



Out of the frying pan into the fire: the limits of loan finance in a capital subsidy context

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1. More information can be obtained about the Federation, People's Dialogue and Shack/Slum Dwellers International at <http://www.dialogue.org.za> Three papers published in earlier issues of *Environment and Urbanization* have described the work of the Federation and of People's Dialogue.

SUMMARY: *This paper describes the difficulties that the South African Homeless People's Federation has had to face, as the government housing subsidies to which its members are entitled have not been forthcoming. The Federation's members are entitled to a housing subsidy of around US\$ 1,500 – and there are housing developments all over South Africa built by Federation savings and loan groups that have demonstrated their capacity to build good quality homes with this. Because of the time taken to obtain housing subsidies, a special fund (the uTshani Fund) was set up to provide bridging loans so that members could start building their own homes. The Fund was to be sustained, as members obtained housing subsidies and repaid the loan thus making more funds available for other bridging loans. But most members who took out loans never received the subsidy and many now face difficulties in repaying these loans. This paper describes how the problem arose and how the Federation and its support NGO, People's Dialogue on Land and Shelter, are seeking to address it. In doing so, it discusses the difficulties that movements of the urban poor face in reconciling the immediate needs of members (including access to housing) with strategies to obtain the long-term political changes that would allow such needs to be met sustainably.*

I. INTRODUCTION

SINCE ITS FOUNDATION in 1994, the South African Homeless People's Federation has become one of the most significant housing movements in Africa. It is formed by over 1,500 autonomous local organizations of urban poor households that have developed savings and credit schemes and are seeking to develop their own housing schemes. To date, more than 10,000 houses have been built or are being built. The Federation and the NGO that works with it – People's Dialogue on Land and Shelter – support member organizations in developing housing schemes and in obtaining official support for them. They also support the formation of new local organizations, largely through community-level exchanges.⁽¹⁾

Over the last nine months, the Alliance formed by the Federation and People's Dialogue has been questioning its approach, prompted by declining repayments to the uTshani Fund that it set up in 1994. The Fund's original intention was to provide bridging loans to Federation members, to allow them to build homes while they waited for a government housing subsidy to which they were entitled. But many Federation households who have taken loans have not been able to obtain the housing subsidy,

so what was meant to be a short-term bridging loan has become a long-term debt. In addition, even when households were able to obtain a housing subsidy (and thus retire the loan they had taken from the uTshani Fund and replenish the Fund to allow it to give other loans), it often took far longer than had been anticipated. Although the Fund is a long way from financial crisis (the South African government's Department of Housing remains its major debtor) and its cash flow remains positive, there are clear danger signals. This situation has led to a reconsideration of the financial packages currently being offered by the Fund and, more fundamentally, of the strategies that the Fund has followed.

The Alliance now faces a situation where it has to apply all its energies to shifting the Federation groups away from using uTshani Fund bridging loans as "proxy subsidies". Combined with an aggressive push for housing subsidies, this strategy should ensure that the financing for most of its housing construction is subsidy money and not high risk advances from uTshani Fund. This move simply aligns the Fund with current policy, which is that people in South Africa who are poor and homeless are technically not supposed to be paying for their own housing. It also *re-aligns* the Federation so that it is more successful in securing resources and entitlement from the state, instead of trying to drive development by managing its scarce resources in such a way that it places near-insurmountable burdens on itself and its members.

This paper describes the contradictions that the South African Homeless People's Federation, its NGO support organization and its fund managers have faced in working within a subsidy system that has ostensibly been set up to assist the poor but which thousands of Federation members have struggled to access. After summarizing the housing subsidy system, the paper considers its significance in influencing the strategies followed by a revolving fund closely aligned with a homeless people's movement seeking both to extend its membership among the urban poor and meet the needs of members in post-apartheid South Africa. As a result of this situation, uTshani Fund has found that increasing numbers of its borrowers are awaiting subsidies and/or struggling to manage their repayments. The financial consequences of this situation are summarized in Section IV. Section V looks back at the strategies that have been followed, in a retrospective that explores the contradictions of using a community-managed and NGO administered revolving fund for housing, and the following section looks ahead to the strategies that are now being considered to strengthen savings schemes in South Africa and to better address the needs of the poor.

II. THE HOUSING SUBSIDY IN SOUTH AFRICA

SINCE 1994, SOUTH Africa has had a housing subsidy system that unambiguously promises low-income people in defined circumstances a state subsidy for land, services and housing. In this context, the People's Dialogue on Land and Shelter together with the South African Homeless People's Federation initiated a community-managed revolving loan fund, called the uTshani Fund, to secure five objectives:

- **To generate a greater flow of state housing resources to the poor.** When the Fund was established, there was no existing mechanism for transferring funds from the Department of Housing to organized communities of the poor. The subsidy system was designed to transfer

These are: Bolnick, Joel (1993), "The People's Dialogue on land and shelter; community-driven networking in South Africa's informal settlements", Vol 5, No 1, pages 91-110; also Bolnick, Joel (1996), "uTshani Buyakhuluma ("The grass speaks"); People's Dialogue and the South African Homeless People's Federation, 1993-1996", Vol 8, No 2, pages 153-170; and People's Dialogue on Land (1999), "Negotiating for land: the construction and demolition of Ruo Emoh's show house in Cape Town in August 1999", Vol 11, No 2, pages 31-40.

subsidies to local authorities or private developers or (in rare cases) to banking institutions that built houses for poor people. To a limited extent, the uTshani Fund has been successful in that five provinces have transferred subsidies directly to the Federation and to the extent that the Federation's housing initiatives served as a forerunner for the People's Housing Process, now a part of government policy. However, results have also been disappointing as subsidies to uTshani have flowed much more slowly than the release of bridging funds from uTshani – thereby technically burdening the poor with interest charges on their subsidies. (The uTshani Fund charges borrowers interest of 1 per cent a month on the declining balance of outstanding loans whether or not they are to be recovered from state subsidy funds or repaid directly by the poor.) It has also been disappointing to the extent that four provinces have yet to release subsidies directly to Federation members.

- **To facilitate learning by the Federation.** By providing bridging finance to build houses, the Federation was able to offer its members an alternative to the private developers who were building tiny, inadequate houses for passive beneficiaries. Community action allowed the Federation to develop systems of shelter delivery and support forms of social organization that make its affiliate savings schemes serious potential partners with the state and the private sector in efforts to house the poor and combat poverty. This has been remarkably successful.
- **To demonstrate the efficiency and effectiveness of the Alliance process.** The success of the Federation's systems of learning and capacitation and subsequent management of housing processes resulted in the painstaking development of working relationships with three national ministries, several provinces and a host of municipal authorities, including the Cape Town, Durban and Nelson Mandela metros. As part of the Shack/Slum Dwellers International initiative, the South African Homeless People's Federation has also developed partnerships with UNCHS (Habitat) and the Cities Alliance.
- **To create a critical mass of united and organized low-income communities able to influence resource flows in towns, cities and provinces.** Over the last seven years, the list of Federation affiliates has grown from fewer than 250 to over 1,500 savings collectives, with a presence in all major cities and towns in all nine provinces of South Africa. Housing delivery was used (to the eventual detriment of the Fund) to facilitate this impressive mobilization and a direct relationship emerged between the Federation's capacity to build houses and the scale of its membership.
- **To create space for women – especially women-headed households – to secure land tenure and build affordable houses.** Whilst there was to be a strong gender focus in the government's housing programme, only Federation-related housing developments ensured that the women were in the vast majority when it came to securing tenure and even receiving title deeds to houses that they shared with their husbands.

III. SQUARING UP TO THE CONTRADICTION

RACE, CLASS AND geographical location, as shaped by apartheid and not just economics, influence the distribution of housing in South Africa. People are poor and homeless in this country for political as well as

economic reasons. The politically shaped pattern of poverty and homelessness also strongly affects access to formal private sector housing finance.

Current South African housing policy is based on two *economic* goals: improving access to housing by encouraging the private sector to provide for this market and improving incomes through economic growth. However, the majority of the black population isn't likely to benefit from housing market restructuring in the short term, so the state also has a housing subsidy for the poor. This is an entitlement under law, based on the constitution.

People's Dialogue believes that anything that enhances the poor's access to this subsidy is to be encouraged. This is a political issue – not in the sense of a political party but in the sense of mobilization and organization to access the entitlement and secure redistribution to enable the poor to meet their basic needs.

The Federation in South Africa has developed its strategies in response to these conditions. The Alliance drew from its own experience and studied experiences from other Southern countries and concluded that:

- In spite of the euphoria that accompanied the death of apartheid and in spite of the immense popularity of the ANC in the informal settlements, the founders of the Alliance understood that the needs and problems of the urban poor were not going to be a priority for the new government.
- In order to contest resource allocations, low-income people needed to be organized and united. This contestation should be pragmatic in nature, with its objective being to secure working relationships with formal financial institutions and the state. Instead of focusing their energies on challenging the state through protest and demands for rights, organizations of the urban poor and their allies could achieve better results by initiating a grassroots-driven, non-hierarchical process to reclaim the latent collective power of poor households and communities, and use this to identify options and strategies to address their self-identified priority needs. This process sought to simultaneously create:
 - self-knowledge about the needs and capacities of low-income communities;
 - effective strategies for maximizing the impact of public and other development resources intended to address these needs, through using the poor's collective knowledge and capacities to leverage additional resources (the original intention of the Fund);
 - a framework for a more effective, long-term response to the unequal distribution of resources and power in society, by creating a self-conscious social movement of the poor, aware of its needs, socio-political situation and with collective capacities.
- The starting point for this process was to be daily savings by the poorest and most vulnerable amongst the urban poor, mainly women.

The uTshani Fund system is thus ultimately supposed to be a *transmission mechanism* to draw resources from the state to the grassroots, designed by and for the grassroots, to achieve resource distribution on their terms. What has happened over the last five years since the inception of the Fund?

Federation members drew funds down slowly in the beginning, as they experimented with both housing construction techniques and financial management systems. In 1996, the first subsidies were secured in the Eastern Cape and subsidies in the Western Cape followed soon after. Standard terms and conditions rapidly emerged. Members were allowed to

borrow up to R 10,000 with a deposit of 5 per cent and a monthly interest charge of 1 per cent. Repayments were more or less agreed at R 120 a month with a notional repayment period of 15 years, assuming that subsidy funds were not received. For this money, Federation members could build four-room houses measuring between 40 and 60 square metres. In exceptional circumstances, members borrowed less and built only two rooms.

By 1997, the Federation had built 4,000 houses and building activities began to accelerate rapidly. Federation groups began to lobby hard for subsidy releases, with partial success. In the Western Cape, increasing numbers of Federation members began to build with subsidy finance but other Federation members were not so lucky. In Gauteng, in particular, the strategies followed by the member of the Executive Council responsible for housing resulted in no funds for people's housing process initiatives, making it impossible for Federation groups to access subsidies. Hence, a highly differentiated pattern emerged with some borrowers being able to access subsidy funds and others finding themselves with long delays and in some cases few expectations of ever receiving a subsidy.

By 2001, the state, not the Federation's members, was uTshani's primary debtor, with over R 32 million in bridging finance still to be repaid through subsidies owed by the state to Federation members who have already built houses. By contrast, Federation members owed the Fund only R 8 million in top-up loans (excluding interest), over and above the subsidy amount. More than 75 per cent of Federation members who have built houses with loans but no subsidies are now expected to pay interest on their loan finance. Subsidies are money that they are entitled to but which they have been denied, due primarily to inefficiencies in the government's subsidy system. Federation members earn less than R 1,500 (US\$ 175) per household per month – the income group entitled to the maximum subsidy due to their lack of earning power. Having taken loans to finance their houses, these members now face long periods of primarily interest-based repayments.

As a result of this lack of subsidy repayments, uTshani now has to manage a difficult financial situation. Prior to discussing this situation in more detail and in order to better understand the strategies that favour the urban poor and the options facing uTshani, it is useful to step back and consider what strategies the Alliance followed in the case of the uTshani Fund if there was no state subsidy for housing.

First, there would be no question of R 10,000 loans for 50 square metre-plus houses. Anyone who can afford that in South African conditions, without a subsidy, is almost by definition not the poorest of the poor. Loan repayments for loans of this size are simply too big and/or over too long a period for low-income families.

Second, loans would be smaller with short repayment periods, in order to save interest. People would borrow a little to build a room or lay foundations, then pay it back; then borrow and build a bit more, pay that back and so on. Poor people's housing organizations all over the world – wherever there is no state subsidy – work in this way. It helps to make borrowing more affordable, it reduces interest charges and encourages rapid repayment to qualify for further loans.

Third, loans would be made and repaid at community level, using a mixture of savings and loan capital from uTshani Fund. Since there would be no subsidy, no one could say to himself or herself that loan repayments

didn't really matter, that uTshani Fund would sort it out. If they didn't repay, the local loan pool would run dry and other Federation members without houses would quickly sort out the problem, clear that not to do so would deprive everyone of funds.

If the Alliance tried to run the uTshani Fund system as it does now but without the promise and reality of subsidy funds, it is likely that the capital would rapidly be eroded. Ordinary Federation members simply would not be able to afford to take such big loans over such long periods; the repayments would be too small to maintain the cash flow and enable new lending.

If this scenario sounds familiar to members of the Federation (and other observers), it is because as far as at least 78 per cent of Federation members who have built their own houses with uTshani loans – but no subsidies – are concerned, *South Africa has no functioning subsidy system*. In spite of meeting eligibility criteria and making formal applications for subsidies, these have not been released. For some, the wait for subsidies to retire bridging loans has been as long as six years.

IV. GETTING TO THE HEART OF THE REAL ISSUE

uTSHANI FUND'S REPAYMENT problems are now serious enough to have triggered an extensive process of restructuring within the Alliance. However, the bigger problem comprises two inseparable parts.

The South African housing subsidy system is not serious about supporting the people's housing process. The *system* – not "government" nor individual politicians – is simply not designed to seek out, identify and take advantage of functional grassroots channels through which state housing resources can flow to produce adequate shelter for those who don't have it. Despite sustained rhetoric and committed (although poorly conceptualized) people-centred policies, and despite the existence of demonstrably efficient and effective grassroots channels, subsidies – with

Table 1: Houses, bridging finance loans and subsidies to the Federation 1995-2001			
Province	Bridging loans	Subsidies	Subsidy funds received as a percentage of loan finance
Eastern Cape	R 4,987,514	R 1,741,979	35%
Free State	R 2,073,147	R 695,800	34%
Gauteng	R 9,579,187	Nil	0%
KwaZulu-Natal	R 18,575,408	R 1,049,750	6%
Mpumalanga	R 582,084	Nil	0%
North West	R 1,555,433	R 602,700	39%
Western Cape	R 18,628,139	R 8,217,861	44%
TOTAL	R 55,980,912	R 12,308,090	22%

some exceptions – don't flow to the Federation, the foremost practitioner of people's housing in South Africa. Although some provinces do make use of the Federation system to meet their housing delivery mandates, South Africa's two most populous provinces – Gauteng and kwaZulu Natal – are patently not able to do so. As shown in Table 1, the figures speak for themselves.

Perhaps most seriously, the Alliance, after years of chasing subsidy funds, has grown increasingly desensitized to its own lack of success in accessing subsidies. *This* is its most fundamental challenge – ahead of declining repayments. The reason why it is such an important challenge is straightforward. The role of a grassroots organization is to advance the interests of its members by any means possible that do not cause the organization irreparable harm. In this case, *the path of least resistance has been for the Federation to pursue uTshani Fund loans rather than the subsidy*. But this is causing the Federation harm. Until recently, the problem hasn't been sufficiently recognized. But what is now evident is that Federation leaders have put short-term housing delivery above the long-term interest of the collective organization. And People's Dialogue has allowed this to happen by maintaining an accommodating uTshani Fund loan policy for too long.

V. LIVING THE CONTRADICTION

ONE CAN LOOK at the Alliance's current problem with uTshani repayments in one of two ways. It can be seen as a fundamental failure of the "system" – no matter what you do, certain things won't change. Giving loans to poor people and letting them handle money and resources themselves are nice ideas but they will never work. The important thing is to find a system that works to deliver housing to the poor. Or the situation can be seen as an outcome of a mixture of context and process, choice and opportunity. The Alliance has done its best in a specific historical context but the process of building the Federation has involved certain contradictions. People have also followed opportunities and made choices, which have led to significant successes for the Federation in particular and for the urban poor in general. However, the process has resulted in a number of fundamental contradictions that now need to be addressed before they undermine the Alliance as a whole.

The early 1990s were characterized by high expectations and generous promises from politicians. The no-longer banned African National Congress and South African Civics Organization were highly active, using explicit commitments to urban development to mobilize the urban poor. They envisioned a top-down "delivery" process in which a triumphant liberation movement would solve all the problems of the dispossessed majority. To the ANC, the poor were *objects* of "development".

By contrast, the emerging Alliance sought to work within and to expand the framework of need, desire and choice that shapes the lives of South Africa's urban poor. It sought to build on traditions of autonomous, local-level mobilization and consciousness originating in poor communities during the apartheid era. This meant creating space for the poor to identify, understand and articulate their own priorities rather than passively await delivery from above. It meant recognizing that the poor are creative agents. To the Alliance, the poor were *subjects* of their own progress.

The subjective starting point for Federation mobilization – especially targeting women – was housing. Members of the new network of “housing savings schemes” were encouraged to “dream” new homes and communities through exciting exercises in house modelling, community mapping and enumeration. In such a way, the latent social power of the South African urban poor, reclaimed through mobilization around daily savings, was directed to acquiring land and houses.

By December 1994, uTshani Fund had started making bridging loans to the Federation. Small groups of members took loans on the understanding that these would be largely paid off by their subsidies. Although the loans were designed on a theoretical long-term model in order to keep the monthly repayments to a minimum, it was anticipated that the loans would be retired early by government subsidies.

The Alliance leadership initially saw an aggressive uTshani Fund loan policy as a way of acquiring more resources from the state, by demonstrating that the Alliance could build better houses than the private sector *and* build people’s capacity to boot. This was immediately successful: South Africa’s first democratic housing minister, Joe Slovo, made an early promise of R 10 million to uTshani Fund; the Federation was invited to serve on the National Housing Board; and negotiations to deliver subsidies directly to the Federation began.

There was always a risk in this strategy, however. If the subsidy system didn’t deliver relatively quickly, uTshani Fund would become a *de facto* creditor to a large group of very poor South Africans who couldn’t be expected to repay large housing loans – and who didn’t believe that this was what they had agreed to do. This is precisely the situation in which the Alliance now finds itself. Although the Alliance reached an agreement with national government in 1996 to release subsidies directly to uTshani Fund, this was subject to provincial approval. The provincial housing boards took their time. They had little to lose, since South Africa’s political system tends to direct public attention towards the national government, concealing the true resource distribution role of provincial government beneath a web of complex regulations and compromises. Even in provinces where the agreement was approved, subsidy release often took years, even long after houses had been built with uTshani loans.

From a political and practical point of view however, it was difficult for the Federation to move away from a system based on using their loan fund to bridge subsidies in spite of these long delays and the resultant alarming decline in repayments. Indeed, the Federation’s success in building large, high-quality houses with uTshani loans was the primary reason for the explosive growth in membership. Newer groups naturally expected to get “an uTshani house”. The Federation felt confident and successful, and everyone wanted to build more and better houses.

As one might expect, some leaders gradually came to encourage a grassroots focus on uTshani houses, rather than daily savings, as an easy way to build the Federation. Throughout the Federation, the 5 per cent deposit system came to be seen as a way of “buying” an uTshani loan. Members quickly accumulated the R 500 needed to qualify for the largest loan package. (Indeed, deposits on uTshani loans have been in advance of requirements throughout the life of the Fund.) Identical house plans and costings poured in from all over the Federation. The Federation’s grassroots housing drive was in full swing. As developer schemes proved to be rigid and arbitrary, people began to join the Federation to obtain housing.

At the same time, the cost of building materials increased and the housing subsidy did not. Unavoidably, the existing uTshani bridging finance package of R 10,000 for an R 500 deposit and R 120 a month repayment couldn't build the same houses earlier Federation members had "dreamed". House-modelling, community-mapping and enumeration became ritualized exercises which made it difficult to shift members' dreams – now further reinforced by existing Federation houses – into line with current affordability. This situation fuelled a tendency for members to "overbuild", i.e. laying out foundations for houses larger than could be built with the available resources.

In time, as some provinces began to deliver subsidies more consistently (notably the Western Cape), parts of the Federation became almost entirely focused on mobilization around uTshani loans and houses. Provincial housing staff even began to refer people seeking housing to the Federation.

Certain factors in the "structure" of the Alliance both encouraged these tendencies and made them difficult to address. Centralized uTshani Fund decision-making managed within the People's Dialogue meant that the risks of a growing uTshani Fund indebtedness were assigned to and accepted by People's Dialogue. At the same time, there was a generally favourable attitude towards the Federation on the part of senior government leaders. Leaders kept receiving reassurances that subsidies were coming; members kept hearing the same message. Although Federation leaders and members were increasingly aware of sustainability problems, they tended to see their role as expanding membership of the Federation at all costs. The race to accumulate members was a strategy for getting more subsidies.

Whilst the processes were evident to the Alliance, they were also overshadowed by other concerns. In April 2000, People's Dialogue attempted to force restructuring on the Federation when it was "decided" to limit uTshani Fund loans to R 6,000. Federation leaders first agreed but then, under pressure from members, refused to implement the policy. Members began to argue that any attempt to limit access to the R 10,000 "uTshani loan package" would "kill the Federation". This was the clearest proof that mobilization around uTshani Fund resources had replaced mobilization around access to state subsidy resources.

By late 2000, the overall monthly cash flow to uTshani Fund was so low that the Alliance leadership had little choice but to suspend lending. As the April 2000 experience showed, it was very hard for the Federation leadership to make hard choices and it took changes at People's Dialogue to bring the organizations to face the contradiction directly.

Three lessons stand out in this story. First, the housing policy, the political environment and their organization's own strategy encouraged Federation members to view uTshani loans as a "fast-track" to a subsidy. Since they have a widely known legal and moral right to the subsidy, the urban poor tend to see an uTshani loan as a *right* – an entitlement – rather than a precious share of the limited collective resources of their own organization. Second, some leaders came to rely too much on mobilization around access to housing rather than drawing the urban poor into a locally based democratic and collective development organization based around daily saving. Third, the Alliance leadership's willingness to maintain the scale of lending, even when it was clear that subsidies weren't being delivered, did two things. On the one hand, it increased uTshani's unsecured loan book and meant that more and more Federation members faced the

burden of interest charges. On the other hand, it sent a signal to the Federation that uTshani Fund would continue to deliver loans regardless of access to subsidies – compounding the “loan entitlement” problem.

VI. EXPECTATIONS AND ACTION

MANY CURRENT PROBLEMS in the Alliance relate to the uneven development of its capacity to meet its members’ expectations. The Alliance’s evolution has been shaped by a tendency to mobilize around housing opportunities through access to uTshani Fund bridging loans, in anticipation of state housing subsidies. This has produced two contradictory results. On the one hand, it has increased the size and spread of the Federation and thereby helped to attract more resources. On the other hand, by diverting attention from the subsidy as the ultimate source of housing resources, it has undermined the Alliance’s ability to use those resources in a sustainable way and thus to meet the expectations of its expanding membership. The problems the Alliance now faces in relation to loan repayments and subsidy releases are symptomatic of this contradiction.

Some argue that it’s wrong to raise people’s hopes when there are insufficient resources to deliver on them. But it is precisely the mobilization of these hopes that has provided the Federation with the opportunity to gain access to additional resources; through the legitimacy it has gained by the scale of its membership. The current challenge facing the South African Alliance is to come up with an appropriate relationship between expectations and the strategies to secure the resources needed to meet them.

The current situation has been shaped by a long-term tendency to transform uTshani Fund from a communal resource for the Federation into an avatar of the subsidy entitlement itself. The expectation that uTshani Fund will deliver an entitlement is incompatible with a financial system based on a revolving fund model. The South African experience has shown that in such a situation, funds simply may not “revolve” sufficiently to meet the ongoing expectations of the membership. This in turn reduces the capacity for collective action – including political work to access the subsidy – as the energy turns inwards to resolving difficulties with “problem” members.

The question is whether this contradiction can be “resolved” by modifying the revolving loan system – say, by mandating smaller loans with shorter repayment periods – or whether it is necessary to redirect Federation expectations to another target. As long as the South African subsidy policy remains intact, modifying the housing loan system will not solve the contradiction; it will, more than likely, undermine Federation mobilization and make other options more attractive to ordinary members.

This is why the first step in the restructuring process has been to break the link between lending for housing and subsidy acquisition. Housing loans are being downplayed. They will continue because of the scale of potential confusion to the Federation’s members if there were no resources for housing, but they will be limited to small loans for incremental shelter improvement for those who already have subsidies.

This change enables the Alliance to re-strategize and regroup. Federation members’ expectations with respect to housing are now being refocused on the ultimate source of the resources driving the uTshani Fund system, namely the subsidy itself. Groups that want to complete their

houses in one go using the subsidy funds will work with other Federation groups to gain access to those funds prior to starting construction. At the same time, the resources in uTshani Fund can be targeted to those who are most in need – those who do not have land tenure. If some members of this group are prepared to build their homes incrementally, then they will be allowed access to smaller housing loans; but uTshani will no longer offer one-off loans for a completed house. In this regard, a revised uTshani Fund process could point the government in the direction that its support for housing provision in this country is going to have to go.

This strategy does not entirely avoid the weaknesses – based on the contradiction between mobilization *through* and mobilization *for* the Federation's own resources – with which the Alliance is currently struggling. The housing subsidy is also expected to cover the cost of land and there is therefore a continuing danger that uTshani loans for land purchase will once again be regarded as an advance on an entitlement (the subsidy) rather than as temporary bridging finance. Therefore, uTshani loan finance will start to blend Federation savings with external donor funds, hopefully emphasizing to members both the importance of borrower repayments and the need to secure prompt action to ensure the receipt of state subsidy funds.

There is a compelling logic to this. Without the housing subsidy, the Alliance would never have considered uTshani Fund loans of the size and scale that have been made. Sustainable, large, long-term loans to the poorest of the poor for the construction of complete houses is wishful thinking and certainly not the business of the Alliance. Rather, the uTshani Fund was conceived as a bridging mechanism for the subsidy. But, in practice, the South African subsidy system is as good as “not there” for the majority of Federation members. It is not surprising, therefore, that uTshani Fund is now facing such tough financial choices.

In this context, it makes little sense to tinker with the uTshani Fund housing loan system – poor repayments are only a symptom of a deeper problem. Strategically, it makes more sense to convert the current problems into an opportunity, through refocusing the Federation's attention on its ultimate reason for being, which is to use the collective power of the poorest of the poor not only to demonstrate that they can make better use of development resources but to *strategize* so that those resources are delivered to them. Ironically, the uTshani Fund system has undermined this by hiding the true object of the demand – the state – behind the face and resources of a friendly NGO.

VII. RIGHTS AND MOBILIZATION

THIS VIEWPOINT SHOULDN'T be confused with that of those who argue that the Alliance process undermines the interests of the poor by diverting attention away from the state's responsibility to meet people's basic human right to shelter. The crude rights-based view ignores the fact that *unorganized* poor people have little opportunity to identify their options, decide amongst them and participate in meaningful processes to fulfil their priority needs. It assumes that the state can (and will) do this. The foundation stone of the Federation process is recognition that this doesn't happen automatically and that there are no appropriate civil society mechanisms (including political parties) through which the poor can articulate themselves, nor are there appropriate mechanisms through

which they can explore and identify development solutions that work for them. The Federation is thus mainly about mobilizing people into a social movement to represent the poor in their quest for resources to improve their lives; and about the social bonds that help isolated people to be more, rather than less, in control of their lives. This is the value it adds. In this context, it has to be recognized that a revolving fund is one of several means to such an end – not an end in itself.

The South African Alliance's experience is thus not an argument against the Federation process. Rather, it is that the Alliance has undermined its social mobilization goals by unintentionally allowing uTshani Fund to become a proxy for the state housing entitlement rather than a method for securing these entitlements more effectively. When a revolving loan fund becomes the object of social mobilization rather than its means, it is time for a change. The real test of the superiority of the Federation approach over the "rights-based" strategy is whether the Alliance, having recognized this, will be able to take this opportunity to re-invent itself, just as in the early 1990s it sought to re-establish poor people's power in South Africa when it created itself.

VIII. LESSONS ABOUT REVOLVING FUNDS

THE SOUTH AFRICAN Alliance has adopted an explicitly risk-taking attitude towards its work. It has rejected the risk-assessment systems of the formal development sector, particularly those relating to housing finance. It has deliberately used uTshani Fund as a mechanism for exploring opportunities and for generating knowledge about what works and what does not for both housing delivery and loan finance for the very poor. Having done this, it has learned three major lessons:

- An individualized revolving fund model doesn't work well in a capital subsidy environment. Individuals really can't be expected to regard finance as a "loan" when they know they are legally and morally entitled to a subsidy. Trying to "exhort" people to repay such loans is, ultimately, a lost cause.
- A revolving fund that absorbs the failure to secure subsidies with continuing loan releases detracts from the Federation's efforts to achieve a more equitable flow of resources to the poor. If bridge financing is not linked in some concrete way to subsidy flows, eventually people may ignore the subsidy altogether.
- In such an environment, the challenges facing a movement of the poor are largely political. Any "under-recovery" of loan finance relative to what is expected by formal financial models can be seen as the cost of learning this way.

IX. THE NEXT STEP

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

By far the bulk of this effort has been devoted to securing land or build-

ing houses on serviced sites already owned by Federation members. But the *substance* of the South African Alliance's achievement is not housing delivery. Rather, their achievement is the mobilization of the knowledge and resources of the urban poor to achieve access to resources it would not otherwise have had. If, as is possible under a new policy, housing is no longer as hard to access (for those with land tenure) as it once was, then the "missing" resource will be *land* for those who are landless. Our analysis suggests that future challenges should centre on land acquisition, servicing and the issues associated with communal development and management of housing and other social resources on greenfield sites.

In years to come, those who choose to study the work of the Alliance will look to this period of restructuring and could well conclude that the contradictions that beset uTshani Fund with regard to repayments and subsidies were by-products of a practice, developed in the mid-1990s, that placed it at the cutting edge of housing delivery for the poor. More significantly, and more optimistically, they might recognize that the successful efforts to address these contradictions propelled the Federation into playing, once again, a leading role, but this time in shifting attention and activity away from housing delivery as a means of combating poverty and marginalization, and towards land tenure, the provision of basic services and the innovative, people-centred management of built environments.

