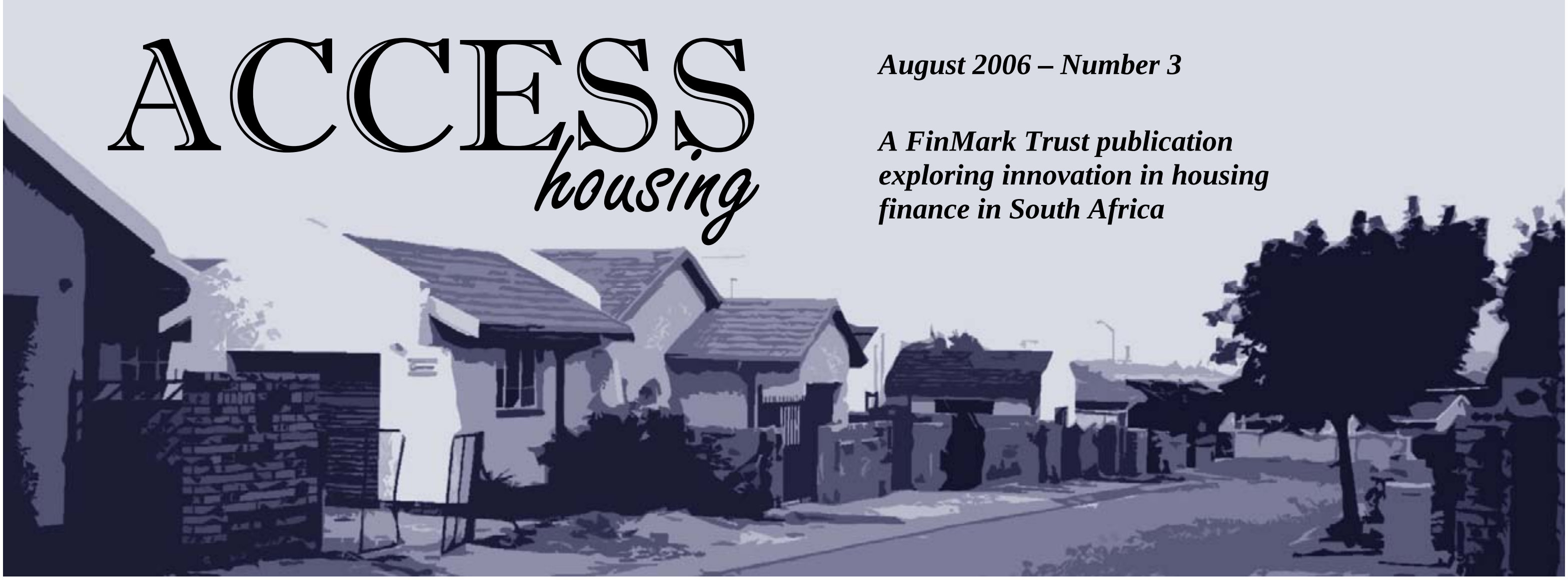

ACCESS housing

August 2006 – Number 3

A FinMark Trust publication exploring innovation in housing finance in South Africa

Are urban gentrifiers downward raiding?

In the last edition of *ACCESS housing*, the findings of a recent study into small scale landlords were summarised. The study, jointly funded by the FinMark Trust, the Social Housing Foundation, Nedbank and the National Department of Housing, found that housing provides a critical platform for residents to become small scale landlords, earning an income and building their asset wealth, while also supplying and managing much needed affordable rental accommodation for other low income households.[1]

Small scale landlords operate all over South Africa, offering between them, accommodation for 1.85 million households. While this is not a new phenomenon, the performance of the property market in recent years has made it increasingly attractive to investors. In 2005, 25% of all residential property purchases were made by buy-to-let investors.

More recently, as the property market has slowed somewhat, the press has been reporting incidences of investors moving down-market and investing in undervalued property in inner city areas. This offers a great opportunity for urban regeneration – but is it not also downward raiding? And what are the housing finance implications?

Take the example of Yeoville, an established inner city suburb in Johannesburg. A mix of houses and low rise apartment blocks, Yeoville was for years a vibrant, hip place to be. In the early 1990's however, the area went through terrible decline and many people saw their property values plummet. There were stories of houses going for less than R50 000 as people sold fast to get out. Some claimed the area had been redlined by banks. A lot of people lost considerable equity on their homes.

Of course, one man's misfortune is another man's luck and when property prices hit rock bottom they signalled an investment opportunity for the brave.

In 2004, there was a two-storey block of flats (four units) up for sale in Yeoville for R350 000. The buyer put down a R70 000 deposit. In keeping with the City's urban regeneration intentions, the bank offered a mortgage secured against the property with a monthly repayment responsibility of R3700 per month. Normally, one would calculate that with an instalment to income ratio of 25-30%, the purchaser would need to earn R12 210-14 800 per month in order to afford the loan.

Once purchased, the four units (rented out at R2200 each) yield R8800 per month. The rental easily covers the mortgage payment, as well as the R600 rates bill and the R2000 electricity and water bill leaving a net profit of R2500. This gives the investor a risk cushion against non-payment, as well as a reserve to retain towards maintenance. Meanwhile, in the two years since its purchase, the value of the building has appreciated considerably – it is currently estimated to be worth about R550 000.

Would such an investment be affordable to a lower income person? At R2200 per unit, the purchaser could rent out three of the units for R6600 and live in the fourth, rent free. (Living in the building, the risk of non-payment by other tenants would be considerably less.) After paying the R3700 bond instalment, the purchaser would have R2900 left over per month pay rates and services charges and do maintenance. If another member of the household were employed – even earning a minimal amount – the situation would be viable to live on, and the purchaser would benefit from the capital appreciation of the building over time. He or she could use this to gear more funds to purchase more units in the neighbourhood. As with other buy-to-let investors, this lower income earner would be realising wealth through property. That is, if the housing finance to facilitate the original and subsequent purchases were available. It is not.

The problems facing the low income earner in this situation are significant. **First, he or she would need the R70 000 required as a down-payment for the mortgage**. Government's capital subsidy, if applied individually, could possibly be used to cover half this amount; however it is not currently available in this form. Then the remaining R34 000-odd required would have to be financed in some other way. **Second, current mortgage products do not permit a future income stream to count towards eligibility for the loan.** While this approach has been applied

[1] The full reports from this study are available on the FinMark Trust's website: www.finmark.org.za, click on "housing finance" in the "theme areas" pull-down menu.

successfully in Chicago, USA by Shorebank, none of the big four banks currently offers such loans to individuals.

In Johannesburg, the Trust for Urban Housing Finance[2] is applying something like the Shorebank model. Offering mortgage loans for purchase or refurbishment, as well as deferred sale loans (in which TUHF holds the title to the property until the loan is fully paid), TUHF targets emerging entrepreneurs like those targeted so successfully by Shorebank. And yet, even with such products, only 22.3% of TUHF's finance has gone to individuals, with the remaining 77.7% to companies.[3]

***The third problem faced by the low income individual therefore is access to information** – how does a low income person, for whom the national housing policy has considered an RDP house, find out about investment opportunities presumed relevant only to higher income earners?*

The research into small scale landlords found that "access to financial products for Small Scale Landlords is poor. Those Landlords operating their businesses on an informal basis have less access to financial products than those operating on a more formal basis. The lack of loan finance for Small Scale Landlords is due to the fact that commercial Banks remain extremely risk averse and other Development finance institutions focus either on Social Housing Institutions or provide finance in a manner that is inappropriate or is difficult to access for Small Scale Landlords."

Surely the principles in the Financial Sector Charter, as well as in the Property Charter, should lend themselves to enhancing access to investment opportunities by low income households. Certainly such support would blend well with municipal (and indeed constitutional) intentions for equality and integration in our cities. Given the investment opportunities that exist in so many undervalued areas across South Africa, the risk of downward raiding by investors with better access to finance and information is significant. The Small Scale Landlords project signaled the need for much greater creativity in the design of loan products so that they support not only access to housing, but access to wealth as well. Just as any higher income earner might expect.

Kecia Rust

Housing Finance Theme Champion, FinMark Trust

In this issue:

[2] See TUHF's website: www.tuhf.org.za for more information.
[3] The distinction between individuals and companies is of course imprecise as there may be high income individuals also accessing TUHF finance. To date, 63% of TUHF's loans have been extended to BEE clients. 56% of the value of TUHF's loans granted have been to BEE clients.

The Shorebank Model

Shorebank is an American lending institution which has pioneered a model that supports the efforts of low-income earners to become small scale landlords.[4] The initiative started in 1973, when the then South Shore Bank identified a need for rental housing in the south end of Chicago, Illinois.[5] Targeting what they called 'hidden entrepreneurs', Shorebank identified, developed and supported local people to become landlords of rental housing blocks. Shorebank would provide landlords with loans to purchase and upgrade abandoned rental tenements. Loans were kept low because of the poor market value of the stock and the use of the purchaser's own labour in the refurbishment.

Through Shorebank's lending, low income households were able to become housing investors, while offering good quality housing to others. The programme has also been successful in the revitalisation of the South Shore neighbourhood, which since the 1970's had been abandoned by local capital.

Today, ShoreBank has companies in Chicago, Cleveland, Detroit, the Upper Peninsula of Michigan and the Pacific Northwest. In addition, its consulting company ShoreBank Advisory Services assists and partners with development organisations in the US and around the world.

Shorebank practices relationship-based lending:

- In considering the application for finance, Shorebank gets to know the prospective landlord's family and friends and works to understand their role in the community. This becomes one of the key factors in Shorebank's decision.
- Loan applicants must have strong local networks, and must be committed to developing positive, one-on-one relationships with tenants.
- Shorebank clients are actively encouraged to develop relationships with one another so that they may share experiences as landlords.

From its experience, Shorebank has identified the following key lessons[6]:

1. **Picking the 'Right' Neighbourhood**: Shorebank targets its lending in areas where community cohesion is clearly still possible. Shorebank does not lend in areas which have lost all social fabric.
2. **Finding South Shore's Hidden Entrepreneurs**: Shorebank understands that landlords may come from a host of different backgrounds. They emphasize character and networks over formal accreditation.

[4] This overview is drawn from Sigodi Marah Martin and Nell (2002) An Assessment of Rental Housing in South Africa. HFRP Occasional Paper No. 5. Available on http://housingstudies.wits.ac.za/ - click on the "publications" tab and scroll down.
[5] See Shorebank's website: www.sbk.com for more information.
[6] These points are quoted directly from the Sigodi Marah Martin and Nell report.

3. **Aiming for Scale and Visibility**: Community cohesion and social capital grows exponentially. When community residents notice that their neighbours are investing in the neighbourhood, they are also inclined to participate. Shorebank relies on the catalytic effect of their loan. To support this, Shorebank concentrates its exposure in targeted areas with the expectation that this would lead to further, non-Shorebank investment.
4. **Match the Entrepreneur with the Building**: It is important that landlords have the capacity to manage the particular building in which they operate.
5. **No Improvements …No Loan**: Shorebank will only invest if their loan is to lead to the physical improvement of the stock.
6. **One Borrower One Lender**: Shorebank develops personal relationships with their borrowers.
7. **On Site, In Sight**: Shorebank insists on landlords being present and visible in their buildings, also resident there themselves. Shorebank will not fund absentee landlords.
8. **Credit Plus Services**: Shorebank manages its investment through the provision of additional services and supports to ensure that its borrower, the landlord, succeeds.
9. **Growing with Our Customers**: Shorebank has increased its loan portfolio with the increasing experience of its borrowers. As they have demonstrated the capacity to manage additional stock, Shorebank has increased their loan.
10. **Using a Business Model that is not constrained by subsidies**: Finally, Shorebank sets its own rules as a lender that are not influenced by external subsidy policy. This ensures that Shorebank's relationship with its borrowers is not encumbered by factors beyond Shorebank's control.

FSC Update

The Financial Sector Charter is now coming to the end of its 3rd year. As the financial sector continues to explore ways to realise its commitment to extend housing finance to households earning between R1500 – R7500 per month, a critical issue has to do with housing supply. As reported in the last edition of *ACCESS housing*, there is increasingly little to buy!

When the Banking Association published its research into Housing Supply and Functioning Markets[7] last December, the headline item was a problem in housing supply – South Africa was reported to be short an estimated 661 000 houses affordable to households earning R2500 – R7500 per month. To reduce the shortage by only 60% in five years (taking into account additional demand created by ongoing population growth), an annual delivery of 132 000 houses per year was required. Current annual delivery of houses costing less than R200 000 is estimated at about 19 000 units.

The Banking Association has been publicising this message with increasing regularity of late – and setting out the following four points to substantiate their argument:

1. The lack of access to well located and reasonably priced land is making it virtually impossible to deliver well located, affordable housing. Public sector land is not being assembled for housing purposes (notwithstanding the Housing Minister's intentions) and private sector land is too expensive given current property dynamics.

2. Serious delays in the land proclamation and servicing process are drawing out the conversion of land to stands, and stands to houses. Only a few years ago, the process of land procurement, township establishment and register, and the installation of services took 12-18 months; it now takes 30-59 months. A few years ago, it took 5 months to deliver houses on stands, effect transfer and hand over to residents. Now, largely because of the deeds transfer and municipal clearance certificate process, it takes about 19 months.

3. Ever increasing cost inputs in terms of land, material and unit labour costs are making the product unaffordable.

4. The limitations in supply constrain movement in the market, suppressing demand and therefore militating against additional supply. Overcoming the backlog in will require the delivery of a range of affordable rental and ownership housing options – but some of these will need to be subsidised.

We are now past halfway, and the December 2008 deadline for the promised R42 billion is fast approaching. With only about 27 months to go, there is still some time for the housing delivery rate to increase and for the supply to begin to match the finance that is being made available. But in terms of the numbers above, only just, and only if the delays are addressed and resolved. If a development were started today, it would only be completed in 49 months – that is, by September 2010. Some banks have said they expect supply to dry up completely by the middle of next year.

What does this mean for targets? It is likely we'll see more development finance initiatives to support house building as banks struggle to find houses to mortgage. Which means that the post December 2008 targets will become more important.

Housing finance issues in Africa

As financial institutions worldwide (and in South Africa) consider the potential to invest in African countries, the question of housing finance invariably comes up. What are some of the housing finance issues facing other African countries? In May, FinMark Trust offered a perspective on the issue to an international bank at a workshop they convened in Johannesburg. The presentation is available on: http://www.finmarktrust.org.za/documents/2006/MAY/housingopportunities.pdf

---

[7] For the full reports of this useful study, go to the Banking Association website on www.banking.org.za

Access to housing finance: what would it look like when it works?

The reasons for lenders to consider the development of housing finance products for low income earners are many. **First, there is the issue of demand.** In principle, demand is high. An estimated 925 million people live in slums worldwide. By 2030, it is estimated that 2,825 billion people will need housing and urban services: 877 million housing units will be needed over the next 25 years just to accommodate the increase in population. Urban populations in Africa are growing by 3.5% per annum, and by 2030, most African countries will be more than 50% urbanised.

However, current shelter systems have resulted in two extreme outcomes – shelter that is affordable to the poor is generally inadequate while adequate shelter is unaffordable. Poverty in Africa is significant, with 75% of the population earning less than $2,00 per day. Added to this, asset poverty undermines household capacity for sustainable livelihoods. This is a challenge to effective demand for finance.

A further perspective to demand relates to the level of servicing in urban areas. The 2005 Global Report on Human Settlements (Financing Urban Shelter) suggests that sanitation and electricity are the most significant urban services challenges. In 2002, only 57.8% of urban African households had access to improved sanitation services; 43.4% had access to house connections. The wild card is access to secure tenure – in many countries, individual title is not yet easily accessible.

And yet, all households invest something in their housing, and a strong connection has been identified between asset building and access to financial services: quite simply, people save, seek credit, access housing assets, demand insurance products, and so on. Surely there is some market for housing finance that is worth penetrating? Surely the demand for housing can be better supported with access to finance?

Then there's the issue of supply. Although public sector finance has been historically dominant in most sub-Saharan African countries, it has been in decline in recent years. Access to housing finance is being promoted by various micro finance organizations, although they lack the capacity to operate at scale. The limited spread of private sector finance for housing in African countries other than South Africa therefore suggests opportunities for new private sector entrants.

The demand and supply terrain suggests that traditional forms of housing finance – namely the mortgage – are largely inappropriate. (Interestingly, even in South Africa's highly developed and relatively better serviced environment, the relevance of mortgage products for low income earners has also been questioned.[8]) This suggests that a closer look at the activities of micro lenders and how they lend for housing is warranted.

[8] See Melzer, I. (2006) *How low can you go: Charting the housing finance access frontier*. Prepared for the FinMark Trust (available on http://www.finmark.org.za/documents/2006/May/AccessHF_report.pdf)

A paper recently undertaken for the Harvard University Centre for Urban Development Studies offers some insight into investment decisions made by the poor in respect of their housing, which might help clarify a role for lenders seeking to enter the market.[9] Quoting Serageldin, the paper suggests that households who see their housing primarily as shelter are generally prepared to invest 10-15% of their earnings in housing. Their investment expectation is limited by the relative insecurity of their tenure. Households with secure tenure, however, are generally more likely to see their housing as a commodity and are prepared to invest over 30% of their income to acquire land and improve their housing conditions. For such households, their homes constitute over 60% of their total asset profile. A further subset of the population see housing as an investment, and in this case the linkage is often determined by the household's use of their home for micro enterprise. The study found that between 30-60% of housing micro finance clients were engaged in some sort of micro enterprise.

This analysis suggests that the sort of housing finance required by households varies by family context, and should be considered when loan products are being developed. Micro lending institutions throughout sub-Saharan Africa are gaining experience in the kinds of products that different situations require. However, the donor capital that they have relied upon traditionally has been decreasing and they continuously struggle in accessing wholesale finance on terms that will keep their loans affordable.

Given the respective capacities of each, it would seem that opportunities exist for creative partnerships between incoming private sector financiers and the incumbent micro lenders, trading experience and expertise for capacity and capital.[10]

Housing micro finance: current debates

Excerpted from the Kuyasa Fund's Delft Area Housing Needs Analysis

In 2005, the FinMark Trust supported the Kuyasa Fund in a housing finance needs analysis in the Delft Area. The report from the analysis is on our website, and includes a very useful overview of the housing finance situation in South Africa currently. The following excerpt highlights some key issues facing housing micro lenders in SA today.[11]

'Micro finance institutions' (MFIs) are commercial or non-profit institutions that provide financial services of a much smaller average value than is available in the 'normal' market. MFIs typically offer services to households who

[9] The paper is available on the internet: http://wbln0018.worldbank.org/html/FinancialSectorWeb.nsf/(attachmentweb)/HousingMicrofinanceInitiativesHarvardGSD000501/$FILE/Housing+Microfinance+Initiatives+HarvardGSD+000501.pdf

[10] A World Bank analysis of the challenges and policy options in building housing finance, by Olivier Hassler, is available on the web. See http://siteresources.worldbank.org/INTHF/Publications/20803580/NovAngolaHFBldgBlocks.ppt

[11] For the full document, go to: http://www.finmarktrust.org.za/documents/2005/AUGUST/Delft_report.pdf

cannot otherwise get them. MFIs can have different principles (developmental, and non-developmental) and different methods for attaining them. They can offer a range of services, such as micro enterprise loans, savings, insurance, as well as 'credit plus' products such as education and training and health services.[12]

There is ongoing debate in micro finance circles about the appropriate relationship between mainstream financial services, such as banks, and micro finance institutions. In such debates, 'developmental' MFIs – those that specifically target the poorest households – are usually on the defensive.

One challenge comes from those who support 'commercialisation', in which the goal is for all micro finance institutions to be both profitable and profit-driven. Non-profit MFIs are seen as at best a sideshow and, at worst, disruptive of the orderly functioning of financial markets.

Another challenge comes from the Consultative Group to Assist the Poorest (CGAP), the World Bank's micro finance support project, which has become increasingly vocal about the need to move beyond standalone MFIs and towards large-scale approaches to financial services for the poor, even if these are not market based (e.g. basic 'state banks'). These debates are reflected in South Africa. Some argue that formal banks are not designed to serve the poor, and have little or no market incentive to learn how to do so; thus there is a need for state intervention in this situation of 'market failure'.[13] Others argue that since banks have the resources to provide finance services to the poor, it is their socio-political responsibility to find ways to do so.

Micro finance for housing, although relatively new, is of interest to many MFIs due to the recognition that lack of housing and basic infrastructure is one of the main drivers of poverty (especially urban poverty), but that household-level access to finance for these things is poor or nonexistent.[14] This is reinforced by what some call a 'second generation' approach to housing for the poor in developing countries, based on an understanding that mass 'public' housing construction programmes are largely ineffective.[15] Instead, it is increasingly recognised that housing processes in such environments are primarily incremental – which raises the question of how best to finance this kind of process.

The problem is that most familiar models of micro finance – both commercial and non-commercial – have been developed around micro enterprise or consumption needs rather than asset acquisition, such as housing. Lending for micro enterprise is the sole focus of most 'Grameen'-type micro credit NGOs. Lending for consumption (or for unspecified purposes) is the preserve of commercial moneylenders. Neither approach is designed for the specific needs of housing acquisition and/or improvement. As Christen argues,

The private finance of low-income housing presents the micro credit industry with one of its most dramatic challenges. The purchase of new homes, parcels of land upon which to build, or the major upgrading of a current residence all represent sums of money that require relatively long loan terms to keep payments within the reach of poor families. Yet micro credit operators have built their success on the backs of lending methodologies that keep loan terms quite short, loan amounts low, payments frequent, and that use peer-based knowledge as a basis for assessing a potential borrower's character (willingness to repay). These techniques were developed precisely to counter the fact that poor families had no collateral to back their credit requests, and that their sources of income, while potentially sufficient, were too unstable and difficult to verify for the longer terms of traditional loans" [16]

The key issues for housing micro finance are thus the *length of loan term* and the *nature of security*. The basic problem is that what works well for micro enterprise micro credit (short loans and group guarantees) does not suit the housing process in most developing countries. Even where incremental improvement is the norm, housing loans for low/unstable income households need to be much bigger than for micro enterprise to be useful. Housing borrowers have much less incentive to operate and enforce mutual guarantee systems, since access to an ongoing line of credit is less important for housing than for micro enterprise. Most housing MFIs are reluctant to follow banks on the path of foreclosure and eviction, even if this is politically possible. Thus, as Christen rightly observes, "the greatest challenge of all lies with those who wish to make long-term, larger loans for substantial housing rehabilitation or new home purchase for micro enterprise clients whose income flow is variable and uncertain".

Although there are various opinions on best practice in housing micro finance, there are points of agreement. First, housing micro finance is crucial to the poor, as other options for shelter finance are generally unavailable to them. Second,

[12] Daniel, C. H., Holden, P., & Prokopenko 2003. 'Micro finance Institution and Public Policy' *Journal of Political Reform* 2003. v6 n3 147-159
[13] Baumann, T. 2004a. 'Pro-poor Finance for Sustainable Livelihoods' ANC website, *Umrabulo* 21, http://www.anc.org.za/ancdocs/pubs/umrabul21/index.html Accessed 4/3/2004; and Van Rooyen, O. 2004. 'A New Approach to Low Income Housing Finance' ANC website, *Umrabulo* n21, October http://www.anc.org.za/ancdocs/pubs/umrabulo21/index.htlm Accessed 4/03/2005.
[14] See Daphins, F. 2004. 'Housing Micro finance: Toward a Definition' in *Housing Micro finance: A Guide to Practice.* F. Daphnis and B. Ferguson (eds). Bloomfield: Kumarian; Ferguson, B. 2004. 'the Key Importance of Housing Micro finance' *Housing Micro finance: A Guide to Practice*. In ibid.; and Mitlin, D. 2001. 'Housing and Urban Poverty: A Consideration of the Criteria of Affordability, Diversity and Inclusion' *Housing Studies* Vol. 16 N2 Project. 509-522.
[15] Renaud, B. 1999. 'The Financing of Social Housing in Integrating Financial Markets: A view from developing countries' *Urban Studies* v36 n4 755-773
[16] Christen, B. 2004. 'Foreword'. *Housing Micro finance: A Guide to Practice*. F. Daphnis and B. Ferguson (eds). Bloomfield: Kumarian.

micro loans for housing should be provided in ways that are diverse, affordable, and supportive of existing household and community livelihood strategies. Housing micro finance should stimulate asset formation and social capital sustainably, rather than increase vulnerability through individual debt.[17]

As understanding of the need for and methods of housing micro finance grows, however, it is becoming clear that knowledge of its use at household level is lacking. There are almost no studies of how poor households 'turn money into house'. This is problematic in two ways. On one hand, those who favour conventional mortgage models for the poor tend to assume that households are incapable of utilising loan funds effectively, leading to a bias in favour of 'developer-driven' construction systems in which households are passive 'beneficiaries' of housing, even though they are expected to repay the loans that finance it. On the other hand, proponents of micro credit for incremental housing development often assume that poor households have the skills and opportunities to use such loans effectively – 'turning money into house'.[18] In both cases, the focus is on finance rather than the end use of that finance.

Case study: the Kuyasa Fund

By Mike Greeff and Roland Pearson

This case study is included in a report that considers the causes of default among borrowers of housing micro lenders, commissioned by the FinMark Trust, RHLF, NHFC, DBSA and TransUnion ITC. The study will be launched in October and will be reported on in the next edition of ACCESS housing.

Vision: Kuyasa aims to create sustainable households and communities. We do this through facilitating access to housing finance as a tool for improving well-being and supporting the development of a financial sector for the poor. We believe that the poorest of the poor are credit-worthy, and that through mobilising savings they are able to build financial and social capital.

Established in 2000, the Kuyasa Fund is a non-profit microfinance institution specialising in the provision of housing loans for new housing or housing improvements to low-income households with secure occupational rights. The Fund grew out of a need for additional financing for South Africans who had qualified for the state housing subsidy. Kuyasa works in townships across Cape Town, all characterised by informal housing, low and erratic incomes, a high percentage of women-headed households and poor service delivery.

In order to meet our vision, Kuyasa provides microfinance services to those with secure occupational rights who are excluded from formal finance, because improving the quality of housing adds essential social value and because no other appropriate sources of housing finance are available to low-income households.

The rapid growth of an active micro-lending industry in South Africa has been an influential trend over the past ten years, but the vast majority of South Africans still have little meaningful access banking services. This economic exclusion is impacting on housing delivery in a number of ways:

- The construction of subsidized houses that are generally small, of inferior quality and socially and environmentally unsustainable.
- A lack of formal investment in housing due to high service charges and red-lining by banks.
- The lack of an effective housing market; meaning subsidy recipients often sell their houses at below market value as buyers cannot access finance for a fair sale.

Kuyasa's Activities

Kuyasa works at the lowest end of the housing finance market, with low-income clients earning an average income of R1600. Their clients are drawn from those who qualify for a state housing subsidy, and at present loans are targeted solely for use in the housing process. Housing situations currently undertaken by Kuyasa include:

- The provision of housing on serviced sites.
- Non-subsidy-linked and non-project-linked housing loan products.
- Improvements and extensions to RDP housing.
- Hostel redevelopment.

Kuyasa clients save in groups for six months; with the maximum loan they can be granted limited to three times their savings, up to a maximum of R10,000. Interest is set at 32% and the longest repayment period permitted is 30 months. Clients can take further loans once they have repaid their first loan.

[17] See Lucarelli, B. 2005. 'Microcredit: A Cautionary Tale' *Journal of Contemporary Asia*, v35 n1 78-87 ; Ferguson, B. 1999 'Micro-finance of housing: a key to housing the low or moderate-income majority? *Environment and Urbanization* v11 n1 (April 1999) 185-200 ; and Moser, C. 1998. 'The Asset Vulnerability Framework: Reassessing Urban Poverty Reduction Strategies' *World Development* Vol. 26 No. 1 1-19.

[18] Tilock, K. 2004. 'Construction Assistance and Housing Micro finance'. *Housing Micro finance: A Guide to Practice.* In F. Daphnis and B. Ferguson (eds). Bloomfield: Kumarian.

Access to housing finance: what would it look like when it works?

Delivering Value

In the space of five years, the Kuyasa Fund has scaled up rapidly, in the past year alone disbursing more loans than in their previous four years of existence combined. Kuyasa measures success through both household and institutional sustainability, with a strong focus on impact at the household level.

Kuyasa has disbursed over R23 million (US$3.3 million) to 4,885 clients, 74% of whom are women. All Kuyasa clients earn under R3,500 (US$573) a month, with 60% earning under R1,500 (US$245). The average family size of the client base is five people, meaning that the loan book has potentially impacted positively on the lives of 20,240 people.

Using their Kuyasa loans, clients build houses ranging in size from $36m^2$ to $60m^2$ in Kuyasa projects. This is in contrast to contractor-built subsidy housing which averages $23m^2$. Research shows that Kuyasa clients use their loans for new homes (57%), extensions (23%), for improving thermal efficiency (16%), and for finishes (4%).

In addition to these tangible results, Kuyasa believes that they have also contributed a model for using microfinance to integrate social delivery, challenging existing microfinance and banking paradigms, and providing a link between formal finance and low-income populations.

Kuyasa's outstanding loan balance is R8.9 million, with write offs currently at 5%, cost recovery at 55% of total expenses and as at December 2005, Kuyasa was meeting 79% of their operating expenses.

Towards Sustainability

The financial sustainability of Kuyasa clients is a major concern and Kuyasa's departure point was to develop a micro finance strategy and product that met the needs of their clients while ensuring the best possible repayment rates. This means that Kuyasa's clients pay interest on their loans, which is set at levels below the rates of formal banking institutions for comparable loan sizes in less risky loan markets. They manage this risk through a strong presence within the communities serviced, with field workers ensuring good repayment rates. The Kuyasa approach has therefore been to develop the products, strategy and institutional capacity required to serve this market, and then to drive the volumes necessary to serve it cost effectively.

Kuyasa uses wholesale loan finance to finance loans to clients, rather than using grant funding. This method ensures that Kuyasa is financially sustainable, reducing dependency on donors and ensuring the ability to continue financing low-cost housing into the foreseeable future by accessing commercial loans from the banking sector. Kuyasa are currently in negotiations to secure such funding. They anticipate reaching full sustainability within the next two years (2008).

The Kuyasa concern with sustainability has primarily been focused on client household sustainability before that of the Kuyasa institution and operations. They have explicitly sought to target their services at women who head their own households, as well as pensioners and the informally employed, as these groups have traditionally been excluded from formal finance. They consider that the benefit of their loans is extended to the households of their clients, on average comprising five people. An investment in housing is also an investment in a community and promotes the upliftment and social cohesion of neighbourhoods. Kuyasa believes that this unquantifiable advantage is as important as the financial benefits of their loans.

If you would like to be included in (or removed from) the mailing list for ***ACCESS housing***, please contact Tamara Banda at the FinMark Trust: tamarab@finmark.org.za. For more information, please contact Kecia Rust, the FinMark Trust's housing finance theme champion, on Kecia@iafrica.com or on 083-785-4964.