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A $0.14 toilet in a month: Financing urban eco-sanitation through group savings in Malawi.

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Malawi is one of the countries with the highest rate of urbanisation estimated at 6.4%. The country faces serious challenges associated with the rapid growth of urban slums and informal settlements. Nearly 90% of urban residents in the traditional housing area live in overcrowded slum conditions under excruciating effects of poverty. On average, there is too little plot space left to accommodate further excavation of pit-latrines.

The provision of proper sanitation to urban slums is a sine qua non for a healthy and active life of the population. However, similar to the majority of low income groups, slum dwellers ordinarily do not have access to formal capital to finance sanitation because most of them lack the conventional collaterals that most banks demand. In the past, several efforts have been initiated to facilitate the construction of safer toilets, e.g. casting slabs for individual households to buy, but most households still lack proper toilets and refuse disposal system.

The scale of the urban sanitation problem requires revolutionary thinking if major progress is to be achieved. In line with this, Centre for Community Organisation and Development (CCODE) is championing a loan-financed urban sanitation programme, with an entrepreneurship approach. Each programme package (comprising ECO-SAN toilets, kiosk-piped water and skills training for improved livelihoods) produces a business product in the form of compost, safe drinking water and various handcrafts which are either marketed within or outside the communities. The loan comes from a revolving fund basket where network members save their monthly contributions. This initiative is self-sustaining and links the poor to support-organisations for top-up funds to cover their administrative costs and extension services. This cost-sharing approach is quite significant because it breaks the dependency syndrome and recognizes the untapped potential of the poor as real development partners and not passive recipients.

This paper describes how the financing scheme works and gives its current achievements in eco-sanitation in Malawi.

Background

Malawi is one of the countries with the highest rate of urbanization estimated at 6.4% (Government of Malawi 2007). The country faces serious challenges associated with the rapid growth of urban slums and informal settlements. As a result nearly 90% of urban residents in the traditional housing areas live in overcrowded conditions under excruciating conditions of poverty. Since the landholdings cannot be expanded and in most locations multiple houses constructed on most plots, plot sizes are small and can no longer accommodate further excavation for pit-latrines as the most common form of safer human waste disposal.

It is against this background that the Centre for Community Organisation and Development (CCODE) [2] through the Malawi Homeless Peoples Federation[2] mobilises and supports the residents of low income urban areas to take advantage of their untapped strengths, mobilize the available local resources and implement various development initiatives including improved urban sanitation.

The Malawi Homeless People's Federation is a network of poor people across the country. The network was formed in 2003 in order to empower the poor to be at the core of the development processes that respond to their needs and aspirations. It is believed that development is real and lasting only if the poor masses realise their needs, come together to articulate their concerns and find solutions to the problems they face. Similar networks operating as affiliates to Shack/Slum Dwellers International (SDI) and/or Homeless International (HI) are present in over twenty countries in Africa, Asia and Latin America (Kim, 2006). The network members are united voluntarily to participate in the formulation of their development agenda and be part of the solution to communal problems.

The national basket fund

The network members make monthly savings of at least K20.00 ($ 0.14) towards a pool fund called ***Mchenga fund*** that finances their development needs according to the priorities of its members. Mchenga fund is a revolving scheme created through member contributions. From the minimal monthly contributions that members make, the fund is able to gradually increase its outreach and support a wide range of development initiatives. Alongside the monthly development savings, the federation members also contribute at least K50.00 ($0.36) as premium towards a community-managed health insurance scheme that is used to compensate the bereaved or seriously ill members; and daily savings to finance small individual loans at the centre. The daily savings cater for small lending and the prudence displayed in the small loans act as a link to accessing the loans from the larger fund (national basket). The fund offers a range of loan products that can be used for housing, sanitation, agricultural inputs and/or business development. The loan conditions are soft and flexible to favour the low income groups who usually do not qualify to get loans from the formal financial institutions because most of them lack the conventional forms of collateral that most banks demand. In addition to simplified collateral conditions, the credit control mechanisms (regulations) are meted by the group members and that the loans are given in the form or package as determined by the groups themselves and not outsiders.

The poor peoples fund is a hybrid of the Grameen[3] model in that the loans come in kind and with various types of training, as detailed below. The fund offers attractive lending schemes to the poor and are fast becoming popular as a compliment if not a substitute to the heavily constrained institutional credit. As noted by (Becky, 2006), one reason why the urban poor funds have proved to be so successful is because they do not function as isolated financial mechanisms but are embedded in a larger processes of community mobilisation and capacity building. Creditworthiness is decided by the people who have at least some information about the borrower, the same people living under almost similar circumstances, therefore reducing some of the common microfinance problems like fungibility, [4] lack of borrower information, monitoring loan use etc.

Accessing the Mchenga fund

Realising the need for credit procedures that are not only inclusive but also supportive to the cause of the poor federation members adopted group savings as a quick way of financing their development needs This provides not only alternative bank products as demanded by the poor, but also a realistic alternative to the loan screening procedures that are popular among most formal institutions, yet do not favour the poor masses. With the help of the support NGOs, the groups manage finances themselves and determine the interest rates at which to lend their own money to each other. Below is a sequence of the loan application and disbursement process:

1. **Loan Application process**

   The members wishing to borrow from the fund establish a group with similar intents and the group subsequently sets up its own regulations and loan default mechanism. The group application is then submitted to the members' secretariat for appraisal and consideration. Membership is voluntary and as a result group composition in terms of gender and age varies from place to place. However in most of the groups women are commonly in large numbers.

2. Loan Appraisal

The network (combination of different groups at district or national level) has a team called vetting team that is responsible for appraising applicants to the fund. The team is composed of both female and male members but usually the females outnumber the males. Creditworthiness is measured against: savings, loan repayment record, commitment and degree of upfront payment, which is usually set at 10% of the total loan sought for. Through their group's loan committees, the members usually vet each other or each other's projects so that only those beneficiaries that meet the criteria and conditions as set by the group get approved at a particular time. In order to qualify for a loan, one of the requirements is that the borrowers must all be federation members and must have deposited an upfront repayment of at least 10% of the total loan with the fund. The fund disburses group loans (usually for 5 – 10 people) to groups whose members are familiar to each other and can easily monitor loan repayments and motivate strategic defaulters (borrowers who can repay, but are unwilling) to repay.

3. Training

The beneficiaries receive basic training as appropriate, ranging from principles of book keeping, business management, loan management and computation of interest/outstanding loan. In order to enhance their livelihoods and income generating capacities, skills development forms an integral part of the programmes that CCODE is implementing. The beneficiaries are exposed to various trades like carpentry, brick laying, flower making, solid waste management and recycling, etc to compliment or improve their livelihoods. The loans training and skills development support programme is financed by external funds solicited by the support NGO. Preparation of funding proposals is part of the technical support that the NGO undertakes.

4. Loan Disbursement

The issuing of cash is discouraged, in most cases the value of the loan is given out in form of material equivalents with their value mostly equivalent to the amount applied for. The fund has set up a procurement team that oversees the procurement and delivery of the materials to the individual groups. A delivery note outlining all the loan items is countersigned by a representative of the delivery team and the borrower. This system of credit delivery cuts on costs through bulk buying of project materials and reduced leakage of resources to unintended activities. Since the borrowers know each other the problems of asymmetric information (i.e. lack of borrower information to lender) does not arise.

5. Loan repayment and monitoring

There is a both men-and-women team that collects monthly contributions towards loan repayment. Those whose repayment record is not good are motivated to improve, as their repayment is the only sure way to reach out to the borrower-in-waiting. The cost of the collection and monitoring in terms of recording materials and sometimes transport is financed by the support NGO. Otherwise the members for various teams (vetting, procurement, monitoring) are from within the community and are themselves federation members who work to strengthen their system. The major form of payment that they receive are the honoraria whenever they are involved in peer training and indirectly the incomes derived from the services/products of the various trainings received eg bricklayers, carpenters, etc

Photograph 1. – Traditional pit-latrines and bathrooms used before project intervention

Photograph 2. – Modern ECO-SAN toilet and bathroom: After project intervention

Source: CCODE water and sanitation project

Achievements to date

The loan concept is a relatively new. It has been in practice since early this year but has great potential to expand in a number of urban locations. So far the project has been to 3 sites in Lilongwe (Chinsapo, Mtandire and Area 49); 1 site in Blantyre (Angelo) and 1 site in Mzuzu (Zolozolo). A total of 158 loan toilets at the cost of Mk 5 980 000.00 have been constructed using the local expertise within these communities. The borrowers payback at least Mk1500.00 a month, and the whole loan has to be finished within a period of two years.

Indicator	Total units	Average Number of family members serviced (5 per family)
a) Sanitation loans		
Number of loan toilets built	158	790
Average cost	Mk 20 000.00	-
Number of borrowers	158	790
% of women	95	-
Maximum Repayment period in months	24	-
b) Number of carpenters trained	25	125
c) Number of builders trained	13	65
d) Number of women making soil stabilised blocks (SSB)	20	100

Key lessons learnt

The sanitation loan scheme is used to finance the construction of ECO-SAN toilets with its three-pronged objective (1) cutting down the problems of toilet space, (2) providing an alternative for the exorbitantly priced chemical fertilizers and (3) provide income generation alternatives. The by-product of the ECO-SAN toilets is weed-free nitrogen-rich manure which is directly used in the fields or offered for sale to agro-companies.

There is a high demand for the loans and as a result the even distribution of the loans across geographical locations is a big challenge. Where external funding is limited seed capital becomes shallow hence the borrowers sometimes take a long time to be serviced. Waiting time is a big test on the members' patience and at times group solidarity is compromised.

However, this system is quite sustainable because the spirit to development is community-driven and the development process is more empowering as most of the core project activities are done by the community members themselves. With time the national fund can be used as guarantor to access bank loans.

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Note/s

[1] Centre for Community Organisation and Development, is a Malawian based local NGO

[2] Malawi Homeless Peoples Federation is a network of the poor across the country bound by a commitment to make monthly savings in a pool fund that finances their development needs according to members' priorities.

[3] The Grameen Bank of India which is documented as a successful microfinance institution responding to the needs and circumstances of the poor.

[4] Fungibility refers to abuse of credit whereby the loan is diverted to finance unintended activities

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