HiFi NEWS

This newsletter brings together the experiences of groups working on microfinance for shelter in the South

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Introduction

Innovative strategies to enhance shelter finance based around the strengthening of savings and savings organizations can transform conventional finance into a catalyst for empowerment and development. Savings and loans increase local community development options by building confidence, securing recognition from state agencies and providing financial assets. In such programmes, money is no longer simply a means of exchange enabling the poor to participate in financial markets; money becomes a unifying force enabling people to enhance the resources that are immediately available to them and develop their collective skills.

Discussions at a recent meeting highlighted a number of key characteristics and challenges. In particular, participants discussed some of the challenges in helping these programmes grow and spread. Following a discussion of some of the benefits of savings programmes, critical key issues are summarised here including:

- The use of community exchanges and networking,
- The role of the state in supporting such initiatives
- Repayments and affordability
- Inclusion of those in need
- Scaling up

The core role of savings

Numerous agencies seeking to address housing need have recognised the importance of savings and loans. Many different approaches have emerged. One distinct approach uses savings strategically to strengthen local community groups. What draws these programmes together is their similarity in approach with respect to savings for shelter improvements. As noted above, savings has a number of advantages and these are discussed in the remainder of this section. First, savings catalyses an empowerment process: it builds confidence and organizational skills in communities. The poor are frequently told that they are no good, and that their problems are the result of their own inadequacies. The process of gathering their resources, setting up systems to accumulate savings, and then lending these savings to local residents helps build their confidence significantly. Second, and somewhat related, documenting this accumulation of savings helps other organizations take the poor seriously. It demonstrates the seriousness of the poor's self-help efforts and validates their engagement in a wider development agenda.

Third, managing collective finance builds within communities an understanding of how to manage money. Many development programmes that seek to be people-centred want to give communities financial responsibility. However, building this capacity once a large-scale externally funded project has begun is very difficult. Local community leaders often fail and that failure knocks their confidence, while associated allegations of corruption and mismanagement further divide communities. Locally managed savings and loan programmes ensure that communities embed financial management within their own organizations and associated social relationships. Groups learn by trial and error to set up robust systems, to call for assistance when needed and to manage problems along the way. By starting with their own funds, they increase their ownership of this learning process.

Fourth, local funds offer communities the chance to lend to members for emergencies and/or enterprise development, and thereby offer immediate material benefits. This further develops skills and experiences of financial management, as fund managers learn from successes and mistakes. As importantly, such activities extend the skills and build the confidence of those participating in the funds. Communities begin to believe that they can do things for themselves, and with that comes a belief in their own capacity to act. No longer do they need to wait for others.

Fifth, and related to all the previous points, the savings process equips communities with new skills and an associated new consciousness, which enables them to strategically engage with the state to obtain the redistribution of resources and regulatory reforms that assist in their access to secure tenure, basic services and housing. Savings and loans processes seek to transform community and state relationships. Community leaders are able to negotiate using their skills and experience and their own resources. In many cases, the scale of these resources is rarely significant when measured against their development needs. What interests local authorities (and other government bodies) is the organizational capacity that has been developed and demonstrated. Savings groups are confident enough to explain their history and articulate their demands in the spirit of partnership. This combination of factors has achieved some success in many different Southern countries.

Box 1: Savings in Nicaragua

The possibilities for savings programmes are influenced by the context in which people are living and the history of shelter-financing and financial opportunities. In Nicaragua, savings – and people's willingness to save – has changed dramatically over time. It has been negatively affected by various factors, for example, high inflation and corrupt community leadership. During the 1970s, a well-developed savings and loans system operated, although it didn't reach the poorest. In the 1980s, the savings and loans system was dismantled and was replaced by a state-controlled financial system. Cooperatives were established and some benefited from state loans but, without the necessary technical assistance, many failed. At the end of the 1980s, high inflation and monetary devaluation further eroded the financial capacities of the cooperatives, and initiatives for savings were further diminished. Severe structural adjustment measures inhibited people's capacity to save. People reverted to individual survival strategies and social capital fell sharply. In the 1990s, micro-finance institutions (run by NGOs) emerged and grew rapidly, offering small loans mainly for micro-enterprises. However, government regulations prevented most loan agencies from taking savings. Today, there are some 300 non-profit organizations lending to the poor, but none are allowed to collect savings due to banking regulations.

Box 2: CODI, Thailand

In the 1980s, many activities in Thailand were oriented towards financial rewards and market transactions. Subsequently, it was widely agreed that this had failed the poor, and a new programme, combining the state, NGOs and the private sector, was needed to address the problem of urban poverty. The Urban Community Development Office was established, and this Office worked until 2000 to provide state funds to locally managed savings groups for housing, income generation and community revolving loan funds. Using different interest rates for different activities allowed cross-subsidies to be offered and ensured that the total returns from lending were more or less equal to market interest rates. With its interest earnings, the Office was able to maintain the real value of their Fund and pay administration costs.

The Fund proved to be a powerful autonomous process. The experience showed that money accumulates and that the Fund promoted development within its financial targets. As a result of its success, in 2001 it merged with a rural fund, and CODI (Community Organization Development Institute) was born. This merger with the rural process was very significant at a micro level because it blended traditional community practices in the rural areas with urban strategies.

CODI's role is increasingly to draw together key groups within each city, enabling a viable local process that assists the development of strong local networks. Initially, CODI linked to the communities through savings schemes. Then networks were formed from the savings schemes and this enabled the communities to assume a much greater level of responsibility. In 2003, the government built on the CODI process and launched the Baan Mankong (Secure Homes) programme. With this programme, there is an increasing move away from state and market solutions towards people's own housing development. By 2004, it had reached 42 cities.

Box 3: SPARC, NSDF and Mahila Milan in India

The savings process in the communities that the NGO SPARC works with began in 1985. At the time, these pavement dwellers were borrowing at high cost, maybe 10 per cent a month. The women started saving to gain greater independence, and for their own dignity. They saved each day with whatever was left over after buying necessities ie. they were not saving from income but from expenditure. At the end of each day, the change was left over from their daily expenditure was pooled and was lent to whoever needed the money for the next day's survival. Within six months, the women identified rules to manage this money that were acceptable to the others involved. These rules helped their savings to expand, and they developed community banks. Now, if they didn't have the money for a bus fare, they could borrow it. Loans could be given immediately, at any time of the day or night, as money was held within the settlements. This gave the women trust in themselves and in their transactions. Gradually, the loans, together with their development ambitions, grew, and the communities that were saving joined the National Slum Dwellers Federation. The women's groups themselves formed a network called "Mahila Milan" (Women Together).

Within both the Federation and Mahila Milan, membership is defined by savings. Women manage these savings and that is what makes them powerful. When negotiating with the state for land, infrastructure and housing, it is their savings that gives them confidence and credibility in these negotiations. The NGO becomes a partner through helping the mainstream institutions understand community realities. They have to learn the financial language but not become seduced by the logic of the financial institutions and mainstream development agencies.

The demonstrated ability of these groups to manage money becomes important when activities are scaled up with state subsidies. SPARC uses the terms "hot money" and "cold money". People lend from their own savings pool (hot money), and SPARC replenishes that savings pool with external (cold) money (borrowed from the central bank at prime plus 0.5 per cent). People still think of this finance as their own savings, even though they know that this is not the case. They repay the money at a higher interest rate than that paid by SPARC on their borrowed funds, and the difference helps deal with delinquency.