

**Housing Subsidies and Urban Segregation:
A Reflection on the Case of South Africa**

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Introduction

Between 4.2 and 1.6 of the South African national budget has been allocated to low-income housing in the past 6 years, with the release of 1 334 191 housing subsidies since the launch of the new housing policy in 1994 (Department of Housing 2001). Structured primarily as a once-off capital or lump-sum grant for a standardized housing product with freehold title, these subsidies have had a significant impact on the low income housing market. This paper critiques the capital subsidy scheme, particularly in relation to the urban spatial form. It asks how government subsidies may be better used to overcome the racial segregation in South Africa, to overcome the mechanisms in the housing market which maintain this segregation, and to counter the increasingly socio-economic underpinning of the segregation.

The paper briefly discusses the roots of division and urban segregation in South Africa, and the more recent shift from racial to socio-economic segregation. It examines the role of the individualized capital subsidy, and in particular the project-linked subsidy, in facilitating this shift through the production of new, segregated and poorly located developments. Applying also to informal settlement intervention, this policy mechanism limits the reinterpretation of planned segregated urban space through land invasion, and impacts on the land invasion rationale. The capital subsidy mechanism is therefore examined as a force contributing to urban segregation. Not only the land tenure component of the capital subsidy, locking poor households into individual freehold title, but also the powerful, though deceiving, political entitlement to the standardised product, are shaping the South African low income housing market and its spatial manifestation.

Consequences of excessive segregation in the South African spatial form are borne out in the household, municipal and national economies. Transport costs by individuals, though partly subsidised, limit access to income generating opportunities. Household economies are not capable of covering their formal rates, taxes and service charges. Short of evicting subsidy beneficiaries, local governments apply payment amnesties or indigent policies, which in turn reduce the municipal revenue base, thus contributing to local government bankruptcy.

The final section of the paper addresses this crisis by examining alternative policy responses. It discusses approaches that may enable housing subsidy mechanisms to intervene in the land market to redress segregation. Drawing on contrasting as well as parallel scenarios from contexts such as Brazil and Chile, this section argues for the replacement of the current project-linked subsidy scheme with a more appropriate subsidy mechanism. It addresses the policy framework that is required, in order for an alternative housing subsidy system to overcome the current perpetuation of urban segregation

Understanding urban segregation in South Africa

Urban segregation in South Africa has been the theme of extensive literature in urban geography and sociology. For the discussion in this paper of contemporary housing subsidies and urban segregation, it is relevant to briefly review, from this literature, the role of the state in shaping divisions in South African society. Socio-political exclusion in South Africa, for the largest portion of the 20th century, was distinguished by its racial nature and the rigorous means by which it was legislated and thus controlled by the state. The legal framework encompassed racial restrictions on political activity, on employment, commercial and investment opportunities, on social relations and spatially on access to accommodation in the city. Such state intervention interfered with the processes by which market or capitalist forces shape class divisions in society. By rigidly discriminating against blacks, the state induced a white race unified across different classes and cultural identities.

Racial exclusion in South Africa thus served to avoid class consciousness and inter- and intraclass conflict (Marx, 1998:14,15). Marx notes that while racial segregation served the economy in that it supplied cheap black labour, there were economic costs associated with the maintenance of the racial order. To some extent then, the South African state subordinated economic interests to its racially based social plan, part of which was to create unity within the white 'race' (*ibid.*). This, in turn, led to unforeseen social complexities. By the late 1940s, the modern economy had engendered "new class forces" which were flourishing within the racial framework, posing a new threat to white domination (Mamdani, 1996:95). The National Party in the early 1950s responded to this threat by submitting the class-based forces, which had emerged among the African population, to tribal confines. There they were "contained by traditional authorities" that themselves depended on the South African state (*ibid.*). A white race, unified across class differences, could thereby dominate over a tribally divided black race.

Divisions among blacks were further fostered by the South African state through selective rights to the city. Linking such urban rights to employment situation, place of birth and past duration of the urban sojourn, a division was fostered between a (relative) elite of permanent black urbanites, and temporary and illegal black urbanites, whose tribal identities were maintained (see Posel, 1991; Lemon and Cook, 1994). Differential rights to the city were further polarized into separate forms of urban accommodation, a) those with formal leases to public housing, b) those residing legally in single-sex hostels, and c) those residing illegally, whether in back yard shacks of formal housing areas, in overcrowded hostels (later spilling into shacks surrounding hostel buildings), or in shacks on invaded land.

In the 1980s such divisions were furthered deliberately as a means of gaining control over the growing black anti-apartheid protest which had emerged in the United Democratic Front (UDF). In the reproductive sphere, this took the form of the civic movement. Measures applied to win selective support for the apartheid government were, for instance, the upgrading of townships (see Boraine, 1988), the affording of restricted political expression to Africans with permanent

urban rights through the creation of 'black local authorities' (Shubane, 1991:67), and the introduction of market delivery of black housing, by definition exclusive to the relatively well employed (Crankshaw, 1993). At the same time, the patterns of black employment were changing. A fall in the demand for unskilled jobs, and therefore for lower wages, was contrasted by an upward mobility into semi-skilled and skilled jobs (Crankshaw, 1997). This led to a rise in class differentiation among blacks, with the result that class has increasingly become a barrier among those more broadly discriminated against by race (*ibid.*).

Bond (2000:125) refers to the apartheid regime's strategy of "deracialized urbanization", which was to "evolve apartheid segregation into class-based segregation." Here Bond refers to the neoliberal housing policy introduced in the late apartheid years at the advice of the private sector think tank, the Urban Foundation. Since its formation in the mid 1970s, the Urban Foundation promoted home ownership for black urbanites with a primary role for the private sector, a) in delivering bond housing to the emerging black middle class, and b) in developing state subsidized sites and services schemes for the urban poor. Urban analysts, however, recognized a contradiction inherent in this private sector position: Lupton (1993:43) argues that, while monopolized property developers' main interest is in "the extraction of profit out of urban space, and ... predominantly working-class people," industrial capital demands low reproductive costs, to enable low wages (Lupton, 1993:43). Commenting on this contradiction, Bond (2000:123) argues that "the construction industry ultimately proved weaker than the interests of capital-in-general, and particularly than the deficit hawks in the financial sector." Nevertheless, the relationship between the subsidized recipients of serviced sites (since 1994 with a minimal top-structure or house) and industrial capital are increasingly indirect, as the formal labor market shrinks and recipients of serviced sites increasingly seek employment in the precarious informal sector.

Before examining, in the following section, how the recipients of the state-subsidized developments are classified, how the subsidy mechanism operates, and what it achieves in political and spatial terms, I will briefly discuss the mechanisms that were developed by the new government to combat segregation. Leading out of the 1994 Reconstruction and Development Programme put forward by the ANC/SACP/COSATU (African National Congress, South African Communist Party, Congress of South African Trade Unions) alliance in its election campaign, the new government tasked the RDP (Reconstruction and Development) office (the Ministry in the Office of the President) with producing an Urban Development Strategy – with the closure of this office in 1996, this task was transferred to the national Department of Housing. Published in 1997 as the Urban Development Framework, this document puts forward a vision of urban settlements that will be:

- *Spatially and socio-economically integrated, free of racial and gender discrimination and segregation and enabling people to make residential and employment choices to pursue their ideals. ...*
- *Marked by housing, infrastructure and effective services for households and business as the basis for an equitable standard of living. ...*
- *Financed by government subsidies and by mobilizing additional resources through partnerships, more forceful tapping for capital markets, and via off-budget methods* (Department of Housing, 1997:8)

The Urban Development Framework envisages spatial integration through spatial planning/urban design principles promoted in South Africa since the 1980s (see Dewar and Uytenbogaardt, 1991). These include high-density activity systems or corridors linking urban nodes, mixed land use and infill development. Urban planning policy to focus and fast track decision-making for such development are contained in the 1995 Development Facilitation Act, which requires local

governments to develop Land Development Objectives (LDOs), and in the White Paper on Local Government (1998), which calls for Integrated Development Plans (IDPs) at local government level (see Parnell, 1998). Housing policy itself has sought to redress the “current housing context”:

“Ineffective and inequitable cities: the geographic segmentation of living areas according to race and class, urban sprawl, and disparate levels of service provision and access to amenities in different areas make South Africa’s cities very inequitable, inefficient and relatively expensive to manage and maintain” (Department of Housing, 1994:12).

However, an additional one million poorly located housing opportunities, delivered since 1994, have perpetuated the “current housing context”. Given the vision and the integrated planning tools, why has socio-economically segregated dormitory development in South Africa prevailed since 1994? It has been remarked from neo-liberal as well as Marxist perspectives, that cities, and in particular their residential components, are shaped by the way they are financed (see for instance Renaud, 1999:761). Preteceille (1973, quoted in Lupton, 1993:39) argues that “the characteristics of a housing estate are closely linked to the ‘rules of operation’ of the type of capital which dominated its creation.”

By looking at South Africa’s recently constructed low-income urban peripheries, it is not difficult to conclude that they were shaped by only two forms of finance. One is individual household resources, informally pooled, and sufficient only to construct a temporary structure of untreated timber, recycled corrugated iron and plastic sheeting. Where such structures stand in a formal layout with standardized and regularly placed concrete or corrugated iron toilet structures, along surfaced streets, it is evident that land, infrastructure and services were fully subsidized. The shack construction material is evidence to the fact that these households could not possibly have paid for the relatively high level of infrastructure and services. These are the sites and services schemes financed through the R 7 500 (US\$ 2 895 in 1990, currently US\$ 1087.50) capital subsidy grants of the IDT and other similar subsidy mechanisms in the early 1990s.

The extension of this grant as from 1994, to include a minimal “top-structure” or house, is evident in the vast, uniform (often color-coded) housing schemes that flank highways and occupy other poorly located tracts of land. Extensions to these free-standing houses are generally in timber and recycled corrugated iron, again evidence to the fact that households have received financial assistance only in accessing the completed standardized color-coded core unit. For extensions and improvements, households have been left to their own devices.

The capital subsidy as a force contributing to spatial segregation

The current capital subsidy system was first introduced in 1990 through the Independent Development Trust (IDT), a government funded poverty alleviation initiative implementing the ideas put forward by the private sector funded Urban Foundation. Between 1990 and 1994, the IDT was to deliver serviced sites with freehold title to 100 000 households. Developers articulated project proposals and submitted these for approval by the IDT. The capital subsidy funding was released to developers on a project basis, and the completed serviced sites then transferred to a beneficiary household. By 1992, it had become evident to the IDT that “[b]ecause of limited options in accessing available and affordable land, the capital subsidy scheme ... was having limited impact on urban integration” (Nuttall, 1997:142). Indeed, the poor location of capital subsidy developments, necessitated by the standardized expenditure on land within the subsidy, was perpetuating the segregated spatial structure. While the IDT launched an initiative on urban integration (Nuttall, 1997:142), the project-linked subsidy was not discontinued.

In 1994, the IDT capital subsidy scheme became the central mechanism in the new government's housing subsidy scheme, although the individual subsidy amount was increased to accommodate a minimal core house or so-called 'housing opportunity'. While alternatives to the developer-driven, project-linked capital subsidy scheme were gradually developed (see Huchzermeyer, 2001), the only subsidy mechanism operational at the launch of the 'new' housing policy was the project-linked subsidy. Between 1994 and December 1999, 83% of all approved housing subsidies were project-linked. By late 1999, 1 162 capital subsidy projects were delivered at an average of 800 units per project, totaling 928 000 units (GCIS, 2000). In the absence of a separate subsidy mechanism for informal settlement intervention, the project-linked subsidy is applied also to the so-called 'upgrading' of informal settlements. In effect, informal settlements are replaced by fully standardized and individualized housing developments, in some cases on the invaded land (through a 'roll-over' procedure), but more frequently on a relocation site. Relocation distances are often in excess of 20 km. Substantial de-densification, necessitated by the layout standards, usually requires at least half of the original households to be accommodated in developments elsewhere.

Restricted by the cost of land, project-linked subsidy developments are located adjacent to and beyond already impoverished townships that are poorly endowed with social and commercial amenities. The subsidy scheme includes a variation on the individual capital subsidy amount, to allow for higher cost of well located land. However, this amount bears no relation to actual land prices: a project located within 1km or 1.5km of a substantial employment node may benefit from an increase of up to 15% or 7.5% respectively of the subsidy amount. A project located 0.5km of an established transport route may benefit from an increase of up to 7.5% of the subsidy amount (Department of Housing, 1995).

This programme of mass delivery on the urban peripheries inevitably creates highly segregated ghettos. Recipients of these serviced sites with core houses are selected by the following criteria:

- low household income (a sliding scale applies to the subsidy amount, favoring the poorest);
- the household head aged at least 21 years;
- the household head a legal resident in South Africa;
- at least one dependent in the household;
- the household not having benefited from a government housing subsidy before;
- the household acquiring fixed property for the first time (Department of Housing, 1995).

The project-linked capital subsidy functions as a supply-side subsidy for a standardized product: 250 to 300 m² land with a defined level of services, and a minimal top-structure. The developer, be it a private sector company, a municipality, or in very few cases a community-based organization, is subsidized in the delivery of new housing estates (usually referred to as 'township extensions'), including land, collective infrastructure and housing. Eligible households are given free access to this product (though rates and service charges apply as from the day of occupation), but little or no say in its definition and location.

Some selling of newly acquired capital subsidy units has been observed, primarily motivated by the need for cash to cover debt (Boaden and Karam, 2000). The national Department of Housing responded to this trend by announcing intentions to develop pre-emptive legislation to outlaw the sale of capital subsidy houses (Department of Housing, 2000). By April 2001 the Housing Amendment Bill of 2001 was passed, prohibiting the sale of subsidy houses for the first eight years after acquisition. It is envisaged that in cases where households need to relocate, "the first offer of sale will automatically go to the Provincial Department of Housing. Government will take over the house and allocate it to the next family" (Scheepers, 2001:1). It is questionable,

whether this law is enforceable, given that such transactions are made informally, and at times under pressure by profiteering middlemen or debt collectors (see Boaden and Karam, 2000).

While the enforcement of this new legislation may prevent downward raiding or buying up by higher income groups, it must be questioned whether it is desirable to prevent altogether a process of income differentiation within individual housing estates, as this would perpetuate segregation by income. Comparing the South African and Chilean capital subsidy systems, Gilbert (2000:26) has noted that “the last thing South Africa needs is a housing policy that could accentuate residential segregation.”

It has been recognized in the South African literature that the current urban/housing policy has perpetuated the apartheid spatial form and the inequities these present. Mabin (1997) identified three processes currently shaping South African cities: suburbanization, densification and peripheralization. The latter refers to the new site and service areas and informal settlements, “located still further from town centers than former black townships” (Mabin, 1997:43). This trend has been commented on in the media, for instance in an article titled: “Government is ‘creating dormitory towns’” (Citizen, 1999). Bremner (2000) has examined the failure of attempts to deliver subsidized housing on well located land, attributing this to “the intractable ideologies and vested interests behind the patterns of property ownership” (Bremner, 2000:88). Bremner concludes that to address this problem, substantial funding in addition to the standardized capital subsidy is required, political commitment must be secured, and a more balanced power relation between high income stakeholders and democratically elected local government is required.

What then does the current housing subsidy system, with its strong bias to the project-linked capital subsidy, achieve in political terms? Firstly, it serves to preserve elite housing markets, by directing low-income development onto cheap tracts of land on the urban periphery. Secondly, the entitlement to a standardized, individualized housing product through the capital subsidy is a powerful tool for political control (see Huchzermeyer, 2000). The prospect of acquiring an individual household-based asset – a standardized house with freehold title – undermines community-based demands for a meaningful urban land reform. At the level of individual settlements, it undermines collective commitment to challenging the segregated, standardized product, which does not meet the real needs of the poor. Alternative solutions developed by community organizations, such as the Homeless People’s Federation supported by the NGO People’s Dialogue, have lost support when individual households are made aware of their entitlement to a standardized house (Huchzermeyer, 1999).

Beyond this, the entitlement to the capital subsidy has impacted on community-based strategies. Kanana, and Agrenette Hills, land invasions in Southern Johannesburg dated 1994 and 1997 respectively, display all the spatial characteristics of a standardized project-linked capital subsidy development – regular 300m² plots laid out with the obligatory ring road, as per engineer’s design. In this case any critical engagement with the relevance of uniformity, the engineering standards and layout patterns has given way to the acceptance, by the community organization, that low-income development in South Africa will take no different form. It is yet to be researched whether Agrenette Hills, represents the current land invasion rationale. If this is the case, then the entitlement to a capital subsidy has certainly prevented land invasions from challenging urban segregation and from reinterpreting planned urban space.

Implications of segregation and peripheralization of low-income housing

In the South African context, a clear relationship can be drawn between segregation and the maintenance of poverty, an important linkage being that of poor mobility. Public bus transport in South Africa is highly subsidized. For the 2001/2002 year, bus subsidies totaling R1 522 million (US\$ 189 million) were transferred from national to local government (Whelan, 2001). Dewar (1999) notes that the annual bus subsidy per commuter in Cape Town in 1999 was R3 300. Assuming one commuter per household, the bus subsidy over a five-year period is equivalent to the capital subsidy for a house. Over a 20-year period, the government pays four times the cost of delivering the fully-subsidized house, through bus subsidies that by no means make commuting affordable. Reliant on government subsidies, bus companies over the past decades could afford to run so inefficiently that private mini-bus taxis have found a commercial niche that is able to undercut subsidized bus fares (the petrol price is currently R 4.10/litre or US\$ 0.51). However, the distance between dormitory towns and places of economic opportunity is such that mini-bus fares remain prohibitive – a single trip from a housing development to the CBD may be cost the commuter more than a good meal. Though plagued with violent internal power-struggles, the mini-bus taxi industry is quite rightly campaigning for a transfer of public transport subsidies from inefficiently managed bus companies to the mini-bus taxi service providers.

In the absence of efficient and affordable public transport, segregation between residential areas and economic opportunities impacts significantly on the household economy. While an informal economy exists within segregated low-income areas, low purchasing power minimizes opportunities for income generation. Excessive distances are traveled to places of domestic employment in higher income suburbs, to places of informal economic opportunity (due to purchasing power) in central business districts, and to formal employment in industrial zones. The South African city provides few opportunities for high and low income groups to interact, for the exchange of money for goods or services. Increasingly, commercial and high income residential portions of the city are fenced off or ‘gated’, due to a perception which links poverty to crime. In most South African cities, the presence of poor people in the central business district, linked to a perception of high risk, has shifted capital investment from this area to the higher income suburbs, which are less accessible to the poor.

Planners have responded with metropolitan plans to implement a corridor approach, with a vision for mixed landuse and intense formal and informal economic activity along major public transport routes, backed by high residential densities. However, the project-linked subsidy mechanism has continued to deliver mono-functional, standardized developments on cheap, poorly located tracts of land, accessible via the capital subsidy only to those with minimal income. Plans for these developments usually include localized and internalized “activity corridors”. This poorly understood vogue of town planning practice, remains stubbornly ignorant of the fact that low residential densities, low purchasing power and low traffic volumes within these developments simply cannot generate the corridor activities that South African planners have been shown in the much hailed city of Curitiba. Instead, the more enterprising inhabitants of the impoverished periphery return to inner city streets (despite attempts at their exclusion), where existing economic activity generates niches for self-sufficiency.

The implications of segregation may be further analyzed from different angles. A systems approach may expose linkages between segregation, reliance on motorized traffic and hence environmental pollution. Linkages may also be shown between income poverty exacerbated by high transport costs, and the use of highly polluting sources of household energy (such as coal). Health implications may be drawn, which in turn impact on the household economy or ability to generate an income. Thus links between segregation and livelihoods may be exposed. Tied to this

is the non-ability of capital subsidy beneficiaries to pay municipal rates and service charges. Indigent policies are put into place to foreclose the eviction of non-paying households. The non-recovery of revenue from these newly constructed areas is recognized to be contributing to local government bankruptcy (Botes, personal communication, Smit, 1999). Municipalities that are praised for their high rates of housing delivery have drastically increased their urbanized areas, which they are expected to service and maintain. Without an additional revenue base or ongoing subsidization, project-linked housing production does lead to deficits in operating budgets. Considering the ongoing national expenditure on public transport, project-linked subsidy developments, while creating once-off profit for private sector developers, are certainly not contributing to the sustainable economic growth of cities, as the current international focus on urban productivity would envisage.

Of course the assumption behind the project-linked capital subsidy, which delivers individual free-hold titles on the urban periphery, is that large scale commodification of land for the urban poor would lead to economic growth, through access to credit. De Soto (2000), with his recent mission to South Africa to promote his book "The Mystery of Capital", has preached this already entrenched view to South African policy-makers. However, his visit was followed by that of Alan Gilbert, who managed to instill some scepticism, with national government officials, at least with regards to informal settlement intervention (Mphafudi, personal communication; see also Gilbert, 2001).

Analysis from the angle of assets and vulnerability may demonstrate that the security initially provided through commodification, i.e. the individual ownership of the housing product, may lead to new forms of vulnerability and displacement. This is exacerbated by the context of 'resource poverty', increasingly brought about by high rates of HIV/AIDS infection in South Africa – one in every 9 people and one in every 4 women were estimated to be HIV positive in November 2000, with higher concentrations in impoverished areas (Department of Health, 2001). Commodification invariably entails the opportunity of converting the housing asset into cash, be it illegal. Motives for the selling of the housing asset may be related to the need to reduce household debt, to finance education, to honor rural kinship obligations, or to maintain an addiction or habit (see Boden and Karam, 2000). Related to HIV/AIDS, assets would be converted to cash to purchase medication, to recover from the loss of an income-earner, or to cover the cost of funerals (Thomas and Howard, 1998).

The particular South African model of commodified segregation through the capital subsidy results from a government investment that sounds impressive in terms of numbers of delivery, and in terms of redistribution and equity in access. For this reason, it appears to be politically sustainable, despite fundamental flaws. Intellectually it is sustained by a housing debate that has limited itself to the two options, "depth" versus "breadth", i.e. a high number of low quality units (inevitably on the urban periphery) versus low numbers of high quality units (possibly well-located) (see Tomlinson, 1998:139). From a political economy perspective, Bond (2000:143) has drawn attention to the fact that the South African economy is indeed capable of delivering higher quality housing in large quantities, a position also held by the civic movement in the early 1990s (see Mayekiso, 1996). Provided there is political will to intervene in the urban land market, such housing could be more favorably located, in models that integrate higher and lower income groups, thus creating diverse opportunities for income generation. It remains to be asked, through which housing policy, and more specifically which housing subsidy system, such a vision may be realized.

Policy responses – redressing segregation of low income housing in South Africa

There is consensus in South African society that racial discrimination is not acceptable. However, the deracialization of the South African state has not led to the elimination of racial segregation (see Christopher, 2001), and this continues to correspond largely with socio-economic segregation. Whereas segregation and discrimination in the workplace has been dealt with through a rigorous policy of affirmative action, there has been an absence of any “affirmative programme of legislation aimed at reconstruction” after 1991 when the apartheid legislation was repealed (Christopher, 2001:464). Christopher (2001:449) also notes that “segregation levels remain exceptionally high and rapid integration may require government intervention.”

While Christopher focuses on racial segregation, it is the class-related functioning of the land market in South African cities, which underpins the maintenance of segregation. It is the failure of the government’s housing subsidy system to intervene in the land market, that has prevented integrated planning initiatives from restructuring the South African city. As Dewar (1999:2) argues, it is necessary “to view housing as an instrument of urban restructuring: to use it consciously as a mechanism to promote qualities of urbanism as opposed to townships.” Housing policy should therefore be conceived of as a programme for urban land reform, elaborated by appropriate legislation, procedures and financial mechanisms to ensure implementation. Income generation opportunities exist within the higher income suburbs, as does vacant land. There also exists a desire by impoverished households, to have homes in proximity to the domestic and other employment opportunities that these areas offer. This was articulated, for instance, through the unsuccessful invasion of the vacant Rondebosch Common in a well located Cape Town suburb in 1998 by women of the Homeless People’s Federation (Budlender, 1998).

Would affirmative action, paralleling that of employment, be conceivable in the residential sphere? Could the political will be generated to request well-endowed residential areas to reach an equitable quota of housing units that are affordable to the lowest income groups, within a set period of time, and implemented through a steep increase in rates for those local areas that don’t comply? This would place a social responsibility on well endowed suburbs to develop a quality of low income housing that does not impact negatively on the land market. Applying such affirmative action across all urban areas would limit comparative advantages in the land market.

The concept of a social responsibility in relation to urban land was promoted by the progressive Movement for Urban Reform in Brazil in the 1980s, in response to the practice of land speculation which was underpinning spatial inequalities in Brazilian cities. After considerable mobilization, this concept was incorporated into the 1988 Brazilian Constitution, with mechanisms to limit speculation with privately held vacant land (Souza, 1999; 2000). Reintroducing a “social function of property”, the 1988 constitution limits the formerly absolute rights to private property. According to the 1988 Constitution, "the economic content of urban property rights is to be decided by local governments through a participatory legislative process, and no longer by the exclusive individual interests of the owner" (Fernandes and Rolnik, 1998:149, see also Fernandes, 2000). Associated with this is the focus of the 1988 Constitution in Brazil on decentralization, allowing local governments to articulate their own housing intervention policies and programmes, and the necessary legislation to carry these through.

In South Africa, the lack of local government autonomy is understood to have limited the restructuring of South African cities. Mabin (1997:48) links this to the fact that "recent national policy initiatives have generally failed to engage with the complexities of local circumstances". Thus, national policy is

"as yet, having little impact on apartheid's human settlement legacy. It does not mean that national programmes are entirely inappropriate, but it does suggest the need for space for local government to shape the ways in which national programmes are developed and implemented at local level - in other words, a local government policy role in relation to national programmes" (Mabin, 1997:48).

With regards to the strongly centralized national housing policy in South Africa, local governments have the role of participating "in a national housing programme in accordance with the roles applicable to such a programme" (Republic of South Africa, 1997:26; see also Huchzermeyer, 2000:321). A local government policy role in the area of housing should allow for a restructuring of housing subsidies into a model that may intervene in the land market to overcome segregation.

Should such subsidies be supply-side or demand-side? Currently, the project-linked subsidy in South Africa is a supply-side subsidy, which enables the developers to produce housing estates that need not be marketed to consumers. Occupation is guaranteed through the entitlement of the poor to a capital subsidy house. The demand side subsidy in South Africa (the 'individual subsidy' introduced in December 1995, and comprising 10% of national housing subsidies) allows for the purchase of an existing property in the market. This, coupled with savings and credit, was the housing subsidy approach that the World Bank would have envisaged for South Africa in 1994 (Jones and Datta, 2000:397). This also is the approach to capital subsidies in Chile. Gilbert (2000) has pointed to the similarities between the South African and Chilean housing policy, the latter being referred to as "the best known system of lump-sum subsidies" (Kim, 1997:1605). However a fundamental difference between the Chilean and South African subsidy systems is the dominance of the project-linked (supply-side) subsidy in South Africa.

It is not entirely clear whether a demand-side subsidy will lead to lower levels of segregation. Yates and Whitehead (1998:419) note that in Europe and the US, social segregation and socio-tenurial polarization have been associated with both demand-side and supply-side subsidies. What is important is that

"Social segregation and socio-tenurial polarization appears to be less in countries which have greater variety in the ways in which housing and housing subsidies are delivered and in those countries where the level of government involvement is greater" (Yates and Whitehead, 1998:419).

Should the demand-side subsidy approach be extended to replace the project-linked capital subsidy, mechanisms would have to be put in place to ensure that a range of housing types, in appropriately located and scaled developments, are delivered by the market. Government intervention will be crucial, through mechanisms of urban land market reform, legislation, regulation and taxation.

With its supply-side subsidy approach, the South African government missed the opportunity to intervene in the highly segregated spatial form of the city. Had the project-linked subsidy not been standardized per individual unit, in terms of expenditure on land, servicing and house construction, developers might have elaborated a diversity of housing models in a variety of locations. In order to redress segregation, the land component of the supply-side subsidy would have had to respond to the benefits and costs of well-located land.

While the South African housing sector has introduced a pilot mechanism for subsidized rental housing (see Tomlinson, 2001) and while efforts are underway to enable access to housing loans (see Moss, 2001), segregation will not be redressed at scale unless the project-linked subsidy is

abolished or fundamentally revised. Similarly, the over-emphasis on individual freehold titles must be redressed, as currently housing finance (both subsidy and credit) is largely linked to the transfer of title deeds to the beneficiary.

The lack of formal financial support for the rental housing sector is not unique to South Africa. Kim (1997:1604) notes that “formal-sector housing finance in many countries heavily favors new dwellings and owner-occupied units, and offers very limited support to home improvement and rental housing development.” Gilbert (1997) ascribes this trend to a weakness in the World Bank approach with which many developing countries have been forced to comply.

Beyond beneficiary choice, through a range of housing models and tenure options offered by the market, urban restructuring may also be facilitated through programmes that allow organized groups to develop their own housing concepts and processes. In Brazil, progressive municipalities (those led by the Workers Party or PT - Partido dos Trabalhadores) have created institutional support for 'mutirão' or community self-management. In municipalities such as Belo Horizonte, which operate a participatory budgeting process, organized communities (usually linked to larger associations) may compete in the budgetary process for funding for the purchase of well-located land. If successful, the organized community group or housing association then owns the land and elaborates, with local government support, a housing project according to its own vision and principles (URBEL, 1996a,b).

In South Africa, the Homeless People's Federation is ready to respond at scale to such an opportunity. In 1999, this network, supported by the NGO People's Dialogue, comprised 60 000 members in 1 200 autonomous savings groups across South Africa (People's Dialogue, 1999). Federation women have proven their ability to manage finances and to construct housing. However the main obstacle remains an inability to purchase land for community-managed development, even on the distant periphery (Mgedezi, 1999). Instead, the Federation has had to align its housing process to the standardized capital subsidy mechanism and project delivery process (Huchzermeyer 1999).

Conclusion

In South Africa, the perpetuation of segregation has been institutionalized through the project-linked capital subsidy system. Developed and promoted by the influential business sector and first adopted by the apartheid state in 1990, this subsidy mechanism has remained the main mechanism for housing delivery by the new government. Awareness of the perpetuation of segregation through this subsidy mechanism has led to the introduction of a number of alternatives. However, the project-linked capital subsidy has remained the dominant housing subsidy mechanism, and continues to deliver segregated housing estates, to scale, beyond the existing impoverished townships on the urban periphery.

The project-linked subsidy mechanism achieves impressive numbers in housing delivery. It therefore plays an important role in legitimizing the current government. However, spatial inequalities of the South African city contribute to the maintenance of poverty. The inefficiencies and hardships that are brought about by this type of delivery have impacts that undermine the economy at various levels. Adding the direct and indirect costs, it is evident that the South African economy is capable of delivering an alternative that is spatially integrated and responsive to the economic and environmental needs of the poor. It is paramount that the project-linked capital subsidy be abolished, and replaced by a wide range of housing subsidy systems. In order for these to overcome urban segregation, they must be based within a framework of reform that

ensures affirmative action in the land market, greater local government autonomy, tenure alternatives and meaningful participatory approaches.

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