE	IN USE	SOURCE
Multilateral Grants	Yes	European Union - indirectly through Misereor, Cordaid and IEPALA
NGO Bridging Fund Grants	No	
NGO Loans	No	
State Bank Loans	Yes	Land Bank (funds not used)
Commercial Bank Loans	No	
Bilateral Loans	No	
Multilateral Loans	No	
NGO Guarantees	No	
Contracted project funding from Government	Yes	Department of Water Affairs (Working for Water Programme), Dept of Welfare
FUNDS FOR SCALING UP		
NGO Grants	Yes	MISEREOR, CORDAID, USAID, Interfund, HI, Novib, Swiss Development, IEPALA, Mott Foundation, Hotels Housing Trust
NGO Bridging Fund Grants	No	
Direct Government Subsidies	Yes	Housing, Land and Infrastructure Subsidies
Contracted project funding from Government	Yes	Department of Water Affairs
State Bank Loans	Yes	Land Bank (funds not used)
Commercial Bank Loans	No	
Regional Development Bank loans	No	
Bilateral loans	No	
Multilateral Financial Institution Loans	No	
Syndicated Loans	No	
Municipal Bonds	No	
Project Bonds	No	
FUNDS FOR LEARNING, KNOWLEDGE CREATION AND CAPACITY BUILDING		
Community Savings	Yes	Federation
NGO Core Funds	Yes	MISEREOR, CORDAID, USAID, Interfund, HI, Novib, Swiss Development, IEPALA, Mott Foundation
NGO Grants	Yes	MISEREOR, CORDAID, USAID, Interfund, HI, Novib, Swiss Development, IEPALA, Mott Foundation
Bilateral Grants	Yes	SIDA
Multilateral grants	Yes	European Union - indirectly through Misereor, Cordaid and IEPALA
Corporate grants	Yes	Nedcor
CREATION OF NEW ALLIANCES		
Community Savings	No	
NGO Core Funds	Yes	MISEREOR, CORDAID, Interfund, IEPALA, HI, Mott Foundation
NGO Grants	No	MISEREOR, CORDAID, Interfund, IEPALA, HI, Mott Foundation
Bilateral Grants	Yes	SIDA
Multilateral Grants	Yes	European Union - indirectly through Misereor, Cordaid and IEPALA
Corporate Grants	No	
RISK MANAGEMENT & MITIGATION FUNDS		
Community Savings	Yes	Federation (uTshani Fund deposits)
NGO Core funds	No	
NGO Guarantees	No	
NGO Grants	Yes	Utshani Fund (by default)
NGO Hedge Funds	No	
Corporate grants	No	
Government subsidies	No	
Bilateral grants	No	
Multilateral grants	No	
REFINANCING		
Building Societies	No	
Mutual and Pension Funds	No	
State Bank Loans	Yes	Land Bank (funds not used)
Banks	No	

5.2.1 The Land Bank Loan

There is one exception to this grant-dependent strategy. In 1999, Utshani Fund approached the Land Bank for a loan of R10m (US \$1,25m) to be used to finance the acquisition of land for greenfield developments. The previous government established the Land Bank as a vehicle for financing white farmers, but since 1994, it has begun to focus on land redistribution. The approach to the Land Bank was made in part because the Bank's (now-ex) CEO, Helena Dolny, was known to be interested in the Federation, and disposed to try a pilot loan. The loan came with the important restriction that it could only be used to fund developments where subsidies (and therefore all relevant planning permissions, bulk services, etc.) had been secured. A number of such projects were in the pipeline at the time. Identifying land and obtaining planning permission and subsidies are time-consuming processes, so Utshani Fund decided to place the Land Bank funds in two medium-term investment accounts at a specialist financial institution (FBC Fidelity Bank) for six months and one year. This would enable Utshani Fund to earn substantial interest on the deposit, drawing the funds when viable projects arose. Not long after depositing the funds, however, the institution in question experienced a run on deposits, and the funds were unavailable during the curatorship process. Eventually the funds were released, but, given current restructuring in the Alliance, Utshani Fund has not yet used them for any developmental purpose. Repayments on the loan have so far been made out of its capital.

5.2.2 NGO Support Inputs

The South African Alliance is thus dependent - by choice - on continued grant income for its basic running costs (NGO administration, exchanges, and technical support) and Utshani Fund equity. The state housing subsidy covers basic shelter development costs (housing, land, and services), although essential additional costs, such as NGO support, are not deducted from the subsidy, but rather come from NGO core financing or specific technical assistance grants.

This NGO support activity constitutes a form of subsidy relative to private developers, who factor in these costs when constructing houses. The Table below indicates the kind of support activities involved.

Table 15: Typical NGO Support Activities in Alliance Development Projects

TYPE OF SUPPORT	CHARACTERISTICS
Technical	<ul style="list-style-type: none"> ◆ Architectural services (core designs) ◆ Architectural services (<i>post facto</i> designs for city engineers) ◆ House costing ◆ Layout plans ◆ Site service plans ◆ Negotiation with local authority engineering departments ◆ Negotiation with provincial authorities for bulk services ◆ Liaison with suppliers ◆ Liaison with civil engineering firms ◆ Liaison with developers
Financial	<ul style="list-style-type: none"> ◆ Assistance with loan applications ◆ Assistance with loan and subsidy record-keeping ◆ Assistance with loan and subsidy reconciliation ◆ Assistance with repayment scheduling
Management	<ul style="list-style-type: none"> ◆ Site management ◆ Liaison with developers and suppliers ◆ Negotiation with local authorities and provincial planning authorities
Conceptual	<ul style="list-style-type: none"> ◆ Assistance with house modelling ◆ Negotiation with members over development plans

TYPE OF SUPPORT	CHARACTERISTICS
	<ul style="list-style-type: none"> ◆ Liaison with developers, local authorities, and other institutions
Political	<ul style="list-style-type: none"> ◆ Negotiation for land ◆ Negotiation for subsidies ◆ Negotiation for development permission ◆ Negotiation with other institutions for alliance formation
Social	<ul style="list-style-type: none"> ◆ Supporting development of Federation systems ◆ Mediating conflicts and helping to resolve contradictions

It is important to distinguish between 'social' and 'technical' support activities in People's Dialogue.

Social Inputs

The NGO portion is an indispensable part of the South African Alliance. It is not, as some have tended to believe, destined to 'wither away' as the Federation grows. People's Dialogue fulfils key social and political functions that cannot be fulfilled by a grassroots organisation on its own. Most importantly, People's Dialogue helps to mediate one of the most critical contradictions of popular organisation: that between popular mobilisation and resource control. Indeed, the Alliance model is in part a reaction to 'grassroots' organisational models that have tended, firstly, to reproduce traditional structures of hierarchical power, particularly patriarchy; and secondly, to be vulnerable to a gradual accretion of power and privilege, based on control over resources, in the hands of 'leaders'. The therefore NGO plays an important ongoing role not only because of the entrenched nature of poverty, but because of the contradictions inherent in people's efforts to overcome it from within established and ongoing oppressive social environments.

In this respect, the NGO role in the Alliance model is not reducible to development activities as such. Instead, it plays a critical role in *securing and reproducing* the conditions that allow grassroots development processes to take place and succeed.

Technical Inputs

By contrast, NGO-based technical support for building activities - architecture, construction training, etc. - may decline over time. Because of the learning and knowledge-sharing strategies employed by the Alliance, *nsukuzonke*-level Federation members have assumed more and more of the support functions around house design and construction originally fulfilled by professional staff. This tendency holds true mainly for *in situ* and consolidation developments, however. Greenfield developments will be discussed below.

Attempts to quantify the NGO subsidy component in Federation development activities are complicated by the fact that the Alliance does not consider housing to be its main product. Instead, social mobilisation and Federation-building is seen as an end in itself - importantly, a view shared by People's Dialogue's key private donors - so that amounts expended on support for basic Federation mobilisation, exchange programmes, and other 'social' activities are not fully chargeable to housing development, even if they are essential to it.

Similarly, technical support personnel do not spend all of their time on technical issues. Technical support personnel often spend considerable time engaged in 'social' support, such as helping to work through *nsukuzonke* conflict, group decision-making, etc.

The Table below is an attempt to summarise the technical support component of People's Dialogue core funding from 1994-present. This serves as a proxy for the 'NGO subsidy' for the Alliances' narrowly developmental work, in the sense that architectural, construction and planning services are more directly related to housing delivery.

Table 16: Technical Support for Federation Housing Development

YEAR	TECHNICAL SUPPORT BUDGET ²⁹	HOUSES CONSTRUCTED ³⁰	AVERAGE TECHNICAL SUPPORT PER HOUSE
1995	R 34 189,76	8	R 4 273,72
1996	R 61 039,38	291	R 209,76
1997	R 139 776,00	946	R 147,75
1998	R 209 185,00	1876	R 111,51
1999	R 300 669,66	2162	R 139,07
2000	R 495 399,93	2627	R 188,58
2001	R 510 000,00	1485	R 343,43
Overall	R1 750 259,73	9395	R 773,40

The total is obviously skewed by the relatively high ratio of technical support to houses in 1995. Excluding 1995, the annual average is R190 per house.

Interestingly, per-house technical support in the South African Alliance began to grow again in 1999 after falling for three years. This may reflect the beginning of greenfield developments in the Eastern and Western Capes.

5.3 The Alliance Development System

5.3.1 Types of Projects

The South African Alliance effectively has four types of projects, all of which are dependent on the capital housing subsidy and Utshani Fund bridging/top-up loans. These are consolidation projects, *in situ* upgrading, greenfields developments, and support for landless groups.

Table 17: Types of Alliance Projects

SEGMENT	CHARACTERISTICS
Consolidation of Site-and-Service	<ul style="list-style-type: none"> ◆ Building houses on serviced land ◆ Unity of living situation and development situation ◆ Pre-existing community ◆ Minimal asset acquisition by Federation ◆ High commitment by members, sites already owned ◆ Low demands on NGO ◆ Decentralised control by HSS ◆ Development structure flat with self-build
<i>In Situ</i> Upgrading	<ul style="list-style-type: none"> ◆ Servicing land and building houses ◆ Unity of living situation and development situation ◆ High commitment by members if tenure secured ◆ Pre-existing community ◆ Minimal asset acquisition by Federation ◆ Decentralised control by HSS ◆ Development structure flat with self-build ◆ Medium-low demands on NGO

²⁹ Estimated from data supplied by Utshani Fund

³⁰ Includes houses built with Utshani Fund loans, loans and subsidies, and subsidies alone.

SEGMENT	CHARACTERISTICS
Greenfield	<ul style="list-style-type: none"> ◆ New developments on purchased land for landless groups ◆ Mass relocation of Federation members ◆ Often no pre-existing community ◆ Separation of living situation and development situation ◆ Significant asset acquisition by Federation (e.g. commercial sites) ◆ Some members' commitment may be uncertain until houses are delivered ◆ Centralised control by HSS leaders with less capacity for communal management ◆ Development structure hierarchical with employment-type relationship ◆ Requires CPA ◆ High demands on NGO
Support for Landless Communities	<ul style="list-style-type: none"> ◆ No tenure, services or housing ◆ Unity of living situation and development situation ◆ Uncertain commitment by members ◆ Less mobilised, more atomised membership ◆ Mainly involves NGO support costs

In terms of number of projects, consolidation of site-and-service projects has been most common, since they involve only house construction on secure plots with services. These also require less Utshani Fund financing, since the consolidation subsidy is only $\frac{1}{2}$ the standard subsidy. *In situ* upgrading emerged early in the Alliance, with large pilots in Piesang River (kwaZulu-Natal), Kanana (Gauteng), and Kgotsong (Free State). These involved servicing and house construction on secure plots (although in some cases the Alliance had to win security of tenure first).

The first true greenfield development was Victoria Mxenge in Cape Town. Along with the *in situ* development in Piesang River in kwaZulu-Natal, VMX served as a 'school' for the Alliance, particularly regarding institutional mechanisms for subsidy delivery, communal management, and construction. As noted previously, there two subcategories between consolidation and *in situ* upgrading. There are developments where the settlement is long established and infrastructure and houses are either incomplete or needed. There are also settlements where the development is new, but contractors are providing infrastructure, leaving only the housing to the Federation. The social and technical dynamics are different in each of these.

5.3.2 Future Trends

Over time, the number of consolidation projects will decline, as those who inherited serviced sites from the previous government's site-and-service projects are housed. Greenfield developments will increase in number and size. The proposed new housing policy encourages *in situ* development, though, so this may become an option for some communities currently thinking of greenfield development. Significantly, however, the new policy appears headed for a site-and-service plus building materials system for the poorest - effectively creating a new class of hybrid greenfield/consolidation opportunities for the Alliance. Such projects are presaged in cases where the Federation builds 'consolidation' houses on sites obtained and serviced by developers.

In such projects, serviced land could be acquired up front, onto which Federation group would move before housing construction. They would then build houses incrementally - effectively, a 'consolidation' development on newly acquired land. A critical factor, however, would be the legality of what some may regard as 'squatting' - i.e. building temporary structures, even if the Federation legally owns the

land.³¹ Against this, however, stand two recent landmark Constitutional Court judgements, which unambiguously prioritise the basic human right to shelter over other considerations. The Department of Housing has already indicated that it will incorporate this perspective in its new policy.

5.4 Alliance Finance Packages

The South African Alliance's financial 'products' are relatively simple. Broadly, finance in the Alliance is divided into *nsukuzonke* -level savings and loans for crises and income generation, and Utshani Fund bridging and top-up finance for housing. In recent years, however, an intermediate level of finance has been developed using the *inqolobane*, regional savings pools that also serve as a conduit for Utshani Fund loans for income generation. Utshani Fund-based income generation lending has only occurred on a pilot basis, however, from existing funds as well as part of the Alliance's participation in the Department of Social Development-sponsored MicroSave Programme.

Table 18: Financial 'Products' Used by South African Alliance

PRODUCT	CHARACTERISTICS
NSUKUZONKE SAVINGS	<ul style="list-style-type: none"> ◆ Local savings pools based on daily savings by Federation members ◆ Currently R7 million (US\$ 875 000)
NSUKUZONKE LOANS	<ul style="list-style-type: none"> ◆ Revolving loans for crisis and income generation, made and administered at local level ◆ Rules and procedures determined locally
INQOLOBANE SAVINGS AND LOAN POOLS	<ul style="list-style-type: none"> ◆ Regional pools, based on <i>nsukuzonke</i> contributions, used as revolving funds for income generation loans ◆ 10% of <i>nsukuzonke</i> funds transferred to <i>inqolobane</i> ◆ Administered at regional level but subject to <i>nsukuzonke</i> approval ◆ Can be topped up by Utshani Fund loans
PEOPLE'S DIALOGUE SUPPORT FOR UFUNDUZUFES	<ul style="list-style-type: none"> ◆ Funding for office administration and local exchanges ◆ Transferred from People's Dialogue to <i>ufundu zufes</i> ◆ Managed by regional leadership teams
SUPPORT FOR SCALING UP	<ul style="list-style-type: none"> ◆ House modelling and training exercises ◆ Exchange programmes ◆ Other special events, etc.
STATE HOUSING SUBSIDIES	<ul style="list-style-type: none"> ◆ Legislative entitlement to all RSA citizen and permanent resident households earning under R3 500 per month ◆ Currently administered by provinces ◆ Used for land, internal services, and housing ◆ Amount varies depending on income ◆ Not available to single persons without dependents ◆ Currently maximum of R18 500 ◆ Not sufficient for basic shelter requirements as defined by Department of Housing ◆ Approximately 1 500 subsidies valued at R12,3m (US \$1,5m) released via Utshani Fund to date
HOUSING SUBSIDY BRIDGE FINANCING	<ul style="list-style-type: none"> ◆ Utshani Fund loans issued in anticipation of a subsidy ◆ Loans technically made to <i>nsukuzonke</i>, who are responsible for repayment and administration ◆ Typically used for housing only unless part of greenfields

³¹ Indeed, in one case in Gauteng, local residents have succeeded in obtaining an eviction order against Federation members who acquired land and moved onto it, on the grounds that the area had no been proclaimed for housing in terms of the provincial planning ordinance.

PRODUCT	CHARACTERISTICS
	<ul style="list-style-type: none"> development, then used for land and services as well ◆ Not presently linked to application or for subsidy or definite date of release
HOUSING TOP-UP LOANS	<ul style="list-style-type: none"> ◆ Can be either excess of loan amount above subsidy (typical) or additional loan to complete house (untypical)
GREENFIELD PROJECT FINANCING	<ul style="list-style-type: none"> ◆ Utshani Fund has provided bridge financing for land acquisition in cases where Department of Land Affairs has entered into negotiations to provide fast-track subsidies for land acquisition for Federation housing development ◆ No subsidies have yet been released to Federation for greenfield housing and services
1. Up-front subsidy release	
2. Bridge finance for land acquisition	
3. Bridge finance for internal service delivery	
4. Bridge finance for housing development	
MICROSAVE PROGRAMME LOANS	<ul style="list-style-type: none"> ◆ Special pilot programme under Department of Social Development for income generation loans ◆ Funds channelled via Utshani Fund to <i>inqolobane</i> ◆ Loans made by <i>inqolobane</i> to members via <i>nsukuzonke</i>
INCOME GENERATION LENDING	<ul style="list-style-type: none"> ◆ Loans made via <i>ufundu zufe</i>, on approval by <i>nsukuzonke</i> treasurers ◆ Funded by pooled <i>ufundu zufe</i> savings, topped up by donor and government (MicroSave Programme) funding

We will return to the characteristics of and risks associated with these products below.

5.5 Resource distribution and control in the Alliance

In both its organisational and development activities, the South African Alliance has employed considerable outside resources. In total, People's Dialogue has received some R79 million on behalf of the Federation (at 2001 exchange rates). Of this, R31 million has been used for ongoing expenditure, primarily grants for community exchanges and other capacity building initiatives, related NGO administration costs, and documentation expenses. A further R48 million has been provided to capitalise the Utshani Fund. Contributions to the Utshani Fund include a 2 per cent levy on subsidies received that the Federation charges all its members.

At the same time, the Federation has accumulated over R5 million in savings. These savings are located primarily at *nsukuzonke* level, with about 20% pooled in regional *inqolobane* funds located at the *ufundu zufe*.

Distribution of these resources within the South African Alliance is one of its greatest challenges. These processes are organised around three 'tiers': *nsukuzonke*, *inqolobane/ufundu zufe*, and People's Dialogue/Utshani Fund.

Table 19: Resource/Risk Distribution in the Alliance

RESOURCES	ORIGIN	WHO CONTROLS/DECIDES	KEY RISKS
<i>Nsukuzonke Level</i>			
Savings	Members	<ul style="list-style-type: none"> ◆ Ideally, members ◆ Treasurers may play special role 	<ul style="list-style-type: none"> ◆ Abuse of funds ◆ Lack of transparency ◆ Loss of savings ◆ Failure to save ◆ Erosion of social assets
Loans	Collected Savings	<ul style="list-style-type: none"> ◆ Ideally, members ◆ Treasurers may play special role 	<ul style="list-style-type: none"> ◆ Reluctance to make loans ◆ Lack of transparency ◆ Failure to repay ◆ Loss of savings ◆ Erosion of social assets
Utshani Loans/Subsidies	Utshani Fund/government	<ul style="list-style-type: none"> ◆ Ideally, members ◆ <i>Nsukuzonke</i> and regional Federation leaders may play special role 	<ul style="list-style-type: none"> ◆ Abuse of funds ◆ Lack of transparency ◆ Opportunism ◆ Mobilisation via loans ◆ Failure to repay ◆ Erosion of social assets ◆ Erosion of political assets
Exchange Activities	People's Dialogue	<ul style="list-style-type: none"> ◆ Ideally, members ◆ <i>Nsukuzonke</i> and regional Federation leaders may play special role 	<ul style="list-style-type: none"> ◆ Lack of transparency ◆ Opportunism ◆ Using exchange opportunities as a reward ◆ Abuse of system for gain
<i>Inqolobane/Ufundu zufe Level</i>			
Savings (pooled)	<i>Nsukuzonke</i> contributions	<ul style="list-style-type: none"> ◆ <i>Nsukuzonke</i> make direct deposits ◆ <i>Ufundu zufe</i> Team manages funds 	<ul style="list-style-type: none"> ◆ Abuse of funds ◆ Lack of transparency and accountability ◆ Loss of savings ◆ Lack of participation by <i>nsukuzonke</i>, over-control by <i>ufundu zufe</i> team ◆ Erosion of social asset
Loans (from pool)	Pooled <i>nsukuzonke</i> savings	<ul style="list-style-type: none"> ◆ <i>Ufundu zufe</i> Team manages funds ◆ Loan committees comprised of representatives of regional <i>nsukuzonke</i> 	<ul style="list-style-type: none"> ◆ Abuse of funds ◆ Reluctance to make loans ◆ Lack of transparency and accountability ◆ Lack of participation by <i>nsukuzonke</i>, over-control by <i>ufundu zufe</i> team ◆ Failure to repay ◆ Loss of savings ◆ Erosion of social asset
Stipends	People's Dialogue	<ul style="list-style-type: none"> ◆ Core Group ◆ People's Dialogue 	<ul style="list-style-type: none"> ◆ Non-performance ◆ Jealousy and resentment by ordinary members ◆ Dependence on NGO ◆ Lack of initiative
<i>Ufundu zufe</i> Exchange Activities	People's Dialogue	<ul style="list-style-type: none"> ◆ Regional leaders ◆ <i>Ufundu zufe</i> team ◆ People's Dialogue 	<ul style="list-style-type: none"> ◆ Lack of transparency ◆ Opportunism ◆ Using exchange opportunities as a reward ◆ Abuse of system for gain

RESOURCES	ORIGIN	WHO CONTROLS/DECIDES	KEY RISKS
<i>Ufundu zufe</i> Running Costs	People's Dialogue	<ul style="list-style-type: none"> ◆ <i>Ufundu zufe</i> team ◆ People's Dialogue 	<ul style="list-style-type: none"> ◆ Abuse of funds ◆ Non-performance ◆ Lack of transparency and accountability ◆ Jealousy and resentment by ordinary members ◆ Dependence on NGO ◆ Lack of initiative
<i>People's Dialogue Level</i>			
Running Costs	Donors	<ul style="list-style-type: none"> ◆ PD Directors ◆ Donors (by contract) 	<ul style="list-style-type: none"> ◆ Uncontrolled costs ◆ "Throwing money at problems" ◆ Unpredictable cash flow ◆ Exchange rate fluctuations ◆ Loss of donors
Exchange Programmes	Donors	<ul style="list-style-type: none"> ◆ Core Group ◆ People's Dialogue staff 	<ul style="list-style-type: none"> ◆ Uncontrolled costs ◆ Lack of transparency ◆ Opportunism ◆ NGO dominance
Technical Support	Donors	<ul style="list-style-type: none"> ◆ Core Group ◆ People's Dialogue staff 	<ul style="list-style-type: none"> ◆ Uncontrolled costs ◆ Lack of initiative from Federation ◆ Overemphasis on technical solutions
Salaries	Donors	<ul style="list-style-type: none"> ◆ PD Directors 	<ul style="list-style-type: none"> ◆ Uncontrolled costs ◆ Inability to attract and retain suitable staff
<i>Utshani Fund Level</i>			
Loans	Donors	<ul style="list-style-type: none"> ◆ Core Group ◆ Regional leaders ◆ PD/Utshani Fund staff ◆ Donors (by contract) 	<ul style="list-style-type: none"> ◆ Poor repayment ◆ Using loans to mobilise ◆ Loans become a substitute for subsidies ◆ NGO dominance ◆ Erosion of social assets ◆ Erosion of political assets ◆ Unpredictable cash flow ◆ Exchange rate fluctuations ◆ Loss of donors
Subsidies	Government	<ul style="list-style-type: none"> ◆ PD/Utshani Fund staff ◆ Provincial government 	<ul style="list-style-type: none"> ◆ Unpredictable cash flow ◆ Failure to recover bridge loans timeously ◆ Erosion of social assets ◆ Erosion of political assets

It should be noted that all of these arrangements are ultimately subject to review and/or modification by regular national meetings of the Federation.

In general, there are four types of risks associated with Alliance resources.

1. **Abuse of funds by Federation members such as treasurers, regional leaders, and others.**

This is a normal risk in any organisation, but in the Alliance context, it is compounded by the size of the Federation and the desire to locate as much control as possible at *nsukuzonke* level. There is a constant tension between grassroots and 'bureaucratic' control. During 2000-2001, the Alliance identified sufficient problems at *nsukuzonke* and regional level to warrant a rethink of resource-control mechanisms. This has been the object of much of the current restructuring initiative.

2. **Diminution of the Alliance's socio-political assets caused by conflicts over resources.** Conflict, mistrust, and jealousy between members and between members and leaders over savings, loans, and access to other resources, particularly exchange activities, are also inevitable. The main problem the Federation has experienced is that some leaders become 'gatekeepers' who try to use resource control to personal advantage. This is associated with lack of transparency and accountability. Current restructuring plans also address this.
3. **Taking resources for granted.** As argued elsewhere in this study, the ease with which Federation members have been able to access Utshani Fund loans has helped to undermine the Alliance's key social and institutional assets. There has been a tendency to disregard daily savings and other *nsukuzonke*-level activities and concentrate on an Utshani loan as an 'entitlement'. Similarly, some Federation office-holders have tended to regard stipends and control over exchange programmes as entitlements, leading to ballooning costs.
4. **Lack of democracy and transparency, and domination of decision-making by People's Dialogue and Federation leaders at the expense of ordinary members.** The Alliance process is inherently contradictory, in the sense that maximum grassroots participation and control is both the source of the Alliance's considerable socio-political and institutional assets, and an opportunity for abuse. This contradiction is reflected in a tendency to centralise decision-making and control, thus undermining the sense of ownership vital to Federation activities.

Although all of these types of risk have manifested themselves from time to time, the Alliance has shown considerable insight and determination to deal with them, as in the case of the current restructuring initiative.

6 Greenfield Development in the Alliance

The South African Alliance has undertaken a number of greenfield developments in various parts of South Africa. (One of the very first Federation developments, Victoria Mxenge in Cape Town, was essentially a greenfield development.) The major greenfield developments are listed below.

Table 20: Greenfields Developments in the South African Alliance

DEVELOPMENT	YEAR	LOCATION	NUMBER OF UNITS	SUBSIDY TYPE	FULL SUBSIDY DELIVERED?
Amalinda*		East London	120	Institutional	No
Hazeldene	1998	Cape Town	220	Institutional	No
Itsoseng	1999	Gauteng	288	Institutional	No
Joe Slovo	1996	Port Elizabeth	1 500	Institutional	No
Liberty	1999	Port Elizabeth		Institutional	No
Newlands West	1998	Durban		Institutional	No
Nomzamo*		Queenstown	340	Institutional	No
Ruo Emoh*		Cape Town	71	Institutional	No
Stock Road*		Cape Town	1 000	Institutional	No
Victoria Mxenge	1994	Cape Town	165	Project-linked	Yes
Vukuzenzele	1997	Cape Town	200	Institutional	No
Zenzeleni*		Gauteng		Institutional	No
TOTAL			3 904		

* Denotes project still in planning stages or otherwise delayed

6.1 How Greenfield Developments Start

Greenfield development in the South African Alliance has had many starting points. Broadly, there are three categories of greenfield land:

1. Land acquired through charitable or otherwise non-market means (e.g. Victoria Mxenge).
2. Land acquired through prior informal settlement or invasion, subsequently made available to the Federation by local authorities or province (e.g. Joe Slovo, Newlands West).
3. Land acquired in the open market from willing sellers (e.g. Vukuzenzele, Stock Road, Hazeldene).

In all cases, the Federation, supported by People's Dialogue, drives the process of land identification. The Federation and People's Dialogue together then pursue land acquisition. There is currently no standardised public process of land identification and allocation for residential development purposes in South Africa, although the proposed housing policy seeks to move in this direction.

6.2 Characteristics of Greenfield Developments

Most greenfield developments in the South African Alliance share certain broad characteristics:

1. They start with raw (undeveloped) land that must be acquired (or tenure regularised) and serviced before housing development commences. This involves many stages of bureaucracy, including township proclamation and agreement from the relevant public authorities to provide bulk services. In one case, a South African court has ruled that a Federation development is illegal, even though it is on land legally owned by members, since the area is not proclaimed for township development. This implies a relatively heavy investment of NGO technical resources, in order to mitigate the obvious risks.
2. Greenfield developments typically involve relocation of Federation members. There is often no pre-existing 'community' as such; people may be brought together from a variety of

settlements and *nsukuzonke*. This means that during the development phase there is a separation of members' living and development situations - members are living in a variety of places off-site, but working to develop another away from their homes. This tends to encourage a degree of centralised control by *nsukuzonke* and regional leaders, since it is more difficult to establish and sustain communal management and social unity amongst scattered members (partly because some members' commitment may be uncertain until houses are delivered). This can result in a more hierarchical and conflict-ridden development process than *in situ* or consolidation developments.³²

3. The fact that greenfield developments are planned (as opposed to *in situ* upgrading or consolidation of existing site-and-service) means that Federation members have a lengthy opportunity to think about and debate their development options, particularly relating to site layout and house design. This can involve "expectation inflation" of two kinds. Firstly, members may resist attempts to increase densities by trying to limit the number of participants in order to increase plot sizes. Secondly, they may delay the construction phase whilst debating the size and style of houses, arguing for larger Utshani Fund loans to augment their subsidies.
4. Most greenfield developments to date have entailed the formation of a Communal Property Association (CPA), a legal form originally designed for the rural landless poor to acquire communal farms in the South African land redistribution and restitution process. The CPA (or something functionally equivalent) is necessary to provide a legal basis for the community to undertake the development, to establish liability for property rates and service payments, and to establish tenure and communal management systems appropriate to the Federation model. In Alliance practice, greenfield land belongs to Utshani Fund, whilst members have usufruct rights or other qualified forms of tenure. There is currently a debate within the Alliance over the propriety and usefulness of this model. Some Alliance developments have been marred by lack of consensus over the nature and role of the CPA, whilst some Federation members have expressed a dislike for communal tenure in principle. One significant issue is whether the CPA model, which is really only needed to satisfy up-front requirements of the development process, is suitable for the much more important long-term social role of settlement management.
5. The social process of housing construction in greenfield developments is significantly different from consolidation and *in situ* upgrading. In the latter, participants own a plot and have relative freedom to decide what kind of house to build. They can decide how to organise construction, using Federation help or building alone. In greenfield developments, there can be lively debate over where participants will live on the site, how large their plot will be, and what kind of house they will get. This changes the participative dynamic, since inevitably there are some participants who are unhappy with the consensus.³³
6. There is also a larger, related problem: greenfield members often tend to believe that they will be allowed to do what they want, whereas People's Dialogue tends to have ambitions that greenfield developments will lead the way to new types of development and therefore exercise relatively greater control than in other development types. This can create significant tension between members, People's Dialogue, and Federation leaders. It can also result in weak participation and a tendency for participants to see actual construction as 'someone else's problem'. This in turn puts pressure on People's Dialogue to assume project management and labour organisation roles, which reinforces perceptions that construction is a 'job' for which members should be paid a 'wage'. The Alliance has tried to combat this by building houses in batches and allocating them afterward, but this has not worked as well as expected.

³² Other factors also contribute to this phenomenon, however, which we will examine below.

³³ As has been the case, for example, at Vukuzenzele in Cape Town

6.3 Financing Greenfield Developments

Greenfield developments require finance for several elements, some of which correspond to stages in the development process, others that span it, and still others that are ongoing.

6.3.1 Land

Land acquisition is the first step in greenfield development, not least because access to the housing subsidy depends on secure land tenure. With typical innovation, the Alliance has made use of a special 'fast-track' facility in the Development Facilitation Act, which allows the Department of Land Affairs to kick-start resettlement developments by making half the housing subsidy available up front, to facilitate land purchase. The DLA also provides a proportional planning grant.

Under previous Land Affairs Minister Derek Hanekom, this was relatively easy for the Alliance, given his personal commitment to the Federation. Since his replacement by Thoko Didiza, however, the fast-track mechanism has been downgraded, and is no longer an easy or automatic option. Further developments in this regard await the outcome of the current housing policy revision, as well as the formulation of a comprehensive land use policy from the Department of Land Affairs.

Risk attends the Alliance's innovation with the fast-track subsidy mechanism. The mechanism was not designed for urban or residential developments. It was intended to facilitate rural resettlement, where housing construction was secondary to agricultural development. Most importantly, the Development Facilitation Act provides for Communal Property Associations (CPAs) to manage the properties acquired for resettlement. As noted above, the CPA model, developed as it was for rural communal farming situations, is not readily compatible with current urban residential development legislation. This has played a major role in the slow delivery of institutional subsidies for greenfield housing and on-site services.

6.3.2 Housing and On-Site Services

In all but one case, the housing and on-site services component of Federation greenfield developments is to be financed via the institutional subsidy mechanism - although not a cent has been actually received from this source to date, saddling Utshani Fund with major bridge financing costs.³⁴

Institutional Subsidies

The institutional subsidy is based on the government's desire to encourage housing associations on the UK and Dutch models³⁵, as well as its unhappiness with single-owner freehold, which it believes contributes to lower densities and higher per-unit land and service costs. There has been little experience with housing associations in South African housing history, however, until very recently. Traditionally, South African municipalities have developed and managed low-income public rental housing for white, 'coloured', and Indian South Africans, but this system has a poor track record of corruption and bureaucratic bloat.

To facilitate the private housing association 'movement' in South Africa, the Department of Housing developed the institutional subsidy policy, which makes funds available to communal developers based on the number of units to be supplied rather than on individual beneficiary pre-qualification. The subsidy is paid to the developer, which is assumed a not-for-profit institution that meets certain specific criteria relating to long-term management and tenure systems. This is thought to reduce the

³⁴ The sole exception is the Victoria Mxenge (VMX) development in Cape Town, which received subsidies through a different mechanism.

³⁵ The National Housing Finance Corporation has enjoyed a close relationship with the British housing association movement for some years, including subsidised long-term consultants from the UK.

transaction costs of the subsidy system, since the many transactions associated with individual applications are consolidated into one.

There have been serious problems in implementing this system in the Alliance context, however. To the extent that it draws on local experience, the policy has been influenced by several Johannesburg inner-city initiatives, in which tenants' associations have taken over management of *existing* rental stock with NGO assistance. In such cases, there is neither a construction process nor any need to negotiate the planning or rezoning process.

Federation greenfield development, by contrast, involves *new* housing construction on *raw* land, requiring not only approved management arrangements, but also development planning and township proclamation. Provincial officials, working within a framework based on the inner-city rental model, find it hard to identify cognate elements in the Federation greenfield model, particularly regarding tenure and management arrangements. There is also resistance to expanding municipal boundaries in some cases.

One of the critical problems with the institutional subsidy in the Alliance context relates to ownership, maintenance, and payment for interior services such as roads, public spaces, and water and electricity. The CPA model effectively presupposes total responsibility for such matters on the part of the CPA. Most municipalities are reluctant to accept this, fearing that they will become responsible for maintenance by default if the CPA collapses. Similarly, although most municipalities would be happy to collect rates from a single legal entity (the CPA) rather than from individual householders, this implies a significant risk for the CPA, which the Federation has to date been reluctant to accept.

These issues relate in turn to the township proclamation process. Currently, each South African province has its own Planning Ordinance, which gives municipalities discretion to accept or reject proposed extensions of its land area through new township development. Without official permission ('township proclamation'), neither bulk services nor institutional subsidies can be secured. This creates a Catch-22 situation for the Alliance: it cannot afford the risk of purchasing land for Federation development unless it is certain that it will obtain township proclamation (and thus bulk services and subsidies), but the length and complexity of this process can cause a land purchase deal to collapse. This greatly increases the risks and costs associated with Utshani Fund bridge financing of land acquisition.

Given the uncertainties surrounding the institutional subsidy system, the CPA in an urban context, and related issues, the last few years have been marked by continual and costly Alliance negotiations with provincial and municipal officials - but no subsidies.

Project-Linked Subsidies

The project-linked subsidy, on the other hand, is simply a beneficiary-based model that is supposed to result in individual freehold tenure on sites developed *en masse*. Although the VMX project was able to access the subsidy this way, this was due to the newness of the policy, as well as the 'political capital' the Federation had built up at that time. Broadly, individual freehold tenure is thought to be incompatible with both existing Federation management models and the Alliance's collectivist philosophy. Indeed, the VMX development, where the land is owned collectively and no official township status has been secured, may well be illegal in terms of existing legislation. Further use of this model would require township proclamation or rezoning, individual freehold ownership, and full municipal acceptance of all internal service obligations.

The Alliance is currently considering its options concerning development management and tenure systems. A separate study on the legal issues has recently been commissioned by People's Dialogue. We will return to risks associated with these organisational and developmental issues below.

6.3.3 Bulk Services

Current South African urban development systems are based the Consolidated Municipal Infrastructure Development Programme, under which the national government makes funds available to municipalities via provincial governments for water-borne sewage, storm water drainage, and bulk water connections. These costs are borne by provincial authorities, but confirmation of their availability is a prerequisite for subsidy approval. This is particularly important in cases where the development in question implies an extension of municipal boundaries through township proclamation. Generally, Federation developments have had little difficulty obtaining commitments for bulk service extension where this is required, but this is due to the Alliance's concentration on developments in large urban areas that are expanding anyway. Greenfield development in smaller towns would be a different story.

6.3.4 Project Planning and Management

One area where there is significant unassessed cost and risk in Alliance greenfield development activity is in project planning and management. There is no 'system' in this respect. Instead, each development has been treated individually, with a variety of approaches involving a mixture of grassroots, NGO, and technical consultant roles.

There is a good reason for this, which relates to the fundamental purpose of the South African Alliance, which is not to build houses or develop settlements *per se*, but to create space for poor communities to explore their development options. In many cases, the easy or technically efficient route has been rejected precisely because it closes such space. For example, the Vukuzenzele development in Cape Town (200 houses) has no formal project manager, relying at present on the part-time assistance of a community-based builder attached to the neighbouring Hazeldene development. The even larger Joe Slovo development in Port Elizabeth relies on a mixture of local and Cape Town-based technical support. In both cases, it might be cheaper and quicker to hire project managers, get on with the developments, and move on, but this has been resisted from within People's Dialogue. Such an approach obviously involves significant costs in terms of resources, wastage, time, and bridging finance. These are above and beyond the straightforward costs of the developments in question - they are the cost of doing those developments *in a specific way*. These costs have so far been borne by People's Dialogue out of specific budgets, but no systematic attempt has been made to quantify them. We will return to this issue below.

6.3.5 Commercial Components

The Alliance has long sought to emulate the successful Indian model of cross-subsidisation of residential housing by commercial components.³⁶ This has so far proved fruitless. On one hand, there is no policy like the Maharashtra Slum Rehabilitation Act in South Africa, so all cross-subsidisation must be via free-market transactions. The land market in most South African cities, however, is radically different from Mumbai; the demand for commercial sites adjacent to large low-income housing developments is uncertain at best. There have been no attempts yet to try cross-subsidisation through sales of residential units as in the Indian Rajiv Indira project, although it is being considered. The most significant problem, however, is the difficulty of obtaining consensus and commitment to such schemes from within greenfield communities and local Federation structures. The problems may be stated in terms of questions. Who should benefit from commercial components - the community on-site, the regional Federation, or Utshani Fund on behalf of the whole Federation? Should the members get bigger houses with the proceeds? Who should manage the commercial developments? Who, in effect, 'owns' them - the local members or the national Alliance?

³⁶ See Mcleod, 2000a

These are essentially issues about the social structure of the Alliance as a set of institutions. As we have seen, greenfield development is a site of contestation between People's Dialogue's interests in getting a 'learning return' on its investment and individual members' interests in getting the best deal they can. Local Federation leaders may be torn between supporting the learning goals of the Alliance and the demands of their local membership, complicating matters.

Given the effort required to plan and bring commercial developments to fruition in the South African context, the Alliance has yet to make any real financial progress on this front. The one exception - that also proves the rule - has been the Derek Hanekom Resource Centre, which shares Hazeldene Farm with a Federation housing development. The DHRC has not yet generated a sufficient return to impact materially on Federation shelter development, but it has earned income. And yet, the DHRC has caused significant tensions between People's Dialogue and the Western Cape Federation leadership, who want to use the Centre as the site of its regional *ufundu zufe*, a move People's Dialogue has resisted on the grounds that it is a national, not local, Federation resource. This impasse has resulted in lack of support for the Centre from the local Federation, restricting its success.

6.4 Viability Assessment

The viability assessment process for greenfield developments is largely informal and case-by-case. The basic equation is straightforward: can the land be purchased, services installed, and houses constructed using the available subsidy, topped-up if necessary by reasonable Utshani Fund loans? Within this equation, however, are embedded some of the main variables in greenfield developments, such as the site plan, plot size, house design, and number of residents. In simple terms, smaller plots mean more houses, which in turn means lower per-unit land and bridge financing costs.

In practise, each of these issues is subject to intense contestation. This - in combination with the slowness of subsidy release, as described above - gives rise to another important variable: time. The length of time Utshani Fund must bridge greenfield developments is an important variable that the South African Alliance has not sufficiently explored.

Utshani Fund has adopted a policy of not charging interest on greenfield bridging loans, believing that the poor should not be penalised for the state's slowness to deliver subsidies. This is unobjectionable, but the Alliance would benefit from a clearer understanding of the opportunity costs of such a decision, not necessarily in terms of interest earnings foregone, but in terms of the unavailability of bridging funds to other projects. We will return to this issue below.

Figure 1: Greenfield Financing Process

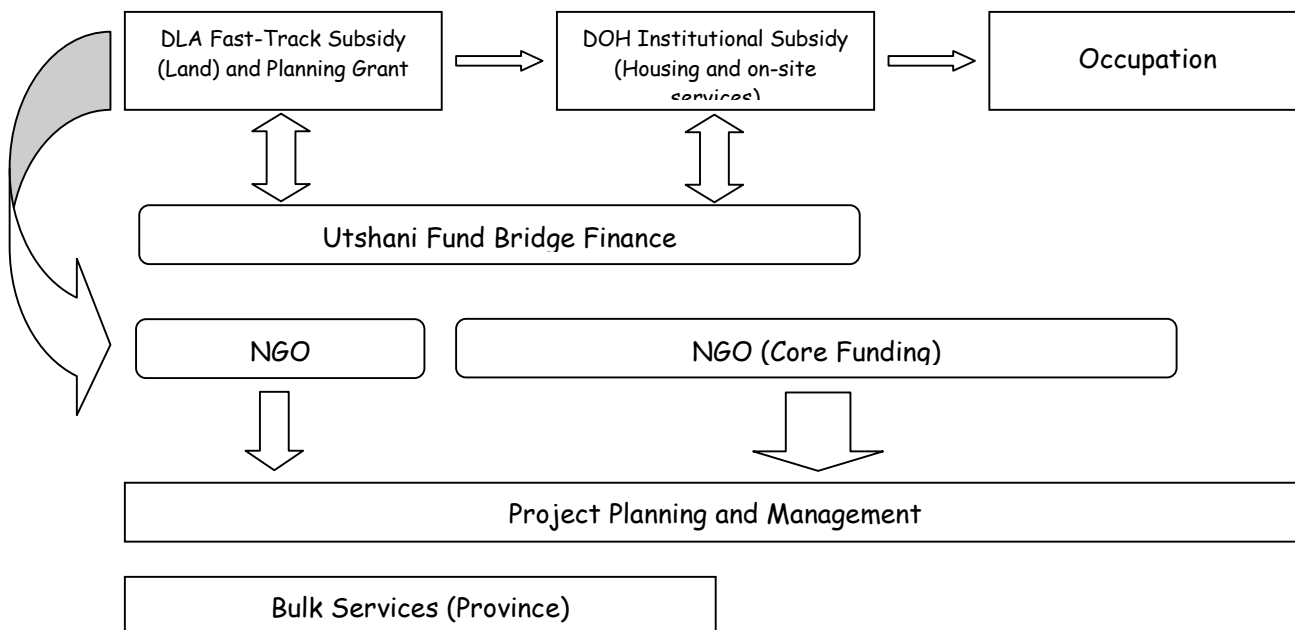


Figure 1 illustrates the greenfield financing system used in the South African Alliance.

6.5 Cost/Benefit Analysis of Alliance Greenfield Developments

Any attempt to develop a cost/benefit analysis of the Federation's greenfield experiments is bedevilled by the issues raised in section 6.3.4. How are we to discuss costs and benefits in a context where there are multiple material, social, and political objectives, many of which are seemingly contradictory; where strategies that produce good results in one sphere of action (political conscientisation, or learning), simultaneously generate costly and risky outcomes in another (financing, or formal credibility) and *vice versa*? Most importantly, what if the processes most amenable to measurement and manipulation by formal institutions (financial inputs and development outputs) are not those most central to even highly valued by the Alliance, whilst those so valued are almost impossible to quantify?

As this document will argue in Section 8.1.1 below, in order to assess its results and identify strategies to do better, the South African Alliance has to be judged on the basis of *what it has attempted*. In the case of greenfields developments, as in all other respects, the Alliance seeks first and foremost to use savings and credit to mobilise the poorest and most marginalised, create space for such people to identify their priorities and explore their options, and in the process expose them to other initiatives and to professionals so that they are able to find their own solutions, preferably building on what they already have, know, and do. Housing is one solution, and the Alliance has experimented with systems to enable people to house themselves, but never *intentionally* at the cost of the underlying goal of social mobilisation, rediscovery of innate knowledge, and recovery of lost power to act. As we shall see, some Alliance systems have evolved in a way that undermines these goals; but this can be changed with adequate reflection and application of the knowledge gained.

In the specific case of Alliance greenfields development, a complex web of goals, processes, and imperatives brings all of these threads together:

1. Greenfield developments are about much more than just physical construction of housing. Physical construction itself involves innovation around many other issues. It is a complex and difficult learning process and takes time.

2. Greenfield developments seek to address the needs of the landless, whilst the other forms of development do not. There is thus an incentive to develop a sustainable greenfield model in the South African Alliance, even if the initial costs of doing so are relatively high.
3. For this reason, the rationale for Alliance greenfield development to date has not been primarily delivery of land, services, and housing, but creating learning situations that may result in more sustainable and appropriate methods to achieve these goals through collective self-action. The Alliance has therefore adopted a 'roundabout' approach to greenfield development, eschewing easy and/or established development routes in specific cases in order to create and sustain such learning situations.
4. The costs of creating such a space - longer development times, significant and unpredictable support costs, bridging finance, opportunity cost - are thus, in effect, the price of 'purchasing knowledge' through the specific learning methods of the Alliance model. It is thus at best inappropriate and at worst misleading to 'charge' these things directly to the process of delivering land, services, and houses in any specific greenfield development. This is particularly true of a relatively young Federation.
5. The *quid pro quo* of this 'transaction' - higher specific development costs to purchase knowledge through experiential learning - is that such knowledge must, in fact, be produced; that knowledge so produced is transferred to other communities; and that the vectors for this transmission are not so centralised or fragile that effort and resources are wasted if they are removed from the process. Thus, we *can* legitimately ask whether the South African Alliance has generated maximum value from the 'learning transactions' implicit in its greenfield developments, or whether it can improve its performance in this regard.
6. In the longer-term, as greenfield developments multiply, it should be possible (and necessary) to determine whether the Alliance's approach to greenfield development is efficient and effective, both in terms of shelter development and social mobilisation.

At the present stage of development of the South African Alliance, we are primarily concerned with point 5 above, but can also begin to look at elements of point 6. We will return to these issues in Section 7.

7 The Alliance Portfolio as a Whole

7.1 Summary of Development Types in the South African Alliance

The Table below illustrates the various development streams in the South African Alliance in summary form, listing the various categories of Federation members by tenure status, as well as the appropriate development option and the financial support needed to achieve them.³⁷

Table 21: Development Streams in the Alliance

SEGMENT	CHARACTERISTICS	DEVELOPMENT OPTION	FINANCING PRODUCT REQUIRED
Formal tenure			
◆ On serviced sites	<ul style="list-style-type: none"> ◆ Typically beneficiaries of late 1980s-early 1990s IDT site-and-service schemes ◆ Secure tenure under previous scheme ◆ Eligible only for top-up subsidy (i.e. for house only) 	<ul style="list-style-type: none"> ◆ Consolidation of site-and-service on individual plots 	<ul style="list-style-type: none"> ◆ Bridge finance for subsidy (usually short-term) ◆ Top-up loan needed since top-up subsidy is typically only $\frac{1}{2}$ of standard amount
◆ On unserviced sites	<ul style="list-style-type: none"> ◆ Rare except for Federation greenfield developments on acquired land (e.g. Victoria Mxenge) 	<ul style="list-style-type: none"> ◆ Full subsidy for house plus service installation ◆ May require support for layout plan if plots not demarcated ◆ Service installation 	<ul style="list-style-type: none"> ◆ Collective bridge financing for land and services ◆ Bridge loan for housing portion of subsidy ◆ Top-up loan to complete house
Informal tenure, but secure			
◆ Established informal settlements	<ul style="list-style-type: none"> ◆ <i>De facto</i> tenure, usually in long-established informal settlements accepted by local authorities ◆ Not able to obtain subsidy until tenure formalised, but often pressure Utshani Fund to make bridge finance available 	<ul style="list-style-type: none"> ◆ <i>In situ</i> upgrading on individual plots ◆ Service installation 	<ul style="list-style-type: none"> ◆ Collective bridge financing for services ◆ Bridge loan for housing portion of subsidy ◆ Top-up loan to complete house ◆ Bridge financing often long-term
Landless			
◆ Backyard shack dwellers	Rent shacks in backyards of established townships	◆ <i>Greenfield</i>	<ul style="list-style-type: none"> ◆ Support for organisation and community development ◆ Collective financing for land acquisition and servicing ◆ Collective financing for hostel upgrading
◆ Living with family	Living in crowded family houses in established townships	◆ <i>Greenfield</i>	
◆ Hostel dwellers	Residents of crowded migrant hostels converted into <i>de facto</i> rental accommodation during the 90s	<ul style="list-style-type: none"> ◆ <i>Greenfield</i> ◆ <i>In situ</i> upgrading 	
◆ 'Squatters'	Living in shacks on illegally occupied land, threatened with eviction	<ul style="list-style-type: none"> ◆ <i>Greenfield</i> ◆ <i>In situ</i> upgrading 	

³⁷ Please note that the Table does not consider savings and loans at *nsukuzonke* level in this context, although they are fundamental to all Alliance financial and social processes.

Table 22 shows that the majority of Utshani Fund-financed houses (87%) have been built on serviced sites obtained under the IDT schemes of the late 1980s, using the consolidation subsidy. As these Federation members are housed, the relative balance between the various development options inevitably will shift in favour of greenfield, *in situ*, and hybrid forms of development.

Table 22: Utshani Fund Portfolio (as at May 2001, excluding subsidy-only houses)

Option	Utshani Fund Portfolio	Houses	% of Total
Greenfields	R 6 733 042,21	419	7,1%
<i>In situ</i>	R 2 371 161,49	353	6,0%
Consolidation	R 46 870 108,61	5143	86,9%
TOTAL	R 55 974 312,31	5915	100,0%

7.2 Utshani Fund Repayment Rates

The question of repayments on Utshani Fund loans to Federation members is the subject of intense debate in the South African Alliance. There is no question that repayment is unsustainably low. Most importantly, the average monthly repayment rate from the Federation has been declining markedly since mid-1999. This has dragged the overall repayment rate down to the point where Utshani Fund can no longer finance new loans out of repayments.

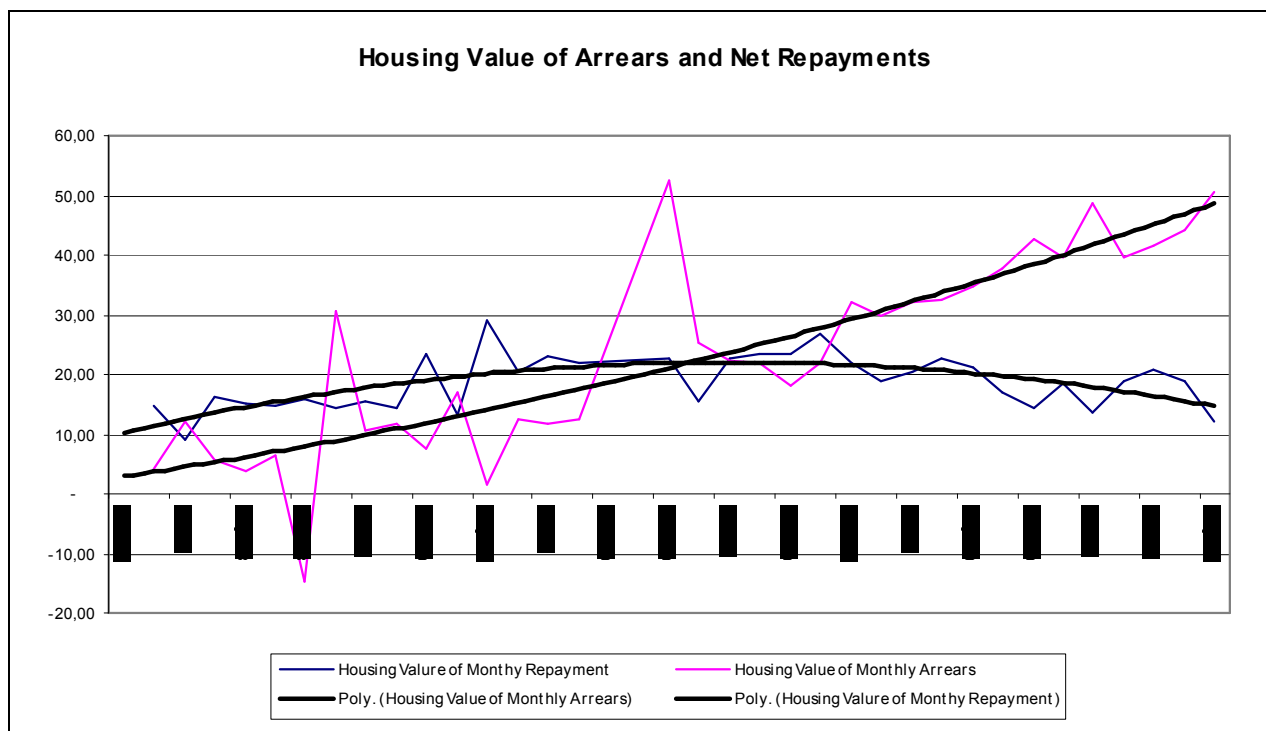


Figure 2: Arrears and Repayments³⁸

Extrapolating from the present trend suggests that the monthly repayment rate will approach zero sometime later this year (see Figure 3).

Debate about this problem has tended to reflect two broad themes. On one hand, some argue that the Federation, by nature comprised largely of the poorest of the poor, cannot be expected to maintain consistent repayments over time. The falling repayment rate expresses the failure of subsidy delivery and the high cost - and risk - of bridge-financing the subsidy system over long periods. The South

³⁸ The value of monthly repayments and arrears divided by the average Utshani Fund loan - in effect, an index of the value of repayments and arrears.

African subsidy system is too inflexible, and more importantly, does not reward grassroots initiatives such as the Federation with preferred access to subsidies. The problem is not a financial one of repayments *per se*, but a political issue of resource distribution and control.

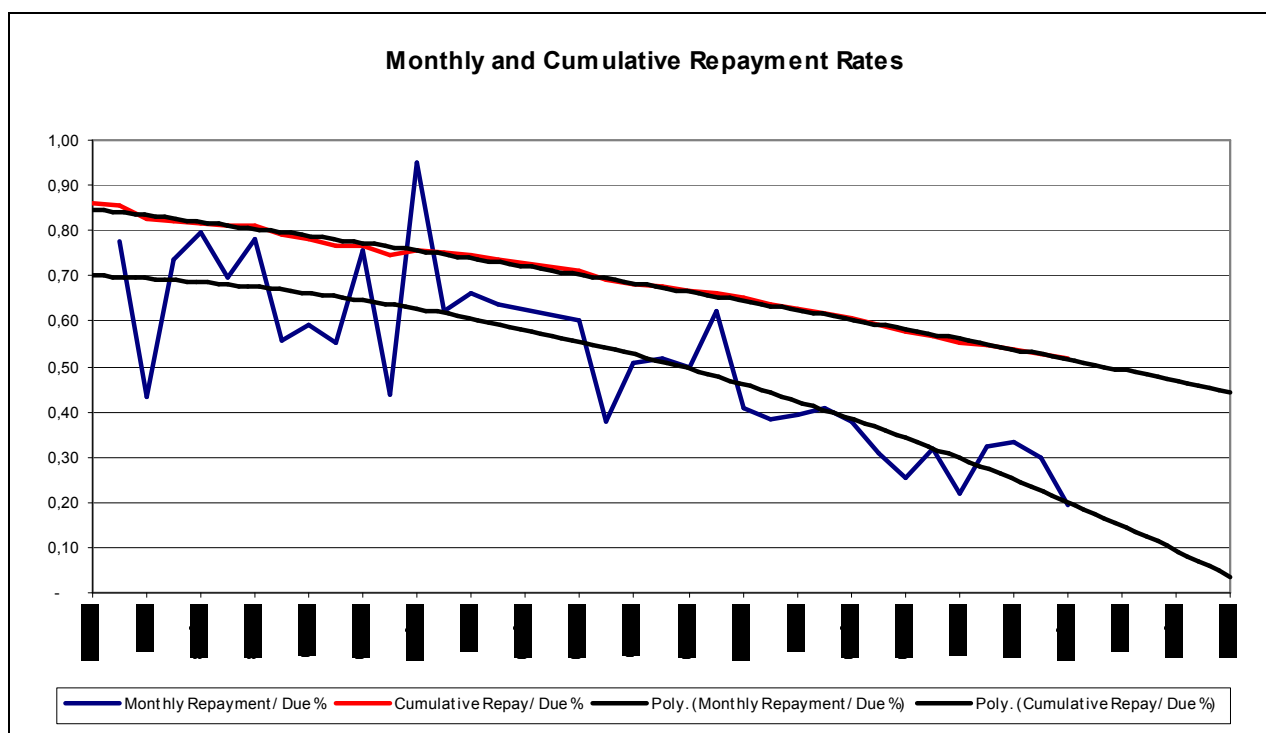


Figure 3: Monthly and Cumulative Repayment Rates

Indeed, as Figure 4 below shows, the interest charged to Federation members for Utshani Fund loans now stands at nearly 85% of the value of subsidies received. Another way of looking at this would be to say that out of every Rand the Federation has received in subsidies, it has only really benefited from 15 cents - the other 85 cents are (at least on paper) absorbed by interest charges. This raises serious questions about the bridge-financing strategy.

On the other hand, some in the Federation argue that inability to repay is only part of the problem; some members are not seriously trying to repay their loans. Indeed, there is a widespread recognition that the Federation includes relatively less-poor members whose commitment is often weaker than the poorest of the poor. For a variety of reasons, these members tend to have poorer repayments rates. They can afford to obtain additional hire purchase credit for furnishings once their houses are built, which often increases their overall debt to unsustainable levels. Their commitment to the Federation is relatively weak. Utshani Fund loans are seen as a 'soft' repayment option.

Paradoxically, some regions of the Federation have responded to increases in building materials costs by actively prioritising these better-off households. Such households can bring additional non-Federation savings to into play during the construction process, and thus build houses on a par with the Federation's earliest efforts, which are no longer affordable with the subsidy only.

These issues call into question quality of mobilisation in the far-flung Federation. Most inside the South African Alliance agree that the subsidy system encourages a culture of entitlement, and that Utshani Fund loans are seen as a short cut to a subsidy rather than an actual 'loan'. This is compounded by a belief that Utshani Fund is really 'owned' by the NGO rather than the Federation, and that the risk to any individual of failure to repay is minimal.

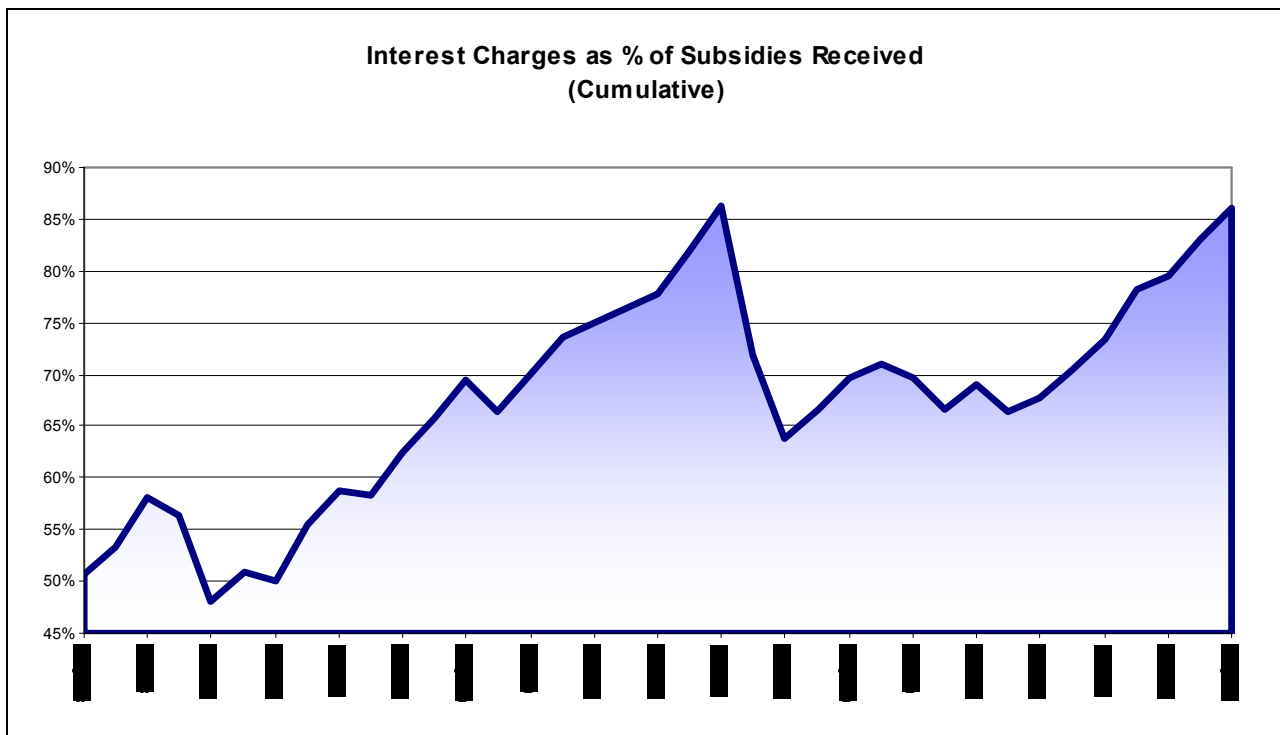


Figure 4: Interest Charges and Subsidies

We will return to the institutional issues raised by faltering repayment rates in Section 8.1 below.

7.2.1 Calculating the Repayment Rate

Utshani Fund has traditionally used a repayment rate based on actual repayments by Federation members, excluding subsidy payments on the capital balance. This is thought to reflect the degree to which Federation members are repaying the amount they owe at any given time. The figures presented above are based on this method.

It can be argued convincingly, however, that this misrepresents the true picture of Utshani Fund as well as the nature of the South African Alliance:

1. The purpose of the Utshani Fund exercise is not to create a self-sustaining revolving loan fund, but to leverage the Federation's collective power into a more equitable flow of housing resources to poorest of the poor. The ultimate source of these resources is the state housing subsidy, a fact understood by all Federation members and factored into their financial decision-making. Given this, it makes sense to include subsidy payments as an element of the total repayment profile for Federation groups and the Federation as a whole.
2. A subsidy repayment effectively reconstitutes a loan account with a new starting balance after the subsidy is received; yet, the repayment due remains the same as when calculated on the original (pre-subsidy) loan balance. This penalises the poorest of the poor. Loans could instead be treated on the basis that whatever is left after the subsidy is received is a 'top-up' loan, which should be recalculated with a more sustainable and manageable repayment.
3. Middle-class mortgage borrowers who receive a windfall (say an inheritance) are generally entitled to pay their bond repayments 'ahead' if they choose, as long as the mortgage is retired by the due date. The same should apply especially to Federation members who receive subsidies, since they are much more financially vulnerable than the middle class.
4. Most importantly, calculating repayments this way is a striking political statement both of the Alliances' successes in obtaining subsidies and/or failure to do so. This is a more important goal than maintain an accounting system based on formal banking practises. A subsidy-inclusive repayment rate expressed the fact that the South African government is Utshani Fund's largest and most delinquent 'debtor'.

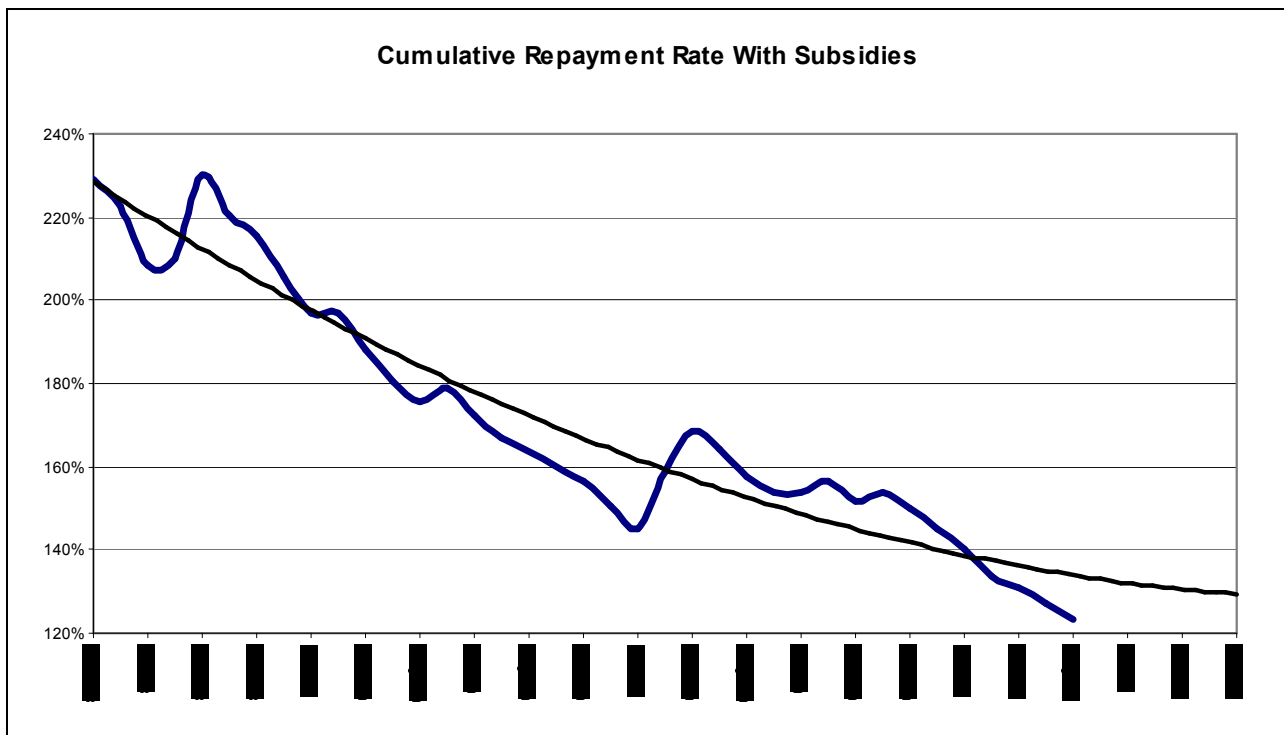


Figure 5: Repayment Rate Including Subsidies

Figure 5 shows the Utshani Fund repayment rate when recalculated including subsidies as repayments on principal. Although this rate is also dropping, this can be attributed to slow subsidy delivery in the last few years, as well as faltering Federation repayments in response.

7.3 Comparing Different Development Options

7.3.1 Alliance Investment in Various Options

These issues raise the question of the relative cost, efficiency, and effectiveness of various development options in the Alliance. Table 23 shows that greenfield development has been relatively costlier and riskier than either *in situ* or consolidation development. The 7% of Federation loan recipients in greenfield developments has received (directly or indirectly) 12% of Utshani Fund credit, at an average loan exposure nearly 70% higher than the average. The greenfield repayment rate (exclusive of subsidies and bridging loans) is less than 42%, significantly lower than other Alliance development types. It is worth noting that the higher greenfield loan value and lower repayment rate drags the overall Federation repayment rate down - both the *in situ* and consolidation rates are higher than the average.

Table 23: Utshani Fund Loan Portfolio by Development Category

Type of loan	Loan portfolio	% Portfolio	No.	% All loan members	Average exposure per member	Exposure as % of portfolio average	Repay rate	Repayment as % of average
Greenfield	6 733 042	12,03%	419	7,08%	16 069,31	169,81%	41,93%	79,56%
<i>In situ</i>	2 371 161	4,24%	353	5,97%	6 717,17	70,98%	53,02%	115,26%
Consolidation	48 870 108	83,74%	5143	86,95%	9113,38	96,30%	60,83%	100,47%
TOTAL	55 974 312	100,00%	5915	100,00%	9 463,11	100,00%	52,77%	100,00%

This pattern is understandable; in greenfield developments Utshani Fund must bear the bridging cost of land and on-site services, whereas these are already in place in consolidation developments. Nevertheless, the figures reinforce the argument in section 6.5 - that greenfield developments, being

costlier and riskier, have a special 'obligation' to act as generators of knowledge for the Alliance as a whole.

These figures do not tell the whole story, however. The table below (presented earlier) illustrates part of the 'NGO subsidy' on technical matters.

Table 24: Technical Support for Federation Housing Development

YEAR	TECHNICAL SUPPORT BUDGET	HOUSES CONSTRUCTED	AVERAGE TECHNICAL SUPPORT PER HOUSE
1995	R 34 189,76	8	R 4 273,72
1996	R 61 039,38	291	R 209,76
1997	R 139 776,00	946	R 147,75
1998	R 209 185,00	1876	R 111,51
1999	R 300 669,66	2162	R 139,07
2000	R 495 399,93	2627	R 188,58
2001	R 510 000,00	1485	R 343,43
Overall	R1 750 259,73	9395	R 773,40

Unfortunately, it is impossible to separate out the specific contribution to greenfield developments, but it is clear that they have received a greater share of People's Dialogue technical support than consolidation projects, particularly since 1999. Technical support for consolidation development consists mainly of house design and preparation of plans where required by local authorities. These skills were transferred to Federation members early on. In greenfield development, by contrast, technical support is required for every stage from site plans, to service installation, to house design, and actual construction.

Significantly, it appears that the cost of this input is pushed upwards by the complex negotiation processes involved in greenfield developments, particularly regarding site layouts and house design - 'luxuries' that consolidation developments do not require (see section 6.2). (On the other hand, relative Federation autonomy in consolidation developments has contributed to the 'overbuilding' phenomenon.³⁹) The extended negotiations at Victoria Mxenge, Vukuzenzele, Hazeldene, and Ruo Emoh are cases in point.

Thus, in the three areas where NGO support is most important - bridge financial, technical support, and social negotiation - greenfield developments are relatively costlier to the South African Alliance. Again, this is understandable, given the complex and holistic nature of greenfield developments.

³⁹ Where members try to build a house larger than that dictated by the total amount of subsidy and loan finance available to them

Table 25: Value Added by Development Option

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Option	Utshani Fund Portfolio	Houses	Average exposure	Risk factor	Risk-Adjusted exposure	Average Technical support	Support factor	Net Average Technical Support	Total	Potential Market value	Net Value per house	Total Net Value	% Total Value Added
Greenfields	R 6 733 042,21	419	R 16 069,31	1,35	R 21 745,18	R 190,00	1,70	R 322,64	R 22 067,82	R 40 000,00	R 17 932,18	R 7 513 585,41	4,19%
In situ	R 2 371 161,49	353	R 6 717,17	0,81	R 5 414,92	R 190,00	0,71	R 134,87	R 5 549,79	R 40 000,00	R 34 450,21	R 12 160 925,17	6,77%
Consolidation	R 46 870 108,61	5143	R 9 113,38	0,99	R 9 042,42	R 190,00	0,96	R 182,98	R 9 225,40	R 40 000,00	R 30 774,60	R 158 273 753,62	88,17%
TOTAL	R 55 974 312,31	5915	R 9 463,11	1	R 9 463,11	R 190,00	1	R 190,00	R 9 653,11	R 40 000,00	R 30 346,89	R 179 501 837,69	100,00%

Table 25 posits a relationship between several variables to derive a net value added per house constructed, by development option. The following notes will aid in interpretation:

1. Columns 1-4 are self-explanatory (4 is 2 divided by 3).
2. The value of column 5 is derived by the following formula: $\{(a/0,7)+(b/0,3)+1\}$ where a = the percentage by which average loan exposure exceeds the norm and b = the percentage by which the average repayment rate falls below the norm (see Table 23). Higher average loan values are thus given greater weight than lower repayment rates. This is because higher loans imply higher opportunity costs as well as risk. Moreover, repayment problems are proportionately greater the larger the loan value.
3. Column 6 is column 4 times column 5. Column 7 is from Table 24.
4. Column 8 is the average loan exposure as a percentage of the norm, plus one. This is based on the assumption that larger loan sizes adequately reflect the additional technical support involved in greenfield developments.
5. Column 10 is the sum of columns 6 and 9.
6. Column 12 is the difference between column 11 and column 10.
7. Column 13 is column twelve multiplied by column 3.
8. Column 14 is the percentage of total Alliance housing value added represented by each development option.

7.3.2 Creating Housing and Development Value

As noted in section 3.6, the Alliance has managed to create about R30m (US \$3,7m) in new housing asset equity per year since 1995.⁴⁰ For every Rand mobilised by the Alliance in housing finance (loans and subsidies), R3 in net housing asset value has been created.

Table 26: Asset Value of Federation Housing Development Activity, 1995-2000

1. Federation Houses Constructed 1995-2000	9395
2. Average construction cost (land, services, house, NGO support) ⁴¹	R 20 000
3. Total cost of Federation housing development 1995-2000 (1 x 2)	R 165 000 000
4. Estimated average market value of a Federation house ⁴²	R 40 000
5. Estimated market value of Federation housing assets created 1995-2000 (1 x 4)	R 375 800 000
6. Net equity in Federation housing assets (5 - 3)	R 210 800 000
7. Average equity created per year (6 ÷ seven years)	R 30 114 286
8. Value of Utshani Fund loans 1995-2000	R 56 985 823
9. Value of subsidies released via Utshani Fund 1995-2000	R 12 283 688
10. Ratio of net equity created to Utshani Fund equity (6 ÷ (8 + 9))	R 3

The question at this stage is the relationship between resources invested and the value created, by development option. Table 25 above is a first attempt to analyse this relationship.

As Table 27 shows - and as predicted by the preceding arguments - greenfield development has added proportionately less housing value than the other two development options, especially when risk is factored in. (The 'risk-adjusted loan portfolio' is the overall loan portfolio multiplied by the risk factor in Table 25.) More importantly, Alliance greenfield development to date has added proportionately less housing value than it has consumed in terms of resources. *In situ* development, by contrast, adds nearly double the value of Alliance resources it uses.

Table 27: Value Added and Loan Exposure

Type of loan	Loan portfolio	% Overall portfolio	Risk-adjusted loan portfolio	% Risk-adjusted portfolio	% Total housing value added
Greenfield	6 733 042	12,03%	9 111 228	16,28%	5,34%
<i>In situ</i>	2 371 161	4,24%	1 911 466	3,41%	6,45%
Consolidation	48 870 108	83,74%	46 505 190	83,08%	87,69%
TOTAL	55 974 312	100%	55 974 312	100%	100%

Secondly, however, housing value added is not the same as *development* value added. The raw loan data presented here does not capture the *externalities* associated with any form of Alliance development. As we have consistently argued, greenfield developments have played a significant role in the learning process of the Alliance. The difference between the proportions of resources they consume and the value they add is way of restating the 'price of knowledge' in Alliance development process - knowledge which is at a premium because of the importance of finding solutions for the landless.

The most important question from a 'technical' perspective, however, is whether the divergence between the risk-adjusted greenfield proportion of the loan portfolio and the proportion of added housing value it creates decreases over time. Given the derivation of the risk factor, two variables are critical:

⁴⁰ The difference between the cost of construction and the notional market value of the resulting housing assets

⁴¹ This figure includes costs not necessarily borne by the Alliance costs, such as land and planning costs, where these were expended under previous development processes (e.g. IDT site-and-service schemes).

⁴² Based on interviews with Federation members and People's Dialogue staff

1. The **relative loan exposure per member in greenfield developments must be reduced**. As Table 23 illustrates, greenfield developments currently involve 70% more Utshani Fund exposure (non-risk adjusted) than the Federation average. This in turn is a function of the *amount* of bridging finance Utshani Fund must provide in respect of land and service development, and the *time* it must carry this bridging facility. Since the costs of land and services are unlikely to fall, increasing the speed with which the Alliance is able to obtain institutional subsidies from the state is vital.
2. **The repayment rate for greenfield loans must be increased, or another way found to finance housing construction**. This is partly a function of the long wait for institutional subsidies. It may also be related, however, to the specific social tensions that attend greenfield developments, particularly the twin processes of bringing physically scattered household households together into a cohesive developmental social unit, and of negotiating the physical outcomes of the development – site layout and house design.

7.4 Institutional Factors in the Alliance Portfolio

Inevitably, the composition and relative performance of the Alliance portfolio has been influenced by its organization and structure.

Generally, consolidation developments tend to be 'driven' more by regional and national Federation leaders than by People's Dialogue. In the past, Federation leaders have identified potential new developments in the course of *nsukuzonke* mobilisation, and proposed them to Utshani Fund via People's Dialogue. This is rooted at least in part in leaders' interest in delivering to their 'constituents', but this role has also been facilitated by People's Dialogue's willingness to accept their role in this respect. Regions with particularly strong and charismatic community leaders (such as KZN and the Western Cape) have accumulated large numbers of consolidation loans.

Some (not all) greenfield developments tend to be driven by People's Dialogue, particularly where land is identified for purchase in the market (e.g. Vukuzenzele, Hazeldene). This is not to say that Federation leaders and members do not also motivate these developments, but that People's Dialogue's NGO position encourages it to adopt a 'big picture' view, particularly regarding potential learning experiences. In other cases, however, Federation groups have driven greenfield development through land invasion or identification at grassroots level.

The structure of the Alliance has undoubtedly influenced the dispersal of the Utshani Fund portfolio, as have the vagaries of provincial housing policies. Table 28 shows the distribution of Utshani Fund loans and subsidies. Let us consider some of the factors influencing this pattern.

Table 28: Utshani Fund Loans By Region

	KZN	WC	Gauteng	EC	FS	SC	NW	Mpuma
Growth of loans 1998-2001	353%	250%	162%	76%	319%	72%	167%	200%
Average loans per month 1998-2001	45,5	30,3	18,6	7,9	7,5	2,9	3,8	1,2
Percentage of loans received	34%	24%	17%	10%	6%	4%	4%	1%
Percentage of subsidies received	7%	62%	0%	15%	5%	6%	5%	0%
Active greenfields developments ⁴³	1	5		2				

1. Federation leaders in some regions have pressed for rapid expansion of Utshani Fund lending to consolidation groups (see Figure 6). This is particularly true (and to be expected) of heavily populated regions such as KZN and the Eastern Cape, or regions with significant urban housing

⁴³ This does not include planned greenfield developments that have not yet reached the land acquisition stage, or those developments that were not initiated by the Alliance.

backlogs, like the Western Cape. Nevertheless, this trend continued even when repayment rates in those regions began to fall faster than the Federation average. This is understandable, given that these are the areas of greatest urban housing need and Federation growth, but it is also likely that key Federation leaders from these regions played a role in ensuring that the flow of Utshani Fund loans continued regardless of repayment performance.

- Greenfield developments have been concentrated in the Western Cape for a variety of reasons, including limited land availability in the Cape Town area and the region's apartheid history of strictly controlled housing development to discourage in-migration of blacks. But the location of People's Dialogue head office in the city would also seem to have played a role, given that both the executive director and all technical support staff were located there until 2000. This was particularly important given the learning purpose of early greenfield development, and the need for constant technical support.

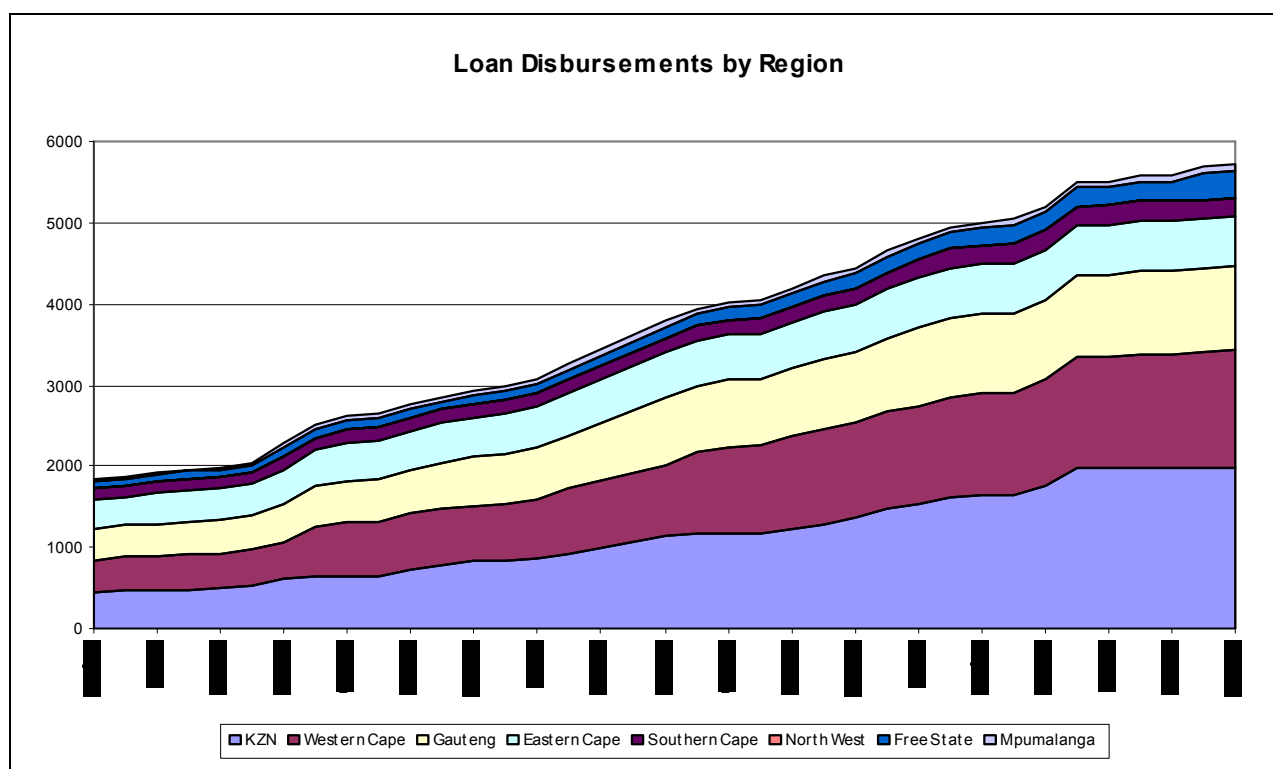


Figure 6: Loan Disbursements By Region

- Gauteng has received fewer Utshani Fund loans than might be expected, given that it is South Africa's most populous province, with a massive housing backlog. One reason is that the provincial government has never released subsidies to the Federation, making loans to members there particularly risky.
- Smaller, less densely populated regions - those also relatively far away from People's Dialogue support offices - have not received very many loans.

8 Risk Within the Alliance

The work of McLeod in this series (1999, 2000a, 2000b, 2001a, 2001b) is built around a nuanced concept of 'risk'. For her,

Risk is about what can go wrong, how badly it can go wrong, and what may happen as a result. Risk analysis involves judgement about the likelihood or probability that something will go wrong and how severe the consequences will be. Perhaps most importantly risk is about choice and the ability to choose. It is, as Bernstein has pointed out, "a set of opportunities open to choice". ... It is important to note that the relationship between security and risk is dialectic. By this we mean, "Security at one level allows risks to be taken at a higher order, in good faith". So the starting point for risk analysis has to be the security that an organisation is already perceived to possess.

Risk is socially defined and constructed. People from different contexts define risk differently. People's access to, and control of knowledge, affects whether or not their definition of risk is accepted by others.⁴⁴

This is a useful approach, particularly where the aim is to demonstrate that organised movements of the urban poor generate forms of non-financial security that can mitigate financial risk in grassroots development.

Nevertheless, some of what may be considered risks to be mitigated may also usefully be seen as *contradictions* of the mobilisation processes pursued by an Alliance. For example, as we shall see, there is a tendency for the forms of mobilisation associated with grassroots shelter development in the South African context to shift some risks away from the Federation, and onto the shoulders of the NGO, ultimately undermining the grassroots mobilisation and solidarity that is the Alliance's main asset.

Although these 'contradictions' are indeed risks, their mitigation is not straightforward, nor can it be reduced to financial or technical terms. This perspective informs the discussion below. Similarly, risk perceptions are shaped by security, but also by opportunity. The South African Alliance places a higher value on learning opportunities than security - it is a purposefully risk-taking institution.

8.1 Risks Arising from the Structure of the Alliance

The most directly relevant current risks faced by the South African Alliance are those generated by the contradictions inherent in the complex web of relationships between the pattern of Federation mobilisation; Federation leadership, People's Dialogue, and Utshani Fund; and the socio-political context in South Africa.

Some believe the South African Alliance is in a state of incipient crisis, the principal symptom of which is the depletion of Utshani Fund because of poor loan repayments by Federation members and the slow delivery of housing subsidies from government. A related problem is lack of transparency around local-level financial matters, including suspicions of corruption, which has undermined some members' confidence in the Federation as a vehicle for their savings.

8.1.1 A Caveat

In order to understand how these problems arose, it is necessary to examine the evolution of the Alliance. Before doing so, however, it is necessary to reiterate the objectives of the South African Alliance. The Alliance does not seek to make the poor 'bankable' by creating institutional relationships

⁴⁴ McLeod, 2001, p. 10-11.

and governance structures that would enable them to obtain loan finance or guarantees to fund their development needs. Instead, it seeks:

1. To build autonomous grassroots organisation and capacity at *nsukuzonke* level through daily savings, creating space for people to identify their priorities and explore their options;
2. To construct horizontal relationships of learning and information exchange that both reflect and augment the underlying grassroots development activity of *nsukuzonke*;
3. To use the collective capacity developed in this way to increase the poor's ability to obtain resources for their development from the state and other institutions of power.

The critical evaluation in this section should be seen as an exegesis of the evolution of the South African Alliance as it has pursued these goals in practice - in particular, how the dialectic of Federation development and its political context has produced certain contradictions that manifest themselves in the form of financial, political, and institutional risk.

It would be inappropriate, however, to conclude that the 'solutions' to these contradictions are to be found in the same narrow field in which they have manifested, namely financial control and institutional governance. Instead, it is essential to maintain a focus on the underlying intentions of the Alliance process, and to seek solutions that strengthen its capacity to achieve these goals. The pursuit of relatively riskier forms of resource mobilisation (such as loans and/or guarantees) is a contingent outcome of the process and result of Federation mobilisation, not the other way around.

8.1.2 The Situation

The South African Alliance is currently faced with a number of inter-related problems:

1. Because of poor repayment rates, Utshani Fund has suspended lending for housing development, alienating newer groups who do not feel responsible for the repayment problem.
2. The Alliance as a whole risks being discredited and losing its main sources of development funding, namely equity grants for Utshani Fund and housing subsidies from government.
3. The Federation risks a significant split between its already-housed leadership and the homeless and landless within the Federation, who have been promised housing outcomes like those of the older leadership, which are no longer affordable, given increases in construction costs.
4. Alliance leadership has been shaken by the accumulated effects of these processes, and is facing significant restructuring, as well as intervention from its previously passive supervisory management structure.
5. In areas where there are suspicions of nepotism, bribery and corruption of Federation leaders, grassroots confidence in the Federation has eroded.

The remainder of this section explores how things got this way.

8.1.3 Mobilisation via Savings and Housing

Unlike its Indian counterpart, the South African Alliance did not emerge gradually over a number of years from the convergence of relatively autonomous grassroots and professional NGO processes, in a context of popular political realism and mistrust of statist solutions. Although the Federation has built on traditions of mobilisation and consciousness originating in South Africa's poor communities in the apartheid era, middle-class activists, who identified and formed a partnership with grassroots counterparts, forged the South African Alliance through conscious intervention.

The South African context of the mid-1990s was characterised by high expectations and immoderate political promise making, as was to be expected in the aftermath of liberation from apartheid. Most importantly for the South African Alliance, the recently un-banned African National Congress and its

allied civic organisations⁴⁵ were highly active, and focused on housing development as a means of mobilising the urban poor. Their vision was of a top-down 'delivery' process in which a triumphant liberation movement would solve all the shelter problems of the dispossessed majority.

By contrast, the nascent Alliance of professional and grassroots activists sought to work within and expand the framework of need, desire, and choice - as well as risk - that governs the lived experience of South Africa's urban poor. This meant creating space for the poor to identify, understand, and articulate their own priorities, rather than passively await delivery from above.⁴⁶ In this context, it was almost inevitable that the self-identified starting point for Federation mobilisation - especially targeting women - would be housing.

Members of the new movement of "housing savings schemes" (*nsukuzonke*) were encouraged to "dream" new homes and communities through exciting exercises in house modelling, community mapping, and enumeration. In this way, the latent social power of the South African urban poor, reclaimed through mobilisation around women's daily savings, was directed to acquisition of land, houses, and finance. This was an appropriate and powerful strategic choice in the specific historical context of post-1991 South Africa. It has been parlayed into an extraordinary achievement: the amassing of an impressive array of material and institutional assets by an organisation of the poorest of the poor in one of the world's most brutally unequal societies. But every process has its contradictions. In the South African case, the strategies, tactics, and institutional forms developed during the first 10 years of the Alliance have made it a 'victim of its own success'. In many ways the South African Alliance has become over-focused on the 'golden egg' of housing delivery, to the detriment of the underlying social mobilisation, via daily savings, that constitutes the proverbial 'goose'. Housing delivery has gone from a *method* of organisation to its *object*, from means to end.

8.1.4 Evolution of the Alliance and its Contradictions

To understand how this happened and why it matters, we must examine the evolving relationship between the Alliance and South African housing policy.

After 1994, Utshani Fund, the revolving fund for the Federation, rapidly assumed the role of a bridging finance mechanism for the new housing subsidy system.⁴⁷ Small groups of Federation members took loans on the understanding that these would be largely retired by their subsidies. People's Dialogue and the Federation leadership initially saw this process as a way to acquire more resources from the state, in part by demonstrating to government that the Alliance could build better houses than the private sector. This was immediately successful: the late Housing Minister Joe Slovo made an early promise of R10 million to Utshani Fund in late 1994⁴⁸; the Federation was invited to serve on the National Housing Board; and negotiations to deliver subsidies directly to the Federation commenced.

The Alliance leadership recognised the inherent risk in this strategy: if the subsidy system did not deliver relatively quickly, Utshani Fund would become a *de facto* creditor to a large group of very poor South Africans who could not be expected to repay large housing loans - and who did not believe that this was what they had agreed to do.

⁴⁵ Most notably the South African National Civic Organisation, or SANCO

⁴⁶ In this respect, the Indian experience had a decisive impact on the formation of the South African Alliance, and in many ways, the South Africans have 'leapfrogged' processes of conscientisation that helped to shape and define the Indian effort.

⁴⁷ The new policy framework had been developed in great haste by a mixed group of apartheid-era technocrats, business consultants from the housing and finance sectors, and non-grassroots representatives of the ANC alliance. See Baumann (1997).

⁴⁸ To his credit, Slovo was probably as interested in the Federation's potential to mobilise South Africa's poor as he was in housing delivery.

In fact, this is what has happened; at least as far as significant proportion of the Federation is concerned. Although the Alliance reached an agreement with national government in 1996 to release subsidies directly to Utshani Fund, this was subject to provincial approval. The nine Provincial Housing Boards took their time in this (Gauteng, South Africa's most populous and urbanised province, has yet to release a single subsidy to the Federation). Even in provinces where the subsidy agreement has been approved, subsidy release often takes years, even when houses have long since been built with Utshani Fund bridging finance. Out of nearly 9 500 Federation houses built, only 1 550 had received subsidies by March 2001 (many of these subsidies were taken without loans). This has created a gradual cash crunch for Utshani Fund, as stipulated 'formal' loan repayment rates have understandably faltered during the delays in subsidy release. Continued inflows from donors, however, helped to compensate for this. In this respect, the Alliance came to rely on its "political sustainability" rather than a true revolving fund model.

Meanwhile, the Federation's success in building large, high-quality houses with Utshani loans encouraged explosive growth in membership. Newer groups naturally also expected to get "an Utshani Fund house", and many Federation leaders began to encourage this 'entitlement' view, rather than daily savings, as a way to build the movement. The 5% deposit system came to be seen as a way of 'purchasing' an Utshani loan, and members who were otherwise saving a minimal amount in their *nsukuzonke* quickly accumulated the R500 needed to qualify for the largest loan package.⁴⁹

While the cost of building materials fluctuated, tending to outstrip the CPI overall⁵⁰, the cash amount of the housing subsidy remained static.⁵¹ Eventually, the standard bridging loans developed by Utshani Fund could no longer build the houses that the earliest members had 'dreamed'. As the ritualised process of house-modelling, community mapping, and enumeration continued, however, it became increasingly difficult for Federation leaders and People's Dialogue staff to shift members' dreams - now evinced by existing Federation houses, many owned by leaders - into line with a changing material reality. This fuelled a tendency for members to "overbuild": laying out foundations for houses that were larger than could be built with the finance available. This resulted in unfinished houses, pressurising Utshani Fund to release further finance to protect the Federation's political assets - its reputation and access to subsidies - putting members further into debt and increasing overall systemic risk.

In time, as some provinces began to deliver subsidies more consistently (notably the Western Cape), some Federation members' and leaders' attention came to be focused almost entirely on mobilisation through housing opportunities and Utshani bridging loans. Time spent practising Federation systems - daily savings and loan repayments - was downplayed as a criterion for obtaining an Utshani loan. Moreover, there was an incentive to promise large houses. This contributed to a tendency, in some regions, to recruit better-off members who could top up their Utshani Fund loans and subsidies with non-Federation savings.

Amongst other reasons, the centralised nature of Utshani Fund financial decision-making has meant that the risk in such strategies and practises has been transferred to People's Dialogue and the Federation leadership. Ultimately, local leaders and *nsukuzonke* did not have to make difficult allocative decisions.

⁴⁹ Aply illustrated by a now infamous comment by one Federation member, who asked a reporter, rhetorically, "Where else can I get a house for 50 cents a day?"

⁵⁰ See Appendix O.

⁵¹ The maximum subsidy was increased by 10% in 2000, by which time the cumulative increase in building materials costs since 1994 exceeded 45%.

These 'internal' tendencies were compounded by the political environment of subsidy entitlement, and by generally favourable attitudes to the Federation on the part of senior government leaders. Federation leaders and members were aware of sustainability problems, but tended to see their role as expanding membership of the Federation as all costs. The race to accumulate members was seen as a strategy to get more subsidies and capital; leaders understood the process more as "political sustainability" than as financial sustainability. Indeed, this reflects the nature of the Federation process, which seeks resources from the state rather than to create a 'sustainable' microfinance model.

Once housed, many members turned their attention to furnishings, often getting further into debt in the process, undermining their already limited ability to repay Utshani loans. The work of chasing down subsidies to retire loans was more and more left to the tiny group of People's Dialogue staff and Federation leadership. This put ever more pressure on Utshani Fund and People's Dialogue.

The Federation's successes eventually began to leverage land acquisition, creating opportunities for larger-scale greenfields developments that required hefty bridging finance and guarantees from Utshani Fund. Such developments, moreover, are subject to specific contradictions, discussed above. Recognising these processes, People's Dialogue attempted to force restructuring on the Federation on a number of occasions. For example, in April 2000 it was decided to limit Utshani Fund loans to R6 000. Despite having agreed to this, Federation leaders, under pressure from members, refused to implement the policy. Some argued that any attempt to modify the Utshani Fund loan package would "kill the Federation" - compelling support for the view that mobilisation around Utshani Fund resources had replaced mobilisation around better allocation of state resources.

8.1.5 Was this Inevitable?

By late 2000, the overall formal rate of repayment to Utshani Fund was so low that the Alliance leadership felt it had little choice but to suspend lending and embark on a process of re-evaluation and restructuring. The Alliance leadership had foreseen this result for some time. Nevertheless, in part because of the consubstantiality of the Federation leadership with the grassroots movement, the problem was 'structurally' played out at leadership level, where it was difficult to make hard choices. Ordinary *nsukuzonke* members had been protected to an extent by centralised decision-making in the Federation, and by a strategy of political sustainability, where new cash injections raised by People's Dialogue compensated for the gradual depletion of Utshani Fund's equity.

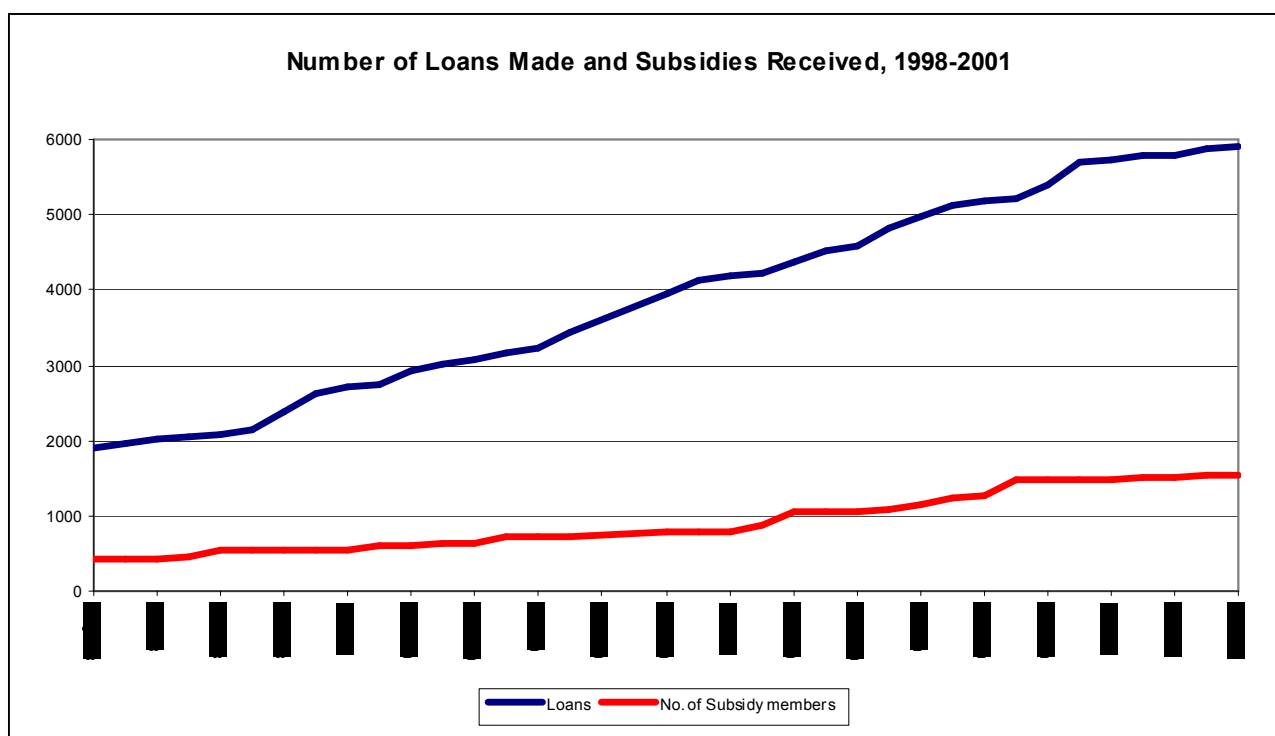
Nevertheless, housing is so important to Federation members, and traditional Federation practices so entrenched, that many members did not see these issues as problematic until the Utshani Fund loan freeze actually happened. Moreover, as noted above, in some regions upward pressure on construction prices translated into a bias towards better-off members, neglecting the needs of the poorest of the poor. Many in these higher income groups in the Federation did not need a social movement like the Federation beyond the housing stage. Others did not see they needed one; for example, some groups in large urban areas did not see how they could use Federation structures to address other needs for security and schooling. This weakened the Federation process in such areas: it had effectively been turned on its head.

In assessing this trajectory, two factors stand out as critical.

1. **The Subsidy Environment:** As we have argued, South African housing policy - and the overall political environment - encourages Federation members to see Utshani Fund loans as a fast-track mechanism to a subsidy, to which they have a widely advertised legal (and moral, in South African conditions) right, rather than a sharing in the limited collective resources of their own organisation. An Utshani loan is thus tainted with the same brush of 'entitlement' that marks the subsidy. This is compounded by the structural tendency for some Federation leaders to

mobilise on the basis of access to this entitlement, as well as the knowledge that Utshani Fund equity comes from grants, by European donors as well as the government.

Figure 7: Utshani Fund Loan Volumes and Subsidies



- 2. Key Decisions and Strategies:** Alliance leadership has tended to tread carefully around the problems arising from these contradictions, preferring to maintain a risk-taking rather than cautious approach. The decisions of the various Alliance leaders, however, reflect a clear strategy of addressing problems through grassroots systems development and learning rather than external rules and regulations. This requires a carefully protected space for grassroots processes to unfold, which is reflected in a widely-held view in the Alliance that it is incumbent on the NGO, People's Dialogue, to do all it can to protect the Federation from a hostile social and political environment, where many stakeholders would like to see the experiment fail.

This having been said, certain decisions intensified this contradiction.

Firstly, the decision to create and maintain a static national and particularly regional Federation leadership rooted in key savings schemes, through and to which significant proportions of Alliance resources were channelled, seems to have 'structurally' encouraged some undesirable behaviour (patronage, mobilisation through promises of loans, corruption and bribery) and discouraged more appropriate conduct (discipline, implementation of systems, tough allocative decisions, clampdown on repayment problems). This is not to say that all leaders have behaved in this way, but that the structure of the Alliance puts an unsustainable emphasis on voluntarism, and opens the space for corrupt practises.

Secondly, the Alliance leadership's willingness to maintain loan volumes even when it was clear that subsidies were not being delivered (see Figure 7) did two things. On one hand, it increased the unsecured loan book and increased the interest burden on Federation members. On the other hand, it sent a signal to the Federation that Utshani Fund would continue to deliver regardless of the subsidy system - compounding the 'loan entitlement' problem.

We will return to these issues below.

8.2 Risks Arising from the Funding and Development Strategies

The South African Alliance is exposed to risks that arise from its grant-dependent funding strategy, summarised in four areas: Federation-level funds management, core and project funding, Utshani Fund, and the capital subsidy stream.

8.2.1 Federation-Level Resource Management

- ◆ **Misappropriation of Funds:** The most elemental risk arising from the Federation *nsukuzonke* system is the misappropriation of funds by treasurers and leaders.
- ◆ **Nepotism, Bribery and Corruption:** A related risk is that of nepotism or corruption in making loans and handling *nsukuzonke* savings.
- ◆ **Reluctance to Use Funds:** Many *nsukuzonke* have been reluctant to make loans from their accumulated savings, believing that the quantum of savings is an important qualifying factor for obtaining Utshani Fund loans. This has been reduced as Utshani Fund lending has grown. There is also natural concern that poor repayment patterns in the Federation more broadly could put members' *nsukuzonke* savings at risk if loaned.
- ◆ **Moral Hazard:** A less obvious but potentially the most serious of all risks associated with local-level Federation finances is that Federation members see savings as a 'membership fee' in order to obtain Utshani Fund loans or subsidies. This widespread problem has a logical counterpart in the decline of savings after houses have been built. It is also reflected in the consistent prepayment of Utshani Fund loan deposits.
- ◆ **Inappropriate Selection of Members:** An increasingly important risk under the current Utshani Fund system in some regions is that the Federation will tend to select better-off households as candidates for loans. This happens because rising construction prices make it difficult to afford houses of the same size and standard as earlier Federation members. If the regional leadership insists on maintaining such standards, they have little choice but to select households that can add substantial personal savings to the subsidy and Utshani Fund loan. This is in direct contradiction to the goals of the Alliance.
- ◆ **Banking Risks:** Federation management of pooled savings funds at local level, as well as People's Dialogue contributions for regional *ufundu zufe* teams, exposes the Alliance to the risk of banking fraud by unscrupulous members who have signing power over the relevant accounts. On one occasion, this has resulted in civil proceedings against the Alliance to recover an overdraft originating from fraudulent use of *ufundu zufe* cheques.

8.2.2 Construction Risks

- ◆ **Construction Quality:** As with all community-based shelter programmes, there is a risk of poor quality construction. This may result in members not getting their money's worth; in houses that may not last; and most importantly for the Alliance as a whole, reduced credibility with outsiders. Indeed, technical support staff and consultants are often unhappy with some of the cost-cutting measures adopted by Federation households, such as leaving out lintels over window and doorframes, as well as with the quality of masonry work. Generally, however, the Federation has tended to produce quite good quality houses, especially in consolidation and in situ projects, where owner building is the norm. In greenfield projects, by contrast, construction quality can be degraded since member-builders do not know which house they will receive and/or see their participation as a 'job'.
- ◆ **Corruption:** A different risk arises where there are many relatively large-scale projects, as in the Western Cape. Bulk construction materials purchase is an obvious way to reduce costs, but it also creates opportunities for kickbacks and other forms of corruption. Even if these are small ('gifts'), the situation can create a strong incentive to retain control over the process and to keep it opaque to outsiders. This can lead in turn to hostility towards NGO attempts to become more closely involved in materials purchase.

- ◆ **Bankruptcy of Suppliers:** Finally, there have been several cases (particularly in the Eastern Cape) where Federation members have 'deposited' their subsidy funds with building materials suppliers, intending to draw materials as needed, only to have the supplier go bankrupt. The Alliance is currently working on a short-term strategy to deal with this.

8.2.3 Core and Project Funding

Reliance on core funding to cover all NGO and technical support exposes the Alliance to risk in several ways.

- ◆ **Sustainability:** Most funders prefer to see a progressively self-sufficient operation, or at least one that attracts increased local contributions. In shelter development, this often results in a semi-commercial NGO operation, which represents little improvement over state or private sector initiatives. People's Dialogue has steadfastly refused to consider funding its own operations from the housing subsidy or Utshani Fund interest earnings, and has not taken steps to earn income through technical assistance agreements, etc. This exposes the Alliance to the risk of reduction or withdrawal of NGO funding, although People's Dialogue has demonstrated considerable skill in maintaining and diversifying its funding base.
- ◆ **Increasing Funding Requirements:** Since the support costs associated with Federation housing development rise more or less in proportion to the spread of the Federation and new development activity, People's Dialogue not only remains dependent on donor financing, but also requires continual increases in such funding over time. This compounds the 'sustainability problem'. The Federation has certainly assumed more and more responsibility for many support functions over time, but the current restructuring process has identified an important contradiction. When Federation members assume such roles, they also become potential 'gatekeepers', a position that over time can distort their behaviour in ways that harm the Federation as a whole. It is increasingly recognised that paid staff, accountable to People's Dialogue directly, should undertake certain functions associated with resource management, in particular. This could mean more 'professionals', but alternatively, more regularised employment relationships with some Federation members, such as *ufundu zufe* staff. Either way, this implies an increase in People's Dialogue support costs.
- ◆ **Bias Against Professional Resources:** The fact that People's Dialogue is strategically bound to fund its costs through grants, as well as the constant pressure to grow along with the Federation, has led the NGO to limit its investment in 'professional' staff (i.e. paid non-grassroots employees). At one level this is consistent with a strategy of encouraging and/or transferring as much skill and knowledge as possible to the Federation. At another, however, the strategy has tended to undermine the quality of NGO staff. Relatively low salaries and often-extreme work pressure have resulted in significant turnover of field staff, especially in technical support roles. Similarly, it is difficult to attract quality replacement staff, and to expand staff numbers along with the growth of the Federation. This may have reduced the overall effectiveness of the Alliance in the specific areas where the NGO is required to add value.

8.2.4 Utshani Fund

- ◆ **Reliance on Equity Grants:** Utshani Fund's reliance on equity grants for its capital base is an intrinsic part of the South African Alliance strategy. The Alliance is very clear that it is not trying to "make the poor bankable" in individual, microfinance terms⁵², but rather seeks to encourage regular daily loan repayments of any amount affordable to members, on a daily basis. At the same time, however, the Alliance leadership has evaluated Utshani Fund's performance in terms of fixed quantitative repayment rates derived from precisely this kind of formal conception of a revolving fund. Significant risk arises from the disjuncture between these two incompatible conceptions of Utshani Fund. On one hand, Utshani Fund has positioned itself vis-à-vis its donors in such a way that formalised rates of repayment are critical to obtaining further equity

⁵² McLeod (2000a) covers the relationship between microfinance and Alliance-style grassroots finance very well.

injections. On the other hand, a flexible repayment based on capacity to repay cannot ensure anything like the predictability that donors (and certainly bankers) require. Utshani Fund thus runs the inherent, systemic risk of running out of loan equity (as has effectively happened) and being unable to replace it with further donor injections (which has not yet happened).

- ◆ **Repayment and Interest Systems:** A related risk arises from the incompatibility of a capacity-based flexible repayment system with standard definitions of interest. Currently, Utshani Fund charges 1% simple interest per month on housing loans, with a rotating payment system that separates capital and interest balances into separate accounts.

Daily loan repayments work like daily savings. A person can repay any amount; provide s/he makes repayments on a daily basis. Money in the Federation has an economic, political and a social dimension. When the banks talk about a 100% repayment rate, they mean that if they expect R1m to be repaid per month then 1 million is repaid. When the Federation talks about 100% repayment, it means that every group that has borrowed money has made a repayment - whatever amount - in that given month. This is because we know that very poor people cannot (and should not be forced or even expected) to pay set amounts of money every month. They do not have regular incomes. They are always living on the edge of survival. So, what the Federation wants is a social commitment - a daily repayment, however small, to demonstrate involvement in the process and a commitment to the Fund.⁵³

A variable repayment system, however, exposes Utshani Fund to the (presently unmitigated) risk of an unpredictable cash flow, and exposes borrowers to the risk of an increasing interest account balance. There is, in effect, a *logical* inconsistency between the notion of freely flexible repayment based on ability (with a presumption of extremely limited ability), and the incorporation of *any* interest charges into the loan system (even if this interest is separated out and called something else, such as an administration fee). If there is no specific minimum repayment corresponding to the period in which interest (or fee, etc.) is calculated, there is no systemic reason that loan balances will ever decrease or not tend to increase. This is not only a contradiction between the Alliance and a hostile outside world, but also an unresolved contradiction *within* the present practises and thinking of the Alliance around finance.

- ◆ **Credibility Risk:** The South African Alliance has invested heavily in the reputation of the Federation and Utshani Fund. Downward fluctuation in the overall rate of Utshani Fund repayment exposes the Alliance to significant credibility risk, both with donors and government.
- ◆ **AIDS:** Like South African society as a whole, the Federation is faced with a looming increase in mortality due to AIDS-related diseases. This has already begun to impact on housing development and Utshani Fund loan repayments. Federation members who die before they repay their loans may not have heirs who are able and/or willing to assume responsibility for loans. The Federation is currently debating strategies to deal with this problem, but the idea of an Utshani Fund-based life insurance fund is emerging as a likely option.

8.2.5 Capital Subsidy System

- ◆ **Moral Hazard:** As noted above, the fact that Utshani Fund bridging loans are made available before subsidies are actually received, combined with the tendency for some members to see Utshani Fund as 'fast-track' subsidies, means that some Federation regions and leaders do not pursue subsidy delivery once loans have been made and houses built. This places the burden on Utshani Fund and People's Dialogue, undermining Federation social and political mobilisation.
- ◆ **Bridging Finance and Subsidy Release:** Release of housing subsidies to the Federation via Utshani Fund, even for completed houses, is an unpredictable and resource-consuming process. As noted above, many Federation houses built with Utshani loans as far back as 1995 have yet to receive subsidies. Although nearly 6 000 Federation members have taken loans, only about 1 550 subsidies have been released since 1994. For every subsidy received by the Federation between 1998 and 2001, 3,5 loans were given out. The government currently 'owes' Utshani Fund nearly R32m ((US

⁵³ Joel Bolnick, email correspondence.

\$4m) in subsidies for houses built with Utshani Fund bridging loans, making it by far the largest debtor to the fund.

Although this performance varies from province to province, depending on the disposition of the MEC for Housing and the Provincial Housing Development Board, Table 29 shows that the interest charged to Federation members for bridging loans - R10,3 million (US \$1,25m) is a whopping 84% of the value of subsidies received. (Or, put another way, for every Rand of subsidy it has received, Utshani Fund has charged 84 cents in interest to Federation borrowers.) On average, each Utshani Fund borrower has already paid almost R800 in interest, nearly half the value of all loan repayments. Even with subsidy repayments factored in, interest payments comprise over 20% of all loan and subsidy inflows to Utshani Fund.

Table 29: Interest Costs of Bridging the Subsidy

Interest Payments/Subsidies	38%
Interest Charges/Subsidies	84%
Interest Payments/Total Repayments (No Subsidies)	48%
Interest Payments/Total Repayments (With Subsidies)	21%
Interest Payments Per Loan	R793

Table 30 shows the relationship between Utshani Fund loans granted between 1995-2001 and principal repayments, interest repayments, interest charges, and subsidies received. Of the nearly R57m (US \$7m) in Utshani Fund loans issued, about 31% has been retired - 9% via principal repayments by members and 22% by subsidies. Bridging interest charges have amounted to 17% of the loan total, whilst interest actually paid so far is 8% - nearly as much as principal repayments.

Table 30: Utshani Fund Loan Charges and Recovery 1995-2001

Item	Amount	Percentage of loans 1995-2001
Total Loans	R56 985 822,50	100%
Principal Repayments	R5 016 206,47	9%
Subsidies Received	R12 283 688,28	22%
Interest Paid	R4 692 576,93	8%
Interest Charges⁵⁴	R10 314 203,39	17%

This suggests that the slowness of the subsidy system is imposing high bridging finance costs on Utshani Fund and ordinary Federation members.

- ◆ **Political and Credibility Risk:** As with Utshani Fund lending, the subsidy system imposes significant political and credibility risks for the Alliance. Co-operation between the subsidy system and Utshani Fund is largely at the discretion of provincial authorities, regardless of the policy of the national Department of Housing, and is notably fickle. Currently, for example, internal difficulties in understanding and categorising Federation subsidy releases have prompted the Western Cape Housing Department, which has had a strong relationship with the Alliance, to threaten to cancel the Utshani Fund agreement. To counter this, the Alliance has tended to project Utshani Fund as more successful and efficient than it really is, at least in formal financial terms. The current 'balance of forces' is such that the Alliance is constantly at risk of losing what little access it has to subsidies, through exposure of mismanagement of subsidies or inefficient delivery of housing with them.
- ◆ **Corruption Risk:** The current system of grassroots handling of subsidy funds for consolidation and in situ developments exposes the Alliance to the inevitable risk of corruption and theft of subsidies by desperate or unscrupulous Federation members. Indeed, there have been reports of

⁵⁴ Payments received plus interest still outstanding.

outright theft of subsidies, although recent investigation has shown this to be less significant than thought. There have also been warnings that in some regions, corruption in allocating access to greenfield developments, and so on, by regional Federation leaders has damaged the Federation's grassroots credibility. The critical issue is that Utshani Fund is the only current mechanism for mitigating such risks. If some subsidies are 'eaten' - and this is surely to be expected given the realities of poverty and human nature - these funds must be made up by Utshani Fund. If they are not, the ensuing outcry from disgruntled Federation members could seriously damage the subsidy stream. Utshani Fund, however, does not maintain an explicit risk-mitigation fund.

8.3 Risks Associated with Greenfield Projects

The South African Alliance's experience with greenfield developments has been mixed.

8.3.1 'Learning Risk'

To coin a term, the South African Alliance may be said to bear significant 'learning risk', particularly in its greenfield strategy. As discussed in section 6.5, an important rationale for greenfield development to date has been to create learning situations for the Alliance as a whole. Creating these situations comes at a significant cost - in technical support, extended development times, Utshani Fund bridge financing, wastage and loss, credibility, tension and conflict, and so on. In adopting this approach, the Alliance exposes itself to *learning risk* in the sense that if it fails to capitalise on these situations, or to transmit this learning to other communities appropriately, or reposes so much of this knowledge in specific individuals or communities that it is lost if they withdraw, then it has wasted its money, time and effort.

1. There is a strong argument that the systems of the South African Alliance have not always placed sufficient emphasis on learning from its greenfield developments. This is particularly true of the wider legal and developmental context. Only recently has the Alliance initiated serious efforts to consolidate its knowledge about the problems associated with the CPA model, or township proclamation laws, for example.
2. Particularly in respect of technical issues, much Alliance knowledge is reposed in over-centralised and/or fragile 'vessels'. For example, much of what is known about the social processes in some greenfield developments has never been fully documented and made available within (or outside) the Alliance - a specific value-adding role of the NGO - whilst some professionals associated with these developments have either moved on or are no longer in a position to assist the Federation in the vector role. Some Federation technical 'convenors' have similarly faded from view, taking accumulated knowledge with them. There is insufficient emphasis on documentation and knowledge sharing amongst field staff; although they are periodically asked to submit monthly reports, etc., the pressures of their work means that they cannot afford to devote enough serious attention to reflection.
3. The sheer scale of greenfield development means that the small and relatively centralised People's Dialogue and Federation leadership system is often unable to identify relevant learning opportunities in time and/or to direct knowledge-gathering and transmission resources to them. 'Fire-fighting' in response to problems is sometimes more common than purposeful attempts to understand and document processes, even if this understanding is achieved largely by those at the leadership level. There is surely a point at which this could become dysfunctional. If the problems of greenfield development are so onerous or costly that exchange programmes, documentation, and reflection in general becomes impossible or ineffective, then it can be said that the cart is well and truly before the horse.
4. An understanding of the learning-facilitation function of the NGO is not adequately developed amongst staff. There is a tendency within People's Dialogue to regard staff as functionaries, who are responsible for executing specific tasks, rather than as social activists. This tendency is reinforced by the social and institutional dynamics within the organisation and South African society more generally. As a result, many People's Dialogue staff members see their jobs as

delivering specific technical outcomes, rather than to assist Federation members to examine their own situations and options, and identify appropriate solutions.

8.3.2 Organisational Risk

The most significant organisational risks in greenfield development arise from contradictory interests between communities benefiting from such developments and the Alliance as a whole. Participating members and their leaders have an incentive to maximise their individual benefits from greenfield development, particularly regarding densities (plot sizes) and house design. The Alliance as a whole - but particularly People's Dialogue - is interested in political credibility to gain access to more resources, and using the experience to generate knowledge about sustainable development options. This means emphasising the positive externalities associated with innovative, high-density developments using affordable finance to benefit the poorest of the poor. This contradiction sets the stage for often bitter battles between Federation leaders who seek to increase their standing and local power by maximising benefits to their 'followers', and People's Dialogue, who are by default the interpreters and guardians of the "interests of the Alliance as a whole".⁵⁵

8.3.3 Corruption Risk

A related risk is that of nepotism and bribery in access to greenfields developments. As noted above, there have been reports that some regional Federation leaders accept 'gifts' from members anxious to benefit from greenfields developments in particular. There is a tendency for some in People's Dialogue to argue that grassroots-based decision-making around such issues is sacrosanct; but without appropriate checks and balances - most importantly, structurally de-emphasising of the role of leaders as intermediaries between *nsukuzonke* and collective Alliance resources - this problem will remain. A related problem is that of corruption surrounding building materials purchase, discussed in section 8.2.2.

8.3.4 Financial Risk

Greenfield developments are effectively people's housing process versions of the dominant mass housing delivery system in South Africa. In this model, developers identify suitable land and apply for subsidies in bulk based on the number of beneficiaries. Most private developers are content to bridge finance the various phases of development using commercial bank finance, but this involves significant interest and administrative costs that are deducted from the subsidy, resulting in smaller houses. As we have observed, the Alliance, by contrast, has tended to rely on the Department of Land Affairs' fast-track subsidy system, which is designed to enable communities to acquire land with a partial up-front subsidy release and planning grant. Utshani Fund has bridge financed land acquisition, but only where there is relative certainty of the fast-track subsidy. Once this has been delivered, however, the payout of subsidies for services and housing depends on provincial housing systems. Any delay may increase pressure on Utshani Fund to bridge-finance service delivery and housing. Indeed, the Alliance has yet to receive *any* funds for the top-structure aspects of its greenfield developments, at great opportunity cost.

8.3.5 Risk Transference

A related risk arises from the strategy of interest-free bridging finance for land acquisition and infrastructure development. In the Vukuzenzele and Hazeldene developments, Utshani Fund has bridged infrastructure costs interest-free. This is justified by arguing that the poor should not have to pay for the state's failure to provide entitlements on time. But this transfers the risk and cost of

⁵⁵ Greenfield developments in the Phillipi Triangle of Cape Town aptly illustrate this. The original Federation greenfield experiment, Victoria Mxenge, was marked by lengthy battles between participants and People's Dialogue over site layout, house design, financing, and other issues. Neighbouring Vukuzenzele involved bitter arguments over People's Dialogue's insistence on experimenting with double-story houses. The Hazeldene development has resulted in inappropriately large houses, which are patently not affordable to the poorest of the poor.

the state's failure onto other members of the Federation, in the sense that these funds are not available to other groups whilst they are locked up in bridge; moreover, whilst unavailable, they decline in real value. Effectively, then, 'bridged' greenfield groups are privileged vis-à-vis all others.

8.3.6 Wastage and Credibility Risk

Some greenfield developments, notably Vukuzenzele in Cape Town, have been characterised by wastage (in terms of time and construction quality) because of battles over house designs and social construction systems. Double-story houses built as demonstration models have been rejected and ignored by members, some of whom have cannibalised them for building materials. Perceived lack of 'ownership' of the development (by contrast to *in situ* and consolidation projects) has also led to carelessness and materials wastage.

8.3.7 Legal Risk

A greenfield development is a significant step in the evolution of a metropolitan area, as noted above in Section 6.3.2. This exposes the Alliance to legal risks. South African township establishment laws are inherited from apartheid times, and local authorities are not above using them to block residential developments close to middle-class areas. In at least one case, a Federation project that went ahead without official township proclamation has resulted in an eviction and demolition order affecting houses built with subsidy funds and Utshani Fund loans. The risks are obvious.

8.3.8 Political Risk

Greenfield developments expose the Alliance to significant political risk. Power struggles between community leaders, political parties, elected officials, and others can result in hostility towards Federation initiatives, which has resulted in legal action by ANC officials against the Joe Slovo development in Port Elizabeth.

8.4 Risks Borne By Different Components of the Alliance

As with all institutions, the various components of the South African Alliance bear different risks, and risks caused by actions at one level may be borne at another. It is useful to assess the effect or impact of this distribution of risk, particularly as it relates to finance strategy and financial flows. Generally, People's Dialogue has tended to absorb most of the risks associated with housing development, particularly those related to the subsidy system. This is because the resources used for housing development are communal, belonging to the entire Federation through the vehicle of Utshani Fund. Utshani Fund is also officially the legal vehicle for asset ownership as well as responsibility for state subsidy resources. In practise, however, the notion that Utshani Fund and its resources actually 'belong' to the Federation is not well developed. Instead, Utshani Fund tends to be seen as belonging to People's Dialogue. By contrast, there are insufficient compensatory 'lateral' risk-distribution structures in the Alliance. If, for example, an *nsukuzonke* experiences corruption or loses subsidy funds due to bankruptcy of materials suppliers (as in the Eastern Cape), Utshani Fund is ultimately responsible for replacing these funds - or else risking exposure and significant credibility risk. There is no formal regional mechanism for dealing with such risks, although People's Dialogue has insisted on a regional contribution on occasion.

This tendency is reinforced by centralised decision-making in the Alliance. Utshani Fund policy is determined in a complex process of negotiation within the small 'core group' of Alliance leaders, with major proposals presented to the National Forum for ratification. In practise, the National Forum rubber-stamps most decisions. The real 'decision-making process' occurs in Federation practise, where decisions may simply be ignored at grassroots level.⁵⁶

⁵⁶ As in the April 2000 attempt to change Utshani Fund loan packages.

In the Federation, by contrast, everyday resource-management risks involving savings are borne at *nsukuzonke* level. Local *nsukuzonke* and regional leadership generally handle issues relating to savings and *nsukuzonke* loans, although some policies are uniform throughout the Federation (such as interest charges for *nsukuzonke* loans).

An interesting exception is the *inqolobane* system, where a proportion of *nsukuzonke* savings is pooled in a regional loan fund. In practise, a significant portion of the *nsukuzonke*-level risk has been transferred not to the regional level via *inqolobane*, but to Utshani Fund. This is because there is no mechanism within the *inqolobane* system (except further Federation mobilisation) to mitigate corruption, unpaid loans, and similar risks locally. This leaves Utshani Fund as the default mechanism to mitigate risk, particularly credibility risk.

For example, in Piesang River (KZN), the regional *inqolobane* was discovered to have engaged in a pattern of behaviour that influenced the distribution of risk:

- ◆ Firstly, large numbers of relatively high-value income generation loans were given out of members' pooled *inqolobane* savings, without adequate attention to *nsukuzonke*-level approval systems, and repayments have been poor. This has put members' *nsukuzonke* savings at risk.
- ◆ Secondly, the previous *ufundu zufe* team granted themselves large loans without authorisation, shortly before a new team replaced them.
- ◆ Thirdly, and perhaps most interestingly for this study, for nearly a year, the *ufundu zufe* team deliberately declined to make loans out of members' pooled savings because they knew that government-sourced income-generation funds were on their way from Utshani Fund, even though these funds belong to the whole Federation. This illustrates how easily risk can be transferred to Utshani Fund.

8.5 Risks Associated with Members' Situations and Development Options

8.5.1 Consolidation versus other Development Options

As we noted in Section 3.5, consolidation developments are the easiest of all for the Alliance. This development option involves construction of a house on a serviced, owned site using a 'top-up' subsidy and/or Utshani Fund bridging loan. This has perverse impacts on risk, however.

- ◆ Firstly, consolidation situations make it easy for the Federation to mobilise new members, since the offer of an Utshani loan as a fast track to a subsidy is highly appealing to households with secure tenure. This makes the consolidation option low risk from the perspective of quantitative Federation growth, which has been a priority for some Federation leaders.
- ◆ Secondly, however, households mobilised into the Federation in order to take up Utshani loans in anticipation of a subsidy tend to be less committed to the organisation and its core values. They often have little interest in daily savings, and may be substantially better off than other households because of their secure tenure. This can easily lead to problems with Utshani Fund loan repayments, since the loan recovery process relies on solidarity and relational security rather than coercion.

Not all consolidation developments experience such problems, but they have been significant enough in certain regions to prompt detailed attention during the restructuring process.

8.5.2 *In Situ* versus Greenfield Developments

The second least-risky situation is *in situ* development. Like consolidation, *in situ* developments involve households living on a site with tenure, and possibly some services. An *in situ* situation may be associated with the proximity of *ex-Bantustan* areas to urban centres, since tenure in such settlements is generally secure. By contrast, more recent informal settlements on formerly white municipal land are subject to political contestation and less secure. Thus, in kwaZulu-Natal in

particular, the Federation has tended to colonise (organisationally-speaking) large urban informal settlements located in the ex-kwaZulu areas adjacent to Durban.

The involvement of the Federation provides an important opportunity for such communities to recapture control over *in situ* development from NGOs and others who may have become involved in the late 80s and early 90s. For example, the Piesang River area in Inanda (KZN) was initially involved with a university-based NGO called the Built Environment Support Group, which sought to upgrade services in the area. Problems associated with community participation and resources led to dissatisfaction, which the Federation was able to redirect into a particularly strong grassroots organisation. Eventually, the Federation assumed control over the entire development process, negotiating successfully for service delivery and building hundreds of houses. Community cohesion and participation in Piesang River remains exceptionally strong, and Utshani loan repayments are generally good. The Piesang River pattern has been replicated in several large settlements around Durban.

By contrast, greenfield developments present a greater challenge and risk to Alliance resources than *in situ* upgrading. In some senses, this risk is mitigated by Utshani Fund ownership of land (as in the Phillipi Triangle area of Cape Town). As we have seen in Sections 6 and 8.3 above, the problem with greenfield developments is that 'communities' are often inchoate, and there may be significant conflicts between the Federation and People's Dialogue over the development process. This leads to greater costs and political and institutional risks.

8.5.3 Invasion versus Land Purchase

The most risky of all Federation 'development options' is land invasion. People's Dialogue's official policy is that it does not recommend or support invasion, but will support any Federation groups that have taken this step after all other avenues of negotiation have been explored and failed. To this end, the Federation has devised a strict 21-point protocol for land acquisition. The bulk of these steps are devoted to identifying land and its owners and negotiating with them. (Of course, some communities become involved with the Federation after they have invaded land.)

In the first instance, land invasion puts Alliance political assets at risk. Backlash against the Federation by local politicians can be severe, as was the case in kwaZulu-Natal in 1997, when a number of communities took this step. Federation-council relations in greater Durban have still not fully recovered from this incident.

By contrast, the Alliance's financial assets are not immediately at risk, since Utshani Fund does not make loans in such situations until there is a reasonable prospect of tenure.

A lesser-appreciated risk associated with land invasion is 'mission creep' for People's Dialogue and Federation leaders. Land invasions are rightly regarded as emergency situations, and People's Dialogue staff and Alliance leaders must assume what is effectively a 'rights-based' strategy of advocacy and negotiation. This inevitably detracts from development efforts, as People's Dialogue personnel in particular are drawn into protracted and time-consuming legal processes.

8.6 Risk Management of the Alliance portfolio as a whole

The South African Alliance has not traditionally thought in terms of risk management, and there are no explicit policies or systems in place to identify and address risk. Nevertheless, given that its main assets are socio-political and institutional, it is clear that the Alliance is highly proactive in identifying relevant potential threats, both internal and external.

8.6.1 External Risks

The leadership has traditionally maintained an active interest in political and technical developments with the potential to affect the Alliance. It is not unusual for the Alliance to raise and confront such issues long before they are actually formulated by policy-makers.

For example, in the mid-90s the Department of Housing announced its intention to establish a National Homebuilder's Registration Council. This would seek to address problems of shoddy workmanship in subsidy-financed housing by establishing compulsory registration and an inspectorate system. Thinking laterally, People's Dialogue quickly concluded that local authorities hostile to the Federation and the people's housing process could abuse such a system by requiring all houses to be built only by an NHBRC-registered contractor. People's Dialogue accordingly made submissions to Parliament during the legislative process that resulted in language excluding self-built houses from the final Act. Similarly, in 2000 policy-makers began to consider a compulsory savings programme linked to the housing subsidy. Early indications were that this was to be based on individual savings in formal banks. This posed an obvious threat to the Alliance: informal group savings could be excluded from the system; undercutting Utshani Fund's painfully-won role as a short-cut conduit for subsidies to the Federation. People's Dialogue commissioned analysis on this issue, invited a key policy-maker on a visit to Asia to see Federation-style systems there, and generally 'headed the issue off at the pass'. The proposals have since been modified.

These examples illustrate that the most important aspect of external risk management where the asset base is largely socio-political and institutional is to monitor and protect the policy environment. This is a specialised function at which People's Dialogue in particular has demonstrated great skill.

8.6.2 Internal Risks

Internal risk is equally important for the South African Alliance. As we noted in Section 8.1, the Alliance has faced problems partly rooted in internal structural contradictions. In response, the Alliance undertook a yearlong 'restructuring' exercise in 2001 in which these issues were carefully deconstructed, analysed, and solutions proposed and debated. This process is close to conclusion. Although the Alliance has demonstrated admirable insight and resolve, it may be argued that the restructuring experience demonstrates a certain weakness in internal risk-management. Some have argued that the problems addressed by the restructuring exercise were left to fester too long, leading to the need for a one-off, large-scale change process. This could be contrasted to a more dynamic, proactive approach that addresses problems early, before they become systemic, thus obviating the need for restructuring.

The problem is not so much a lack of insight or will in addressing internal risks, but that the very socio-political and institutional assets that make the Alliance strong also require much circumspection in addressing them. This is particularly true of issues relating to Federation leadership and resource management systems. It is not possible for People's Dialogue as an NGO simply to dictate change to the Federation, since the Alliance is a true partnership, and this is the source of its strength. Thus, even if Federation problems are clearly identified by a 'disinterested' NGO, it is ultimately up to the Federation to address them. In the 1997-2000 period, some key problems were related to the role and function of Federation leadership, and repeated People's Dialogue attempts to encourage the Federation to act ran into an inevitable element of self-interest. Ultimately, a change in People's Dialogue directorship and major cash flow problem for Utshani Fund were required to force the Federation to act. In effect, the Alliance was unable to act decisively on warning signs, and it took a crisis to effect change.

This is not necessarily a problem. The Alliance process generates significant socio-political and institutional assets, but also generates contradictions. The standard NGO 'solution' of dictatorship by professionals is not available to the Alliance - indeed, it would destroy its asset base - so more

roundabout methods are required. Ultimately, the validity of the Alliance's approach in this regard will be determined by the next few years experience under the new, 'restructured' system.

9 Potential Alternative Forms of Finance

As discussed above, the South African Alliance has adopted a strategy of membership-based loans via Utshani Fund, which, although theoretically based on equity recovery through the housing subsidy system, has evolved unsustainably. This is for two reasons.

1. The subsidy system has been heavily biased against people's housing. This may change with the adoption of a demand-driven subsidy system. Nearly half of Utshani Fund's current loan book is accounted for by outstanding subsidy payments from government.
2. The strategy of making individual housing loans to Federation members, particularly in the context of the present institutional relationships in the Alliance, appears to be animated by an unsustainable organisational dynamic. The unassailable desire to realise dreams of better housing is incompatible with a system where maximum Utshani Fund loans are treated as entitlements, and where the formalised cash-flow modelling of the Fund contradicts the social aim of mobilisation through flexible, daily loan repayments based on affordability. The South African Alliance thus confronts the paradox inherent in the classic aphorism "to each according to her needs; from each according to her capabilities".

This raises the question of alternative financing strategies. The strategies recommended here are based on a careful consideration of the South African experience as well as extensive interaction with key Alliance leaders.

9.1 The Asset base of the South African Alliance - Revisited

Before looking at new financial strategies, it is useful to review the relationship between 'inputs' in the Alliance system and 'outputs' in the form of assets created. This will enable us to trace the process by which these assets are leveraged to gain more resources for the Alliance, and in particular its ordinary members.

Firstly, we can review the core assets of the Alliance, as presented in Table 9.

Table 31: Asset Base of the Alliance

ASSET	CHARACTERISTICS
HUMAN ASSETS	<ul style="list-style-type: none"> ◆ 100 000 members in over 100 communities, the largest and most widespread grassroots development organisation in South Africa ◆ Long-term legitimate leadership ◆ Committed NGO with deep experience ◆ Strong support from non-South African organisations and individuals
KNOWLEDGE ASSETS	<ul style="list-style-type: none"> ◆ Unique, specialised knowledge of community needs, capacities, and development solutions from <i>nsukuzonke</i> up to Alliance leadership ◆ Accumulated experiences of various grassroots development practises over a decade
SOCIAL ASSETS	<ul style="list-style-type: none"> ◆ Exceptional social solidarity within the Federation ◆ Strong relationships of trust and accountability ◆ Key alliances with other organisations and the state ◆ Strong learning systems
POLITICAL ASSETS	<ul style="list-style-type: none"> ◆ Strong donor support ◆ Key alliances with other organisations and the state ◆ Public support from Ministers of Housing and Land Affairs, President Mandela ◆ Strong support from UN system ◆ Membership in SDI network

ASSET	CHARACTERISTICS
	<ul style="list-style-type: none"> ◆ Wide respect amongst progressive development practitioners outside South Africa
INSTITUTIONAL ASSETS	<ul style="list-style-type: none"> ◆ Dynamic, flexible decision-making structures able to identify and address contradictions ◆ Well-developed relationships between various parts of the Alliance - e.g. People's Dialogue, Utshani Fund, etc. ◆ Sound legal footing
PHYSICAL ASSETS	<ul style="list-style-type: none"> ◆ Nearly 10 000 houses constructed of a better quality and larger size per Rand than other delivery systems in South Africa ◆ New equity value of Federation housing over R19 million <i>per annum</i> ◆ Ownership of several valuable buildings in Cape Town and Johannesburg (e.g. Derek Hanekom Resource Centre)
FINANCIAL ASSETS	<ul style="list-style-type: none"> ◆ Grassroots savings system - <i>nsukuzonke</i> - nearly R5 million saved ◆ <i>Inqolobane</i> system of pooled savings at regional level ◆ Utshani Fund (R65 million capital) ◆ Core funding for People's Dialogue and Federation exchange activities

The bulk of the Alliance's asset base consists of people and their experience, knowledge, and relationships. These assets have been created by combining the financial inputs provided by donors (running costs and exchange programmes) with the efforts of ordinary Federation members. This has in turn produced institutional assets (the Alliance itself), political assets (goodwill), financial assets (Utshani Fund and subsidies), and physical assets (houses). These assets in turn have been leveraged into further injections of donor finance, access to subsidies, access to land, and support from government.

The all-important issue is that *delivery of resources to ordinary Federation members would not have been achieved without the initial investment in building the socio-political and institutional asset base of the Alliance*. As we have seen, this investment was both financial (donors) and human (grassroots mobilisation via daily savings). This is an important fact: it is unlikely that current government efforts to shift the focus of housing delivery to the people's housing process will succeed without a similar investment.

The question, however, is where to go from here. There are three broad options:

1. The Alliance could continue to target donor financing for Utshani Fund equity to be used in land acquisition and housing construction - which is the *de facto* situation, given the slow delivery of subsidies. This is not a viable long-term option.
2. Alternatively, it could seek to leverage its existing asset base by improving the speed and quantity of subsidy delivery to the Federation.
3. Finally, the Alliance could leverage its asset base to acquire greater access to wholesale finance, both from South African and overseas development funds.

9.2 Scaling Up

'Scaling up' in the Alliance sense means three things: a) expanding membership, b) increasing the flow of development resources to the poorest of the poor, and c) transforming those resources into concrete development. The three are interlinked; increased membership increases the Federation's political clout, whilst increased resources flows attract new members. Transforming resources into development depends on the *quality* of Federation growth.

9.2.1 Scaling Up the Federation

Scaling up the Federation itself is largely self-financing, although People's Dialogue core support costs some areas (exchanges, enumeration and training exercises) increase proportionately. A successful Federation attracts members more or less automatically (although, as we have seen, there is ample scope for inappropriate mobilisation). The costs of starting new *nsukuzonke* in urban are often borne by existing Federation members.

9.2.2 Scaling Up Resource Delivery

Scaling up resource delivery depends on the quantity and quality of Federation mobilisation and the quality of NGO support. These are interdependent functions. Most costs associated with this aspect are borne from NGO core funding, although it can be argued that *less* loan funding, in particular, might increase the flow of resources to the Alliance by prompting members to put increased pressure on government to deliver subsidies.

9.2.3 Scaling Up Development

Until now, scaling up development in the South African Alliance has meant increasing equity in Utshani Fund. Because the Alliance has been willing to pre-finance all forms of development - from consolidation of existing site-and-service schemes to new greenfield developments - the key constraint has been the amount of money available for 'loans', even though it has always been assumed that these loans were temporary measure pending release of subsidy entitlements.

The experience of the last seven years of Federation development has shown that this is an unsustainable strategy. Although donors have been notably willing to supply additional equity, the rate of subsidy delivery lags far behind that of Utshani Fund lending. For both the Federation and - possibly - the government, one reason not to worry about this problem has been the ease with which People's Dialogue has been able to raise funds on Utshani Fund's behalf.

This accommodating strategy, in which an alliance of a South African NGO and European donors has assumed the risks and responsibilities of the sovereign South African government, has finally reached its limits. As the Federation has grown and expanded its housing delivery systems, the failure of the state subsidy system to grow along with it has begun to undermine the civil society initiative.

The South African Alliance is therefore considering ending the system of individualised pre-subsidy housing loans, and defining Utshani Fund as a bridging mechanism and institutional conduit for financing for land acquisition and service development only. Loans would only be given once subsidies had been secured. Responsibility for post-subsidy top-up housing loans to individual members will be devolved to the regional Federations, using elements of the nascent *inqolobane* system, but placing more emphasis on individual *nsukuzonke*, and sourced primarily from Federation savings and income generated through cross-subsidised development strategies.

This strategy depends on public policy factors beyond the Alliance's direct control, but which can be influenced using the main social asset of the Federation: mass mobilisation. The Alliance will have to mobilise to insist that public policy in South Africa create space for NGO/CBO alliances to take direct responsibility for human settlement development, both *in situ* and greenfield.

9.2.4 Forms of Finance

Grants, housing subsidy system, municipal land and infrastructure programmes (still to be defined by government)

9.2.5 Potential Sources

As at present (see Table 14), as well as from the state

9.3 Creating and Expanding the Economic and Social Base

The South African Alliance has expanded very rapidly over its life span. The primary means of expansion has been horizontal, i.e. savings schemes starting other savings schemes. This has occurred increasingly without the direct support or intervention of People's Dialogue. Nevertheless, NGO grant funding has been an important source of the basic resources for the expansion process, such as transport and subsistence costs during exchange programmes, as well as support for house modelling and community survey and mapping exercises.

9.3.1 Forms of Finance

Grants, proportional support funding from government programmes

9.3.2 Potential Sources

As at present, from donors (see

Table 14), although it may be possible to obtain financial support from the state on the grounds that implementation of the new housing policy will require extensive capacity-building and the creation and expansion of civil society institutions, such as the Federation, that can play an effective partnership role with local authorities in developing and implementing human settlement plans.

9.4 Development of Pilot and Demonstration Projects

In all of its projects, including greenfield, the South African Alliance has borne the costs of innovation and learning through its grant support from donors. Nevertheless, there are also 'hidden' costs, in the form of opportunity costs - interest foregone, bridge funds unavailable to other developments, and so on. The Alliance should consider calculating these costs more explicitly and seeking compensatory grant funding to maintain Utshani Fund's equity. This should be on the grounds that Utshani Fund's role in bridge-financing pilot and demonstration projects is qualitatively different from its 'revolving fund' role.

9.4.1 Forms of Finance

Grants, the state housing subsidy

9.4.2 Potential Sources

As at present (see

Table 14), as well as from the state, as above

9.5 Risk Management and Mitigation

At present, the South African Alliance has only limited systems of financial risk management and mitigation (with only a small set-aside for bad debt in the last two years), relying instead on a risk-taking strategy of 'rolling financing' through aggressive fund-raising. (This does not include the standard contingency portion of all funding agreements.) Nevertheless, it would not hurt to create risk management tools along the following lines.

9.5.1 Forms of Finance

- ◆ Bad debt set-asides out of Utshani Fund equity (as may be required by auditors)
- ◆ Medium-term interest-bearing investments. In this case, the opportunity cost of not using funds for ongoing operations could be weighed against the interest earnings from investments. This is essentially the strategy used with the Land Bank loan.
- ◆ Short-term overdraft facilities based on fixed asset collateral (such as offices, the Derek Hanekom Resource Centre, etc.)

The South African Alliance has not yet entertained the idea of foreign borrowing to bridge-finance its projects, and foreign exchange hedging is thus not yet a requirement.

9.5.2 Potential Sources

Donors, state loans, and community pooled savings

9.6 Refinancing

It is unlikely that the South African Alliance will adopt a refinancing strategy in the near future. Refinancing is not a viable option in a context where there is considerable uncertainty about the timing of financial flows from the subsidy system. Should the new subsidy system deliver more reliably, the Alliance may consider further loans like the Land Bank loan, either from state or private donor source. Nevertheless, it must be borne in mind that the Alliance is opposed in principle to imposing additional interest burdens on the poor in a context where they are entitled to a state housing subsidy.

9.7 Learning, Knowledge Creation and Capacity Building

In the South African Alliance, learning, knowledge creation, and capacity building are more or less consubstantial with the Federation process itself. Horizontal exchange and learning processes are the life-blood of the Federation.

Nevertheless, there is an increasing recognition that more 'professional' value-added is needed in some areas, in particular, translating Federation perspectives for a wider audience in the development field. For the reason, People's Dialogue has recently established a separately governed subcommittee called the People's Organisation Support Initiative (POSI), which will provide a platform for community-oriented research and documentation. The basic goal of this initiative is to provide a platform for interaction between grassroots organisations and development professionals, in order to make each side more aware of the needs, capacities, and constraints of the other. In practice, such an initiative serves first and foremost as space for the voices of the poor to be heard. Foreign donors, including SIDA and MISEREOR, currently fund POSI.

In addition to this, additional support is needed for reflection and documentation within the Alliance. Senior staff currently produces documentation (often extraordinary in quantity) either in support of specific activities (fund-raising, problem solving, internal reports) or for regular publication (e.g. *Utshani Buyakhuluma*, *The Grass Speaks*, the *Backyard Fax* series). During the six months, however, it has become clear that field staff and others accumulate a great deal of specialist knowledge and insights that can be shared usefully with the Alliance and others.

Accordingly, two proposals for the Alliance to consider are:

1. A 'sabbatical' system that would give line staff an opportunity to document their work and perspectives;
2. A comprehensive survey and compilation of documentary resources, particularly those present on the network server of the Cape Town People's Dialogue office. There are potentially tens of thousands of pages of documentation that could be collated, edited, and either published or extracted for specific needs.

Both of these initiatives could be run under the POSI programme, but would almost certainly require dedicated fund-raising support.

9.8 Promotion and Creation of New Alliances

The South African Alliance has been involved in discussions with a number of kindred organisations in South Africa for some years. The Department of Welfare's MicroSave Programme, in particular, gave the Alliance an opportunity and rationale to begin to interact with existing initiatives to explore possibility for greater co-operation and joint work. Such initiatives are only just beginning to emerge in practise, and will be funded as part of normal exchange programmes.

In addition, however, the Alliance has also been discussing the formation of sub-Federations based on tenure category. The idea of a landless Federation is particularly important given the future trends towards greenfield developments.

9.9 Options For Supporting Greenfield Development

9.9.1 Potential Sources and Forms of Funding

The Subsidy System

The subsidy system remains the basis for all Alliance greenfield development, and will be for as long as the policy is in place. As noted above, the Alliance has explicitly declined to charge interest for land acquisition and servicing, believing that the poor should not have to pay for the state's failure to deliver on its policy obligations. This effectively rules out any form of borrowing or loan guarantee systems, since both would impose even greater risk and interest costs to Utshani Fund.

Nevertheless, greenfield development cannot be sustained under the current circumstances. No greenfield development has received subsidies beyond the DLA fast-track land acquisition programme. The South African Alliance is thus confronted with a choice: either it must suspend new greenfield development or act much more aggressively to eliminate the obstacles to equitable subsidy delivery. The current loan freeze from Utshani Fund has drawn the Federation's attention to the latter. This is a political, rather than financial task.

Cross Subsidisation

Commercial Development

Commercial developments have been an elusive goal for the Alliance. As we have seen, the problem is two-fold.

1. On one hand, commercial property markets in most major South African cities are not necessarily favourable to Alliance commercial developments. South African cities are distorted by the ongoing social geography of apartheid. Greenfield developments are invariably located where land is affordable; this usually means close to existing low-income settlements. Low disposable incomes make most retail commercial enterprises unattractive for small investors. This is compounded by the domination of South African retail trade by large corporations. Larger developments on Federation land, such as shopping centres, may be an alternative, but will require far more technical capacity within People's Dialogue than presently exists.
2. On the other hand, the South African Alliance has yet to resolve the essential internal obstacle to commercial development - the dispute over the 'ownership' of assets at local level with national Federation resources (Utshani Fund).

Higher-Income housing

There have been some discussions about selling commercial residential units as part of Federation greenfield developments, but this is subject to the same problems. Households who could afford housing in such developments may well wish to move to existing residential neighbourhoods rather than buy in an area otherwise inhabited by low-income households. Indeed, new housing development for the middle-class is proceeding apace in most South African cities.

Community Saving

An interesting outcome of the suspension of Utshani Fund lending arose from the Stock Road development. Households hoping to participate in the development have been saving on average R30 per month towards their future loan obligations. This already amounts to a substantial portion of the purchase price of the site, which has otherwise been suspended because of the loan freeze. It may be possible in future for Federation members to finance a substantial portion of such costs from savings - although care must be taken that this does not discriminate against the poorest.

9.9.2 Recommended Methods for Viability Analysis

As noted above, the basic equation for viability in the South African context is a straightforward summation of development costs and comparison to sources of income, including subsidies and cross-subsidisation. People's Dialogue has developed considerable skill in site planning to attain financial viability.

Nevertheless, opportunity cost must be factored into Utshani Fund's use of non-interest-bearing bridging loans. There are two costs. One on hand, there is the interest foregone. This is justifiable given the purpose of the developments. On the other hand, however, there is the fact that the funds are not available to other Federation development options, some of which are less risky and quicker. This problem is not likely to be resolved through financial means. Utshani Fund will not fail to fund a development for these reasons. Instead, it points towards the need to achieve faster subsidy delivery, which would have the effect of minimising opportunity costs.

9.9.3 Associated Institutional Requirements

Technical Capacity

People's Dialogue has developed much technical capacity over the years, both internally and through alliances with other NGOs and engineering firms. Nevertheless, any increase in the tempo of greenfield development would soon stretch these resources to their limits. It may ultimately be necessary for the Alliance to develop a NIRMAN-style development arm to accommodate growth, but this will depend in turn on the Alliance's ability to generate cross-subsidising revenue from its projects.

Political Assets

Perhaps the most important institutional requirement for further greenfield development will be greater political leverage to enable the Alliance to achieve a better flow of subsidies to greenfield projects. This entails strengthening the Federation on the ground - partly by eliminating the perception that Utshani Fund 'is' the subsidy - as well as focused research work on the impact of the current legal framework for township establishment. Work on both areas is in progress in the Alliance.

9.9.4 A New Greenfield Strategy?

Alliance greenfield developments to date are in many ways versions of the dominant 'project-driven' strategy. A site is obtained and prepared, houses are built, and then people move on site. This is precisely the opposite of the typical Federation development, where houses are built on sites already settled by members. It is very difficult to maintain a strong community with a high level of participation when members live away from a development. Many of the internal problems and costs of greenfield developments can be traced to this factor.

Recently, a consensus has developed around the desirability of reversing the process and settling land informally during the construction process. Until now, this has been impossible because of the high risk of eviction - even when the Federation owns the land. Recent Constitutional Court decisions, however, have made it clear that the right to adequate shelter takes priority over all other

considerations. The Alliance is now considering using this to reshape its greenfield strategy more in line with the people's housing process.

9.10 Future Financing Needs of The Alliance

It is extremely difficult to anticipate the future financing needs of the South African Alliance, for two reasons. Firstly, the policy context is changing, and it is impossible to say what the outcome will be. Secondly, the Alliance itself has made several major policy shifts - literally as this paper was being written - that will also affect its financial needs.

Nevertheless, several issues can be identified in general terms:

1. **Recovery of outstanding subsidy amounts:** The government currently owes Utshani Fund nearly R32,7 million (US \$4,1m) in unpaid subsidies. Recovery of this amount alone could fund a substantial portion of Federation developments for the next few years. Figure 8 shows that at its peak, Utshani Fund made about R17,5 million (US \$2,2m) in loans (houses, income generation, and land acquisition) in 1999/2000. The trend-line indicates that this figure will reach about R24 million (US \$3m) within two years, giving a rough figure of R45-50m in financing needs over the period.
2. **Repayments from the Federation:** Federation repayments, although poor, still contributed about R2,2m (US \$275 000) to available loan equity last year. Doubling the current repayment rate, combined with recovery of outstanding subsidy amounts, would give Utshani Fund sufficient equity to fund its projected loan activity. Obviously any increase in repayments beyond this would improve the situation.

Table 32: Utshani Fund Loan Financing

	2001/2002	2002/2003
Subsidy Recovery	R 16 368 750	R 16 368 750
Repayments: Current Rate	R 2 169 396	R 2 169 396
Repayments: Double Current Rate	R 4 338 791	R 4 338 791
Annual Loan Demand	R 21 000 000	R 24 000 000
Shortfall/Surplus (current repayment rate)	(R 2 461 855)	(R 5 461 855)
Shortfall/Surplus (double repayment rate)	R 292 459	R 3 292 459

3. **Existing Funding Commitments:** Utshani Fund has a variety of existing funding flows, including a large grant from the European Union, which will augment loan equity.

It is much more difficult to predict the growth of Federation greenfield development activity, which will almost certainly comprise a large part of funding needs over the next two years. The data presented above includes both loans and subsidies for such developments, however, so the trend-line can be taken as indicative of this as well.

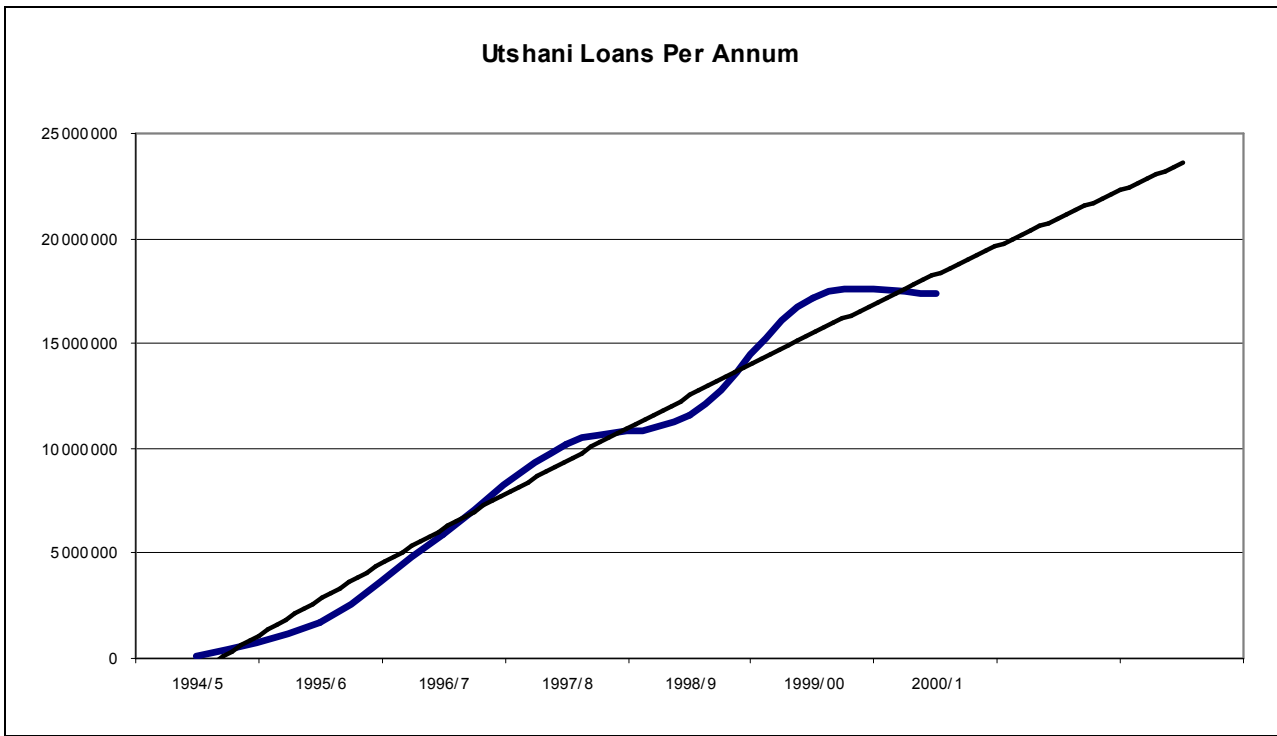


Figure 8: Annual Utshani Fund Lending and Projection

In summary, meeting the Alliance's funding needs over the next two years is as much a political as a financial issue.

10 Conclusions and Recommendations

10.1 Conclusions

10.1.1 Contradictions in the Alliance Process

Much current risk in the South African Alliance relates to the “combined and uneven” development of the Alliance’s capacity to meet the expectations of its members. As we have seen, the evolution of the Alliance process has been driven in part by a tendency to mobilise by and for housing opportunities, through access to Utshani Fund bridging loans, in anticipation of state housing subsidies. This tendency produces two contradictory results. On one hand, it increases the size and spread of the Federation, and helps to attract more resources to the movement. On the other hand, it has undermined the Alliance’s ability to use those resources sustainably, and thus to meet the expectations of its expanding membership. The Utshani Fund repayment crisis is a symptom of this contradiction.

Recognition of this contradiction has led People’s Dialogue to suspend Utshani Fund lending and new greenfield initiatives.

Some in People’s Dialogue argue that it is wrong to raise people’s hopes in a context where there are insufficient resources to deliver on them. But it is precisely these hopes that have helped to mobilise the Federation to gain access to resources. Ultimately, the challenge facing the South African Alliance is to come up with an appropriate relationship between expectations and action. The current situation has been damaged by a long-term tendency to transform Utshani Fund from a communal resource for the Federation to an intermediary form of the subsidy entitlement itself. The expectation that Utshani Fund will deliver an entitlement is incompatible with a financial system based on a revolving fund model. The South African experience has shown that in such a situation, funds simply may not ‘revolve’ sufficiently to meet the ongoing expectations of the membership. This in turn reduces the capacity for collective action.

The question is whether this contradiction can be ‘solved’ by modifying the revolving loan system – say, by mandating smaller loans with shorter repayment periods – or whether it is necessary to redirect Federation expectations to another target. More fundamentally, are the Alliances’ problems financial or political?

As long as the South African subsidy policy remains intact, the analysis presented here suggests that modifying the housing loan system will not solve the contradiction; it will more than likely undermine Federation mobilisation and make other options more attractive to ordinary members. On the other hand, eliminating housing lending altogether – or at least converting it to a post-subsidy facilitator of incremental shelter improvement – may refocus the Federation’s expectations on the ultimate source of the resources driving the Utshani Fund system – the subsidy itself. This is risky, but provides much greater opportunity.

There is a compelling logic to this course. Without the housing subsidy, the Alliance would never have considered Utshani Fund lending on the size and scale it has actually undertaken: sustainable, large, long-term loans to the poorest of the poor for complete houses are wishful thinking, and certainly not the business of the Alliance. Instead, Utshani Fund is supposed to be a bridging mechanism for the subsidy. But the South African subsidy system is as good as ‘not there’, in practise, for the majority of Federation members. It is not surprising, therefore, that the Utshani Fund is in financial trouble. The paradox is that one reason for this may be precisely the ease with which Federation members have been able to obtain a ‘proxy subsidy’ in the form of an Utshani Fund loan.

It makes little sense, then, to tinker with the Utshani Fund housing loan system - poor repayments are only a symptom of a deeper problem. It makes more sense to convert the current crisis into an opportunity, by refocusing the Federation's attention on its ultimate *raison de être*: to leverage the collective power of the poorest of the poor, not only to demonstrate that they can make better use of development resources, but to *demand* that those resources are delivered to them. Unfortunately, the Utshani Fund system has undermined this by hiding the true object of the demand - the state - behind the face and resources of a friendly NGO ally.

This viewpoint should not be confused with those who argue that the Alliance process undermines the interests of the poor by diverting attention from the state's responsibility to meet people's basic human right to shelter. The simplistic rights-based view ignores the fact that *unorganised* poor people have little opportunity to identify their options, decide amongst them, and participate in meaningful processes to fulfil their priority needs. It assumes that the state can (and will) do this. As we noted in Section 3, the foundation stone of the Federation process is the recognition that this does not happen automatically, and that there are no appropriate civil society mechanisms through which the poor can articulate themselves (including political parties). The Federation is thus mainly about mobilising people into a social movement to represent the poor in their quest for resources to improve their lives. This is the value it adds - not running a revolving fund.

This is thus not an argument against the Federation process. It is rather that the South African Alliance has undermined its social mobilisation goals by allowing Utshani Fund to become a proxy for the state housing entitlement rather than a method to empower poor people. When a revolving loan fund becomes the *object* of social mobilisation rather than its *means*, it is time for a change.

10.1.2 Risk and Opportunity: Financing Learning

The South African Alliance has adopted an explicitly risk-taking attitude towards its work. It has rejected the risk-assessment systems of the formal development sector, particularly those relating to housing finance. It has deliberately used Utshani Fund as a mechanism to explore opportunities and generate knowledge about what works and what does not. This includes both housing delivery and loan finance for the very poor. It has learned three major lessons.

- ◆ Firstly, an individualised revolving fund model does not work well in a subsidy environment.
- ◆ Secondly, an accommodating revolving fund detracts from the Federation's efforts to achieve a more equitable flow of resources to the poor.
- ◆ Thirdly, in such an environment, the challenges facing a movement of the poor are largely political. Any 'under-recovery' of funding relative to formal financial models is the cost of learning this way.

Given this stance, the South African Alliance has never seriously considered going to formal financial institutions to borrow money to finance its development activity, and will not likely do so as long as there is a subsidy system in South Africa. This would penalise the poor further by increasing interest costs, but would also be extremely risky - not because of the repayment problems facing Utshani Fund, but because of the government's failure to pay subsidies as promised by its own policy.

The most important questions for the Alliance at this time are, firstly, whether it has really learnt these expensive lessons, and secondly, whether it is prepared for the day when the subsidy stream is discontinued.

10.1.3 Quo Vadis?

The South African Alliance has developed around its twin abilities to create space for poor people to articulate their needs and explore their options, and to meet those needs more effectively than any other available process. This led to a massive effort to develop technical, material, and financial resources and systems to deliver housing to Federation members.

As we have seen, by far the bulk of this effort has been devoted to consolidation - building houses on serviced sites owned by Federation members. Many factors suggest that the Federation is not as competitive as it once was in this area, mainly because of increasing building materials costs and the growth of small building contractors. But far more importantly, the great majority of future Federation members will be people without land, for whom the consolidation option is therefore largely irrelevant.

The *substance* of the South African Alliance's achievement is not housing delivery, however. It is the mobilisation of the knowledge and resources of the urban poor to achieve access to something it would not otherwise have had. If, as is possible under a new policy, housing is no longer as hard to access - for those with land - as it once was, then the 'something it would not otherwise have had' will be *land*. This implies that future challenges will centre on land acquisition, servicing, and the issues associated with communal development and management of housing and other social resources on greenfield sites.

10.2 Recommendations

With these thoughts in mind, here are some tentative recommendations to the South African Alliance:

- ◆ **Increase Pressure for Land, Services, and Subsidies for the Urban Poor:** The most basic recommendation has already been made. The South African Alliance needs to refocus itself on transforming its core institutional assets - knowledge, experience, and mobilisation - into a more effective flow of resources to the Federation. As this paper has argued, distraction from this overall goal has played an important role in current problems.
- ◆ **Focus on Local Level Action:** The looming transition to a more locally based subsidy system will increase existing demands on local Federations and place new ones on the Alliance. Local authorities will adapt and modify the subsidy system in various ways, and blanket, provincial-level national agreements will probably not be as important. This will increase the demand for grassroots-level leaders able to negotiate with local authorities, and make more demands on People's Dialogue staff.
- ◆ **Improve Learning Systems:** Based on the analysis presented here, the South African Alliance should do more to ensure a return on its heavy investment in knowledge about grassroots social mobilisation and development. We have suggested some steps People's Dialogue could take through the POSI initiative (see Section 9.7), but this is only part of the learning process. Intensive exchange programmes to places where significant experimentation is occurring - for example, Piesang River on income generation and the Phillipi Triangle for greenfields - would expose more Federation members to these process, make them more transparent and accountable, and remind members in those areas that they are part of a larger Federation. Documentation of such exchanges is a high priority corollary.
- ◆ **Changes to the Leadership Relationship:** Related to this, the Alliance must begin to think carefully about its leadership structures. Federation leaders are clear that their role is to fight for the interests of Federation members, not to protect the financial integrity of Utshani Fund. Yet, things are not this simple. Federation leaders are also resource distributors, policy decision-makers, and interlocutors between the grassroots and People's Dialogue. They cannot adopt a purely 'political' approach to financial issues, not least of which because there are contradictions: when they fight for local interests that contradict collective Federation interests, whom do they represent? Moreover, if Federation leaders adopt a political role vis-à-vis People's Dialogue, who is left to arbitrate such contradictions? It cannot be the NGO alone - that is hardly the approach of the Alliance.

Part of the solution to this contradiction may be for political Federation leaders to be balanced by 'apolitical' paid functionaries, either People's Dialogue staff or Federation members who 'graduate' to this position. Their role would be to handle resource distribution issues at Federation level, so

that political leaders could remain free to fight for the interest of their members. They would be accountable to People's Dialogue, but also have the right to report directly to the Federation as needed.

Such a step may hit some resistance from leaders who value their resource-allocation role for reasons beyond the pure satisfaction of helping their members. Unquestionably, there are such leaders. A similar issue will arise when greenfield developments become the norm for the Alliance. Those who are comfortably housed, even if by the Federation, must accept that the philosophy of their own movement dictates that the poorest and most vulnerable should take the lead.

- ◆ **Change Utshani Fund Role - Land and Services:** We have already alluded to the Alliance's recent proposal to end direct pre-subsidy housing lending and concentrate on funding acquisition of land and services. This is strongly supported by the arguments presented here. Although this will be a painful step for many in the Federation (especially those who value their role in distributing such loans), it is dictated by the experience of the last seven years of Utshani Fund lending. This knowledge is what the Alliance has bought with its resources and effort. The *quid pro quo* for this, however, must be that the Alliance concentrates its efforts on the landless, who will not feel that such a step prejudices them in any way. Acquiring secure tenure and being put in position where thinking about housing is therefore *possible* is as much a task of the Alliance as helping those with land to build their own.
- ◆ **New Greenfield Strategy:** Related to this, the Alliance must do all it can to move towards a strategy of settlement on land before development. The legal obstacles to this are not the only ones, however. Sometimes Federation members resist this step because they are relatively well settled where they are and do not wish to go through a disruptive relocation to another shack. But the benefits of such a policy would outweigh the costs. Federation members also have to invest some things in the development process, and the commitment that comes with relocation is one of them.
- ◆ **Recalculate Repayment Rates:** Utshani Fund should take the relatively simple step of modifying their repayment rate calculations to include the subsidy as a repayment, as explained in Section 7.2.1. This is a costless exercise (indeed it has already been started through collaboration between the author and Utshani Fund), and would illustrate the collective nature of the Utshani Fund bridge financing system, as well as the role government's failure to pay subsidies has paid. There is no need to discard the 'Federation only' repayment rate; the new calculation can simply be added to the date available within the Alliance. Similarly, Utshani Fund should consider adopting some of the time-series analytical tools developed during the course of this research project.
- ◆ **Include Opportunity Costs in Financial Modelling of Greenfields:** Greenfields development must take into account the opportunity costs of interest-free bridging finance, not to shame the members benefiting them, but to remind the Alliance how much each week, month and year of delay in getting subsidies from government costs in terms of opportunities to build other houses with these resources. This is a very easy thing to do - calculate the potential interest earnings of bridged amounts over a certain time-period and divide them by the average cost of a Federation house. The resulting figure shows the number of houses that could be built if government paid its subsidies on time - and if the Federation builds as quickly as it can.
- ◆ **Increase Quantitative and Qualitative Investment in Staff:** Finally, it would do no harm to re-examine the nature and development of People's Dialogue professional staff. Staff members have unusual responsibilities and acquire unusual skills that are not easy to replace on the open market. Simple steps like the proposed sabbatical system, would go a long way to increasing the quality and consistency of their contribution to the Alliance.

Appendix 1 - CPI and Building Materials Costs

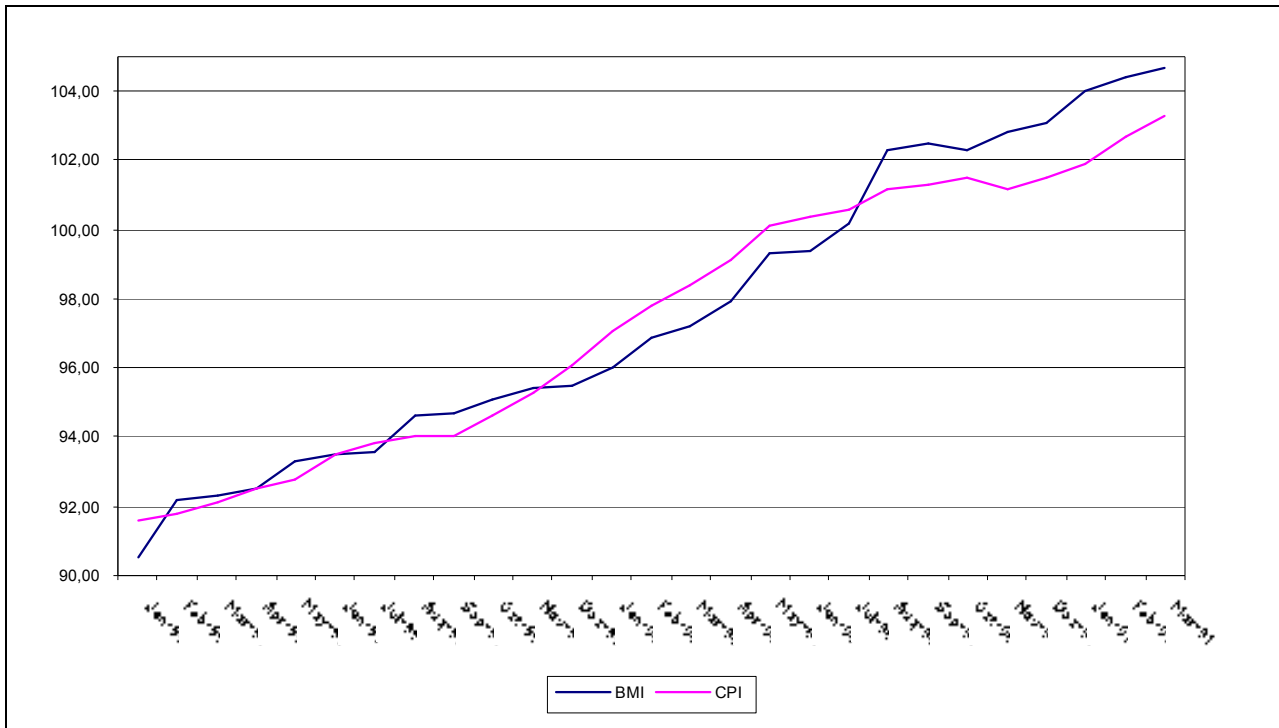


Figure 9: CPI Versus BMI, 1999-2001⁵⁷

⁵⁷ Source : Stats South Africa: www.statssa.co.za

Appendix 2 - PEST Analysis of the South African Alliance

Political	Economic	Social	Technological
Changes in housing policy will require extensive changes to uTshani Fund bridging finance system	Jobless, slow growth for the foreseeable future in South Africa	Uncertainty about institutional relationships within Alliance	Moves to computerise subsidy admin and housing finance systems will put pressure on uTshani Fund to adapt
Subsidy no longer to be automatic entitlement, greater mobilisation and capacity required to access	Currency and interest rate instability, forex restrictions may be re-imposed	Divergence of interests in Alliance	Increasing use of technology at local level of Federation and People's Dialogue
Increased emphasis on People's Housing Process in new housing policy	Building materials costs increasing steadily	Tendency to see uTshani Fund loans as entitlement	
Increased role of local authorities will require more, and more diffused, Federation engagement and support from People's Dialogue	Global economic slowdown likely	Increasing disenchantment with the ruling party	
Increased emphasis on social housing but lack of clarity as to its nature in South African context	uTshani Fund out of cash, poor repayment rates	AIDS will decimate Federation in many areas	
Uncertain land use policy, bias towards commercial use	Banks under increasing pressure to contribute credit to low-income housing	Increasing pressure on incomes leads to greater crime, repayment problems	
Changes to township establishment and planning laws expected	Zimbabwean crisis will affect investment and state revenue	Emergence of competitors to the Federation from within or outside	
	Difficulty raising equity for uTshani Fund	Burnout of key figures in Alliance	

Appendix 3 - Risk Profile of Alliance Finance Systems

Table 33: Risk Profile of Alliance Finance Systems

PRODUCT	CHARACTERISTICS	RISKS	MITIGATION STRATEGIES	TECHNICAL ASSISTANCE INPUTS NEEDED
NSUKUZONKE SAVINGS	<ul style="list-style-type: none"> ◆ Local savings pools based on daily savings by Federation members ◆ Approximately R7 million ◆ Held at <i>nsukuzonke</i> level 	<ul style="list-style-type: none"> ◆ Theft of savings ◆ Savings treated as minimal joining fee to obtain Utshani Fund loan/subsidy 	<ul style="list-style-type: none"> ◆ Maximum transparency and reflection ◆ Regional allocation of Utshani Fund loans based on local knowledge 	<ul style="list-style-type: none"> ◆ Support for exchange programmes ◆ Documentation ◆ Regular People's Dialogue staff interaction at <i>nsukuzonke</i> level
NSUKUZONKE LOANS	<ul style="list-style-type: none"> ◆ Revolving loans for crisis and income generation, made and administered at local level ◆ Rules and procedures determined locally ◆ Repaid to <i>nsukuzonke</i> 	<ul style="list-style-type: none"> ◆ <i>Nsukuzonke</i> treasurers risk-averse, refuse to authorise loans ◆ Loans made because of patronage or nepotism rather than need ◆ Failure to repay 	<ul style="list-style-type: none"> ◆ Separate community savings from housing savings ◆ Maximum transparency and reflection 	<ul style="list-style-type: none"> ◆ Support for exchange programmes ◆ Documentation ◆ Regular People's Dialogue staff interaction at <i>nsukuzonke</i> level
INQOLOBANE SAVINGS AND LOAN POOLS	<ul style="list-style-type: none"> ◆ Regional pools, based on <i>nsukuzonke</i> contributions, used as revolving funds for income generation loans ◆ 10% of <i>nsukuzonke</i> funds transferred to <i>inqolobane</i> ◆ Administered at regional level but subject to <i>nsukuzonke</i> approval ◆ Can be topped up by Utshani Fund loans 	<ul style="list-style-type: none"> ◆ Theft of savings ◆ Mismanagement of funds ◆ Corruption in loan process ◆ Failure to use funds for loans 	<ul style="list-style-type: none"> ◆ Separating administrative duties from leadership positions ◆ Separating lending decisions from banking responsibilities ◆ Maximum transparency and reflection ◆ Utshani Fund backup 	<ul style="list-style-type: none"> ◆ Electronic linkage of <i>ufundu zufe</i> accounts to People's Dialogue head office ◆ Regular audits by Utshani Fund staff ◆ Support for exchange programmes ◆ Documentation ◆ Regular People's Dialogue staff interaction at <i>ufundu zufe</i> level

PRODUCT	CHARACTERISTICS	RISKS	MITIGATION STRATEGIES	TECHNICAL ASSISTANCE INPUTS NEEDED
PEOPLE'S DIALOGUE SUPPORT FOR UFUNDUZUFES	<ul style="list-style-type: none"> ◆ Funding for office administration and local exchanges ◆ Transferred from People's Dialogue to <i>ufundu zufes</i> ◆ Managed by regional leadership teams 	<ul style="list-style-type: none"> ◆ Embezzlement of funds ◆ Banking fraud ◆ Misuse of funds ◆ Failure to perform assigned tasks ◆ Transfer of risk to People's Dialogue 	<ul style="list-style-type: none"> ◆ Separating leadership and administrative positions ◆ Multiple signatories from different <i>nsukuzonke</i> ◆ Performance criteria for <i>ufundu zufe</i> receiving stipend ◆ Maximum transparency and reflection 	<ul style="list-style-type: none"> ◆ Electronic linkage of <i>ufundu zufe</i> accounts to People's Dialogue head office ◆ Regular audits by Utshani Fund staff ◆ Support for exchange programmes ◆ Documentation ◆ Regular People's Dialogue staff interaction at <i>ufundu zufe</i> level
STATE HOUSING SUBSIDIES	<ul style="list-style-type: none"> ◆ Legislative entitlement to all RSA citizen and permanent resident households earning under R3 500 per month ◆ Currently administered by provinces ◆ Used for land, internal services, and housing ◆ Amount varies depending on income ◆ Not available to single persons without dependents ◆ Currently maximum of R18 500 ◆ Not sufficient for basic shelter requirements as defined by Department of Housing 	<ul style="list-style-type: none"> ◆ Slow release of subsidies leading to high interest costs and poor repayment ◆ Corruption and nepotism by Federation leaders ◆ Theft or embezzlement of subsidies ◆ Loss of credibility if projects not completed on time or satisfactorily ◆ Exposure of Federation 'horse-trading' amongst subsidy members ◆ Wastage 	<ul style="list-style-type: none"> ◆ Decentralisation of leadership functions ◆ Regional management of subsidy streams ◆ Separating administrative duties from leadership positions ◆ Separating subsidy management from banking responsibilities ◆ Maximum transparency and reflection ◆ Utshani Fund backup 	<ul style="list-style-type: none"> ◆ Resolution of Alliance leadership structure ◆ Electronic linkage of <i>ufundu zufe</i> accounts to People's Dialogue head office ◆ Regular audits by Utshani Fund staff ◆ Support for exchange programmes ◆ Documentation ◆ Regular People's Dialogue staff interaction at <i>ufundu zufe</i> level
HOUSING SUBSIDY BRIDGE FINANCING FROM UTSHANI FUND	<ul style="list-style-type: none"> ◆ Utshani Fund loans issued in anticipation of a subsidy ◆ Loans technically made to <i>nsukuzonke</i>, who are responsible for repayment and administration ◆ Typically used for housing only unless part of greenfields development, then used for land and services as well ◆ Not presently linked to application for subsidy or definite date of release 	<ul style="list-style-type: none"> ◆ Slow release of subsidies leading to high interest costs and poor repayment ◆ Corruption and nepotism by Federation leaders ◆ Utshani Fund bridging role discourages Federation imitative to obtain subsidies ◆ Overbuilding ◆ Wastage 	<ul style="list-style-type: none"> ◆ Decentralisation of leadership functions ◆ Make loans available only when subsidy approved and release date confirmed ◆ Decentralisation of subsidy application process ◆ Greater regional involvement in building process ◆ Utshani Fund backup 	<ul style="list-style-type: none"> ◆ Increased focus on government relations ◆ Resolution of Alliance leadership structure issues ◆ Construction support

PRODUCT	CHARACTERISTICS	RISKS	MITIGATION STRATEGIES	TECHNICAL ASSISTANCE INPUTS NEEDED
HOUSING TOP-UP LOANS	<ul style="list-style-type: none"> Can be either excess of loan amount above subsidy (typical) or additional loan to complete house (untypical) 	<ul style="list-style-type: none"> As above, for Utshani Fund loans and subsidies 	<ul style="list-style-type: none"> As above, for Utshani Fund loans and subsidies 	<ul style="list-style-type: none"> As above, for Utshani Fund loans and subsidies
GREENFIELD PROJECT FINANCING				
1. Bridge finance for land acquisition	<ul style="list-style-type: none"> Utshani Fund provides bridge financing for land acquisition in cases where Department of Land Affairs has agreed to provide fast-track subsidies for land acquisition for Federation housing development 	<ul style="list-style-type: none"> Minimal – paid up front Utshani Fund assumes ownership of asset before Federation ready to build Obtaining development permission often long and complicated 	<ul style="list-style-type: none"> Utshani Fund backup 	<ul style="list-style-type: none"> Planning and technical inputs Legal services Complex financing support
2. Bridge finance for internal service and housing delivery	<ul style="list-style-type: none"> In all cases Utshani Fund bridges services and housing development costs Subsidies not yet delivered in any greenfield development 	<ul style="list-style-type: none"> Long bridge periods lead to high opportunity costs during service and construction phase Increased scope for conflict over project within and between Federation and People's Dialogue Corruption in construction and building material supply Poor repayment 	<ul style="list-style-type: none"> Increased pressure on state to deliver subsidies Increased effort to resolve planning problems Achieve clarity on relationship between greenfield communities and overall Federation, People's Dialogue Greater transparency and apolitical control systems for building resources Utshani Fund backup 	<ul style="list-style-type: none"> Political support Planning and technical inputs Support for resolving Federation contradictions Building material sourcing assistance
MICROSAVE PROGRAMME LOANS	<ul style="list-style-type: none"> Special pilot programme under Department of Social Development for income generation loans Funds channelled via Utshani Fund to <i>inqolobane</i> Loans made by <i>inqolobane</i> to members via <i>nsukuzonke</i> 	<ul style="list-style-type: none"> Failure to use loans appropriately Corruption or misuse of funds Poor repayment Banking fraud Transfer of risk to People's Dialogue 	<ul style="list-style-type: none"> Utshani Fund backup Separating administrative duties from leadership positions Separating lending decisions from banking responsibilities Maximum transparency and reflection 	<ul style="list-style-type: none"> Electronic linkage of <i>ufundu zufe</i> accounts to People's Dialogue head office Regular audits by Utshani Fund staff Support for exchange programmes Documentation Regular People's Dialogue staff interaction at <i>ufundu zufe</i> level

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Interviews

People's Dialogue

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Others

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Websites

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www.statssa.co.za (Statistics South Africa)

www.dialogue.org.za (People's Dialogue/South African Homeless Peoples' Federation)