UNDERSTANDING DEMAND FOR HOUSING MICROFINANCE IN SOUTH AFRICA

Prepared by:

Centre for Affordable Housing Finance in Africa

EIGHTY20
1. EXECUTIVE SUMMARY

This report summarises findings of a market research study to identify and estimate the size of the housing microfinance (HMF) market prepared for the Rural Housing Loan Fund (RHLF). In addition to exploring RHLF’s historic market of households in rural areas earning less than R15,000 per month, the research aimed to identify and size opportunities across South Africa in both urban and rural settings in segments of the market that are unlikely to be able to access secured forms of housing finance. The need to expand the research focus beyond RHLF’s core market was given further impetus by RHLF’s restructuring and its incorporation into the planned new Human Settlements Development Bank (HSDB), which will be established by consolidating the three Development Finance Institutions under the Department of Human Settlements.

The focus of the research was on the demand side, placing the current housing situation, capacities and preferences of households who comprise various market segments at the heart of the analysis. With this “customer-at-the-centre” approach, the analysis hopes to provide a sound basis for further deliberations on the positioning and specific role of a restructured fund or facility that supports incremental housing processes within the new Human Settlements Development Bank with a special focus on those unable to access mortgage finance. Ideally this fund should ‘crowd in’ the investment capacity of both households and the private sector, enable households to build wealth and manage risks, and deliver on a vision to create durable, leverage-able housing assets through an optimised incremental housing process.

The research methodology used in this study employed a mixed methods approach. The team reviewed available literature and data extensively. In addition, it undertook focused primary research of both a quantitative and qualitative nature to close existing data gaps and understand the needs, preferences, attitudes and capacities of the market in more detail. Of course, this work is never complete and many questions about the market remain unanswered. By its nature demand side analysis contains many nuances, some of which may have been missed during the course of this research. Nevertheless, it provides a sound basis from which to consider key strategic questions for the HSDB.

As has been amply demonstrated in the past, a substantial proportion of households in South Africa, both in urban and rural contexts, will need to realise their housing needs incrementally. This incremental housing process will need to be financed - whether with subsidy, savings or credit - and facilitated, if quality housing outcomes are to be achieved. The vast majority of South African households are unlikely to lie within reach of mortgage or other secured housing finance solutions. Data from the NCR indicates there are roughly 1.8 million mortgage accounts in a country comprising over 17 million households. While there is, no doubt, significant opportunity to increase the mortgage market by introducing additional, innovative products that serve households with stable albeit low incomes, a majority of households will remain beyond the reach of mortgage products for the foreseeable future, either because they earn too little, earn too sporadically or do not have access to lien-able security. In addition, many households might prefer not to use secured housing finance products.
According to survey data, almost 80% of the five million rural households in RHLF’s target market who earn less than R15,000 per month have a visible need for improved housing circumstances\(^1\). Likewise, there is a clear need for housing in urban areas. Of the 9.9 million urban households who earn less than R15,000 per month, almost four million have a visible need for improved housing.

Given that mortgage finance will remain beyond the reach of the vast majority, incremental investment in housing over time will dominate the housing process. Such activity, and by implication, the funding required to support it, is significant. On the basis of available data, it appears that households that earn less than R15,000 per month currently spend almost R20 billion per annum on housing repairs and improvements. Much of this is financed by savings at the moment, and many households indicate that more investment could be leveraged if other constraints were removed.

In some cases, these constraints reflect material, tangible factors relating to affordability and credit worthiness within the target market. Our analysis indicates that roughly 6% of households in the target market are exceptionally poor and may well struggle to manage credit repayments. That said, these households may benefit directly from investment in rental stock that could support their incomes in some areas, or help to avoid other expenses. Aside from affordability constraints, analysis of bureau data highlights that many in the target market are already over-indebted or have poor credit histories that would also constrain access. Our conservative estimates indicate that these constraints reduce the market by approximately 40%.

In spite of these significant constraints, the market for HMF is potentially significant. Our analysis indicates that roughly 21% of the 14.9 million households who earn less than R15,000 per month lie within the addressable market for HMF.

Excluding those with very low per capita incomes, these households could potentially support lending activity in the realm of R35 billion disbursed per annum assuming that every household with a visible housing need and effective access would, in fact, take a loan\(^2\).

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\(^1\) Households are defined as living in a dwelling that has a visible housing need if the dwelling is informal, traditional, over-crowded or in need or major repairs, or there is an inadequate toilet facility (pit latrine without a ventilation pipe, bucket toilet or no toilet) or inadequate access to water (public tap, flowing water/ stream, Dam/pool/ stagnant water, Borehole off site)

\(^2\) Loan amount based on a 25% income to instalment value, for a 2 year loan with an interest rate of 27% and monthly service fee of between R50 and R60
Households with a visible housing need and the estimated number of households that fall into the addressable market for HMF by household income group

Aside from constraints that would limit access, many households expressed an aversion to credit for building in particular. Those who prefer not to use credit in general can be supported by the provision of well-designed savings mechanisms. While the regulatory environment governing savings and deposit taking limits the range of institutions that could formally offer savings facilities, there is scope within existing boundaries to innovate in this domain. Design features of savings products could replicate and/or enhance features of available credit products including accessible distribution, access to construction support services, as well as commitment constraints that would help households contribute to savings products, and retain balances for intended purposes. Interview respondents mentioned lay-byes in particular as a helpful mechanism. In addition, matched savings programmes have been offered in other markets to enhance incentives to save for housing, and scope exists to develop something particular to this industry within the Financial Services Charter.

A curious finding worthy of further investigation is that while many households are averse to using credit in general, they do not use credit for housing in particular, this does not extend to all credit. While this reticence to take up housing credit may reflect limited awareness or poor distribution and marketing by lenders, it might also reflect mental accounting models or cognitive biases that might be difficult to challenge. These mental models contradict the theoretical notion that money is fungible – that R1 is R1, irrespective of how you use it. In fact, households commonly earmark funds for specific purposes, and are very particular as to which purpose is funded by savings or which is funded with credit. In some cases, the same household might be using credit to pay off a durable asset, such as a television set, and, at the same time, saving up to fund a building project at their home.

Limited willingness to invest in housing, irrespective of how this investment is funded, might also reflect other, very real constraints within the housing value chain that materially impact on the likelihood of success of a housing project undertaken by a household. Respondents in
this research often encountered unexpected challenges during the course of their projects and faced many obstacles relating to costs and accessibility of building supplies, transportation services, access to professional advice and reliable builders. In addition, in urban areas, in some cases lack of clarity with respect to title also impacted on willingness to invest. Clearly, these broader housing value chain challenges will not be addressed by improving access to finance alone. But beyond this, marketing credit in a context where other significant constraints exist within the housing value chain arguably runs counter to the developmental objectives of RHLF and the new HSDB. In such a context, the provision of credit to already vulnerable households amplifies their risk profile without offering a sufficiently commensurate increase in the likelihood that the household’s wellbeing will be improved. This necessitates further deliberation on how the HSDB should engage with the housing value chain more broadly.

A further challenge that limits demand for credit is the expectation in some segments of the market that subsidy funding will be made available and that they do not need to finance housing themselves. This challenge is in essence political in nature. In part, its resolution requires a clear articulation of the potential developmental impact of HMF in the context of an optimised housing value chain. This would involve the provision of non-financial services in tandem with housing microloans, to contribute towards or guide good construction decision-making and quality construction practices. Beyond supporting the market either directly or as a catalyst, the HSDB thus has a critical role to play in continuing RHLF’s legacy of placing HMF and perhaps more critically, the incremental housing process, firmly in the line of sight of both borrowers and lenders, and shaping policy to ensure that this approach to realising improved housing circumstances is coherently framed and supported.
2. INTRODUCTION

Housing microfinance has been an explicit component of South Africa’s housing finance framework since the advent of democracy and the promulgation of the first White Paper for Housing, in December 1994. Then, it was acknowledged that mortgage finance, while also critical, could not serve the needs of the majority of South Africans seeking to improve their housing circumstances. The microlending sector in South Africa was still in its infancy, however, and lending explicitly for housing purposes was not available. A further concern of policy was an implicit bias towards urban housing investment, and that rural households would be left without the financial support necessary to also address their housing needs. And so, in 1996, the Rural Housing Loan Fund (RHLF) was established, initially managed by National Housing Finance Corporation, to provide wholesale finance to retail financial intermediaries who would provide housing microloans to borrowers in rural areas.

Since then, RHLF has grown and evolved together with the industry it has supported. By 2017, there were ten retail microlenders and four community-based organisations accessing wholesale finance from RHLF on an on-going basis, enabling them to be explicit in the delivery of housing microfinance products to their borrowers. Currently RHLF works with eight intermediaries. At the same time, South Africa’s microlending sector has also evolved considerably. While there are no firm estimates of the extent to which unsecured credit is used for housing, household-led housing investment is significant. Using published housing delivery statistics from the NDHS as well as Statistics South Africa, it appears that together, the State and the private sector created 3.4 million new units between 2001 and 2015. Over that same period, Census and Community Survey data indicates that an additional 5.7 million households were living in formal units. The difference of 2.3 million is likely explained by direct household investment in housing.

The mandate of RHLF has, up to now, focused on enabling the provision of incremental housing loans (or housing microloans) for households earning under R15,000 who wish to finance construction of or improvement to dwellings located in rural areas, by providing wholesale finance for this purpose to retail financial intermediaries. Historically, the National Housing Finance Corporation (NHFC) offered similar wholesale finance facilities to support incremental housing delivery in urban areas. In its 2016/17 Annual Performance Plan, however, the NHFC reported that disbursements for “Incremental Housing” had been reallocated to “Private Rental”, with the expectation that RHLF would broaden its activities. In this regard, it is understood that the envisaged consolidation of Human Settlement Development Finance Institutions (DFIs) into a single DFI will result in RHLF’s mandate being broadened to urban areas as well. In line with this transitional environment, RHLF has

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3 RHLF’s loan usage mandate includes: building a new house, house extension, fixed improvement to a house, connecting to utilities (water, sewerage and electricity), energy efficient retrofits (including solar energy, insulation and other energy innovations), water harvesting, fencing, productive housing; purchasing of land by individuals or groups for residential purposes.
requested this study to understand the rural and urban market for housing microfinance. This report therefore explores both rural and urban markets in South Africa.

Notwithstanding the 21 years since the initial policy idea, housing microfinance remains relevant – possibly increasingly so – in both urban and rural areas. On the demand side, very many households still cannot access mortgage finance sufficient to purchase housing that is available on the market, and existing housing conditions suggest that for many households, housing microfinance will be an important option to support home improvements. On the supply side, incremental housing is increasingly being recognised as a viable housing delivery approach by government at national, provincial and local level. The National Minister for Human Settlements has been explicit regarding the limitations of the current BNG subsidy scheme and has intimated that a different approach may be sought. This is also hinted in the FLISP policy, which offers households earning between R3,501 and R15,000 per month access to a serviced site on which they are expected to build their housing incrementally. Some municipalities are already enacting bylaws to support the regularisation of informal settlements and an incremental housing delivery approach. And the opportunity to promote formal, backyard rental on a sustainable basis is also under consideration in a number of jurisdictions. All of this bodes well for the housing microfinance industry in South Africa. While RHLF has successfully enabled access to housing for many rural households, the move to increase the scope of the organisation will allow it to have a greater impact, increasing its reach to sub-markets that may currently be underserved.
3. METHODOLOGY AND DATA SOURCES

This research was commissioned by RHLF to help the organisation better understand its current market defined as rural households earning below R15,000 per month, as well as its future urban housing market, and the needs and opportunities the demand side suggests. In addition, the research aims to size the housing microfinance market in South Africa and explore the needs and preferences across key segments of the market.

To do this, the research team employed a mixed methods research study which included an analysis of existing quantitative data sources as well as primary research which included both qualitative and quantitative components. The team also reviewed existing published research and relevant government policies and programmes that impact on access to housing microfinance. In addition, a supply side review of HMF lenders was conducted by contacting lenders directly and reviewing websites to understand target markets and products offered.

With regard to quantitative data sources, an extensive analysis of the National Income Dynamics Survey 2014/15 (NIDS)4 was conducted to size the market for housing microfinance as well as provide insight into current housing conditions, household investment in housing and access to and usage of financial services. The NIDS survey is a panel study that has been run four times since 2008 with the latest wave conducted in 2014/15. The first wave conducted in 2008 included a nationally representative sample of over 28,000 individuals in 7,300 households across the country. The survey continues to be repeated with these same household members every two years, which allows for tracking of respondents (and households) over time.

Additional data sources including Census data, Credit Bureau data and CAHF’s Citymark data (drawing on the National Deeds Registry) were also used to supplement the analysis.

Focused primary research was used to gain additional insight and close gaps not answered through the review of existing data sources.

In rural areas, door-to-door surveys were conducted with 50 rural households mostly living around Empangeni in KwaZulu-Natal. These households were selected using a convenience sample approach. Fieldworkers moved between different areas over the fieldwork period and approached households to be surveyed. As far as possible the household head was interviewed; where the household head was not available a close family member was interviewed.

Almost all households surveyed live in a formal dwelling (88%); of these households just 9% say the dwelling is a subsidy house. Just 22% of households surveyed are accessing water on their site; most make use of a public water carrier or tanker or water from a stream, dam or pool. Most households make use of pit latrine and 22% either have no toilet or use a bucket toilet. More than a quarter do not have electricity. Household incomes are low with 42% of households earning under R3,500 per month and a further 20% earning between R3,500 and R6,000. A substantial portion of households are receiving grant income; 40% of households are receiving at least one old age grant and 62% receive another type of grant, most likely a child support grant. Forty four percent of households receive a salary or wage from a formal employer, and just 6% have a self-employed person in their household.

In addition to the surveys, seven households were interviewed to gain a more in-depth understanding of their housing journeys.

The same methodology was utilised in urban areas; 155 surveys were conducted in Khayelitsha, located outside of Cape Town and 151 surveys were conducted in Cato Manor, located in close proximity to the city centre of Durban. Fieldworkers only interviewed households that owned their dwelling/ land and as far as possible surveyed the household head. In addition, selected households in both areas were interviewed by the research team to gain deeper insights. More information on these two areas and the survey sample is included below:

Khayelitsha, or ‘new home’ in isiXhosa, is the second largest township in South Africa after Soweto. It is situated on the periphery of the city of Cape Town (30-35km from the CBD) and next to the N2 leading into Cape Town. Officially established in 1983, Khayelitsha was constructed so as to resettle African residents from the Western Cape. The survey was conducted in specific areas within Khayelitsha including Kuyasa, Harare, Makhaza and Site B. These areas were selected because there is a large portion of households that have received a serviced site, some with a top structure and some without, and these households have generally been living in the area for an extended period of time; 77% of households surveyed have been living on their property for more than a decade. More than 80% of households surveyed in Khayelitsha say that government provided them with the property, 13% purchased the property and 3% inherited the property.

Data from the deeds registry for these specific areas (Kuyasa, Harare, Makhaza and Site B) indicates that in 2015 there were 7,090 residential properties registered with the deeds registry, with all except three of these properties valued at under R300,000. In 2015, 69 formal property transactions took place in these areas of which 17 transactions were bonded (25% of transactions).

One third of the households surveyed live in an informal dwelling, however all households have access to a flush toilet and piped water, mostly on their site, with around a third of households accessing these services inside the dwelling. Over 80% of the households surveyed have a monthly household income of under R6,000. Households are largely
dependent on grant income with more than 80% receiving a grant. Less than half of households are receiving a wage or salary from formal employment and a third receive a wage or salary from informal employment.

Cato Manor is situated very close to the Durban CBD and has been the site of numerous housing programmes. The surveys were mostly carried out in an area called Wiggins Umkhumbane, which was developed around twenty years ago. At that time 400 to 500 housing opportunities were developed mostly consisting of small top structures on a relatively large site. Considerable housing development has occurred in the area since. Over 70% of households surveyed said that government had given them the property, 19% bought the property and the remaining 9% inherited the property.

Deeds data for Wiggins Umkhumbane indicates that there were 2,370 registered residential properties in 2015 of which 11% were valued at over R300,000. In 2015, 67 formal property transactions took place of which just 6 were bonded (9% of the total transactions).

The housing conditions of surveyed households in Cato Manor are better than those in Khayelitsha; almost all of the households surveyed live in a formal dwelling (93%), and most have access to a flush toilet and piped water in their dwelling, with around 15% accessing these services outside of their dwelling but on their site. The households in Cato Manor are noticeably wealthier than those in Khayelitsha with more than half earning a household income of R6,000 or more per month, and 13% earning more than R15,000 per month. Households in Cato Manor are also far more likely to be receiving a wage or salary from formal employment (81%) and are less dependent on grants (53% receive some form of grant).

It should be noted that the convenience sampling approach utilised for the surveys is a non-probability sampling approach based on the sample’s convenient accessibility. The results are therefore not representative of the entire population, but rather provide an indication of the situation in the specific area.
4. RURAL HOUSEHOLDS

According to the latest Community Survey, undertaken in 2016, there are just under 17 million households in South Africa of which approximately 30%, or 5.1 million households, reside in rural areas⁵ and the balance, 11.8 million households, reside in urban areas. The NIDS indicates a similar split, with 31% of household in South Africa living in rural areas, corresponding to 5.3 million households.

RHLF’s mandate has, up to now, focused on enabling the provision of incremental housing loans (or housing microloans) for households earning under R15,000 per month who wish to finance construction of, or improvements to, dwellings located in rural areas. According to the latest NIDS survey, the vast majority of households living in rural areas earn below the maximum income threshold specified by RHLF to delineate its target market; over 60% have a monthly household income of less than R3,500 and an additional 21% have an income of between R3,500 and R7,000. It total, five million households or 95% or rural households have an income of less than R15,000 per month.

In terms of understanding the market, it is intuitive that the household unit forms the basis of analysis, and that household income would be a defining feature. However, with regard to analysis and data, a household level perspective is complex; surveys define a household as “a group of persons who live together and provide themselves jointly with food and/or other essentials for living, or a single person who lives alone”, a dwelling-based definition which ignores financial interdependencies between members of families who regard themselves as household members but who live or work in other locations. In addition, household units are often fluid, with household members joining and leaving households as economic or other circumstances change. In addition, lenders in practise interact with individual borrowers that apply for HMF, and would assess credit worthiness at an individual, rather than a household level. An analysis of the market in terms of individual borrowers is therefore also helpful. According to NIDS data there were 11.8 million adults over the age of 18 residing in rural areas. Effectively all these adults earn a personal income of less than R15,000 per month as shown in Figure 1 below.

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⁵ Rural areas include: Tribal/ traditional areas (4.4 million households) and Farm areas (720,000 households)
That said, our analysis explores the characteristics of the market defined in terms of households.

Most of the 5 million rural households (70%) in RHLF’s market are located in either KwaZulu-Natal, the Eastern Cape or Limpopo province. The majority live in a formal dwelling on a separate stand (67%) although a significant portion (18%) live in a traditional dwelling, and most own their dwelling (75%). On average there are 3.9 people in a household. The main sources of income for households in RHLF’s target market include government grants (61% of households receive a grant), labour markets including self-employment (47%) and 10% earn income from subsistence agriculture.
4.1. CURRENT HOUSING CONDITIONS

To determine demand, it is useful to consider potential opportunities for housing investment by exploring current housing conditions. RHLF’s loan usage mandate includes: building a new house, house extension, fixed improvement to a house, connecting to utilities (water, sewerage and electricity), energy efficient retrofits (including solar energy, insulation and other energy innovations), water harvesting, fencing, productive housing; purchasing of land by individuals or groups for residential purposes.

Survey data indicates that a sizeable number of rural households in RHLF’s target market have a visible housing need. Around 330,000 rural households reside in an informal dwelling – principally a shack – with a further 895,000 households in traditional dwellings, which may or may not be in need of further investment. Of the 3.8 million households living in a formal dwelling only a small proportion appear to live in a subsidy dwelling (9% or 340,000 households). Of those household living in a formal dwelling, 9% are over-crowded and 19% are in need of major repairs. This suggests that more than two million rural households could live in dwellings visibly in need of improvement that might be financeable with a housing microloan.

Figure 2: Rural households in housing circumstances that may be in need of improvement

Access to electricity in rural areas has increased dramatically; in the decade between the 2001 and 2011 Census, the proportion of rural households using electricity for lighting increased from 51% to 85%. According to the latest NIDS survey, 82% of rural households in RHLF’s target market have access to electricity. Nevertheless, data on access to other services indicates scope for improvement. For example, 44% of households say their main source of water is not on their site. A large portion of rural households make use of a public tap or water

Source: NIDS Wave 4 2014/15. Note there is no double counting. Categories are mutually exclusive.
Note*: Over-crowded have more than two people per room excluding bathrooms
Note**: Based on the questions “Rate the dwelling on the following five point scale”; dwelling considered "Dilapidated or falling down” or “In need of structural repairs”
carrier or tanker as their main source of water (31%) and 11% of households make use of a dam, pool, or stream. As can be expected, flush toilets are rare in rural areas. Most households make use of pit latrines with no ventilation pipe (43%), while 5% of households use bucket toilets. A further 5% of households say they don’t have access to any type of toilet.

If these households without access to adequate services⁶ (sanitation and water) are included, the total number of rural households in the target market with a visible housing need increases to just under four million households.

“Government is not helping us with anything, to get a Jojo we have to buy it on our own. Sometimes we have to go and collect rain water from puddles if it was raining heavily, but that water is not clean. The water that comes with the public water tank is too little for our families. The other option is for us to walk as far as the Nseleni Dam to get water”

(Interview respondent, Rural KZN)

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⁶ Inadequate toilet facility includes: Bucket toilet, Pit latrine without ventilation pipe and ‘None’. Inadequate water supply includes: Flowing water/ stream, Spring, Dam/ pool/ stagnant water, public tap
4.2. **HOUSEHOLD INVESTMENT IN DWELLINGS**

There has been considerable improvement in living conditions in rural areas over the past 15 years, possibly suggesting household investment over the period. The number of rural households living in formal dwellings has increased noticeably since 2001. According to the 2001 Census, there were around 2.4 million households or 58% of rural households living in formal dwellings, with the balance living largely in traditional dwellings and a minority in informal dwellings. According to the Community Survey this has increased to 3.6 million households or 70% of rural households in 2016.

There are no published statistics on housing delivery in rural areas. However, statistics exist for the country as a whole. Using published housing delivery statistics from the National Department of Human Settlements (NDHS) as well as Statistics South Africa, it appears that together, the State and the private sector delivered 3.4 million new units in both urban and rural areas between 2001 and 2015. Over that same period, Census and Community Survey data indicates that an additional 5.7 million households in both urban and rural areas were living in formal units. The difference of 2.3 million is likely largely explained by direct household investment in incremental home improvements across the entire country.

The NIDS survey also includes a direct question about a household’s investment in their dwelling: "Has the household carried out any repairs or improvements to the house in the last two years?" This question has been asked in all four waves of the survey. According to the latest wave of the survey, one in five rural households in RHLF’s target market or one million households answered in the affirmative. The value spent on these home repairs and improvements is shown in Figure 3 below.

*Figure 3: Household investment in dwelling*

![Diagram showing household investment in dwellings](image)

Source: NIDS Wave 4 2014/15

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7 Formal dwellings include: Dwelling/house or brick structure on a separate stand or yard or on farm; Dwelling/house/flat/room in backyard; Flat or apartment in a block of flats; Room/flatlet; and Town/cluster/semi-detached house (simplex, duplex or triplex)
Excluding the 18% of households that did not know the value of home repairs or improvements, the average amount spent on repairs or improvements in the past two years is R13,500. This average is skewed by relatively few outliers who reported spending R100,000 or more (2% of households). The median expenditure of R5,000 is therefore a more useful indicator. Using only those households who provided an estimate of expenditure, the total household investment in repairs or improvements over the past two years is approximately R11.16 billion. Assuming that households who did not provide an estimate spent on average R5,000, this estimate increases to just over R12 billion. NIDS data does not indicate how households finance this investment.

The primary research conducted in Empangeni as part of this study highlights significant household level investment in housing. Of the 50 households interviewed in rural areas in KwaZulu-Natal, all but one have made changes to their dwelling or property in the past five years. Most households surveyed (80%) have built a formal dwelling in its entirety.

*Figure 4: What changes have your household made to your dwelling or property over the past five years? (Multiple responses possible)*

![Bar chart showing changes made to dwellings or properties]

Source: Survey of 50 households in rural KwaZulu-Natal

The total amount invested over the past five years ranges from R4,000 up to R250,000. Seven of the 50 households said they had spent over R100,000 improving their homes in the past five years.

Fieldworkers took photos of respondents’ properties where permission was granted by the household. A selection of these photos is shown below.
4.3. FINANCING HOME IMPROVEMENTS

The amount spent on improving homes can be significant relative to what households in RHLF’s target market would be likely to afford. NIDS data indicates that of those households in RHLF’s target market who have invested in their homes over the past two years, at least 18% spent more than five times their monthly household income.

Households can finance these outlays out of current cash flow, savings or credit, or a combination of these (see Box below for an example of this). If formal credit is used, this can be building specific credit (housing microfinance) or general purpose credit through an unsecured loan from a bank or another financial services provider.

The financing mechanism utilised by respondents surveyed is summarised in Figure 5 below. More than 90% of rural households that have invested in their dwelling in the past five years used cash/ savings to fund the building and 14% used credit (note multiple responses were possible).

*Figure 5: How did you finance the building work? (Multiple responses possible)*

<table>
<thead>
<tr>
<th>Financing Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials are purchased in small amounts when cash becomes available</td>
<td>45%</td>
</tr>
<tr>
<td>With money saved in a bank account</td>
<td>29%</td>
</tr>
<tr>
<td>With money saved up at home</td>
<td>27%</td>
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<tr>
<td>With savings from a stokvel/ savings group</td>
<td>10%</td>
</tr>
<tr>
<td>With money from a building club</td>
<td>2%</td>
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<tr>
<td>With cash paid to building materials while materials kept at store (on lay-by)</td>
<td>2%</td>
</tr>
<tr>
<td>With credit from a bank</td>
<td>10%</td>
</tr>
<tr>
<td>With credit from a lender/ bank inside a building retailer</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Survey of 50 households in rural KwaZulu-Natal

The primary research explored how customers choose between cash/ savings and credit and, if credit is used, how households choose between building specific credit or general purpose credit.

*Utilising both savings and credit for building - the case of a SaveAct member*

SaveAct, which was founded in 2005, works to improve the financial capability of individuals by setting up savings groups. SaveAct currently works with over 3,000 savings groups in rural and peri-urban areas and has an estimated 60,000 members.
One of their members, Thulisile, has built a house for her family using both savings as well as credit to finance the building and materials.

Thulisile is a member of the Ikhwezi savings and credit group (SCG) located in Limehill, KwaZulu-Natal. She is married and her husband, who is the sole breadwinner, works in Johannesburg and so much of the time she is alone with her four children. Her husband sends her money each month from his salary of R6,000. Her husband also settles two retail accounts at OK Furniture and Edgars. Since joining the savings group Thulisile saves between R100 and R500 per month from the money her husband sends her.

Prior to building her new home she stayed in a two-room house with a separate rondawel used as a kitchen. The family desperately wanted to extend their home. Thulisile’s husband had started to save up for an extension in 2013. With these savings the family was able to purchase some building materials including sand, blocks and cement for around R5,000 and pay the builder half his R20,000 fee. However, the materials were not enough to complete the building and the family still required doors and windows.

Thulisile suggested that they borrow from her savings and credit group – she had managed to save enough with the group to get the amount they needed to buy the remaining materials. So they took the loan from the SCG.

However, the couple found that it was still not enough money to pay the builder his outstanding fee of R10,000. So Thulisile took an additional loan from the SCG as well as a small loan from her sister to cover the outstanding cost for the builder.

The family then needed to buy roofing material at a price of approximately R35,000. To pay for this, Thulisile’s husband applied for a bank loan but did not qualify for the full amount required. They took the bank loan and supplemented this with Thulisile’s savings group share-out. The amount Thulisile received from the share-out was enough to pay off the roof and complete the house.

The family is currently living in the house, although it still requires plastering, furniture, ceilings and floor tiles and the family would like to add a veranda. Thulisile plans on purchasing these one by one with the help of the SCG.

![Image: The new six-roomed house](https://example.com/image.jpg)

Source: Exerts from a SaveAct case study (2014)
**Cash/ savings vs credit**

As noted, the primary research indicates that a minority of households in RHLF’s target market used credit for building purposes. For those that did not, respondents highlighted access constraints; most respondents did not qualify, or though they would not qualify for formal credit. Of the respondents that have not used formal credit 9% say they attempted to get credit but did not qualify, and a further 26% say they have not even attempted to access formal credit because they think they will not qualify.

*Figure 6: Reasons formal credit has not been used to fund building work (multiple responses possible)*

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have not tried to get credit because I/ my family will not qualify</td>
<td>26%</td>
</tr>
<tr>
<td>Tried to get credit but did not qualify</td>
<td>9%</td>
</tr>
<tr>
<td>Do not like using credit and loans for any purpose</td>
<td>30%</td>
</tr>
<tr>
<td>Credit is expensive to use</td>
<td>14%</td>
</tr>
<tr>
<td>Do not like using credit and loans for building purposes</td>
<td>7%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>5%</td>
</tr>
<tr>
<td>Had enough savings so did not require a loan</td>
<td>5%</td>
</tr>
<tr>
<td>Have never even considered using credit for building purpose</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Survey of 50 households in rural KwaZulu-Natal

"**My daughter had to buy the material in cash because she had just started working she couldn’t buy on credit... She did want to take out a loan but she didn’t qualify. If she did have the option of taking out a loan, she would so that we could finish the house**” (Interview respondent, Rural KZN)

"**I would prefer getting a loan but since I’m unemployed I have to save money and that takes very long. When I get employed I will take out a loan at ABSA Bank. I’m banking with ABSA Bank at the moment**” (Interview respondent, Rural KZN)

"**I can’t take a loan now because loans can only be obtained by employed people**” (Interview respondent, Rural KZN)

As per the National Credit Amendment Act, lenders must review bank statements and proof of income before extending credit to a consumer. However, this does not apply to developmental credit agreements. Developmental credit includes the ‘acquisition, rehabilitation, building or expansion of low income housing’ and so could apply to many loans granted by RHLF’s lenders.
Nevertheless, a review of seven HMF lenders\(^8\) indicates that most require both a bank statement (ranging from one to three months) and a pay-slip, although one lender noted that they will accept a pension slip as proof of income. One lender stated that while the Amendment Act does not apply to them as a developmental lender, they still adhere to the requirements so that if the regulator queries their practices they are able to show that their affordability processes are sound. Based on these requirements around half of rural households in RHLF’s target market do not qualify for credit from a formal credit provider. The various access constraints have been quantified in the graphic below.

*Figure 7: Formal credit access constraints*

![Formal credit access constraints diagram]

Source: NIDS Wave 4, 2014/15

Note*: Verifiable incomes include a regular salary or wage, or a state pension.

Note: These access constraints have been analysed at the household level. The constraint only applies if it applies to all household members. For example, if no one in the household has a bank account, that households would be classified as 'unbanked'. If just one household member has a bank account that household would be classified as 'banked'.

Of course, this analysis uses the survey-based definition of a household which considers only those who physically live in the dwelling to be household members. In reality there may be household members who live in other locations who directly finance building work. A household that appears to be excluded from formal credit markets may in fact have access through other household members who live elsewhere. While there is no survey data to assess this directly, NIDS data indicates that one quarter of rural households in RHLF’s target market have received a remittance in the past 12 months. There is no data on whether this...

\(^8\) Bayport Financial Services, Norufin Housing Finance Company, Real People Home Finance, Thuthukani Financial Services, Izwe Loans and Lendcor
contribution is used for building purposes, but it does indicate financial interdependencies across dwelling-based households. The primary research explicitly investigated this. Only five of the fifty households said they receive financial contributions from a non-household member. None of these households were using this contribution to fund building work.

As indicated in Figure 6, aside from visible access constraints that prevent households from obtaining formal credit, household attitudes towards credit also limit usage. Some households avoid all forms of credit; 30% of survey respondents said they had not used credit for building purposes because they don’t like to take out credit at all. This may be due to the commitment required by a loan which can be too stringent given the reality of irregular income, insecure employment and family commitments. Less common in rural areas but evident in the urban interviews, is a distrust of credit based on previous negative experiences.

"My daughter was afraid to take a loan. I’m not sure why she didn’t want to take a loan. She has never taken out a loan before" (Interview respondent, Rural KZN)

"When you take out a loan you might find yourself not being able to pay anymore and that will get you in trouble with people. Therefore it’s better to buy the material little by little. For example this unfinished house that you see. My son tried building it but unfortunately he lost his job” (Interview respondent, Rural KZN)

The cost of credit is also a factor; 14% of survey respondents said that they had not used formal credit because it is too expensive. A review of seven HMF lenders indicate that interest rates range from 14% to 33.75% per annum, with an average interest rate of approximately 27%. On top of this there is generally an initiation fee, and an ongoing monthly service fee. Fees differ by lender and by loan size. As per the NCA regulations, the maximum initiation fee that can be applied by developmental lenders is R550 plus 10% of the amount in excess of R1,000, with the total fee not exceeding R2,600, and a maximum monthly service fee of R60. For a R5,000 loan taken over 24 months at the average interest rate and with the maximum initiation and service fees, monthly instalments would be around R380 per month. Some providers also require insurance at an additional cost to the consumer. Savings, in contrast, would not attract any fees. Some respondents indicated scope to improve offerings in that regard.

Affordability of instalments is often more significant in driving customer perceptions and behaviour than the actual cost of credit. Because of the term of the loan, credit instalments are often lower than the required contributions of a shorter term lay-by, even though lay-byes do not have interest or fees. For example, the Build-it store in Empangeni offers a lay-bye option for goods up to R5,000 with a maximum term of three months. Assuming instalments are split equally over the three months this lay-bye would require a monthly payment of R1,667. In contrast, HMF terms range from three to 60 months depending on the provider and the size of the loan. The instalment on a R5,000 loan with a term of eight months at the average interest rate and maximum fees would be around half of that needed for the
lay-bye. However, by the end of the loan term the borrower would have contributed around R7,000 for the R5,000 loan originally received.

While credit is expensive, it enables households to complete and make use of a building project without having to first accumulate a sufficiently large lump sum of savings. Loans also impose a commitment constraint which some households find useful as funds cannot be diverted to other expenditure. In some cases, credit is preferred because other accessible savings mechanisms such as stokvels are dependent on members in the group paying on time and in full.

"I prefer using a loan because sometimes with a stokvel you can't really trust the people there. A loan is directly yours and nobody contributes in it except you, so you don't have anybody to blame for risks that may occur” (Interview respondent, Rural KZN)

Some households are not averse to credit in general, but prefer not to use it for building purposes specifically. Survey data gathered as part of this research indicates that 42% of rural households have a formal credit product, but are not using credit for building purposes. These households are mostly making use of retail accounts (32% of households surveyed) and unsecured loans from a bank (18%). For the country as a whole, credit bureau data indicates that 12.6 million borrowers, or approximately one third of the adult population, have a retail account, mostly apparel and furniture accounts. South African consumers are clearly accessing formal credit. However, it would appear that much of this credit funds shorter term consumption rather than asset building. Furthermore, high levels of indebtedness and poor performance on these retail accounts further limits access to asset building credit, such as HMF.

While credit usage patterns may reflect limited reach and relatively poor marketing practices of housing lenders compared to clothing or furniture retailers whose credit proposition is embedded within their go-to-market strategies, it might also reflect preferences on the part of borrowers. They may earmark funds for particular purposes and use specific strategies to fund different purchases. These mental accounting models, which are common across all segments of the market and apply in various contexts, directly challenge the notion that money is fungible; that R1 is R1, irrespective of how it is funded or what it is used for. Cognitive biases have a material impact not only on how households allocate savings and credit across various potential uses, but directly shape expenditure and investment patterns. For instance, availability of credit for clothing, and the willingness of households to use it might result in expenditure on clothing that is higher than it would have been in the absence of credit. Likewise, lack of access to housing finance, or limited willingness by households to take up available credit might result in lower housing investment. It would be of value to the sector to explore this in more detail, and to identify effective ‘nudges’ that can change behaviour patterns, mindful too of the risk of promoting over-investment in housing – a risk that can have dire consequences not only for households, but for the economy as a whole.
Building specific credit vs general purpose credit

If formal credit is used to fund a building project, a household can either apply for building specific credit from an HMF lender usually located in a building store, or use general purpose credit through an unsecured loan from a bank or other financial services provider. The survey indicates that in most cases general purpose loans are being used to fund building work; 4% of households surveyed have made use of credit obtained through a building materials store versus 10% that have used a general purpose loan from a bank or other lender.

According to credit bureau data as at December 2016, 8.3 million consumers had an unsecured loan. In contrast, 95,000 consumers had 120,000 open building loans (an average of 1.3 building loans per borrower). Most borrowers live in either KwaZulu-Natal (37%) or the Eastern Cape (29%), and the majority are female (62%) and pensioners (68% are aged 60 or more).

Building loans are small; 70% have an opening balance of between R2,000 and R5,000. An age analysis of these loans indicates that only a very small proportion of borrowers (6%) are 90 days or more in arrears on their building loan. Fifty eight percent of borrowers with a building loan have at least one other credit product. When the arrears status of these other credit products is considered, the proportion of borrowers with at least one account in arrears is 13%.

This borrower profile differs noticeably from those who have an unsecured loan. Borrowers with unsecured loans are more likely to have multiple credit products than borrowers with a building loan, and they are far more likely to be in arrears; 43% of borrowers with an unsecured loan are in arrears on their unsecured loan. If all loans are taken into account, more than half of borrowers (53%) with an unsecured loan have at least one credit account that is 90 days or more in arrears.

While sample sizes are small, households with a housing loan were asked why they chose a specific credit provider – either a lender inside a building store, a bank or another formal credit provider. Just two households surveyed have used a loan from a building materials retailer. One respondent said they chose this provider because they were in the store where the materials were being purchased from. The other respondent said they chose to take a loan from a lender in a building retailer because the lender provides loans for building specifically. Interview respondents were also asked for reasons for selecting specific credit providers. Selected responses are included in the box below:

"I took out a loan at African Bank. I took out a loan for buying material to finish off that other house. With that loan I bought window, doors, cupboards, a fridge and wardrobes. I took that loan because consultants came to our work to inform us about the loan" (Interview respondent, Rural KZN)

"I got advice from other people that getting money through Capitec is the fastest way to get things done" (Interview respondent, Rural KZN)
4.4. THE BROADER HOUSING DELIVERY CHAIN

Because end user financing is a component of the wider housing value chain, a degree of integration across this value chain is necessary to enable the delivery of a good quality housing outcome and improved efficiencies over the building process.

Rural households often face numerous challenges and barriers to housing investment because of their remote locations. While improved access to finance can help, households may also require additional support services to help mitigate or overcome these challenges. Interviews with rural households therefore explored these key pain points along the value chain.

Clearly, access to good quality, well priced building materials is vital for investment in housing. Most households surveyed (86%) indicated that materials are purchased from a formal building materials retailer. While the quality of the materials is good, the distances between customer homes and these retailers can be vast; 28% of surveyed households using a formal building materials retailer say the retailer is an hour or more away from their home. In addition, roads are often unpaved. This results in very high transport costs relative to the cost of the underlying product.

"It would be better if the hardware shop was nearby. Say for instance I’m one bag short of cement, it would be cheaper for me to use my wheel barrow, or a taxi, to transport my material instead of paying the hardware shop for delivery. For example, I was once short two lintels but since I couldn’t carry it myself I had to pay the hardware shop R350 for delivery fee” (Interview respondent, Rural KZN)

"Another thing that would help is having a hardware shop nearby instead of having to travel long distances to buy building material. That would save a lot of money. I would prefer use the money that I use travelling to pay for buying more material, in that way I would complete building quicker” (Interview respondent, Rural KZN)

One respondent had thought about starting a business distributing building materials from a locally based store to the local community:

"To tell you a little secret, some brother from Khumalo family came to me, at the start of this year around January or February. He came to me with the idea of getting a place in Ndona, there is a place where there is Ndona store. To get a place and try to make a co-op for the building material. It was just an idea. Then we just talk about that and we end up doing nothing. It was just an idea…Nothing, nobody came and do that beside him and me. Nobody came and try to do something like that…It is a necessary thing. This place is too big with a lot of community. Big community here. From here down to Fuyeni to Brea. All that places are going straight to Empangeni. We’re all going to one direction. It’s too much population here. It’s a business that can run. There is some building materials: some window frames, doors, paint, everything. Because all that things, we just go and buy it in Empangeni nowhere else” (Interview respondent, Rural KZN)
An alternative to using large formal retailers is to make use of locally made building materials manufactured in the rural community. Just 4% of rural households surveyed said they had made use of locally produced materials. Interviews with rural households indicated a distrust of the quality of the materials.

"They make their own bricks [in the community] and send them to us. We used to buy them, although some of them are not strong as is required. They're not strong. But we used to buy them. Like you see this house. Some of the bricks you will see some of the bricks are not strong. That reddish colour are not that strong" (Interview respondent, Rural KZN)

"For me, I trust more from the town, not from around here. We just use from the locals because we fall short in our pockets and we can’t afford that much. That’s why we use the materials around here” (Interview respondent, Rural KZN)

"People that make bricks don’t make it with the same kind of cement. Some make it with cheap cement and we would not be aware of that, and sometimes even the brick-maker wouldn’t be aware of that. And then you would build the house and you realise later on that the bricks are not of good quality because it starts cracking... When you observe the bricks that are made at Build-it and the bricks that are made by some other people, you actually see the difference, they are never the same” (Interview respondent, Rural KZN)

One interview respondent noted the availability of recourse when making use of materials from a branded retailer where materials do not meet expectations. This is often absent when locally produced materials are used, increasing risk for households if there is a problem with the materials.

Households can also make their own building materials. This was not significant for households surveyed – just 4% of households said that a household member had made building materials. However, in other communities the practice is more widespread. For example, in Hotazel in the Northern Cape households often make their own bricks and accumulate bricks over time to build or add on rooms to their homes. However, the quality of these bricks appears to be poor and they are not significantly cheaper than SABS approved products.

**SaveAct piloting last mile distribution channel in rural areas**

SaveAct works with over 3,000 savings groups in rural and per-urban areas and has an estimated 60,000 members.

SaveAct, realising the need for rural communities to be able to access goods at reasonable prices, has been piloting a last mile distribution channel called Zis’Ukhanyo. The pilot started with fifteen resellers and is currently being expanded to 45 resellers.

SaveAct envisions a distribution channel with three legs. The pilot is testing the first leg which focuses on social goods including health and hygiene products as well as solar lamps and energy efficient stoves. The second leg will support farmers with the bulk buying and delivery
of agricultural inputs. The third leg is envisioned to be for building materials and eventually housing kits that enable incremental development of housing.

The housing leg has not been piloted yet as the organisation is looking for a suitable partner to work with.

The majority of rural households surveyed hired builders for construction work; 63% of households hired a builder or building company to carry out the work and a further 27% of households hired a few builders to be managed by a household member. Just 10% of households said that they did the building work themselves.

Builders are generally hired from the community, based on recommendations from family or community members. While many of the builders hired have no formal qualification, most of the households surveyed were satisfied with the quality of their work. Just 9% of households were not satisfied, mostly due to bad quality workmanship.

"I saw a guy from across the street building houses and I called him, he was doing beautiful work there, he worked fast and he is friends with my oldest son. So I asked him to build a house...He studied at a college in Mandeni” (Interview respondent, Rural KZN)

"I’ve seen him [the builder] doing it for other families. He doesn’t have any qualifications for that. As you can see, it keeps cracking. You can’t guarantee” (Interview respondent, Rural KZN)

Of the fifty households surveyed, fifteen had made use of a building plan or design. This was mostly drawn up by the builder (ten of the fifteen households), while four households made use of an architect or draughtsman and one household drew up their own plans.

Households that had built or have started building a formal dwelling or added rooms were asked about the time taken from the start of the building process until completion. Twenty percent of these households said that the process had taken a year or more, with some projects still incomplete.

"I don’t know what can help me to make it easier. You tell yourself that you are building now and then come another thing, like family things, that demand more from your pockets. And you have to stop building and concentrate to that thing. Thereafter you have to start again...I’m the one who tries to put food on the table. And when it comes something different, still it’s me that is needed there. I have to stop what I am doing and concentrate to that one for the family. After that I will reconsider to carry on. That’s why it’s taking too long” (Interview respondent, Rural KZN)

Advice on the building process appears to be largely obtained from builders; just 6% of survey respondents say they got advice from the building materials store. A third of respondents did not get any advice.
Figure 8: Building and renovating can be complicated, from who did you receive advice regarding the building process? (Multiple responses possible)

| Source: Survey of 50 households in rural KwaZulu-Natal |

| Source: Survey of 50 households in rural KwaZulu-Natal |

| Builders | 60% |
| The building material store/ retailer | 6% |
| A community leader | 4% |
| Architect or draughtsman | 2% |
| A community based organisation | 2% |
| No one | 32% |

One household interviewed noted that accessing water required for the building process can be expensive. Households have to pay for additional water to be transported to the building site, which can be a significant challenge where water is not easily accessible. Even where the household has a Jojo tank this generally does not hold enough water required for building.

"Another problem is that the water is quite far away so when we get all the building material and we have to start building, we still need to hire someone to go and fetch us some water...I think we are going to have to buy a Jojo tank now, but when you are building a Jojo tank is not enough because you need lots of water for building. So you have to find somebody to hire to fetch you water up there and also hire big containers to hold the water" (Interview respondent, Rural KZN)
4.5. **SEGMENT VIEW**

While many of the experiences of incremental housing development are likely to be shared by rural households at large, there are distinct segments within the market with specific needs and characteristics.

For the purposes of this analysis, three segments of interest in rural areas have been identified based on their income sources. These include households with pensioners, those with at least one formally employed regular wage earner and those that rely principally on income generated by individuals who are self-employed. As with the rest of the analysis, these segments have been analysed from a household perspective and are therefore not mutually exclusive. For example, a household may contain both a pensioner and a self-employed adult. Such a household would be included in both segments.

The segments are described below with one-page summaries or ‘segments at a glance’ provided in the Appendix on page 67.

**Rural pensioner households**

An analysis of credit bureau data indicates that a substantial portion of borrowers accessing building loans are pensioners with some HMF lenders specifically targeting this segment.

According to NIDS, there are just under 1.9 million pensioners living in 1.2 million households in rural areas in South Africa. Almost all of these households fall into RHLF’s target market; 97% or 1.1 million households earn a household income of less than R15,000 per month. Most rural pensioner households earn significantly less than R15,000 per month; 60% have a household income of under R3,500 per month.

Households in the segment are mostly located in KwaZulu-Natal (35%), Limpopo province (23%) and the Eastern Cape (22%). Most households in the segment live in a formal dwelling, although a significant proportion (more than 20%) live in a traditional dwelling. There is considerable scope for pensioners to improve their living conditions; the data indicates that 10% of households live in over-crowded conditions and 23% live in dwellings that require major repairs. In addition, just under half are accessing pit latrines with no ventilation pipe and a further 7% use a bucket toilet or have no toilet at all. Access to water on site is also limited with many households making use of a public tap or a stream, dam or pool.
One in five rural pensioner households (21%) have made repairs or improvements to their home in the past two years. The median spend over this time period is R8,000. This implies an annual spend of R1.3 billion on home repairs and improvements per year.

According to NIDS data, one quarter of households in the segment are currently credit active and a further 35% are not currently using credit but could access credit. Pensioner households may have a higher propensity to invest in housing given its role as a mechanism for bequest savings, and use credit given their older age and desire to complete the building process more rapidly.

**Households that contain a formally employed regular wage earner**

Lenders are likely to target borrowers with visible, regular incomes who have secure employment. Around 1.4 million rural households in RHLF’s target market have a formally employed regular wage earner. These households have noticeably higher incomes than rural pensioner households.

According to the NIDS data, there are just under 2.2 million formally employed regular salary or wage earners over the age of 18 living in rural areas. The majority of these adults (86% or 1.9 million adults) live in a household with a monthly income of under R15,000. The top occupations for these adults are: elementary occupations (37%), service and sales workers (16%), and plant and machine operators and assemblers (14%).

According to a CAHF case study on Build-it, public sector employees are often targeted, specifically teachers and principals as they earn the highest salaries. In addition, state-employed nurses are also targeted. Public sector employees cannot be identified in the NIDS data. However, given the importance of the state as an employer in rural areas, we would expect a significant portion of those who are formally employed and earn relatively high incomes to work for the state.

While incomes are noticeably higher, housing conditions indicate scope for improvement; 9% of households live in over-crowded conditions and 21% live in dwellings that are in need of major repairs. There is also much scope to improve access to services on site using alternative systems.

According to NIDS data, 18% of households in the segment have invested in their dwelling in the past two years. The median amount invested over the past two years (for those households that provided an estimate of their investment) is R5,000 – less than that of the pensioner segment. The estimated annual spend on dwelling repairs and improvements is R1.9 billion.

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9 Defined as employed individuals that are paying UIF or have a written employment contract
Households in this segment are likely to use formal financial services; 93% have at least one household member with a bank account and over half of households in the segment say they are currently making use of a credit product.

**Rural households with a self-employed household member**

There are 570,000 self-employed adults aged 18 or more living in rural areas in South Africa. However, a large portion of these adults spend only a small portion of their time involved in these self-employment activities. The analysis therefore focuses on those self-employed individuals who spend at least 20 hours a week in their businesses.

A total of 346,000 adults in rural areas fit this definition and live in a household where the household income is less than R15,000 per month. The main sectors for these self-employment activities are wholesale and retail trade (35%), construction (20%) and private households (15%).

There are 270,000 households that fall into RHLF’s target market that contain a self-employed household member. Household incomes for the segment are varied; with around half of households in the segment earning less than R3,500 per month.

Dwelling conditions of the households in this segment are noticeably worse than those of households in the segments described above. Dwellings are more likely over-crowded and are more likely to require major repairs. They are also less likely to have access to services on their site.

NIDS data indicates that 31% of households in this segment have invested in their dwelling in the past two years, noticeably higher than the previous segments discussed. However, the amounts spent on these repairs and improvements are considerably lower with a median spend of just R3,000 over the past two years. The estimated annual spend for the segment is R250 million.

Around half of the segment has access to formal credit and just over a third are currently using a credit product.
5. URBAN HOUSEHOLDS

RHLF has, up to this point, focused on serving rural households. However, as noted, its consolidation into the Human Settlement Development Bank will result in RHLF’s mandate being broadened to urban areas. There is therefore a need for the organisation to better understand incremental housing development in an urban context.

By expanding reach into urban areas, RHLF’s target market will increase substantially. In 2015 there were around 11.8 million households residing in urban areas in South Africa of which 84% or 9.9 million households have a monthly household income of less than R15,000 per month.

Figure 9: Household income pyramid and personal income pyramid

Source: NIDS Wave 4 2014/15

The following sections focus on households in urban areas with an income of less than R15,000 per month.

These households are mostly located in Gauteng (42%), 15% live in the Western Cape and 12% in KwaZulu-Natal. Just under 60% of these households live in a formal dwelling on a separate stand and 19% live in an informal dwelling. Just over 60% of households own their dwelling. On average there are 2.8 people in a household.

With respect to income sources, two thirds of households receive an income from the labour market (including self-employment), 39% receive a government grant and 9% earn a rental income.
5.1. CURRENT HOUSING CONDITIONS

A significant number of urban households in the target market have a visible housing need. Around 1.9 million households live in an informal dwelling, either in an informal settlement (900,000 households) or in a backyard (980,000 households). Approximately 7.7 million urban households in the target market reside in a formal dwelling, with a substantial proportion (29%) having received a government housing subsidy. Of the households living in a formal dwelling, 9% live in over-crowded conditions and 13% are in need of major repairs. As per Figure 10 below, around 3.7 million households earning less than R15,000 per month live in visibly inadequate dwellings.

Figure 10: Urban households in housing circumstances that may be in need of improvement

Source: NIDS Wave 4 2014/15. Note there is no double counting. Categories are mutually exclusive.
Note*: Over-crowded have more than two people per room excluding bathrooms
Note**: Based on the questions ”Rate the dwelling on the following five point scale”, dwelling considered ”Dilapidated or falling down” or “In need of structural repairs”

Access to services in urban areas is considerably higher than that in rural areas; 85% of households earning under R15,000 per month have access to a flush toilet, 91% have piped water either in their dwelling or on their site and 93% have electricity.

However some households do not have access to an adequate toilet facility or water source\(^{11}\). If these are included, urban households with a visible housing need increases to just under four million households.

\(^{11}\) Inadequate toilet facility includes: Bucket toilet, Pit latrine without ventilation pipe and ‘None’. Inadequate water supply includes: Flowing water/ stream, Spring, Dam/ pool/ stagnant water, public tap
5.2. HOUSEHOLD INVESTMENT IN DWELLINGS

NIDS data indicates that 19% of urban households in the target market have carried out home improvements or repairs in the past two years. The distribution of amounts spent on home repairs and improvements is shown in Figure 11 below. The average amount spent, for households that provided an estimated value, is R15,800 over the past two years, and the median spend is R3,300.

Figure 11: Household investment in dwelling

![Graph showing the distribution of amounts spent on home repairs and improvements.](chart.png)

Source: NIDS Wave 4 2014/15

Average spend in urban areas is higher than in rural areas. However, the median spend is significantly lower than the R5,000 median value spent by rural households in RHLF’s target market. A larger proportion of urban households spend relatively small amounts of money; 48% of urban households have spent less than R5,000 over the past two years versus 40% of rural households. In addition, a higher proportion of urban households spend relatively high amounts on repairs and improvements; 9% of urban households have spent R50,000 or more on their dwellings versus 7% of rural households.

Assuming that the 12% of urban households that did not provide an estimate of the value of repairs and improvements spent the median amount of R3,300, this would imply a total spend by this segment of R26.9 billion over the past two years.

A survey of households living in specific areas in Khayelitsha and Cato Manor\textsuperscript{12} was conducted as part of this research to better understand how urban households invest in their dwellings. Selected photos taken by fieldworkers of households’ dwellings are shown below.

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\textsuperscript{12} In Khayelitsha surveys were conducted in Kuyasa, Harare, Makhaza and Site B. In Cato Manor surveys were conducted in Wiggins Umkhumbane
The survey found that the majority of households in both areas have invested in their dwellings with just 7% of households saying they have not made any changes to their dwelling. The type of investment differs noticeably by area (see Figure 12 below).

In Khayelitsha more than 60% of households have built a shack on the property. This was almost always the first housing investment: less than a quarter of households surveyed had a formal dwelling on site when they first moved to the property necessitating the building of a shack. Currently most households surveyed live in a formal dwelling (68%). At the same time, just under half of households living in a formal structure have a shack in the backyard.

"We got here and it was just a plot, just an open space. We came with zinc and made shacks over here. Then the house was built a few years later. But they left it without completing it, they didn’t plaster it and they didn’t put a ceiling on it” (Interview respondent, Khayelitsha)

One third of households in Khayelitsha say they have built a formal dwelling from scratch. It appears many of these dwelling are subsidy dwellings supported by government through the provision of building materials and contractors. Enhancing security also appears to be a priority in the area; 39% of households say they have added security bars, 18% have built a fence around their property and a further 12% have built a wall.

In Cato Manor, almost all of the households surveyed had a formal dwelling, most likely a subsidy dwelling, on their property when they first moved to the site. Housing investment in Cato Manor is primarily focused on enhancing the security of the dwelling by adding security bars and building a wall or a fence, as well as improving finishes by changing floors and ceilings and fixing up bathrooms and kitchens, and extending the house by adding rooms.
Figure 12: What changes have you or your household made to this property?

<table>
<thead>
<tr>
<th>Change to Property</th>
<th>Khayelitsha (155 Respondents)</th>
<th>Cato Manor (151 Respondents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Built one or more shacks on the property</td>
<td>61%</td>
<td>7%</td>
</tr>
<tr>
<td>Added burglar bars/ security bars</td>
<td>39%</td>
<td>48%</td>
</tr>
<tr>
<td>Built a formal house from scratch</td>
<td>32%</td>
<td>7%</td>
</tr>
<tr>
<td>Changed floors</td>
<td>25%</td>
<td>47%</td>
</tr>
<tr>
<td>Built a fence around the house/ property</td>
<td>18%</td>
<td>17%</td>
</tr>
<tr>
<td>Changed the ceilings</td>
<td>14%</td>
<td>36%</td>
</tr>
<tr>
<td>Built a wall around the house/ property</td>
<td>12%</td>
<td>21%</td>
</tr>
<tr>
<td>Built one or more formal rooms outside</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Painting/ plastering/ tiling walls</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>Added doors/ windows</td>
<td>9%</td>
<td>23%</td>
</tr>
<tr>
<td>Added one or more rooms to the house</td>
<td>7%</td>
<td>18%</td>
</tr>
<tr>
<td>Fixed the bathrooms</td>
<td>6%</td>
<td>28%</td>
</tr>
<tr>
<td>Added a flush toilet</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Changed the roof</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td>Fixed the kitchen</td>
<td>4%</td>
<td>34%</td>
</tr>
<tr>
<td>Added a garage or parking space</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>Added a geyser</td>
<td>3%</td>
<td>14%</td>
</tr>
<tr>
<td>Added another level to the house</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Nothing</td>
<td>3%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Survey of 155 households in Khayelitsha and 151 households in Cato Manor

The surveys and interviews with households in Khayelitsha and Cato Manor indicated numerous areas of investment including improving subsidy homes, developing rental units to supplement income and investment in a dwelling in another area. These are discussed below.

According to NIDS, 2.4 million urban households in the target market have received a housing subsidy, of which approximately 1.7 million appear to be living in a dwelling subsidised by the state\textsuperscript{13}. Research indicates that the small size and basic finishes associated with subsidy dwellings has stimulated investment in housing and created demand for HMF with one provider commenting: “The strong growth in the provision of government (RDP) housing over

\textsuperscript{13} The NIDS survey asks if the household has ever received a housing subsidy: “Did the household receive any government assistance (e.g. RDP housing) to obtain this dwelling or another dwelling?” However, it is unclear if the household currently resides in this subsidy dwelling so additional filters are applied – the household must live in a formal dwelling and the household must own the dwelling (i.e. not be paying rent). Additional NIDS data on this segment; households living in a subsidy dwelling, is included in the appendix.
the last 10 to 15 years has spawned strong demand in the low- and middle-income market for home improvement”[^14].

Households surveyed as part of this research have made numerous improvements to their subsidy homes by enhancing security, improving finishes and extending the house.

“So far I've painted my RDP house and put burglar guards. Last December I extended the house which is this room that we are in now.” (Interview respondent, Cato Manor)

"The material that they used to build the roof used to leak every time it rained, the same goes for the walls, they just get wet. I then decided to build this room out of material that doesn't soak up water every time it rains. I built this room, a dining room and a kitchen. The RDP is a two room house but I'm planning to extend it by adding two more rooms so that it can become a four room” (Interview respondent, Cato Manor)

While the provision of subsidy dwellings has triggered housing investment by recipient households it appears that the expectation that government will provide a formal dwelling has also hampered household-led investment by households who have not received one. As noted, one third of households surveyed in Khayelitsha are currently living in an informal dwelling. These households were asked why they have not built a formal house (they could provide multiple responses). While funding is a major barrier – 42% of households living in an informal dwelling say they do not have the money to improve the dwelling at the moment – a more significant barrier is the expectation that government will build a formal dwelling for the household. Sixty percent of households living in an informal dwelling said they are waiting for government to build them a house. Almost all of these households have been living on their plot for more than a decade.

Development of backyard dwellings is also common; 9% of households in Cato Manor have built a formal room outside their dwelling and 7% have built a shack outside their dwelling. In Khayelitsha, of those households living in a formal dwelling, 14% have built one or more formal rooms in the backyard and 55% have built a shack although not all of these shacks are still on the property.

In some cases, backyard units house family members. However, some households rent out these backyard units to supplement their incomes. Ten percent of households surveyed in Khayelitsha and 5% of households surveyed in Cato Manor are renting out at least one room. In Khayelitsha tenants live in mostly informal dwellings and pay rents of between R300 and R400 per month. In Cato Manor, almost all of the tenants live in a formal unit and pay rents of R600 to R900 per month. Interviews with households in the areas found many that would like to develop rental stock.

Developing units for rental

Njabulo has been living on his plot in Cato Manor since 1994. He has built five formal rooms as well as a shack on his property for rental. All the rooms were purchased with income earned working in a small Indian-owned shop and also selling alcohol and soft drinks from his home.

"When we first arrived here only this [subsidy] house was here. The other side, which is also my land, just had bushes. So I had to hire a truck to clear off the bushes so I could use the land to build these houses which are a two room house, a one room, one rondawel, another two room extension and a shack...

...The reason why I built extra rooms is because I am unemployed and I have a family to feed. I have expenses such as electricity and food, so what I do is I rent out these other houses as a source of income. I have five rooms to rent out, or six if you include the shack...I’m getting R600 for [each of] them”

Another interview respondent in Cato Manor is planning to develop rental units once she has finished extending her own home for her family. Her building design includes space for rental stock to ensure that the extension she is making to her own home leaves enough space for rental units to be developed outside the house.

"When I'm done with adding rooms for my family I’d like to build rooms for tenants to rent out so that I have an extra income. That is how my house plan looks like on paper - it has rooms surrounding my house... I will build formal rooms, it won’t look beautiful if I build shacks around my house”

Margaret is a pensioner living in Khayelitsha. She lives with her sister, niece and nephew in a subsidy house. She has two renters occupying informal dwellings in her front yard. The tenants share the outside toilet with her family as there is no toilet inside her house yet, although she would like to add one and has started buying materials for this. Margaret did not develop the rental stock herself. The tenants noticed the space at the front of her home and asked if they could build their own shacks on the land. Her niece, Abigail explains:

"The two shacks that you see outside, they are not family, they are people that are looking for a place to stay and pay rent. So my aunt gave them a piece of land to stay and share with her outside, sharing water and sharing electricity. They are paying rent at the end of the month so she can cope and afford to live for the whole month”

Margaret receives a rental of R350 per month from each of the tenants which subsidises her pension pay-out as she is the only income earner in the household. If Margaret had built the shacks herself she would be getting a much higher rental. She estimates that she could get as much as R850 per month. If Margaret were to build a formal room for rent she estimates she could get R1,000 per month. While she knows the cost of building a formal unit is considerably higher than building a shack, she would rather put in a formal unit because
shacks are a fire risk and their close proximity to her own home create a real risk to her household.

"...Because the bricks are safe from burning and it’s better money for someone who’s renting for me it’s better”

Above: Margaret’s niece Abigail stands in front of her aunt’s home. The two shacks on either side were built by the tenants

In Ghana, three microlenders have started providing HMF for the construction of income-generating assets including small-scale landlordism and home-based entrepreneurship. This is described in the box below.

**HMF for the construction of income-generating assets**

Three microlenders in Ghana - the Global Access, HFC Boafo and Sinapi Aba - have allowed their housing microfinance lending to move away from the construction of private dwellings to the construction of income-generating assets. Whether for small-scale landlordism or home-based entrepreneurship, this shift has allowed the microlenders to viably continue to provide loans for small-scale construction to households that would otherwise be excluded from the market. Without this shift, considering the difficult economic conditions in the country, finance provided for construction in affordable areas will likely shrink, simultaneously jeopardising housing microfinance products, lender funding models and urbanisation processes.

How have the microlenders done this? There are two factors that determine the success of the business model: underwriting and default management. In terms of underwriting, it can accommodate informal incomes. Besides requiring a cash collateral of between 10 and 15% and between one and two guarantors, the microlenders will visit the business and examine stock and estimate cash flow and expenses to verify the claims made by the applicant during the application process. Additionally, Sinapi Aba trains ‘clients in financial management,
As property rights in Ghana are less secure than in South Africa and fewer households have title deeds, securing title is included in the underwriting process.

In terms of default management, the microlenders will send a loan officer to a defaulting client to understand why the client has defaulted and see what can be done to prevent the loan from becoming non-performing. Sinapi Aba and HFC Boafo most commonly deal with default by extending terms, resulting in smaller, more manageable repayments. Though resource intensive, these processes have allowed the microlenders to maintain low non-performing loan rates in the face of difficult economic conditions.

**Opportunity**

The question is how do housing microfinance lenders increase access to finance for the self-employed in South Africa, particularly considering the current slow economic growth? Only one HMF lender advertises finance to the self-employed, claiming to use bank statements to assess income and affordability. This is despite 13.6% of employed South Africans identifying as self-employed. This includes the many self-employed individuals who work from home, a group which generated an estimated R900 million a month for the economy in 2006.

Some of these entrepreneurs are small-scale landlords, who often manage backyard rental units on their property: formal or informal, constructed in the yards of houses for rent and housing 11% of South African households. These units, which tend to number a few per landlord, form part of what has been called, by NURCHA, in 2003, ‘the second-most successful functioning housing sub-market’ in South Africa. A site of opportunity for many, limited access to finance may undermine the market and exclude those who are most dependent on rental income. While research is limited, a survey on 200 backyard landlords in Bram Fischerville and Cosmo City found that only 24% of these landlords work in the formal sector; the remaining 76% are likely facing constraints in accessing formal housing microfinance.

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16 Laufer and Chongo, 2016:25.
17 World Bank, 2014.
The study mentioned above found that 82% of those who rent out their backyards do so to earn an income\textsuperscript{22}. It also found that there is a high demand for these units in both areas\textsuperscript{23}, and that the average cost of construction for a unit is R9,735 in Bram Fischerville and R10,514 in Cosmo City\textsuperscript{24}. And that ‘just over half of landlords used savings, money from a stokvel or their own money to build the unit (50% in Bram Fischerville and 52% in Cosmo City). One third of landlords took a loan (35% in Bram Fischerville and 32% Cosmo City)\textsuperscript{25}. These findings are in line with research performed as part of the Housing Entrepreneur study by FinMark Trust in 2006. The study found that between 61 and 82% of township landlords used their own money to construct the units, while less than 12% used a loan from a financial institution\textsuperscript{26}. In the right areas, demand is high enough to ensure a steady, constant cash flow from the rental income.

Both small-scale landlords and home-based entrepreneurs develop their housing for income-generating purposes. And, considering the limited access to finance for housing and the limited use of housing for backyards, it can be assumed that supply is constrained by the lack of access to housing microfinance. To increase access to finance, lenders should develop underwriting and default management processes that include the informally self-employed. This could include replicating the processes adopted by housing microfinance lenders in Ghana.

Households surveyed were asked to estimate the total amount they have invested in their dwellings. The amount spent on these investments varies significantly. In Khayelitsha most households estimate they have spent less than R10,000, with just 6% of households saying they have spent R50,000 or more on their dwelling. In Cato Manor most households surveyed have spent more than R10,000, often significantly more with 31% estimating a total spend of over R50,000. This reflects the varying income levels in the two areas.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
Employment status by percent & Bram Fischerville & Cosmo City & Total \\
\hline
Self employed & 24 & 21 & 22 \\
Work in formal sector & 9 & 33 & 24 \\
Work in informal sector & 21 & 12 & 16 \\
Retired/student & 18 & 5 & 10 \\
Unemployed & 30 & 29 & 28 \\
\hline
\end{tabular}
\caption{Employment Status of Landlords Surveyed in Bram Fischerville and Cosmo City\textsuperscript{21}}
\end{table}

\textsuperscript{21} Gardner, 2016:9.
\textsuperscript{22} Gardner, 2016:11.
\textsuperscript{23} Ibid., 14
\textsuperscript{24} Ibid., 16.
\textsuperscript{25} Ibid., 17.
\textsuperscript{26} Gordon and Nell, 2006:40.
Aside from investing in their own dwellings, a small proportion of households surveyed are contributing to the development of housing in rural areas. Five percent of households in Khayelitsha are contributing to building in rural Eastern Cape and 3% of households surveyed in Cato Manor are contributing to building in a rural area in KwaZulu-Natal.

"Even though I've built a home here I wouldn't depend solely on this place because you may never know what could happen so I do have a house in my home town of Ixopo. In Ixopo I've built a two room house, a rondawel and I'm currently building a one room house. I send my mother building money every month via Shoprite for her to proceed with the construction. Or sometimes I go home and buy the materials myself. The money that I send home isn't only for construction but for food too" (Interview respondent, Cato Manor)
5.3. **FINANCING HOME IMPROVEMENTS**

Survey respondents were asked how they financed the building work. The results are shown in Figure 14 below.

*Figure 14: How did you finance the building work? (Multiple responses possible)*

Materials are purchased in small amounts as soon as cash becomes available 50%
With money saved in a bank account 46%
With money saved up at home 21%
With savings from a stokvel or savings group 15%
With money from a building club 2%
With credit or a loan from a bank 10%
With credit/loan from another formal credit provider 2%
With credit from a lender/bank inside a building retailer 3%
With credit or a loan from an employer 3%
With credit or a loan from somewhere else 1%
With money received from family members that do not live in this household 1%

Source: Survey of 155 households in Khayelitsha and 151 households in Cato Manor

As in rural areas, cash and savings dominate. This was also evident from the interviews with households.

> *Because I am unemployed I had to come up with a plan for some kind of stable income. So I got a part-time job working at an Indian-owned shop and on the side I sold beer, soft drinks and whiskey. I saved all the money that I earned and it all amounted to R30,000. And that’s the money that I used to build the first two room house. I had to stop selling those goods on the side because I kept getting in trouble with the police, it was illegal*” (Interview respondent, Cato Manor)

> *For extending the house, I had to buy my own building blocks and pay for them in instalments of R2,000 per month. I did not take out a loan. I lay-bye the blocks, they were delivered when I finished paying for them*” (Interview respondent, Cato Manor)

> *I took the money from the grant and would save by putting money away from the grant ...I put it away here in the house...I also save through the Gooi Gooi. I purchased my stove through the Gooi Gooi. The cupboard and fridge were purchased through it [Gooi Gooi]*” (Interview respondent, Khayelitsha)

Just 12% of households interviewed have used formal credit to fund their building work. Usage of credit is higher in Cato Manor where 17% of respondents have funded building work with credit versus just 9% in Khayelitsha. General credit usage is also higher for respondents in
Cato Manor – 62% of respondents said that their household is credit active versus 33% of respondents in Khayelitsha. This is likely due to the higher levels of employment and income of survey respondents in Cato Manor.

During the interviews only one respondent in Khayelitsha, Lucas, was making use of a loan for building a wall around his dwelling. His experience has not been a positive one, as described in the box below.

**Lucas and the wall**

Lucas lives in Khayelitsha with his wife, child and baby. The family lives on a serviced site in an informal dwelling. He works at the Cape Town International Airport in the cleaning department. Lucas applied for a loan at Bayport while shopping with his wife in Mitchells Plain. He initially took a loan for R10,000 then got another loan for R20,000 and then a third loan for R15,000, the last two of which he is still paying off. The money however was not only used for his wall, which remains unfinished, although he did not specify where the rest of the money went. He is still paying off R3,000 per month and appears confused as to how much he still needs to pay off and for how much longer.

"I took it when I went with my wife to Mitchells Plain and I met one of the consultants, he explained to me about one of their loans and I became interested. Actually I'm not a person to be interested in loans in the first place, but the guy, the way he talked to me and persuaded me that it would be easier. But now it’s difficult to pay because they demand a lot of interest”

"At first they gave me R10,000, then I paid it and finished it. And then they said I must come and take another amount of R20,000. And I took it and used it, and then they give me R15,000 again”

"I also used the money for other things but I’m not sure what it is, but I didn’t use all of it on the wall”

"That R10,000 I was finished it, but the R20,000 and R15,000 I took at different times, and so I thought in my mind that one of them would be finished by now. And in December they only charged me half the normal instalment, it was R1,500 for one loan so I thought maybe I finished the other loan...But now they came back and they said they need the interest for that one I didn’t pay in December. Then when I ask them what’s happened because I was supposed to finish, they said no, I’ll finish them at the same time. But I didn’t take them at the same time”

Lucas said he built the wall for security and to keep his children safe from cars. However, the wall is large and ornate and likely influenced by the fact that many of his neighbours are living in formal dwellings. He says he is waiting for government to build him a house too.

"I’m just waiting for the government because they told us they are going to build for us, but I’m not sure whether they will do it but if they fail, I will make a plan B”
Lucas said in future he will prefer to use savings as he thinks credit is too expensive.

Above: Lucas and his family in front of the unfinished wall. His shack is in the background

**Cash/ savings vs credit**

Survey respondents that have not used credit to fund home improvements were asked why they have not used credit. The data is shown in Figure 15 below.

*Figure 15: Reason for not using credit to fund building work (respondents that have not used formal credit)*

<table>
<thead>
<tr>
<th>Reason</th>
<th>Khayelitsha (141 Respondents)</th>
<th>Cato Manor (125 Respondents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not like using credit and loans for any purpose</td>
<td>36%</td>
<td>22%</td>
</tr>
<tr>
<td>Have not tried to get credit because I/ my family will not qualify</td>
<td>30%</td>
<td>15%</td>
</tr>
<tr>
<td>Tried to get credit but did not qualify</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>Credit is expensive to use</td>
<td>8%</td>
<td>36%</td>
</tr>
<tr>
<td>Do not like using credit and loans for building</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>Had enough savings</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Do not know</td>
<td>2%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Survey of 155 households in Khayelitsha and 151 households in Cato Manor

As in rural areas, access constraints are a major reason for households not making use of credit; 11% of urban households surveyed tried to get credit to fund building work but did not qualify and a further 23% did not try to get credit because they think they will not qualify. In urban areas however, high levels of over-indebtedness are more significant.
Access appears to be more limited for households surveyed in Khayelitsha, likely due to the lower incomes and limited formal employment. In Khayelitsha, 15% of households said they tried to get credit but did not qualify and a further 30% said they have not tried to get credit because they think they will not qualify. The proportions for households surveyed in Cato Manor are 6% and 15% of households respectively.

High levels of over-indebtedness also limit households’ ability to qualify for credit for building purposes, evidenced by credit bureau data. Using postal codes to identify borrowers in specific areas, a total of 129,000 and 61,000 credit active consumers in Khayelitsha and Cato Manor were identified. The most common type of credit is retail accounts; 70% of credit active consumers have a retail account, 49% of borrowers have an unsecured loan, 29% have a credit card, 7% have a mortgage and 6% have vehicle finance. Two thirds of borrowers in Khayelitsha and Cato Manor have more than one open credit account. Less than half of borrowers (46%) are current on all their accounts, 31% of borrowers have one credit account which is 90 days or more in arrears and a further 24% have two or more credit accounts in arrears. Borrowers in Cato Manor are less likely to have an account in arrears than borrowers in Khayelitsha; 40% of borrowers in Cato Manor have at least one account in arrears versus 61% of borrowers in Khayelitsha.

“I don’t qualify to pay for goods on credit because I don’t have a payslip. My income came from me by selling products such as perfume and Tupperware. I also worked as a domestic worker for three days a week and I was part of a stokvel. I saved all the money I got from doing those jobs to build and renovate” (Interview respondent, Cato Manor)

“If someone would give me a loan to finish everything I would be over excited but sadly I don’t qualify for it. I do have accounts some of them are due, some of them are from Home Choice but I’ve never taken a loan. Home Choice allows us to take goods home whilst paying on credit because they trace our payment history with other clothing shops. If it’s a good report you qualify to buy at Home Choice. Bank loans need payslips which we don’t have” (Interview respondent, Cato Manor)

“We did try get a loan there with African Bank but they told us that we don’t qualify. I also tried at my bank, ABSA. So instead of taking the loan I must just try to budget on my own, at least to get the amount to rebuild the house. I’m trying right now to save but somehow things are not going right at work, and even at home I need to make sure food and stuff like that, electricity, is paid. It’s not easy but at least I’m trying because the price is going up” (Interview respondent, Khayelitsha)

Over a third of respondents that have not used credit to finance building work in Cato Manor said this is because credit is expensive to use. Just 8% of respondents in Khayelitsha gave this reason.

Thirty percent of survey respondents said that they have not used credit to fund housing investment because they do not like using credit or loans for any purpose. This is more
significant in Khayelitsha, noted by 36% of respondents, versus 22% of respondents in Cato Manor. As in rural areas there is a proportion of respondents, 7%, that say they do not like using credit for building purposes specifically. A further 36% of households surveyed say they are credit active but are not using credit for building purposes.

Interviews with respondents indicated that variable incomes and unexpected expenses predispose households against credit because they cannot guarantee that they will be able to pay every month.

"Loans are a problem, because in my case, my source of income are these rentals, now let’s say my tenants decide to move out and I got a loan to pay up? What would I pay it up with then? A loan wouldn't work for me. It would only work for someone with a stable source of income" (Interview respondent, Cato Manor)

Even savings mechanisms such as savings groups where a set contribution are required can be difficult for households to maintain. One respondent in Khayelitsha said she does not like using a Gooi Gooi (savings club) for this reason.

"I'm scared...maybe when people want the money, at that time I am not affording it and they will fight with me...Let me make an example, just now, this weekend, we just buried our aunt this last Saturday. So we didn’t have money so we have to use what we have so maybe we do have some Gooi Gooi and it was the day we were supposed to pay. They wouldn't understand why we are not giving in the money and they wouldn't care, so it would be trouble. They would want to take something from the house to keep until we pay them back, they do that” (Interview respondent, Khayelitsha)

**Building specific credit vs general purpose credit**

The majority of survey respondents that have used credit to fund building work have used a loan from a bank (6% of respondents), just 1% have used a loan that they got from a lender inside a building retailer and 4% got a loan from another formal credit provider. Respondents that got a loan from another formal credit provider were almost all from Khayelitsha and they had obtained the loan from the Kuyasa Fund which provides building specific loans.

The interview with Lucas (described in the box ‘Lucas and the wall’ above), shows how a general purpose loan can be difficult to manage and leave the borrower paying off a large sum of money without much to show for it. This sentiment was shared by another respondent in Khayelitsha, who thinks building specific loans are better for the borrower.

"If maybe I want to build a home, the loan company gives me that money. But they must give me the money and make sure that it is used for the building. At the moment the other loan companies they just give you the money, they only care about the profit for them, they don't care what you are using the money for, it doesn't matter – they just give you the money. If
maybe I use the money and I go buy a TV for example, I don't build a house. The house you invest in the building. It's not like a TV, the TV you can buy now and tomorrow it's broken, but the house is forever” (Interview respondent, Khayelitsha)

5.4. THE BROADER HOUSING DELIVERY CHAIN

In urban areas lack of secure title may limit willingness to invest in housing. All survey respondents in Khayelitsha say they have a title deed. In Cato Manor just 70% of respondents say they have a title deed, while 25% say they have a letter or permit from the Council or Municipality and 3% have an affidavit from the person they purchased their house from or a letter from the bank.

Even where a household does have a title deed, this may be in the name of a family member that is no longer living. Of those households with a title deed, 5% of households in Khayelitsha and 8% in Cato Manor say their title deed is in the name of a family member who is no longer alive.

Issues with title emerged during interviews with households in the two areas as described in the box below.

Lack of secure title

Andiswa stays in Site B in Khayelitsha. Her family has a plot that has a toilet and piped water, but no formal dwelling. She does not stay on the plot but receives a small income from a renter living in a shack on the plot.

Her family was given the plot around 20 years ago and the title deed was provided in her father’s name. However, her father passed away in 1998 and the family is unsure where the title deed is. In around 2006, Andiswa went to the Department of Housing at Stocks and Stocks with her mother to apply for a new title deed. However, she was told it would cost her R200 and they did not have the money to pay for this at the time.

Andiswa’s mother passed away in 2008 and she still has no title deed. Andiswa believes that if she got a title deed she would be able to access a housing subsidy. However, she does not think she has the proof required to get a title deed in her own name and, in addition, she has two siblings who also have a claim to the plot.

"There are three of us, me, my sister and my brother, we are three, then there’s the one house. So I can’t leave on my own and go to Stocks because all three of us have our names under the house, so all of our names need to be there and then we will be able to do the title deed, and all three of us take care of payment and to do the title deed”

Without a clear indication of who owns the plot between the siblings and whose name the title deed should move to, the plot will likely remain undeveloped.
In Cato Manor two households interviewed had not been given a title deed even though both have been living in their subsidy homes for more than a decade. In fact, their entire neighbourhood has not received a title deed. Both households have invested in their dwellings but the lack of title deeds creates a level of insecurity.

"We haven't received the title deeds so we don't know if this land is really ours. Another issue is that my house number is the same as someone else’s so I don’t know whether the title deed will be in my name or that other person’s. As a community we have given up on trying to find out what happened. We are just quiet about it and we try to carry on with our lives. We are not going anywhere though because we have spent money on building” (Interview respondent, Cato Manor)

"We only have a municipal letter, we were told that title deeds for the houses are still at Pietermaritzburg. The house is in my name, which is Philisiwe Ngcobo’s name. Travelling to Pietermaritzburg would cost me R200 to and from. But this whole community hasn’t received their title deeds. Our former community counsellor was supposed to fetch the title deeds for us, call us in for a meeting and hand them to us, but unfortunately that hasn’t happened” (Interview respondent, Cato Manor)

With regard to building materials, these are either purchased from a large formal building materials retailer or a small hardware store in the area.
A substantial portion of households in Khayelitsha (29%) say they received free building materials from government as part of the housing programme in the area. While many of the respondents interviewed were very happy to get free materials, one respondent commented on the theft of some materials and poor quality of others.

"The PHP is not good, the people steal the cement, the building there, they take the cement and take it elsewhere. There is a shortage of material there, when you plaster, if maybe you are supposed to use the six cement, they use two, then other two disappear, so now when it’s raining you gonna see the door, the wall has got water. The bricks they are using, is not for the houses, it’s only for the yard because they are using the wrong bricks and now when it’s raining, the rain goes through, then it damages the carpet, the wardrobe, everything” (Interview respondent, Khayelitsha)

The poor quality of materials is often a trigger to improve a dwelling. One respondent replaced her roof and added rooms using better quality materials.

"The material that they used to build the roof used to leak every time it rained, the same goes for the walls they just get wet and soak up the water. I then decided to build this room out of material that doesn’t soak up water every time it rains. I built this room, a dining room and a kitchen. The RDP is a two room house but I’m planning to extend it by adding two more rooms so that it can become a four room” (Interview respondent, Cato manor)
Small hardware stores in the community are popular; they are used by more than 40% of survey respondents. These stores may not offer payment options like lay-byes and accounts.

Survey respondents were asked who carried out the renovations or construction for their latest home improvement. In Khayelitsha, the majority of work is done by a builder or building company (80%) with the remaining households carrying out the work themselves. In Cato Manor, 43% of households surveyed used a builder or building company and 31% used a builder or builders that were managed by a household member. The remaining households said that a household member did the work.

Households that have used a builder were asked how satisfied they were with the work completed by the builder. Just 3% of households in Khayelitsha said they were unhappy with their builder versus 9% of households in Cato Manor. Bad quality workmanship and not completing the work properly were the main reasons for dissatisfaction.

In many cases the building work takes longer than expected. This was the case for 14% of households in Khayelitsha and 20% of households in Cato Manor. In Khayelitsha the main reasons for this are due to builders leaving without completing the work, or because government stopped providing free materials. While this is not consistent with the very small proportion of households expressing dissatisfaction with their builders, it may be due to generally low expectations of builders.

In Cato Manor the main reasons for delayed building projects include the work being more expensive than expected, builders leaving without completing the work and the household running out of savings.

The two areas surveyed indicated that sources of advice are varied as shown in Figure 17 below.
Figure 17: Building and renovating can be complicated, from who did you receive advice regarding the building process? (Households that have invested in their dwelling, multiple responses possible)

| Source: Survey of 155 households in Khayelitsha and 151 households in Cato Manor |

In Khayelitsha, most households that received advice got this from a neighbour or community leader. Many access advice from community based organisations. In all cases these households were helped with free materials as part of a housing project and are likely to have accessed this advice from the organisation associated with the project. Just 3% of households surveyed said that they got advice from their builders. In contrast, in Cato Manor the vast majority of households received advice from their builder. Households in Cato Manor are also more likely to get advice from a building materials retailer.
5.5. SEGMENT VIEW

Two segments of interest were considered in urban areas; households living in subsidy dwellings and households that contain at least one self-employed adult. Summaries of these segments are available in the appendix.

**Urban subsidy dwellers**

According to NIDS data there are around 1.8 million urban households residing in a subsidy dwelling\(^{27}\) of which 94% or 1.7 million have a household income of less than R15,000 per month.

Households in this segment are mostly found in Gauteng (35%), the Eastern Cape (14%) and the Western Cape (14%). More than 60% of these households receive a government grant, and just under one quarter say they receive a remittance. Thirteen percent of households are receiving rental income, indicating the potential for households to use the land around their dwelling to build rental stock as an additional income source.

NIDS data indicates there is scope for households to improve their dwellings; 12% of households in the segment live in over-crowded dwellings and 14% say that their dwelling requires major repairs. Besides major repairs, the basic finishes associated with subsidy dwellings often require households to invest in renovating and improving their homes, including adding ceilings, tiling floors and changing doors and windows.

According to the NIDS data, 30% of households in this segment have invested in their dwellings in the past two years, more than any other segment considered in this research. While a large portion of households are investing, the data indicates that most invest small amounts; the median spend over the past two years for households that have invested is R3,300. The segment has an estimated annual home improvement spend of R2.7 billion.

Usage of credit in the segment is relatively high – more than half (53%) say they have an open account or loan product, and a further 16% have access to formal credit but are currently not credit active.

**Urban households with a self-employed household member**

There are 520,000 households in RHLF's target market in urban areas with at least one self-employed adult who works a minimum of 20 hours per week in their business. Just under half

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\(^{27}\) The NIDS survey asks if the household has ever received a housing subsidy: "Did the household receive any government assistance (e.g. RDP housing) to obtain this dwelling or another dwelling?" However, it is unclear if the household currently resides in this subsidy dwelling so additional filters are applied – the household must live in a formal dwelling and the household must own the dwelling (i.e. not be paying rent)
of households in this segment are located in Gauteng, 20% are in the Western Cape and 7% are in the Eastern Cape.

Dwelling conditions indicate considerable scope for improvement. More than a quarter of households say their dwelling requires major repairs and 9% live in over-crowded conditions. Access to services can also be improved; 15% of households do not have a flush toilet and 11% do not have access to piped water on their site.

NIDS data indicates that 28% of households in the segment have invested in their dwellings in the past two years. Of those households that have invested, the median spend over the past two years is R5,000 and the segment has an estimated total annual spend of R800 million.

Just under half of households in the segment (47%) are currently credit active and a further 11% have access to formal credit but are not currently credit active.
6. BRINGING IT ALL TOGETHER

At its most basic level, the size of the market for housing microfinance in South Africa would be based on the number of households with a visible housing need in rural and urban areas and who are unlikely to be able to access mortgage finance. Based on survey data, this market comprises roughly four million rural households, and a further four million urban households who earn less than R15,000 per month. Taking credit affordability and eligibility into account, the estimated size of the addressable market for housing microfinance is estimated to be about three million households.

The research has identified, however, several issues that impact on the demand for housing microfinance, virtually all of which relate to the performance of the incremental housing value chain more broadly. While financing is integral to every link in the chain, weaknesses in specific links of the chain can have a significant impact on a household’s ability and willingness to invest in their home, even when finance is available. It also impacts directly upon the ability of housing lenders to extend finance effectively, and on the willingness of other lenders to prioritise housing finance as a realistic market opportunity.

This was highlighted by survey respondents who were asked to select one item from a specified list that they thought would be the most helpful to improve their dwelling. As summarised in Figure 19 below credit is not the priority. In rural areas the majority of respondents (58%) selected ‘closer hardware or building materials stores’ and 24% selected ‘cheaper materials’. In urban areas ‘access to better advice’, ‘cheaper materials’ and ‘a savings facility or club that helps me or my household save for building purposes’ were commonly cited.

Figure 19: Which one of the following would be the most useful to help you improve this property?

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28 Households are defined as living in a dwelling that has a visible housing need if the dwelling is informal, traditional, over-crowded or in need or major repairs, or there is an inadequate toilet facility (pit latrine without a ventilation pipe, bucket toilet or no toilet) or inadequate access to water (public tap, flowing water/ stream, Dam/pool/ stagnant water, Borehole off site)
The research has also highlighted that constraints along the value chain manifest differently across segments of the market. For instance, in remote rural areas, there is limited access to good quality, well priced building materials and in some cases even water. In urban areas absent or cloudy title deeds reduce the willingness of households to invest in housing.

The key issues faced by households in RHLF’s target market are summarised on the housing value chain below with issues specific to rural areas highlighted in blue and those specific to urban areas in red.

*Figure 18: The housing delivery chain – a summary of key issues*
While financing mechanisms are currently the principal tools used by RHLF to secure a developmental housing objective, it is clear that it must consider the broader constraints that severely hamper the performance of the value chain as a whole. To provide finance without doing so exposes households and lenders to increased risk and undermines RHLF’s principal objective; namely enabling households who do not have access to mortgage finance to access good quality housing. While this potentially broadens RHLF’s mandate significantly, the creation of the new HSDB offers a valuable opportunity to develop a coherent strategy to address these constraints holistically, with the financing component complementing other key interventions.
These can be framed and addressed at two levels: the micro, household level; and the macro, policy or sector level. Some of these are explored below.

In terms of **financing mechanisms**, there are gaps in the product set on offer. As noted, many respondents have a clear preference to use savings to finance housing investment. The provision of savings products is limited to some degree by regulations that govern deposit taking. The principal mechanisms that support savings include informal savings groups or stokvels as well as lay-byes offered by a few retailers. There is scope to enhance the portfolio of savings mechanisms available, and to include commitment devices, as well as incentive mechanisms such as matched savings components to encourage households to save for housing. The provision of savings mechanisms to support housing may be an area where RHLF can partner or work with Community Based Organisations.

There are of course opportunities to improve access and to develop financing solutions better aligned with the underlying investment objective. For instance, solutions that meet the needs of households who wish to invest in developing rental stock might offer delayed repayment plans in line with the income generating profile of the asset. Likewise, a rental financing solution might include tenant selection and management services.

Distribution is a further critical dimension of the proposition. RHLF lenders appear to have had some success in distributing loans through building supply stores. Aside from offering convenience to the consumer, it also helps lenders to limit 'leakage' – the diversion of funds earmarked for housing into other purposes. However, this distribution strategy has limitations. It is restricted to the footprint of partner retailers. It also fails to stimulate demand, offering loans to those who are already on the journey (they are, after all, in a building supply store). There may well be some opportunity to develop better mechanisms to direct the flow of credit offered through other lenders into the housing supply chain via a network of accredited builders or building suppliers. In addition, improved monitoring of use of funds is possible with new technologies including drones29.

Aside from savings and credit, insurance products may also be of value to end user households. While not a focus of this research, there is value in exploring how insurance could mitigate key risks during the construction process and protect the housing asset post construction. At the same time, insurance could minimise risks for lenders, encourage participation in the sector, and support the development of more accessible, better priced credit products.

Aside from financing mechanisms, given the complexities and risks of housing investment there is a clear need for **advice** and information that can assist households. A substantial proportion of households receive no building advice, and many who do, rely on builders to advise them. Builders themselves may lack training or experience and may not be well-placed

29 Examples of how technology is being used in HMF is included in the appendix
to provide advice on construction or financing mechanisms. In addition, they may not have the best interests of their clients in mind when doing so.

Information and advice provided to households should ideally span the entire value chain from securing tenure, creating designs and building plans, estimating costs and timing, finding providers, managing the process and sourcing finance aligned with household affordability and access. Aside from the content of this advice or information, the channel over which it is provided is critical. In some cases, households might prefer to access information and advice face to face from trusted experts. Other channels include mass media such as television or radio, as well as print media.

In general, households may be reluctant to pay for advice. It is therefore uncommon to find private sector participants offering a distinct advice-based proposition. However, new technologies can enable costless information sharing and can leverage the experience not only of perceived experts but also of households who have learned valuable, if expensive, lessons by doing so. In addition, there is scope to explore the effectiveness of various models that deliver advice, including walk-in advice centres funded by NGO’s, local government or private companies who wish to build their brands.

To ensure that quality housing outcomes are achieved, households need access to building materials and skilled builders. As noted, remote rural areas in particular face significant constraints in accessing good quality, low cost building materials. While there is no doubt some scope to explore how the building material value chain itself could be optimised nationally, in remote areas it might be possible to support the emergence of small scale building materials manufacturers. Clearly, quality control is key. In the absence of access to national testing bureaus, there may be scope to develop low cost testing mechanisms that end users themselves could champion. Once again, various models could be explored to create and support these smaller enterprises, including franchising. At the same time, capacity building and accreditation processes for builders could also be helpful.

At a macro level, there are also a range of factors relating to the structure of the overall housing value chain and the policy and legislative environment that need attention.

A key issue in urban areas relates to tenure. Insecure tenure, most commonly in the form of absent or disputed title deeds in urban areas limits willingness to invest in housing. Closely linked to this is the upgrading strategy for informal settlements. While ambitious targets have been set in this regard, there appears to be limited clarity on the upgrading process itself, and how housing microfinance together with other value chain support, including support for building contractors, could be integrated into that. Given the potential scope of this intervention, this should be a critical area of focus for the HSDB.

Beyond the incremental housing value chain, the policy and regulatory environment that frames the consumer credit sector in general has a material impact on housing microfinance. The sector itself could be characterised as one that better supports consumption, rather than
asset building. While the regulatory environment makes allowances for so-called developmental credit providers, including housing microfinance providers, it is not clear that the various exemptions designed to support the sector have had their desired impact. It would be useful to review these in some detail, and then to consider in what way the regulatory environment could be shaped to support housing microfinance, and to encourage lenders and consumers to favour housing over other potential areas into which credit could be directed.

Lastly, a critical and often overlooked requirement of market development is the ongoing need for monitoring and analysis to support ongoing learning and an evolving process of policy, interventions, incentives, and so on. While this research has established the breadth of demand as it extends beyond finance, it has also raised a number of additional questions relating to how incremental housing markets perform for their participants. These questions deserve further attention as they will highlight potential areas in which an HSDB can have an important impact. Necessarily, as measures are implemented, the scope and nature of demand will also change. This needs to be tracked and considered on a regular basis in order to ensure that state support for the development of an incremental housing sector is appropriately targeted and realising the desired outcomes within the framework not only of national policy but also provincial and municipal plans. The HSDB could play an important role in this regard.
7. APPENDIX

TECHNOLOGY & FINTECH IN HMF

Two of the major trends shaping the delivery of financial products and services today include the rising penetration of mobile phones and the advancements in financial technology (Fintech). There has been an enormous growth in the number of Fintech start-ups in the banking, remittance, insurance and microloan domain. In comparison, the application of Fintech in the housing microfinance (HMF) market appears to be in its infancy. However, a desktop study has revealed a few organisations utilising Fintech applications in the delivery of HMF either directly or indirectly. There are also a number of organisations utilising technology more broadly in the housing domain which have use cases that could extend to HMF. We have identified four organisations in this regard and developed brief case studies on each to showcase their application and relevance to the HMF sector.

iBUILD – Mobile marketplace for small-scale construction

Low-income households typically improve their homes over time through incremental, small-scale construction when and if they can access funding. Habitat for Humanity estimates that as much as 90% of all residential housing in developing countries is constructed or improved incrementally\(^30\). In general, households rely on informal builders in their community to complete the construction often without a formal building plan, or with a very rudimentary plan in place. These informal construction practices often lead to problems with building quality, project costs and timing. Aside from reducing the household’s satisfaction and overall standard of living, poor construction processes can lead to further problems in housing markets as households can’t easily buy and sell homes that are structurally unsound or badly built. These are some of the core challenges iBUILD aims to tackle with its mobile app developed to formalise and improve the delivery of small-scale construction for low-income households.

The iBUILD app was developed by Builders of Hope (BOH) in partnership with IBM and led by Kenyan architect Ronald Omyonga. The app acts as a mobile marketplace that connects informal contractors, labourers, and architects to households looking to build, renovate or improve their homes while at the same time connecting households to lenders offering finance to fund their construction projects. The app also makes provision for households to register their building projects electronically and to document the construction progress giving regulators more oversight of the market and lenders more oversight of the projects they fund.

\(^30\) Habitat for Humanity, Shelter Report 2014
Key features of the iBUILD app are the ability for households to rate builders, and to make payments directly through the app. iBUILD therefore regards itself as the “Uber of small-scale construction”\(^{31}\). The rating system incentivises good construction practices and allows households to make informed decisions.

Through a partnership with Housing Support Services (HSS) Bureau, iBUILD aims to upskill builders registered on their platform through accredited training in construction design, costing and project management\(^{32}\) among other things. This allows builders to grow their capabilities and in so doing, offers households better access to suitably qualified and trained builders.

By digitising the main touchpoints along the housing value chain and connecting all market players through a single platform, iBUILD aims to empower households, builders, and lenders to improve the scale, efficiency and impact of small-scale construction projects. The core value proposition for their target user groups is summarised below:

<table>
<thead>
<tr>
<th>Homeowner</th>
<th>Builders &amp; Contractors</th>
<th>Lender</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Find a contractor</td>
<td>• Advertise and find jobs</td>
<td>• Advertise credit products</td>
</tr>
<tr>
<td>• Formalise agreements with contractors</td>
<td>• Find and manage labourers</td>
<td>• Verify and monitor quality of projects financed</td>
</tr>
<tr>
<td>• Access pre-set building plans and designs</td>
<td>• Access training and certify skills</td>
<td>• Reduce risk of lending through transparent end-to-end construction process</td>
</tr>
<tr>
<td>• Register projects and request building permits</td>
<td>• Receive payments from homeowners</td>
<td>• Manage payment of funds</td>
</tr>
<tr>
<td>• Access finance for construction</td>
<td>• Make payments to labourers</td>
<td></td>
</tr>
<tr>
<td>• Monitor construction</td>
<td>• Receive customer feedback</td>
<td></td>
</tr>
<tr>
<td>• Process payments to contractors</td>
<td>• through rating system</td>
<td></td>
</tr>
<tr>
<td>• Review and rate contractors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

iBUILD is set to launch a pilot project in Nairobi, Kenya in the first quarter of 2017 with an estimated 2,500 customers. Despite being in the early stages of their project, the company has set ambitious targets for expansion and has already established partnerships in Tanzania and Rwanda. Within the next five years, iBUILD also plans to take its offering beyond Africa to India, South East Asia and Latin America.

South Africa offers an attractive market to pilot iBUILD’s solution considering the size of the housing backlog and very visible housing investment taking place in low-income areas across

\(^{31}\) http://www.buildersofhope.org/ibuild

the country\textsuperscript{33}. Stakeholders involved in the delivery of affordable housing and housing microfinance in South Africa, including RHLF and its lenders, would do well to watch the success of iBUILD’s rollout and consider engaging the organisation in a local pilot project.

\textbf{YoMane – Reducing the risk of loan misuse}

Housing microfinance is, by definition, developmental credit. However, it can only really meet its developmental objectives if the funds are used for housing purposes. Having adequate measures in place to control and monitor the usage of funds is therefore a critical issue for HMF lenders and wholesale funders such as RHLF.

In South Africa, most HMF lenders operate directly out of building supply stores in order to mitigate against the risk of loan misuse. While this model has proved to be very successful, it typically requires lenders to have a physical presence in each store. This can be both expensive and difficult to manage, particularly in rural areas. In order to scale the supply of HMF, lenders need to explore how to extend their reach to more customers, while still maintaining some control of how the funds are used. This is where a payment solution like YoMane offers an interesting application.

YoMane is a secure payment platform that facilitates the disbursement of funds for specific purposes. The platform utilises a closed-loop system that enables funders to specify where the money is spent, what it is spent on and even when it can be spent. The solution was specifically built to “assist with the risk management of funds – including but not limited to loans, grants and donations – to ensure that money is used for the intended purpose, by the person for whom it was intended”\textsuperscript{34}.

In the case of HMF, YoMane essentially negates the need for the lender and applicant to be in the same geographical area, let alone in the same building supply store, since qualifying applicants can only access the funds at specified merchants.

For the end user, the platform is similar to a prepaid store card. YoMane users have the choice of paying for goods directly through the mobile app or by swiping a prefunded card they receive on registration.

YoMane was developed by the Ngena Foundation which has close links to the Home Loan Guarantee Company, an organisation with a long history of facilitating access to housing finance for low-income households in South Africa. The platform is targeted primarily at “large

\textsuperscript{33} See two clips of visible housing investment Eighty20 captured in Deft, Cape Town and Soweto, Johannesburg: http://www.eighty20.co.za/housing-investment-low-income-areas-south-africa/

\textsuperscript{34} http://www.yomane.com/what-we-do.php
member organisations”, such as community saving groups. However, its use is not limited to the not-for-profit sector. As described above, YoMane has many potential applications for commercial organisations, particularly HMF lenders, who have an inherent need to monitor and control how disbursed funds are used.

**Tumira – Facilitating remittances for specific products**

Monitoring the usage of funds is not only a concern for HMF lenders, it is also a major concern for people that regularly send money home to support family or friends living in different areas. While the emergence of mobile and over-the-counter (OTC) money transfer solutions has significantly improved the ease and safety with which people can send money home, either within South Africa or across borders, the sender has limited control over how money is spent once it reaches the recipient. When the money is sent for a specific purpose, for instance, building a house in a rural area, this can be a significant challenge.

To give senders control, providers such as Tumira facilitate “mobile goods transfer”. Tumira operates like a mobile money provider but instead of sending and receiving money, clients can send and receive goods such as medicine, building materials, clothing and groceries using their cell phones. There is no transfer of physical goods during the transaction; Tumira simply allows clients to “buy and pay for goods in one area and for recipients to collect the goods in another area”.

Tumira aims to offer two main services, a cross-border service and an in-country service. Currently the company only offers the cross-border service, focusing on Zimbabweans living and working in South Africa, no doubt due to the size of the market. At present, clients can only purchase medicine or pharmacy products. However, they have plans to extend their service offering to include building materials and groceries. It is unclear when they will expand their service to include goods transfers within South Africa.

One of the key benefits of Tumira is the simple registration process. To register, users simply dial a USSD code on their cell phone and fill in some basic information. Once registered, senders can select what goods they want to purchase, where the goods are to be collected (country or province), which merchant they want to purchase from, and the value to be purchased using a cell phone USSD menu interface. A one-time pin system allows the sender to pay for the goods via EFT or ATM cash transfer, after which the recipient can collect the

35 [http://www.tumira.co.za/about/index.htm](http://www.tumira.co.za/about/index.htm)

36 Since Tumira is facilitating the purchasing of goods and not sending money, they do not need to comply with KYC regulations. As a result, users don't need to supply any ID documents upon registration.
goods within seven days of the transaction. Tumira charges a flat fee of R20 per transaction which excludes network charges.

_Illustrated example of Tumira transaction process:_

Sources: http://www.tumira.co.za/stories/introducing_tumira.htm

Applications like Tumira, while not directly involved in the delivery of housing microfinance, support the financing of housing in a broader sense.

In South Africa, anecdotal evidence indicates that a number of people living and working in urban areas support the construction of homes in rural areas. This of course presents a number of logistical and control challenges: income earners have to send money and/or building materials to a household located in a different, often remote area, and create a mechanism to monitor and control the construction process. In some cases, income earners might choose to send money home via formal or informal channels and rely on the recipient in the rural area to purchase the building materials at a local provider. Others might wait until holiday periods to go home and purchase the materials themselves.

An increasing number of customers rely on established building supply stores, such as Build It, to facilitate urban-rural transfers of building materials. In the case of Build It, while the service is clearly valuable to customers, it can be an administrative burden for the building store, and is not actively promoted. It therefore appears that there is an opportunity for an application like Tumira to facilitate these types of transactions between consumers directly in a more convenient and secure manner.

_Drone technology – Opportunities for improved mapping, monitoring and land titling_

Housing investment is in theory easy to monitor; it is clearly visible when a house has extended a room, or added another story. However, traditional ‘on-the-ground’, survey-based methods of monitoring housing investment surveying are expensive and time-consuming.

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37 Built It Case Study, Housing Microfinance Value Chains, CAHF 2016
An alternative methodology leverages unmanned aerial vehicles (UAV), otherwise known as drones, to capture imagery that can then be processed digitally to assess housing investment. Drones are able to capture high-quality aerial imagery of an area in a relatively short time. A number of pilot projects and studies have specifically tested the use of drone technology for land mapping and settlement upgrading purposes. One such pilot project in the Philippines tested the use of drone technology for improved land titling in the country. During this project, the team was able to survey 40 hectares of land in one day, and produced a high-resolution map from the drone imagery that passed all Government accuracy standards. The pilot project was regarded as a success, and it is anticipated that the application of drone technology will improve the speed and efficiency of land titling in the Philippines significantly.

Another study from Rwanda assessed the potential of drone technology to support the upgrading of unplanned settlements in Kigali. The project took place in May 2015. In just one month the project team conducted 89 drone flights capturing 15,000 images of unplanned settlements across an estimated 150 hectares of land. Drone mapping provided much more detail than the existing satellite imagery of the area and, most notably, enabled the team to extract additional data on individual building attributes such as building size, roof material and condition directly from the drone images.

Because drone technology offers the potential to capture data quickly and cost effectively, it can be used to assess changes over time, and is therefore potentially useful for monitoring externally visible housing investment over.

It is not known whether any formal studies or pilot projects using drone technology in land mapping or monitoring are taking place in South Africa. However, there are examples of drone footage from informal settlements that showcase the high level of detail that can be captured, and the potential to use imagery to track housing investment in these areas. Some screenshots from the drone footage of Blikkiesdorp, an informal settlement in Delft, Cape Town are provided below. The full footage can be viewed here: https://youtu.be/rOgYkE4W0Y4


While there are clear benefits in leveraging drone technology, there are a number of practical and social issues that need to be considered. For instance, teams would need to obtain formal permission to fly the drone over a settlement. In addition, capturing and processing images of people’s homes may infringe on privacy of occupants⁴⁰. In both studies in Rwanda and Philippines communities were actively involved in the project from the start, and their engagement was critical to the success of the project.

RURAL PENSIONER HOUSEHOLDS

SEGMENT AT A GLANCE

1.1 MILLION HOUSEHOLDS

With a HH income of <R15,000 contain at least one pensioner

(1.8 million adults in RHLF’s target market)

HOUSEHOLD INCOMES

- R15 000 +: 3%
- R9 500 – R15 000: 4%
- R3 500 – R9 500: 33%
- R1 500 – R3 500: 44%
- < R1 500: 16%

1.1 M Households fall into RHLF’s target market

LOCATION OF HOUSEHOLDS

KZN: 35%
LIM: 23%
EC: 22%

DWELLING TYPE

- Formal: 73%
- Traditional: 23%
- Informal: 4%
- Other: 1%

95% own dwelling

DWELLING CONDITIONS

- 10%: Of households live in over-crowded conditions
- 23%: Of households live in dwellings that require major repairs

INADEQUATE ACCESS TO SERVICES

- 47%: Pit latrine, no ventilation pipe
- 28%: Public tap
- 11%: Stream/Dam/Pool
- 15%: Do not have access to electricity

HOME IMPROVEMENTS

Household carried out home improvements/repairs in past 2 years

VALUE OF IMPROVEMENTS PAST 2 YEARS

(Carried out home improvements)

- Don’t Know: 5%
- R20,000 +: 21%
- R10k – R20k: 13%
- R5k – R10k: 24%
- < R5k: 37%

Estimated annual spend*: R1.3 BN

Median value of improvements (past 2 years): R8,000

FORMAL CREDIT

- 56%: HH member has a bank account
- 21%: HH member is part of a stokvel or savings club
- 87%: HH member has a cell phone

- 26%: Of households have a formal credit product
- 61%: HAVE ACCESS** TO FORMAL CREDIT

Source: NIDS Wave 4 2014/15
Note*: Calculated from value of home improvements over past 2 years. HH’s that did not provide an estimate assumed to have spent median amount
Note**: Households with access either have a formal credit product or have a daily per capita income above R10 and have a regular salary, wage or pension and access to a bank account, and at least one HH member is over the age of 18
RURAL HH’S WITH A FORMALLY EMPLOYED REGULAR WAGE EARNER SEGMENT AT A GLANCE

1.4 MILLION HOUSEHOLDS
With a HH income of <R15,000 contain at least one formally employed wage earner
(1.9 million adults in RHLF’s target market)

HOUSEHOLD INCOMES

- R15,000 +: 13%
- R9,500 – R15,000: 15%
- R3,500 – R9,500: 46%
- R1,500 – R3,500: 22%
- <R1,500: 4%

1.4 M Households fall into RHLF’s target market

LOCATION OF HOUSEHOLDS
KZN: 31%
NW: 16%
LIM: 14%
EC: 11%
MP: 11%

DWELLING TYPE
- Formal: 80%
- Traditional: 10%
- Informal: 9%
- Other: 1%
62% own dwelling

DWELLING CONDITIONS
- 9% Of households live in over-crowded conditions
- 21% Of households live in dwellings that require major repairs

INADEQUATE ACCESS TO SERVICES
- 36% Pit latrine, no ventilation pipe
- 17% Public tap
- 8% Stream/Dam/Pool
- 14% Do not have access to electricity

HOMING CONDITIONS
- Household carried out home improvements/repairs in past 2 years

VALUE OF IMPROVEMENTS PAST 2 YEARS
(Carried out home improvements)
- Don’t Know: 17%
- R20k+: 16%
- R10k – R20k: 14%
- R5k – R10k: 20%
- <R5k: 34%

Median value of improvements (past 2 years): R5,000

91% HH member has a bank account
4% HH member has a private pension/RA
24% HH member is part of a stokvel or savings club
92% HH member has a cell phone

FORMAL CREDIT
53% Of households have a formal credit product

92% HAVE ACCESS** TO FORMAL CREDIT

Source: NIDS Wave 4 2014/15
Note*: Calculated from value of home improvements over past 2 years. HH’s that did not provide an estimate assumed to have spent median amount.
Note**: Households with access either have a formal credit product or have a daily per capita income above R10 and have a regular salary, wage or pension and access to a bank account, and at least one HH member is over the age of 18.
RURAL HOUSEHOLDS WITH A SELF-EMPLOYED HH MEMBER

SEGMENT AT A GLANCE

270,000 HOUSEHOLDS

With a HH income of <R15,000 contain at least one self-employed adult working 20 hours or more per week in their business

(346,000 adults in RHLF’s target market)

HOUSEHOLD INCOMES

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>R15 000 +</td>
<td>17%</td>
</tr>
<tr>
<td>R9 500 – R15 000</td>
<td>6%</td>
</tr>
<tr>
<td>R3 500 – R9 500</td>
<td>32%</td>
</tr>
<tr>
<td>R1 500 – R3 500</td>
<td>22%</td>
</tr>
<tr>
<td>&lt; R1 500</td>
<td>23%</td>
</tr>
</tbody>
</table>

EC: 31%
LIM: 26%
KZN: 19%
MPU: 16%

LOCATION OF HOUSEHOLDS

DWELLING TYPE

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>80%</td>
</tr>
<tr>
<td>Traditional</td>
<td>12%</td>
</tr>
<tr>
<td>Informal</td>
<td>8%</td>
</tr>
</tbody>
</table>

88% own dwelling

DWELLING CONDITIONS

<table>
<thead>
<tr>
<th>Condition</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over-crowded</td>
<td>13%</td>
</tr>
<tr>
<td>Ventilation pipe</td>
<td></td>
</tr>
<tr>
<td>Major repairs</td>
<td></td>
</tr>
</tbody>
</table>

INADEQUATE ACCESS TO SERVICES

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pit latrine, no</td>
<td>49%</td>
</tr>
<tr>
<td>Ventilation pipe</td>
<td></td>
</tr>
<tr>
<td>Public tap</td>
<td>18%</td>
</tr>
<tr>
<td>Stream/ Dam/ Pool</td>
<td>9%</td>
</tr>
<tr>
<td>Do not have access</td>
<td>20%</td>
</tr>
<tr>
<td>To electricity</td>
<td></td>
</tr>
</tbody>
</table>

HOME IMPROVEMENTS

Household carried out home improvements/ repairs in past 2 years

<table>
<thead>
<tr>
<th>Cost Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don't Know</td>
<td>13%</td>
</tr>
<tr>
<td>R20k +</td>
<td>15%</td>
</tr>
<tr>
<td>R10k - R20k</td>
<td>6%</td>
</tr>
<tr>
<td>R5k - R10k</td>
<td>11%</td>
</tr>
<tr>
<td>&lt;R5k</td>
<td>55%</td>
</tr>
</tbody>
</table>

VALUE OF IMPROVEMENTS PAST 2 YEARS

(Carried out home improvements)

<table>
<thead>
<tr>
<th>Cost Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median value of improvements (past 2 years): R3,000</td>
<td>94%</td>
</tr>
</tbody>
</table>

Estimated annual spend*: R250 MILL

73% HH member has a bank account
0% HH member has a private pension/ RA
21% HH member is part of a stokvel or savings club
94% HH member has a cell phone

FORMAL CREDIT

34% Of households have a formal credit product
48% HAVE ACCESS** TO FORMAL CREDIT

Source: NIDS Wave 4 2014/15
Note*: Calculated from value of home improvements over past 2 years. HH’s that did not provide an estimate assumed to have spent median amount
Note**: Households with access either have a formal credit product or have a daily per capita income above R10 and have a regular salary, wage or pension and access to a bank account, and at least one HH member is over the age of 18
URBAN SUBSIDY DWELLERS
SEGMENT AT A GLANCE

1.7 MILLION HOUSEHOLDS
With a HH income of <R15,000 currently living in a subsidy dwelling

HOUSEHOLD INCOMES

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>R15 000 +</td>
<td>6%</td>
</tr>
<tr>
<td>R9 500 – R15 000</td>
<td>8%</td>
</tr>
<tr>
<td>R3 500 – R9 500</td>
<td>39%</td>
</tr>
<tr>
<td>R1 500 – R3 500</td>
<td>27%</td>
</tr>
<tr>
<td>&lt; R1 500</td>
<td>20%</td>
</tr>
</tbody>
</table>

1.7 MILLION Households fall into RHLP’s target market

HOUSEHOLD SOURCES

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental income</td>
<td>13%</td>
</tr>
<tr>
<td>Remittances</td>
<td>24%</td>
</tr>
<tr>
<td>Income from labour</td>
<td>60%</td>
</tr>
<tr>
<td>markets (including self-employment)</td>
<td></td>
</tr>
<tr>
<td>Government grant</td>
<td>64%</td>
</tr>
</tbody>
</table>

16% of households receive an Old Age grant

LOCATION OF HOUSEHOLDS

GAU: 35%
EC: 14%
WC: 14%
FS: 10%

By definition:
All household in the segment live in a formal dwelling
All households own the dwelling

DWELLING CONDITIONS

<table>
<thead>
<tr>
<th>Condition</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of households live in over-crowded conditions</td>
<td>12%</td>
</tr>
<tr>
<td>Of households live in dwellings that require major repairs</td>
<td>14%</td>
</tr>
</tbody>
</table>

INADEQUATE ACCESS TO SERVICES

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No flush toilet on site</td>
<td>9%</td>
</tr>
<tr>
<td>No piped water on site</td>
<td>2%</td>
</tr>
<tr>
<td>Do not have access to electricity</td>
<td>3%</td>
</tr>
</tbody>
</table>

HOME IMPROVEMENTS

Household carried out home improvements/repairs in past 2 years

<table>
<thead>
<tr>
<th>Improvement Cost</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t Know</td>
<td>6%</td>
</tr>
<tr>
<td>R20k +</td>
<td>16%</td>
</tr>
<tr>
<td>R10k - R20k</td>
<td>13%</td>
</tr>
<tr>
<td>R5k - R10k</td>
<td>15%</td>
</tr>
<tr>
<td>&lt;R5k</td>
<td>50%</td>
</tr>
</tbody>
</table>

VALUE OF IMPROVEMENTS PAST 2 YEARS
(Excluding home improvements)

<table>
<thead>
<tr>
<th>Estimated annual spend*</th>
<th>Median value of improvements (past 2 years):</th>
</tr>
</thead>
<tbody>
<tr>
<td>R2.7 BN</td>
<td>R3,300</td>
</tr>
</tbody>
</table>

| HH member has a bank account | 77% |
| HH member has a private pension/ RA | 4% |
| HH member is part of a stokvel or savings club | 22% |
| HH member has a cell phone | 89% |

FORMAL CREDIT

53% Of households have a formal credit product

69% HAVE ACCESS** TO FORMAL CREDIT

Source: NIDS Wave 4 2014/15
Note*: Calculated from value of home improvements over past 2 years. HH’s that did not provide an estimate assumed to have spent median amount.
Note**: Households with access either have a formal credit product or have a daily per capita income above R10 and have a regular salary, wage or pension and access to a bank account, and at least one HH member is over the age of 18
**URBAN HOUSEHOLDS WITH A SELF-EMPLOYED HH MEMBER SEGMENT AT A GLANCE**

**520,000 HOUSEHOLDS**

With a HH income of <R15,000 contain at least one self-employed adult, working 20 hours or more per week in their business (606,000 adults in RHLF’s target market)

<table>
<thead>
<tr>
<th>Income Bracket</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R15 000 +</td>
<td>25%</td>
</tr>
<tr>
<td>R9 500 – R15 000</td>
<td>9%</td>
</tr>
<tr>
<td>R3 500 – R9 500</td>
<td>32%</td>
</tr>
<tr>
<td>R1 500 – R3 500</td>
<td>25%</td>
</tr>
<tr>
<td>&lt; R1 500</td>
<td>9%</td>
</tr>
</tbody>
</table>

520,000 Households fall into RHLF’s target market

**VALUE OF IMPROVEMENTS PAST 2 YEARS (Carried out home improvements)**

- Don’t Know: 13%
- R20k +: 14%
- R10k - R20k: 11%
- R5k - R10k: 22%
- <R5k: 40%

Estimated annual spend* R800 MILLION

Median value of improvements (past 2 years): R5,000

**LOCATION OF HOUSEHOLDS**

- GAU: 49%
- WC: 20%
- EC: 7%

**INADEQUATE ACCESS TO SERVICES**

- 15% No flush toilet
- 11% No piped water on site
- 4% Do not have access to electricity

**DWELLING TYPE**

- Formal: 75%
- Traditional: 2%
- Informal: 23%

60% own dwelling

**DWELLING CONDITIONS**

- 9% Of households live in over-crowded conditions
- 26% Of households live in dwellings that require major repairs

**HOME IMPROVEMENTS**

Household carried out home improvements/repairs in past 2 years

- Don’t Know: 13%
- R20k +: 14%
- R10k - R20k: 11%
- R5k - R10k: 22%
- <R5k: 40%

Estimated annual spend* R800 MILLION

Median value of improvements (past 2 years): R5,000

**VALUE OF IMPROVEMENTS PAST 2 YEARS (Carried out home improvements)**

- Don’t Know: 13%
- R20k +: 14%
- R10k - R20k: 11%
- R5k - R10k: 22%
- <R5k: 40%

Estimated annual spend* R800 MILLION

Median value of improvements (past 2 years): R5,000

**FORMAL CREDIT**

- 47% Of households have a formal credit product
- 5% HH member has a private pension/RA
- 29% HH member is part of a stokvel or savings club
- 96% HH member has a cell phone
- 83% HH member has a bank account

Source: NIDS Wave 4 2014/15

Note*: Calculated from value of home improvements over past 2 years. HH's that did not provide an estimate assumed to have spent median amount

Note**: Households with access either have a formal credit product or have a daily per capita income above R10 and have a regular salary, wage or pension and access to a bank account, and at least one HH member is over the age of 18