It’s all about the money

Micro-finance – understanding alternative economic solutions for the urban poor.

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1 Introduction

In 2013, according to UN-habitat (UN-habitat, 2013), about one third of the world’s urban population were living in slums. Despite a downward trend in percentage of slum dwellers the absolute number is rising, in 2013 estimated to a staggering 863 million, because of the increasing urbanization. At the same time as we see a growing world economy the trend is simultaneously towards increasing income inequality, thus widening the gap between the rich and the poor (World bank, 2014) (Boonyabancha & Mitlin, 2012). The economic systems, economic and housing policies and market forces are all factors that substantially influence the housing situation for all but perhaps in the most critical regard those belonging to the poorest sections of society. Looking at these facts it becomes evident that to solve the housing issue of the urban poor we as architects also need to understand how housing economy works and learn to work with economical tools.

2 Literature Review

Micro-finance

Stein and Castillo (2003) distinguishes between two different traditional sources of housing finance in low-income countries. The first is the financial institutions of the private sector, including private banking and financial institutions. The second source is the public sector, typically subsidized funds and large scale social housing projects.

However these sources are often not available to the urban poor that are most in need of financial help. The financial institutions of the private sector are profit orientated and there is very low profit margins and high risk, when targeting low-income groups. Regarding Public sector efforts, these have often been misguided and are easily victims to political wills and corruption. Lack of understanding in public actors of socio-economic factors that impact the poor communities has also proven a problem (Stein & Castillo, 2003). Boonyabancha and Mitlin (2012) also raises the issue of marketization of state agencies which further disables the poorest communities from basic public services.

The impact of this has during the last decades led to the development of non-traditional alternatives of financing for the urban poor. The alternatives that tries to fill this financial void for the poor is often summed up under the umbrella term of microfinance. Microfinance has been present throughout history in different forms since ancient times. An evolution of microfinance methods took start in the 1970s. Global de-colonization, liberal economic system change, and stronger presence of international economic actors (World Bank, etc.) were all different factors that influenced the economic situation in many less developed nations and consequently led to this evolution. One of the most influential MFI:s (Micro-Finance Institutions) is the Grameen Bank in Bangladesh, founded 1976 by Mohammed Yunus. The idea was to enable poor people access to small loans to enhance their financial possibilities (Vichi, 2013). The Grameen bank was initially a micro-credit scheme using loans as the economical tool. Micro-finance includes micro-credit but also encompasses a wider range of financial products such as saving schemes, insurance, etc.

Microfinance can be both idealistically driven with the focus on offering financial help to those who cannot reach it otherwise but it can also be a purely business-minded venture where the poor sector is viewed as a potential profit base. (Srnec & Svobodová, 2009) In the first case, microfinance can be used as a catalyst for linking poor communities together, creating economic and social bonds between people and strengthening their influence over their own lives, as can be seen for example in the methods used by ACCA (Asian coalition for community action) (Archer, 2012). In the case of ACCA, microfinance transcends the border of economical help and also becomes a method for strengthening community-driven social change.

Adoyo Mary K O (2013) divides the micro-finance sector into three different categories 1. government/donor supported micro credit intervention programs, signified by a top-down approach; 2. Privately owned financial institutions, profit-driven, often with high interest rates; and 3. community-based/member-owned micro-finance model, a bottom-up approach based on the participation of the local people.

Housing micro-finance

Housing micro-finance intersects the practices of housing finance and micro-finance (Daphnis, 2004). In trying to define of micro-finance for housing Daphnis (2004) looks into two different models of classification. The first is a product-orientated classification where he looks at which specifics makes up a housing micro-finance product, thus the product offer the definition. The other method of definition focuses on the provider, defining all financial products offered by a MFI as housing micro-finance, in this classification model the provider entails the definition. The main differences between housing finance and micro-finance is the size of the loan needed and, consequently, the length of the loan term (Christen, 2004). This creates difficulties when targeting a group with uncertain economic situations and often lacking material collateral, which is traditionally used for housing loans. To address this MFI:s to a large extent focuses on incremental housing loans, more suited to the target groups economic situation, and optional ways of dealing with collateral, for example new approaches in looking at land security. (Daphnis, 2004)

Limitations of micro-finance

One reason that the traditional private financial institutions don't target low income groups is the lack of collateral (Stein Castillo, 2003). Various solutions for dealing with this has been invented by different Micro-finance institutions. The Grameen bank has worked with a ”joint liability” approach where a loan is given to a group of lenders who then share responsibility for repayment. This adds a social control factor to the system which in the Grameen bank case has proved to work as a subsidy for material collateral (Vichi, 2013). Stein and Castello (2003) highlights the importance of MFI:s to be creative with the way collateral is looked upon. Land titles can, for example, be used for mortgage loans. Other alternatives include group loans, compulsory saving schemes or nominal assets. When it comes to housing micro-finance Christen (2004) shows that in praxis a housing loan, which by necessity is much larger in scale than for instance loans for entrepreneurial purposes, is often preceded by a series of successively increasing loans to build up a credit relationship which acts as payment guarantee instead of material collateral.

Another, often cited, limitation of microfinance is the high interest rates on micro-credit loans. If loans are to work by market principle interest rates need to cover administrative costs, inflation and potentially generate a surplus. Several MFI:s have a non-profit agenda leaving the surplus out of the equation. To keep the micro-credit scheme sustainable, covering its own cost without the need of external subsidies or donations, the interest still becomes higher than that of traditional banks in most cases. One of the contributing factors of this is the administrative costs of each loan. In most cases administrative costs are independent of the size of a loan, in the case of micro-credit which is based on very small loans but often at a large scale the proportions of administrative costs gets much higher than I traditional banking (Rosenberg, et al., 2009). In the case of government or donor based programs, defined by Adoyo (2013) as a top-down approach, the channeling of funds through local banks and local MFI:s adds additional interest to the loan for every sub-level (Adoyo, 2013).

Critique of micro-finance

Hulme and Maitrot (2014)discusses the neo-liberal market approach to micro-finance and how that has led to an abandonment of outspoken social agenda of poverty reduction in favor of pure economical result. High expectations on results and performance, creates a chain of pressure downwards within the hierarchy of micro-finance institutions. The incentive being the interest of external donors or investors and also the importance of showing positive figures for micro-finance as a solution. In extension this leads to loan officers being pressed to show high percentage of repayment which in several cases has been shown to result in dubious collecting methods including sexual harassment, violent threats, public humiliation, etc. (Hulme, 2014).

Raza (2010) critiques the occurrence of micro-credit from a Marxist perspective, arguing that micro-credit is an inevitable result of the inherent need of the capitalist system to continually find new markets. Furthermore she argues that instead of alleviating the situation of the poor, micro-credit instead turn the borrowers into "*indentured wage-laborers"*

Micro-finance systems have come to light as an alternative to the traditional financial systems. However, most micro-financial systems are constructed within the framework of the global predominating financial discourse limiting the critique of some inherent components of this system. Vichi (2013)highlights the concept of interest from a critical viewpoint concluding that in an interest economy "money is moved from those who have less to those who have more and thereby assets are concentrated in the hands of the few". Furthermore she argues that an interest economy is based on the notion of an exponentially growing economy, a concept that, with the alarming speed in which we are depleting the earths capacity of harboring us, seems more and more unsustainable.

Response

Stein and Castillo (2003) has looked at SIDA (Swedish International Development Cooperation Agency) supported non-conventional financial systems for low-income housing throughout Central America. The credits given by SIDA are, in most cases, funneled through local organizations that are specialized as intermediary actors. These organizations also has the technical, juridical and social competence that complements the financial aid. This has been found to be very important to include and raise awareness of the recipients. The financial resources from SIDA have been structures as revolving funds which differs it from pure micro-credit schemes in the way that interest rates and repayment schemes are not necessarily based on market principles but formulated to guarantee the value of the revolving fund and thus making the system sustainable. Governmental subsidies are seen as a necessary complement to the revolving funds to be able to reach the poorest target groups.

ACCA, an initiative of ACHR (Asian Coalition for Housing Rights) introduces a new approach to housing micro-finance combining elements of economical sustainability, though the use of revolving funds, with a community-based method which aims to upturn both the economic and social situation of the poor. Boonyabancha and Mitlin (2012) sums up the ACCA approach to participation and bottom-up method as follows:

> *"The key resource to solving the problems of poverty and housing in Asia (and also more generally) is to support the people who are experiencing problems themselves and who most urgently want change to be more active in developing alternative modalities of urban development and articulating the value in their solutions"*

The core of ACCA is the concept of CDF:s (community development funds). CDF:s are a way of pooling together resources and connecting poor communities at different scale levels thus gaining more leverage in discussions and negotiations with other actors such as the formal financial sector, government or local authorities. In practice ACCA distributes grants to CDF:s for specific projects, which can be classified either as small projects or big projects. Projects can range from smaller infrastructure interventions such as street lighting in a public space to larger housing projects. ACCA encourages the grant to be used as a revolving fund of some sort but it isn't a requirement. The development of local savings groups within the communities is strongly encouraged. The local saving funds can then be used in combination with the funds channeled through the CDF (Archer, 2012). One of the important feature of the CDF:s is that it formalizes community process which simplifies the interaction with other more formalized actors (Boonyabancha & Mitlin, 2012).

Archer (2012) uses an example in Laos to visualize the process of an ACCA intervention. In Vientiane, the Nong Duang Thung community savings group received a project grant of 40000 US$ from ACCA to counter an eviction threat from the government on whose land they were squatting. The community took in architects involved with ACCA and together they came up with an upgrading strategy of the neighborhood bringing in water electricity and drainage. The grant was divided so that one quarter was used for infrastructure upgrading and the remaining three quarters were set aside in a revolving community fund. It was decided that half of the interest (8%) on the loans would transfer back into the community fund while half would go into the district CDF to strengthen district level welfare and lending capability. In this way the grant money received by community can also give more widespread effect.

3 Argument, Critique or Discussion

Housing for the urban poor is a huge and expanding problem of our time. With urbanisation taking place at an unpreceded pace the systems of our society are not capable of dealing with the consequences in a sustainable way. This is leading to extreme pressure on urban as well as ecological systems in certain urban "hot spots". One strong factor in the urbanization process is people's economic situation. With an increasing industrialisation of farmland people in the rural area, who by tradition has made a living from farming face an unfeasible situation of competition. The lack of livelihood options in the rural areas creates a pushing force towards the urban, where a wider array of livelihood options is available. (Tannerfeldt & Ljung, 2006)

Parallel to the urbanization process there is also a reverse economic redistribution process which widens the gap between the rich and the poor (World bank, 2014). The result is a large urban population in a very vulnerable economic situation. Traditional financial methods seem incapable of facing these challenges in a satisfying way. Micro-finance has since the seventies been seen as one solution to the problems of global poverty. Traditionally mainly focusing on supporting entrepreneurial activities by micro-credit, micro-finance is now also a part of the methods to combat the unsustainable housing situation for the poor. To clearly define what micro-finance or housing micro-finance is proves difficult and perhaps clearly defining it, while beneficial in some ways, could also restrict the evolutionary way in which it changes and finds new solutions in different geographical, social and political contexts. The critique against micro-finance as an universal cure against poverty is valid and should not be waved away. Instead MFI:s need to address the critique by evolving their approaches and methods. ACCA has shown that by intersecting the financial approach with a community-based approach a synergy effect can be achieved. Financial improvements can strengthen the community ties and help connect the community both horizontally (with other similar communities) and vertically (with other strata of society) respectively the strengthened social ties increases the economical possibilities and power of the communities.

In my opinion, for micro-finance to continue evolve and improve its solutions it is imperative that it looks outside the boundaries of what is being offered from the mainstream financial sector. As imperative is the ability of micro-finance to include other aspects of the poor communities' situation than the purely economical, be it community-building as in the case of ACCA or cultural or ecological aspects.

4 The Role of Architects

How can we as architects use the concepts of micro-finance? As I see it, it is necessary for us as architects to better understand the economical preconditions of the people we work with. As architects we train ourselves in finding solutions. When designing buildings or urban spaces we examine the existing contexts, we take into account the prerequisites of the site, of future users and we also deal with financial prerequisites. This is a knowledgebase or working method that could also be used for designing financial solutions. To be able to integrate this potential financial design into urban or building design, also seeing the economic aspects as something site specific, would create a more holistic design approach.

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