Case Study

Housing Microfinance for Women-Headed Households: The Kuyasa Fund in South Africa

Supported by the Development Action Group and the Swedish International Development Cooperation Agency (SIDA)*

SUMMARY: This low-income housing microfinance program illustrates how microfinance can be very successful in allowing the very poor to incrementally upgrade their homes. Secure tenure was fundamental to success, as was concurrent financial training of the (mostly) women’s groups that received the loans. With these conditions, more than 10,000 families were served between 1999 and 2010, with an average loan size of $780.

Background

Since the end of apartheid in 1994, when the majority black population gained the rights to live in the country’s formerly restricted cities and towns, South Africa’s urban population has mushroomed. This tremendous urban growth has created an acute shortage of adequate housing, particularly for the poorest families, many of which are headed by women. In 1994, the government issued a new Housing Policy and Strategy, which identified a comprehensive set of activities to address the housing shortage. For the very poor — those with an income of less than ZAR3,500 (US$453) per month — who meet eligibility criteria and do not own a house, the government provides a housing subsidy of ZAR36,500, sufficient to cover the costs of purchasing a small plot and constructing a basic “starter” house of 23-36 square meters (248-387 square feet) with essential utilities. A dwelling of this size is nonetheless woefully inadequate for a typical family of four to five people. It is anticipated that the families will incrementally improve and expand on the basic unit over time as resources permit. But formal-sector financing for desperately needed decent housing upgrades is unavailable to low-income families, and many families resort to using shack and scrap materials to meet their needs.
The Kuyasa Fund

Microfinance can address the incremental housing needs of low-income families at an affordable rate. In 1999, the Kuyasa Fund was established as a microfinance institution in Western Cape Province as a pilot project by the Development Action Group, or DAG, a South Africa community development nongovernmental organization. The fund was originally capitalized by a wholesale loan from the Swedish aid agency SIDA.

Objectives and operations

The Kuyasa Fund provides microcredit to low-income families who already have title deeds to their property and have benefited from a housing subsidy but do not have access to formal-sector financial institutions. The microcredit funds enable them to upgrade their house to better meet their needs and increase its value. More than 75 percent of Kuyasa Fund clients are women, and fewer than 25 percent are formally employed. More than 80 percent are older than 40.

The Kuyasa Fund draws on a culture of group savings, which is prevalent throughout the region. Individuals, mostly women, come together voluntarily at periodic meetings to contribute and pool their savings and receive cash payouts. The fund does not collect savings, but Kuyasa loan officers train groups in practices such as recording members’ savings and ensuring good group governance. The fund also conducts workshops on savings mobilization for groups and on financial-life skills and homeowner budgeting for families.

The fund makes microloans for housing upgrades to members of the group who have saved regularly for at least six months. Although employment is not a prerequisite, borrowers must have a regular income. When available, clients provide their title deeds, which are retained by the fund until the loan is fully repaid. The typical first loan is made for expansion of the original subsidy house to roughly 60 square meters (646 square feet). Subsequent loans are used typically for internal walls, ceilings, plumbing, electricity, interior finishing, water heaters and security improvements. Kuyasa employs a site inspector to verify loan usage.

The minimum loan is ZAR1,000 (US$129), and the maximum is ZAR10,000 (US$1,294) to be repaid over a 30-month term, although the maximum for a first-time borrower is ZAR5,000. The average loan is ZAR6,000 (US$780). Most clients, however, repay the loan in full over 12-18 months. A savings deposit of 10 percent of the principal is collected when the loan is made and is used as the initial loan payment. An interest rate of 35 percent per annum is charged on the declining loan balance. Clients pay a fixed monthly fee of ZAR50 (US$6) and an “initiation fee” of a maximum of ZAR2,500 (US$323), which is amortized over the life of the loan to cover the fund’s administrative and insurance costs. Maximum loan principal is calculated on the basis of monthly payments of no more than 30 percent of the household’s monthly income. Although these fees and charges might appear to be high, compared with rates in the formal financial sector, they are manageable by low-income families.

Results

Over the first 11 years of its existence (through 2010), Kuyasa supported 10,450 clients and issued 23,455 loans valued at ZAR140.9 million (US$9.8 million). As noted above, more than 75 percent of its clients are women. Its focus has continued to be at the bottom of the market — 85 percent of its clients earn less than ZAR20 (US$2.80) per day — and it has resisted expanding its product line beyond what it does best: microloans for housing upgrades. Default rates are very low, just 3 percent of the portfolio. Peer pressure from the savings and credit groups helps to reduce delinquencies.

The Kuyasa loans have enabled homeowners to greatly increase the value of their property; in many instances, market values have tripled. Over time, Kuyasa has expanded its network to Eastern Cape Province, and by 2010 it had four branches and two services centers acting as marketing hubs for its products. The fund achieved operational sustainability in 2009. It uses wholesale loan finance, mainly
from development agencies, to finance the loan portfolio but still has to rely on grants to cover some operating costs, research and internal capacity building.

The upgrades undertaken with the Kuyasa loans have resulted in a significant improvement in the quality of life of the participating families. Families report that the emotional and physical benefits of better housing outweighed the stress created by managing debt. Clients felt greater self-esteem and improved family relations. Household health improved, including reduced incidence of respiratory illnesses and the frequency of children’s sickness. Brick houses greatly reduced the incidence of household fires as well as increased security. Finally, many families used the loan to build a room for income-generating activities such as a small shop.

**Keys to success/lessons learned**

Formal-sector housing finance institutions fear entering the low-income market because of perceived risk. This is especially true for women-headed households, because many poor women work in the informal sector. The Kuyasa Fund has demonstrated that by taking advantage of an existing group savings culture, microloans can be an effective way for low-income and unbanked or underbanked families, including those headed by women, to improve their homes.

Success has depended on a number of factors. The training provided to women’s savings groups has helped them become more professional in their record-keeping and governance systems and increased their ability to mobilize resources. The household level training in financial management and budgeting, along with the peer pressure from the group, has helped to keep families current on their debt. The requirement that families have unchallenged occupation of the land is key to the program’s viability. Keeping the loans small and affordable, but allowing for subsequent loans once each is repaid, allows families to incrementally upgrade their housing as resources permit.

The Kuyasa Fund has not attained complete financial sustainability and still depends on grants for certain activities. After a clear five-year financing strategy developed in 2007, the fund intended to further expand its operations into several new provinces with the goal of reaching full sustainability in 2012. The fund hopes to persuade commercial finance institutions to fund the loan book by drawing South African banks into servicing the underbanked population. The history of the fund suggests, however, that initial start-up of microfinance institutions must be financed through grants from local governments or indigenous or international donors.

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