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THE ROLE OF BANKS IN THE PROVISION OF LOW-INCOME HOUSING FINANCE IN SOUTH AFRICA: CAN THEY PLAY A DIFFERENT ROLE?

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ABSTRACT. Currently, South African banks exclude most low-income households from access to formal housing loan finance with which to resolve housing problems. The research reported here examined the banks' resilience to change the status quo so as to become more flexible and all-inclusive. Using naturalistic enquiry, the research gathered evidence from five banks and a leading housing organisation. The main findings include that while there is potential for banks to expand their role in this area of housing finance; factors such as risk and cost minimisation as well as lack of research constrain this potential. The research concluded that the low-income group requires a different business model that is suited to their needs and which calls for new ways of thinking and doing business.

KEYWORDS: Banks; Housing backlog; Low-income housing finance; South Africa

1. INTRODUCTION

Housing accounts for a considerable portion of a nation's production activities through its backward linkages to land markets, building material industries and labour markets and forward linkages to financial markets (International Finance Corporation, 2004). In most developing countries, housing represents about 2 % – 10 % of the Gross Domestic Product (Datta and Jones, 1999). However, it is estimated that half of the world's urban population live in poverty; about 600 million to 1 billion people live in substandard or inadequate housing (Datta and Jones, 1999; Erguden, 2001). Further, informal financing lies at the heart of the daily creation and maintenance of the slums, shanties, squatter settlements and pavement dwellings that provide homes to between 50 % to 70 % of the population of urban centres in developing countries (Homeless international, 2002; Consultative Group to Assist the Poor (CGAP), 2004).

Low-income groups in the developing countries tend to build their houses incrementally according to available financial possibilities, opting for relatively small amounts with a maximum of 5 years (Smets, 2005). Housing represents not only the largest non-food household expenditure, but also the most valuable and main capital asset possessed by most low-income households (Datta and Jones, 1999; Ferguson and Haider, 2000). A common belief is that one solution to poor housing is to increase the amount of income available to low-income households. By so doing, it is expected that the means by which the poor are able to build more and better quality housing would be improved (Datta and Jones, 1999). Therefore, understanding the operation of, and potential for housing finance is essential as argued by (Datta and Jones, 1999). Okpala (1994)

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maintains that the availability of formal housing finance systems is indispensable for effectively addressing the quantitative and qualitative housing problems in developing countries (cited by UNCHS, 2002).

There are four basic models of housing finance as shown in the Table 1.

The majority of low-income households are faced with a number of problems hindering them from accessing formal finance with which to resolve their housing needs (Jones and Datta, 1999). Essentially, there is a mismatch between the demand requirements of poor households and the supply requirements of the formal finance sector such as; loan size, loan repayment period, availability of follow up funds, regularity of principal repayments, language used for writing loan conditions and an acceptable form of collateral (Mitlin, 1997; Bolnick and Mitlin, 1999; UNCHS, 2002). As a result of these factors, the formal financial institutions regard the low-income group as 'unbankable' because of the perceived high risks.

The situation in South Africa is not any different. The results of a survey conducted by Pillay and Naude (2005), show that 'whether it is the bank refusing, or people not applying for a loan or changing their minds about applying after approaching the bank, the formal loan system is not functioning as it should and hence is a real obstacle to the low-income group getting homes'. The study showed that there are negative perceptions about the banks particularly within the low-income group such as fear of repercussions of non-payment, worry about endless debts; and about qualification criteria and lack of essential information about the financial institutions and their products. Because the supply and demand for housing finance are so isolated from each other, a substantial number of would-be borrowers in the low-income sector are excluded (Smit, 2003). Yet, these represent a huge untapped market where banks potentially have the opportunity to develop more affordable financial packages.

Worldwide, there has been pressure to deregulate the financial sector in an attempt to increase the participation of the private sector and the amount of capital investment in housing (Datta and Jones, 1999). Notwithstanding that in most developing countries public financing is heavily constrained; financial institutions have continued showing unwillingness to lend to the poor and to adapt their systems to accommodate non-formal practices (Datta and Jones, 1999; Homeless international, 2002). The aim of the research reported in this paper was to examine the role played by banks in the provision of low-income housing finance.

Table 1. Basic models of housing finance

Model	Revolving Credit System	Specialized Housing Finance Institutions	Public Financing	Mortgage financing
Typical examples	Rotating savings system and credit Associations	Building Societies	Organisations and Parastatals	Commercial Banks
Brief description	Common among the low-income group in developing countries, often supported by donor agencies. Use personal daily savings to create a 'revolving loan fund'.	Common in the UK (and in its former colonies). Though operate like banks, they mostly specialize in real estate. Use savings deposited by the public to provide home loans.	Common in centrally planned economies where public agencies direct finances to housing programmes based on public funds.	Common but highly constrained in developing countries. Use customers' short-term savings (deposits) to lend for housing development on long-term basis (typically 10-30 year mortgages).

Source: adapted from Baharoglu and Linfield, 2000.

In addition, the research explored the possibility of the banks' potential to change their role so as to become all-inclusive and respond to the criticisms levelled against their lack of involvement.

2. HOUSING DELIVERY MECHANISMS AND THE HOUSING BACKLOG IN SOUTH AFRICA

Provision of housing is dependent on the performance of macro-economies within which the housing finance systems are located. In South Africa, the economic scenario during the post apartheid era has been relatively stable after the stagnation in the 1980's. Prior to 1994, government spending directed very little investment towards the education, health, housing and other basic needs of the majority black population (South Africa National Treasury, 2003). Against this background, the new democratic government after 1994 found itself with inherited inequalities in the social and economic systems. With regards to housing, it was estimated in 1996 that about 1.5 million people live in informal houses or squat in shacks in urban areas, and huge inequalities exist in housing provision across the country (Bolnick and Mitlin, 1999b; Smit, 2003). Later, the Department of Housing, estimated the number of inadequately housed people to be between 3 million to 3.7 million (Smit, 2003).

To this effect, the government has tried a number of housing initiatives to help alleviate the housing problem since it came to power in 1994. These have included; the Botshabelo Accord (1994), the Housing White Paper (1995), the National Urban and Reconstruction Housing Agency (1995), the Housing Subsidy Scheme (1995), the Housing Act No. 107 (1997) and the Policy on People's Housing Process (1998). Within the framework of the Botshabelo Accord (1994), the government set itself a target of delivering one million houses for the low-income group within five years (Thurman, 1999; Rust, 2003, Hassen, 2003). However, the government did not comprehend the gravity of the problem in relation to the available resources (Tomlinson, 1996). After six years, in 2000, a total of 1 066 055 top structures were estimated to have been or were being completed (Rust, 2003). By 2001, the figure rose to 1 167 435 (Hassen, 2003) and by the year 2002, it was estimated at 1 359 252 (Rust, 2003). Despite the figures being phenomenal even in global terms, an overwhelming housing backlog still exists (Rust, 2003).

The pricing of housing loans in South Africa is determined by two factors, namely the cost of funding and the risk of lending in the different markets (Pillay and Naude, 2005). Low-income housing delivery is thus being hampered by the fact that most low-income households cannot access formal finance with which they can either build or improve houses or supplement housing subsidies to get better and/or bigger houses (Smit, 2003). In a situation where there is lack of access to finance, the large numbers of new entrants estimated at about 200 000 a year compound the housing backlog problem (Hassen, 2003). Moreover, the inability to meet the new demand is further curtailed by the poor quality of most housing delivered and the prevailing high rate of unemployment (National Housing Finance Corporation (NHFC), 2003.

2.1. Creating a New Institutional Environment

Most low-income households in South Africa rely on government housing subsidies. The subsidy however, suffers from declining value, complicated approval and payout mechanism (Smit, 2003). Studies show that the subsidy amount per unit and it's reduced value in real terms, coupled with the absence of end-user finance has in most cases resulted in private sector developers reducing costs by building smaller units on cheaper peripheral land (Hassen, 2003). Moreover, subsidies have also been compromised by an inadequate and uneven flow of funds as well as poorly coordinated and inequitable subsidization (Smit,

2003). However, although the government subsidy is inadequate to meet the housing shortage, in its defence, it was never intended to be the sole housing delivery mechanism (Khan, 2003). In an attempt to normalise the low-income housing market and motivate financial institutions to re-enter this market, a number of institutions were established as summarised in the Table 2.

However, in spite of the institutional environment, banks are still unwilling to operate in the low-income group housing market, and this unwillingness exacerbates the housing shortage problem in the country (NHFC, 2003; Korpivaara, 2001).

2.2. The Formal Finance Sector and Low income Housing

The formal banking sector in South Africa includes large banks such as ABSA, Standard, Nedcor Bank, First National Bank and smaller banks such as African Bank, People's Bank, Cash Bank and CorpCapital Bank. The classification of banks as big or small is based on the deposits held by a bank expressed as a percentage of the total market share. The Table 3 shows this ranking.

While the high and middle-income segments of the population are well catered for, banks particularly the bigger banks have had little engagement with the low-income segment of the population (NHFC, 2003; Rust, 2002). It is estimated that there are about 2.5 to 3.7 million under housed or unhoused people in South Africa (Porteous and Naicker 2003). These estimates capture the demand for housing and by implication, for housing finance. However, they do not reflect effective demand, which is a function of what people are willing and able to spend on housing.

The willingness and ability is in turn a function of peoples' income and expenditure, (combined with, the subsidy available to them) (Porteous and Naicker 2003; Baumann, 2003b). While the demand for housing in South Africa is very high, effective market demand seems to be limited to the middle and upper income-groups because of the country's skewed income distribution (Baumann, 2003b). Arguably, many households in poor urban communities are unable to obtain affordable housing loans,

Table 2. Institutions created to motivate financial institutions re-enter the low-income housing market

Mortgage Indemnity Fund	Servcon	National Housing Finance Corporation	National Homebuilders Registration Council	National Urban Reconstruction and Housing Agency
Set up in 1995	Set up in 1995	Set up in 1996	Set up in 1995	Set up in 1995
to cover accredited lenders if they were unable to repossess properties through normal legal channels once defaulted	to stimulate lending and to deal with historical problems, particularly that of non-payment.	to encourage sustained formal financial institutions' involvement by forming risk-sharing ventures.	to regulate homebuilders, raise construction standards and protect consumers against poor workmanship.	to release finance from existing lending institutions by providing guarantees to developers of up to 45% of the loanable funds.
was temporal so operated only for 3 years.	was also responsible for managing 14,000 properties repossessed by banks, where vacant possession was not obtained.	by 2003, had mobilised and disbursed more than R1.4 billion to the low and moderate-income households.	Since 2002, government Reconstruction and Development Programme houses also have the protection of the NHBRC warranty.	Main focus is the R0 to R1 500 income group.

Source: compiled from Tomlinson, 1997; NHFC, 2003; Hassen, 2003 and Rust, 2003.

Table 3. Total deposits and market share of banks (as at dec, 2001)

Bank	Deposits (R'000)	Market share (%)
Absa	151 213	21,1
Standard Bank	133 155	18,6
Nedcor	129 617	18,1
FirstRand	106 728	14,9
BOE Bank	46 709	6,5
Investec Ltd	42 946	6,0
Nedcor Investment Bank	18 914	2,5
Saambou Bank	15 445	2,2
Gensec Bank Ltd	5 831	0,8
Cape of Good Hope Bank	5 574	0,8
Unibank	4 971	0,7
Mercantile Lisbon Bank Ltd	2 336	0,3
African Bank Ltd	1 617	0,2
Brait Merchant Bank Ltd	1 382	0,2
CorpCapital Bank	1 284	0,2
PSG Investment Bank Ltd	1 227	0,2
African Merchant Bank Ltd	908	0,1
Marriot Merchant Bank Ltd	504	0,1
Other	47 397	6,6
Total	**716 858**	**100,00**

Source: ABSA, 2002

because they hold no land title or formal employment as security for a loan (Homeless international, 2002). Employment is particularly important because loan repayment arrangements are based on the future income of the household (borrower) which makes (even in the UK), the 'frequency, nature and consequence of interruptions to the flow of income crucial' (Horsewood and Doling, 2004). This however means that although a household may well earn enough to repay a loan, informal income is not recognized by financial institutions.

During the period 1980 - 1990, many banks entered into the South African affordable housing market (Porteous and Naicker (2003). However, interest rates during that period soared so high that many people defaulted on their loan repayments. As a result of this, financial institutions concluded that poorer households pose a greater commercial risk than higher income households / families because of the inelasticity of their disposable income (Tomlinson, 1997). Moreover, the political context in the late 1980's and early 1990's also affected default rates in some areas. Bond boycotts, or more often the threat of them, and group action at both street and neighbourhood level (referred to as political risk) made it impossible for the institutions to foreclose and evict on non-performing loans (Tomlinson, 1997). By 1994, the affordable housing finance sector was characterised by large banks having substantial non-performing mortgage loans. They were also unable to obtain vacant possession on these 'ring-fenced' 49 000 to 50 000 properties (Tomlinson, 1997; Porteous and Naicker 2003).

Consequently, mortgage lenders thus regarded mortgages in townships as unsecured loans, which exposed them to major risks and losses. While the causes of the loan defaults varied, affordability problems were by far the major reason (Porteous and Naicker 2003:193). The experience of banks seems to have af-

firmed the assertion that attempts to transfer long-term mortgage finance from the industrialised countries' contexts to the low income majority in developing countries is unsustainable (UNCHS, 2002). Banks have also argued that the term of mortgage bonds (typically 20 years) is too long for a low-income household to sustain, given the instability of the economic environment (Tomlinson, 1996).

Low-income households have equally mirrored the reluctance of financial institutions to lend on the basis of a mortgage. Contrary to expectations, most low-income households do not want access to mortgage loans (Tomlinson, 1996). The reasons provided are that interest charges would make repayments prohibitive and it would expose households to repossession of their homes if they defaulted.

Current debates are concerned with why financial institutions have not moved further down into the starter market (Tomlinson, 1997). On one hand, developers and builders claim that financial institutions will not make smaller bonds available. On the other hand, banks claim the developers and builders will only deliver products that are acceptable to the consumer and on which they can anticipate to make a profit (Tomlinson, 1997). Banks also complain that there are high transaction costs of small loans (administrative and collection costs), little or no conventional collateral, lack of mechanism to serve this sector, small returns and a highly risky low-cost housing market (Jones and Datta, 1999; Mthwecu, 1999; Khan, 2003,). In contrast, some (micro lending) banks for the poor such as Grameen bank of Bangladesh, which is being emulated in other countries, has been successful in banking with the poor in a sustainable way (UNCHS, 2002).

2.3. Micro finance/lending

There are about 1 334 micro lenders registered with the MFRC in South Africa, comprising both the private for profit lenders and NGOs, ten of which are banks (ABSA, 2002; NHFC, 2003). South African micro finance consists of a set of overlapping sub-sectors that can be understood in terms of commercial or developmental orientation, credit or saving, whether social asset mobilisation is involved and purpose of loans – housing, business, consumption and lifeline (www.cmfnet.org.za). Of late, there has been substantial growth in the micro-lending sector in South Africa to the extent that some of the bigger banks such as ABSA Bank and Standard Bank have shown interest in the micro finance sector (Porteous and Naicker 2003). This interest is expressed through big bank either entering into joint ventures with a micro lender or providing wholesale funding to an association or subsidiary under a different brand (Porteous and Hazelhurst, 2004).

While it is expected for banks to become more involved in micro lending because they have potentially much greater resources, at present most banks adopt a risk averse short term attitude and shy away because the potential margins is too small (Commission for Africa Report, 2005). Baumann (2003a) argues that commercial banks may not be suitable retail outlets for the appropriate micro finance services for poor households. The reason provided is that banks have neither the expertise to market the services profitably nor the desire to develop that expertise, which would require time, effort and money in a sector where profit margins are likely to be low.

It is also quite difficult to verify what impact micro lending has had on housing, considering that micro-loans can be applied to a range of uses and are also both difficult and costly to monitor. In one survey carried out by NHFC, it was found that of the total micro loans disbursed to end-users, 45 % was spent on home improvement with education as the second largest use at 22 %. Moreover, about two thirds of the recipients earned less than R3 500 per month, thus falling within the government housing subsidy group (Porteous and Naicker, 2003).

2.4. The Gap between the Banks and the Poor

In some developing countries, local financial markets are relatively undeveloped and medium and long term financing is not yet being offered at all by banks (Khan, 2003). Where financial markets have developed further, existing demand from the commercial sector and from higher income consumers may monopolise the interest of local banks. Banks may also consider the margins to be made on lending for urban development to be non-competitive, particularly where significant investment is required in developing new mechanisms and systems of credit delivery (Khan, 2003).

Furthermore, the requirements of banks have been prohibitive to the poor in many respects. When the asset base of the poor is not recognised and well articulated, the power of the poor to determine how risk is defined, constructed and controlled is minimised. This has a multiplier effect in that the poor find themselves unable to leverage the community assets in a way that releases the supply potential that has been built up in the formal financing sector. Since supply and demand are in effect uncorrelated, the market is ineffective and financial resources remain trapped in banks designed around a supply system that is inaccessible to those who need the resources most (Homeless international, 2002). Ultimately, the inequity that already exists is exacerbated rather than decreased. As the Commission for Africa Report (2005) notes, where incomes are unequal, most of the benefits from growth go to the wealthy unless the poor are able to participate in it.

Literature suggests that a state of disequilibria exists. Formal financial institutions are unwilling to take risks of lending to the poor people, and yet the poor people think they have the 'most' to lose. Earlier research conducted by Remenyi, (1991) supports the view that households have a strong desire to save, that transaction costs can be kept to a minimum and that collateral can be 'social' instead of having a purely financial base. However, there are, intrinsic risks associated with scaling up investments in urban infrastructures and housing investment particularly for the poor (Homeless international, 2002).

Ordinarily, to the credit lender, risk exposure on a home loan is a function of two factors namely; the probability that a particular loan will default and the severity of loss suffered in the event of default (Porteous and Naicker, 2003). The default probabilities can be predicted using historical data (and monitoring outcomes), while severity of loss is primarily a function of collateral taken for loan and costs of realising the collateral. Apart from mortgage bonds, financial guarantees such as pension or provident funds are also considered. Additionally, savings may also be a form of financial collateral, in the form of an account ceded to back a loan. More recently, a savings record is regarded as a qualifying criterion, which reduces the probability of default, rather than ameliorate the severity of default (Porteous and Naicker, 2003).

3. RESEARCH METHODOLOGY

Data was collected from five banks in Cape Town and Johannesburg in 2003. All the four biggest banks namely, ABSA Bank, Standard Bank , Nedcor Bank and First National Bank were approached during the study, with interviews held with three of them. In addition, two small banks were selected from table 3 (see section 2.1) to form part of the study because of their micro lending links to two of the big banks, making a total of five banks. The interviews were mainly conducted face-to-face and telephonically. Follow-up interviews were done via e-mail.

Supporting data was collected from NURCHA in Johannesburg. The aim was to gain more insight into how NURCHA is trying to get banks to make housing finance more accessible to low-income households. The interviews focused on establishing how the National Savings Scheme for low-income households initiated by NURCHA operates; which financial

institutions (banks) are participating and supporting the initiative, the challenges faced and what type of products had been developed.

All interviews were of an open-ended nature to avoid limiting the interviewees' contributions and to minimise bias. All information obtained through interviews (such as discussions, narrative notes and names) was recorded manually. The interview guides and interview notes were dated, labelled carefully and filed. Any documentation collected was also labelled and filed, creating a database. Confidentiality was an issue with the banks and some interviewees declined to provide answers to some questions. For purposes of eliminating the chance of individuals or banks being identified, the data gathered was analysed in group format.

4. RESEARCH RESULTS AND DISCUSSIONS

4.1. The Extent of Provision of Low–income Housing Finance by Banks (current role)

Generally, all the banks interviewed indicated that they were involved in providing low-income housing loans to some extent. For mortgage loans, the financing options available ranged from a minimum amount of R50 000 upwards; the minimum monthly income for a potential borrower was mostly R2500, with banks saying it was difficult to provide finance to households earning below R2 500 per month. The average interest rate applicable was prime plus 4% (as at Sept, 2003).

For non-mortgage loans, one bank indicated that it offered pension-backed, employer guaranteed or personal loans which many clients use for home improvement purposes. Another bank was currently evaluating the introduction of a contractual savings product to cater for the savings required where households wish to access the governments housing subsidy scheme. The hurdle however was how to make this envisaged product financially viable when saving small amounts monthly without transactional charges are to be used.

The interview responses clearly illustrate that banks do not cater for people who earn less than R1 500 as indicated in literature. Furthermore, formal employment is an essential precondition thus excluding the informally employed in the low-income group from access to formal finance.

4.1.1. Banks' Micro lending Services

The types of micro lending services offered by the banks were investigated and the following information as tabulated in the Table 4 was obtained.

The interest rates varied considerably among the banks depending on the level of risk involved. Some of the rates indicated include; prime plus (currently from 14.5 % to 40 %), 12 % to 15 % nominal rates, maximum rate in

Table 4. Micro lending products & conditions

Loan sizes (R)	Average repayment period	Minimum income levels required	Method of collection	Purpose of loan	Default rates (%)
loan amount ranged from R1 000 to R20 000.	18 months to 36 months.	R228 for people earning weekly wages; R456 for people earning fortnightly and R901, R1 200 and R1 500 for monthly earners.	payroll deductions; debit order using liquid assets; or insurance policies as surety.	mostly used for education; housing or home renovations; medical fees and for settling other debts	these were considered to be confidential. However, one bank indicated a default rate of about 7.5% per month.

Source: Field interview (2003)

terms of the Usury Act and 3.81 % per month (which translates to 68.4 % for over 18 months for a loan amount of R4800, for instance).

There were noticeable differences in terms of the size of loans, collateral required, minimum income levels and interest rates charged. However, there was no distinct difference between the micro lending services of smaller banks and those of major banks. One implication of this finding is that even micro finance excludes the majority of the poor because of the requirements such as formal employment, assets and methods of collection employed.

4.2. Banks' Response to why their Involvement in Low-income Housing Finance has been Minimal

While banks acknowledged the importance of the low-income housing sector, they maintained that banks were private entities whose main objective is to maximise returns for their shareholders. Interviewees suggested that the onus was on the government to play a more active role as banks could only get involved if the venture were financially viable. The interviewees argued that they are fully aware of the issues surrounding low-income housing finance and that it is a very sensitive subject. However, banks urged people to understand where the banks were coming from and how they operated! Past experiences were of bond boycotts and a culture of non-payment. Banks, it was emphasised were not government institutions, but private entities controlled by shareholders who must 'see' returns. Therefore, it is important to minimise loss by having guidelines and policies on the criteria for granting credit.

The interviews also revealed that banks generally supported the view that the poor need subsidised loans and that it is a worldwide phenomenon. However, while subsidies are essential, they do not necessarily have to be direct. Banks were more concerned with the financial viability and sustainability of the business model to be used due to risks associated with the low-income sector. It was suggested that since housing is currently delivered in isolation, integrated community development is essential for housing to have an investment value.

In addition, one bank indicated that while they were interested in getting involved with the low-income households, they would be more comfortable to deal with groups rather than individual households. The bank cited an example of a community-based project it had sponsored to the amount of R1.2 million. In this particular case, the bank said it would have been much better had there been a community-based organisation to mobilise equity from the community and to ensure that the money was put to good use. The bank was concerned with minimising risk and loss.

4.2.1. Banks' actual and perceived risks involved in lending to the low-income group

The major risks associated with providing finance to low-income households identified by

Table 5. Major risks associated with low income housing finance

Risk type One	Risk type two	Risk type three
Losses due to default especially where people have a culture of non-repayment. Here, two factors were identified to be crucial namely; the ability to repay (affordability) and the willingness to pay (culture of repaying).	Risk attached to location was perceived to be equally fundamental. Closely related to location was municipalities' failure to collect rates and taxes resulting in some areas not developing further (in terms of infrastructure and public amenities).	Included: political risk (organised resistance to payment or normal remedial action); development risk whereby houses will not be completed on time, on budget and to specification and; property risk whereby properties are not meeting the customer's expectation (defects).

Source: field interviews 2003

banks are as shown in the Table 5.

With regard to the willingness to pay under risk type one, the questions posed were that; in times of short-term pressures on expenditure, how are the household priorities set? How does loan repayment rank relative to other items such as food, and transport? Behavioural indicators and attributes such as age and location were cited as close predictors of default in most instances. The high level of un-employment levels were also said to be a contributing factor. Under risk type two, it was pointed out that banks would prefer to lend money in areas where the Municipality is able to carry out its functions and further develop the area into a "suburb".

Banks felt that sometimes they were unfairly criticised without being helped to deal with actual and serious issues on the ground. They emphasised that the government and individual households should also play a more active role in mitigating some of the risks cited above. The responses do indicate that banks consider the low-income housing sector to be highly risky. However, one response suggested that people earning lower incomes are not any more risky than those who earn more, *"…risk is risk whether you earn more or less, there is no guarantee that one will pay if they earn more. Often, those who earn little pay better than those who earn a lot…"*. This statement seems to support the argument of Remenyi (1991) that any form of lending is risky by its very nature, and the 'poor' are not any more risky than the 'rich'.

4.3. Bank's willingness (or lack of) to recognise alternative forms of collateral and potential to play a different role

With respect to the banks' willingness to develop or recognise alternative forms of collateral, the general response was that the banks could do so. The more suitable and acceptable the alternative collateral provided, the better it would be for minimising lending risk. Closely linked to this issue, was the question of the banks' willingness to adapt their systems in order to provide financial services to the low-income group. While the banks indicated that they were willing to do so, they also emphasised that the exercise was costly and required a new kind of thinking around it. It was suggested that it would be better to combine merchant banking with retail banking in order to come up with different ways of looking at the low-income group.

Further, commenting on how the banks saw their potential to play a different role in the provision of end-user finance to low-income households, the responses varied from great to fairly limited potential. One of the views was that banks were obviously prepared to play a role in shaping the future of the country where they could but the onus was on the government to manage that portion of the population which is unable to repay debt on a sustainable and commercially viable basis. Banks cited economic and political imperatives as the main reasons they would want to get more involved in the low-income group sector.

Banks argued that the issue was not lack of willingness on their part but rather the difficulty of finding a right model. Basically, the issue boiled down to implementation. It was categorically stated that it is unfair to expect banks to lend money to individuals who cannot afford or meet terms and conditions of the loan just because the majority of the population are poor. The key determinant was said to be the ability of an individual to be able to meet all household expenses and still have enough surplus to meet their home loan obligation. The banks seem to echo what the Commission for Africa Report (2005) advocates that a State must create an economic and political climate which encourages people to invest, must also invest in infrastructure and have a strategy on how to include poor people in the growth.

The Commission for Africa Report (2005) also argues that if the cultural supposition of the people one is seeking to address is not understood, outside prescription fails. The re-

search reported in this paper concedes that this is a lesson formal banks in South Africa should have learnt by now from their past experiences! There is a great need to understand the needs, and values of the poor as well as their way of doing things in order to build workable models for both the poor and the banks. The interviews highlighted that providing finance to the low-income housing sector requires new and innovative approaches. This also certainly requires a high degree of flexibility.

4.4. New Initiatives for Low-income Households: a Collaboration between NURCHA and Banks

4.4.1. Client profile and their performance

An Interview held with NURCHA revealed that it has provided guarantees to banks totalling R7.9 million for loans averaging between R5 000 to R10 000. The average interest rate on the loans is 24 % per annum and the average repayment period is 36 months. The majority of the loans have been given to women and to date, the loan default rate is only 5 %. However, placing guarantees with banks to encourage them to lend had not achieved the desired results on the home construction finance and end-user loans. Banks are still reluctant to lend and yet, results show that the repayment rate of 95 % is sufficiently high for the perception of the poor as unbankable to be incorrect.

Another notable effort by NURCHA was the initiation of a National Savings Scheme aimed at developing a savings discipline in savers among low-income households. The idea is to assist the savers build equity which could then be used to negotiate with banks to develop loan products for housing purposes. However, at the lowest income range, it is inevitable that saving might be disrupted in order to meet sudden costs. This may explain the quite low level of savings achieved by the majority of savers on the NURCHA database. About 27 % of the savers had been saving for about 15 to 27 months. Table 6 shows the value of savings of 35 000 savers at some point in 2002.

Table 6. National Saving Programme Savers' Profile

Percentage of savers	Value of savings
65.81%	R0 – R100
8.85%	R101 – R200
8.6%	R201 – R500
10%	R501 – R1000
6.7%	>R1000

Source: Strilitz, 2003

At the time of the study in 2003, it was found that there was a total of 42 000 savers registered under the national savings scheme. NURCHA targets the low-income earners with monthly income of below R3 500 per month, which is also the government housing subsidy market. The majority of the savers are self-employed people who did not have pay slips but were economically active. A total of R3.5 million was mobilised over three months among 42 000 savers. This means that most of the savers were depositing about R20 per month and yet, these are the people who are traditionally classified as 'unbankable'.

Participating banks set a threshold of R50 minimum deposit and thereafter R25 per month. NURCHA also sets a threshold for the savers at the same level. It was found that savings for low-income households have always been predicated on a particular target (such as balloon savings to circumcise boys, for a wedding, for unveiling a tombstone, for school fees, building a new hut or house). This suggests that setting targets is crucial in achieving savings and is common practice. The experience at NURCHA indicates that the general view among the poor, concerning saving for housing is that it is costly to do so because of high bank charges. This suggests that the poor would rather keep their money 'under

their mattresses" and pull it out when required.

4.5. Participating Banks and Products Developed: Lessons Learnt

Banks varied in the engagement with NURCHA. Some were involved while others were exploring the option. The banks pointed out that there were "confidentiality and interface issues", such as making account details of the savers available to NURCHA, which made the program difficult to implement.

Discussions with NURCHA revealed that the savings program employs community development facilitators who mobilise savings for housing and housing improvements. There must be a planned subsidy project that the community is targeting. NURCHA then negotiates with registered banks to take beneficiary deposits as small as R50 per month. It also negotiates for reduced bank charges and the bank is required to provide electronic reports of who has and how much has been saved. NURCHA organizes training and education workshops where NURCHA goes with bank representatives and talks about savings. The reason for wanting to engage banks is that there is a need to integrate savings into the financial services sector rather than having the informal group or rotating savings that are happening at the periphery. The aim is for low-income households to be also able to enjoy a safe deposit taking strategy.

NURCHA revealed that some degree of progress has been made with financial institutions through one-on-one interactions on projects. However, all the products developed were in a pilot phase and none are applicable throughout the country. The products vary in format although the basic principles are common. Transaction and maintenance fees differ, and so do interest rates payable. Some institutions are providing full account information on a monthly basis while others are reluctant to provide regular detailed reporting.

At the time of the study (Sept, 2003), the savings products that had been developed by financial institutions are illustrated in the Table 7.

Generally, the existing products developed by NURCHA demonstrate that a provision can be made for savings by groups. This shows potential that a loan could be advanced against all accumulated savings of a group even where some members have not yet achieved the level of saving of the contribution (Strilitz, 2003).

5. SUMMARY AND CONCLUSIONS

There is a huge housing backlog in South Africa and access to formal housing finance is problematic for the majority of the population. Much criticism has been levelled against banks for their unwillingness 'to do business' with the low-income group. This research was undertaken to contribute to the understanding of why banks are perceived this way and by so doing explore the banks' potential to be more involved in the provision of low-income housing finance. The research was approached from the Bank's point of view.

The study found that banks maintained that they are private business entities with their own guidelines and regulations and, whose main objective is to maximise returns for shareholders. The research found that banks are mainly providing large loan amounts repayable over relatively long periods of time, whereas the poor, typically want smaller loans repayable over shorter periods (flexible). Further, people earning incomes below R2 500 or the informally employed are hardly catered for by banks and yet, they are the ones in need of housing finance the most. Even micro lenders would only provide when the payroll deduction and stable income criteria are met.

Generally, banks indicated that they were continuously exploring different options to find some that are suitable and acceptable to cater for the low-income group while minimising costs and lending risks. Some banks are even participating in NURCHA's broadly based savings program but the initiative is only in its pilot phase. The research found that although

Table 7. Savings and loan products developed by banks collaborating with NURCHA

Bank & Product name	Product name & Main features
STANDARD BANK: [1] **E-Plan**	• applies an existing product, with addition of accepting deposit from anyone not only those in formal employment; • 6% interest on savings; • two product components, transaction account and pocket account (no transaction access unless account is to be closed); • maintenance charges include a funeral plan; • group and individual account numbers with each individual being tracked in a group; • monthly data under a NURCHA group reference account.
ABSA: [2] **Flexi plan**	• only a transaction account, no holding (pocket) component; • maintenance charges, no funeral plan; • normal transaction fees, interest not specified; • monthly information only given in response to a request for information against a list of account numbers (cumbersome and open to error).
PEP BANK: [3]**Affordable Savings**	• not available, see note [3] below.
ITHALA: [4] **Target Save**	• savings amounts as low as R30 per month, no withdrawals, book savings; • 8% nominal interest; • no maintenance or transaction costs, except for final withdrawal fee; • Nurcha clients under a group code and get monthly report progress home loan <R15 000 at 22%, unsecured loan, not mortgage, with repayments split between loan redemption and a saving account (acts as increased collateral and provides end of loan save lump sum).

Source: adapted from Strilitz, 2003 and field work done by author(s)

banks may be willing to get more involved in the provision of low-income housing finance, their decisions are driven by financial viability and return on investment. Banks argued that they cannot simply waive all bank charges, as it is too costly to look after depositors' money (as insurance costs alone are high!). The problem is that there is uncertainty and banks have not fully explored the viability of lending to low-income households. Further, the research revealed that while banks may be willing to adapt to some extent, risk minimisation and cost implications are critical factors. There is clearly a limit to which banks can compromise on risk, cost and profitability. It can be argued that these factors

[1] This product is only available in the Eastern Cape and Mpumalanga at savings levels of R50 per month as a pilot to build a business model. It is perceived as one of the best and most appropriate products, until a simple standardized savings account is developed.

[2] This ABSA Flexiplan is based on an existing product, except the initial deposit is reduced to R50. There is only a single site pilot in Drankenstein (Paarl, Wellington area) in the Western Cape.

[3] PEP bank was based in Cape Town and had one of the cheapest savings products. It had been anticipating a 'saving for loan' product through which savers develop a track record for future loans. Unfortunately, due to the recent merger with Nedbank, the product has been discontinued.

[4] The study found that none of the banks involved has yet developed a savings-linked product (loan). Ithala Ltd Target Save is the only institution currently linking savers directly to credit through the progress home loan, which can be accessed after 12 months. However, Ithala is not a bank but a deposit taking institution based in Kwa-Zulu Natal, allowed by a special arrangement.

constrain the banks' potential to play a different role.

Nonetheless, it still appears that banks can afford at a certain level to 'give something back' to the community – perhaps at the break-even point. Two factors need to be considered namely, the social development objectives and financial viability objectives. In a country like South Africa, where social and economical inequalities resulting from past injustices are so rife and visible, may be, banks should try and adapt a little more to cater for the low-income sector. As some other studies have shown, lending to the poor can still be sustainable and even profitable (as Grameen bank and other lenders now indicate). Therefore, the need to reconcile market or financial viability with social viability is crucial if the poor are to participate in development issues.

This paper concludes that the low-income group sector requires a different business model that is suited to the poor's needs. This implies that there is a need to develop new innovative ways of thinking and approaches around low-income sector financing. *It is time for banks to change the way they do business because it is longer a case of business as usual.*

More extensive research is recommended in understanding the market, methods of payments and drivers of default in order to explore sustainable low-income housing finance models in South Africa. Greater effort should be directed towards adopting an all-inclusive approach.

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SANTRAUKA

BANKŲ VAIDMUO FINANSUOJANT SOCIALINĮ (MAŽAS PAJAMAS GAUNANČIŲ ŠEIMŲ) BŪSTĄ PIETŲ AFRIKOJE: AR JŲ VAIDMUO GALI BŪTI KITOKS?

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Šiuo metu Pietų Afrikos bankai mažas pajamas gaunančioms šeimoms neteikia formalių paskolų būstui įsigyti, kurios leistų išspręsti būsto problemas. Šiame darbe pristatomas tyrimas, kurio metu buvo nagrinėjamas bankų gebėjimas pakeisti esamą padėtį, siekiant tapti lankstesniems ir visiems prieinamiems. Naudojantis apklausos rezultatais, tyrimo metu buvo surinkti penkių bankų ir centrinės būstų organizacijos duomenys. Vienoje pagrindinių išvadų teigiama, kad nors bankai ir gali išplėsti savo vaidmenį šioje būsto finansavimo srityje, tokie veiksniai, kaip rizika ir sąnaudų minimizavimas, taip pat tyrimų trūkumas apriboja šį potencialą. Po tyrimo buvo prieita prie išvados, kad mažas pajamas gaunančiai grupei reikalingas kitoks verslo modelis, kuris atitiktų jų poreikius ir kuriuo naudojantis būtų ieškoma naujų mąstymo bei verslo vykdymo būdų. Darbe teigiama, kad svarbu suprasti menką neturtingų šeimų potencialą ir nuodugniai ištyrinėti galimybes teikti paskolas šioms šeimoms.