The World Bank likes capital subsidies too

IN 'THE CASE FOR CAPITAL SUBSIDIES' (Reconstruct 13), Conrad van Gass leaves out an important reason for why this type of subsidy is all the rage. If the World Bank and IMF effectively set NewSA's budgetary limits on redistribution, then capital subsidies become all the more likely.

Consider this scenario: as a low-income yuppie, I get a once-off capital subsidy for my little toilet in the veld, and am convinced that is all I'm ever going to get. My energy now goes into acquiring zinc and plywood cheaply to build the shack.

Come next year, the World Bank parachutes in with a housing loan. Before we know it, the amount budgeted for capital subsidies is chopped as part of Bank loan 'conditionality'.

Comrades who haven't yet received their capital subsidy may scream and shout a little, but when they appeal to me to join their protest march to the national housing board, I'll simply reply, what's in it for me and other once-off recipients? We've got ours already.

By PATRICK BOND

Meanwhile, in plush Washington offices, World Bank policy wonks smile as the Pretoria protests subside, congratulating themselves on winning the technoground with their cost-cutting capital subsidies.

It doesn't have to be this way, of course. A subsidy for a full house could instead come in the form of a long-term, low-interest loan, via which government grants match private sector market-rate investments and the democratic state accepts responsibility to meet people's housing needs affordably.

Defend subsidies

What is different? In contrast to the capital subsidy approach, this scenario creates a far larger constituency depending on long-term interest subsidies to pay the monthly housing bill. It is a built-in interest group that will politically have a much better chance of opposing subsidy cuts. And that's the best — and perhaps only — defence against a Zimbabwe-style outcome, where the Bank and USAID rapidly wiped housing subsidies off the face of the state.

My two scenarios are a bit tongue-in-cheek, of course. But given the harsh realism behind the scenarios, isn't this sentiment precisely what progressives are meant to bring to the table? After studying the Bank, IMF and USAID for a number of years, it still strikes me that the best way to engage these institutions is through principled, well-researched opposition to their policies.

At first blush there may well be some seemingly rational, utility-maximising reasons to endorse this or that Bank programme. But the Urban Foundation and Development Bank of SA (DBSA) — the Bank's stormtroopers all these years — have shown convincingly that orthodox financing principles lead nowhere fast.

We should have more confidence in our critiques, based on the practical politics and traditional demands emanating from the democratic movement. In other words, let's be more sceptical

Planact clarifies

The cover story of RECONSTRUCT 13 contained incorrect information from a 1992 draft report by a former Planact staff member, which requires clarification. Planact acknowledges the existence of — but does not 'argue for' — site-and-service capital subsidies (quite the contrary). Planact, in conjunction with many of the community-based organisations we have been working with for the past eight years, believes that sufficient funds are available to finance real housing, not just shacks and toilets, for all those who presently lack adequate shelter.

Planact estimates that the amount of private sector finance available for housing at market rate of return could amount to R50-billion spread over the next decade, in the event a comprehensive housing policy, sufficient state subsidies (also of R50-billion) and a national housing finance bank are agreed upon. Ideally, this would come in the form of a blended fund which would allow projects and programmes to get at least R20 000 (the cost of a basic unit) and to each 'end-user' at an affordable interest rate (or in grant form, if need be).

- Allan Horwitz works for Khanya College, not Sached Trust as reported in the last edition of RECONSTRUCT.

about capital subsidies, housing vouchers and anything else the Bank and its allies promote.

There are also good technocratic reasons to plump for interest rate instead of capital subsidies. The main advantage of loans is their flexibility, since the subsidy portion can be reassessed whenever there is a major change in borrower circumstances, such as unemployment or reemployment. Once-offs prevent this and are therefore less efficient in redistributing society's resources.

Worried about 'income cheating' on means test for interest subsidies? Might the recipient lie and thus pay a lower monthly loan repayment than s/he can afford? Try then the model being discussed in several PWV community-driven projects, in which an 'upward incentive means test' has been devised through offering several different housing types, each more expensive, thus each offering a greater incentive to declare household income accurately (since, by declaring high, the borrower gets access to a better house).

Wholesale finance

Moreover, with a loan subsidy, the budgetary allocation to low interest loans can change every year according to economic conditions and social needs. Indeed, it should be possible to budget ahead quite accurately if we have a rough sense of borrower income levels and if we can acquire long term, fixed-rate 'wholesale' financing from insurance companies and pension funds.

This is a better source than ordinary banks, which insist on potentially turbulent variable-rate financing. Indeed, it is to fixed-rate investors, such as worker pension funds, that Cosatu and Sanco are looking at for access to housing funds, especially since the banks continue to redline most low-income projects.

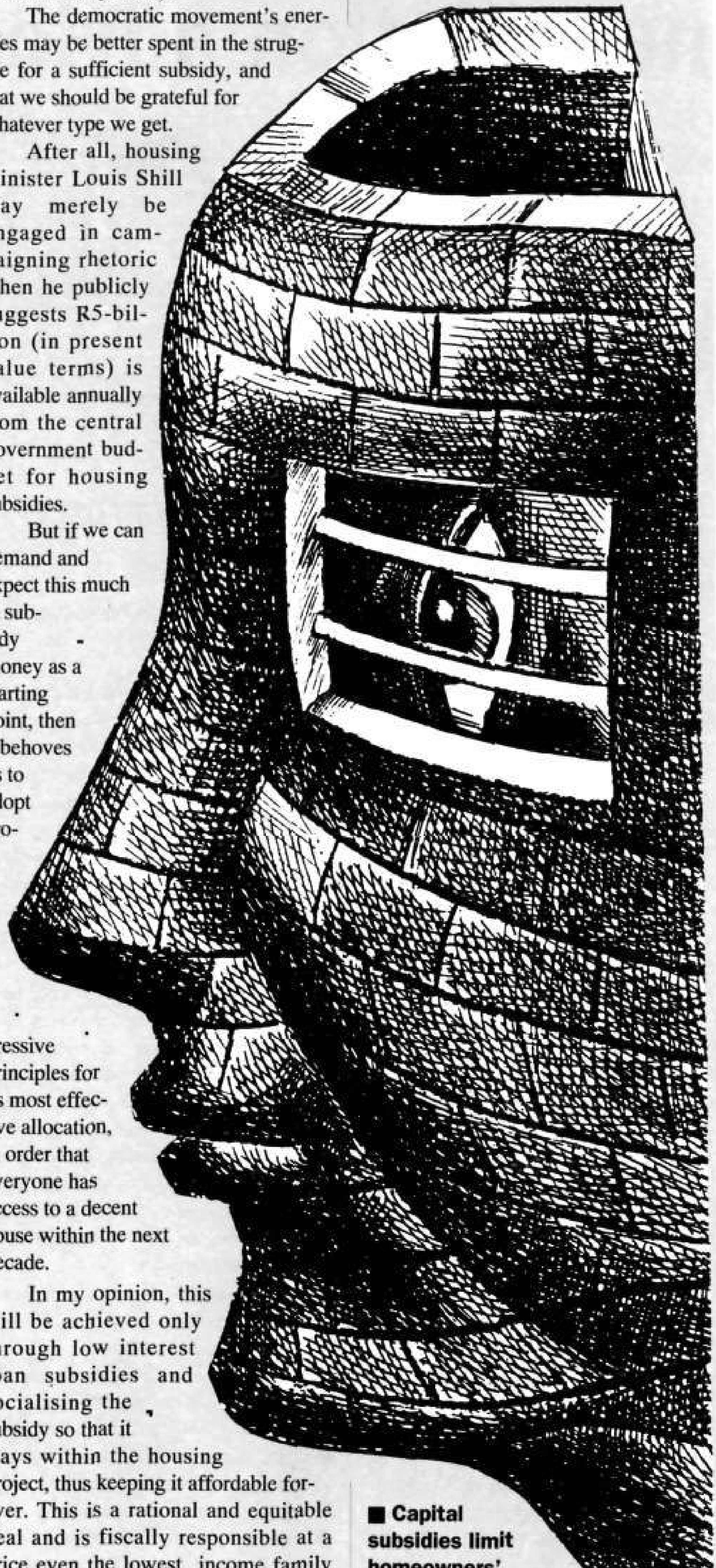
Finally, by providing low interest loan subsidies, government can catalyze, utilise and subsidise the services of community-oriented loan funds of various types — in particular community-based People's Banks — and thus help build community capacity and institutions where they did not exist before. (The low-interest loans could also be offered in blanket form to borrowers, such as community development trusts, which are already established in many areas).

The democratic movement's energies may be better spent in the struggle for a sufficient subsidy, and that we should be grateful for whatever type we get.

After all, housing minister Louis Shill may merely be engaged in campaigning rhetoric when he publicly suggests R5-billion (in present value terms) is available annually from the central government budget for housing subsidies.

But if we can demand and expect this much in subsidy money as a starting point, then it behoves us to adopt progressive principles for its most effective allocation, in order that everyone has access to a decent house within the next decade.

In my opinion, this will be achieved only through low interest loan subsidies and socialising the subsidy so that it stays within the housing project, thus keeping it affordable forever. This is a rational and equitable deal and is fiscally responsible at a price even the lowest income family can afford. ■



■ **Capital subsidies limit homeowners' options**