

The Effect of Housing Microfinance on Household Welfare

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ABSTRACT

The affordable housing crisis in South Africa has created a need for better quality and efficient housing alternatives. The aim of this research is to identify how housing microfinance contributes towards improved living conditions and welfare of low-income households through a case study analysis. Data was collected from employees and beneficiaries of Ikhayalami's loan finance programme using observations, pictures and semi structured individual interviews. Data was analysed for content with the aim of interpreting emerging trends and concepts. The findings reveal a significant positive effect via an increase in community status and housing conditions. If afforded sufficient infrastructure and support – housing microfinance has the potential to grow in scale and move developmental objectives forward.

KEY WORDS: Affordable Housing, South Africa, Housing Microfinance, Living Conditions, Household Welfare

TABLE OF CONTENTS

PLAGIARISM DECLARATION	i
ABSTRACT	ii
TABLE OF CONTENTS	iii
LIST OF FIGURES AND TABLES	v
ACKNOWLEDGEMENTS	vi
1 INTRODUCTION	1
1.1 Background of Study.....	1
1.2 Research Area.....	2
1.3 Problem Statement	3
1.4 Purpose and Significance of the Research.....	3
2 LITERATURE REVIEW	6
2.1 Effective Demand for Housing: Low Income Households	6
2.2 Incremental Building and Financing	7
2.3 Housing Microfinance	9
2.3.1 Defining Housing Microfinance.....	10
2.4 Key Features of Housing Microfinance	11
2.5 Existing Approaches to Housing Microfinance	14
2.5.1 Microcredit to Housing Finance (MCHF).....	14
2.5.2 Shelter Advocacy to Housing Finance (SAHF)	14
2.5.3 Stand Alone vs. Linked Housing Microfinance	15
2.5.4 Technical Assistance	15
2.6 Constraints Affecting the Demand and Supply of HMF	16
2.6.1 Supply Side.....	17
2.6.2 Demand Side	18
2.7 Household Welfare.....	18
2.8 Effect of housing microfinance on household welfare: A Conceptual Framework	20
2.9 Empirical Literature	23
2.10 Chapter Summary.....	25
3 RESEARCH METHODOLOGY.....	26
3.1 The Qualitative Paradigm.....	26
3.2 Research Design.....	28
3.3 Sample Size	30
3.4 Data Analysis Methods	31

3.5	Chapter Summary	32
4	RESEARCH FINDINGS, ANALYSIS AND DISCUSSION	33
4.1	Ikhayalami - Managerial View	34
4.2	Application to Conceptual Framework	37
4.3	Ikhayalami – Beneficiary experience	40
4.4	Application to Conceptual Framework	43
4.5	Chapter Summary	50
5	RESEARCH CONCLUSIONS	53
	REFERENCES	56
	APPENDICES	59
	APPENDIX 1: INTERVIEW QUESTIONS FOR IKHAYALAMI EMPLOYEES	59
	APPENDIX 2: INTERVIEW QUESTIONS FOR IKHAYALAMI MEMBERS	60

LIST OF FIGURES AND TABLES

Figure 1 – The effect of housing microfinance on household welfare: a conceptual framework	21
Figure 2 – Typical shack dwelling in Khayalitsha Township	45
Figure 3 – Upgraded Ikhayalami shacks	46

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One love.

1 INTRODUCTION

1.1 Background of Study

South Africa's housing market is characterised by low levels of affordability and insufficient housing delivery programmes for low-income households, resulting in poor living conditions. Only 15 per cent of the population can afford to buy an entry-level house while households that earn less than ZAR 3 500 (60% of the population) qualify for fully subsidised government housing (CAHF, 2014). This creates an affordability "gap market" representing households that do not qualify for a fully subsidised home from government but are unable to afford entry-level bonded homes (CAHF, 2014:160). This "Gap Market" affects about 22% of the population with impact on 2.7 million households (Gardner, 2008).

Population growth and rapid urbanisation contribute to the shortage of affordable housing. This has become a reality for South Africa – preventing government from meeting the rising demand from the 60% of households that do qualify for fully subsidised housing. The backlog will continue to exist with a need for appropriate housing alternatives that target the growing housing demand as social unrest increases because of crowded informal settlements. According to the Centre for Affordable Housing Finance in Africa, 20% of service delivery protests in South Africa relate to a lack of affordable housing and poor living conditions.

The need for housing alternatives that are able to satisfy the needs of households with efficient quality solutions cannot be over-emphasised. The biggest challenge faced has been the financial exclusion of this market from traditional mortgage markets that limits the number of appropriate housing alternatives developed. Financial resources from traditional lending institutions have been unattainable for a large proportion of low-income communities due to the bureaucratic processes that are inherent in conventional financial structures.

Housing microfinance (HMF) seems to have evolved from the microfinance revolution whose objective is to supply financial services to households excluded from the formal banking sector. Microfinance aims at improving living conditions by allowing low-income and poor households to access capital through small, incremental loans tailored for their needs (Armendariz de Aghion and Morduch, 2005). Whether housing microfinance helps to

improve living conditions and household welfare in a South African context is underexplored. It is necessary to understand if HMF can potentially satisfy the needs of a growing gap market and make significant impacts on household welfare as it specifically targets the space where housing and microfinance overlap.

1.2 Research Area

The research explores the effect of housing microfinance (HMF) on low-income household living conditions and welfare. Using a case study of Ikhayalami, the study further explores solutions to the affordable housing crisis that feeds into larger developmental areas within the South African context.

Currently, there is a limited body of research covering HMF that focuses on supply-side factors; the role HMF plays within microfinance institutions and effectiveness in scaling up supply. There is minimal focus on demand-side factors with specific reference to low-income household beneficiaries of the product.

Empirical evidence that highlights the South African experience is limited probably due to the architecture of apartheid policies, which prevented a majority of South Africans from having secure access to housing and land with little emphasis on housing finance options for poor households (Gardner, 2008). Although the first democratic election saw a complete revamp of housing policies that promoted the development of the HMF sector in South Africa, only a handful of institutions offer HMF loans with limited evidence of their effects on household welfare.

A clear understanding of this link is crucial to determine if HMF has the potential to affect the affordable housing market in South Africa. This will assist regulators in defining an appropriate direction to promote housing microfinance, as well as incentivise institutions to provide an HMF product that aims to improve household welfare. Alternatively, this research may highlight the need to develop a different solution to achieve these developmental objectives.

1.3 Problem Statement

Shelter is a basic human need that helps ensure personal safety and health; yet South Africa's housing market is characterised by low levels of housing affordability and insufficient housing delivery programmes for low-income households, ultimately leading to poor living conditions (CGAP, 2004).

According to South Africa's housing policy, the key to delivering an acceptable standard of housing to low-income households – households with incomes of less than R 3, 500 per month – is affordable housing finance (Tomlinson, 2007).

Microfinance and mortgage theory suggest that access to housing microfinance will increase welfare of poor or low-income households by assisting them in meeting their housing requirements and living conditions. HMF is a source of finance that can improve the incremental building processes of the poor as it consists of small loans for the purpose of renovations and expansions to an existing home, the construction of a new home, land acquisition and basic infrastructure (CGAP, 2004). With this channel, HMF provides an alternative to subsidised housing programmes and targets a population not catered for by traditional mortgage finance.

Microfinance theory identifies that HMF provides low-income households with the opportunity to use their home as a personal asset that increases in value; and as a productive asset to generate income (produce goods, generate business, store inventory) and develop human capital (CGAP, 2004).

The intention of this research is to test this link and explore housing microfinance as an appropriate housing finance strategy for low-income households. There is an expectation that such a relationship should exist, as HMF is a product developed to accommodate the financial characteristics and housing needs of poor and low-income households.

1.4 Purpose and Significance of the Research

Households who qualify for fully subsidised housing are less likely to invest in housing in their private capacity – and will be more inclined to wait in the long queue for lower quality,

fully subsidised housing. HMF has a role to play in incentivising this segment of households to invest in their private capacity, effectively reducing the pressure on government to meet the rising demand while improving their living conditions in the process.

Understanding the target market and response of beneficiaries (low-income and poor households) to HMF is crucial, as it is through this lens that any potential policy will have an impact. Assessing the effects that HMF has on household welfare in low-income South African households is necessary to allow them to partake in and support a growing economy; increase political and social stability and work against a widening inequality gap. Outputs will facilitate new and innovative approaches to housing finance that caters directly to housing needs of low-income South Africans. In addition, it will ease efforts to attract capital flows and investments; skills development, technical assistance and innovation within the affordable housing sector in South Africa.

This research will assist policy makers develop regulations that promote the provision of housing microfinance services and progressive policies that satisfy the needs of low-income households. Factors that contribute towards improved household welfare and the channels through which these factors work needs identification. Ultimately, the outcome of this study can be scaled up to contribute towards policy and decision making processes that promote an affordable housing market in South Africa, and achieving wider developmental goals.

1.5 Research Question and Scope

This research paper will aim to answer the question:

- How does housing microfinance contribute towards living conditions and welfare for low-income households?

For the purpose of the study living conditions will refer to access to basic services such as housing, water and sanitation as well as the circumstances of a person's life including food, clothing and safety.

The research will focus on Ikhayalami – a non-profit organisation in Cape Town, South Africa whose primary aim is to develop and implement affordable technical solutions for

informal settlement upgrading. Their ultimate aim is to imbed these practices within the community and scale up operations with the support of the government.

The paper is structured as follows. Chapter 2 follows this introduction and reviews and analyses existing literature on housing microfinance. Chapter 3 highlights the methodological framework used to collect and analyse data. Presentation and analysis of data collected is included in Chapter 4. Chapter 5 focuses on conclusions and recommendations.

2 LITERATURE REVIEW

This chapter reviews available research on housing microfinance and its effect on household welfare. It assesses effective demand for housing within low-income households. The practice of incremental building is explored, as well as the link between incremental building and incremental financing. The theoretical framework of HMF, as a response to the incremental financing needs of low-income households is then discussed. In particular, the chapter focuses on how such incremental financing could lead to improved household welfare.

A definition for HMF is developed and key features explored in identifying existing approaches used by providers. Constraints identified on the demand and supply side of HMF were used to build a holistic conceptual framework on the effect of HMF on household welfare.

2.1 Effective Demand for Housing: Low Income Households

Household views influence demand for housing or a decision to invest in housing. Housing is a shelter and therefore a basic right to human safety and dignity; a commodity and therefore a gauge for social or economic status; or an investment that can function as a productive asset (Krishan, Ramji and Taishi, 2007).

Demand differs amongst income groups, with poor households spending a larger proportion of their income on housing compared to others (Biitir, 2008). Available income affects demand after catering for other basic needs.

Effective demand for housing combines the willingness and ability of a household to pay for housing. Gardner (2008:35) defines it as “the desire to access shelter combined with the ability to afford shelter, and matched to the ability to procure a suitable shelter product”. Housing affordability is determined by combining savings and subsidies available for housing with housing-related credit (Gardner, 2008). In South Africa, housing affordability declines drastically outside of households that fall in the full subsidy eligibility band.

The availability of shelter products and the financing options obtainable also influence the effective demand for housing. Options are limited for low-income households, especially those employed in the informal sector. Housing microfinance provides a channel through which effective demand can be increased (Krishan, Ramji and Taishi, 2007).

2.2 Incremental Building and Financing

Economic and population growth, coupled with rapid urbanisation often leads to an inability to meet the demand and need for affordable housing; resulting in a majority that builds their own houses, incrementally. This practice of self-building has historically been popular amongst rural dwellers that use locally available materials to build and extend their homes (Kihato, 2013). Building strategies of informal and slum dwellers have followed these preferred patterns, as shown by research from 1960s onwards (Ferguson and Smets, 2010).

Incremental building to improve the size and quality of a home has its own creative and strategic process that can take years or decades to complete since it is carried out stepwise to fit the livelihood strategies and realities of the poor. Improvements are carried out as families grow and resources become available. This means there is a trade-off between other household needs and resources required for incremental building. According to Smets (2006), housing is a process that is dependent on a household's priorities and not a product with a physical end value.

Since the rise of neo-liberalism, access to traditional mortgage finance has failed to improve the living standards for many low-income households. This is because households are expected to help themselves as land speculation and prices have increased; yet, these same households do not qualify (or want) long-term loans that are not appropriate for their situation (Ferguson and Smets, 2010; Smets, 2006). While conventional finance is intended for the purchase or construction of a completed unit, incremental building requires incremental financing (Smets, 2006).

Property markets are characterised by expensive and costly processes in the formal sector to register for property rights, transfer taxes and land-use development amongst other red tape measures; as well as a poorly functioning rental market unavailable in emerging markets.

Households face instability of future income streams, making long-term mortgage loans a risky choice; dwellings that do not fit the formal building standards; affordable housing projects that fail to fit the requirements of households; and governments that struggle to keep up with the demand for subsidised housing (Ferguson, 2004; Merrill and Mesarina, 2006).

Ferguson and Smets (2010) note that homes and cities are built the way they are financed. Access to finance can therefore increase the scale and efficiency of building processes of the poor that currently take a long time. The challenge that exists is moving away from the traditional mortgage finance blueprint, characterised by large sums of funds and long-term repayment periods (10 to 30 years), towards a product that does not discriminate against the poor. This needs to be translated into terms and conditions that are both lender and borrower friendly (Smets, 2006).

Access to housing microfinance has an effect on the residential mobility amongst low-income households, which in turn influences the housing crisis. Migration from rural areas to urban areas and consequently from renting to eventual ownership leads to low levels of mobility within poor households. Poor households would rather make improvements to their existing homes than move to a new home. Datta and Jones (2001) believe this is due to a physical, social and economic struggle that poor households experience during the ownership process. According to Krishan, Ramji and Taishi (2007), the high importance placed on the economic and social networks of communities and neighbourhood ties to the livelihood of individuals and beneficiaries are the reason for this. Ultimately, housing microfinance is a finance instrument that can create a dynamic and non-exclusionary market for the poor.

Funding for incremental building is constrained by available household finance (savings, pension funds, overpriced credit from informal sources, savings clubs, etc.) and the use of microenterprise finance (Ferguson, 2004). According to Kihato (2013), 15 to 40 per cent of general microfinance loans are used for housing development, which can be seen as an attempt to convert households into assets capable of generating a profit.

HMF is a product that has managed to match the incremental building and home improvement practices of the poor, as households move from title to lot, to makeshift shelter, to permanent homestead to expanding this homestead, to lobbying for government services (Ferguson and Smets, 2010). Its objective is to support this process with consecutive small,

short-term loans, ultimately servicing a large portion of low-income households that cannot afford large, long-term mortgage loans. This is to effectively speed up the entire building process and provide an improved station for at-home provision of goods and services (Merrill and Mesarina, 2006).

2.3 Housing Microfinance

In principle, HMF is the product that best fits the progressive building patterns of lower-income households, and the characteristics of the broader housing market in emerging markets (Ferguson, 2004). If successfully scaled up, HMF can have a significant impact on broader developmental goals.

Aiming to achieve a double bottom-line of social performance and profitability, HMF has evolved into a combination of housing (or mortgage) finance and microfinance (or microenterprise finance); and sits between the characteristics that define these two theories. HMF does not finance income-generating activities meaning it does not directly translate to an increase in income to use for repayment of the credit. HMF does however lead to savings in the cost of repairs and renovations through housing consolidation (Smets, 2006).

The importance of housing is less appreciated since it is not an obvious productive asset. However; the ability of HMF to help meet the effective demand for housing within low-income households has been identified. Smets (2006) states that housing provides more than just shelter; he highlights that it is a commodity that also offers social security to individuals and households. Social security may come in the form of an income-generating space (shop, renting out, and workshop); collateral to assist in increasing one's asset base; community status and a cultural homestead amongst others (Smets, 2006).

From the supply side, financial institutions that target low-income households can use HMF as a business development strategy (Ferguson, 2004). These institutions can use the HMF product to diversify or expand their client base, increase loyalty and effectively deepen the quality of their client relationships (a backbone of the microfinance function).

2.3.1 Defining Housing Microfinance

The traditional mortgage market targets middle to high-income households, and does not exist for poor households. Unless repayments are stretched over a period of 10 – 30 years (a duration too risky for beneficiaries, investors and commercial banks), poor people cannot afford to borrow sufficient money to finance fully completed homes (Daphnis, 2004). It is from this strain that HMF has advanced into a product that is able to cater to all parties, by borrowing from tested methods of delivering microfinance services to the poor and traditional mortgage finance.

Housing microfinance can be defined as:

“...Any micro financial tool to support investment in the components of housing, including land purchase or access, provision of or improvement to services, full or incremental house construction, renovation or maintenance” (Daphnis, 2004).

It is “a subset of microfinance, designed to meet the housing needs of the poor and very poor, especially those without access to the banking sector” (Merrill and Mesarina, 2006:3).

It is the inception of housing finance and microfinance and aims to prove that the housing needs of the poor can be achieved in a way that is affordable and economically viable.

Daphnis (2004) distinguishes between two definitions that illustrate the universe of HMF activities, namely: a product-centred definition and a provider-centred definition. The product-centred definition identifies HMF as financial services that have adapted methodologies from the microfinance revolution in order to allow poor and low-income earning clients to finance their housing needs (Daphnis, 2004). The provider-centred definition takes a broader view and includes all housing services offered by microfinance institutions; which have not necessarily adapted key features of the traditional microfinance model (Daphnis, 2004).

Smets (2006) argues that in certain instances the terms and conditions attached by providers of HMF loans are in conflict with the needs and livelihood strategies of the poor. Practitioners struggle to “think small” and strategies tend to neglect needs of the demand

side. This is in line with Bateman (2010) who views microfinance in general as a poverty trap and anti-developmental policy although it potentially enhances welfare through the injection of credit to low-income households.

2.4 Key Features of Housing Microfinance

Focus has been on the supply side of the equation in an attempt to prove that effectively formed finance structures can contribute towards improved housing for all. However, it is important to place more emphasis on the demand side factors at play. Datta and Jones (2001) highlight the possibility that many programmes are not designed for household needs and may not be as socially progressive as they claim. These programmes may be re-creating poverty in a new form. A look at this architecture and an understanding of the housing needs of low-income households is crucial.

Target Clientele

HMF targets existing microfinance clientele: low-income earning and poor households that do not enjoy access to traditional housing finance. Unlike microenterprise lending, HMF also targets salaried individuals in addition to self-employed entrepreneurs. Conditions for salaried individuals usually include a payroll deduction which reduces the monthly transaction costs for lenders (Biitir, 2008).

Purpose

HMF loans are used for:

- Purchase of a lot
- Home improvement and incremental building
- New construction on a lot already owned by the household
- At-home production and storage (Merrill and Mesarina, 2006)

Datta and Jones (2001) argue that housing finance should not only refer to ownership, but also incorporate renting. One cannot assume the route desired by all households is moving from renting/sharing to ownership.

Loan Size

The sizes of loans vary, but are usually 2 – 4 times larger than an average microfinance loan. This is typically between US\$100 – US\$10,000 depending on a variety of factors including the borrower's capacity to repay the loan (Kihato, 2013).

Repayment Period

The repayment period of the loan is relatively shorter than a typical mortgage, but longer than a general microfinance loan. Depending on what the loan is being used for, this can be between 2 – 24 months for home improvement; and 2 – 5 years for the purchase of land, or construction (CGAP, 2004).

The repayment period and loan size differs between organisations, cultural settings and countries – as different socio-economic conditions influence the product. Affordability ratios used are similar to traditional mortgage finance – with a maximum of 20% - 30% of income allowed for housing repayments; and 40% allowed for all debt payments (Ferguson, 2004).

Interest Rates

In order to remain sustainable while operating in a risky market, interest rates need to reflect the risk and administrative costs. Loans are priced to cover the real long-run costs of providing the services, which includes operational and financial (Daphnis, 2004). At the same time interest rates need to speak to the repayment capacity of their clients, whose interest-rate-sensitivity increases with the loan size (Biitir, 2008).

In theory interest rates for HMF loans should be in line with micro-enterprise loans; however, evidence suggests that interest rates may vary from 15% to 45% plus inflation (Ferguson, 2004). Depending on the HMF approach used, funding sources, administrative costs and risks interest rates may be in line with micro-enterprise loans, but may also be significantly higher or lower (Biitir, 2008).

Eligibility Criteria and Collateral

Most loans are unsecured however substitutes for collateral are sometimes employed to safeguard loans. These include the use of co-signers, social or real guarantees and compulsory savings. In certain instances, a formal ownership of the dwelling or land is required; however, the property itself is not always used to secure the loan (Kihato, 2013). With this, the process of eviction when loans are tied to the security of the house, and default is eliminated (Tomlinson, 2007).

Savings is a feature of many HMF programmes that requires members to save for a period of time, effectively acting as a signal of their creditworthiness, and sometimes used as collateral (Ferguson, 2004). According to Datta and Jones (2001), an understanding of how low-income households save would assist in developing programmes that potentially use saving methods as the core vehicle, rather than a means to credit.

Individual vs. Group Lending

The traditional enterprise-microfinance practice is to lend through group schemes – where members of the group are jointly liable for the loans that they take out (Abor, 2011). With this process members of the groups self-screen and monitor themselves usually based on perceptions of good integrity and the belief that they will honour their obligations.

Group lending practices build social capital – as members have an incentive to pay off their loans on time. However, Datta and Jones (2001) warn against assumptions made equating group lending practices to building social capital. They argue that programmes with group-lending practices run the risk of turning economic exclusion into social exclusion; in doing so aggravating vulnerability.

Group lending practices in HMF are not as appropriate or easily applicable with most providing loans on an individual basis in an incremental manner. Holding a group liable for significantly larger loan sizes over longer repayment periods has proven to be a difficult task; and too much of a risk for both lenders and borrowers alike. However, income-level seems to impact the strategy, as institutions that do offer group-lending schemes target the poorer

households in rural communities who face different economic and cultural environments (Biitir, 2008).

2.5 Existing Approaches to Housing Microfinance

HMF is a child of the microfinance revolution and through the process of learning from it. Different approaches to HMF have emerged.

2.5.1 Microcredit to Housing Finance (MCHF)

Microcredit to Housing Finance (MCHF) is a HMF strategy that deals exclusively with finance aimed at increasing the economic opportunities for the socially and politically marginalised groups in society (Smets, 2006). The MCHF approach originates from microfinance institutions that saw a large part of their micro enterprise loan portfolios used for the construction of new housing, home improvement or the connection to basic infrastructure showing a strong link between home and income generating activities. MCHF approaches can also be a response to existing microfinance clients with demand for housing loans (Merrill and Mesarina, 2006).

This approach is built on the idea that the poor are bankable, and access to credit and saving deposit facilities will contribute towards improved livelihoods and sustainable living (Smets, 2006). The guiding belief with this approach is that access to credit is the driving constraint and not the cost of money. Microfinance institutions that have followed this approach have added HMF products to their loan portfolios, with minimal added technical assistance.

2.5.2 Shelter Advocacy to Housing Finance (SAHF)

The SAHF approach originates from advocacy movements that view shelter as a basic human right and therefore combine HMF with welfare or social development initiatives. This approach defends equitable access of poor communities to land and shelter, adequate infrastructure and basic facilities. These movements evolved through the realisation that economic empowerment is key and consequently developed microcredit programmes that aim to assist the poor in accessing land and shelter (Smets, 2006).

Since this approach targets the poorest of the poor and the homeless, the bulk of their clients are economically inactive and disenfranchised. Its primary aim is to empower community members by addressing the structural issues of poverty (Smets, 2006). The approach focuses on the human development process; and sees access to resources as the primary constraint in alleviating inequality.

2.5.3 Stand Alone vs. Linked Housing Microfinance

Stand Alone HMF Services and Linked HMF Services are two ways that institutions can provide a HMF product each with its distinguishing characteristics.

HMF as a stand-alone product provides a loan alongside other microfinance or housing finance products but independent of them. This means HMF loans are provided without any prior knowledge of a client's credit or savings history with the institution (Ferguson, 2004). This approach is used as a tool to manage risk by diversifying the product line, as well as retaining clientele and increasing the volume of the client base (Daphnis, 2004).

Linked HMF is an alternative approach used by general micro finance institutions (MFIs) that provide a housing loan as part of its graduation process. Clients can apply for a HMF loan once they have established a good history with existing loans or savings. The loan is effectively used as a reward for good standing (Daphnis, 2004). Another way to use HMF as a linked product is through savings requiring potential clients to save a specified amount for a specified period of time that approximates the future debt service (Ferguson, 2004). MFIs are able to retain their clients, create a personalised credit history and take steps towards long-term asset building for their clients.

2.5.4 Technical Assistance

Many providers of HMF provide technical assistance and support as an integral part of their product. This may include assistance with land acquisition, registration processes and legal documentation and process, as well as construction assistance and supervision (Biitir, 2008; Daphnis, 2004). Types of construction assistance range from pre-loan help (budget,

construction design and feasibility of proposed improvements, preparing cost estimates and education) to post-loan supervision, construction oversight, and assistance with materials and pre-negotiated supplier discounts (Ferguson, 2004).

At the same time, many institutions do not provide technical assistance, and view it as an extra cost and a deviation from the purpose of HMF. According to Daphnis (2004) there is no empirical evidence to date that shows providing additional support is more effective, leads to increased loan repayments and greater financial performance; however, Ferguson (2004) shows that providing technical assistance comes with a number of benefits.

The reputation of institutions can be linked to the quality of housing (the end-product) and construction assistance can prevent any negative consequences. Extra assistance helps households to focus on long-term plans, rather than the cheaper, short-term fixes; and ensures these are done in the most sustainable and efficient manner (Ferguson, 2004).

2.6 Constraints Affecting the Demand and Supply of HMF

Providers of HMF can be separated into three tiers. There are first-tier institutions that are regulated as banks (commercial and microfinance banks); second-tier institutions include non-bank MFIs and housing focused MFIs and are regulated as non-banks. The third tier of providers include unregulated informal moneylenders, mutual societies and locally established savings groups (Gardner, 2008).

HMF remains a boutique product, in spite of the numerous providers and its potential to make a large impact in the affordable housing market. Certain challenges prevent HMF from reaching the scale required to ultimately affect housing trends and living conditions on a national level.

Merrill and Mesarina (2006) separate these constraints into supply and demand factors; as well as institutional, financial sector and policy levels. Ultimately, this illustrates the reality that HMF cannot operate in a vacuum, and depends on the effective functioning of different stakeholders at all levels. Overcoming some of the challenges highlighted below will allow

providers of HMF to achieve their objectives to cater to the needs of beneficiaries in these programmes.

2.6.1 Supply Side

Institutional Level

- Weak understanding amongst MFIs, shelter-focused NGOs and donors alike on how to start providing HMF loans such as shifting from group to individual-based lending methodologies.
- Limited financial knowledge and skills amongst shelter-focused NGOs result in a high dependence on donor funds and limited foresight.
- MFIs choose between providing micro enterprise or micro housing loans, due to limited available commercial financing options for funding.
- Insufficient market knowledge and meaningful understanding of all stakeholders.
- Poor client retention strategies.
- Inefficiencies in collaborating with government results in government subsidies crowding-out any potential for HMF to enter the market with beneficiaries opting for cheaper but lower-quality housing options.

Financial Sector

- Many emerging economies face illiquid markets, and a financial sector that is not fully developed.
- Limited options lead to difficulty in matching assets and liabilities. There is a limited availability of medium to long-term funding for risky HMF loan products. Funders are more inclined to invest in enterprise microfinance loans that generate income.
- Dislocation between microfinance institutions, commercial banks and capital market institutions (pensions and insurance).
- Capital markets that are not fully developed limit secondary market financing.
- Microfinance regulatory and legal frameworks that have not been sufficiently developed to support financial innovation.

Urban Housing Policy Level

- Urban housing policy that does not promote access to sufficient land, guarantee secure land titles and instil an effective title registration system.

- Legislation and policy that does not support or encourage incremental building practices.
- Government's inability to supply sufficient infrastructure and develop an effective administration processes due to corruption or inefficiencies.

2.6.2 Demand Side

- Inability of clients to afford the loans and limited savings capacity. High interest rates due to the nature of risk eliminate the very poor households from participating in HMF programmes.
- Limited awareness and understanding of microfinance.
- Merrill and Mesarina (2006) highlight that HMF will only be maximised in an environment where households have an incentive to solve their own housing problems. This speaks to an incentive to borrow and save for housing needs; and government support that does not work against this.
- Beneficiaries struggle to secure land titles that verify legal ownership (and can be used as collateral), which increases their risk profile when applying for HMF loans.

(Merrill and Mesarina, 2006; Kihato, 2013; Krishan, Ramji and Taishi, 2007)

2.7 Household Welfare

'Welfare' is a state of a person's well-being; with economic development focused on increasing this wellbeing through the reduction of poverty, or the promotion of social welfare. A primary channel to achieving this is improving living conditions or welfare of individual households. In order to assess the impact of housing microfinance on household welfare, the different welfare indicators and measurements need to be considered. This section therefore looks at the discussion on welfare measures, in order to build a conceptual framework outlining the effect of housing microfinance on household welfare.

Standard economic theory assumes the objective of any household is to maximise utility given certain constraints; with utility relating to household welfare. However, because utility is an unobservable construct, what is required are observable indicators such as household

income and consumption expenditure (Glewwe, 1991). These indicators are able to serve as a measurement for welfare which is derived from the consumption of goods and services, and affected by both physiological attributes (age, sex) and environmental factors (Grootaert, 1983).

Although the preferred measure in developing countries is the aggregate of a household's consumption expenditure (rather than income), Akotey and Adjasi (2016) highlight an alternative approach. Asset-based indicators widely used in welfare literature maintain a limited application to microfinance services. Sahn and Stifel (2003) argue that an asset-based approach is more appropriate for low-income regions and anti-poverty programmes. They highlight not only the difficulty in collecting consumption, expenditure and price data in developing economies, but also the merit of shifting the focus from expenditure-based measures towards an asset-based focus. Because meaningful poverty alleviation occurs through a household's ability to accumulate productive assets, programmes should focus on the economic and social pressures that lead to asset inequality rather than expenditure levels. Grootaert (1983) stretches this to not only include the accumulation of assets but also the fluctuation of income, vulnerability of a household to external shocks, and intergenerational transfers.

Welfare, of course – is not a linear concept but multi-dimensional in nature. Grootaert (1983) highlights human development indicators (health, education, nutrition, fertility, infant mortality) as illustrative of its multidimensional nature influenced by access to public services (schools, health facilities, piped water, etc.) and not necessarily an increased income.

Krishnan (2015) takes a more subjective multidimensional approach to welfare measurements; creating a space for not only objective indicators (income or wealth); but qualitative or even quantitatively based on the perceptions of individuals and what is deemed important to them. This is based on the idea that individuals are the best judge of personal wellbeing, which can be assessed through surveys and subjective data (physical, social, emotional cultural conditions).

Glewwe (1991) highlights the importance of understanding the socioeconomic characteristics of developing countries, in order to realise the determinants of household welfare levels and assess the impact of developmental policies. This is in line with welfare theory that sees the

translation of consumption into welfare units as a function of various physiological characteristics (age, sex) and environmental factors (Grootaert, 1983). He groups explanatory variables into five categories: household consumption variables, regional dummy variables, physical assets owned by the household, human capital of household members and community characteristics.

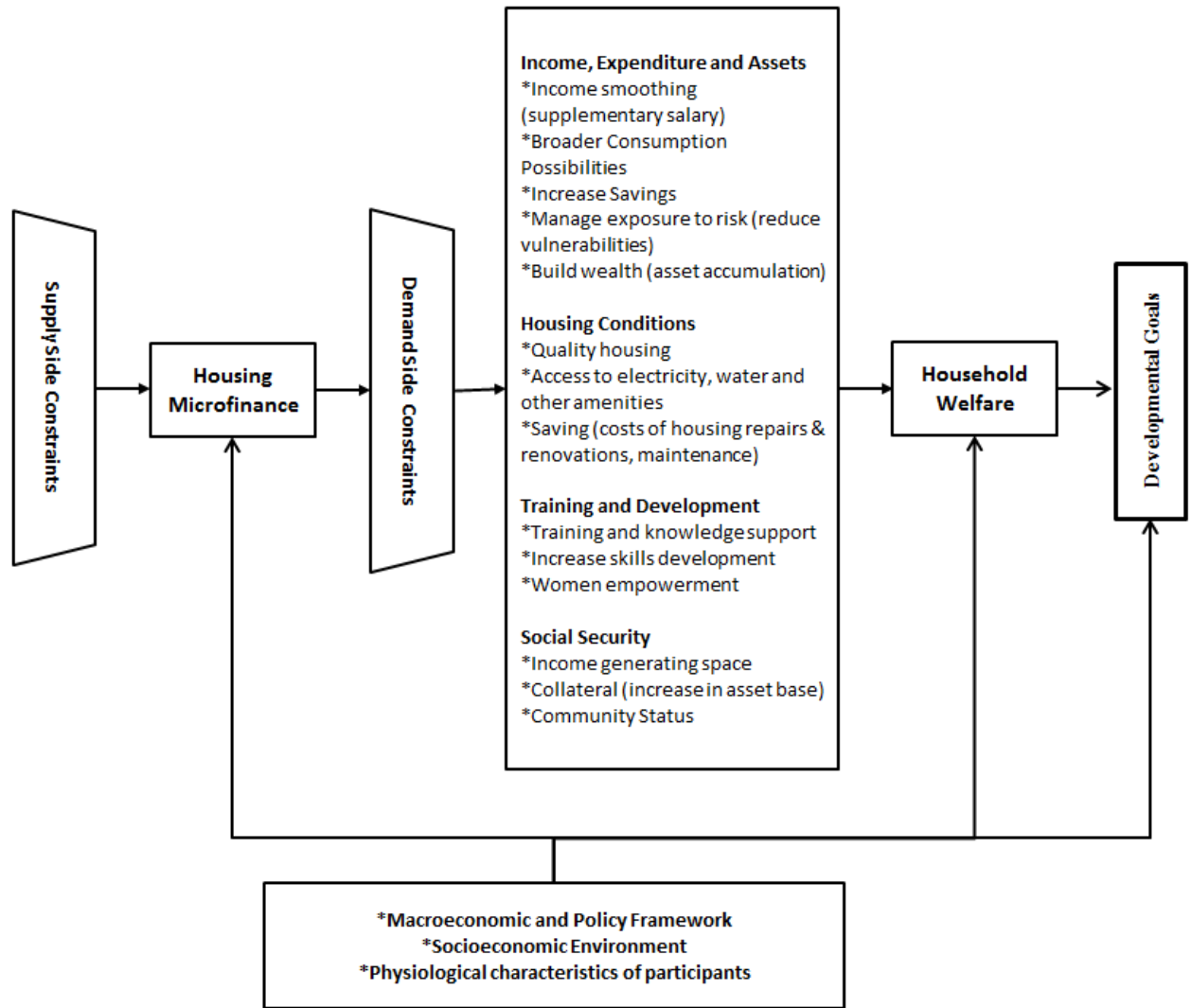
It is clear that no single measure stands to define this multidimensional concept, but indicators need to be inclusive of both objective and subjective elements relevant to the socioeconomic environments of the communities participating and reflective of the objectives of the relevant interventions. Akotey and Adjasi (2016) highlight the welfare impact variables through which microfinance services are built upon as substantiating income, employment generation, consumption smoothing and gender empowerment. These productive loans not only increase per capita household income; but also through this, contribute to improving the multidimensional wellbeing and living standards of poor communities. Finance provides households with funding in a timely manner to acquire essential assets and meet certain unexpected expenses, assisting in managing exposure to risk.

2.8 Effect of housing microfinance on household welfare: A Conceptual Framework

In building a conceptual framework on the effect of housing microfinance on household wellbeing, it is understood that “effect” denotes a change that occurs as a result of an intervention. Combining the literature discussed, this section builds a conceptual framework that outlines the channels through which housing microfinance may have an effect on household welfare highlighting external environmental influences that affect the outcome of these interventions.

Households include both the extremely poor that are unable to obtain land and build their own homes, and low-income groups that build incrementally. The effect of housing microfinance on household welfare is affected by demand and supply constraints as well as the macroeconomic and policy framework. In turn, the process of transforming of HMF services to the multi-dimensional concept of household welfare is determined by the socioeconomic environment and physiological characteristics of participants.

Figure 1 – The effect of housing microfinance on household welfare: a conceptual framework



Source: Author based on literature

The conceptual framework outlined above highlights the key indicators of household welfare expected to be impacted by HMF. Key indicators have been grouped as income, expenditure and assets; housing conditions; training and development; and household social security – each being measurable qualitatively or quantitatively on their impact on household welfare. However, this impact in return is affected by demand and supply side constraints, the macroeconomic and policy framework, socioeconomic environment, and physiological characteristics of participants all of which are dynamic and vulnerable to external shocks that influence the economy and its institutions.

HMF may affect household welfare through the incremental injection of capital to supplement existing salaries and assist in income smoothing – as low-income and poor households are characterised by irregular streams of revenue. This results in broader consumption possibilities for a household, increased ability to save and build wealth through asset accumulation; as well as manage exposure to risk, thus reducing household vulnerability. The combination of a household's income, basket of expenditure and asset base can be used as indicators to determine whether household welfare has been impacted positively through this channel.

A strong objective of HMF is to improve household quality and living conditions by facilitating the incremental building process. In addition to expediting the process of incremental building, which can take decades to complete, this includes providing sufficient quantities and access to superior quality construction material (which reduces the costs of repairs, renovations and households' maintenance in the future); as well as access to water, electricity and other amenities. Low-income households are able to spread the costs of incremental housing over a number of years through HMF products, and also expedite the building process.

Many HMF programmes provide extra support in the form of training and development, which leads to an increase in skills and women empowerment in the household as female household members can contribute towards more income generating activities. Improved social security leads to an increase in domestic peace and household welfare. This can be through the ability to create an income generating space (home-based shop, self-employment, workshop, rentable parts of the house), or build an asset base that may be used as collateral. Social security can also be affected through the more intangible effect on a household's

community status which is given a high weighting in low-income or rural areas that place a high importance on community collateral.

The next section explores the empirical literature on housing microfinance, using the conceptual framework formulated above as a theoretical base.

2.9 Empirical Literature

Low-income households rank housing as a highly valuable asset. Krishan et al. (2007), confirm that households view this as higher priority than education and health in developing countries. A study by Krishan et al. (2007) on a MFI in India shows that 76% of beneficiaries ranked housing as most important to them, with 18% already using loans intended for income-generating activities on housing.

The objective of HMF is to facilitate access to housing through finance, with the intention of increasing household welfare. There has been a growing base of research and empirical evidence on the effects of microfinance; however, studies that focus on housing microfinance are limited. This section will explore the available empirical literature, pulling from the broader scope of microfinance, which continues to finance incremental housing as funds are rerouted to sustain the housing process (Kihato, 2013).

Empirical literature on microfinance as a tool for household welfare creation continues to be characterised by conflicting views; and can be separated into two main schools of thought. One group shows microfinance tools as having a positive and significant outcome to household welfare through its ability to inject credit (Yunus, 2004). The other sees no significant impact and blames this on the high interest rates, small loan amounts and frequent repayment periods that characterise this product.

Bateman (2010) attests that the injection of credit to low-income earners assists in the creation of microenterprises, employment generation and consequently extra income for poor households. That is, microfinance allows households to smooth out income and key consumption expenditures. However, along with Coleman (1999), Bateman (2010) provides evidence that microfinance tools can actually trap borrowers in vicious cycles of debt and are

essentially poverty traps and anti-development policies doubting the ability for microfinance to lead to sustainable increases in household welfare.

Conflicting empirical evidence has been ascribed to weak methodologies and data quality used in microfinance impact evaluations, questioning the reliability of results and interpretations. Coleman (1999) states that in addition to different methodologies, studies fail to provide adequate control for selection bias and endogeneity, and are not clear on what actually constitutes a “positive impact” to household welfare. The differences in bias and understanding have lead studies to use a wide range of variables and factors to measure concepts that consist of many different and connected parts; the result being a collection of conflicting ideas.

Although housing is not traditionally seen as a productive asset, empirical evidence shows that HMF can lead to income generation. SEWA, a microfinance institution in India - reported an average of 35% increase in small enterprise weekly revenue due to the Parivartan slum-upgrading programme (Krishan et al., 2007).

The success of microfinance is in its development with specific needs and strengths in mind – for example, its application of the incremental building concept to the design of HMF products. The result is that housing improvements are made sooner, as households do not have to wait until they can afford a whole-house mortgage. The key is to “provide ‘housing finance’ incrementally and in ways that support urban livelihoods and asset formation rather than increase vulnerability through debt; and which build social capital rather than individualism and mistrust” (Datta and Jones, 2001:335). Ultimately, what is required is a broader understanding of “housing finance” and a deeper knowledge of how low-income households incorporate housing finance (from informal sources or formal programmes) into their housing and income strategies (Datta and Jones, 2001).

Smets (2006) warns that many formal microfinance institutions tend to become more supply driven, while the informal shelter-driven (generally NGOs) maintain their demand driven characteristic. Lessons from The Dharavi Scheme in India show how conflicts between stakeholders can result in the pursuit of profit instead of social investments; while the inappropriate architecture of a housing fund led to the financial crisis of the uTshani fund in South Africa (Smets, 2006). Schemes result in a neglected demand side and a supply-side that

is pursued with inappropriately big housing loans and long-term repayment schedules (Smets, 2006). This is different from any incremental financing strategy that can support the incremental building practices of low-income households.

Research and experience shows households build wealth through homeownership, and the continued investment in this sector is essential for the performance of national economies. Empirical evidence suggests that in spite of the immense demand for housing finance solutions, institutions are reluctant to adopt HMF as part of their integral strategies, or even market the product thereby limiting the potential impact the product may have (Ferguson and Smets, 2010).

A study by Accion on 10 Latin American MFIs highlighted that although HMF has shown signs to increase customer loyalty, micro-business lending continues to be the primary focus of MFIs (Ferguson and Smets, 2010). In another study by GmbH on 25 MFIs, the majority (17 out of the 25) had an HMF loan product; however, their holdings in the overall portfolio remained limited due to financial constraints, as well as limited institutional capacity and technical know-how. It is understood that the microfinance sector cannot meet the demand of housing in developing countries however; overcoming these constraints has the potential to scale up the provision of this product.

2.10 Chapter Summary

The review of literature in this chapter has focused on housing microfinance and its effect on household welfare, both theoretically and empirically. Certain important concepts, such as effective demand for housing and incremental building and financing were explored and used as an introduction to the field of HMF.

A definition for HMF was developed, with its key features identified and discussed. Demand and supply side constraints were then highlighted and used to build a conceptual framework from which research and analysis will build from.

3 RESEARCH METHODOLOGY

The aim of this research is to identify how housing microfinance contributes towards improved living conditions and welfare of low-income households through a case study analysis. This chapter outlines the methodological framework used to identify and access data for the study. It includes a discussion of the qualitative paradigm and its rationale, looks at the research methods chosen, and provides an overview of the research design including procedures followed. It outlines the instruments and techniques used for data collection, identifies their sources and concludes with a discussion on the methods used to analyse the data.

3.1 The Qualitative Paradigm

This research employed a field study to explore the effect of HMF on welfare of low-income household families.

The literature review underscored the concept of HMF and its theoretical link to household welfare. Secondary data was compiled through academic and commercial databases, journal archives, official reports and online material to gain insight into the concept of HMF, understand the current knowledge and available empirical evidence, assist in formulating a conceptual framework that underpins microfinance in general and the relationship between HMF and welfare in particular.

The research utilised perceived experiences of HMF beneficiaries as the core data of study.

According to Yin (2014:16) *“A case study is an empirical enquiry that investigates a contemporary phenomenon (the “case”) in depth and within its real-world context especially when the boundaries between phenomenon and context may not be clearly evident”*.

Undertaking a case study is a preferred method when answering “how” or “why” questions as it allows the researcher to incorporate subjective narratives of first-hand experience in formulating one story using multiple sources and perceptions (Yin, 2014). Case studies are an empirical approach used to answer dynamic or complex research questions involving

variables that may not be obvious, or include a level of social phenomena (Yin, 2014; Remenyi, 2013). A case study approach becomes an appropriate research method as it allows enriched understanding of the human experience within a specific context.

Due to time and resource constraints, the one case (as opposed to multiple) focussed in detail on the subject matter within a controlled environment and prevented the need to compare and contrast different situations to avoid diluting issues at the core of the narratives. A single case study is acceptable to test a well-formulated and acknowledged theory – in this case, the positive effect of HMF on household welfare (Remenyi, 2013). A possible limitation with the one case approach is the singular view obtained; however, one case can be unique or representative of a category of situations providing a contribution to research in both instances (Remenyi, 2013).

Corresponding with various microfinance institutions in South Africa proved to be a challenging task intensified by the limited number of programmes that specialise in HMF or provide a housing loan. Ikhayalami was identified as suitable for the case study since the organisation was willing to partake in the research while meeting the suitability criteria vis-à-vis relevant industry sector, HMF product on offering and approach, location and accessibility to employees and programme members.

The Ikhayalami loan finance programme caters to people who fall outside their community led subsidised projects. Their HMF product responds to the demand for individual household upgrades as well as safer soup kitchens, crèches and houses of worship in informal settlements. The objective of the Ikhayalami loan finance programme is to satisfy this demand by granting access to credit for households and organisations that want to purchase affordable products and housing improvements.

Ikhayalami is located in Cape Town, South Africa and therefore was the most accessible. The organisation views access to infrastructure as a basic human right but recognises that this is not the case for millions worldwide. This is similar to a Shelter Advocacy approach of housing finance that would allow insights from an institution whose mission is to provide sustainable and affordable housing solutions for low-income and marginalised communities.

The ultimate objective of HMF is to improve the livelihoods of low-income households, a concept most valuable from the perceptions of households to whom this product aims. To capture these insights the research model followed a qualitative nature using open-ended interviews for primary data collection. According to Creswell (2012), a qualitative approach allows capturing voices and experiences of participants from their context.

According to Leedy (1993), qualitative research provides first-hand experience and the most meaningful information with ability to extract high quality data from a limited number of people. Creswell (2012) suggests qualitative research is best used for exploratory research where the focus is on “how” rather than testing specific variables. The approach works where the objective is to compare existing theories to real-life narratives (Morse, 1991).

Both the beneficiaries and employees of Ikhayalami loan finance programme are the main unit of analysis and therefore play a central role for data collection in their natural settings. Using qualitative techniques, indicators are identifiable through deeper understanding of experiences and stories of individuals rather than a restricted analysis of a limited set of variables. Through its story telling capabilities, qualitative research can be viewed as “hypothesis-generating” rather than “hypothesis-testing” and aims to identify themes, or general patterns that emerge from the data (Merriam, 1988:3).

3.2 Research Design

The nature of the study specifies the type of information to be collected from participants prior to the study. However, because qualitative research methods are emergent then prefigured, flexibility needs to be allowed (Creswell, 2012). The open-ended questions were flexible during the interviews to capture the story telling capabilities of qualitative research.

Adoption of a triangulation method in data collection allowed multiple data sources required for case study research. The instruments used for primary data collection consisted of email, telephonic and face-to-face correspondences. Data collected were therefore audio, visual or comprised only of text.

Primary data was collected from employees and beneficiaries of Ikhayalami's loan finance programme using observations, pictures and semi structured individual interviews (See Appendix 1 and 2). The research focused on demand and supply side constraints as well as the effect on income, expenditure and assets; housing conditions; training and development; and social security.

The administration of the interviews involved individual field visits to the homes of beneficiaries and at the site of Ikhayalami's organisation in order to facilitate observations and maintain a natural setting. Secondary information on organisational documents provided by Ikhayalami (loan spreadsheets, client information and internal projects) and public research already conducted by Ikhayalami and their website supplemented the primary data.

Semi-structured interviews consisted of open-ended questions that allowed for flexibility, opportunity to probe for more information through engaging with participants, prevent the limitation of answers and benefit from the story telling ability of the data collection tool. Face-to-face interviews allowed the expected higher response rate as well as the opportunity to clarify questions with the respondents.

Although face-to-face interviews allow for a high level of adaptability, they are prone to bias and leading. In order to reach a larger range of discussion and accommodate the one-on-one bias, interviews with focus groups were planned. A focus group is able to generate information on group narratives and experiences and can clarify or extend data collected through other methods. Because a focus group is a discussion, it allows collection of data in both the form of opinion or knowledge from each informant involved, as well as the dialogue and debate between those present (Remenyi, 2013).

In conducting interviews, beneficiaries were asked whether they would be available to participate in a focus group to discuss their experiences further. The initial difficulty in organising face-to-face interviews was an indicator that focus groups would not be a viable option given the difficulty in arranging a pre-determined time with members. This proved to be the case following the number of negative responses to participating in a focus group, as well as observations in body language that this may not be the ideal route for data collection.

The research design was therefore limited to semi-structured interviews with employees and beneficiaries of Ikhayalami. The main aim of the data collection was to obtain a perspective on the effect of HMF on household welfare from both the personal experience of participants and a higher theoretical understanding of Ikhayalami's employees. Questions therefore stemmed directly from the theoretical and empirical literature as well as the conceptual framework developed. This enabled engagement with existing literature, while directly exploring managerial perceptions and beneficiary experience.

3.3 Sample Size

As this is a case study on Ikhayalami's loan finance programme, the study population consisted of Ikhayalami's beneficiaries and managerial team, although a larger theoretical population exists of all households that have experienced a level of housing microfinance intervention. The organisation operates four microcredit programmes: Disaster Response, BT Enterprise Finance, Housing Microfinance, and a BT Upgrade Project. For the purpose of this study, the focus was on their housing microfinance programme, which targets any person who has a job, income and would want to upgrade their shack; and their BT Upgrade Project, which follows a housing microfinance model.

Ikhayalami provided a complete list of all members who had experienced some level of HMF intervention. Non-probability sampling was adopted where participants were selected through availability and willingness to participate, with the only criteria being a member of Ikhayalami's housing finance programme. This has the disadvantage of potentially misrepresenting the population as a whole as it is highly vulnerable to selection bias and sampling error; however, this method of sampling is ideal when focused on gaining a deeper understanding of the relationships among different phenomena, rather than generalising to a larger population.

More than 200 beneficiaries have passed through the programme since inception; however, only those beneficiaries of the housing microfinance programme were of interest to this study, forming our study population. Of these, the participants consisted of the households who were actively in a relationship with Ikhayalami, could be accessed logistically and in a timeous manner, and were willing and able to participate. These beneficiaries also had an existing

relationship with the loan officer and could easily be reached as they still had outstanding loans. Based on these inclusion criteria, the feasible population study size was 12 households. We collected information from all 12 households; and therefore conducted a census where the sample size and the population were the same, $n=N$. In addition to this, the whole managerial team were included in the study. This consisted of Ikhayalami's director, microfinance specialist and loan officer.

This study size was relatively small and may face limitations in terms of generalised outcomes; however, as mentioned previously, the knowledge gained from the participants through the qualitative techniques chosen will reflect an accurate story of the case study and a deeper understanding of the microfinance experience under study.

3.4 Data Analysis Methods

The analysis of qualitative data is a process that involves inductive reasoning to interpret and structure the meanings derived from data. The analysis attempts to understand and interpret the world of the participants as conveyed through their words. Thorne (2000) distinguishes between qualitative and quantitative data analysis in any study as explaining how something operates (explanation) as opposed to why it operates (interpretation); the latter being the process this research will follow.

Data analysis of a qualitative study is dependent on the actual data, as the process of collection and analysis occur concurrently (Thorne, 2000). Creswell (2012) highlights the personal lens through which data is filtered and interpreted. Personal bias is acknowledged and reflected upon since the analytical process influence the data considering the theoretical lens chosen to approach the phenomenon.

Open-ended questions were formed directly from the conceptual framework that was developed from the literature (See Figure 1). This tested the four channels identified as affecting household welfare (income, expenditure and assets; housing conditions; training and development; and social security); as well as the demand and supply side constraints, and external environmental factors.

The NCT model was used to work systematically through data analysis – noticing things, collecting things and thinking about things. According to Friese (2014), noticing things refers to identifying interesting things in the data when going through transcripts, audio files, field notes and so forth. Once things are identified, collecting things refers to naming and grouping themes that belong together – this is the beginning of the coding process, which was done manually. Thinking about things occurs throughout the process as one reflects on things that have emerged from the data and their relations to the research.

Data was analysed for content with the aim of interpreting emerging trends and concepts. Content analysis is the process of systematically analysing verbal or written communications to produce specific contextual insights where results support participants' own words (Thorne, 2000). Content analysis covered the data collection process, reflection over the conceptual framework and engagement with the text to extract trends and ideas.

Managers and beneficiaries were analysed separately, with themes coded then grouped manually and common or recurring trends identified and interpreted in relation to the created conceptual framework. Data analysis therefore confirmed or disconfirmed the conceptual framework, based on the views and perceptions of participants.

3.5 Chapter Summary

The above discussion has highlighted the methodological framework used to identify and access data for the study. It explored the qualitative paradigm and research methods used; highlighting Ikhayalami as the case study chosen to highlight the perceived experiences of HMF beneficiaries. Finally, an overview of the research design was provided, as well as instruments and techniques used for the collection and analysis of data.

4 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

This chapter describes analysis of data collected; develops connections between reviewed literature and what has emerged from the research and attempts to explain any differences or gaps. Using the concepts of synthesis and exploration, a comprehensive discussion of both the perceptions and lived experiences of housing microfinance participants will ensue. The empirical findings and existing literature is utilised to answer the research question effectively.

The objective of the study is to identify how housing microfinance contributes towards the living conditions and welfare for low-income households in the context of South Africa's housing market, characterised by low levels of affordability, insufficient housing delivery programmes for low-income households and poor living conditions.

Information was collected from both employees and beneficiaries of the housing microfinance institution, Ikhayalami as well as supplementary secondary data and field observations. Using a multiple case-study approach, the possible results could be a positive, negative or zero effect on household welfare through each of the channels identified in the conceptual framework.

This chapter will display the data collected while engaging in a comprehensive dialogue that pulls from said theoretical research and conceptual framework. Unavoidably, own bias will be rooted data filtration and interpretation, which is characteristic of qualitative research. As data collection and analysis are concurrent, this bias is acknowledged in addition to own observations and experiences during discussion.

Collected primary data were transcribed into an electronic format, key words and phrases tracked and patterns journalised in order to identify emerging themes and findings from the data. The classified results between managerial experience and beneficiary perspectives allowed identification of connections and differences between the two groups.

Of the 12 beneficiaries, eight were members of Ikhayalami's main "Housing Finance Programme", and the remaining four were members of their 'BT Upgrade Project'. The housing finance programme follows a model with a 20% deposit required, loan repayment

periods of 9 – 18 months, and interest rates of 3.5% which is high but cheaper than the housing sector.

The “BT Upgrade Project” is an initiative involving Ikhayalami, the city of Cape Town and external funders. The objective is to upgrade 72 shacks in Khayelitsha’s informal settlement, “Site C”. Using the housing microfinance model, shacks are upgraded to double storey brick houses with toilets, a sink, running water and a balcony; simultaneously creating space for courtyards and roads. Depending on the level of discounting received from external funders, land release credit and chosen structure size, the price for households can end up between 0 – 25% of the actual price. The payment structure includes an affordability assessment, two months deposit and an average of R500 – R700 per month for 40 months, with a 1% monthly interest rate.

The next sections provide deeper insights to resolve the research question set out. Using the dialogue collected, the researcher was able to do this objectively by building on established research and empirical evidence through the story telling ability of qualitative research.

4.1 Ikhayalami - Managerial View

The managerial view consists of Ikhayalami’s founder, microfinance specialist and loan officer who deal directly with the loan products and have close relationships with their beneficiaries. Ikhayalami follows a clear community-based approach with members of the community participating in construction projects, picking building materials and designing zone areas. Managerial members live in the same areas as beneficiaries which strengthens their level of relatedness and monitoring ability. This increases the trust between participants, reducing the potential of non-payment and strengthening the managerial commitment to household livelihood.

There was a strong view shared amongst management that housing microfinance does indeed improve household welfare and living conditions. This was the sole reason for introducing the housing microfinance programme to Ikhayalami’s existing product offerings, in 2012. The following are the main objectives of the housing microfinance programme:

- To enable families the means to vastly upgrade their standard of living by enabling them to access a loan to build a far safer and superior form of shelter than what is commonly available.
- To provide affordable access to credit to shack dwellers wanting to improve their quality of life.

Overall, the microfinance products developed addresses issues of financial exclusion amongst poor communities. There is consensus that through affordable credit, housing microfinance provides shack dwellers access to structures that are significantly better and safer than what is commonly available. This positively improves living conditions and household welfare.

“There is a critical need for families who live in informal settlements and have no other choice but to live in a shack, to be able to access affordable credit and a superior product... poor people have every right to improve their living conditions and their family’s safety.... through Ikhayalami, we offer them access to both” – Founder, Ikhayalami

In the broader context of South Africa, there is a sentiment that the housing microfinance programme has not been able to flourish due to the paternalistic welfare driven state and its housing subsidy programme.

“There is a critical need to build housing microfinance institutions outside of the subsidy quantum as all indications are that the State is curtailing its roll-out as they have acknowledged that it is unsustainable”. – Founder, Ikhayalami

The managerial challenges focused on these supply-side constraints, most notably the minimal funding opportunities that would enable existing microfinance institutions to reduce their heavy reliance on government and its indefensible subsidy paradigm. Heavy reliance and insufficient funding prevents the programme from growing to its full potential, and has the potential to cripple the poor in order to reach a level of sustainability needed for the institution to survive. Ikhayalami’s microfinance specialist mentions that they receive loan applications every month, but only have the capacity to finance two households per month. Ikhayalami currently use business funding to finance their housing microfinance programme

as they have no dedicated funding to scale up their HMF operations, which faces severe capital constraints.

In addition to funding, there is overwhelming consensus that administrative burdens and bureaucratic processes result in delays and poor service delivery because they involve the state. Issues such as re-zoning areas previously not meant for accommodation can take years, and delay initiatives backed by private institutions willing to fund projects. This was the case for Ikhayalami's "BT Upgrade Project".

Ikhayalami engaged with the community, conducted affordability assessments and started receiving deposits from households. However, only four out of the 72 planned upgrades have been complete due to difficulties re-zoning areas that have been occupied by these households for 30 years. This has resulted in putting the whole project on hold as microfinance institutions and funders wait for authority from the city while beneficiaries are left in the dark.

*"The city has tried to evict informal settlements, but they failed. In one day, a million shacks will go up. The city should recognise that this area needs to be serviced with water, toilets and electricity; but their system still shows it is a place for parking" –
Loan Officer, Ikhayalami*

Merrill (2006) highlights that "lack of access to urban land, scarcity of government supplied infrastructure, government failure to provide timely planning and zoning, and inadequate land titling and registration processes are all major depressants to both supply and demand of HMF".

In a later section, we identify how these supply-side constraints directly affect the demand side of housing microfinance. However, before moving on to the experience of housing microfinance beneficiaries, it is necessary to link the managerial view back to our conceptual framework and identify specific indicators that management has identified as relating to affecting the living standards and household welfare of low-income families.

4.2 Application to Conceptual Framework

There is an overwhelming consensus amongst the managerial view that the housing microfinance programme meets the needs of their target group. Although anyone with a level of income can apply, Ikhayalami describes its target group as “vulnerable households in informal settlements, the poorest of the poor that are exposed to harsher climates and struggles such as floods, fire and theft” (Loan Officer, Ikhayalami).

Four-proxy measures have a direct effect on household welfare and living conditions via housing microfinance. These measures were income, expenditure and assets, housing conditions, training and development and social security; each with a sub-set of associated indicators. Supply and demand-side constraints identified within a macro and socio-economic environment include policy framework and physiological characteristics of participants. In the next section, we analyse the data collected in relation to each of these indicators and measures.

Income, Expenditure and Assets

There were no indications that housing microfinance may affect household welfare through the incremental injection of capital to supplement existing salaries and assist in income smoothing, as loans flow directly into the upgrading of shacks. However, a parallel programme run by Ikhayalami and available to housing microfinance beneficiaries is their “enterprise finance” option.

Although this was beyond the scope of the research, there is a possibility that merely having access to this programme by virtue of an existing relationship and record with Ikhayalami can provide households the opportunity to benefit from an increased ability to save or build wealth through asset accumulation.

Housing Conditions

In line with the main HMF objective of improving household quality and living conditions, there is a clear difference in the quality of building material in comparing structures before and after upgrades have occurred. Most old structures use zinc, timber or scrap yard material.

All of these materials are cheap, flammable and offer little resistance flooding. The secure structures provided by Ikhayalami are fire and flood resistant and provide increased safety against theft.

“Our structures are fire and flood resistant and offer a far greater level of personal security for the household than do 99% of shacks that people live in” – Founder, Ikhayalami

When one shack burns, it affects 30 shacks as informal settlements are characterised by highly dense living arrangements within very close proximity. Inflammable materials play a crucial role in preventing shack fires from spreading rapidly.

There is a role for this industry to be regulated as there are clear trade-offs between access to cheaper shack materials (also provided by other housing microfinance institutions, many of whom are not registered) and safer, higher quality material. The sentiment is that many competitors are not concerned with the latter, and do not necessarily subscribe to the ethos of housing microfinance; that is, providing safe and affordable housing solutions for those in need. The high amount of activity exploits the poor and vulnerable households to generate a quick profit. This erodes the perception of the housing microfinance industry and its potential to make a material improvement in households.

There is a crucial welfare and social component when developing a programme for the poor, which aims to achieve both business and developmental outcomes.

“We tell them, when you have a problem - call us. When your house is leaking - phone us. We don’t check the contract, we just provide the support.” –Loan Officer, Ikhayalami

Training and Development

In addition to providing building materials, there was clear consensus of providing extra support, though views of what this “extra technical support” entailed differed.

While some were of the opinion that extra support consists of site visits and advice on the size and design of the upgraded shelter (construction support); others focused more on providing a needs analysis and affordability assessment as well as quotations on various options on the loan cost (technical financial support).

There was however, consensus on the flexibility to re-finance loans as providing extra support to their beneficiaries should they have difficulty in meeting monthly repayments.

“We give clients 9 – 18 months to repay, depending of their affordability assessments. We have a client whose contract expired years ago... she still owes us a lot of money. But we are working with poor people; we will still go and repair her locks.” –Loan Officer, Ikhayalami

Social Security

Housing microfinance impacts domestic peace and household welfare through increased social security, a concept given high value in informal settlements and among low-income populations. The managerial view identifies a direct and significant improvement in the social security of their beneficiaries and understands the importance placed on this by the poor communities in which they operate.

“There are clear indications that it improves the families’ sense of dignity, status amongst others in the community and is a catalyst for further upgrading and improvement”. – Founder, Ikhayalami

Another aspect of social security triggered by housing microfinance upgrades is the propensity to improve one’s surroundings and invest further in living conditions. This stems from improved housing conditions and the assurance of safety that inspires households to invest in furniture, electronics and other assets because the fear of their shacks being broken into or burnt is removed.

“What we have discovered is that once a family invests and improves on their shelter conditions, it forms the start of many more improvements and upgrades” – Founder, Ikhayalami

In summary, there is an overwhelming managerial perception that all four items which were identified as proxy measures for living conditions and household welfare can and have been improved due to HMF interventions. There is also an overwhelming consensus that supply side constraints prevent housing microfinance from growing in scope, keeping it a boutique product in an environment that requires it to be scalable in order to make a large impact in the affordable housing market.

Less attention is given to its effect on real income, assets and expenditure. It is worthy to note that Ikhayalami is set up as “Shelter Advocacy to Housing Finance” institution, stemming from a movement that views shelter as a basic human right. Their main focus is and has always been access of poor communities to quality shelter, adequate infrastructure and basic facilities. The focus here is not on increasing income flow but providing foundations that enable disenfranchised households to sustainably build their own asset bases.

The next section shifts to the demand-side lens, and discusses the experiences of Ikhayalami’s housing microfinance beneficiaries. In doing this a comparison of similarities and differences with the managerial perceptions will be identified, and an attempt made to explain any deviations, if any.

4.3 Ikhayalami – Beneficiary experience

In-depth semi-structured interviews with 12 active beneficiaries of Ikhayalami’s housing microfinance programme were conducted. This group was split between beneficiaries that approached Ikhayalami for a simple housing microfinance loan, and those that were approached as part of Ikhayalami’s “BT Upgrade Project” currently placed on hold.

All four of the households that are participating in the ongoing “BT Upgrade Project” were interviewed (as the remaining 68 are waiting for residential areas to be re-zoned and approved by government regulation). This collection of households is referred to as the “BT Upgrade Project” group. It is useful to identify any potential disparities in their experiences, due to the different circumstances attached to their programme and the heavy reliance on the city of Cape Town for authority.

Overall, the 12 beneficiaries consisted of 10 females and two males who were either salaried or self-employed. The number of people living in the upgraded shacks ranged from two to eight, with both adults and children. All households mentioned that their old shacks were made of old dilapidated timber, zinc, scrap yard materials – or a combination of the three.

Ikhayalami's shack upgrades involve the upgrade of an entire shack, that is, the construction of four walls and a roof. Loan fungibility is therefore minimal, with loans directed straight into the building materials and labour costs facilitated by Ikhayalami. Beneficiaries may not use the loan for any purpose other than its intended housing upgrades. Loan fungibility is prevalent within many housing microfinance institutions where loans end up used for non-productive and unintended consumption. This is attributable to the lack of technical support in administering a loan amount. With Ikhayalami involved in the entire construction process, an upgraded shelter is guaranteed as monies do not have the opportunity to be redirected to other uses.

There was clear evidence that the overall experience of the household microfinance beneficiaries has been positive with general consensus that an improvement in living conditions and household welfare has been achieved.

In informal settlements, community members operate through word of mouth and physical interactions due to high dependency on personal interaction and engagement. It is therefore not surprising that what initially attracts households to a housing microfinance institution like Ikhayalami is the physical end product – that is the completed structures upgraded with better quality material.

“People come to ask, where did you buy it? How much was it? It looks very nice... but they are just asking, they don't want to buy it... when they hear the amount, they say “oh no”, but they can see that the material is good quality” –Beneficiary, Housing Microfinance

There is a limited understanding of the underlying microfinance product amongst these low-income households. Knowledge is limited about existing opportunities for affordable housing finance, which therefore restricts any incentive that households may develop to solve their own housing problems through such available channels.

There is an opportunity for HMF institutions to increase an understanding and appreciation of their product through education and effective communication strategies amongst targeted communities and for HMF providers to collaborate and share financial knowledge and skill amongst each other.

The majority of beneficiaries interviewed chose Ikhayalami because an existing beneficiary referred them or saw an upgraded shack within their community. In the case of the “BT Upgrade Project” programme, households were approached with a plan to upgrade the whole settlement. Many needed assistance with their existing leaking shacks, which were in poor condition or were looking to improve their general housing conditions. The process of shifting the possibility of upgrading ones shack into a reality ultimately initiated action.

“...I saw one of the houses they were making in our town, so I took the number and I called. I asked them whether they could build a shack for me. They said its fine; I must just save for a deposit”. – Beneficiary, Housing Microfinance

All responded positively when asked whether the programme had met their overall needs by referencing the improved safety and quality materials (fire resistant and free from flooding), reliable workers, ease of use and affordability.

“There is no rain, it is safe. I feel like I am in a house” – Beneficiary, Housing Microfinance

Evidence shows there is a clear distinction between the experiences of Ikhayalami housing microfinance beneficiaries, and those that are part of the “BT Upgrade project”. Although the same housing microfinance model has been used for all participants, the heavy reliance on government for authority is preventing Ikhayalami from fulfilling all promises made leaving 68 households in the dark and four households not fully satisfied with lack of progress made.

“.... They promised they were going to make our shack house better. That is why we agreed – they came to us. It is better, but they are not finished... when it rains, the water leaks inside and it floods. We don’t have running water or toilets – but we were promised all of these things” – Beneficiary, BT Upgrade Project

Effectively, government's inability to supply sufficient infrastructure and develop an effective administration process due to inefficiencies translate into constraints for both providers of housing microfinance and households that stand to benefit from these initiatives. These crowd out the potential for HMF to make substantial moves in the market and effectively result in beneficiaries opting for cheaper, lower-quality housing options. There is a clear need to remove any obstacles and inefficiencies that exist when collaborating with government.

Overall, the views of the beneficiaries are considerably consistent with the managerial perception and objectives; agreeing that there is a positive effect on living conditions and household welfare. Both identify increased safety and superior quality as their overall objective and reason for taking out these housing microfinance loans and attest to this being the experience.

The effect of supply-side constraints (government's bureaucratic and administrative inefficiencies) by beneficiaries was observed. This is a confirmation of the need for a framework that consists of equally operational and contributing parts. Housing microfinance relies heavily on effective functioning of all stakeholders at multiple levels and stages and should be addressed accordingly. It is all encompassing, requiring commitment from HMF institutions, government as well as beneficiaries and their communities.

As previously done, the next section will focus on the beneficiary experience to deduce consistency with or contradiction to the theoretical base and conceptual framework.

4.4 Application to Conceptual Framework

The next section engages the four proxy measures of household welfare that is now familiar, comparing and contrasting beneficiaries' experiences with the managerial view in closing.

Income, Expenditure and Assets

All households stated that their income levels remained unchanged; that is, all forms of money received on a monthly basis. This is because Ikhayalami housing microfinance loans received are targeted directly into purchasing building materials and for construction; with no

possible impact on income levels. In addition to this, unlike enterprise loans, HMF is not productive or income generating. Households need to afford HMF and some level of income is required, thereby preventing a large population of households from participating in or qualifying for such programmes.

For the purpose of the study, monthly expenditure is defined as “the group of goods and services consumed by a household on a monthly basis”. The question of how monthly expenditure was affected received mixed responses depending on how beneficiaries treated their additional monthly HMF loan repayment.

For those households who accommodated for monthly instalments, monthly expenditure decreased.

"My husband and I sit down and talk. Because of this, we know from this month up to that month, we are going to reduce our expenses so that we can afford to pay" – Beneficiary, Housing Microfinance

However, many households viewed their monthly loan repayments as an additional expense over an income that remained the same. In these cases, monthly expenditure was seen to have increased.

"I spend more money, because in a month I pay R200 - before we were staying for free" – Beneficiary, Housing Microfinance

There was an overwhelmingly consensus that access to the HMF loan led to an increase in asset accumulation, most notably household items such as televisions, furniture, electronics and DSTv. Many of these investments overlap with increase in social security, and the natural desire to continue investing in and improving one's living conditions and household welfare. The quote below illustrates this very feeling shared by all households that participated in the study.

"I feel safe and my furniture is safe. There isn't water inside anymore. So I am spending money to buy some good things that I wanted before" – Beneficiary, Housing Microfinance

Housing Conditions

Beneficiaries were asked about the quality of materials used compared to their previous shacks, as well as the frequency and cost of housing repairs, renovations and maintenance. As highlighted – old shacks were mainly made up of old dilapidated timber, zinc, scrap yard materials or a combination. Ikhayalami uses inflammable materials that are far superior than those generally available to informal settlement dwellers, so it is not surprising that all households responded positively to an improvement in material quality.

“You see, now I am free... and it’s raining... and its winter. Most of the time we used to put everything on the bed, because the shack was leaking”. – Beneficiary, Housing Microfinance

Leakage free, warmth and safety are the main reasons beneficiaries believe the quality of housing materials has improved significantly. Figure 2 and 3 illustrate the visual difference in material quality.

Figure 2 – Typical shack dwelling in Khayalitsha Township



(Sobukwe-Whyte, 2016)

Figure 3 – Upgraded Ikhayalami shacks



(Sobukwe-Whyte, 2016)

The need for household repairs and maintenance was significantly less than that experienced in old shacks, if any need at all. If it does occur, Ikhayalami provides this support as part of their programme to beneficiaries – repairing or maintaining all of their structures. Most beneficiaries however have not needed to do any repairs since upgrading their shacks.

“...Before, I spent a lot more money than Ikhayalami to repair my house... but it would still leak and flood. This was because the labour was not good; they didn't know what they're doing. You would then have to hire the same people again, because you couldn't sit in a leaking shack” – Beneficiary, Housing Microfinance

Additional access to electricity, water, toilets or other amenities was also used as a proxy for changes to housing conditions; however, this was organised independently of Ikhayalami's loan finance programme, and a few households already had access to these facilities. What was interesting to observe - in line with a desire to continue the process of improving living conditions - was the significant number of households who made it a point to gain access to these amenities upon upgrading their shacks.

As mentioned in the previous section, participants of the “BT Upgrade Project” maintain that although their housing conditions have improved, their houses are incomplete. They continue to leak and do not have the running water and toilets promised. All households are using the same temporary toilets they were using before.

“As we see, the building material is better... but they have not finished, and I don't know why. It is raining and these houses are leaking. We were meant to get water, the taps are not working... we didn't have these problems before” – Beneficiary, BT Upgrade Project

These households do not have a clear picture of all stakeholders involved and seem not to be receiving consistent communication of the process. Their limited scope has contributed to their grievances, as they are required to pay monthly repayments and believe in non-fulfilment of promises.

Training and Development

As with the managerial view, there was little consensus as what constitutes extra support or technical assistance. There was a significant feeling of no extra support provided and beneficiaries viewed the programme as providing a loan. Although Ikhayalami provides building materials and labour to construct the upgrades, all 12 beneficiaries mentioned the loan as the sole service they were receiving from the programme.

“No extra support, I don’t want anything. They just provided me with the loan” – Beneficiary, Housing Microfinance

While the managerial view is that construction support, financial assessments and valuations, as well as maintenance all constitute a substantial support and offering that differentiates housing microfinance institutions, there seems to be a different view shared by their beneficiaries.

Participants of the “BT Upgrade Project” share these sentiments even more strongly, stating that they do not receive the extra support that they ask for.

“We talk to them. They say they will come, but they don’t come. They have not finished their work. I don’t feel like we are getting enough support” Beneficiary, BT Upgrade Project

Technical assistance and support form an integral part of a HMF product that aims to achieve sustainable, social impact. Although Ikhayalami does provide assistance with land acquisition, registration and legal documentation processes, as well as significant construction assistance and supervision, this extra support is lost or diluted by the time beneficiaries apply for microfinance loans and shack upgrades.

What is clear is that providing technical assistance and support – although potentially not understood as such from the beneficiary experience – ensures a quality product is constructed in the most sustainable and efficient manner. Ultimately, this is the objective of any housing microfinance programme, and the need of its beneficiaries. Future studies can look at whether

providing additional support makes a significant difference amongst the loyalty of beneficiaries, leading to increased loan repayments and better business performance.

Social Security

Social security highlights the subjective, multidimensional nature of indicators that have the ability to improve the domestic peace, wellbeing and living standards of poor communities. Participants were asked about the effect that HMF had on building an asset base, creating an income generating space, and the intangible effect on a household's community status.

None of the households rented rooms to generate income; however, two self-employed beneficiaries mentioned using their housing as a home-based business. Both referenced that the better building materials allowed them to turn their homes into an income generating space.

“It’s not a shop. Actually, it is a business. It is a clothing business. It is based at home. People come inside the house and I am not ashamed anymore” – Beneficiary, Housing Microfinance

When participants were asked if they had used their housing as collateral to increase assets, or as security to buy more loans – the majority mentioned that they had never considered it as an option, while the rest simply stated no.

Community status is an influential socioeconomic characteristic of communities in informal settlements. An impact on a household's community status affects household welfare exponentially, observed in the body language and manner in which beneficiaries reacted to the question. All beneficiaries mentioned that their status in the community has increased, either because community members now viewed their households as being wealthier or in a higher profile.

“The status changed. You know people think that I am better than them because I’ve got this shack. And they think I have more money than them, but that’s not possible. It’s just because of the shack.” – Beneficiary, Housing Microfinance

Some beneficiaries mentioned an increase in their community status was clear because of the number of individuals who came to enquire about their upgraded shacks.

“My status has increased a lot. Other people also want it because it is safer and warm. Especially because I am on the main road – sometimes I don’t know them. I just see them knocking at my door, asking – can I see?” – Beneficiary, Housing Microfinance

All beneficiaries reacted positively to this change, both verbally and through the observed body language and excitement when asked this question. Although highly subjective and intangible, this seemed to have had the biggest impact on their perception of increased household welfare over and above the initial expectations of better quality housing.

This is consistent with managerial objectives of improving the pride felt and respect gained in ones living surroundings, which evidence shows is strained when families find themselves living in the poor and harsh conditions that characterise informal settlements. It is however, not clear whether these are primary objectives when constructing housing microfinance products and monitoring household behaviour post these interventions. There is room for impact evaluation tools to measure the effectiveness of poverty alleviation initiatives to capture these intangible outcomes. This will be a significant contributor in shifting the dialogue and product design from supply driven objectives to demand-side needs

4.5 Chapter Summary

“People like Ikhayalami, they can build for us. I’m telling you, people who live here, they can pay. It’s not that they do not have the money; they do have a little money from small wages. But they need these things, because if you apply for a loan in the bank, there are many things they ask for. We do not qualify. Because of my wages, I cannot apply for a loan in the bank.” Beneficiary, Housing Microfinance

In summary, the question asked was how does housing microfinance contribute towards living conditions and welfare for low-income households?

This was asked within the context of a growing affordability “gap market” in South Africa; where only a small minority of households are able to afford an entry-level house, with the majority of the remaining population not qualifying for fully subsidised government housing. On top of that, the inability of government to meet the rising demand of those that do qualify resulting in social unrest within these marginalised informal settlements.

With housing microfinance rising out of this increasing need for affordable housing solutions, the research paper aimed to highlight whether this could be a sustainable solution. More specifically a solution that can contribute towards improved living conditions and household welfare for those affected.

What can be seen from the results and discussion is an overwhelming perception from the providers of HMF – grouped as the managerial view – that this is their objective and that HMF is the answer. All promote HMF as a viable solution to more than just the affordable housing crisis, but a way to impact individual lives through increased dignity and satisfaction with living conditions. The managerial view is that HMF is a catalyst in the continuous improvement and investment of household livelihoods. They believe the product is an affordable solution and if provided with the infrastructure to scale up, it has the potential to move forward developmental objectives touching a large majority of financially excluded households.

In the same breath, the managerial view does acknowledge the need for government to escalate their commitment to promoting the success of these alternative housing solutions. While funding is a clear constraint on the supply side, inefficient and out-dated administrative practices seem to be the biggest barrier to implementing successful projects. Because housing policies are not tailored to the microfinance industry the result is government’s inability to provide sufficient infrastructure and support.

The dominant view between the beneficiaries’ interviewed was a satisfaction with the change in housing conditions. As all beneficiaries approached Ikhayalami with a desire to improve the quality of housing, this is a clear success. This had a direct impact on household welfare and living conditions, along with a significant increase in social security – confirming what literature supports.

What was not clear was whether changes in income, expenditure and assets (if at all) made any impact on household welfare. Beneficiaries did not practice income smoothing, increase their consumption possibilities or savings, or manage exposure to risk. Those that were able to build wealth through asset accumulation did so because of the subjective desire to continue investing in their living standards, and not because of an added capacity to do so.

Literature mentions that high interest rates and inability of clients to afford loans may be a potential demand constraint. Contradictory to this, none of the 12 beneficiaries interviewed mentioned high interest rates or loan repayments as a constraint. A possible reason may be the level of flexibility practiced by Ikhayalami when it comes to restructuring loans, and maintaining relationships with their members. It would be beneficial for future research to have a comparison case study – ideally a housing microfinance institution that follows a different approach to HMF, one that follows a more microfinance approach, than the more shelter advocacy route of Ikhayalami.

5 RESEARCH CONCLUSIONS

The objective of the research paper was to investigate the effect of housing microfinance on living conditions and household welfare from both a managerial perception and beneficiary experience. According to theoretical and empirical evidence, HMF affects welfare through the following broad channels: income, expenditure and assets; housing conditions; training and development; and social security. Additionally HMF experience constraints from supply and demand side factors influenced by the macroeconomic and policy framework, socioeconomic environment and physiological characteristics of participants.

Findings by the researcher reveal a significant positive effect via an increase in community status and housing conditions. Housing conditions being the quality of housing and building materials used; as well as the savings gained from a decrease in the cost of housing repairs, renovations and maintenance. Indirectly, housing conditions benefited positively via a further investment in electricity, water and access to other amenities.

Contrary to theory, the effect on income smoothing via a supplementary salary, broader consumption possibilities, increased savings and reduced monetary vulnerabilities were non-existent from both the managerial perception and beneficiary experience. The only increase in wealth emerged through an investment in household assets such as furniture and electronics kick-started from a desire to continue the process of improved living conditions and welfare rather than the housing microfinance intervention itself.

What is clear is that housing microfinance positively contributes to household welfare however; it is unable to tap into all channels that reach households or scale up to reach a larger target group. Recommendations should therefore alleviate these restrictions in order to allow the effect of housing microfinance to flow easily through the channels and ultimately affect social and developmental goals.

There is potential for household welfare to experience further enhancement via aggressive training and skills development programmes or solutions targeted to empower women in households. A more encompassing support framework that invests in financial education may assist households to realise opportunities to increase their social security with using their upgraded shacks in creating income generating spaces, using as collateral to increase asset

base, etc., as it is clear these options were not considered or understood by the households who participated. That is, households need to be empowered before they can fully maximise the benefits of HMF programmes.

There is opportunity for HMF institutions to partner with suppliers of building materials and construction labour as Ikhayalami has done. This allows the HMF product to guarantee quality at affordable rates and extend services over and above extension of credit to low-income households, which is a missing element from many microcredit institutions.

Ikhayalami currently finances their HMF product from their business funding comprising their enterprise microfinance and disaster relief portfolios. Addressing capital constraints through additional income sources beyond donor funding and traditional fees or interest income is critical. There are partnership opportunities to extend to commercial funders such as asset managers, commercial banks and insurance companies for larger scale, diversified funding and access to progressive infrastructure. This will prevent reliance on government subsidies and donor funding which is not sufficient when growing a sustainable product.

Small microfinance institutions like Ikhayalami will not reach the scale required. Participation of and partnership with large financial institutions which own infrastructure, human capital and financial resources is required. Training should not be limited to low-income households but extend to providers of housing microfinance who cannot depend on the generic enterprise microfinance model due to clear differences. Providers of HMF and financial institutions will benefit from increased awareness and financial literacy required to introduce a product as well as support to incentivise the offering. This includes technical assistance with operational efficiency, financial skills and human development.

The research shows that HMF requires the ability to grow in scale and become a priority in government policy and support to serve a material share of the demand for low-income households and ultimately affect national shelter and settlement conditions. Government policy makers and donors have an important role to play as private initiatives like Ikhayalami cannot possibly achieve this scale on their own. Although this research did not focus on the supply-side experience, a stable macroeconomic environment and sustainable financial institutions are vital preconditions in addition to diverse collection of housing products to suit the heterogeneous characteristics of the market.

Progressive policy and a regulatory framework that speaks to the conditions faced by low-income households and characteristics that define this group of households requires development. To understand these characteristics requires an investment in research and development that targets housing microfinance specifically. What is clear is the need for a centralised effort that focuses on HMF rather than trying to combine the different models of “housing”, “microfinance” and traditional “mortgage financing”. Financial exclusion, vulnerable living conditions, progressive building practices and subsidised housing together form a need in the market that is unique and currently not given sufficient tailored attention. Future research should document or develop case studies and investigate best practices.

This study is a step closer to understanding the experience of households that have undergone some form of HMF intervention and highlighting the demand and supply-side constraints that trickle down its value chain. What has emerged is an understanding that HMF should not be dealt with in isolation. There is a role for private institutions, government and founders to play in promoting HMF, educating and incentivising low-income households to solve their own housing needs. There will always exist a need for households to take individual accountability in approaching these opportunities to maximise the benefits that HMF can achieve. In the same breath, HMF cannot exist in isolation as the sole product to target the developmental and social goals relating to the affordable housing crisis.

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APPENDICES

APPENDIX 1: INTERVIEW QUESTIONS FOR IKHAYALAMI EMPLOYEES

1. What made your organisation introduce the microfinance loan finance programme?
2. How many clients have benefited from the programme since its inception?
3. How would you define your target group?
4. What criteria do you use to identify this target group?
5. What kind of support or technical assistance does your organisation provide for the loan finance members? Or BT Upgrade households?
6. In your opinion, does the programme meet the needs of the target group?
7. What are your perceptions on the impact of housing microfinance on household welfare?
8. What are the objectives of the Ikhayalami loan finance programme?
9. What are your measurements of success for these objectives?
10. What constraints do you face in trying to reach these objectives?
11. What is your view of housing microfinance in the context of South Africa?

APPENDIX 2: INTERVIEW QUESTIONS FOR IKHAYALAMI MEMBERS

Note: Words in brackets were used to explain the objective of the questions posed, to ensure a complete understanding of the information required.

1. BASIC INFORMATION

- Head of household:
- Payment by:
- Interview with:
- Sex:
- Employment:
- Number of people living in shack:
- What material was the old shack used of:
- Size of old shack:
- Size of new upgraded shack:
- Cost of new upgraded shack:
- Date loan issued:
- Loan Period:

2. OPEN-ENDED QUESTIONS

1. Why did you choose to take a loan from Ikhayalami?
2. In your opinion, has the programme met your needs? (Has the programme helped you? how?)

The following questions ask you to reflect on the impact of the housing microfinance loan on your household welfare. In your opinion:

Since taking a loan from Ikhayalami

3. What has been the impact on your **household income** - all forms of money that you receive on a monthly basis as a household? (Has your income increased, decreased or stated the same?)
4. What has been the impact on your **household expenditure** - the group of goods and services that you consume as a household? (Have you been able to spend more or less money? Or has there been no change to your spending?)

5. What has been the impact on your **household assets** - household savings and items of value collected as a household? (Have you been able to buy more items for your house? e.g. Television, furniture, DStv)
6. What has been the impact on your **housing conditions**
 - The quality of building materials used (Are your building materials better? What material was your old shack made of?)
 - Access to electricity, water, toilets and other amenities (Did you gain access to Water? Electricity? Toilets? Was this through Ikhayalami?)
 - Frequency and cost of housing repairs, renovations and maintenance (Do you have to repair your house more? Or less? Or has there been no change?)
7. What kind of extra support or **technical assistance** does Ikhayalami provide for you? (Does Ikhayalami help you with building support? What other support?)
8. What has been the impact on your household **social security**?
 - Are you able to use your housing to generate income? (Are you able to use your house to make money?) For example, renting a room, opening a home-based shop, self-employment
 - Are you able to use your housing as collateral in increase your assets? (Are you able to use your house for security to buy more loans?)
 - What has been an impact to your household status in the community? (Has your status in the community changed? How?)