2017 National
HUMAN SETTLEMENTS
Development Summit

# CONCEPT NOTE FOR COMMISSION 5

"Building Our Future Today – Ensuring Liveable Spaces for Every Family."

## RE-IMAGINING FINANCE FOR HOUSING AND HUMAN SETTLEMENTS DEVELOPMENT

### 1. Introduction and Background

According to UN HABITAT (2008) as mentioned by Zhang (2008:2), due to migration every year the world's urban population expands by some 70 million, most of it in developing countries; couple that with increased urbanization, high cost of construction and high cost of housing finance; adequate and affordable housing for rental and ownership has remained merely a dream to majority of employees in formal employment who earn on average below or just above minimum wage. South Africa included where economic capacities of local authorities cannot cope in terms of housing and urban services provision.

In view of this, there is a need to re-evaluate how the housing sector can improve the increase in home ownership and in the provision of adequate human settlements.

Re-imagining housing finance is aimed at reassessing existing housing finance instruments, i.e. what has already been done and what other opportunities can be further explored in addressing the housing finance challenge.

This document focuses on the Development Finance, Employer Assisted Housing (EAH), End user finance Access, Project finance and A Case for Human Settlements (HS) Investment to be explored by the summit.

Traditionally, development finance can be defined as the provision of finance to those projects, economic sectors or sections of the population that are not well served by the financial system as a whole (UN, 2005:11). In contrast to public finance, which funds non-revenue-generating public goods, development finance focuses on the provision of public goods on which full or partial cost recovery is possible. Development finance thus seeks to address financial market failures, and so complements both Government resources and market financing.

Issues such as income inequalities within the society have also resulted in income gaps within the market which accelerates lack of affordability of decent homes. In addressing such issues, one of the solutions was the establishment of Human Settlements development finance institutions. In terms of Housing Development Institutions (DFIs), the document seeks to establish further opportunities or innovations that can be explored to further enhance their performance and therefore contribution to decent human settlements.

Employer Assisted Housing is one method to facilitate homeownership for employees in addition to providing non-housing benefits, such as reducing the disadvantages of long commutes, both for employees and indirectly for society and by reducing the pollution and congestion that accompany long commutes. Moreover, some employers are concerned that many employees cannot afford to buy a house and feel that they have an obligation to address these issues.  Issues that further need exploration are the opportunities that still exist for government to partner with private employers. The summit seeks to identify challenges that inhabit private sector participation and to establish possible solutions.

Challenges of access to housing finance by the South African citizens have seen Government having to intervene with innovative ways of providing End user finance. Some of the government interventions thus far include signing of memorandum of understanding (MOU) with Banks in 2005, establishment of DFI and other developments which will be further discussed in the document. New innovations are still to be embarked on as the landscape of the economy and new challenges of affordability and credit worthiness emerge for the low and affordable income markets.

## 2. Purpose of the concept document

The purpose of this concept document is therefore to explore the existing housing instruments in terms of their performance to date and to gauge which areas can be further improved with various innovations.

## 3. Exisiting human settlements finance instruments

### 3.1 END USER FINANCE

#### 3.1.1 Goal and objectives:

The following are the goals of the End User Finance Programme:

- Improve demand of affordable housing;
- Improve access to affordable housing finance;
- Improve affordability of homebuyers;
- Stimulate the affordable housing market;
- To mitigate risk, while also providing an opportunity to beneficiaries; and
- Accelerate Delivery of Affordable Housing

Expected Results or Outcomes

- Measures to improve access to affordable housing finance
- Creation of wealth for households
- Eradication of informal settlements
- Ensure dignity to SA citizens
- Ensure equitable access to financial services
- Economic growth and empowerment
- Number of housing opportunities in the affordable market created.

#### 3.1.2 Discussion

The South African Government and private sector have come up with a number of initiatives to help alleviate housing problems by either giving houses for free or creating opportunities for access to housing finance.

For housing developments to be sustainable, contributions are required from all sectors of society. Access to finance remains the biggest challenge to housing delivery. The Government has attempted to work out solutions with banks on issues like redlining, bad debts and subsidy linked bonds.

According to the National Housing Code (1997), housing is a concurrent competence of national, provincial and local spheres of government. Therefore, coordination of actions in the above-mentioned spheres of government is key. According to Stephens (2005), the need for a housing finance system is quickly identified as a crucial element in the transformation of market-based economies.

### 3.1.3 Problem statement

Low-income earners are experiencing problems in accessing housing finance to improve their living conditions and to achieve one of the basic rights enshrined in the constitution of the Republic of South Africa, which is "access to shelter and wealth creation through housing ownership". Reluctance by financial institutions to offer 100% housing finance to low-income earners has caused problems in the country. Some of the low-income earners whose loans are declined by the banks due to affordability turn to the micro lenders, who are charging exorbitant interest rates for incremental loans, while others are left stranded. Lack of housing may cause illegal occupation of land and legal battles between owners and the occupants.

The responsibility is therefore left with the Government either to intervene for access to housing finance or to provide housing. Notwithstanding this, inflation, the shrinking of the Government budget and lack of convenient unallocated land are also factors contributing to problems in the country.

### 3.1.4 Opportunities available to make the intervention and address the problem

#### 3.1.4.1 What has already been done?

The following initiatives were initiated in order to promote housing delivery and housing finance for low-income earners:

- Launched the Mortgage Indemnity Fund in June 1995, a wholly government owned company to encourage banks and other financial institutions to lend in areas where the banks stopped lending prior to 1994.
- Established Servcon in 1995 to stimulate lending in the low-income housing market. The aim of this company was to deal with the historical problems of non-payments, which had become a popular method for the disenfranchised masses to vent their frustrations against the government of the 1980's.
- NHFC established in 1996 to increase housing delivery by encouraging increased and sustained involvement of formal financial institutions in the low-income housing market through risk sharing ventures with these institutions.
- NURCHA established in 1995, to focus on releasing finance from lending institutions who regard the low-income housing sector as a high-risk area for lending, guarantees to financial institutions or developers through which any risk on loans made to projects is shared.
- Signed MOU in March 2005 with The Banking Association South Africa (BASA) and the Chief Executive Officer acting on behalf of ABSA, FNB, NEDCOR and STANDARD Bank. It was agreed that an amount of R42 billion would be allocated to the low-income housing operation.
- In an effort to encourage transparency, the government introduced the Home Loans and Mortgage Disclosure Act, 2000 (Act 63 of 2000). The Act requires the bank to submit details about their housing loans to the department, to help identify discriminatory lending patterns.

### 3.1.5 Why is it crucial to address the problem identified?

With all the above mentioned attempts, the gap still remains and until it is better understood, it cannot be better resolved. The problem of affordability is exacerbated by limited availability of appropriately price houses combined with difficulty in accessing housing finance, as well as the high transaction costs associated with the sale and transfer of the property. According to Mills (2007), South African banking system is strong and provides the services to the rich minority of the population while the majority is left out. She further argues that the un-banked and under-banked population presents a challenge to the housing transformation where 68 per cent of the low-income population is unable to access the formal financial services.

The Financial Mail (2009), shows that the banks were giving out 100% until 2007 as they were expecting the prices of houses to continue rising, meaning that the value of security would exceed the loans. Instead the prices of houses fell drastically and led the banks to be exposed to some extent. This resulted in banks having lent more than the value of its security. The paper states that banks have radically scaled back lending to the extent that any customer would struggle to get even a 90% loan from them.

For the housing finance to be successful there must be a competitive banking system. People who are earning not high enough for conventional mortgage finance and with earnings exceeding the maximum income limit applicable for government free houses are the ones who suffer most. The economic environment in South Africa presents a challenge to the Government, particularly in housing provision as large number of South Africans are still excluded from participating in the mainstream economy and therefore cannot access housing (Shisaka Development Management Services, 2010).

According to the Financial Mail (2010), in 2010 there was a shortage of 650 000 affordable housing for those earning between R3 500 and R9 000. The paper states that only 25 000 to 27 000 houses are being built per year for the gap market. This shows that there is also a challenge on the supply side of housing delivery. This, ends up putting pressure on the rental housing as the report from the Eighty20 (2008) shows that the demand for rental housing is 600 000 a year while the market delivers only 400 000 a year.

## 3.2 EMPLOYER ASSISTED HOUSING (EAH)

### 3.2.1 Goal and objectives

The aim of the EAH programme is to develop suitable mechanisms to address
the housing needs of all employees, especially for the low-income group. The mining industry in South Africa mainly uses the EAH programme to accommodate employees closer to the work place. EAH schemes serves to supplement the government funding sources available for affordable housing and thus enable low-income households to afford better housing than that which they could access with government subsidy alone as well as to improve their dwellings over time (Nell & Associated, 1998).
For the National Development Plan (NDP), EAH programme aimed at achieving the following outcomes through the Medium Term Strategic Framework (MTSF) 2014-2019:

- Ensuring that poor households have adequate housing in better living environments;
- Supporting the development of a functional and equitable residential property market;
- Improving institutional capacity and coordination for better spatial targeting.

The expected outcome of the EAH programme is:

- to establish, ensure collaboration, strengthen partnership between Employers and the Department, and help address issues identified regarding the shortage of affordable housing for low to moderate income households;
- to discuss the EAH strategy for the delivery of affordable housing;
- to sensitize Employers and get their cooperation in exchanging information requested by NDHS through the tracking matrix developed, and
- to Accelerate Delivery of Affordable Housing

The achievement will be measured by analysing the number of housing opportunities created by employers for their employees or the community in general. The tracking mechanism developed by NDHS will be used to analyse the performance and contribution of EAH programme into the human settlement development.

### 3.2.2 Discussion

Housing is a key component of urban development. The interest in Employer Assisted Housing has much of the same flavor as it did historically even as it has taken other forms; it is first seen as a way to attract and keep trained workers by providing reasonably priced housing in markets where such housing might not exist. Employer Assisted Housing is a generic term to describe any number of ways an employer invests in workforce housing solutions, such as providing homebuyer education, down payment assistance and loan guarantee programs.

It is frequently pointed out that a good Employer Assisted Housing program benefits the full range of stakeholders. Employer Assisted Housing programs will help to prove stakeholders win-win initiatives in the country. Employers benefit by building employee loyalty and reducing turnover. Employees gain access to homeownership education and down payment assistance to purchase a home and the community benefits from increased real estate tax revenues, a growing population of stable homeowners and less traffic and air pollution as workers buy homes closer to work.

### 3.2.3 Problem statement

The supply of low cost housing in South Africa is still a major problem despite the scale of delivery since 1994. A clear picture of how serious the problem is can be attested to by the ever growing number of informal and slum settlements in our urban centres, some built of mud and wattle or shacks. This is due to a number of constraints faced by developers in supplying low cost housing.

Government alone cannot address the massive and complex challenges faced by the country in the human settlements sphere, hence the Minister's request that government, private sector and communities commit to reaching out and resolving the challenge of inadequate housing in South Africa.

### 3.2.4 Opportunities available to make the intervention and address the problem

#### 3.2.4.1 What has already been done?

Breaking New Ground (BNG)

Business Plan 1 of the Breaking New Ground (BNG) strategy identifies the role of employers in assisting the Government to meet the challenges of housing that currently exist in the country. The need for EAH is clearly identified as the plan states: "it is imperative that the private sector and particularly employers take an active role in the housing process for low to moderate income earners".

MTSF (2014-2019)

The MTSF requires that EAH by both the private and the public sector be tracked, including targets in the Mining Charter and the NDHS developed a tracking mechanism for this effect.

In order for the government to effectively promote this method of housing delivery it is imperative to establish the prevalence of this practice by employers and also identify the pros and cons related to their various forms.

## Research study

Therefore, discussions through a study commissioned by the Directorate: Funding Mobilization in 2007, were held throughout the country, with employer and employers' associations to evaluate the various forms of employer assisted housing schemes currently in use by non-government employers in the country. Possible measures identified in this regard include:

- Rand for Rand contribution against the Government subsidy for down payment for first time home buyers;
- Group mortgage plans whereby the employer arranges for a reduced interest rate from a lender on the basis of volume mortgages;
- Forgivable loans for closing costs and down payments;
- Mortgage guarantees against which an insurance policy can be taken for a premium;
- Participation in the mezzanine trenches of a securitisation arrangement;
- Provision of surplus land owned for employee housing development free or at a discounted price."

Discussions held during the previous engagements with various employers and other stakeholders revealed that, although many employers are already providing or are willing to provide some form of assistance, they do not know how to go about it or whom to speak to. In this regard discussions need to be held with employers and employers' associations regarding their contribution to the process.

## Government Employees Housing Scheme (GEHS)

This came as a resolution between the employer and the employees union in the bargaining council. Consequently the partnership was concluded between DPSA, SA Home loans and GEPF through the Public investment Commission. The Objectives of GEHS are to:

- Assist employees to own homes.
- Assist employees improve their housing circumstances.
- Provide government employees with access to sustainable housing solutions

Public sector employees are expected to enrol their housing allowances to the savings scheme which can be drawn during the purchase of a house, upon producing a proof that they have a house. The funds sit with National Treasury and it earns interests.Arising from the partnership SA Home loans developed products tailor made for the public servants, this include discounted mortgage, non-mortgage loan (Home Access Loan), switching and refinancing mortgage.

Tax Incentives

As part of Government's anti-poverty objectives, Government is seeking to provide low-income South Africans with low cost housing and more specifically, ownership of residential property. In this regard, Government is supportive of employers who provide low cost housing to low-income employees with the aim of enabling these employees with the opportunity to acquire ownership of the housing. This is specifically the case in industries where companies operate in remote areas and/or require employees to live away from their ordinary place of residence, like the mining industry.

Government has adopted certain tax incentives to employers in light of its objective. For example, favourable tax treatment exists for employers that provide interest-free loans to employees where the employee acquired residential housing from the employer in certain circumstances. However, the interest-free loans to employees may result in tax payable by the employee who received the interest free-loan from his employer.
Further amendment is proposed to the tax regime to appetite the beneficiaries including unions as this is perceived to have an adverse effect on the salary of the employees.
The existence of the state guarantee at public works needs to be re-looked at or repealed as it creates confusion since introduction of GEHS.

## 3.3 DEVELOPMENT FINANCE

### 3.3.1 Goal and objectives

The overall goals and objective of this programme is to accelerate and improve access to affordable housing finance and to fast track delivery of affordable housing. The expected results and outcomes are as follows:

- Improved functioning of the affordable housing market
- Framework to achieve private sector investment leveraging
- Increased number of housing opportunities.
- Created opportunities for PPP in human settlements developments
- Improved capacity in human settlements space.
- Upscale supply of low cost housing

Expected outcomes will be measured by analysing the number of housing opportunities created.

### 3.3.2 Discussion

When a country faces challenges such as downward economic growth, high unemployment rate and income inequalities; public finance alone cannot fully address such challenges. The establishment of Development Finance Institutions (DFI) is therefore mandatory as they serve as vehicles to address such issues where governments are limited either in terms of legislation or resources. DFIs therefore act as catalysts for accelerated industrialisation, economic growth and human resource development.

South Africa's New Growth Path, released by Minister Ebrahim Patel on 23 November 2010 highlights the crucial role of state-owned development finance institutions (DFIs) in creating jobs, raising shared economic growth and enabling pro-poor expansion of infrastructure. According to the NDP, DFIs are part of the overall fiscal armoury of the stand as well as instruments to drive empowerment. It is expected that DFIs should partner with the private sector seeking to lowering risk, take a long-term perspective towards investment and promote Government's developmental objectives.

As Government embarks on a new economic growth path in an effort to better the lives of South Africans, it is institutions such as the DFIs that it will have to tap into to improve the lives of people. The Human Settlements DFIs were established to accelerate sustainable socio-economic development through funding. The main purpose of DFIs is to ensure investment in areas where the traditional market fails to invest sufficiently. DFIs have a key role to play in realising Government's key priority areas.

The human settlement's DFIs' established for the above mentioned objectives are:

- The National Housing Finance Corporation (NHFC) was set up with a mandate to ensure that every South African with a regular source of income is able to gain access to finance, to acquire and improve a home of his or her own.
- National Urban Reconstruction Housing Agency (NURCHA) supports the national programme to house all South Africans in sustainable human settlements. NURCHA provides bridging finance to contractors and developers involved in the construction of subsidy and affordable housing, community facilities and infrastructure.
- Rural Housing Loan Fund (RHLF)'s core business is providing loans, through intermediaries, to low-income households for incremental housing purposes. Incremental housing is a people-driven process; and the RHLF's core business is to empower low-income families in rural areas to access credit that enables them to unleash the potential of their self-help, savings and local ingenuity to build and improve their shelter over time.

The general idea is for DFIs to mobilise financial resources for developmental purposes through investing in markets deemed too risky for the private sector to enter alone, but which are essential for the growth of the broader economy. DFIs do so in partnership with the private sector, but initially carry most of the risk. Thus, they initiate sustainable development by supporting opportunities that are not addressed by the market, and by providing risk capital to companies and individuals in partnership with the private sector. Once these markets are developed, the DFIs gradually withdraw and focus on developing other underdeveloped markets.

### 3.3.3 Problem Statement

A number of reports have concluded that South African DFIs have yet to realise their full development potential (ANC, 2007; National Treasury, 2008). Unless this is done they would be unable to act as catalysts in the industrialisation, growth and human development needed to scale up South Africa's growth path dramatically. The performance of Human Settlement's DFIs has not been to the maximum in the past couple of years. It is therefore imperative that new solutions be sought to further enhance their performance

### 3.3.4 Challenges identified and proposed solutions

According to the United Nations (UN, 2005:14), DFIs play at least five crucial roles in terms of addressing market failures. Their roles are as follows:

- Appraise the economic and social development impact of projects seeking financing;
- Accompany investors in the long run through long-term loans;
- Offer technical assistance to sectors essential to growth;
- Attract investors by facilitating financing operations; and
- Alleviate the negative impact of financial crises through countercyclical financing by offering loans, even during downturns, and pooling efforts with regional financing institutions.

The slow progress of the above mentioned areas by the DFIs was a challenge in terms of delayed service delivery, therefore it was crucial for the Government to integrate the performance of the DFI's in the National Development plan which set out to accelerate growth, create decent work and promote investment in a competitive economy. Within the plan is a clearly defined framework which set outs particular targets in which the DFIs should participate in order to fast track delivery. This Medium Term Strategic Framework (MTSF) is Government's strategic plan for the 2014-2019 electoral terms. It recognises the centrality of a growth path that addresses the economy's structural constraints, expands the industrial base and creates decent work opportunities on a larger scale. In addition it is necessary to build a low-carbon economy and infuse knowledge and innovation throughout the economy. One of the focus areas of the electoral mandate is ensuring access to adequate human settlements and quality basic services.

In alignment with the Government's vision, the The Human Settlements' Medium Term Strategic Framework (MTSF) targets have three focus areas as mentioned previously. In order to fulfil this aim, Development Finance Institutions (DFIs) take part through their participation in the affordable housing market.

The other challenge was the non- performance of the DFI in terms of its set targets. The institutions could have performed better if the economy had not been so sluggish during this financial year. In the next financial year it might be just as difficult, given most significant post quarter end event was the sovereign credit downgrade to non-investment grade of South African Government bonds by two credit rating agencies being Fitch and Standard & Poor's in early April. These will most likely reduce business and consumer confidence. Affordability issues for GAP market will continue to prove a challenge with poor job prospects, sluggish forecast economic growth and regulatory pressure on banks

### 3.3.5 Opportunities available to make the intervention and address the problem

#### 3.3.5.1 What has already been done?

In an effort to improve and accelerate the performance of DFIs, the Human Settlements Department has set to merge three of its institutions to form a Human Settlements Development Bank. The aim is to facilitate faster access to home financing for the poor, and give a boost to plans for mega Government-led integrated housing projects in metropolitan areas. This move was also advocated for by the National Treasury who felt that if they were collapsed into one entity we would have greater returns.

The proposed new consolidated DFI would have three main divisions focusing on:

- Intermediary finance – servicing retail intermediaries in both urban and rural area, with a specific focus on innovation in retail low-income financing through this channel;
- Contractors/Developers- offering the products and services of NURCHA, but with a larger balance sheet, this would support contractors/developers throughout the construction value chain; and
- Financing- financing the housing product affordability gap and supporting the sustainable human settlements strategy. This would entail projects-based application of challenge funds, pure grant and recoverable grant mechanisms, pooled risk products, and building capacity – as opposed to primary medium-to-longer debt financing.

The Minister of Human Settlements, Ms Sisulu has emphasised the importance of this strategy stating that, with 46 of the catalytic projects in the pipeline, with 14 located in Gauteng she hoped the private sector would eventually invest some R150 billion in projects of this kind, which are underpinned by a policy of undoing apartheid era spatial divides and bringing the poor closer to economic centres.

The introduction of the Human Settlements Development Bank (HSDB) could see most of the delivery problems faced by Human Settlements Department resolved. The HSDB could attract private sector stakeholders and investors. This would accelerate and improve access to housing finance. With the current looming downturn in the country, the areas affected with regards to consumers are credit worthiness and affordability. Areas of improvement that the HSDB could address are:

- Improvement of consumer's credit records - the new consolidated DFI could provide a service whereby consumers can be assisted to improve their credit issues
- Partnering with intermediaries in consumer education
- Funding model designed in a way that the Government does not inherit all the risk, that other stakeholders cannot have all gains with no risk
- Rental stock and incremental housing will continue to be a relevant solution for market due to tight credit criteria for mortgage lending (home ownership); therefore it will also be a good area of exploration.

## 3.4 PROJECT FINANCE

### 3.4.1 Goal and objectives

The project finance structure affords government the ability to tackle projects in partnership with the private sector with limited requirements from its own resources. From a private sector perspective, a company that wants to implement a new project without encumbering its balance sheet could consider establishing a special purpose project company that implements the project and raises the funding.

Project financing is a specialised funding structure that relies on the future cash flow of a project as a primary source of repayment, and holds the project's assets, rights and interests as collateral security. Project Finance can raise large amount of long-term, foreign equity and debt capital for a project. It protects the projects sponsor's balance sheet. Through properly allocating risk, "it allows a sponsor to undertake a project with more risk than the sponsor is willing to underwrite independently". Project financings generally require large amount of capital. Project finance transactions can take years to conclude.

Expected Results or Outcomes

- Upscale delivery
- Ensure economies of scale
- Ensure the supply of affordable housing
- Alleviate burden of blocked projects

### 3.4.2 Discussion

South Africa has a lot of Development Finance Institutions, some national, provincial and municipal controlled, and all this DFI's have district and regional offices. They have overlapping mandate and less capitalized and consequently low impact.

The establishment of a special project company and the predictability of the future cash flows are the most prominent characteristics of a project financing. If a public authority aims to have the private sector provide a public service and finance the capital investment it can enter into a Public-Private Partnership (PPP) with the private sector.

### 3.4.3 Problem statement

National government is responsible for policy development, national mandates, setting national norms and standards for provincial and municipal functions, and monitoring implementation for concurrent functions. Access to finance by developers and builders is a fundamental issue. Therefore Government does not have unlimited financial resources to can fund all its competing priorities. Though local governments generally participate only indirectly in projects, their role is often most influential. The local government's role includes approval of project, responsibility for operating and environmental licenses, industry regulations or policies and providing operating concessions.

### 3.4.4 Opportunities available to make the intervention and address the problem

#### 3.4.4.1 What has already been done?

The Government of South Africa and the European Union jointly developed an infrastructure funding programme funded by the European Union for a total value of €100 million to support South Africa's National Development Plan as well as the Regional Infrastructure Development Master Plan of SADC. DBSA has been selected to be the implementing agent for IIPSA and serve as the fund manager and Secretariat of the programme.

The intended purpose of the IIPSA is to enhance sustainable economic growth and the delivery of key services affecting development in South Africa and the SADC Region. IIPSA is expected to support the implementation of the government infrastructure programme and to address the constraints to infrastructure development in South Africa and in the SADC region. The programme will provide innovative financing involving the blending of EU grants together with loans from participating Development Finance Institutions (DBSA, KFW, EIB and AFD). IIPSA is a grant facility with the condition of a loan from one or more of the participating DFIs. IIPSA funding is limited to South Africa and the SADC region. SADC projects have to be a trans-border project involving two or more countries in the SADC region or a national project with a demonstrable regional impact on one or more countries in the SADC Region.

The sectors for which the fund is available include energy infrastructure including, energy efficiency, protection of the environment, water resource management, including related infrastructure, maintenance of water and waste water infrastructure particularly at municipality level, Promotion of low carbon and cleaner industrial production, including promotion of innovative and environmentally friendly technologies, promotion of climate change adaptation technologies and related infrastructure, including, better access to health care and improved health services installation in urban and rural areas, better education facilities, increased access to education in urban and rural areas, vocational training facilities, improved housing and public buildings and spaces.

SADC Project Preparation & Development Facility (PPDF)

The funds are administered, managed and disbursed by DBSA on behalf of the SADC Secretariat and is funded by the European Union and KFW Investment Bank.

The objectives of the programme are to create a conducive environment for investment through financing the preparation of infrastructure projects. The PPDF will concentrate on those projects that will be considered as enablers of regional integration and to provide technical assistance for infrastructure project identification, preparation and feasibility studies with a view to making the projects bankable and attractive to investors.

Provincial development entities

FDC

This mainly focuses in Urban Planning, human settlements and Economic Zones, Electricity, Water and Sanitation. However, efforts to deliver basic services should be focused where they are most needed. Appropriate changes to the local government infrastructure grant system are under consideration.

Risima Housing Finance Corporation

Risima was established for the purpose of giving effect to Section 3 (1) of the LDCA which requires LEDA amongst others, to provide housing in Limpopo. Risima has been created to respond to the need to create access to home loan finance to all residents of Limpopo, irrespective of where they live, in so doing: assist LEDA to achieve its objective of job creation and empowerment in Limpopo through housing construction, in support of the Provincial Employment, Growth and Development Plan.

MEGA

The entity itself was borne of a merger of three bodies: The Mpumalanga Economic Growth Agency (the former MEGA), responsible for funding small, medium and micro-enterprises and promoting trade and investment; the Mpumalanga Agricultural Development Corporation is responsible for financing and growing agricultural projects; and the Mpumalanga Housing Finance Company, which financed housing.

Proposed intervention

It is proposed that synergy could be drawn from integration of the provincial and local government entities, their functions and network distribution.

If the regional banks are effectively partnered, the financing and funding of their mandate could be optimized.

Financial leverage

Pledge grants as government with its limited resources would not be able to achieve its targets without collaboration with those with capacities.  In terms of the prescript, National and provincial governments are not allowed to pledge.

3.4.4.2 Why is it crucial to address the problem identified?

South Africa is confronted with a shrinking tax base income and a widening national expenditure as well as increasing numbers of people depended on government for housing assistance, provision of basic services and upkeep of their residential areas.

Stats SA (Stats SA economic report: 2014) reported that there are about 14.4m households with a household size of about 3.4 persons per household. It is predicted that the total number of households will grow as the household size drops.

It is also estimated that by 2020 there will be about 3.6 million new household formations, with 55% falling within the income category of less than R3 500 per month. This will contribute to an increasing demand for housing.

South African government through the Department of Human Settlements may attempts to use its capital funding and land to leverage additional investments from private sector that will reshape human settlements by 2050 as per the NDP.