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**Evaluation of the
Social Housing Foundation's
USAID Grant-Finance Programme**

Final Report

Prepared by

Richard Martin

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Richard Martin

Acronyms

CEO	Chief Executive Officer
DFA	Development Facilitation Act
ELHMC	The East London Housing Management Co-operative
EEC	European Economic Community
EU	European Union
GMHA	Greater Middelburg Housing Association
GMHC	Govan Mbeki Housing Company (Previously Highveld East Housing Association)
JHC	Johannesburg Housing Company
LA	Local Authority
MHA	Msunduzi Housing Association
NASHO	National Association of Social Housing Institutions
NGO	Non-Governmental Organisation
NHFC	National Housing Finance Corporation
PMU	Programme Management Unit
PHP	People's Housing Process
RDP	Reconstruction and Development Programme
SARS	South African Revenue Services
SH	Social Housing
SHF	Social Housing Foundation
SHI	Social Housing Institution
TLC	Transitional Local Council
TOT	Training of Trainers
USAID	United States Agency for International Development
VA	Vusani Amadolopha
YMCA	Young Men's Christian Association

Executive summary

1. Background

USAID entered into a co-operative agreement for \$500,000 with the Social Housing Foundation on 4th December 1998, which was estimated to be the equivalent of R2,750,000 at the time. The Social Housing Foundation agreed to make R500,000 available as counterpart funding, bringing the total program value to R3,250,000.

In April 2002, an extension to the validity of the Agreement was agreed, together with amendments to the program agreement which included:

- Establishment of a grant-making committee, to make the process of processing and approval of grants more efficient
- Establishment of Group Training Programs for Social Housing Institutions.
- Best practice workshops and
- International tours

2. Methodology

The study was conducted primarily through two means: study of documents supplied by the SHF and the grantees, and personal interviews. Interviews were conducted on a structured basis, but were not administered as questionnaires.

Six grantees were interviewed with the primary intention of understanding the nature of their work, the developmental challenges that they faced, and the role of the USAID grant in assisting them to overcome those challenges. They were:

The East London Housing Management Co-operative
Msunduzi Housing Association
Vusani Amadolopha Housing Company
Yeast City Housing
Greater Middelburg Housing Association
Govan Mbeki Housing Company (Previously Highveld East Housing Association)

3. The role of the SHF, and impact of its programmes

Opinions regarding the role of the SHF among the SHIs varied. On the one hand there was gratitude for the fact that it helped to advise on setting up procedures, on the other there was a sense that the advisees knew more than the advisers.

There was unanimity regarding the principle of providing start-up grants. It was clear that they came at a crucial time for some institutions and allowed them to bridge a funding gap – buying time, in a sense, while other parts of the funding puzzle were being put into place.

The beneficiary institutions were unanimous regarding SHF's main contribution to their welfare. It was by the provision of start-up support and advice, the USAID grant and workshops. Two workshops were found particularly useful in the early

days: Guidance on the role of the Board, and Strategic Planning. Without this form of guidance they admit that they would have found it very difficult.

The SHF has built up an impressive body of material on best practice. The material was developed in a consultative manner and thus has benefited from inputs from a wide variety of practitioners. This has been quite an impressive achievement.

4. Evaluation of the impact of the program

There can be no question that the programme played a very important role in supporting and strengthening SHIs, and without it they might have either failed completely or be working at a lower level of effectiveness. The USAID grants were the only ones available at the time on a consistent and programmatic basis.

Comments on the impact of the grants is divided into three aspects:

Training and capacity building of Board and Staff

There is no doubt that this was the strongest part of the programme. The majority of the training undertaken by the SHF was considered very useful, and their generic courses were very well received. However, the workshops tended to have a disproportionate emphasis on the legal and regulatory framework as opposed to practicalities.

Payment for equipment, furniture, etc.

This was an essential item for many SHIs and was properly spent.

Payment to meet running costs such as salaries, office rent etc.

The interviews painted a picture which showed the severe financial stress of the early years of a SHI. By including these costs as eligible expenditure under the grants, the SHF and USAID were clearly helping to address this problem. However, what is very clear is that, in general, a grant of R200,000 was far from enough.

5. Constraints on the sector, and the role that the SHF played in dealing with them

There are five crucial road blocks which must be overcome for a SHI to succeed.

Formation, appointment of Board, appointment of staff

The SHF has played an important role in holding launch workshops, and advising on the start-up process.

Financial survival after formation

The financial risks inherent in social housing are very many. In some cases the local authorities or provinces or both have subsidised the early period of a SHI's development. These subsidies either take the form of cash grants, or the

handover of local authority housing to provide an income from rentals. Typically the SHF has played a minor role in this component.

Designing a good scheme

As noted above, SHF has prepared Guidelines for Good Design, for Making Social Housing Affordable, and for Designing for Special Needs. These documents are effective and well designed in themselves, and are useful tools which can be used when commissioning schemes.

Allocating units

The SHF has been active in the field of tenant education, and the recent manual has clear guidance on the procedures to be used.

Asset management and cost recovery

Under this heading we may include debt collection, tenant relations and dispute resolution, and maintenance. The training programmes funded by the SHF appear to have been relatively successful in assisting this part of SHIs operations.

6. Constraints for the implementing agent

The constraints faced by the SHF are that it is only an advisory body, and cannot intervene when it sees things going wrong.

Secondly, it is not a funder in the usual sense of the word. This need is, to some extent, being met by the EU Support Programme for Social Housing, but that has regulatory systems which might make it inappropriate for some of the SHF's clients.

Thirdly there is a shortage of experienced personnel who can be recruited by the SHF.

7. Recommendations for the future

A new policy has recently been announced, and details are currently under development. The policy effectively addresses the funding problems by proposing grants to cover operating deficits. If current plans are operationalised, social housing institutions will then be placed on a sound financial footing, and will be able to plan developments with confidence while also serving the target market. The policy also addresses the need for a regulatory body which would be empowered to intervene in cases of gross mismanagement.

A role for USAID: Capital finance

The twin purposes of the grant program under review (funding emerging SHIs, and strengthening the SHF's ability to provide technical assistance and best practice information) have now been met by the SHF and Government itself. The SHF and USAID should feel proud that the USAID grant pioneered a concept that has subsequently been made policy.

In these circumstances, is there any role for international donors, and USAID in particular?

A consistent problem that has been highlighted by the industry, and some of the more advanced SHIs, has been the lack of development capital. This is an area in which USAID can make a significant contribution through its Development Credit Authority. Under this scheme, USAID would guarantee a loan by a private bank to a SHI, or to an umbrella body which would on-lend to SHIs (e.g. the NHFC).

One such deal was nearly made in connection with the Johannesburg Housing Company's (JHC) Brickfields Project, though in the end the bank (ABSA) proceeded without a guarantee. Clearly this decision was informed by the financial strength of JHC and the inputs of other funders. However, not every SHI might be as well placed to borrow as the JHC, and the guarantee could be a major comfort to lenders.

Fixed interest rates

The other issue in connection with long-term finance has been the destabilising effect of variable interest rates. It is extremely difficult for a SHI to deal with substantial increases in interest rates given the limited elasticity in the disposable incomes of their tenants. USAID might assist in developing creative ways of addressing this need.

8. Conclusions

Social housing is an emerging sector which faces many difficulties. These are attributable to the lack of experience of this model in South Africa, and the complexity of the field.

Important reforms are being proposed by the South African government, which benefit greatly from the experience gained under this program and from the work of the SHF as a whole. If these reforms are implemented they will make a very important contribution to the viability of the sector. However, it is important to recognise that private sector finance will be required if the sector is to expand to meet demand, and USAID might assist in developing models and support for this.

1. Background

USAID entered into a co-operative agreement for \$500,000 with the Social Housing Foundation on 4th December 1998, which was estimated to be the equivalent of R2,750,000 at the time. The Social Housing Foundation agreed to make R500,000 available as counterpart funding, bringing the total program value to R3,250,000. Of the USAID component of the program, 52% was to go to grants for emerging Social Housing Institutions, and 35% for technical assistance. The remainder was for salaries, administrative support and audit.

In April 2002, an extension to the validity of the Agreement was agreed, together with amendments to the program agreement which included:

- Establishment of a grant-making committee, to make the process of processing and approval of grants more efficient
- Establishment of Group Training Programs for Social Housing Institutions.
- Best practice workshops and
- International tours

As a result of these changes the proportions of expenditure to be spent were slightly changed as follows. Grants 49%, Training Programmes 27%, Best practice workshops 14%, and international tours 10%.

This is a final evaluation from which it is hoped to draw conclusions about the performance of the SHF, the effectiveness of the programme and its impact on the social housing sector in South Africa. The opportunity was also taken to find out what the future needs of social housing in South Africa might be, and how possible donor support could be used to meet those needs. This is set in a context of rapidly evolving policy development.

2. Methodology

The study was conducted primarily through two means: study of documents supplied by the SHF and the grantees, and personal interviews. Interviews were conducted on a structured basis, but were not administered as questionnaires.

The beneficiaries selected for interview were as follows:

East London Housing Management Cooperative

Greater Middelburg Housing Association

Highveld East Housing Association (Now the Govan Mbeki Housing Company)

Msunduzi Housing Association

Vusani Amadolopha, on behalf of

Itself

Nkehasani Housing Association

Semunye Housing Association

Vukuzakhe Housing Association

Yeast City Housing

These institutions were visited and interviewed with the primary intention of understanding the nature of their work, the developmental challenges that they faced, and the role of the USAID grant in assisting them to overcome those challenges.

In addition interviews were held with members of staff at the Social Housing Foundation, USAID and the PMU for the EU funded "Support Programme for Social Housing."

Issues covered in the interviews are summarized in the table overleaf:

Theme	Donor	SHF Management	SHF field staff	Bene- ficiaries
Original Agreement				
Help establish local SH institutions				
Assist with establishment costs, feasibility studies and business planning				
Increase capacity of SH providers to enable greater delivery on the ground				
Provide training, development, TA and capacity building to enhance sustainability of emerging SH institutions				
Promote innovative pilot projects likely to have a nationwide impact				
Encourage formulation of good practice in SH				
Grants				
Problem of identifying beneficiary				
Problem of preparing budget				
Problem of control of funds				
Reporting and supervision				
Revised Agreement				
Institutional set-up grants				
Group training programmes for SH institutions:				
SH Executives				
TOT for tenant education				
Caretaker training				
SH governance				
Exposure visits				
Best practice				

I was greatly assisted by the SHF who arranged the interviews for me.

3. The case studies

Six case studies were undertaken in the course of this evaluation. They provide useful illustrations of the environment within which the grants were made, and the impact they had on the recipients.

3.1 The East London Housing Management Co-operative (ELHMC)

The co-operative was formed under the auspices of Afesis Corplan and consisted of persons who wished to obtain houses but preferred to occupy them as a co-operative rather than go the private ownership route. Initially they received strong support from the East London TLC, which granted them land, but since December 2000, the newly elected Buffalo City Municipality has been less supportive. For example, they have not been responsive to requests for a site for a second project, and have not connected water to the 80 units already occupied. Nevertheless the Municipality has been playing the role of the account administrator in terms of subsidy payments, while Afesis Corplan has been the certifier.

The Co-op has an approved project of 216 houses, of which 196 are completed or are under construction. This was the only co-operative included in the study, and differs from the other examples of social housing in that it serves the lowest end of the market – i.e. persons who are eligible for the full subsidy. The houses being built are RDP style, and they are being built by small labour-only contractors, while payment and materials procurement are being handled on the People's Housing Process system.

At an early stage, the Co-op established the principle that it would use the project of developing housing to be an empowerment tool for the members. In other words they aimed to learn how to develop and manage housing *on the job*, even though most of them had little education and low incomes.

When the Co-op had been established its first step was to prepare a business plan which could be used to apply for funding from donors. A plan for R300 000 was prepared which, it is now admitted, underestimated the difficulties of obtaining income in the early years.

However, on the basis of this business plan, and protracted correspondence, a grant of R200 000 was approved by SHF on the condition that, in light of the institutional weakness of the co-op, it should be handled by Afesis Corplan on behalf of the ELHMC. No other grant funding has become available, although approaches were made to several other donors.

Although the ELHMC is the developer, when the houses are completed each group (of between 18 and 36 units) forms a co-operative of its own for management purposes, thus removing the responsibility for maintenance and cost recovery from the parent co-operative. There are nine such co-operatives. Each co-operative owns the units under its control, but members

may buy their units after 4 years, provided they pay the conveyancing costs, and provided that two thirds of the membership agree to permit it.

The local co-operatives are responsible for paying the rates, while individual occupants pay the municipal service charges.

The ELHMC has about 1 300 members. Those who have not been allocated a house are placed on a waiting list. Each member pays R36 as a once-off joining fee. The Co-op also helps people to save, and requires people to have saved R2070 before being allocated a stand. They charge a small fee for administering the savings scheme.

Meanwhile the finances of the co-op are in poor state. It cannot afford any staff, and Board members are acting as staff on a voluntary basis. This vividly illustrates the problems of programming funds at the start-up phase of a SHI. For while they had no projects – due to approval delays – they had an office, staff and no work; now that they have work but funds have run out, so they have no staff.

The problem of timing was also reflected in the training programme. The ELMHC sent eligible households for training in building in advance of the project. There was an interval of many months between the training and the start of construction. As a result the trainees obtained jobs elsewhere, and outside labour was used to build the houses. While this is, per se, a reflection on the effectiveness of the training that they received, it points to the difficulty of matching grant funds to programmatic activity. In other words the ELMHC, in order to meet the conditions of the grant, had to spend the money when it did if it was not to lose it. As a result the expenditure was made on an office that was hardly used, and the broader objectives of the grant could not be met as the expenditure was premature.

ELMHC has criticised the SHF because it discouraged it from buying a shipping container for use as an office, and instead urged that they should rent a “proper” office in town – which they did. If they had implemented their plan to use a container, at least they would still have that. However, the SHF has pointed out that the budget in the Grant Application was for office rent, not, e.g. for “acquisition of shipping container for use as office.” Furthermore, SHF felt that USAID might not have wanted to be associated with a project operating out of a container.

However, they did receive an establishment grant of R110 000 under the People’s Housing Process which allowed them to establish a site office and pay for essential staff during the project. Board members also take a small allowance for the PHP grant in the guise of supervising the house construction. Afesis Corplan acts as certifier for the project and receives a small income from that activity.

In terms of developing their institutional capacity, a procedures manual which covers maintenance, fee collection and transfer procedures was prepared with funds from the USAID grant. This gives them the basis for good practice in the future. It is likely that they will receive support from the NORAD co-operative housing program which could place them into a stronger position both financially and institutionally.

3.2 Msunduzi Housing Association (MHA)

There are many contrasts between the MHA and the ELHMC. Of these the most striking is the fact that Msunduzi received an annual grant of R400 000 from the Msunduzi Municipal Council (previously Pietermaritzberg TLC). This allowed it to bridge the very difficult gap between formation and receiving rent income. In addition, the municipality has seconded two members of staff to the MHA.

The history may be summarised as follows. The Association was started under the guidance of a technical adviser from Britain who worked for one year (1998/99). For a number of reasons little progress was made at that time. Subsequently they had the services of two other technical advisers from Britain, however they also had difficulty making an impact. Their position was not helped by the fact that they were young women working in an industry in which women are not highly respected. They were followed by a technical adviser from the Netherlands. The present chief executive was recruited in mid 1999, and a finance officer three months later.

The MHA negotiated a site for 300 units from the Municipality but faced two major problems. The first was that the Provincial Housing Board appeared to be unaware of their right and duty to give grants for social housing, and delayed approvals for over two years¹; and the owners of property adjacent to the proposed site objected to the development. The matter was being handled under the Development Facilitation Act (DFA), but the objectors chose not to attend the hearing which had been established under the Act, and instead chose to take the matter to court. Fortunately, on the grounds that they had raised no objections at the DFA hearing, the court case was dismissed with costs, but the delays had cost the MHA dearly. Construction did not start until June 2003.

The difficult experiences of the early years appear to have taught the parties concerned a lesson. The Municipality continues to be supportive and has allocated an additional two portions of land. The Province has asked them to estimate the number of subsidies they will require next year so that they can be ring-fenced. And, in recognition of bridging finance and capacity problems

¹ Other factors might have been at work. Other SHIs in the Province did not seem to have the same difficulty.

being faced by MHA, it has been promised a grant of R1 200 000 from the EU project.

Their income is received from two sources. The first is 80 units of housing which used to belong to the Municipality. These were transferred free of charge to the MHA. Even though the Municipality used to receive only about 60% of the rent due on a monthly basis, MHA typically gets 100%, and never less than 90%.

Income from their new project is also good. 70% of the units were occupied at the time of the interview, and, because some tenants are paying in advance, payments have typically been better than 100%. The MHA is proud of its record in cost recovery – they have had only one bad debt of R1500.

However, even though this is one of the strongest of the SHIs interviewed, they face major challenges. The margins are so small that they cannot afford the staff they really need to operate efficiently. As a result they are experiencing staff burnout, and absenteeism has become a problem. They urgently need to employ a tenant liaison/community development worker and a caretaker, but do not have the funds to do so.

Also, in spite of the subsidies they have received, they do not have a sufficiently strong capital base to be able to operate on good business principles, and at the rents that they can charge there is no margin for reserves. An important problem has been the inability of local, provincial or national government, or the private sector to provide social amenities for the project. In particular a crèche and commercial facilities are needed, as these are important factors in terms of the marketability of the scheme.

The USAID grant was only R35 000, but it enabled them to buy the computer hardware and software that they needed, and which is still in use. However the machines are now at the end of their useful life, and more sophisticated software is available – which in turn needs modern hardware. The MHA has been one of the most regular participants in SHF activities such as training events and international exposure visits, but claim that they have learned little from it.

There were clashes regarding the format of their business plan which was required for their application for an EU grant under the Support Programme for Social Housing. The current CEO has a master's degree and an MBA; their Chairman, the Mayor, is a law professor: therefore they objected strongly to being told that their business plan was inadequate, and that they had to spend additional funds to have one prepared which met the SHF's demands, and use a SHF designated consultant. SHF maintains that the first business plan submitted was too vague a document on which to base a grant

agreement in that it simply requested funds for capacity building without specifying what capacity would be built and how and when.

Another criticism they made of the SHF was that the USAID grant should have been paid to them directly – as the comparatively large EU grant will be – instead of being retained by the SHF.

3.3 Vusani Amadolopha (VA)

Vusani Amadolopha offers a management support service to a number of existing SHIs. It provides service to SHIs responsible for inner-city buildings, all of which are in Hillbrow, Johannesburg. SHF has developed a categorisation for SHIs, as follows:

- Tier 1 - Providing management services
- Tier 2 - Owning housing stock and managing it
- Tier 3 - Owning housing stock which is managed by others

Thus VA is a tier 1 institution, providing services for tier 3 institutions.

VA's client list is as follows:

Name	No of units	Amount of grant
Vukuzakhe	56	R85 000
Nkehasani	42	R72 000
Semunye	56	R81 000
Vusani Amadolopha		R200 000
Harrison Reef	108	
Park Avenue (managed for a private landlord)	42	
Everglades (managed for a private landlord)	26	
Waterford Court (managed for a private landlord)	33	

Both the VA and its constituent members applied for grants. The SHF reported that it was difficult to distinguish between the needs of the different applicants, and there had been a tendency to duplicate services under the grant applications – e.g. they all requested computers, whereas the logic of the arrangement was that such services would be centralised.

As shown in the above table, Vusani has also taken the initiative to provide services for a private landlord. This offers the potential for cross subsidisation, as well as increasing the scale of the operation without entering into the protracted procedures which are sometimes a feature of social housing projects.

In most cases the Province had given the SHIs (effectively the existing tenants) the subsidies to buy the blocks, on the understanding that the

tenants would be capable of meeting their responsibilities in terms of collecting and paying monthly payments for rates and services, and maintenance. In addition, it had been necessary in most cases to take bank loans to complete the purchase. However, through various types of mismanagement, payments – whether to banks or the City Council – were often not made. As symptoms of mismanagement, two of the SHIs were in liquidation when VA was formed – Vukuzakhe owed R1000 000; while Semunye was in debt to the extent of about R600 000. Hence the need for a more businesslike Tier 1 body to take responsibility for collection of rents, payments to all creditors, and maintenance of the buildings.

While providing management support services as described above, VA is also undertaking capacity building of the existing SHIs in terms of training their Boards and management. In due course this may allow VA to withdraw.

VA has received R1 350 000 million for management costs, and is receiving a grant of R1 700 000 from the EU project for capacity building, staff policies and equipment. They have a staff of four persons in Hillbrow: 2 tenant liaison officers, 1 accounts clerk and 1 secretary. In addition they have a part-time Acting Manager, and an overall co-ordinator who initiated the project and continues to spend a lot of time on it, but who is not a staff member.

They have estimated that until they have a total of at least 1 700 units, and preferably 2 000, they will not be financially viable. Even though – like other SHIs – they receive good co-operation from the tenants, the margins are too small for their operations to be sustainable on their present footing.

In regard to the role of the SHF and the future of social housing, they feel that too much emphasis may have been placed on overseas models, and that the priority now should be to develop local ones. The fact that the SHF staff often do not have on-the-ground experience is also a weakness. However, the introductory and other seminars were very good, and made a significant difference to people's understanding of social housing.

In relation to the grants, it is alleged that the SHF was slow to pay: hence not all the funds approved were spent. The SHF state that this was partly attributable to the time taken to resolve potential duplication of requests contained in the original grant applications referred to above. As with MHA, VA say that SHF's insistence on disbursing the grant directly to suppliers, thus withholding the responsibility for managing the funds themselves, was demeaning.

3.4 Yeast City Housing

Yeast City Housing is a church-based inner-city housing institution which aims to demonstrate the viability of integrated and inclusive development

within the inner city. They come from a background of charitable support for the needy.

They started in the housing field by taking over a YMCA building which was R300 000 in arrears with its payments; then a second building was taken over, and more recently a new building was developed.

They have experienced many problems since their formation in 1998, chiefly to do with cash flow. They have experienced only limited support from the City of Tshwane, but very strong support from the Province in the form of subsidies and support of the Gauteng Partnership Fund. They received R100 000 grant from the SHF for training, payment of consultants to prepare a business plan, to buy furniture and to meet running costs. This grant was very useful and was one of the tools by which they have managed to become an effective and efficient organisation.

They have 293 units in nine blocks. Three of these are transitional or special needs schemes, and one is unsubsidised: thus they cover the widest range of incomes of any of the SHIs studied. New projects recently undertaken include converting an office block into residential units and a green field project: the remainder are existing housing schemes in the inner city of Tshwane.

They are the only SHI covered in the case studies which provides so-called transitional housing, and were, when they started, something of a pilot institution in this field. They have two blocks: one a converted boarding house, and the other the upgraded YMCA hostel referred to above. Under the subsidy rules the units are available to individuals earning less than R1 500 per month, or families earning less than R2 500 per month. The accommodation is in single rooms with shared bathrooms, and rents are between R400 and R550 per month. Lower income tenants can be more vulnerable to changes in their economic status, and this is reflected in fluctuations in their rent payments. On average the record in this category is only slightly worse than for the better-off tenants. While the demand in this category is very high, transitional housing can only be economically viable where suitable buildings come onto the market which can be converted at moderate cost.

Financially Yeast City Housing are facing many difficulties. The business plans, on the basis of which they have secured funding, were prepared with inadequate margins in terms of provisions for staff salaries and operating expenses. In addition, since their focus is on the needs of the lowest income groups, rentals are low. At between R400 – R500 per month there is very little room for the magnitude of increases which are needed to make a major impact on the financial viability of the institution. As a result they are operating at a loss of about R20000 per month.

Looking to the future, they see that there will need to be an increase in salary levels if they are to retain existing staff or attract people of the necessary calibre. More importantly, there is a continuing need for equity funding, as without this SHIs cannot plan effectively, nor grow to the level at which they will be sustainable. For example, the Johannesburg Housing Company received a start up grant from the EEC which gave them the assets with which to negotiate for long term finance.

They felt that SHF's tenant training workshops, which were paid for from the grant, were not very satisfactory. They considered the cost of between R15 000 and R19 000 was very high for a one-day workshop, and that the workshops were more information-transfer than real empowerment. Regarding the cost, SHF feels that such criticisms overlook the fact that payment is not just for the trainer's fees, it must also include overheads such as hire of a venue, cost of meals, transport etc, all of which have to be recovered. It should also be noted that generic training courses were not charged for: they only charged for those which were designed for the needs of a particular SHI.

3.5 Greater Middelburg Housing Association (GMHA)

The GMHA was established by the Middelburg TLC in interesting circumstances. The CEO was working at the time for the Mpumalanga Housing Finance Corporation, a parastatal which provides funds for lower income housing developments. The MHFC sent him to study social housing in Germany for three months. On his return, together with a German expert, he did a road show to the Local Authorities (LAs) in Mpumalanga on social housing. The first local authority to take up the challenge was Middelburg, and the CEO, Thomas Ntuli, was invited to start the organisation, and offered a start-up grant of R10 000. This was in 2000.

The LA allocated 6.5ha to the Housing Association, and it applied for a subsidy of R7.2 million together with R1.3 geotech allowance, which was granted in 2001, together with a loan of R36.5 million from the National Housing Finance Corporation (NHFC). With these funds they designed a scheme of 501 houses, called Hope City, which comprises 450 subsidized units and 51 non-subsidised – intended for those earning between R3 500 and R7 000 per month. Construction of the scheme was completed in 2003. It is a very well designed scheme, and the rents are competitive at R1225 for a two bedroom and R1375 for a three bedroom unit. The two bedroom unsubsidised unit is R1500 per month. However, as with Msunduzi there are complaints about the lack of shops and social facilities nearby.

Unfortunately, demand for the housing fell far short of the supply, and currently only 380 units are occupied. Currently a business plan is being prepared to identify how to dispose of the unoccupied units. Ideas being

looked at may include selling the units, rent-to-buy or similar alternatives. The business plan is expected to be completed in February 2005.

This year the GMHA received an annual grant from the Province of R4 200 000, up from R 3 000 000 the previous years. Without this grant they could not survive.

Meanwhile, Middelburg Municipality donated a hostel block, Chromeville, to the GMHA. The association had them converted into family units, using R2,7 million subsidy, plus R1,4 million of their own funds. The units are now fully let and the rents form a useful source of income.

They have bought their own offices which also serve as a training centre, and sub-let a portion of them. Thus their overheads are limited. They employ four permanent members of staff: the CEO, two accounts staff and one credit controller. They have two housing supervisors at the Hope City project, and one at Chromeville.

They have a collection rate of about 92%, which is far better than anything the Municipality was getting for its units. Annual rent increases are negotiated with tenants. The agreed increase for last year was R125 for all units.

Like MHA, GMHA has participated very actively in SHF activities, and acknowledge that they have received very valuable support.

3.6 Govan Mbeki Housing Company (Previously Highveld East Housing Association) (GMHC)

The initiative for the GMHC came from the Municipality, with support from Sasol who provided a full-time administrator, offices and telephones. It was, in effect an amalgamation of two housing associations, one of which had been started by Sasol.

The first Board was dominated by Councillors which resulted in several problems in terms of interference and political conflict. These conflicts were, in part, due to unresolved issues arising from the amalgamation, and competition between different towns: within the Municipality of Highveld East there were competing locations (especially Evander and Secunda). There was also a lack of understanding of the role of the Board.

The SHF undertook training of the Board Members, but this appears to have been insufficient to prevent the conflicts that dominated it. An indicator of this problem was that the grant was not fully utilised before the period for expenditure elapsed.

About seven months ago a new CEO was brought in. He identified the need to restructure the Board at an early stage, and has since completed that task,

with a great deal of support from the SHF. During the period of transition relationships were very difficult. A new business plan has now been prepared to be used as a basis for the restructuring. This was recently workshopped, and adopted.

The GMHC has received considerable support. They receive a monthly grant of R50,000 from the Province, and a full time staff member from the Govan Mbeki Municipality (previously Highveld East) has been seconded to them. The Director of Social Housing for the Province is on their Board, and has reserved a subsidy of R20 million next year for them.

They have received a donation of three housing schemes from the Municipality. One is a scheme of eleven houses which are more of a liability than an asset as they are in very bad repair, and only five out of eleven tenants are paying rents (which are only R250 per month). The second scheme is a hostel for which the unit rent is R260 per month. Transfer of this had not been undertaken at the time of the interview, but they expected to start collecting rents within the next month. The third scheme is 66 council-owned houses which they are due to take over on 1st December 2004, and expect to get a monthly income of about R19 000 from that. However, they will have to employ a caretaker to live on the site to address maintenance needs.

They have also been given a site in Evander on which to build a new project. A feasibility study has been completed for the project, at a cost of R200 000, but neighbouring landowners are objecting to the development.

Being aware of the delays that such objections can cause, the GMHC have decided to start with a project in Secunda, where the demand is much higher anyway. Also, learning from the mistakes of Middelburg in terms of building more units than was needed, they plan to build 100 units initially to test the market. They will start to float the idea with neighbours and stakeholders very shortly.

In spite of the subsidies they are receiving the GMHC operates with very thin margins. If, as has already happened, project design and implementation is delayed, their financial future is not rosy.

The SHF has been involved throughout. A Strategic Planning workshop was financed from the grant. From the record of the workshop it appears that the plan was well done, with clearly defined objectives. However, institutional paralysis appears to have prevented the plan from being implemented at that time. Their reaction to the national workshops they have attended is that there is an overemphasis on governance, and under-emphasis on how to perform the tasks required. More recently, as noted above, the SHF played a major role in the reconstitution of the Board.

4. The role of the SHF, and impact of its programmes

4.1 General

The SHF has a mandate to offer support to the social housing sector, a major challenge in light of the newness of the concept and therefore lack of a cadre of people and institutions with the skills required. It has been supported by donors who have provided technical assistance and study tours of relevant institutions overseas.

As time has progressed it has been able to act as a clearing house for ideas and experience gained within South Africa, and thereby build up a repertoire of best practice which is locally based.

It also offers management guidance to SHIs either through direct technical assistance or through workshops. Some workshops are held for a single SHI, while others are attended by many.

Opinions regarding the role of the SHF among the SHIs varied. On the one hand there was gratitude for the fact that it helped to advise on setting up procedures, on the other there was a sense that the advisees knew more than the advisers. This reflects the fact that the SHF sometimes did not have a pool of experienced persons from which to recruit staff, any more than SHIs had done. Thus on-the-ground experience has been a rare commodity.

4.2 The grants

There was unanimity regarding the value of providing start-up grants, which were available at a crucial stage to SHIs with no other resources. It was clear that they came at a crucial time for some institutions and allowed them to bridge a funding gap – buying time, in a sense, while other parts of the funding puzzle were being put into place.

The grants were capped at R200 000 and thus could be no more than a contribution to limited components of the SHIs development. Typically the funds were used for training and purchase of equipment. Sometimes they were used for salaries for Board members and staff, or paying rent for office space.

At an early stage the SHF decided to make payments against invoices – i.e. not pay the funds into the bank account of the beneficiary SHI, but to pay suppliers direct. In some cases this included payments for SHF's own courses.

Beneficiaries complained about this method of controlling the funds, maintaining that by so doing the SHF weakened rather than empowered them in the handling of funds. However, what was clear is that this

procedure made control by the SHF simple and direct, and ensured that no financial abuses took place. As a result the SHF was able to provide prompt and accurate accounts to USAID when claiming reimbursement, and the project was implemented flawlessly from an accounting point of view.

The nature and size of the grants is assessed below in relation to plans for the future.

4.3 Best Practice material

The SHF has built up an impressive body of material on best practice. This includes design, business processes and procedures, handbook for Board Members, Conversions, Co-operative Housing, Sustainability, Effect of HIV/AIDS, and Human Resource Management etc. Much of this work has now been consolidated into an Operations Manual which was published in September 2004.

The material was developed in a consultative manner and thus has benefited from inputs from a wide variety of practitioners. This has been quite an impressive achievement.

Preparing the material is only half of the battle: the other half is to ensure that it is used. In this respect training workshops have been very useful, and it is significant that whereas beneficiary institutions often referred to workshops they had attended as being very useful, no one referred to best practice material per se. This reflects common experience – guidelines and manuals only start being used when people have collectively and individually taken ownership of the contents and the guidance contained therein.

4.4 International exposure visits

An element introduced in the contract amendment of April 2001 was that international tours should be arranged for members of the industry to expand understanding of social housing concepts and practices in the US. The SHF itself undertook an exploratory visit first.

In a country struggling to find guidance on how to operate the sector, international visits are a very useful tool to learn from the successes and difficulties of other countries. Clearly it would be a mistake to adopt the practices of one single country without adaptation to the specific needs of South Africa. In this respect, a comparative approach is very useful. Other donors have made similar offers, including the Norwegians, the Dutch, the Canadians and the Germans. The chance to see the US models, which tend to come from very different traditions from the European ones, was therefore very useful.

The visit, undertaken a year after the initial fact-finding trip, was made by a team of ten people, four from SHIs, one from the Co-operative Housing Foundation, two from the SHF, two from the NHFC and one from NASHO. The trip lasted for two weeks. The lessons learned included the need for good quality construction so that it would not deteriorate over time, and the need to integrate social housing so as to prevent the occupants from being stigmatised.

4.5 Impact of services provided to emerging housing institutions

The beneficiary institutions were unanimous regarding what they considered to be SHF's main contribution to their welfare: it was the provision of start-up support and advice, the USAID grant and workshops.

The SHF conducted a large number of introductory workshops with interested groups, which acted as a first stage in initiating action to start a SHI. These often acted as a trigger for the foundation of institutions that were recipients of USAID and other support.

Two workshops were found particularly useful in the early days: Guidance on the role of the Board, and Strategic Planning. Without this form of guidance they admit that they would have found it very difficult.

Due to the limited scope of the study it was not possible to evaluate the SHF's impact as a whole, but the evidence suggests that its existence as a source of technical assistance and advice was considered crucial by many emerging institutions.

4.6 Pilot projects run by SHF on a national level

The most important national activities were:

Disseminating information about social housing

There is widespread ignorance about social housing in South Africa. The SHF has played an important role in informing interested parties about how social housing works and the part that it plays in the provision of housing. It has also explained the procedures by which social housing institutions are formed and how projects are delivered.

These introductory workshops are crucial because, outside the major metropolitan areas, there is widespread ignorance about any delivery system except the RDP.

Establishing norms and standards

As experience grows in the practice of social housing so it is possible to learn from the experience and prepare guidance about procedures, and codify practice.

This responsibility has been grasped by the SHF, and the recent Operations Manual is an example of such a service.

5. Evaluation of the impact of the program

There can be no question that the programme played a very important role in supporting and strengthening SHIs. Without it they might have either failed completely or be working at a lower level of effectiveness. It was universally acknowledged that the concept of a grant to assist emerging institutions was an excellent one, and that it had a very positive impact. The USAID grants were the only ones available at the time on a consistent and programmatic basis.

To be more specific, the grants served three needs:

- To pay for training and capacity building of the Board and staff
- To pay for equipment, furniture, etc.
- To meet running costs such as salaries, office rent etc.

We shall comment on these three items:

5.1 Training and capacity building of Boards and Staff

There is no doubt that this was the strongest part of the programme. The majority of the training undertaken by the SHF was considered very useful, and their generic courses were very well received.

Against this generally very positive evaluation, however, we have some comments to make:

5.1.1 Content of workshops

The writer was given copies of workshop reports for many of the workshops that have been conducted in the last three years. He was also given the syllabus of Group Training Programs for SHIs which was submitted to USAID in July 2000.

Our comment on these workshop outlines is that they seem to allow considerable time for matters which have no practical value, and very little time for matters that might pose pressing problems to the participants.

For example, the following is the content of the Caretaker Course which was delivered in September 2001.

Day 1: Introducing Social Housing, Rental Housing Policy, Institutional Subsidy

Day 2: Communications skills, Time management, Stress management

Day 3: Visit to three Gauteng based Housing Associations

Day 4: Use of water and electricity, prevention of fire, community policing

Day 5: Roles and responsibilities of key role-players within your housing association, role of the caretaker.

The syllabus proposed to USAID had, among the expected outcomes:

- Can assess maintenance needs of individual units, entire building and the environment and report on them
- Can carry out minor repairs, maintenance, and improvements within the units and within the complex
- Can effectively manage themselves and their jobs

There was nothing in the actual programme which seemed to assist the participants to deal with the first of the above objectives. It seems to the writer that on-the-job exercises would have been a perfect way to help them learn. Training in exercising judgement (e.g. when should something be repaired or replaced) is important here, and it is not realistic to expect people to appreciate maintenance needs of flat roofs, plumbing installations etc without expert guidance.

Regarding the caretaker's work of undertaking basic repairs, specific skills are involved. Either through demonstrations by participants, or other experts, methods of dealing with common problems could have been discussed and the skills passed on. The question of tools, preventing collateral damage, and similar matters should also have been raised.

Without a full report on the workshop one cannot determine how the last item was handled, but on the basis of the program it seems to have been done in a very generalised way. Another approach might have been to take a successful example of how this is done and help the participants understand how the system works, e.g. apply a method to the recording of complaints, opening a job card, determining whether the job can be done in-house, or needs to be contracted out, obtaining quotes, supervising the job, obtaining tenant co-operation in the process etc etc.

5.1.2 Capacity Building

It is paradoxical that some of the grants were not used due to the lack of capacity to spend them. This points to the relationship between SHF and the grantees which, some claim, was domineering rather than supportive. In this connection, the SHF also faced a challenge in finding staff with the experience to give effective advice to SHIs

There was criticism by the interviewed SHIs regarding the delays experienced in providing grants. At the time that the programme was at its peak the SHF had many commitments, and was not in a position to give all the support it would have liked. This may be explained by the fact that the SHF set itself the objective of working with all applicants, no matter how weak their original application might be, and never to refuse an application outright².

² In the end, only one application was refused on the grounds that the applicant was a welfare co-operative and not a social housing institution.

The grants were supposed to build capacity, but of course it is a truism that it needs capacity to spend money. If one is therefore to require that applicants should meet certain requirements before funds can be obtained or spent, those with the least capacity will fail. One view in this connection is that those who cannot comply with comparatively straightforward procedures should be eliminated at an early stage, rather than waste the time of all concerned. The alternative view is that they are the very ones which need assistance.

The SHF took the second view, and in some cases undertook a capacity building programme with the applicant in order to help it apply for a grant. Thus capacity building in many cases involved technical support, even hand-holding in some cases, which took time.

Thanks to this supportive approach to applications, only one grantee effectively failed, which is remarkable in the circumstances. Even so, in that case, the SHF was able to recover the grant-funded assets.

There were also complaints about SHF's insistence on business plans of a certain type. Such procedural rigidity, while ensuring that values such as objectiveness and fairness are adhered to in allocating grants, may not – in the long run – achieve the growth and development that the SHF would probably want from the SHIs that it supports.

5.2 Payment for equipment, furniture, etc.

This item featured in the majority of the grants, typically including at least one computer, printer and software. These are the tools of the trade of all modern offices, and must be recognized as essential. This funding was considered to be a very useful contribution to all who had benefited in this way.

Some grantees used the funds to purchase furniture, also a prerequisite for operations.

5.3 Payment to meet running costs such as salaries, office rent etc.

There is a conventional view that if an organisation cannot meet its daily running costs it is fundamentally unsustainable, and therefore it is inappropriate for grant funds to be used for such purposes.

The interviews painted a very different picture. In fact even the strongest and best managed SHIs must expect to run at a substantial deficit for a number of years, due to the protracted start-up procedures. Even after their first units are completed, there is typically a gap between the first receipt of income and making a surplus. This gap may vary from a few months to several years.

In other words, if social housing is to flourish it must have the support it needs to cover its early years, and this support must include running expenses.

By including these costs as eligible expenditure under the grants, the SHF and USAID were clearly helping to address this problem. However, what is very clear is that a grant of R200 000 was not enough. The large subsidies received, for example, by GMHA and GMHC demonstrate the magnitude of the funding gap which must be bridged. For those not lucky enough to receive these subsidies there is a major problem, as exemplified by Yeast City Housing which has a monthly deficit of R20,000.

However, something was clearly better than nothing, and the grants did make an important contribution.

The only criticism in this respect came from East London, where an office was established, and full-time staff employed, with no real prospect of it being able to sustain this level of activity. In other words while the grant should have been used to sustain operations during the difficult start-up phase, those operations should have been at a level which was appropriate for the type of organisation that it was.

6. Constraints on the sector, and the role that the SHF played in dealing with them

The constraints on the sector are so overwhelming that it is amazing that any SHIs exist. There are perhaps five crucial road blocks which must be overcome for a SHI to succeed. In examining the nature of these blockages we shall try and evaluate what role the SHF can and did play in relationship to the problem identified. (Before going into detail, it must be noted that the SHF has only an advisory role. For example, if it becomes aware that a SHI is in financial distress, it can only offer support and has no power to intervene.)

These five road blocks are:

1. How are they formed, who should constitute the Board and who should be recruited onto the staff?
2. Once formed, how do they acquire land and they survive financially?
3. How do they design projects?
4. How do they allocate units?
5. How do they manage cost recovery and their assets?

It will be noted that there are three basic points of difficulty in the process: In whose interest is the SHI working? How is it financed? In light of the technical and expensive nature of development, how does it get the necessary advice and support?

The Social Housing Foundation acts as a resource to guide emerging institutions address these challenges, but until the USAID grant became available, it had no funds with which to help emerging institutions meet those costs. The grant gave it the means to make a difference, and help the institutions establish themselves. However, the grant was not enough in any case to ensure financial sustainability.

6.1 Formation, appointment of Board, appointment of staff

Four models emerged from the interviews. In no particular order, these were:

Model 1: Company started under the auspices of the Municipality

This model, of which Middelburg, Highveld East and Msunduzi are examples, has been the most successful relative to the others interviewed. This was because the Municipality felt a responsibility to help the bodies by the donation of land, by political support, e.g. in accessing subsidies, and in financial support. Municipal financial support took the form of cash grants, seconded staff, and donations of housing stock from which rental income could be obtained. Typically councillors served on the Board thus reinforcing the link between the two bodies. This is now prohibited under the Municipal Finance Management Act, as representing a conflict of interest. In the three cases the SHF was not crucial in the establishment.

Model 2: Company started by SHF

In this model interested persons have typically decided to form a social housing institution, but do not know where to start. The SHF provided funds for a Task Team to define the need, form an interim board and provide technical assistance to register a company and define its objectives.

Model 3: Umbrella company: Tier 1

One example of this was included in the survey. Formation of the umbrella company is supported by the Province (Gauteng in this case) and the SHF. In turn the company acts as a managing agent for existing social housing institutions that lack the expertise to sustain themselves. This model applies to the management of existing stock – in this case several virtually bankrupt housing associations in Hillbrow are being assisted in this way.

Model 4: Support from NGO

In principle there is no reason why this model should be any less successful than Models 2 or 3, but the case included in this study was of a co-operative which was weak in terms of skills and resources, and relied virtually entirely on external grants.

Appointing a board

There are many problems associated with the formation of a SHI. These include the crucial decision about the composition of the Board, as this will determine the future of the institution and will have a major influence on future results. Typically a new institution is launched by convening a workshop, and it is the workshop which designates people to constitute an interim Board. This in turn must constitute a formal board. The decision as to who is invited to the workshop in the first place will therefore have an important bearing on the operation of the SHI. Some of the difficulties experienced by the Highveld East Housing Association can be traced back to the appointment of an inappropriate Board.

Funds to register the company

At an early stage, before a legal entity exists, about R10,000 must be found to register the company. Who will make this payment and why? If the company does not exist it cannot receive the funds. Any payment is therefore an act of faith by some third party. In Middelburg, this payment was made by the Local Authority, and unless there is such a champion the matter can derail the process.

Appointment of Staff

There are major decisions to be taken regarding when full time staff are appointed. In terms of the responsibilities of the SHI, clearly the process must be timed to coincide with the work load. Thus starting with a lone CEO

may be quite appropriate for the first few months, to be supported, as time goes on, by an accountant and receptionist/office clerk, for example. Unfortunately, many SHIs rush into such decisions and appoint staff who are not well qualified, and before they are strictly necessary for the operations being undertaken at the time. This imposes a compound-interest-like debt on the SHI which can have a very negative effect on the operations over the long term.

Role of SHF in the above

The SHF has played an important role in holding launch workshops, and advising on the start-up process.

Some recipients of the USAID grant were given training in the field of governance and management, principally so that they were able to structure an effective relationship between the Board and the staff. These governance workshops were helpful in establishing ground rules and protecting the day-to-day operations from interference.

It is not clear that detailed guidance regarding the recruitment of staff, qualifications and salary levels was ever offered by the SHF.

6.2 Financial survival after formation

The risks inherent in social housing are very many. If we map out scenarios, based on the experiences of the SHIs which were interviewed, we can characterise them as follows:

6.2.1 Obtaining good land

As any developer will confirm, location is the most important criterion in determining the success of a residential development. While the RDP model can survive, to some extent, in bad locations, Social Housing developments are competing to some degree on the open market. The reasons for this are twofold – the units are rented, and therefore there is little incentive to “hold on” to a unit if the location is perceived to be poor; and because the institutional subsidy represents only a portion of the costs, the rents are not so much lower as to compensate for bad location.

However, without land, a SHI has no chance of success, and it typically has no funds to buy land. It must therefore rely on local government to make land available. Typically a Land Availability Agreement is signed at this stage.

But, if the land provided by the municipality is in the wrong place, the SHI might be wasting its time and money by developing there. Middelburg faced a dilemma in that respect – it accepted the land offered by the municipality and developed it in good faith, with a high quality scheme, but demand for the

units has never been high enough to fill the scheme³. As a result, with about 70% occupancy, the SHI has no prospect of financial security for many years.

6.2.2 Waiting for subsidy approvals

Experience varies between provinces, but in some cases – Msunduzi is one – the SHI had to wait two years for approval of its application for an institutional subsidy. During this time staff and rents must be paid, while there is no income.

Another problem is that, under the present subsidy rules, the exact number of applications must be submitted for the units applied for. Typically some are rejected as being ineligible, and a second application must therefore be done to fill those vacancies. Some of the second applications may also be rejected, and the same thing can happen a third or even a fourth time. This can continue for months, if not years⁴.

6.2.3 Feasibility/Market survey

It is essential for an SHI to undertake a market survey before committing itself to a piece of land. Such surveys are typically quite expensive, and can take several months to complete. If such surveys indicate that demand for housing within the target income groups on a specific piece of land is low, alternative sites must be found, and possibly another survey conducted.

In this connection it is worth noting that that there is insufficient sharing of information. For example Provinces, Metros and the SHF all have data bases on population, incomes and similar socio-economic data which is not accessed: instead many SHIs start from scratch.

6.2.4 Obtaining approval for the long-term finance

All institutions except the East London Housing Management Co-operative relied on the National Housing Finance Corporation for their long-term finance. As a prudent lender the NHFC took time to approve loans, thus imposing further delays and extending the period without income for many SHIs.

Role of the SHF in the above

Typically the SHF has played a minor role in this component. In some cases the local authorities or provinces or both have subsidised this period of SHI's development which has made an important contribution to their finances.

These subsidies either take the form of cash grants, or the handover of local authority housing to provide an income from rentals.

³ Rent levels could also be an important factor: a full analysis of the problem has not yet been undertaken.

⁴ Gauteng is trying to reform this system to allow for alternates to be submitted; but it would clearly be better for the applicant to be able to access the data-base from which the Provinces operate. Some blame also lies with the SHIs who do not effectively screen applications before submitting them.

6.3 Designing a good scheme

6.3.1 Town Planning

At an early stage it is necessary to apply for approvals in relationship to town planning requirements. Often this will involve township establishment, which can be a slow and expensive process. Typically, neighbouring owners will object to the development, which might require convening of a Tribunal or other forum for the resolution of disputes.

Different problems are experienced in relation to inner-city rehabilitation schemes. They may involve changes in zoning, as well as determination regarding the suitability of the environment for the target group.

6.3.2 Architectural design

There are many criteria for success in design – the SHF has prepared Guidelines to illustrate what these are. However, not every scheme is successful, and there are many variables to be considered. Of these the three most important are the appointment of a good architect, the unit design that meets the expectations of the target group, and the relationship between cost and amenities.

There is no magic formula for getting these components right, and even a skilled architect may not be able to produce a product that is seen to represent value for money by the consumers. It must therefore be appreciated that design is crucial and the SHI as client must be aware of the criteria which will determine whether the product will meet the demands of the target market.

This is a highly specialised area in which large amounts of money are at risk. Therefore the area of commissioning design is one in which SHIs can easily go wrong. Moreover, substantial costs are incurred in this process which cannot be recovered until the units have been let – typically about 18 months later.

It is of interest that in Middelburg the design is of a very high quality, but that this was insufficient to attract enough tenants to the project.

In the case of inner-city housing the problems are very different. Extracting an efficient and desirable environment from what is typically a run-down inner-city building can become much more expensive and difficult than it initially appears. For example lifts may be found to be unserviceable, plumbing might require a total refit etc. Where tight budgetary ceilings are imposed, due to the subsidy system, such developments can be quite risky.

Role of the SHF in the above

As noted above, SHF has prepared Guidelines for Good Design, for Making Social Housing Affordable, and for Designing for Special Needs. These

documents are effective and well designed in themselves, and are useful tools which can be used when commissioning schemes.

6.4 Allocating units

Selecting and training tenants before allocation is, in itself, a relatively complex process. Policies must be established, incomes and similar details must be verified, deeds must be checked and subsidies applied for, and training programmes must be developed and mounted. This requires trained staff and time. The major risk in this process is that too few clients who are eligible for the subsidy will come forward. Another risk is that potential tenants will respond slowly, miss appointments or fail to produce documents.

Experience in Msunduzi and Middelburg has shown that this is not a quick or easy process, both because of the administrative complexity of the task and because of potential mismatch between supply and demand.

Role of the SHF in the above

The SHF has been active in the field of tenant education, and the recent manual has clear guidance on the procedures to be used.

6.5 Asset management and cost recovery

Under this heading we may include debt collection, tenant relations and dispute resolution, and maintenance. All have an impact on the long-term viability of a scheme and the SHI, and all are affected by the relationship between the SHI and the tenants. It is this that distinguishes social housing from all other.

One of the most interesting parts of the study has been the information that people are relatively willing to pay rents. Thus cost recovery, per se, is not an issue. Even where the units have been taken over from municipal management cost recovery has been good. Msunduzi are managing 80 units of previously council owned housing, and rent defaults under their management have fallen from 40% to less than 10%. In some, months they have 100% payment.

However, all institutions talked about the constraints in terms of their incomes being insufficient to cover their costs. The tactic of using low rents in initial years to attract tenants may be viable in high income projects where the developer has constructed deals which permit such market seeking strategies, but for SHIs it spells financial disaster.

The NHFC project loan typically helps to cover the initial period of operating losses, but even so the road to full recovery of all costs, so that the NHFC loan can be repaid, is a long and slow one. It has been estimated by the SHF that it can take up to twenty years to cover the initial losses, assuming that

rents are increased in line with inflation and capital repayment remains constant.

It is too early to tell how the issues of maintenance will be addressed in new projects. We therefore have to turn to the experience of inner city housing. Vusani Amadolobha is manager of several such blocks. When they were taken over it appeared that management of the blocks by the SHI had collapsed, and they were on the point of bankruptcy. Now, however, it appears they are making progress with maintenance and payments and are on the way to recovery.

Role of the SHF in the above

The training programmes funded by the SHF appear to have been successful. One may the detailed design of some examples that were made available, but in general they seem to have been effective.

7. Constraints for the implementing agent

The SHF is fundamentally an advisory and supporting body which can act when asked to do so, but even then can only act within very limited finances. Looked at from the perspective of what it can do for SHIs (as opposed to its role in relation to national policy and the macro picture) this means that it has neither the power to intervene, nor some of the tools to do so. We shall discuss this in more detail below.

7.1 SHF as an advisory body

The SHF cannot intervene when it sees things going wrong, and while it might send persons to counsel an SHI that is facing difficulties it cannot insist on any specific course of action. While this is fundamentally a healthy relationship, it can mean that in cases of gross mismanagement it is powerless. This acts to the detriment of the clients or future clients of the SHI, as well as the sector as a whole.

7.2 SHF as a funder

Now that the USAID program has ended, the SHF has no funds to help form or capitalise new SHIs, nor to rescue ones which are in financial difficulty. This need is, to some extent, being met by the EU Support Programme for Social Housing, but that has regulatory systems which might make it inappropriate for some of the SHF's clients.

7.3 Staff

As noted above, social housing is a relatively new concept in South Africa, and there is a shortage of experienced personnel who can be recruited by the SHF. The gap has typically been met by training them, by, for example, visits to social housing institutions elsewhere in the world, and technical assistance provided by foreign donors.

Now that the SHF has come to maturity the problem is less acute, but for some time it is likely to be a matter of concern, especially as well-qualified members of staff are liable to be poached by the private sector.

8. Recommendations for the future

8.1 The new policy

This review comes shortly after the publication of a new housing policy by the Department of Housing, entitled “Breaking new ground – a comprehensive plan for the development of sustainable human settlements”.⁵ Detailed policy is being developed at the time of writing, and is said to be near completion.

This document outlines major shifts in housing policy, especially that of social housing. It links social housing strongly to urban renewal - a targeted intervention by government to resuscitate declining urban areas. Housing plays an important role in a range of urban renewal interventions focused on urban centres and exclusion areas such as inner cities and historical townships⁶. Increasingly, the renewal of inner city areas has become focused on commercial and high-income residential property redevelopment. During the implementation of these projects, the current inhabitants of these areas are often excluded as a result of the construction of dwelling units that they cannot afford. Many municipalities are striving to avoid this by promoting, amongst others, affordable inner-city housing. The new human settlements plan will support this by:

- **Encouraging Social (Medium-Density) Housing** – Social Housing is generally medium-density and this housing intervention may make a strong contribution to urban renewal and integration. Social housing interventions may also be used to facilitate the acquisition, rehabilitation and conversion of vacant office blocks and other vacant/dilapidated buildings as part of a broader urban renewal strategy. Social housing developments should be dovetailed with other initiatives such municipal redevelopment projects and the urban development zone tax incentive offered by SARS.
- **Increasing effective demand** – The introduction of a new incentive to facilitate access to loan finance in the middle income group above the R3 500 income limit and the re-introduction of demand-driven individual subsidies will have the effect of increasing effective demand for existing, well-located property. This is expected to provide an incentive for the redevelopment of properties within inner city areas. The document also talks about the need to develop more appropriate settlement designs and housing products and to ensure appropriate housing quality in both the urban and rural environments. The new human settlements plan accordingly proposes the following:

⁵ As approved by Cabinet and presented to MinMEC on 2nd September 2004

⁶ Inner city areas are traditionally integrated into the benefits of the urban economy, which are close to transport hubs and commercial enterprise and work localities. They also have higher order social amenities including hospitals, libraries and galleries. They accordingly provide a key focus for urban restructuring.

- **Enhancing settlement design** –Measures and incentives to include design professionals at planning and project design stages will be examined, and guidelines for designers and regulators to achieve sustainable and environmentally efficient settlements will be developed. This is aimed at promoting the development of a dignified size of house that supports morality of family and society.
- **Enhancing housing design** - Within the rural context, there is a need to make housing interventions more effective, to enhance the traditional technologies and indigenous knowledge which are being used to construct housing in rural areas and to improve shelter, services and tenure where these are priorities for the people living there⁷. Within the urban context, the document states that there is a need to focus on “changing the face” of the stereotypical “RDP” houses and settlements through promotion of alternative technology and design. The Department will investigate measures and incentives to enhance housing design and promote and alternative technologies, including support and protection of indigenous knowledge systems.

The policy proposes the development of additional housing instruments to provide flexible solutions to demand-side needs. The new instruments will be focussed on sectors which have been previously neglected and place greater emphasis on flexibility and responsiveness to local circumstances. There is to be a greater emphasis on the process of housing delivery (emphasizing planning and engagement), the quality of the housing product (both in terms of location but also in terms of final housing form) and the long-term sustainability of the housing environment (leading to a focus on institutional capacity).

One such instrument is the Social Housing Instrument. The emphasis on the need to deliver housing products that provide adequate shelter to households whilst simultaneously enhancing flexibility and mobility, which typically entails the establishment of institutional mechanisms to hold housing as a public asset over a period of time. The direct objective of the social housing instrument is accordingly to facilitate the production of effectively managed institutional housing in the areas where demand for institutional or managed housing, of all types, exists.

The new human settlements plan makes provision for the following interventions:

- **Redefining the concept of Social (Medium-density) Housing:** Social housing may take various forms and it is essential that social housing typologies be conceptualized broadly to ensure the inclusion

⁷ This includes methods to enhance the quality and durability of all housing designs and traditional housing with a view to preserving the ambience of rural areas.

of all income groups. Social housing must be understood to accommodate a range of housing product designs to meet spatial and affordability requirements. Social housing products may accordingly include multi-level flat or apartments options for higher income groups (incorporating beneficiary mixes to support the principle of integration and cross-subsidization); co-operative group housing; transitional housing for destitute households; communal housing with a combination of family and single room accommodation with shared facilities and hostels.

- **New funding mechanism for social housing:** The policy document proposes that social housing delivery will be scaled up to 110 000 units over the next 4 years. The existing uniform funding mechanism for social housing is inadequate to support this enhanced delivery due to, amongst others, the capital costs of developing medium-density units and the variability of costs between locations and across product types. A new funding mechanism will therefore be developed. Each project will in future be designed and costed around the actual needs and each project will be costed separately. Funding support will thus shift away from the current emphasis on uniform individual subsidies, towards equity support for social institutions, determined as a percentage of the total capital cost of the project. For example:
 - *Medium Density Housing:* Initial studies indicated that one bedroom flat in a four level walk-up apartment will cost in approximately R 80 000. If Government are to contribute 50% of the cost, the investment will amount to R40 000 per unit.
 - *Communal Housing:* The cost of communal housing options will be less as facilities are shared but it is envisaged that Government will have to contribute 70 % of the total cost of such units. Based on the current consolidation subsidy that provides a 30 square metre house at R 16 581 per unit, it could be assumed that communal housing units of 30 square metres could cost in the region of R15000 plus engineering shared services of R1800 totaling at R16800 per unit on average. These diverse rental options cater for the lower end of the income categories (R2 500 pm and less).
 - *Transitional Housing:* Transitional housing comprise rooms and on based on the hostels redevelopment programme the cost of a room amounts to approximately R5 775,00. Government will contribute 100% of the development cost of these units and the income target group would be persons earning R0 to R800 and less per month.

- *Hostels*: The current hostels redevelopment programme provides for R25 800.00 for a family unit and this amount has been applied for hostels.
- **Building Institutional Capacity within the Social Housing Sector:**
In order to support the anticipated scaled up delivery of social housing, the number of social housing institutions which are able to viably manage this stock will have to increase. A key challenge is accordingly to support the establishment and maintenance of sustainable and viable social housing institutions which are able to develop and manage social housing stock of various forms. The policy proposes that this should be addressed as follows:
 - A **National Social Housing Accreditation Institution** will be established through the provisions of the Social Housing Bill which is to be promulgated in early 2005. This institution will be established and operational by April 2005 and will administer the accreditation and monitoring of social housing institutions that wish to apply for capital grant for project execution. Social housing institutions will be invited to apply for accreditation and only accredited social housing institutions will qualify for grant funding and capital funds to undertake projects.
 - A new **establishment grant** will be introduced to enhance capacity building and to operational support for new social housing institutions. The Social Housing Foundation will be responsible for the capacity building requirements of institutions.

Community Facilities

The new policy also addresses the need for community facilities in housing developments, a problem that was highlighted in two of the cases studies above. In future municipalities are to determine the need for social/community facilities through a community profile and facilities audit to ensure that facilities are appropriately targeted. It is thereafter envisaged that a multi-purpose cluster concept will be applied to incorporate the provision of primary municipal facilities such as parks, playgrounds, sport fields, crèches, community halls, taxi ranks, satellite police stations, municipal clinics and informal trading facilities.

A new funding mechanism will be introduced to fund the development of the primary social/community facilities, which will focus on informal settlement upgrading projects, completed housing projects still lacking social facilities and new housing projects. The programme will provide funding assistance amounting to 50% of the primary, social/community facility development costs of projects implemented by district councils,

while 100% of the development costs of projects implemented by local municipalities will be funded.

8.2 Funding arrangements

Proposals are under consideration to address the long-term financial needs of SHIs.

It is understood that it is proposed that capital grants should be made available in urban restructuring areas in order to meet the lifetime cost of a development to a SHI. This will have the effect of supporting development which in present conditions is not viable due to high land prices, and the gap between realistic rent levels and costs. This grant would thus make a contribution to the cost of finance and the running costs of the social housing institution, thus allowing it to accumulate a reserve. It would be calculated at the net present value of shortfalls and surpluses of the cash flow over a predefined period. This would be based on assumptions in respect of the income mix, rental mix, rental increases, running costs, inflation and interest rates. The running costs would include short-term maintenance costs, provisions for longer term maintenance, property rates, taxes, charges and duties, direct administrative and management costs, cleaning and security, services and vacancy and default provision.

8.3 The new policy: conclusions

These are clearly very ambitious proposals which, if accepted, would put social housing institutions on a sound financial footing, and allow them to plan developments with confidence while also serving the target market. For the purposes of this report we can only assume that, in one form or another, the proposed grants will be introduced, even if at a reduced scale. They also address the need for a regulatory body which would be empowered to intervene in cases of gross mismanagement.

8.4 A role for USAID

8.4.1 Capital finance

The USAID grants complemented the NHFC's establishment loans, which were loans that had to be matched by assets such as land or sweat equity. This loan was replaced by a pre-establishment grant, which, in turn, was ended in 2001. Now the EU Support Programme for Social Housing has filled the gap in certain respects.

The twin purposes of the grant program under review (funding emerging SHIs, and strengthening the SHF's ability to provide technical assistance and best practice information) have now been met by the SHF and Government itself.

The new policy described above reinforces the need for an initial grant, such as was pioneered under the programme under review. The SHF and

USAID may therefore feel proud in running a pilot for what has become national policy.

In these circumstances, is there any role for international donors, and USAID in particular?

A consistent problem that has been highlighted by the industry, and some of the more advanced SHIs has been the lack of development capital. This is an area in which USAID can make a significant contribution through its Development Credit Authority. Under this scheme, USAID would guarantee a loan by a private bank to a SHI, or to an umbrella body which would on-lend to SHIs (e.g. the NHFC).

The policy mentions a target of 110 000 units over four years. These would cost in the region of R8,800,000,000, or about \$1,500 million. Funding at such a scale would clearly be beyond the scope of any private sector bank, and USAID typically issues guarantees for borrowing of between \$5 million and \$30 million. However, as an instrument to get the ball rolling with private sector funding of inner-city housing, this is quite timely. It has also become increasingly attractive as a comparatively secure way of meeting obligations under the Financial Services Charter for lending to the lower income groups. When the proposed government subsidies are taken into account the proposition becomes even more viable.

One such deal was nearly made in connection with the Johannesburg Housing Company's (JHC) Brickfields Project, though in the end the bank (ABSA) proceeded without a guarantee. Clearly this decision was informed by the financial strength of JHC and the inputs of other funders. However, not every SHI might be as well placed to borrow as the JHC, and the guarantee could be a major comfort to lenders.

8.4.2 Fixed interest rates

The other issue in connection with long-term finance has been the destabilising effect of variable interest rates. It is extremely difficult for a SHI to deal with substantial increases in interest rates given the limited elasticity in the disposable incomes of their tenants.

Present models for fixed interest loans, however, typically load the rates in such a way as to make them less desirable, and only apply for two or three years. This is therefore not a real alternative either. Moreover the NHFC has been giving fixed interest loans, and borrowers are objecting strongly to those that were made when interest rates were very high.

In developing models for private sector funding of social housing developments this is a factor that should be considered carefully, and

USAID assistance might be given to establish financial models which would allow fixed interest loans at moderate rates.

Appendix 1

Documents

The following documents were consulted:

Policy

Breaking new ground: a comprehensive plan for the development of Sustainable human settlements, Department of Housing, September 2004

Agreements

USAID Cooperative Agreement, 4 December 1998
Revised Agreement 23 May 2001

Grant agreements

Cape Town Community Housing Company
East London Housing Management Cooperative
Everite Hostel
Greater Middelburg Housing Association
Highveld East Housing Association
Leamohetswe Housing Association
Mbombela Housing Association
Msunduzi Housing Association
Polokwane Housing Association
Randfontein Community Housing Association
Reatlehile Housing Association
17 Shaft Housing Cooperative
Sethokga Housing Association
Vusani Amadolopha, on behalf of
 Itself
 Nkehasani Housing Association
 Semunye Housing Association
 Vukuzakhe Housing Association

Workshop reports

Best practice (partial)
Board development programme (partial)
Board orientation workshop for
 Polokwane Housing Association
Caretaker training course
Train the trainer course
Introducing Social Housing
Living in Social Housing
Klerksdorp and Potchefstroom Combined Housing Workshop
Semag Residents Workshop
Strategic Planning Workshops for

Highveld East Housing Association
Klerksdorp
Leeugamka Community
Msunduzi Housing Association
Polokwane Housing Association
Potschefstroom
Rebangwe Housing Association
Train the tenants workshop
Greater Germiston Inner City Housing Company
Housing Association East London
Value Management Workshop
Greater Middelburg Housing Association
USAID grant workshop

Course report

Certificate Course on Training of Trainers in Social Housing

Manuals

Polokwane Housing Association
Human Resources policy
Property Management & Maintenance Policy
Marketing policy
Procurement policy
Lease Agreement

Best practice booklets

Guidelines for Social Housing Design
Guidelines for making social Housing Affordable
Report on the Housing for Special Needs Conference

Financial information

Social Housing Foundation Annual Statements of Accounts
Social Housing Foundation Grant Schedule

CD ROM

Social Housing Institutions Operations Manual

Documents from grantees

Highveld East Housing Association: Overview of operations
East London Housing Management Co-operative: sample invoices to SHF
Yeast: Annual report 2002-2003
Msunduzi Housing Association: Five year capacity building plan
Msunduzi Housing Association: Report-back on Value Management Workshop No 1.
Greater Middelburg Housing Association: Hope City advertising brochure, and table of make-up of deposits and rents for units