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How Can Microfinance For Housing, Land, and Infrastructure Catalyze Slum Improvements and New Settlements?

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SETTING THE CONTEXT – URBANIZATION, URBAN POVERTY, AND SLUMS	3
THE ROLE OF MICROFINANCE	6
PROGRESSIVE HOUSING.....	8
PROGRESSIVE HOUSING CASE: KIXICREDITO IN ANGOLA.....	10
SECURITY OF TENURE	11
LAND TENURE CASE: MEDEEM IN GHANA	12
SAVINGS	15
SAVINGS CASE: SLUM DWELLERS INTERNATIONAL	16
COMMUNITY INFRASTRUCTURE.....	20
INFRASTRUCTURE CASE: WATERCREDIT DHAKA.....	21
CONCLUSION	23

Setting the Context – Urbanization, Urban Poverty, and Slums

The world is moving to the city. More than half of the world's population now calls an urban area home—a milestone surpassed for the first time ever in 2008. This trend is increasing rapidly, particularly in the Global South, where cities will absorb 95% of the world's urban growth in the next two decades. By 2030, cities in the developing world will be home to almost four billion people, or 80% of the world's urban dwellers.¹ Unprepared cities struggle to accommodate this growth, causing slums to swell and poor households to live without decent shelter or services.

UN-HABITAT defines a slum household as a group of individuals living under the same roof in an urban area who lack one or more of the following:

1. Durable housing of a permanent nature that protects against extreme climate conditions;
2. Sufficient living space, which means not more than three people sharing the same room;
3. Easy access to safe water in sufficient amounts at an affordable price;
4. Access to adequate sanitation in the form of a private or public toilet shared by a reasonable number of people; and/or
5. Security of tenure that prevents forced evictions.

Based on these criteria, the global slum population is currently estimated at more than 800 million people, or one third of the world's urban population. Sixty-two percent of urban Africans, 35% of urban Asians, 24% of urban Latin Americans, and 6% of developed country urban populations live in slums so defined. Unless slum growth can be reversed, an unsustainably large proportion of humanity will be living in them. How and why did this happen?

First, from the 1940s onward, improvements in agricultural productivity along with advances in global commercial and transport infrastructure reduced the cost of food, increased the optimal scale of much agriculture, reduced its labor intensity, and created viable global markets for low-value, high-volume agricultural commodities. Rural populations grew as productivity increased, but the consolidation of commercialized agricultural production pushed

¹ UN Habitat. "State of the World's Cities – 2006/7"
<http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=2101> (accessed July 2011)

millions of previously market-oriented peasant farmers off the land and toward the cities. Relatedly, many people have been forced out of rural areas by natural disasters, or because of ecological changes such as desertification or soil erosion resulting from intensified commodity agriculture.

Second, although it sounds counter-intuitive, opportunities for secure livelihood are significantly greater in urban areas, especially in those cities well-connected to the global economy. The long-term decrease in average food prices has meant that households need to devote less time to mere survival, freeing labor power and giving rise to markets for manufactured goods and services that thrive in dense urban areas. Manufacturing and service sectors in urban areas are often fragmented and specialized, creating diverse and abundant (low) income-earning opportunities for rural migrants. The abundance of simple jobs and the *relatively* low price of food mean that urban livelihood strategies are thus often more secure than rural farming, where everything depends on the crop. This is true even if most of these livelihoods are at an extremely low level.

Relatedly, urban migration is a survival strategy for rural households. In order to spread economic risks, households may split into several groups in different places: rural areas, small towns, and big cities; some household members may even move abroad. In this way, sources of income are diversified and less vulnerable to economic downturns in a particular place. This also allows children and the elderly to remain in villages where living costs are low, while income-earners and school-aged children move to the most suitable places.

Third, developing country governments are typically biased toward urban areas where creating social and economic infrastructure (such as hospitals, schools, and transport networks) is cheaper, easier to manage, and more accessible to elites.

Fourth, urban areas usually offer greater social freedom to the young, and to women. Because urban cultures tend to be less constrained by traditional rural customs and hierarchies, cities offer young migrants and their children greater prospects of upward social mobility, or at least fewer constraints on individual freedom.

Fifth, a significant but often overlooked factor is that rural people increasingly know with great precision what cities can offer them. Although some rural households have no choice but to leave, most migrants make a deliberate choice to stay or to leave. Improvements in transport, the availability of mobile phones, improved communications, the rise of mass media and advertising,

and links with earlier generations of urban migrants have all made rural populations more aware of both the advantages and drawbacks of urban areas, in particular what kind of employment and housing opportunities are available.

All of this explains why people have been coming to cities in large numbers. But it does not explain the growth of slums. Slums emerge when the demand for affordable urban housing outstrips the supply, *and* urban authorities prove unwilling or unable to address either side of the equation.

Most national and city governments in the developing world, many of which were newly independent, were unprepared for the rapid growth of their cities. Existing systems of urban governance (political, legal, bureaucratic, and technical) were rooted in a colonial paradigm of urban development, and were often deliberately designed to prevent urbanization of “native” populations. In the post-colonial era, many political and economic elites adopted the exclusionary models of colonial urban governance they inherited. Moreover, as developing country economies grew and changed in response to globalization, the increased demand for urban land made it a valuable speculative commodity, which often politicized land-use decisions in the scramble for capital accumulation. Municipal governments in developing countries are notoriously reluctant to allocate land permanently to low-income human settlement, not just because they wish to discourage in-migration, but because the opportunity cost of doing so is perceived to be so high. Many cities remain captive to the visions of planners and engineers who seek to transform them into modern metropolises in the larger sea of poverty. With limited appetite among elites for true democracy and transparency in such circumstances, slum dwellers have little opportunity to change this state of affairs through formal political processes.

Most urban governments in the developing world have therefore been both unable *and* unwilling to advocate for the influx of rural migrants. At the same time, the weakness of internal capital markets in post-colonial and other developing countries, which were often dominated by foreign banks and oriented toward the needs of export/import sectors and the local elites, meant that financial systems were unprepared to provide suitable financial products for affordable housing or urban development for low-income rural migrants.

The same forces that have propelled hundreds of millions of people to cities over the last three generations have encouraged developing country elites to often discount the needs of the

newly-urbanized poor in favor of an inequitable vision of urban modernity. The result has been the growth of slums.

The Role of Microfinance

As the center of economic gravity shifts to cities, microfinance has an opportunity to adapt to the evolving needs of the poor and to contribute to making cities more livable. However, some critical challenges stand in the way of a stronger role for microfinance in addressing the needs of the urban poor around shelter and improved living conditions.

First is that the origins of microfinance have strong rural ties. Its methodologies remain loosely based on a model developed for serving populations in rural villages. Indeed, many of the well-known acronyms of microfinance have an “r” in them, signifying their focus on the rural poor—BRAC, NABARD, KREP. The well-known group-based microfinance transaction relies heavily on the social cohesion and accountability that depend on people’s familiarity and stability with one another. There is concern that in cities, the stronger associations with village of origin sometimes prevent permanence and trust between neighbors.

Nevertheless, microfinance is following people into cities. One notable microfinance institution, Equitas, in India notes, “Urban India was never considered suitable for microfinance operations, as urban poor were supposed to be a migrating lot. It was also assumed that there would be no bonding within groups to enable them to stand guarantee for one another. All these have proven to be myths.”

Equitas’ experience points to the opportunity that exists for microfinance to create linkages across migratory movements to stay with clients. And, if microfinance can be effective in cities, there is a whole new world of financial services that will be in demand by the urban poor. Service providers that see microfinance as a platform upon which numerous other services can be sustainably delivered should be able to thrive.

Secondly, the idea of microcredit has long been associated with investments in microenterprises. This legacy is strong, and even as institutions have started shifting their thinking to a broader base of microfinance, many providers’ mission statements still maintain microenterprise as primary to their purpose.

But, as Stuart Rutherford wrote in 1998, “business investment is in fact just one of many needs and opportunities that require the poor to become occasional ‘big spenders’”². New products continue to reflect this understanding—with offerings of health insurance, remittance services, and savings products on the rise.

New products will be important for microfinance to stay relevant in urban areas because migrants to cities are more likely than their rural counterparts to have a primary or partial income from employment. Urban households show a much lower “cash flow intensity”³ than their rural counterparts, indicating that their financial service needs are likely more about managing their balance sheet and cash flow, than solely about microenterprise. Their needs to invest in shelter and other living condition assets may not be directly related to income generation, but they do create household economic benefit and build household wealth.

The market for products that help households invest in assets that improve living conditions is a largely untapped opportunity. Housing and shelter finance, for example, currently account for less than 3% of microfinance portfolios⁴, despite the fact that this market is estimated to exceed that of traditional microenterprise microfinance by four times.⁵

The time seems right for the sector to respond. The narrative that every poor person can (or should) be a micro-entrepreneur is shifting to the reality that the poor are capable users of a wide array of financial services. Indeed, expanding the range of products offered by providers rated as the second highest priority by surveyed industry participants in the recent publication “Opportunities and Obstacles to Financial Inclusion,” published by the Center for Financial Inclusion.⁶

This paper examines four sub-sectors that show promise for microfinance in a rapidly urbanizing world in which the poor seek better living conditions. Sub-sectors through which the paper is structured include first, Housing (page 8) with a look at KixiCredito’s Kixicasa product in Angola and the closely related issue of Land Tenure (page 11) with the example of Medeen in Ghana. The important role of Savings is then considered (page 15) with the example of SlumDwellers International, before finally reviewing the area of Basic Infrastructure (page 20) and the example of Water.org’s WaterCredit program in Dhaka.

² Rutherford, Stuart. “The Poor and Their Money.” 1999

³ Collins, D. et. al. “Portfolios of the Poor.” 2009. p. 32

⁴ MIX market data, August 2011 www.mixmarket.org

⁵ JP Morgan. “Impact Investments, An Emerging Asset Class.” 2010, p.39

⁶ Center for Financial Inclusion. “Opportunities and Obstacles to Financial Inclusion” Publication 12, 2011, p. 39

Progressive Housing

The first section of this paper considers the role of microfinance in the process of acquiring property and improving shelter incrementally. Household shelter is one of the most basic human needs—so much so that 75% of the world’s countries have ensured this right in their national constitutions or in legislation.

But, acquiring shelter is also mostly a do-it-yourself activity for the world’s poor. And is, in fact, better described as a process rather than a product—reflecting a concept advanced by John Turner in his seminal piece “Freedom to Build: Dweller Control of the Housing Process”.⁷ Turner wrote that “when dwellers control the major decisions and are free to make their own contributions in the design, construction, or management of their housing, both this process and the environment produced stimulate individual and social well-being. When people have no control over or responsibility for key decisions in the housing process, on the other hand, dwelling environments may instead become a barrier to personal fulfillment and a burden on the economy.”

Jamii Bora’s Ingrid Munro expressed a similar sentiment at the 2009 Microcredit Summit, saying that “they didn’t believe that poor people could actually produce good houses and care for them”.⁸

This informal people-driven process is the poor’s most viable option for shelter. Indeed, 98% of all housing is acquired incrementally and informally in Tanzania, with a similar 93% in the Philippines.⁹ With such nascent formal housing market systems, developer-produced units are rarely made for the base of the pyramid. Dysfunctional mortgage markets also languish, typically serving less than 10% of the population due to unsettled property rights¹⁰, lack of regulatory framework, and few incentives for banks to take risks in new sectors.

Nevertheless, the poor want to invest in property and improved living conditions. The financial diaries that form the basis for *Portfolios of the Poor* revealed that property and housing investments ranked either first or second in priority in the three diary countries.¹¹ And,

⁷ Turner and Fichter, “Freedom to Build: Dweller Control of the Housing Process”, 1972

⁸ Daley-Harris, Sam. “State of the Microcredit Summit Campaign Report 2009”

⁹ Mitlin, Diana, “Working Paper 18: Poverty Reduction in Urban Areas.” International Institute for Environment and Development. August, 2008.

¹⁰ In Rwanda approximately 1% of plots are associated with an existing formal title. UN Habitat and Cities Alliance “Housing the Poor in African Cities” 2011. p.13

¹¹ Collins, D. et al. “The Portfolios of the Poor”, 2009. p. 108

microfinance providers often find that up to 30% of microenterprise lending ends up going toward clients' shelter-related needs.

This presents a tremendous “next generation” opportunity for service providers committed to serving the poor's needs. The sequential steps of a household housing process can be reasonably mapped to the cyclical savings and credit cycles commonplace for microfinance.

However, as mentioned, microfinance providers sometimes confuse investments in shelter assets as off-mission and non-productive. But household investments in housing and shelter assets should not be lumped together with consumer debt. Housing too can often be productive. Home-based businesses are integral to many of the economically active poor, with living quarters commonly doubling as warehouses, production sites, rental rooms, or sales windows to passing customers. A *New York Times* op-ed reacted to the depiction of Mumbai's Dhavari slum in the movie *Slumdog Millionaire* with the observation that “Dharavi's messy appearance is nothing but an expression of intense social and economic processes at work. Most homes double as work spaces: when morning comes, mattresses are folded, and tens of thousands of units form a decentralized production network rivaling the most ruthless of Chinese sweatshops in efficiency”¹².

Shelter also shields households from vulnerabilities that result in financial loss or lost opportunity. The simple installation of a durable floor into a dwelling can have big household benefits. Piso Firme, a program in Mexico to install durable flooring in houses with dirt floors, showed a statistically significant impact on improving cognitive development and reducing parasitic infection and diarrhea in children. Not to be ignored, adults showed statistically significant decreased levels of reported anxiety.¹³ Those returns to child health, education, and stress levels came from a relatively small investment in a durable floor—and are difficult to consider as “non-productive”.

Housing investments also have a beneficial multiplier effect on the local economy. Whereas the purchase of a television or appliance is likely to be an import, housing results in increased demand for local labor and materials. This expands economic opportunity locally,

¹² Echanove, Matias and Rahul Srivastava. “Taking the Slum Out of ‘Slum Dog’.” *New York Times*, Feb. 21, 2009

¹³ Cattaneo, Matias. et al. “World Bank Policy Research Working Paper 4214.” World Bank, April 2007.

because these products and services usually come from entrepreneurs and craftspeople living in the community.¹⁴

Progressive Housing Case: KixiCredito in Angola

The case of KixiCredito, in Angola¹⁵, serves as a great example of microfinance helping the poor address their incremental housing needs.

Urbanization occurs for many of the reasons stated in the first section of this paper—in Angola, conflict accelerated it. Now, 60% of Angola’s population is in cities, and 75% of those urban residents live on informal/semi-formal land called “musseques”.¹⁶ This may seem high, but is not necessarily uncommon for low-income countries.¹⁷ Also similar to many of the world’s growing urban zones, employment in Angola is largely informal. More than 50% of families in Angola have at least one income earner working in the informal sector—many in forms of microenterprise.¹⁸

Angolan urban migrants commonly aspire to own their own homes in the city. Urban residents consider themselves established in the city when they are living in their own houses, and renting is perceived as being unstable. However, clear title is rare in Angolan musseques, with a mere 9% of land transfers involving the registered transfer of a legal title.¹⁹ Households lead the home-building process on their own—sometimes starting with rudimentary cardboard and plastic shelters—and moving to more durable materials as they save up, or when financing is obtained. A two-room “core” shelter is a common starting point for families, with additions and improvements typically added to the core over time. Ten years of progressive construction is not uncommon.

Unsurprisingly, bank activity in housing finance for the new population has been minimal—with as little as 2% of owner-built housing activity being financed by bank loans. KixiCredito recognized this need in their clients, with evidence suggesting that as much as 30%

¹⁴ PADCO, “Housing For All”, World Urban Forum, June 2006.

¹⁵ Cain, Allan. “Housing microfinance in post-conflict Angola.” *Environment and Urbanization*, 2007. <http://faculty.ucmerced.edu/ecampbell3/slkiva/Cain-Housing-Angola-2007.pdf> (Accessed July 2011)

¹⁶ Cain, Allan.

¹⁷ Angel, Schlomo, “Housing Policy Matters”, 2000. Shows that as much as 64% of people in low-income countries live in “unauthorized” housing/property.

¹⁸ Cain, Allan.

¹⁹ Cain, Allan.

of their enterprise loans were going to shelter.²⁰ In response, KixiCredito developed a product intended for housing, KixiCasa, and developed a management process around it.

KixiCredito adapted its group-lending methodology to fit a housing product, by forming sub-groups of three to five people for the KixiCasa product. Loan amounts for housing started with a limit of \$800 over the initial 10-month tenure, but have increased to up to \$2,500 per year.

The KixiCasa product gives households a financial tool that complements their progressive building approach. Families accelerate or slow down their shelter timeline based on whether household income increases, stagnates, or decreases. Arguably, this can be better than a mortgaged house purchase that could trap families into a long-term payment commitment that doesn't account for the cyclical variability, and vulnerability, of informal sector incomes.

KixiCredito's provision of housing microfinance points to an important solution for helping the world's poor to acquire better shelter. The product has performed as well as the microenterprise products, and is projected to be KixiCredito's fastest area of growth.

Figuring out how to do uncollateralized lending to the poor is probably one of the chief accomplishments of microfinance. Because housing finance is so closely associated with secured lending (mortgages), entrenched ideas prevent some of the more innovative, smaller, more humble financial solutions built around poor's existing progressive housing process.

Security of Tenure

Like investments in shelter assets, land rights may represent another piece of the "next generation" of microfinance offerings toward clients' asset building. Land is arguably the most important but underutilized resource in the lives of the economically-active poor. Like savings, land has the potential for growth in its principal value as well as the practical quality of serving the clients' immediate needs for housing, shelter, business location, or crop production to feed a family or create earnings.

The vast majority of individuals who live in urban and peri-urban slums exist outside the formal legal framework, holding only informal claims to their properties. The lack of documented formal rights makes it difficult for urban slum dwellers to assert their claims to the land and support their livelihood, which is often intrinsically linked to their land. It also

²⁰ Cain, Allan. *op. cit.*

constrains household wealth accumulation and puts investments in improved living conditions at risk of loss.

Land rights have historically been viewed as complicated, fraught with corruption, expensive to achieve, and largely allocated as a benefit to the wealthy in most developing countries. However, this section highlights a promising model for accomplishing two important changes: (1) leveraging the infrastructure and discipline of microfinance to provide land rights formalization assistance to its clients in a responsible manner; and (2) making the formalization of land rights accessible and affordable by the largest number of landholders—the urban slum dweller, small holder farmers, women, and other marginalized or vulnerable populations.

The challenge is to take undocumented or informally held land rights, which exist largely as oral agreements or customary arrangements, and transform them into recognizable assets that build wealth for the poor. Until there is some evidence or documentation of interests, the right a person may have to real property exists only in theory or within a customary community. It becomes much more real and actionable once there is evidence of its existence, ownership, dimension, and use.

Land Tenure Case: Medeem in Ghana

Medeem²¹ is a social enterprise working to bring land rights documentation and formalization of land tenure to the clients of microfinance organizations in Ghana. Medeem has pioneered a process that is both simple and sustainable, using multiple distribution models including through microfinance institutions.²² According to its founder, Craig DeRoy, Medeem's mission is to “ensure an equitable land tenure security process, focusing its efforts on improving the lives of vulnerable groups by making land rights documentation both accessible and affordable.”

Urban slum issues are particularly important in sub-Saharan Africa where 72% of the urban population lives in slums.²³ By linking land rights documentation to microfinance, an additional tool is provided to these individuals to improve their property and develop new assets in an urban context. Less obviously, but perhaps more importantly, land tenure security empowers and emboldens landholders to make demands of local government for needed

²¹ <http://www.medeem.com>, meaning “in my name” in Twi, a common language in Ghana.

²² Opportunity International (<http://www.opportunity.org>) has been one such partner.

²³ UNFPA. “2007 State of the World Population”, p. 16.

http://www.unfpa.org/swp/2007/presskit/pdf/sowp2007_eng.pdf (Accessed 5.20.2011)

infrastructure such as sanitation, water provision, social programs such as healthcare and education, and other common “community goods.”

Medeem’s process begins with a simple program to take land rights education and documentation assistance directly to vulnerable individuals. Once in the field, Medeem assists its clients in collecting evidence to substantiate their claim of rights to land ownership, occupation, or use. The process is then augmented by having a government standard land survey conducted to provide the client with a specific “plan of land” for their property. All of this process is accomplished quickly at a cost that is intended to be affordable to the typical microfinance client. If the client cannot afford the company’s ParcelCert™ package on their own, Opportunity International or other Medeem microfinance partners bundle it with financing.

Medeem’s approach is innovative for several reasons: First, ParcelCert bridges the gap between informal land holding and formal government land registration, which has historically been beyond the reach of urban slum dwellers. Secondly, it leverages process innovation and technology to achieve economies of scale as it grows—essential to driving price to a level that is affordable to the typical microfinance clients, but sufficient to allow the local enterprise to become self-funding and truly sustainable. Additionally, partnering with microfinance organizations such as Opportunity International affords Medeem the benefit of an established distribution network which already serves hundreds of thousands of clients who may be qualified for and benefit from Medeem’s ParcelCert program.

Medeem’s approach both mimics and leverages attributes that have made microfinance successful:

- It has come to the market to meet a well-defined need—affordable and accessible documentation and formalization of land rights for the base of the economic pyramid.
- It operates in a local environment using local management and staff to integrate into the community and reflect local customs and practices.
- It leverages the branch and mobile banking network of microfinance lenders in marketing their services.
- It provides valuable services for a fee that is designed to be affordable for most clients without financial assistance.

- Finally, it seeks to improve the lives of its clients through education and training, equipping them with the knowledge to responsibly manage their land assets.

Before products and services can even be designed, attention must be given to ensure that responsible practices are at the core of every element of the program. Clients must be taught that by the very process of formalizing their rights they are subjecting themselves to risk of loss of the very property they are seeking to document as their own. That is, while the property is “inchoate” or invisible to the outside world it does not attract the general public attention a filing may attract. So predators are less likely to attempt to swindle the property by placing the clients in secured loans that they know they cannot pay or in making transactions that do not benefit the client.

But there are risks in anonymity as well. The greatest loss from lack of formality in the land holding is the absence of the ability to truly believe the land is yours and act accordingly. Studies show investment in land, housing, or business development lags for those whose rights are not documented.²⁴ So little investment in or use of the land occurs while it is “invisible.” In short, land without documented rights becomes an empty asset—at a greater risk of forfeiture or loss than from the defensible risks of predators taking documented land.

Microfinance clients in both urban and rural settings have benefited from Medeem’s approach. In an early example, school owners in one of the poorest districts in Ghana benefited by having their land documented. Opportunity International used the program to assist those clients and assure that the larger loans they were considering to support building expansion on these properties were a reasonable risk. The underwriting of those loans was still cash-flow based, but it was important to the lender to ensure that the school expansions being undertaken were not on someone else’s property. This was a first step toward building an underwriting methodology for asset-based loans.

In another example, Opportunity International and its network partner in Ghana, Sinapi Aba Trust, pioneered a home improvement/home building loan program with Habitat for Humanity in Ghana. Once again, land rights were an important part of the program, giving both

²⁴ USAID. “Land and Business Formalization for the Poor: Strategic Overview.” 2007 <http://usaidlandtenure.net/library/global-reports/land-and-business-formalization-strategic-overview-paper-final-with-annexes.pdf/view?searchterm=benefits%20of%20land%20tenure> (Accessed May 2011) and Moffett, Matt. “Barrio Study Links Land Ownership to a Better Life.” Wall Street Journal, November 9, 2005.

Opportunity and Habitat room to provide financial support and construction counseling for qualified recipients. A central focus of the program was to redirect the use of business loans for home improvements by supplying a specific loan program to address homeowner uses. Results show that the integration of services provides a real benefit recognized by Opportunity's clients.

It is also important to mention the potential that land security can have in empowering women. In most of the developing world, gender disparities exist with respect to access to and control of productive assets such as land. Currently, it is estimated that women own less than 5% of the world's formally titled land. Additionally, in developing countries, it is estimated that women grow 60% to 80% of all food but only own 2% of the land.²⁵ Medeem seeks to address gender equity in the formalization of land rights by providing access, affordability, and education to women. Medeem empowers women by bringing the process directly to them through a trusted microfinance lender or a trained ParcelCert officer, who are often women. By allowing women to talk in a private setting with a Medeem ParcelCert officer, the process facilitates the receipt of information that otherwise might not occur when conducted in public meetings led by men.

Medeem's ParcelCert demonstrates the powerful concept of viewing microfinance not as a product, but as a platform. The established networks of trust and loyalty possessed by many microfinance providers can be used as a distribution network for services demanded by their clients, but unaffordable without the potential of a high-volume/low-margin distribution strategy that many microfinance providers uniquely hold. Products that address asset security such as land rights are likely to play an important role as microfinance evolves.

Savings

Savings has a special role in improving one's living condition. In fact, property, housing, and infrastructure can be both a use of, and a form of, savings. The poor's ability to save, and their desire to do so, is becoming increasingly established in research and practice. In fact, the shockingly high costs they incur to do so²⁶ indicate the value households place on the ability to save.

²⁵ Giovarelli, Renee and Beatrice Wamalwa. "USAID Issue Brief: Land Tenure Property Rights, and Gender." January 2011

²⁶ The case of moneyguards and susu collectors show the high value (and costs) the poor are willing to incur to save. Collins, D. et. al. p.150

The challenge of property, housing, and infrastructure investments tends to be that they are big—indeed, it is common for a property purchase or significant shelter investment to be one of the largest purchases of one’s life and a time when even the poor desire to become “big spenders.”²⁷ But the size of the transaction is also what makes savings all the more important. There is an opportunity to link savings closely with household plans to build assets that improve living conditions and in turn household and community wealth.

The case presented below is unique. Rather than presenting an opportunity for a social enterprise to meet market demand with an innovative business model, the SDI story is about slum dwellers themselves. They have used savings to bring their assets (social and financial) together in a way that leads to influence and agency as actors in urban development to improve their living conditions.

Savings Case: Slum Dwellers International

Shack/Slum Dwellers International (SDI) is a network of community-based organizations of the urban poor in 33 countries in Africa, Asia, and Latin America. It was launched in 1996 when “Federations” of the urban poor in countries such as India and South Africa agreed that a global platform could help their local initiatives develop alternatives to evictions, while also affecting the global agenda for urban development.²⁸

The key organizing principle of all SDI urban Federations is daily saving. Originally developed by the Mahila Milan women’s movement within the National Slum Dwellers Federation of India (NSDF), the ritual of daily savings is important for three reasons:

- First, the act of daily saving of small amounts of money both brings slum dwellers together (to save and meet regularly) and binds them together (out of self-interest, to manage and protect the savings pool). Saving, both as an activity and as a financial resource, is thus a social “glue” that encourages slum dwellers to organize.
- Second, savings creates an organizational basis for slum dwellers to become active agents on their own behalf in dealings with the state, the private sector, and development agencies, both local and international. Slum dwellers are typically considered to be a problem rather than a role-player in urban development—even by those trying to help them. By building

²⁷ Rutherford, Stuart. op. cit.

²⁸ <http://www.sdinet.org/about-what-we-do/>

organizational capacity and discipline, saving helps urban poor communities emerge as active and engaged role-players in urban development processes.

- Third, savings activity creates both financial and social capital that is attractive to external development role players. SDI Federations have consistently attracted both funding and support from government and non-government agencies looking for sustainable models of urban slum upgrading. For example, in the '90s, the Indian NSDF became the lynchpin of the World Bank-funded Mumbai Urban Transport Projects because it was the only credible community-based structure able to organize pavement dwellers to relocate to make way for road works.²⁹ The South African Federation of the Urban Poor (FEDUP) has secured significant allocations of state housing subsidies in a difficult political environment.^{30 31}

This last point is critical. As noted above in setting the context for urban development, one of the main challenges in the developing world is the reluctance of city governments to acknowledge, let alone work with, communities of the urban poor. SDI's chief achievement has been to create a pathway, based on daily savings activity, for slum dwellers to address this challenge. City governments have come to realize two things. First, as in the case of the Indian MUTP, sometimes working with organized slum dweller groups is the only way to achieve certain critical goals. Groups such as SDI are able to gain consent and cooperation from slum dwellers, without which agencies like the World Bank would have withheld support from critical projects. Second, organized slum dweller Federations can attract significant resources independently, extending cities' own limited resources. Even the attention SDI Federations can attract to a city is valuable. In other words, SDI has managed to leverage small savings by the poorest slum dwellers into powerful alternative forms of capital that are deeply attractive to city authorities in developing countries.³²

²⁹ Patel, Sheela and Kalpana Sharma. "One David and Three Goliaths: avoiding anti-poor solutions to Mumbai's transport problems." *Environment and Urbanization*, Vol. 10, No. 2, October 1998.

³⁰ http://www.sdinet.org/media/upload/countries/documents/the_challenge_of_engagement_the_south_african_projects.pdf

³¹ Also noteworthy is that the SDI network (global coordination body) is itself the beneficiary of a \$10M grant to capitalize its International Urban Poor Fund, which makes seed loans to national Federation revolving funds for use as community infrastructure, and that SDI is the only CBO network to be on the Board of the World Bank Cities Alliance.

³² It is important to note that this process has not been uniformly successful. SDI Federations continue to face the same challenges as other slum dwellers in cities disinterested in an inclusive approach to urban development.

The SDI savings system is managed entirely by women within the community, by design. A female Federation member collects a few cents each day from several households in her neighborhood. As these families' savings grow, more people are convinced of the benefits and start saving. Moreover, since the same collector visits the same families every day, she knows when somebody is sick, or when somebody has circumstances that require a loan. She becomes the most effective judge of when a family needs a loan and is best able to work out affordable repayments.

The SDI Federation savings and credit system is designed to support poor families to come out of debt, build their assets, and plan for the future. The only requirement is a daily repayment, no matter how small the sum. Instead, the system maximizes people's participation and commitment. Furthermore, the system helps women develop leadership skills and confidence, moving from the home to the public sphere. New leaders and groups soon start addressing settlement-level issues like sanitation and water. Small local successes breed confidence in the Federation's capacity to address more complex issues, and larger and larger numbers of women find a space to participate in Federation activities. This in turn attracts new groups who seek to join the Federation, creating a self-replicating dynamic.

SDI Federation savings groups are typically small—20 to 50 women. They are always neighborhood based, since daily interaction and weekly meetings are essential to the model. The only official positions are those of treasurer and collector, chosen by consensus. The collectors make day-to-day visits to each member household to collect savings and loan repayments. The treasurers (always at least two) hold and manage the savings pool. All loan decisions are made by the entire group in a regular meeting; treasurers cannot disburse loans independently.

Money management is typically accomplished via simple ledgers, one for the group as a whole and one for each member. In some instances where literacy and numeracy is an issue, such as was the case with Mahila Milan in India, NGO staff play an important role in helping members manage their systems. In most groups, members do this themselves.

Reinforcing the group's internal accountability is a system of regular exchanges between Federation groups. In these exchanges, local savings groups are required to present their books for inspection by the visitors. Members are also allowed to inspect the group's books at any time.

Like MFIs, the Federation savings and credit system relies on continued access to the system as an incentive to adhere to its rules. And, indeed, the most important form of

accountability is the mutual interdependency created by slum conditions. Households who fail to meet their Federation obligations, or members who misuse funds, face social exclusion from the benefits of Federation membership. Although this can create a negative dynamic, the “peer pressure” of highly-localized Federation accountability has been remarkably successful in supporting a dynamic and growing savings-based movement in 33 countries.

SDI federations, like any institution, are far from perfect, and there have been instances of conflict and loss. The most typical scenario is for a treasurer or collector to misuse funds, either for personal reasons or as a favor for a friend. These problems are usually quickly resolved, but there have been instances where the Federation process has collapsed in specific places as a result. The diagnosis in these cases is usually that the group failed to practice proper Federation “rituals,” most importantly by failing to hold regular meetings where the books can be examined. In such cases, the root cause of the problem is often described as the “membership effect,” in which long-term Federation members come to take the benefits for granted as an entitlement, leading to a lack of participation.

NGO staff have a critical role to play in supporting local savings groups, by providing an extra set of eyes and ears to reassure individual members that their savings are safe. But interventions that look good in theory often fail to reflect the reality of the highly unique systems of slum life.

The amount of savings SDI Federation groups can amass is considerable, but is never enough on its own to address the development needs of its members. The total amount of savings is generally a function of the size of Federation membership rather than individual savings rates. For example, in the South African SDI affiliate, the Federation of the Urban Poor has managed to accumulate almost US \$1M. This amount, however, has never been more than about 10% of the total assets of FEDUP, which include a revolving fund capitalized by donor grants. Larger Federations, such as the Indian NSDF, have accumulated many millions of dollars in savings, but these have been overmatched many times by inputs from donors and government.

As one SDI NGO leader explains, “If the poor could save their way out of poverty, they would do so without our help.”³³ The purpose of Federation saving is to create a leveraging mechanism, based on the social capital that small localized financial capital helps create in slum communities, to attract other forms of capital. At the neighborhood level, small-scale SDI

³³ Joel Bolnick, SDI General Secretary, personal communication.

federation savings and credit is an important resource in and of itself. But at the city, regional, national, and international level, it is the *SDI process* in which development stakeholders invest.

Community Infrastructure

Classical microfinance services in the form of microenterprise loans and savings services fill a gaping market gap left by the banking sector. The banking sector exists, but its business model fails to effectively incorporate the small transaction sizes and higher relative costs (to transaction size).

This section focuses on another systemic failure to serve the smaller transactions needed by the poor—the provision of basic water and sanitation infrastructure. The poor suffer economically from the lack of these services daily. Water is laboriously fetched on a daily basis consuming time and energy. Slum residents spend hours daily waiting on unreliable public taps, walking to faraway wells, or end up buying water from illegal vendors at a price that is 10 to 20 times higher than water from a legal connection. Investment to improve this access has shown to have significant economic benefit. For example, water supply systems in the Hai district of Tanzania were shown to reduce the average woman’s time acquiring water from 4.5 hours a day to just 20 minutes—adding half of a working day of productive time.³⁴ These kinds of impacts and demands from communities have led to increased interest in alternative methods of financing water and sanitation services.

Typical practice in industrialized countries is that municipalities finance these services, paying for them through a mix of user fees or cross-subsidies.³⁵ Similar systems exist in the Global South but commonly fail to reach the masses, particularly in more informal land areas. Constraining the expansion of these services is an impediment similar to that which microfinance addressed—the lack of conventional models to serve smaller scale customers down the income pyramid.

Part of the solution, then, is to provide the gap financial services for the acquisition of infrastructure assets that benefit a whole group. This practice, which some are now referring to as meta-finance³⁶, is explored in this section as a promising financial service practice at the base

³⁴ Hesselbarth, Susanne, GTZ, “Socio-Economic Impacts of Water Supply and Sanitation Projects”, October, 2005.

³⁵ Though David Smith reminds us that even this system is relatively new – see Smith, David. “Towards a Paradigm of Meta-Finance: A Survey Report.” Affordable Housing Institute, 2007.

³⁶ Daphnis, Franck. <http://www.housingfinanceforthe poor.com/web/page/546/sectionid/546/pagelevel/1/interior.asp>

of the pyramid. Characteristics of community infrastructure finance include fusing public investment toward costs that are difficult to recover (e.g. site infrastructure), with private financing or neighborhood operating support to make the improvements self-sustainable after completion. The practice also relies on the pooling of individual cash flows to secure previously inaccessible high-value loans that provide community rather than mere individual benefit. It is common for financing needs of basic infrastructure to be larger than those intended for microenterprise, so a longer tenor is often necessary.

Infrastructure Case: WaterCredit Dhaka

The slum areas of Dhaka present a context of tremendous need for alternative solutions to improve water and sanitation access. With an estimated population of more than 12 million and an annual population growth of more than 5%, Dhaka has been unable to meet the water and sanitation needs of its local residents, most acutely in the urban slums. Approximately 85% of residents in these areas do not have access to safe water, and nearly 40% do not have a toilet.³⁷

In addition to the scarcity of access, Dhaka has also had to deal with high arsenic concentrations, which in 1993 were discovered in the groundwater of several wells. As a result, many of these wells were closed, leaving communities with bleak alternatives of walking to more distant wells or returning to traditionally unprotected water sources. The effects of chronic arsenic exposure posed dangerous risks such as skin disorders or internal cancer. Moreover, the closing of the wells led to outbreaks of water-related, diarrheal diseases. Child mortality spiked, with a death toll of 100,000 attributed to diarrheal diseases.³⁸

Since 2003, Water.org has used microfinance tools to facilitate the improvement of water access and sanitation through its WaterCredit programs in Bangladesh, India, and Kenya. Through WaterCredit, Water.org forges partnerships with, and provides catalytic capital to, MFIs and NGOs to enable them to develop water and sanitation microloan portfolios that meet the needs of their clients who lack access to traditional financial services to finance the upfront cost of water and sanitation systems.

The Bangladesh initiative began with a partnership with Dustha Shasthya Kendra (DSK), a Bangladesh-based NGO that implemented WaterCredit in three slum areas of Dhaka: Pallabi,

³⁷ Water.org. "Final Progress Report for Three-Year Program in Dhaka, Bangladesh." Kansas City, Missouri., 2011.

³⁸ Water.org. "Final Progress Report for Three-Year Program in Dhaka, Bangladesh." Kansas City, Missouri. 2011

Demra, and Kamrangir Char. In these pilot areas, DSK focused on providing safe water, sanitation, hygiene education, and community mobilization. By establishing and training community-based organizations (CBOs), DSK empowered the people within the neighborhoods to take ownership of improving their access to water and sanitation. Through the WaterCredit program, the CBOs borrowed the money to fund a water or sanitation product that can be shared by several families. Financing goes to groups of 9-12 people, mostly women, for a term of two years. In keeping with its Muslim heritage and social service mission, DSK does not charge interest, but a flat 10% administrative fee.

DSK tailored its support of communities to their specific identifiable needs. For example, in Pallabi, DSK used loan funds to construct water points and standposts which were connected to the Dhaka Water Supply and Sewage Authority (DWSSA). For the slums not served by DWSSA, DSK installed tube wells and hand pumps.

The successful implementation of this pilot program led to WaterCredit's continued operation in Dhaka as well as its expansion and replication in other areas with similar needs. In 2004, WaterCredit was launched in Tamil Nadu in southern India and to Kenya in 2005. Throughout its evolution, the WaterCredit model has deployed a variety of financing methods to catalyze water and sanitation access improvement, including: catalytic grant funding (known as "smart subsidies") for essential product development, market assessment and MFI capacity building, credit enhancements/guarantees for commercial borrowing, and in select cases direct loans to partners. To date Water.org has invested more than \$2.9 million in WaterCredit programs, and has stimulated more than \$5.5 million in capital from commercial banks. Through its partnerships with 23 organizations in Bangladesh, India, and Kenya, WaterCredit partners have disbursed approximately \$6.1 million across 51,300 loans, with an average global loan repayment rate of 97%. More than 90% of all borrowers are women, and it is estimated that more than 316,000 people have benefited from WaterCredit.

Follow-up surveys of the DSK program show that a significant majority of the surveyed households are transitioning from unprotected, unreliable, and expensive water sources to legal household piped connections and nearby community water points. Additionally, 84% of respondents spend less than 30 minutes per day obtaining water, compared to 60% of

respondents who spent far more time waiting or walking long distances for water on a daily basis before the program. Local residents reduced their water costs by as much as 50% to 80%.³⁹

The study also found significant gains among households in hygiene and sanitation behavior. The construction of accessible latrines and the education efforts of DSK⁴⁰ led to at least 90% of respondents reporting regularly washing hands before eating, before feeding children, and after defecation, compared to 60% or less before the program. Communities also reported a high level of satisfaction not only with the latrines but with their role in maintenance.

Water and sanitation finance shows very high demand in the communities served, and many women were willing finance improvements even when they lacked formal title to the property. DSK's average overall water and sanitation loan repayment rate was 93%, and funds from loan repayments continue to be redeployed to serve new customers.

Water.org's WaterCredit program points to yet another way for microfinance to offer new and innovative services to an underserved market. Demand for the product is widespread, and evidence of good performance is emerging. It will require a fresh approach to what is worthy of financing, and fresh approaches to product development and delivery. Finance providers to the base of the pyramid will need to reconsider their definitions of "productive" investment and reconsider the rigidity of their delivery methodologies to allow for innovation.

Conclusion

Urban poverty can be bleak and grinding. However, there are many reasons that the poor choose to migrate to urban areas and the trend is expected to accelerate. Most urban growth will occur in developing countries with large populations of people living beneath the poverty line already, posing a challenging problem as the number living in substandard slum conditions swell. Urban planning responses to accommodate urban migrants are important, but the processes and systems the poor already use must be part of the answer. Microfinance's success came from unlocking the creative and productive power of the poor by providing working capital. That foundation of success can be built upon by helping the urban poor build assets for shelter, property, and access to basic water and sanitation services. The types of services and products discussed here, and the

³⁹ R. Thorsten, S. Damodaran, H. Arney. "Water, Sanitation and Hygiene: Sustainable Development and Multispectral approaches." 34th WEDC International Conference, 2009, p 4.

⁴⁰ DSK services include community education around hygiene and sanitation.

examples of them at work, are an opportunity for microfinance to contribute to financing livable cities for the urban poor.

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