

Towards Metafinance

Slum Dwellers around the World Need Financing Options beyond What Microfinance and Traditional Banking Can Offer: Metafinance Shows the Way Forward

By

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Currently, economically active poor families living in the developing world--particularly those dwelling in poor informally-settled urban areas--have few options when it comes to financing their community infrastructure needs. Across rapidly expanding slums in Sub-Saharan Africa, Asia, and Latin America, scarce or mismanaged national and local government resources rarely prove sufficient to fund the development or expansion of basic communal goods. As a result and in the absence of government support, poor urban communities often have no recourse but to turn to self-reliance for such basic necessities as potable water adduction, waste water removal, street paving, and garbage collection and disposal.

To be sure, the decades-old microfinance revolution has successfully provided the poor with new platforms to self-finance their individual and household needs. Still, the range of services microfinance institutions (MFIs) offer has only begun to tap into the deep well of demand that lies beyond the reach of traditional banking—especially in urban areas. As the microfinance industry matures, most MFIs focus on refining established products with a proven track record for profitability, such as small group-based microloans or individual loans for better-off clients. MFIs also seek to capture deposits from clients, and efforts are underway to mainstream micro-insurance and housing microfinance. But in the end, microfinance, much like consumer retail finance, often remains focused on individual or household-level credit and savings needs. When poor families in developing countries seek financial solutions for pressing community priorities, options are few and far between. This is especially so in informal urban settlements where governments have failed to provide the basic required infrastructure.

And, herein lies the opportunity for metafinance.

Metafinance occupies the intermediary space between individual finance and large-scale municipal finance. It enables creditworthy individuals and families to pool their discrete capacity to save or to borrow into a single loan for a communal purpose--hence the “meta” or “transcending” dimension, extending beyond and bridging existing microfinance or municipal finance paradigms. The scale of metafinance is that of a community or neighborhood. The scope includes the shared participation in the self-financing of water, sanitation, transportation, or of other community-focused infrastructure. A typical metafinance loan can range from USD 30,000 (for the financing of a community water pump and of a piped and metered distribution network) to USD 150,000 (for the purchase of land and the development of “serviced” lots.)

Most metafinance initiatives fall into two main categories:

- ***Metafinance through credit.*** Promising initiatives the world over suggest that metafinance can grow into successful and profitable credit services for MFIs and commercial banks. K-Rep Bank's *maji ni maisha* initiative in Kenya, for instance, works with small communities (average 500 households) to help secure loans for communal water infrastructure. Loans to community-based groups can reach up to USD 80,000. A typical investment enables the construction of a community well, the procurement of an adequate pumping station and of a water storage facility, and the design and layout of metered household connections. K-Rep assesses the community's capacity to repay based on a preliminary analysis of household cash flows (drawn from the analysis of a representative sample), and requires a down payment for participating communities. K-Rep also takes into account future revenues to be generated through the newly-financed project. Other banks and MFIs such as Housing Finance Bank in Kenya, Mibanco in Peru, and Genesis Empresarial in Guatemala also offer well-developed examples of metafinance through credit.
- ***Metafinance through savings.*** Large non-profit groups acting on behalf of the urban poor have been primarily responsible for pioneering metafinance through pooled savings. These groups notably include Slum Dwellers International (SDI), the Asian Coalition for Housing Rights (ACHR) and India's Self Employed Women's Association (SEWA). As an example of this type of metafinance, SEWA Bank has partnered for over a decade now with the city of Ahmadabad in a slum upgrading program titled Parivartan (or "transformation.") Approximately 20% of the upgrading costs come from slum dwellers' contributions, mobilized through savings with SEWA Bank. The bank pools individual contributions and channels these resources to local authorities as a form of down payment on improvement activities. SEWA has helped improve more than one hundred communities under the Parivartan initiative. SDI and ACHR affiliates have also leveraged pooled savings into uses as diverse as land purchase and servicing, group housing development, and the construction of community health centers in more than a dozen countries throughout Africa and Asia.

Metafinance is by no means a substitute for public investment in local and city-wide infrastructure. Still, demographic trends suggest that demand for metafinance-type services will only grow in the coming decades. As more than one billion people currently live in slums with scant access to basic services, the demand for community-based infrastructure will continue to outstrip what cash-strapped governments can provide. Metafinance can be an important tool in helping economically active slum dwellers and members of rundown communities rely on themselves--using their own existing cash flow to improve their neighborhoods and living standards in a decisive and sustainable manner.

Philanthropic organizations such as the Gates Foundation and international donors have played a useful role in helping to test and refine financial services targeting the previously unbanked. On the metafinance front, that work is only beginning. Much remains to be done in documenting useful examples, identifying best practices, and developing the right instruments for the right contexts. Should metafinance ultimately prove to be successful, it will need to follow the path of microfinance and emerge from the shadows of philanthropy and development to establish itself as a mainstream and financially viable financial service.