Homeless International

FINANCING COMMUNITY LED SLUM UPGRADING
Lessons From The Federation Process

By Ruth McLeod
Homeless International

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ACRONYMS

ACHR	Asian Coalition for Housing Rights
AMT	Akiba Mashinani Trust
BMC	Bombay Municipal Corporation
BSDP	Bombay Sanitation and Drainage Project
C3	City Community Challenge Fund
CBO	Community Based Organisation
CLIFF	Community Led Infrastructure Finance Facility
CMP	Community Mortgage Programme
CODI	Community Organisations Development Institute (formerly UCDO)
DCA	Development Credit Authority
DFID	Department for International Development
FFI	Formal Finance Institution
HDFC	Housing Development Finance Corporation
HI	Homeless International
HIPC	Highly Indebted Poor Country
HUDCO	Housing and Urban Development Corporation
IIED	International Institute for Environment and Development
LDF	Local Development Fund
MDF	Municipal Development Fund
MUTP	Mumbai Urban Transport Project
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Government Organisation
NNGO	Northern Non-Government Organisation
NSDF	National Slum Dwellers Federation
OCT	Orangi Charitable Trust
PACSI	Philippine Action for Community Led Shelter Initiatives
PIDG	Private Infrastructure Development Group
PUPDF	Philippines Urban Poor Development Fund
RBI	Reserve Bank of India
RDT	Rural Development Trust
SDI	Shack/Slum Dwellers International
SIF	Social Investment Fund
SPARC	Society for the Promotion of Area Resource Centres
SRA	Slum Rehabilitation Authority
SUF	Slum Upgrading Facility
TDR	Transferable Development Rights
UCDO	Urban Community Development Organisation (now CODI)
UPDF	Urban Poor Development Fund
USAID	United States Agency for International Development
UTI	Unit Trust of India
UCLGWO	United Cities and Local Governments World Organisation

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1. BACKGROUND, ASSUMPTIONS AND THE FEDERATION PROCESS

The challenge of slum upgrading has been recognised within the Millennium Development Goals in Target 11 – "*significantly improving the lives of at least 100 million slum dwellers by 2020*" and in Target 10 "*cutting in half the number of people without safe drinking water and sanitation facilities by 2015*". However resources currently allocated for slum upgrading by governments, local authorities and by donors remain woefully inadequate and are frequently poorly targeted.

The range of activities included in slum upgrading is diverse as demonstrated by this definition from the Global Report on Human Settlements 2003: The Challenge of Slums[1].

A DEFINITION OF SLUM UPGRADING

"Slum upgrading consists of physical, social, economic, organizational and environmental improvements undertaken co-operatively and locally among citizens, community groups, businesses and local authorities. Activities include:

- *installing or improving basic infrastructure – for example water supply and storage, sanitation/waste collection, rehabilitation of circulation, storm drainage and flood prevention, electricity, security lighting and public telephones;*
- *removing or mitigating environmental hazards;*
- *providing incentives for community management and maintenance;*
- *constructing or rehabilitating community facilities, such as nurseries, health posts and community open space;*
- *regularizing security of tenure;*
- *home improvement;*
- *relocating/compensating the small number of residents dislocated by improvements;*
- *improving access to health care and education, as well as to social support programmes in order to address issues of security, violence, substance abuse etc.;*
- *enhancing income-earning opportunities through training and micro-credit;*
- building social capital and the institutional framework to sustain improvements."

Box 1 – A Definition of Slum Upgrading

The vast majority of slum upgrading costs are met by the poor themselves, through individual and collective effort[2]. The upgrading that occurs is most frequently carried out on an incremental, piecemeal basis as households, and sometimes groups, are able to mobilise resources. The process is rarely supported by access to credit from formal finance institutions, and when it is, the support is invariably in the form of conventional mortgage finance, which is not suitable for large scale slum upgrading.

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[1] Available from www.unhabitat.org

[2] This has been well documented in De Soto2000), The *Mystery of Capital*, Basic Books who notes that

"…the total value of the real estate held but not legally owned by the poor of the Third World and former communist nations is at least $US9.3 trillion - wealth that also constitutes by far the largest source of potential capital for development. These assets not only far exceed the holdings of the government, the local stock exchanges and foreign direct investment; they are many times greater than all the aid from advanced nations and all the loans extended by the World Bank".

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Community led slum upgrading has also received relatively little support from government at either national, state or city levels. However when communities become organised it has sometimes been possible to leverage additional external investment from local markets and/or external sources leading to results that have the potential to be scaled up. The provision of capital resources to accelerate initiatives at this level could have a significant impact on scaling up slum upgrading. However donors have proved reluctant, with a few notable exceptions, to providing capital facilities that can be directly accessed by the poor[3].

This paper explores a number of structured attempts to provide capitalised funds to augment investments in slum upgrading made by the poor themselves and to strengthen the ability of organisations of the urban poor to take the initiative in community led slum upgrading. The majority of examples are drawn from the experience of organisations that are members of Shack/Slum Dwellers International (SDI), an international network of Federations of the Urban Poor, and their support organisations. Their use of **Urban Poor Funds** will be discussed in some detail. There has however been no attempt to be comprehensive in coverage. Rather the focus has been on seeking to understand how capital facilities have been, and could be, used to support a specific development methodology - referred to as the **"Federation Process"** - and to understand the rationale behind certain decisions that have been taken in determining how Urban Poor Funds have been designed and the manner in which they have evolved. Examples have been drawn exclusively from Asia and Africa. Some background material on public sector and donor financing of slum up-grading and infrastructure provision is provided in order to better contextualise the initiatives developed as a result of the Federation Process.

A number of assumptions made within the paper should be clarified. They are summarised in Box 2.

[3] See PM Global Infrastructure Inc – Proposal for the Creation of a Global Slum Upgrading Facility for a more detailed analysis pin pointing the scarcity of funding for poor communities to participate in slum upgrading. See also Ruth McLeod (2002) *Research on Bridging the Finance Gap in Housing and Infrastructure and the Development of CLIFF*.

ASSUMPTIONS

- Without the active engagement and participation of the poor little can be achieved in slum upgrading and an increased focus needs to be placed on methods for supporting community-led development in terms of building a practical organisational capacity that constitutes real and practical effective demand.

- Facilitating the engagement of the urban poor in slum upgrading provides an important vehicle for improving systems of urban governance. However improved governance cannot be effectively addressed in the abstract. The trend towards expenditure on training workshops for the urban poor in participatory governance will have no impact if it is not embedded in adequately and appropriately resourced opportunities to practice participation in infrastructure, shelter and livelihood investment initiatives that make sense to them.

- Developing sustainable financial services for the urban poor, including provision of finance for community-led slum upgrading, requires the development of facilities and systems anchored in the capital assets and the financial management systems of the poor themselves. Sustainability needs to be seen from a political perspective rather than solely on a financially basis.

- Financial mechanisms can only be effective in slum upgrading when embedded in a broader process of social and institutional investment. Such investment enables the poor to establish an asset base that includes savings, comprehensive databases of settlement level information, negotiation ability and the organisational capacity to develop and maintain relationships with external institutions that impact on local planning and development. The development of this asset base provides for collective investment in, and ownership of improvements made and also broadens the repertoire of activities in which the poor can engage. Effective support for this social and institutional investment requires a broad range of financial services on a long-term basis in order to develop and sustain improved living conditions and livelihoods – housing finance alone is insufficient. Delivery mechanisms will also need to be varied – municipalities as well as communities need access to development capital.

- Slum upgrading requires wholesale financing – venture capital – to catalyse collective investment and to facilitate settlement level approaches rather than simply improvements in the living conditions of individual households. To achieve this at scale major inputs will be required from local financial markets and the commercial banking sector will have to become a key player. A major focus needs to be placed on methods of leveraging community and public sector resources in order to achieve this.

- The management of risk is key to ensuring that adequate funds are made available for scaleable solutions to be developed and implemented. Given the range of risks involved and the diversity of risk analysis, management and mitigation frameworks understood by the various actors involved, a co-ordinated effort will be needed to ensure constructive dialogue between community, state and private sector interests on options in this area.

Box 2 - Assumptions

The Federation Process referred to above has emerged from the practice of Federations of the Urban Poor linked through a mutual learning and support network known as Shack/Slum Dwellers International (SDI). SDI works in broad alliance with another network in Asia – the Asian Coalition for Housing Rights (ACHR)[4]. The development and achievement of SDI/ACHR members has been documented in detail elsewhere[5]. However its membership shares common practices and processes which have established important precedents in community-led urban development and which are summarised briefly in Box 3. In most national contexts the Federations are supported by local NGOs staffed by professionals. The combination of Federation and NGO is commonly referred to as an **"alliance"** as in the case of "the Indian Alliance" which is made up of the National Slum Dwellers Federation, a national network of women slum and pavement dweller collectives known as Mahila Milan, the NGO SPARC, and a new organisation they have formed together called Nirman which provides specialist services in financing and managing large scale construction projects.

- *The formation of **saving and credit groups** creates a basis for collecting money, people and information resulting in collective capital and basic organisational capacity.*
- ***Enumerations and settlement mapping**, carried out by the urban poor themselves, enable the collection of settlement-based information, particularly relating to housing, land and infrastructure, which is owned by the poor rather than by outsiders.*
- ***Housing and toilet exhibitions and festivals** demonstrate the possible in a manner that enables fundamental choices to be made about allocation of collective assets – particularly land and infrastructure – provided through local or national state agencies. Exhibitions also create a space for policy makers, politicians and the urban poor to explore alternative options for investment and new options for planning and building standards. Thirdly, life-sized models act as a mobilising tool in communities, enabling people to get a feel for the space created and to enhance communities' aspirations about what is possible.*
- *Learning and mutual support are nurtured through a process of **exchanges** – visits to each other's communities so that experiences can be shared. Increasingly such exchanges also include public officials and other professionals, encouraging their exposure to the way in which organisations of the urban poor perceive, analyse and respond to the issues that they prioritise within their local contexts.*
- *The implementation of **small pilot projects** which demonstrate how a community driven process can design and implement solutions that make sense to them, and which act as precedents for larger scale development.*
- *The creation and management of **Urban Poor Funds**[6] which provide access to capital for larger scale housing and infrastructure developments led by communities in partnership with local authorities and Municipalities.*
- *The creation of **city-community-state agreements** facilitating the development of long term strategies for tackling slum upgrading, resettlement and infrastructure provision.*

Box 3 A summary of the Federation Process

As should be clear from the summary given above, the Federations are under no illusion that they can solve the problems of urban poverty, inadequate shelter and poor infrastructure on their own. They are committed to a process of critical engagement with the state and other key actors at local, national and international levels and they have a clear understanding of the responsibilities that the state should assume. However they have learned through experience that if they do not take the lead in their own development nothing happens, to the detriment not only of the poor but cities as a whole. It is within this context that their initiative in establishing capital funds to finance shelter and infrastructure development should be understood. They seek to use these funds as a catalyst, to enable them to build a bridge

[4] For further information see *www.sdinet.org* and *www.achr.net*
[5] See in particular Civil Society in action – Transforming opportunities for the urban poor, Environment & Urbanization, Volume 13 Number 2, October 2001.
[6] An excellent overview of these funds can be referred to in Housing by People in Asia Number 14, February 2002 - Special Issue on Community Funds available from ACHR

towards accessing the resources that exist elsewhere and which they need to access in order to achieve their long term development objectives.

In developing the Federation Process SDI members have focused on a number of key strategic elements:

Size – building a critical mass of membership at national & city levels

Sharing values and processes (sometimes referred to as "Federation Rituals" which are guided by the principle that solutions have to work for the poorest people

Communication and learning systems - peer to peer learning exchanges that enable learning and the sharing of knowledge without assuming literacy.

Structures of accountability that provide checks and balances as developments take place – such as peer auditing of savings and loan operations.

Skills & competence developed collectively rather than investing in the competence of a few individuals.

Strategic alliances which are built to facilitate critical engagement with the prevailing power structures, but which are not aligned with the interests of specific political parties.

Solidarity and support processes which enable rapid national and international response to local needs.

In entering into critical engagement with the state, with the private sector and with formal financial institutions (FFIs) SDI members have also developed a number of principles that underpin their institutional investments:

- Build for the long term and do not assume quick turnarounds or overnight solutions.
- When dealing with government focus on building understanding with the bureaucrats and technicians, avoiding political affiliation.
- Build relationships by working on real issues of mutual concern that create visible and tangible change.
- Create a common meeting ground and a language for negotiation that everyone can understand.
- Share risks.
- Ensure that all parties have something to offer and something to gain.
- Accept that legal agreements and policy will often follow rather than precede implementation of innovation.

2. CURRENT APPROACHES TO FINANCING SLUM UPGRADING

Table 1, on Page 10, provides an outline summary of some of the different mechanisms, mainly donor-driven, that have been used, or are being developed for use, by governments, donors and NGOs to finance slum upgrading. Most of the mechanisms have also been used for other purposes whilst resourcing slum upgrading to some extent. They have not necessarily been specifically designed as special financial vehicles for this purpose. These funds are not discussed in detail here but it may be useful to provide brief descriptions of a few of them as they have some direct relevance to the discussion that follows on Urban Poor Funds.

2.1. Municipal Development Funds

Municipal Development Funds (MDFs) act as intermediaries to provide credit to local governments, and to other institutions investing in local infrastructure. More than 600 developing countries have established intermediaries of this kind. In the short run they are charged with disbursing publicly provided credit to local government and seeing that local investment is efficiently implemented. In the medium and longer term they are intended to pave the way for a self-sustaining credit system that can participate in private capital markets[7]. Their impact has so far been somewhat limited. As Peterson[8] points out *" few developing country MDFs have either evolved into market-oriented suppliers of credit capable of mobilising private sector savings, or have smoothed the way for private sector participation in the municipal credit market. Most have remained specialised and isolated channels for international donor or Government funding".* He further argues *"indeed, MDFs often introduce new political risks into the municipal credit system, making it more difficult for market-based lending to begin". He notes that "private sector banks' willingness to lend to the municipal sector at their own risk requires that several pre-conditions be met. Municipalities must have stable sources of revenue. Financial sector liberalization must have proceeded to the point where private lenders can make their own decisions about credit allocation, based upon their analysis of risks and returns, without government steering of capital. Inflation must have moderated to the point that intermediate-term lending is feasible. If these conditions have not been met, a country cannot 'jump ahead' to private sector municipal lending, merely by establishing an MDF that supplies banks with a sectoral line of credit".* This analysis has important resonances with a discussion later in the paper relating to the capacity of Urban Poor Funds to leverage credit from local formal financial institutions.

2.2. Social Investment Funds[9]

Social Investment Funds (SIFs) have been promoted by the World Bank as funds that seek to target and empower poor communities to improve participation and local service delivery. They "*usually have two goals: increasing sustained access of the poor to local services and infrastructure and empowering communities through participation in the selection, implementation and on-going operation and maintenance of development projects. They target resources by providing direct financing for community projects designed to have a quick impact on improving basic services and reducing poverty. Since 1987 the (World) Bank has approved about 100 social fund-type projects in more than 60 countries with a total value of about $3.4 billion."*[10] In some cases Social Investment Funds have been financed as a result of debt forgiveness agreements reached within the Highly Indebted Poor Countries Programme (HIPC)

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[7] For a detailed discussion of the use of Municipal Development Funds see Using Municipal Development Funds to build Municipal Credit Markets, George E. Peterson, 1996. See also Samil El Daher, Specialised Financial Intermediaries for Local Governments A Market-based Tool for Local Infrastructure Finance, Infrastructure Notes from the Urban Sector of the World Bank, November 2000

[8] George E. Peterson, op cit

[9] Summarised from Parker and Serrano, 2000

[10] Andrew Parker and Rodrigo Serrano, September 2000. Promoting Good Local Governance through Social Funds and Decentralization; study funded by the World Bank's thematic groups on Decentralization, Municipal Finance and Social Funds; the United Nations Capital Development Fund, New York and trust funds of the Government of Switzerland. For an analysis of the use of Social Investment Funds see the World Bank Strategy Paper, The Use of Social Investment Funds as an Instrument for Combating Poverty, December 1998.

2.3. Local Development Funds[11]

Local Development Funds (LDFs) originated from the United Nations Capital Development Fund and 17 such programmes have been supported in 14 developing countries. They were designed to work within prevailing statutes, regulations and institutions rather than establishing new institutions. Within a pilot area the funds were designed to test decentralisation reforms and innovations usually aimed at:

- Improving mechanisms and rules for central-to-local financial transfers
- Establishing procedures for local participatory planning, programming and budgeting, and for implementing local public sector spending
- Instituting structures and procedures through which the state supports and supervises local authorities and encourages their performance.

2.4. City Community Challenge (C3) Funds

The C3 Challenge Funds, as they are commonly known, were established with DFID funding in Zambia and Uganda as a pilot approach testing the viability of providing direct access to capital for communities living in informal settlements. Designed as a two year initiative and administered locally by CARE in Zambia and the Local Government Association in Uganda, the initiative achieved some success in resettlement particularly in Jinja in Uganda. However the level of funding made available (£1 million between two countries) and the short-term nature of the project failed to provide a basis for impact at the scale that is needed. The project has been extended for a further year under the auspices of the Urban Management Programme co-ordinated by UN Habitat but it is not clear if the additional resources needed to make such an approach effective will be forthcoming[12].

2.5. Multilateral Development Banks

These include the World Bank and the Regional Development Banks. The bulk of their annual US$3 billion lending is invested in urban infrastructure and transport rather than in slum upgrading. Slum upgrading projects that directly address the needs of the urban poor account for only about one seventh of the total[13]. Projects tend to be designed on a "top-down" basis and are frequently consultant-driven.

2.6. Cities Alliance[14]

Cities Alliance is "*a global alliance of cities and their development partners committed to improving the living conditions of the urban poor*". Established in 1999 it aims to improve the efficiency and impact of urban development co-operation in two main areas:

- Making improvements in the living conditions of the urban poor by developing citywide and national slum upgrading programmes.
- Supporting city-based consensus building processes by which local stakeholders define their vision for their city and establish City Development Strategies with clear priorities for action and investments.

Cities Alliance provides technical assistance grants, seeks to enhance knowledge sharing and donor co-ordination. It does not directly fund slum upgrading construction projects.

2.7. USAID Development Credit Authority[15]

The Development Credit Authority (DCA) allows USAID Missions to fund projects that are financially viable through loan and bond guarantees in "*sectors that meet sustainable development objectives*". The facility is available for use by local governments, private sector entities and NGOs. USAID can also provide Portfolio Guarantees to financial institutions that extend loans to a broader number of smaller borrowers such as micro-enterprises and small businesses. By sharing the credit risk with financial

11 Summarised from Parker and Serrano, 2000 op.cit.
12 For a full evaluation of the C3 Challenge Funds see Beale, 2003
13 Source – Final report on the Proposal for the Creation of a Slum Upgrading Facility, PM Global Infrastructure, December 2003.
14 For further information see www.citiesalliance.org
15 See USAID's 10-Step Guide to Preparing a Development Credit Authority (DCA) Project, USAID Office of Development Credit, March 2003.

institutions, DCA hopes to demonstrate the soundness of lending activity in sectors that may not otherwise have access to capital. It is anticipated that with sufficient experience and credit history, local banks will then have greater confidence in issuing additional loans in targeted sectors without further USAID intervention. It is recommended that eligible projects meet the following criteria:

- **Financial viability**: Projects should demonstrate positive financial rates of return, indicating that debt can be repaid.

- **Risk sharing**: USAID should assume 50% or less of the potential liability to ensure true risk sharing with local financial institutions.

- **Leverage**: USAID should directly mobilise funding by local financial institutions.

- **Currency matching**: Loans guaranteed by DCA should be made in the same currency as the revenues generated by the project.

- **Reporting Requirements**: USAID Missions should be prepared to work with the partner financial institutions to provide regular reports on the status of DCA projects.

The emphasis of DCA is on facilitating credit extension from private financial institutions. The facility is not available for use with Finance Institutions that have a majority public holding.

2.8. Bridging loans and Grants from Northern NGOs

Northern NGOs have played a key role in capitalising the Urban Poor Funds established within the SDI/ACHR networks. Misereor, Cordaid, Homeless International, Selavip, and more recently the Rausing Trust have provided the initial risk capital to enable federations to access loans for projects that would otherwise not have been possible. However Northern NGOs have limits on the quantum of funding they can provide and cannot hope to come near to providing the levels of funding needed to catalyse large scale slum upgrading on a wide geographic basis. Hence the need to attract public sector and bi-lateral funding, not only to increase the size of the funds but also to ensure a wider local engagement with the objectives that the Funds seek to achieve.

2.9. Guarantco

Guarantco is a facility initiated by the **Private Infrastructure Development Group** (PIDG), comprising several European bilateral aid agencies and the World Bank. The facility has begun to offer guarantees for the mobilisation of local funding for private and municipal infrastructure projects. 20% of Guarantco guarantees are to be allocated to urban regeneration and development with a focus on poverty elimination.

2.10. Community Led Infrastructure Finance Facility (CLIFF)

CLIFF emerged as a result of research carried out on the use of Urban Poor Funds and other finance facilities in eight developing countries[16]. Its design has been greatly influenced by the advantages that Urban Poor Funds have to offer and it has sought to build on the base which they have established. CLIFF has been capitalised with DFID and Sida funding as a Cities Alliance facility managed by Homeless International and being piloted in India by Nirman, the company established by the Indian Alliance to finance and co-ordinate management of large-scale construction projects. The initiative became operational in June 2002. The financing facility provides loans, guarantees and technical assistance to support a range of projects that include slum upgrading, resettlement and infrastructure projects. £6.1 million is available for **bridging loans** to kick start initiatives, with the funding recovered as government subsidies are paid or project income streams resulting from commercial sale of developments realised. Most government subsidies only become available when a project has reached

[16] Ruth McLeod 2002 op. cit. Bridging the Finance Gap in Housing and Infrastructure, a research project implemented by Homeless International and funded through the Knowledge and Research Programme of the UK's Department for International Development.

a certain stage and this often leads to such subsidies not being used, as few NGOs can afford to start major construction projects before funds become available. CLIFF also provides **hard currency guarantees** to secure local bank financing of projects, **technical assistance grants** (to develop projects to the point when they are ready for financing) and **knowledge grants** (to ensure learning from the initiatives supported by CLIFF are widely shared by communities, municipal officials, technical staff and policy makers). A large part of the funding for the projects that CLIFF supports comes from resources contributed by low-income households and their community organizations within the SPARC-Mahila Milan-NSDF Alliance. In effect, CLIFF is only possible because of the strength and capacity of the long-established federations, and the savings and loan schemes[17] which underpin them.

2.11. Slum Upgrading Facility

This Facility is currently being designed. It is anticipated that it will be overseen by Cities Alliance and managed by a special unit within UN Habitat. It will potentially offer the following services:

- Providing financial "packaging" advice to municipalities, NGOs, CBOs and financial institutions in structuring slum upgrading, low income housing and related municipal infrastructure projects to make such projects financially viable and bankable.

- Supporting NGOs and CBOs to enhance their capacity to be effective partners to municipalities in upgrading schemes as well as to develop their ability to promote and scale-up community based initiatives.

- Providing rapid response advice to agencies and groups on slum upgrading, low income housing and infrastructure development and finance.

- Providing catalytic financing in the form of seed money, bridge or working capital financing and funding of pilot operations to help promote innovations as well as jump-starting upgrading schemes.

The catalytic financing to be made available is however relatively modest with only 30% (US$9 million) of the budget or US$9 million made available globally for this purpose over three years.

[17] For further information on CLIFF see Ruth McLeod (2002) op. cit. and the CLIFF annual report available from *www.homeless-international.org* or www.theinclusivecity.org

Type of Facility	Source of Funding	Main beneficiaries	Comments/Problems
National Housing Banks	Pay roll levy National Budget Allocations	People with formally certifiable incomes, middle-income groups needing access to mortgage finance and affordable developer constructed housing.	Problems with direct lending to people dependent on informal and irregular income. Prone to political interference and corruption leading to poor repayment and bad debt problems. Potentially effective if financing brokered through agencies with capacity to support community-led processes.
Housing Ministries and Local authority Departments of Housing Upgrading Loan Funds	Budget Allocation Multi-lateral and bi-lateral loans	Very project and programme specific.	May be prone to political interference & corruption leading to poor repayment and bad debt problems. Subsidies may not reach the people for whom they were intended. Subsidies often delivered through developers leading to poor cost benefit value.
National Insurance and Pension Funds	Employee contributions	Usually people employed in formal work force.	Underutilised. Use frequently restricted by legislation.
Municipal Development Funds	Donor and public sector allocations.	Finance for local authority developments.	Open to political abuse. Not available to urban poor. With few exceptions limited capacity to leverage additional funds.
Social Development Funds	World Bank initiated.	Aimed at supporting improved participation in local governance.	Have tended to provide one-off capital projects rather than on going financing as a strategic element of urban development[18]. Focus has tended to be on health and education.
Cities Alliance	Bi-lateral and multi lateral donors	Aimed at supporting the design of programmes. Channel funding through CLIFF	A useful mechanism for co-ordinating the development of strategic approaches to slum upgrading but few funds supporting implementation follow up.
Debt Swaps	Bilateral donors in conjunction with banks have arranged debt- land and debt –property swaps to provide assets to urban poor groups	Urban poor	Useful as demonstrations of what is possible but little potential for scaling within this financing model. Complex to arrange & few examples as yet. Examples in Kenya & Jamaica supported by Finland and Canada.
HIPC related funds	Debt forgiveness payments by government channelled through local institutions.	Have been used in Kingston to capitalise KRC urban renewal facility.	Considerable potential for use in slum upgrading in HIPC countries but underutilised & may be politically abused.
Municipal Bond Issues	Dependent on credit rating. Seek to attract investment from local market.	Have been used to finance infrastructure provision, in some cases benefiting urban poor.	Few local authorities able to package bond issues and problems with achieving necessary credit rating.
Community mortgage programme	Government and donor allocations in Philippines.	Intended to benefit poor.	Highly bureaucratic with minimum 12 month lead-time from application to funding[19]. Complex application process.
Commercial Finance Institutions	Soft loans or grants from donors. Savings & deposits Bond issues	Tend to benefit those in formal employment with clear land title.	Lenders tend to be highly risk averse and loans rarely used for collective upgrading in informal settlements.
Loans/grants from Northern NGOs	Grants and ODA sourced from bilaterals	Low-income families including those living in informal settlements.	Problems in scaling up but very useful for start up capital.
USAID Development Credit Authority	US Government and USAID guarantees	Partial underwriting of loans & bond issues including those for slum upgrading & infrastructure development.	Limited to provision of guarantees to private sector finance institutions. Few examples as yet of backing for slum upgrading.
City Community Challenge Funds	DFID funds provided in Uganda and Zambia	Urban Poor	Low level of funding and short time scale limit capacity to make major impact.
Micro Finance Institutions	Varied sources	Individuals and groups dependent on informal income generation and generally excluded from formal banking services.	High % of loan portfolios being accessed for housing improvements & infrastructure installation. Costing structure & delivery mechanisms not currently designed to support large scale slum upgrading.

Table 1 – An Overview of Funding Sources for Slum Upgrading

[18] For a notable exception to this pattern see an account of the use of social investment funds by CODI Somsook Boonyabancha, 2003, A Decade of Change: From the Urban Community Development Office (UCDO) to the Community Organizations Development Institute (CODI) in Thailand, IIED Working Paper 12 on Poverty Reduction in Urban Areas.

[19] Fr Norberto of the NGO Philippine Action for Community Led Shelter Initiatives – PACSI reports that The Philippines Homeless Peoples Federation has been waiting three years for the Community Mortgage Programme to deliver financing for a major housing project that the Federations have had to bridge finance in the meantime.

3. ISSUES AND CHALLENGES IN EXISTING DELIVERY SYSTEMS

Neo-liberal optimism that the market will be able to deliver the capital investment necessary for improvements in the life of the urban poor has produced little change in the settlements that need upgrading. At the same time effective delivery mechanisms linking the supply of available private and public funding to the needs of the poor have been few and far between. The reasons for “market failure” and for bottlenecks in the delivery of state financing are complex on both the supply and demand side and also vary in different national contexts. This section of the paper attempts to explore some of the issues and challenges involved.

3.1. Identifying the financial products that are needed and ensuring they are provided

There are a range of financial products and services that are needed to support community-led slum upgrading. In the following section eight forms of finance that are necessary are described in more detail. However it may be useful at this stage to identify some of the confusions that currently exist in the debate in this area.

The first confusion arises when it is assumed that financing for the poor, by definition, must be micro-finance. Some of this confusion can be accounted for by the loose way in which the term micro-finance has been used. However we believe that it is important to be clear concerning the limitations of carelessly applying a micro-finance paradigm within the context of slum upgrading, which, by definition is not an activity that can be carried out on an individual basis. Home improvements and the incremental development of new housing can, and is, frequently supported by micro finance institutions able to provide medium term loans to individuals and groups[20]. However slum upgrading at scale requires a different quantum of capital investment altogether. It requires venture capital needed to cover substantial project cash flows that may incorporate a complex mixture of subsidies, beneficiary contributions, commercial sales and contractor and developer investments. It is also important to note that the transaction costs of micro-finance result in relatively high interest rates that preclude its use in major construction works.

The second confusion results from assumptions that project costs can be accurately identified in advance. The reality is that precedent setting projects inevitably face delays. This has been particularly evident where communities have refused to pay bribes for planning and building approvals. When bribes are not paid, approvals are not given and construction is delayed entailing onerous financing costs. Bridging funds are required to cover this expense so that the system of pay-offs can be challenged and a new pattern of accountability and transparency introduced.

The third confusion arises when it is assumed that project financing will always be arrangeable in advance. In practice community-led slum upgrading has required that projects begin with whatever funds are available. Until there is something to show on the ground, public and private finance institutions rarely seriously consider extending loans because they have no previous experience on which to base their credit assessments. Bridge financing is therefore a basic requirement for initiating projects and for ensuring that construction can proceed while alternative financial negotiations are carried out.

The current funding available for direct financing of community-led slum upgrading, at either the pilot or scaling up stage is minuscule. Far more financing exists for the provision of technical assistance in the form of consultants. There is an urgent need to address this paucity of direct capital funding.

3.2. Getting to grips with risk analysis, management and mitigation

It is frequently assumed that the major risk entailed in financing slum upgrading is credit risk – the risk that the borrower will not repay the loan. In fact there are other risks that may be far more important. Political risk, in particular, has presented considerable challenges to Federations undertaking community-led upgrading. Government policy can change overnight, undermining long term investments made by the poor. An extreme example is that of the Gungano Fund in Zimbabwe. Built up painfully over a number of years with contributions made by savings groups as well as by NGO donors,

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[20] The use of micro finance institutions to deliver credit for housing is discussed in detail in Housing Microfinance A Guide to Practice, Ed. Frank Daphnis and Bruce Ferguson, Kumarian Press, Jan 2004.

the fund has been decimated by the 600% inflation that currently exists in Zimbabwe. In Pune when there was a change in the leadership of the Municipal administration, the progressive innovations made in supporting community-led sanitation development by the previous administration came under vitriolic attack and local Mahila Milan members have had to withstand concerted pressure from the administration and from developers who have a vested interest in encouraging communities to withdraw from a leading development role. In other situations, particularly prior to elections, governments have undermined attempts to build sustainable finance systems by extending "free" housing and loans where there is no real expectation of repayment. The topic of risk has been covered in more detail elsewhere[21] and will be noted rather than covered in detail here. However the difficulties that formal financial institutions, public sector agencies and communities face in understanding each others notion of risk does require some discussion because it lies at the heart of the difficulties that exist in creating intermediation between informal and formal financing systems. In our previous research we noted that:

- Risk is socially defined and constructed.
- People from different contexts define risk differently in terminologies that tend to be very specific to their organisational context.
- People's access to, and control of knowledge, affects whether or not their definition of risk is accepted by others.

We need to find ways to create a structured dialogue and exploration of risk by the different potential players in scaled up slum upgrading. That process has begun where Federations of the urban poor have been able to establish strong working relationships with municipalities and, in some cases with banks, but a more concerted focus on the area is still required.

3.3. Engaging the commercial banking sector and a cautionary note on the advantage of clear land title

In many developing countries local financial markets are relatively underdeveloped and medium and long-term financing is not yet being offered at all by banks. Mortgage financing may be non-existent or at a very early stage of development and credit arrangements may be based solely on revenue rather than asset securities. Where the financial markets have developed further, existing demand from the commercial sector and from higher income consumers may absorb all the available financing. Crowding out of commercial loans also occurs in cases where Governments borrow extensively on the domestic market, typically by issuing Treasury Bills. Banks may also consider the margins to be made on lending for community driven urban development to be non-competitive, particularly where significant investment is required in developing new loan products and new mechanisms and systems for credit delivery and loan recovery.

In many cases banks have never been asked to deliver financing for slum upgrading either by local government or NGOs and therefore have not considered the options or explored how viable such lending might be. NGOs may also not have developed the capacity to articulate such a request in a form that can be responded to by banks and local authorities and may need technical assistance to achieve this.

Banks, with few exceptions, are established to make profits, and their business models emerge from this fundamental purpose. As a result they have a strong aversion to risk. Their assessment of risk is based on judgements that revolve around the notion of asymmetric information – in layman's terms the chances that, as a potential lender, their knowledge of the likelihood of a borrower repaying a loan differs from that of the borrower. In our many discussions with bankers it is interesting that only one banker has mentioned the concept of asymmetric information directly. Their conversations however have frequently been punctuated with the term "comfort". The need for comfort, the search for an elusive comfort factor, and the acknowledgement that frequently the criteria for determining how comfortable a lending arrangement might be often resides in the intuitive judgement of a credit manager with a "nose for the business" are recurring themes. This has confirmed our own intuition – if the banks

[21] See Ruth McLeod (2001), *Experiences Of Linking Community-Based Housing Finance To Formal Finance Mechanisms,* paper presented at the Gavle Housing Finance Seminar sponsored by UNCHS and the Swedish Ministry of Housing. Available at *www.theinclusivecity.org* and www.unhabitat.org

don't understand the context of the borrower, in particular if they fail to grasp the form in which security is symbolised within the borrower's reality, and the nature of the borrower's asset base, they will entertain a polite conversation, and then either shut the door firmly behind you or string out negotiations for so long that the effort to obtain the loan becomes more costly than the value of the loan that is being sought[22].

In theory the provision of guarantees, particularly hard currency guarantees[23], should help to alleviate the nervousness that banks and other financial institutions display in lending to organisations of the poor. In practice guarantees are difficult and expensive to negotiate. Even when negotiations are successful two year delays in delivery of contractually agreed financing, following the completion of guarantee agreements, are not unusual, leading to an enforced use of scarce bridge financing. This is often because banks will not lend if the full compliance with planning and building regulations[24] has not been certified by the authorities. In addition guarantees and other security requirements from formal lenders continue to be onerous. Homeless International has managed to achieve significant gearing in some cases, for example 25% guarantees with HUDCO and the Indian Bank, but other institutions have required 100% hard currency equivalent guarantees and HDFC in India insisted on 107% to ensure that interest on a wholesale loan would also be secured. This begs the question "why continue to negotiate guarantees?" The answer comes back to the need to create space for the development of new relationships that can potentially benefit the urban poor. Once a guarantee negotiation begins, an important new space is created – for learning and understanding how the processes of informal and formal credit allocation differ, for exposure to new terminologies, and for engagement in dialogue that sometimes leads to accommodation and compromise. However the guarantee path is not for the faint-hearted or impatient.

While guarantees can create space it is important to acknowledge that the basis on which they are usually negotiated relies on demonstrations of the achievable. These demonstrations themselves have to be financed and, at least in their early stages, invariably require bridge financing. For large-scale investments that can provide a basis for scaling up, the lack of access to bridge financing is a serious impediment that cannot be overcome with the relatively slim resource base of most NGO donors.

The real problem is that organisations of the urban poor have difficulty in demonstrating effective demand to the state and to formal financial institutions. As a result they cannot leverage the assets they do develop in a manner that releases the multiplicity of supply that has been built up in formal financial institutions. This is because the knowledge and institutional/political asset base that has been developed by some networks of the urban poor is either unorganised and relatively under developed, and/or because bureaucracies and banks do not recognise these sorts of assets as either legitimate or bankable. Supply and demand are, in effect, isolated from each other, and neither is effective. The consequence is that financial resources are trapped in institutions designed around a supply system that is inaccessible to those who need the resources most, and the inequity that already exists is exacerbated rather than reduced.

An additional complication arises from the fact that most bank lending for low income housing in developing countries, where it exists, is not asset but income or revenue-based, even where reserve banks stipulate clear title as a requirement. Confidence by the lender that revenue or repayments will be forthcoming, in turn, relies on accurate information concerning the security of household income or project revenues and the support that others will provide to ensure that repayment takes place. In short asymmetry of information needs to be minimised – the banker wants to know as much as the borrower about the chances of repayment so that the bank can have an adequate level of "comfort" about lending – and security needs to be maximised through organised support systems. However this information is frequently not available in a form that bankers recognise as being legitimate.

So what contributes to minimising information asymmetry and maximising security for institutions, be they governmental or commercial? The short answer is knowledge. The longer answer is that it is

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[22] Financing Slum Rehabilitation in Mumbai – A non-profit caught in the middle. Case study in Public Policy and Management, John F. Kennedy School of Government, Harvard University. The case study documents the 3-year delays in the release of loan finance by Citibank.
[23] Guarantee requirements on current projects supported by Homeless International range from US$50,000 to US$300,000
[24] This can be a long saga in itself due to the number and complexity of the regulations that usually apply and the inability or unwillingness of the authorities to "fit" community-driven design processes into their procedures.

knowledge provided by the urban poor about their own individual and collective situations and contexts, shared systematically in a form that both the borrowers and the lenders can recognise as useful, reliable and legitimate. With respect to credit extension there are specific factors that are important.

The first factor, relevant to credit to individual households, is an understanding of household economics with savings records providing a particularly effective means of tracking levels of disposable income available for investment in housing. The mechanisms used to accumulate savings can also provide important evidence of "backative[25]" – the organisational safety nets that are constituted by social networks where community based savings and loan systems provide a means of covering crises that may delay and prevent repayment. The savings and loan systems characteristics of Federations of the urban poor belonging to Shack Dwellers International are illustrative of this "social" or "institutional" capital.

The second factor relates to wholesale lending either for on-lending to individuals or for collective investment by the poor in large scale projects such as sanitation or slum upgrading (which may also entail financing by the state). In these circumstances, it is the track record and the credibility of the intermediary organisations (such as an NGO) that becomes important. SPARC in India is an example of an organisation, working in alliance with a large Federation of the urban poor, that has been able to negotiate significant guarantees and credit from both public and commercial institutions for urban development initiatives led by the federations[26]. The fact is, however, that SPARC's track record and credibility did not come out of thin air. Their reputation is based on real achievements and demonstrable success which emerged because SPARC and the wider alliance with which it works, invested time, creativity and money in developing and implementing the demonstration work that led to the knowledge and institutional base that underpins credibility. They strategically converted grant funds into bridge financing capital and they developed a mechanism for leverage which the banks recognised from their own practice. Furthermore they had in place a strong risk management and mitigation strategy that built on the critical mass of support that networked organisations of the urban poor could provide. The development of that base has required funding. Without up front bridge financing for example, the resettlement of over 10,000 households (as part of the World Bank funded MUTP II project) from alongside the railway tracks of Mumbai into accommodation with secure tenure would not have been possible, even though there were state funds allocated for reimbursement of project costs[27]. It was the availability of bridging finance that led to the Federations being able to take control of their own resettlement and that ultimately led to secure tenure for the participating families and not vice-versa. Furthermore, the tenure that was obtained was not clear land title but secure collective leasehold. Collective tenure was chosen because it provided an important means of ensuring that the housing that was obtained by the poor will be retained by them rather than sold on to better off households because of short-term economic pressure.

There is a prevalent notion that the allocation of clear land title automatically confers credit worthiness. However it might be wise to have some caution in assuming that clear land title leads to greater access to credit for the urban poor for the following reasons:

- It has been amply demonstrated that the poor invest in permanent housing when they perceive their tenure to be secure de facto not necessarily de jure.
- The costs of obtaining clear land title can equal or exceed the costs of housing construction making such an approach unaffordable for the poor.
- Banks frequently refuse credit to households with clear land title where households depend on uncertified incomes generated in the informal economy.
- Credit applications from households living in settlements considered "no-go" areas by banks are refused, even where they have clear land title, because foreclosure in the case of default is considered either politically impossible or legally tortuous and expensive.

It is arguable that the collective knowledge base of the poor is far more important than clear land title in ensuring "comfort" for the lender.

[25] This is a Jamaican patois term meaning back up, support, the help you can rely on when things get tough.
[26] See Ruth McLeod (2002) op. cit. for an account of how SPARC's work with the National Slum Dwellers Federation in India has led to the formation of the Community Led Infrastructure Finance Facility (CLIFF) in India
[27] See Sundar Burra, Cities Alliance Project Report on the Development of a Pro-Poor Slum Upgrading Framework For Mumbai, June 2003. Report available from www.sparcindia.org

3.4. Creating leverage

A major challenge in achieving scalable solutions is that of ensuring that the asset base of the urban poor is effectively leveraged. This assumes in the first place that organisations of the poor are recognised as having an asset base, albeit in a form that may be difficult to quantify in any conventional sense. It also requires a willingness to look at more innovative forms of resource mobilisation. Numerous local authorities have committed land, or subsidised land purchase for example in Windhoek, Kampala, Nairobi, Mavoko, Nakuru and Phnom Penh. The Maharashtran Slum Rehabilitation Act granted land development rights to slum and pavement dwellers, which opened up completely new options for implementing slum up grading in high-density areas. In Namibia the Government provided for special access by the Homeless Peoples Federation of Namibia to its Build Together Programme, building on the savings base that the Federation had created and its demonstrable success in building good quality, affordable housing. In Zimbabwe, despite a prolonged national economic crisis, local authorities have entered into partnership agreements with Federations releasing land and collaborating on infrastructure and housing development. In Kenya the Government has offered to match community savings with capital expenditure on the development of access roads in informal settlements. Where city level planning strategy incorporates options to leverage the resource base of the poor the chances of achieving major improvements in slums is greatly enhanced.

3.5. Spreading engagement

As the Federations have matured and grown, their relationships with other agencies and interest groups have become increasingly complex. These include relationships with building material suppliers, commercial contractors, private landowners, construction professionals (such as architects and engineers) as well as with local authorities and formal finance institutions. As these relationships have developed so too have the options for gaining benefit from the slum upgrading process. For example, when Mahila Milan[28] took on the challenge of managing the construction of community toilets in Pune they rapidly developed new management skills and were able to set themselves up as small contractors carrying out both construction and maintenance. The result was that sanitation was improved in the areas where they lived, their livelihoods improved because they had a new source of income and their status increased because they engaged regularly with government officials, developing confidence and receiving well-earned respect from the authorities. In Mumbai, when the Federation scaled up its work in slum upgrading and the construction of sanitation facilities they found that they were increasingly approached by private land owners who wanted the Federation to manage construction works in partnership with them. They also found contractors who were willing to come into slum upgrading as project partners, providing up front financial contributions. However in order to achieve these results the Federations have had to challenge procurement procedures on the part of Municipal authorities and on the part of the World Bank. By and large, procurement policies assume that construction will be carried out by established contractors. The procedures have not been designed to encourage community contracting and a significant amount of work has had to be done to ensure community involvement at this level. This has not been made any easier by the embedded contractor-politician collusion that characterises the awarding of many municipal contracts[29].

3.6. Integrating slum upgrading into city development strategies

The growth of urban populations and of informal settlements has been well documented[30]. So too have the demographic trends that show massive future growth in urban populations and densities[31]. However few cities have integrated slum and informal settlement upgrading into their general development strategies. Sao Paulo, Mumbai and Durban are some notable exceptions. Cities Alliance and the Urban

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[28] Mahila Milan (meaning women together in Hindi) is a network of women's collectives that is integral to the National Slum Dwellers Federation and the Indian Alliance.

[29] In March 2004, when women contractors from the Pune Mahila Milan arrived to deliver pre-tender documentation to the Municipality they were physically prevented from doing so by established contractors. They had to then persuade the authorities to declare the tender process null and void. For further information regarding the level of resistance that Mahila Milan has had to confront refer to the SPARC web site at *www.sparcindia.org* and to Sundar Burra and Sheela Patel, Toilets in Pune and other Indian Cities October 2003 (also available from the SPARC web site.

[30] See The Global Report on Human Settlements 2003: The Challenge of Slums prepared by UN Habitat (2003)

[31] See Cities Alliance Annual Report 2003 at www.citiesalliance.org

Management Programme of UN Habitat have made attempts to address this issue with some success. However the inadequacy of available resources to follow through on plans that are articulated remains a critical problem. The costs involved in slum upgrading are considerable. However they are frequently higher than they need to be because of the application of antiquated planning and building regulations requiring standards of plot size and construction that, by definition, exclude the use of approaches that would be affordable to the poor. To exacerbate matters housing and urban development policy is frequently uncoordinated with a range of public sector agencies pursuing discrete and sometimes contradictory approaches. This is particularly so where political differences exist between the leadership of public administrations at national and city levels. It also occurs where fiscal systems are weak leading to low levels of local public resources and where fiscal strategy remains skewed in responding to the needs of the better off rather than the poor. To complicate matters further, donor interventions are frequently designed on a one-off basis rather than being linked into longer term strategic planning. Interventions targeted at slum upgrading may be totally unconnected to those associated with, for example, deepening local financial markets or building new forms of governance. The establishment of Cities Alliance, particularly its linkage with the United Cities and Local Governments World Organisation (UCLGWO) provides a potential forum for strengthening initiatives that seek to build co-ordination and the development of more strategic interventions in slum upgrading. However considerably more work is required in this area to mobilise resources, particularly at the local level, and to enable city administrators and other stakeholder groups to learn from, and be supported by, cities that have made further progress in their strategic interventions as well as planning.

3.7. Responding to new structures of governance

The trend towards decentralised governance has raised serious challenges in terms of capacity, resourcing and processes of local participation. Central government allocations to local authorities are all too often not available in the form, or at the quantum necessary to tackle slum upgrading. In addition the political imperative to spread resources equitably often results in expenditure that produces superficial results rather than developing lasting qualitative improvements in local infrastructure and settlement upgrading. The tendency for available resources to be politically manipulated to the benefit of local vested interests also continues to result in organisations of the urban poor, who have developed real implementation capacity, being excluded from access to the resources that they urgently need.

It is noticeable that the trend by international donors away from support for physical investments in areas such as slum upgrading and infrastructure and towards budgetary support, policy formulation and the development of improved governance has led to a paradoxical situation for many organisations working at community level. NGO and CBO representatives are expected to spend a significant amount of time in training workshops aimed at improving city level consultations and in devising new processes of governance but their access to funds to implement real work within the new systems that have been created has dwindled. Slum upgrading programmes and infrastructure provision projects have been abandoned leading to a situation where many NGO and CBO activists are facing a discussion about forms of participation with no resourcing for programmes in which to participate. Ironically it is where exceptions to this trend are evident such as in Mumbai and Pune in India, and in Sao Paulo in Brazil, that infrastructure and slum upgrading have become vital vehicles for building and testing the design and implementation of new governance relationships. When this happens a new space is created in which the urban poor can, in real terms, become active citizens engaged in building improved settlements as legitimate development partners with city authorities and private sector interests.

3.8. Working with subsidies and financial mixes

The debate about subsidies has been on going for many years. It is clear however that if poverty is to be addressed and the targets outlined in international agreements such as that of the Habitat Agenda and the Millennium Development Goals are to be realised subsidies will continue to play an important role in the distribution of public investment funds. The critical challenges in this distribution lie in two main areas:

- How to target subsidies so that their associated benefits reach those who need them most
- How to leverage them so that their impact can be multiplied.

Forms of subsidies
Subsidies are delivered in a wide range of forms and at differing levels of administration that include:

- National Government Subsidies
- State and Regional Subsidies
- Municipal and Local Authority Subsidies
- Subsidies from bulk building material producers and suppliers
- Donor Subsidies delivered through governments.
- Donor subsidies delivered through NGOs

Subsidies of particular significance for slum upgrading include:

- Free or “cheap” land;
- Technical assistance for land regularisation and sub-division;
- Incentives for negotiated land sharing;
- Compensation for households involved in negotiated resettlements;
- Below market interest rates on loans for land purchase, infrastructure provision, housing construction and home improvements;
- Allocation of land development rights;
- Reductions in costs of bulk utility provision;
- Wholesale pricing of building materials;
- Technical assistance and equipment for land clearance and infrastructure installation.

Bottlenecks in subsidy delivery
Where subsidy systems exist there are frequently bottlenecks in delivery and the mechanisms used for delivery have often tended to favour formal sector developers rather than community-driven initiatives. Bottlenecks in subsidy delivery in India have been well documented by Burra and Patel[32]. They cite the example of Pune, a city in Maharashtra which failed for ten years to draw down subsidies available from the Government of India because of inadequacies in the local delivery system. The intervention of a visionary city administrator, Anil Gaikwad, enabled the development of a new delivery system which built on the capacity of communities to design and construct their own sanitation facilities. The result was an impressive increase in the number of facilities that became available, a reduction in development costs per facility and a reduction in long-term municipal expenditure on maintenance as communities took over responsibility for maintenance on a 30-year basis[33]. This system in turn enabled the city to draw down national subsidies and to provide land and capital costs for the construction of the sanitation blocks. Replication of the approach in Mumbai demonstrated that innovation can be replicated rapidly when initiatives are seen to work at city level and to provide financial incentives both to communities and to city administrations.

Subsidising developers rather than communities
The tendency for subsidy systems to favour private developers over communities is exemplified by the design of the South African housing subsidy programme. The programme was designed to facilitate private developer delivery of low-income housing and direct funding to communities was initially excluded as an option within the legislation that governed the system. It was only as a result of the lobbying of the South African Homeless Peoples Federation and their support organisation Peoples Dialogue that the legislation was amended. Their argument was strengthened by the fact that they were able to demonstrate that communities could produce significantly greater value for rands spent than developers. In Maharashtra the Slum Rehabilitation Act also assumed that private sector developers would play the lead role in organising and implementing developments. However when market condition changed, reducing the financial incentive to participate, it was the Indian Alliance that took the initiative to demonstrate that local housing societies, with the provision of technical assistance and access to

[32] Burra and Patel (2003) op.cit
[33] The resistance of the developer lobby to such approaches should not be underestimated as illustrated by the successful attempts by developers in Pune in March 2004 to physically prevent members of Pune Mahila Milan delivering tender documents to city officials. This follows the appointment of a new Municipal Commissioner who is not a great proponent of community-led approaches!

capital loans, could design and build high rise developments of undisputed quality and acceptability to the slum dwellers who now live in them[34].

Use of internal subsidies
One of the interesting developments in recent years has been the increasing use of internal subsidies. Systems of internal subsidy can be used within projects and also within project portfolios administered by different development funds. The Community Organisation Development Institute (CODI) in Thailand[35] provides an interesting example. Within its national programme it provides differential interest rates on a range of financial products made available to communities. Loans for wholesale housing development by communities for example are made available at an annual interest rate of 3% whereas enterprise development loans are charged at a higher level. This allows the agency to support prioritised development areas whilst remaining financially solvent overall. In Mumbai the Slum Rehabilitation Act makes provision for developments that incorporate commercial residential and business units that can be sold, generating financing to cover the costs of rehabilitation housing. The Act also allows for the sale of Transferable Development Rights[36] (TDR).

Working with mixed finance
When slum-upgrading initiatives are designed at scale it is unlikely that there will be a sole source of finance. Mixed financing is for more likely and, while complex to arrange, has important advantages in terms of spreading risk and in ensuring that a wide range of resource bases can be accessed. Finance sources that may be mixed include:

- Government subsidies.
- Bank loans.
- Deposits from beneficiaries.
- Up front financial investment by contractors.
- Bridge loans from Urban Poor Funds
- Delayed payment terms from building material suppliers.
- Income from sale of commercial and residential units.
- Sale of TDR.
- Income from land sharing agreements with private landowners.
- Refinancing from National Housing Banks.
- Loans from multi-lateral and bi-lateral agencies usually channelled through state agencies.

3.9. Ensuring that the needs of the poorest are met

One of the unfortunate results of many slum-upgrading initiatives has been the displacement of the poorest people. Where families are economically vulnerable and without social safety nets their ability to retain assets resulting from slum upgrading may be extremely limited. All too often they are forced to succumb to offers from better off families to buy out the assets they have obtained in return for money to meet immediate economic need[37]. The result is that benefits intended for the poor are rapidly transferred to the better off. This matter has been a central concern of the SDI/ACHR networks. Their strategies for dealing with it are described later in the paper. Even where mechanisms exist to limit the transfer of ownership and tenure the poorest may be excluded because they cannot afford to become participants in the project or programme in the first place. The design of options for participation whatever a persons income level is therefore important to consider from the inception of a slum upgrading initiative that assumes that all existing residents will be able to gain benefit from the development.

[34] The development of the Rajiv Indira Suryodaya project in Mumbai is documented Financing Slum Rehabilitation in Mumbai – A non-profit caught in the middle. Case study in public policy and Management John F. Kennedy School of Government, Harvard University
[35] For an account of CODI's development see Somsook Boonyabancha, 2003, A Decade of Change: From the Urban Community Development Office (UCDO) to the Community Organizations Development Institute (CODI) in Thailand, IIED Working Paper 12 on Poverty Reduction in Urban Areas.
[36] For further information on this complex but very interesting approach see Burra (2003) op. cit. and Guidelines for the Implementation of Slum Rehabilitation Schemes in Greater Mumbai, Slum Rehabilitation Authority, Housing and Special Assistance Department, Government of Maharashtra.
[37] Sometimes these offers are less than benign. I recently had a discussion with an experienced Engineer in India who described a scenario where families where asked to meet with a developer and found themselves confronted with a stack of money on one side of the desk and a large knife on the other side. The option, apparently was theirs.

3.10. Protecting and sustaining assets

The tendency for the poorest families to sell slum rehabilitation units rapidly has already been mentioned. There are however other issues that are important in considering the long-term sustainability of slum upgrading schemes. The development of long-term maintenance programmes is particularly important and requires that financial provision be made for this purpose. This is particularly true when developments are high-rise and incorporate sophisticated pumping, sanitation and sometimes elevator technology. Building the costs of long-term maintenance into finance planning for projects is a crucial but frequently neglected requirement. For example the Indian Alliance expects families to make an initial deposit into a maintenance fund. These deposits are then used as an endowment fund to ensure that investment income will be available to cover maintenance and repair costs in the future. In the case of community toilets modest contributions are made by each family every month to ensure that an on site caretaker can be paid to maintain the premises.

3.11. Donor consistency and collaboration

It is unfortunate but true that donors have a tendency to work in isolation and, even within a single agency, quite contradictory paths may be followed. The Cities Alliance initiative has made a useful attempt to address this by creating a forum that brings together major donors involved in supporting urban development initiatives. However far more needs to be done in the area. It is ludicrous for donors to be supporting programmes that may have a seriously undermining impact on other work that they practically or in theory support. Projects for example that require large scale displacement of the urban poor may be developed for very rational environmental reasons but if their implementation neglects processes for negotiated resettlement or options for land sharing the declared aim of donors to support poverty-focused developments lose credibility. Greater collaboration among donors able, and willing, to support urban development including slum upgrading is also important because the area as a whole has received a disproportionately small level of development assistance. According to PM Global Infrastructure Inc "*Multilateral and bilateral assistance for housing and urban infrastructure appears to be less than US$5 billion annually. While private investments in infrastructure facilities increased rapidly during the 1990s and amounted to more than US$750 billion over the 1990-2001 period, only about 5% of this total has been devoted to urban water supply and sanitation.*" Collaboration should help officials focusing on urban issues within donor agencies to better promote support for urban investment within their own agencies.

4. FORMS OF FINANCE REQUIRED FOR COMMUNITY-LED DEVELOPMENTS

In the Bridging the Finance Gap in Housing and Infrastructure study, eight forms of finance, categorised by their use, were identified as being important for community-led settlement upgrading. These were:

4.1. Financing immediate short term credit requirements for individuals

Saving and credit groups provide an important basis for the accumulation and circulation of capital within local communities. Collective savings are used for emergency, consumption and business purposes. Housing savings help to build the deposits that many longer-term housing loans require. Within the Federation model typified by the Indian Alliance, groups manage finances themselves and determine the interest rates at which they lend their own money to each other. However patterns of consistency develop over time as the groups learn through experience and share this learning with other groups through federation networks. This sets up a credit management record and can facilitate mobilisation of additional external capital provision for loan funds. Savings operate as one of the fundamental means through which people learn to organise effectively as a group and to manage increasingly large amounts of money.

4.2. External grants for financing basic capacity - the economic and social base

Grant funding has enabled the creation of strong community organisations anchored in women-led savings and loan groups. Savings practice collects people and information as well as money. Mapping and enumeration also requires grant funding and is crucial in the creation of settlement databases that can be used to negotiate with the state. Representatives of established groups spread the word and help others to begin the Federation Process, supported by an exchange process that spans cities, countries and continents. In doing so they create a network of linked communities. The Indian Alliance estimates that it takes about two years of basic mobilisation of this kind before a local Federation emerges that shares common objectives and principles.

4.3. Grants & revolving loan funds for financing development of small-scale pilot and demonstration (precedent setting) projects

With basic organisational capacity at community level, organisations of the urban poor are able to take on small scale investment projects in slum rehabilitation, resettlement and/or infrastructure provision – toilets, sanitation, water, solid waste management, access roads, drainage. These projects demonstrate how designs and ideas developed at community level can work in practice. They provide an opportunity to develop and test new skills, not least within the relationships that must be negotiated as a project is implemented. Perhaps most importantly they provide a chance for people to learn from their own collective initiative.

4.4. Grants for financing learning, knowledge creation and capacity building

As communities and NGOs invest in demonstration projects and in scaling-up, their learning is rapid and dramatic. Sharing the learning that takes place (and the knowledge that is created) is vital. However funding for documentation and exchanges that facilitate this sharing is scarce. City level teams of Municipal authorities, slum dwellers, NGOs and private sector interests could use funding in this area to build on the basis of experience from other cities and receive ongoing support from people who have gone through the process before them.

4.5. Financing risk management and mitigation

The risks undertaken by the poor when engaging with the state and with the formal financial sector need to be acknowledged. At the same time a far greater degree of understanding needs to be developed by both banking institutions and organisations of the urban poor as to what lies behind the differences in perception and judgement that are so apparent between them. Without better understanding, the chances for improved mediation between the formal and informal financial sectors seem remote. One of the entry points to building understanding in this area is that of providing support for risk analysis, management and mitigation by organisations of the urban poor so that space for dialogue and negotiations with banks can be created.

4.6. Financing promotion and the creation of new alliances with public and private sector agencies

Urban slum rehabilitation, resettlement and infrastructure provision is of interest to many different stakeholders. Too often however the learning that is emerging from cutting edge community driven processes is restricted to a network that is already part of the process. Funding is needed for promotional work with major local and international agencies to persuade them of the importance of the work that is going on and to enable them to find ways in which they can become part of supporting it without swamping or co-opting the process. Funding is also needed to support exposure programmes for banking staff so that they can understand the investment processes of the poor and develop the internal mechanisms within their own institutions that are required if intermediation between informal and formal systems is to occur.

4.7. Grants, loans, contract fees, technical assistance and subsidies for large scale pilot projects

Once an approach has been tried and tested it may be refined. It is then ready for scaling-up. This is a stage when the financing gap becomes very apparent. Initial attempts at scaling-up are themselves considered pilots and demonstrations but the size of the projects means that, with very few exceptions, lack of access to capital is a prohibitive constraint. The funding required is usually too large (and sometimes too complicated) to be covered by standard NGO project financing. The potential for leveraging the resources of the poor is significant at this level if the appropriate financing, procurement and community contracting processes and mechanisms can be established.

4.8. Mortgage refinancing

Refinancing is needed to release the bridge financing that is used to cover the capital costs in rehabilitation, resettlement and infrastructure projects, so that it can be re-used on other schemes. Most refinancing comes in the form of long-term mortgage financing covering a single, or group of individual loans. Refinancing from local financial institutions however requires that negotiators are well prepared and appropriate technical assistance in this area (that is sensitive to the processes of organisations of the urban poor) is hard to come by.

It can be seen from the analysis provided above that the requirement for capital financing is concentrated in the following areas:

- Capital funds for initial small scale precedent setting pilots and demonstrations
- Capital funds to expand the base of community emergency, consumption and income generating loan schemes.
- Capital deposits/guarantees to secure loans from formal financial institutions or contracts from public sector bodies.
- Capital funds for kick starting and bridge financing projects where public, municipal and/or commercial loans are being sought.
- Capital funds for loan financing for scaling up tested approaches where there are no current options for loans from other sources.

5. DEVELOPING A TYPOLOGY OF FUNDS THAT ARE ACCESSIBLE TO THE URBAN POOR

The forms of finance discussed above are not all currently available to organisations of the urban poor. It is therefore inevitable that part of the work of supporting the Federation Process is to ensure that over time, and as the requirements and capacities of the Federations grow, the full range of financial services is made available. The most fundamental requirement however in all the federations has proved to be an investment in the creation of a strong community savings and loan system. It is this system that enables the Federations to development basic financial management skills, to develop priorities for use of collective financial resources and to manage the inevitable difficulties that emerge when people take on new responsibilities and accountabilities. Once this system has been developed, tried and tested it becomes possible to leverage it as an important collective asset. Leveraging brings in additional capital from donors and the state, and to provide the credibility needed to initiate dialogue with financial institutions that can potentially provide access to much larger sources of capital.

In looking at a range of funds and facilities that have been developed and which include an objective to support community-led slum upgrading we have found it useful to ask 15 key questions:

- What are the sources of capital and the conditions of provision?
- How are they affected by regulatory legislation?
- Who designs the products and what are they used for?
- Who controls the allocation process and using which criteria?
- What is the cost of access?
- What are the procurement rules and whom do they benefit?
- How/where does the capital circulate and where does it end up?
- Who takes the major risk? How, if at all, is risk shared?
- Whose institutional capacity, political clout and knowledge base is strengthened by use of the fund?
- What broader impact does the capital provision have on further access by the poor to local capital?
- What broader impact does the capital provision have on the capacity of organisations of the poor to take an active role in urban governance?
- How does the fund assist the urban poor to influence national, state and local authority policy on land allocation, and building and planning regulation?
- To what degree are the funds seen as a strategic component of broader city or state slum upgrading strategies?
- How is the effectiveness of the fund judged and assessed by its users?
- How is the learning that emerges from use of the fund captured and shared?

These questions are important because they enable an exploration of the critical areas in which the provision of capital funds to the urban poor can have a catalytic impact. A schematic view of the areas of potential impact is provided in figure 1.

Our initial exploration of key questions to ask about Urban Poor Funds has led to the development of a tentative typology of financial facilities that are currently used within the Federation Process. A summary table is provided below. However considerably more work needs to be done to refine the analysis[38] and to track in detail how far the funds have gone, and could go, in achieving the impacts outlined in Figure 1.

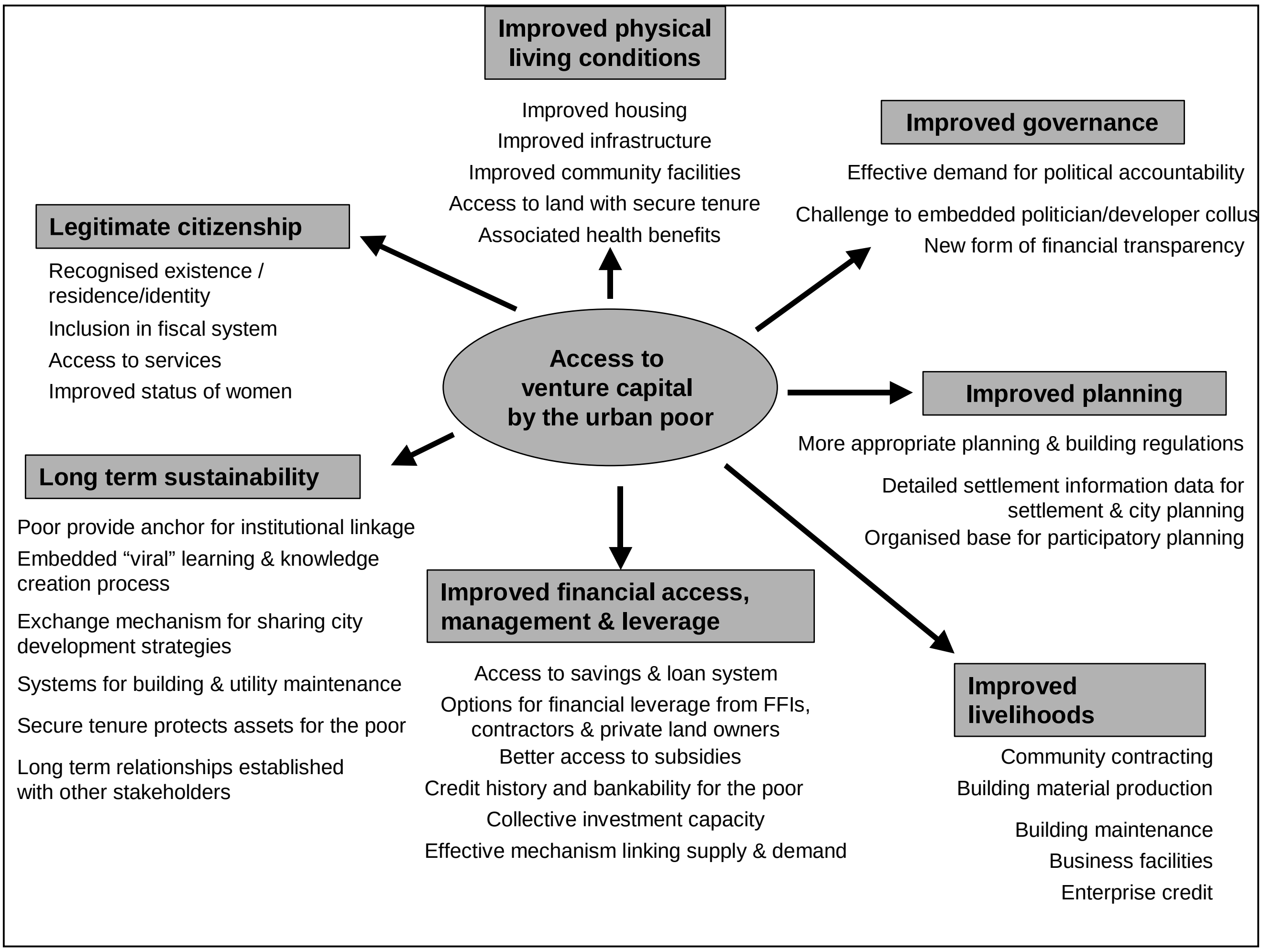

Figure 1 – The potential impact of provision of venture capital to organisations of the urban poor

[38] Misereor has recently commissioned a study of urban poor funds which it is anticipated will provide a quantitative analysis of their use.

	Local saving & credit groups	NNGO Grants	Local & Social Development Funds	Challenge Funds	Urban Poor Funds	SDI International Bridge Funds	Guarantee Funds	CLIFF	Formal credit agencies
Source of funds	Daily savings within local savings groups	Charitable giving, statutory grants, trust & foundation grants.	Bi-lateral and multi-lateral grants and soft loans. Debt forgiveness allocations. Corporate giving. State allocations.	Bi-lateral grants	Northern NGOs, local savings groups contribution to pooled saving, local NGO reserves, state allocations	Northern NGOs,	Local NGO reserves, NNGOs, corporate depositors, bi-lateral and multi-laterals	Bi-lateral and Northern NGOs	Government allocations, Bi-lateral & multi-lateral grants and soft loans. Commercial deposits. Bond issues
Allocation	Controlled by leadership of savings groups	Controlled by funders	Controlled by funders	Controlled by donors or by reps. of key stakeholder groups	Controlled by communities & local NGOs	SDI Co-ordinators and Board	Funders	Controlled by reps. of key stakeholder groups	Controlled by Management and Share holders
Examples	Mahila Milan, savings groups in Federations belonging to SDI	All Northern NGOs providing grants for urban work, Trusts & Foundations	Social Investment Funds, KRC Trust Fund, Corporate Philanthropy Funds, CODI, Social Housing Foundation,	DFID Civil Society Challenge Funds, C3 Challenge Funds, Country & sectorally specific Challenge Funds	UTshani, CODI Gungano, Twahangana, Phnom Penh UPDF, OPP, UPDF etc	SDI Central Funds	HI Guarantee Fund, USAID DCA, Women's World Banking		HUDCO, HDFC, Commercial Banks, Building Societies
USES									
Individual credit	X			X					
Building CBO capacity and mutual support networks		X			X	X			
Small pilots		X	X	X	X	X			
Local learning & knowledge sharing		X	X	X	X	X		X	
Promotion & new alliances		X			X	X		X	
Risk mitigation & management		X			X	X	X	X	
Demonstrations of scaling-up					X			X	
Refinancing									X

Table 2 Typology Of Funds Accessible to Organisations of the Urban Poor

6. DEVELOPING AND STRENGTHENING URBAN POOR FUNDS

Urban Poor Funds are a relatively recent innovation in housing and infrastructure finance. They have been developed over the last decade to enable organisations of the urban poor to take a lead role in the design, development and scaling up of solutions that reflect the priorities of their members. They have emerged within a context of rapid urbanisation and a trend towards devolution of state responsibility for housing and infrastructure provision from the national to the local level. One of their main potential advantages is that of providing a means of breaking the impasse that appears to have developed in the financing of urban upgrading for the poor.

The Funds have been capitalised in a range of ways. Some have received capital grants from Government as well as local contributions from Federation members themselves. All have received seed capital from Northern NGOs.

The existing Funds of Federations within the broad SDI/ACHR network are summarised in the table below[39]. The Funds are important because they allow for collective investments to be made in a way that is prioritised by the poor themselves. They also allow flexibility in determining which precedent setting initiatives should be developed and provide a means of covering risks associated with these initiatives. The level of capitalisation varies between funds ranging from as little as $10,000 to more than $50 million in the case of CODI. Leverage of external finance at scale seems to require a minimum of around $2 million capitalisation. At this level substantial work can be financed which demonstrates the capacity of the Federations in question and contributes to their credibility in discussions with both governmental agencies and with banks.

The Urban Poor Funds established within the broad Shack/Slum Dwellers International Network tend to share common characteristics. However there are also important variances between them, as there also are between them and other non-SDI linked funds that have been established with the aim of providing financial services to the urban poor.

The SDI/ACHR related Urban Poor Funds have been capitalised from a variety of sources:

- From Government allocations – in South Africa, Cambodia, Thailand, the Philippines, Namibia and Zimbabwe[40].
- From Northern NGO grants – all countries have received NGO grants, in the main from Misereor, Cordaid, Homeless International, Selavip, and the Rausing Trust
- From Bi-lateral donors: in India, South Africa, Kenya, Namibia and Vietnam.

[39] For further information on these funds, their origins and experience see Housing by People in Asia Special Issue: Community Funds 2002. New funds are currently being established in countries where the federation process is relatively new.
[40] At the time of writing the Zimbabwean government had committed to proving a small level of funding but none had actually been received by the Gungano Fund.

NAME OF FUND	COUNTRY	YEAR STARTED	CAPITAL BASE (US$ equivalent)	USE OF FUNDS
Orangi Charitable Trust Rural Development Trust (OCT) (RDT)	Pakistan	1987	US$1,450,000	Infrastructure provision, house improvements & extensions, community school construction, income generation loans, upgrading of informal building material production centres, loans to primary health care clinics.
Community Organisations Development Institute (CODI)	Thailand	1992	US$52,000,000	Nation-wide. Large range of use including infrastructure, housing, resettlement, environmental improvements, community crisis loans and community enterprises.
UTshani Fund	South Africa	1994	US$2,565,000	Bridging of government housing subsidy scheme & financing of green field developments. 10,000+ houses constructed
Twahangana Fund	Namibia	1995	US$625,000	Infrastructure and housing loans.
Gungano Fund	Zimbabwe	1998	US$530,000	Housing, infrastructure, green site development, enterprise and income generation loans.
Urban Poor Development Fund (UPDF)	Cambodia	1998	US$450,000	Resettlement including land, infrastructure and housing. Infrastructure provision. In situ upgrading. Income generation.
SPARC Samudhaya Nirman Sahayak (Nirman) Originally established as a Federation Bridge Fund has evolved into a separate legal entity which is piloting CLIFF in India.	India	(1992) 1999	US$2,000,000 US$10,000,000	High rise slum-upgrading, community contracting for citywide sanitation programme, green site development for slum resettlement, Ground+2 and Ground+3 new units for in situ upgrading. Relocation transit accommodation.
Philippines Urban Poor Development Fund (PUPDF)	Philippines	2000	US$2,000,000	Land purchase and housing construction for resettlement. Bridge finance for Community Mortgage applications.
Pak Ngum Fund	Lao PDR	2000	US$10,000	Mainly income generation loans
Provincial Cities Funds (8 Cities)	Vietnam	2001	US$560,000	Infrastructure, community facilities housing and income generation loans.
Sakasuru Fund	Sri Lanka	2002	US$20,000	Infrastructure, income generation
Akiba Mashinani Trust (AMT)	Kenya	2003	US$600,000	New housing in slums (40 units so far), 40 land plots for housing, communal toilet blocks, business loans for businesses in markets.
Nepal Urban Poor Fund	Nepal	2004	US$200,000	Housing & income generating loans

Table 3 Capital funds within the ACHR/SDI network

The total capital provided to the funds over the last decade is in the range of **US$75 million** although this figure should be treated with some caution as it does not include community savings and is based on historical data which has not been adjusted to reflect changes in exchange rates over the period. Project funding provided by donors for specific purposes may also have been omitted particularly from the figures given for CODI and the UTshani Fund. If capitalisation of CODI is omitted the total figure amounts to US$23 million. Only six of the funds have received capital funding in excess of US$1 million. It is anticipated that the forthcoming study on the funds by Misereor will provide more comprehensive data on capitalisation and a quantification of the outputs from the funds in terms of use of loans.

The Urban Poor Funds are at varying stages of development and face numerous challenges. However all of them are to one degree or another working to tackle the dominant issue of developing and scaling up settlement development solutions that work for the poor as well as for cities as a whole. Some of the key issues challenges that the federations and their support agencies are facing in using the funds are discussed below.

6.1. Using funds to expand the available repertoire of development options

One of the most significant achievements of the Urban Poor Funds has been to support organisations of the urban poor to develop, test and demonstrate approaches and solutions that they believe work best for the poor at settlement and city levels. This has not only led to the development of significant improvements in physical housing and infrastructure but also to increased levels of confidence and credibility with a range of other actors in urban development. The precedent setting projects developed by the Federations have been used to demonstrate new building technologies, new methods of construction management and new standards for building and land allocation. In India, Kenya, Zimbabwe, Namibia and South Africa the influence of these precedents has been reflected in official adaptations of state policy ranging from the inclusion of direct access to housing subsidies for communities in South Africa, through to new plot size allocation in Kenya and Namibia. In Zimbabwe relationships have been strengthened with local authorities leading to new approaches to road standards and infrastructure provision. In India the Federation has been able to establish effective negotiated processes for resettlement of thousands of households with full co-operation on the part of communities and entailing no force on the part of the state. It has also created a space for communities to take control of sanitation design, construction and maintenance at a city wide level. As Sheela Patel, the Director of SPARC and Nirman in India put it recently when discussing the importance of providing access to capital from Urban Development Funds - *"It's the most powerful way to back up what communities keep asking for when donors and state authorities don't listen. It provides a powerful means of learning and sharing which also produces goods and services for the poor. It also builds the capacity of organisations of the urban poor and their support agencies to scale up innovations".*

6.2. Learning to use and manage money

One of the most important aims of establishing community based savings and loan systems is to enable the urban poor to learn how to manage money collectively as well as individually. This requires confidence in the systems of financial management that are developed at community level which in turn provides the basis for drawing in much larger sums of external finance which, in turn, must be managed effectively. When Federations are in their earlier stages of development it is frequently the case that members are unwilling to use their collective savings to extend credit to members. People are worried that the money will not be repaid, and that their collective financial asset base will be eroded. However the major economic value of collective savings can only be realised if the money is circulated, loaned out to those who need it for emergency, consumption or income generating loans. As experience builds up in using savings in this way systems are tested and strengthened and in the older and more mature federations there is a very rapid and extensive turnover of funds. This provides a sound basis for managing the larger amounts of capital that become available when Urban Poor Funds become operational. That said there is a justified scepticism and distrust of management models that require the kind of efficiency that has become characteristic of micro-finance institutions. None of the Urban Poor Funds described here place a dominant focus on achieving financial sustainability in its conventional form. The activities that the funds finance are, by their nature, innovative and require substantial investment in learning and design, the costs of which cannot often be predicted or recouped easily. This issue is discussed further in the section below on sustainability. Suffice it to note at this stage that "*resisting the efficiency and managerial cloning that donors seem to require as evidence of a capacity to handle money*[41]" is one of the major challenges faced by managers of Urban Poor Funds and indeed by communities themselves.

Another important feature of managing funds is ensuring transparency and accountability in their use. Developing reporting systems that enable people who may be illiterate to understand how the funds are

[41] Quote from Sheela Patel in a questionnaire collating information about urban poor funds for the Bridging the Finance Gap Research Study

being used and to influence decisions concerning criteria for their allocation requires an engagement with the communication processes of federations. The answer is not to attempt to convert Federation members to producing complex written records but to build on the verbal information exchange base that they have so strongly developed and to provide the means for this information to be translated into a form that others can relate to. This is a central task that has been identified in the development of the monitoring system that will be integral to CLIFF.

6.3. Having an appropriate range of financial products

The guiding principle behind the financial products offered by the funds was succinctly described by a Citibank official visiting the India Alliance – **"***the customer designs the product*". Products are designed to meet the priority borrowing requirements of the Federations. Given that all are living in informal or slum settlements it is not surprising that common patterns have emerged. The Federation savings and loan process has resulted in a number of standard loan products that are available to Federation members which include emergency loans, consumption loans and income generation loans. As savings and loan systems develop they provide the basis for additional savings that will enable lending for housing, often using finance that is mobilised externally. The Urban Poor Funds offer financial products for which community savings schemes cannot adequately cater because of the level of funding required. The products again tend to be common across funds although some funds have fewer products to offer than others. In general lending from the funds is to collectives or to projects rather than to individuals. Some of the products offered by the various funds are summarised below:

- Loans for land purchase and sub-division.
- Loans for housing construction.
- Loans for major high rise slum upgrading.
- Loans for green field site development particularly for resettlement purposes.
- Loans for the construction of transit accommodation.
- Bridge loans prior to accessing government subsidies for land purchase or housing construction.
- Collective enterprise development loans.
- Loans for working capital to enable start up of community building and sanitation contracts.
- Deposits to mobilise bank guarantees for contractor bonds and start up contracting costs.
- Loans for environmental improvements.
- Loans for emergency response in the case of floods, fire etc.

The range of loans that are offered by Urban Poor Funds will inevitably be partly determined by external factors over which Federation members may have no direct control. For example members of the Zimbabwean Federation are facing annual local inflation rate of over 600%. It would seem to defy all logic for them to continue to save on a daily basis across the Federation let alone to use scarce collective savings for extending loans at lower than market rates (assuming that a market rate can be determined in these circumstances). However savings, provided they are loaned out fast enough, provide an excellent means to convert cash into assets that will retain value in the short, medium and long term. The Zimbabweans accept that investment in new housing, given prevailing economic conditions, makes little sense. However their use of the available funds for community enterprises and for income generation loans provides a measure of protection from the economic catastrophe in which the country finds itself. Funds have also been used in Thailand to help communities to recover from the economic crisis that affected all of Thailand in 1997.

6.4. Ownership and governance

There is no generic legal form for Urban Poor Funds. Their constitution is legally dependent on local financial and organisational regulatory legislation that varies from one national context to another. They do however share a common aim of seeking to maintain as much flexibility in their operations as possible so that financial products can be designed and delivered to meet the priority needs of the urban poor. This is reflected in the organisational options that different funds have adopted.

The organisational forms of the Urban Development Funds reflect their legal ownership which may or may not entirely coincide with the ownership that they are perceived to have by Federations, NGO and government personnel. In some cases the Funds have been set up as not-for-profit companies limited by Guarantee. This is the case in India and South Africa. In other cases they are located within NGO structures that may be regulated by local charitable Trust legislation. This is the case in Kenya, Zimbabwe and Namibia. In other cases the Funds are held within local or national government bodies, as is the case in Thailand, Vietnam and Laos.

Whatever the legal base, in each case a significant attempt has been made to incorporate Federation representation into the governance of the funds. In many cases involvement by local and national government has also taken place in order to ensure that public officials are seen to have a real stake in the success of the facilities. CODI, the Community Organisation Development Institute in Thailand is perhaps the best-known state initiated fund specifically geared to supporting community-led development. Established in 1992 as the Urban Community Development Organisation under the auspices of the National Housing Authority, it has become a national agency supporting rural as well as urban communities and their networks and has a capital base allocated from the national budget of $38 million. Its Board combines representatives from a range of interest groups namely:

- 4 community representatives elected by community leaders
- 4 from government – the Bank of Thailand, the Ministry of Finance, the National Housing Authority and NESDB
- 3 experts from NGOs and the private sector
- The National Housing Authority Governor (who also functions as Chairman)

This kind of joint CBO/NGO/Municipal governance structure is also reflected in the Urban Poor Development Fund in Cambodia, in South Africa and in the nascent Fund in Nepal.

The governance structure of Nirman in India overlaps almost entirely with the governance structure of SPARC. This is largely because of the need to be able to transfer the credibility and reputation of an existing agency to a new and relatively untried structure. However it also has an advantage in demonstrating that Nirman's an integral part of the Indian Alliance and shares its leadership. In other countries a far greater separation of governance has occurred between different elements of a local alliance, presenting at times some confusion about real ownership of the facilities. This is an issue currently being addressed for example by the UTshani Fund in South Africa and by the Akiba Mashinani Trust in Kenya.

The truth is that there is no blue print for how such funds should be established and governed. There is a recognition that a balance needs to be achieved to ensure competent and accountable management whilst at the same time ensuring that the funds respond flexibly and rapidly to the needs of the urban poor for whom they were established. However how this is achieved and the degree of separation that it makes sense to create between Funds and the other agencies with whom they work collaboratively on a day to day basis remains an open question that will only be answered more clearly as the Funds grow and mature.

6.5. Building new relationships – creating local to global linkages

As should be clear from discussion earlier in the paper, large-scale slum upgrading and infrastructure initiatives invariably involve mixed funding originating from a variety of agencies that span a local to global continuum. As Federations seek to play a lead role in the development of such schemes their capacity to understand and negotiate agreements across all these different levels becomes increasingly important and constitutes an important area of collective learning. Indeed, creating an ability to navigate and successfully engage with institutions operating at different levels is a fundamental part of Federation's capacity building. As projects at local level become more complex involving a range of diverse funding sources that may range from savings group inputs right through to major loan finance from the World Bank channelled through Municipalities, the Federations have sought to engage with policy makers across the local to global continuum. In doing so they have begun to successfully influence understanding, policies and procedures, not least of which have been the procedures established by multi-lateral agencies to regulate project procurement.

6.6. Changing inappropriate regulatory systems

One of the main advantages of Urban Poor Funds is that they can extend financing for projects that enable the urban poor to challenge planning and building norms and standards that make housing, infrastructure and upgrading solutions unaffordable, even when they are supposedly designed for the poor[42]. The creation of precedent setting demonstration projects has been discussed earlier. It should be reiterated that these projects are the main persuaders of policy makers and bureaucrats who may have a strong resistance to changing existing planning and building requirements. When actual alternatives can be visited, analysed and understood new options are opened up for the drafting of legislation that facilitates the engagement of the urban poor rather than excluding them.

6.7. Changing governance relationships

The ability to access venture capital provides new opportunities for organisations of the urban poor to engage with local government. When communities are assisted to design and develop solutions that are affordable and appropriate within their own contexts this creates new forms of relationships with local politicians and with municipal officials. From the bureaucrat's point of view delivery becomes much easier because a clear mechanism is developed that allows constructive collaboration between communities and officials. This can however have a downside for some of them because it challenges prevailing vested interests particularly those that are involved in collusive corruption practices. Discussions with Federation members who have been involved in infrastructure and housing initiatives developed in collaboration with local authorities consistently reveal improved relationships and openness with city officials as one of the most important benefits of developing a strong Federation Process. Indeed this benefit is nearly always mentioned before the benefits of achieving improved housing and infrastructure are mentioned. It is a benefit that provides an important anchor for changing the prevailing power relationships within cities that determine resource allocation and the ability of citizens to participate in planning their city's development[43].

6.8. Achieving leverage

The size of the Urban Poor Funds is minuscule compared to the resources that exist within municipalities, national governments and donor agencies. However the Funds have been able to punch way above their size because of their ability to leverage funds and other resources from a wide range of other institutions. Some of them are identified below.

From Communities

The Funds build on, and facilitate, further development of a wide range of community assets. These range from physical assets such as housing, infrastructure and community facilities through to collective savings, new organised pools of unskilled and skilled labour and systematised processes for rapidly collecting and collating household and settlement level data that communities and local authorities need for planning.

From Local and National Government

The investments made by Urban Poor Funds provide local and national governments with a mechanism through which to deliver subsidies and other services to the poor. This in turn allows funds that are frequently blocked in systems with no effective delivery mechanisms to flow. Housing finance, welfare funds, environmental protection grants and infrastructure subsidies are just a few of the areas where leverage has been achieved by many of the Funds. The activities financed by the funds also provide opportunities for public sector agencies to provide in kind assistance, particularly in the form of skilled personnel and equipment.

The manner in which the various Urban Poor Funds have engaged with public sector agencies has varied. In South Africa for example the UTshani Fund has focused almost entirely on developing

[42] Sundar Burra, 2003, Changing the Rules, Guidelines for the Revision of Regulations for Urban Upgrading, paper prepared for the ITDG

[43] A powerful example illustrating this pattern is provided by a video documenting the management of toilet construction in Pune by members of the local Mahila Milan. The video - " A partnership that makes a Difference – Sanitation" is available from SPARC or from Homeless International on CD.

mechanisms to release and channel government housing subsidies. This focus has recently been questioned because poorer groups without land and who are not eligible for housing subsidies have been less well catered for. It has also been argued that the funds could be used more productively to finance land and enterprise development rather than concentrating on the supply of bridge financing for a state system that has major problems in delivering subsidies in a timely and efficient manner. This is a dilemma that is not exclusive to South Africa. In Namibia the Federations have been able to use their Fund to build strong collaborative relationships with the government's Build Together Programme and consequently to channel funds available from that programme to communities throughout the country. Other examples have been provided earlier in the paper. However it is important to note that the Funds' ability to leverage resources from Government constitute one of their greatest strengths.

One of the most important resources that the Funds have been able to leverage is land. Government provision of free or "cheap" land has provided important opportunities for community led slum upgrading in Kenya, India, Cambodia, South Africa and Zimbabwe.

From Private Sector Manufacturers and Suppliers

In a number of cases Federations have been able to negotiate bulk purchase from commercial building material manufacturers and suppliers at preferential rates. In Kenya for instance cement has been made available at 30% less than the normal retail price. In Pakistan one of the most important uses of the fund has been to extend credit to informal sector building material producers to enable them to upgrade their production equipment and methods. This in turn has improved the materials that are made available to the poor and facilitated credit arrangements between the producers and communities who can purchase materials on account.

From Private Land Owners

There have been a number of cases where private landowners have approached the Federations with requests for assistance in managing the development of their land and the construction of housing for slum and shack dwellers. This has occurred in South Africa and is happening with increasing frequency in Mumbai. The advantage of this type of arrangement is that federations are able to access land and also, potentially to generate income through the construction and development process.

From Private Sector Contractors

As the schemes financed by the Funds become larger it often makes sense to involve contractors with the financial asset base and experience to take on large-scale construction. The terms under which such agreements are made are carefully negotiated to ensure that local communities retain control of quality and design and also gain from direct employment and sub-contracting on the sites. The Oshiwara[44] scheme in Mumbai is a good example of this kind of approach. One of its main advantages is that contractors can be asked to provide a significant financial stake in a project, providing up front financing that would otherwise have to be borrowed.

From Public and Commercial Banks and other Finance Institutions

One of the main advantages of the Funds is that they are able to handle large numbers of relatively small loans enabling public and commercial finance institutions to provide less expensive wholesale loans. This reduces the transaction costs of these institutions and provides them with a mechanism to reach new markets or client groups. The degree to which this form of leverage has been used has varied between the funds. It in an area where there is considerable potential for further development but this will be contingent on the growth of a much greater degree of understanding and consensus between formal financial institutions and the Urban Poor Funds on methods of risk analysis management and mitigation. The challenges of working with banks are discussed in more detail in the following section.

6.9. Working with banks

The reluctance of banks to finance community-led upgrading has already been discussed. However there is some evidence that new options are being recognised and explored as illustrated in Box 4 below where Sonia Fadrigo, one of the leaders of the Philippines Federation describes their experience.

[44] See the CLIFF Annual Report for 2003-4, available from www.homeless-international.org

"The Federation has expanded in many cities. From the start we focused on acquiring land. We did it on our own. We have learnt a lot. For example we have taken land without a road, recognising that getting a road developed is part of the process. Land is not for free. If the government gives you land you have to pay back under the Community Mortgage Programme (CMP). But the CMP has so many documents and so many delays. Its better to purchase directly – we can control the process ourselves. Now we have also started to build houses. The process is slow - step-by-step. We are advocating for exemption for taxes, for the loan of bulldozers. Also we are involving banks. When we bought land we did it with the bank for 2.7 million. At first the Bank didn't believe that we had money. They thought we had no money until we took plastic bags full of it. It was all in 5 peso notes.

The Bank sat with us to celebrate the buying and the transfer of the deed of sale. The Bank Manager now lets us know about all foreclosed property that they have available. We have also begun to help communities living on foreclosed land. The Bank says they don't know how to deal with Government land policy and want the Federations to take that on. We have found that we can influence government and the private sector. Now we are executing legal Memoranda of Understandings with city managers. The biggest problem is scaling up. We need to expand what we are doing".

Box 4 - An experience with Bankers in the Philippines

The Indian Alliance has had a longer experience of working with formal financial institutions having negotiated their first loan from a formal financial institution in the early 1990's. Much of their experience has been painful. Over the last few years a particularly tortuous experience with Citibank, exacerbated by regular and dramatic staff turnover within the bank, and prolonged delays in the extension of credit, despite the confirmation of a hard currency guarantee, has lowered confidence in the willingness and ability of commercial banks to rise to the challenge of addressing urban poverty within their banking practice. However there are signs that give cause for greater optimism as illustrated by the account given in Box 5 in which, in March 2004, at a meeting organised by the Indian Alliance as part of the CLIFF initiative, a banker described how his institution decided to back a large-scale community-led sanitation programme in India[45]. The involvement of UTI Bank in supporting the sanitation initiative became an option because the Indian Alliance had previously been able to use funds available in its own Urban Poor Fund to finance a previous sanitation initiative in Pune. The response of the Reserve Bank of India on hearing about the experience demonstrates that openings do exist for further commercial banking involvement where national policy is modified to create an incentive for them to do so. In addition it should be noted that the suggestion that guarantees be extended to each individual community contractor has important implications for their being able to establish credit track records and an

[45] Reference is made in the box to a guarantee arrangement between the Indian Alliance, Homeless International and Citibank. For further information on this see (insert reference)

increased likelihood of their being able to access credit directly from FFIs, a point noted by V. Rama Krishnan from Cities Alliance who sat in on the discussion.

Anil Kumar began working with the Indian Alliance in 2001 when he was Credit Manager at UTI Bank, and when the Alliance decided to submit tenders to build community toilets under the BSDP programme in Mumbai. The Federation had previously successfully implemented a sanitation construction programme in Pune and was seeking to replicate this success, based on community contracting, in Mumbai. However they faced a major constraint – the lack of sufficient capital to cover the contractors bond and starting capital required. There had previously been considerable publicity as a result of a Guarantee arrangement made by the Indian Alliance with Citibank for a large slum-upgrading project in Dharavi. Members of the Federation had also saved with a related UTI institution when the current Managing Director of the Bank headed that institution. It was therefore not difficult for SPARC and NSDF to begin discussing options UTI Bank about their potential assistance in financing the work that was planned. The first option of a direct loan was rejected because of the expense that would be involved. Instead a second option was suggested by the Bank of UTI – to provide a guarantee to the Municipality to cover the contractors Bond and the start up capital needed (10% of project cost). Anil describes some of the process that UTI Bank went through in assessing whether they could help.

"In the beginning we didn't know how to treat a toilet as an asset. We had no parameters with which to judge the risk. Then we realised that with the community toilets there is a guaranteed income stream. The Municipality will pay for the land and will also cover the construction costs, albeit on a reimbursement basis, so the project being proposed had a measurable income stream. Payments within that income stream can be channelled into an ESCRO account so that the Bank has first call on any income so our security is strengthened further. When we went to Pune to assess the work that had been done there our first impression was about quality. The quality of the sanitation blocks was way above that of a standard public toilet. So we began to look at our reliance on numbers. Perhaps the process of implementation was just as important. It was also important to see what had already been achieved in Pune because as bankers the first question we always ask is "Has anyone else done it?" We eventually agreed to provide a Guarantee to the Municipality. We charged a 1.5% guarantee commission and also required a fixed deposit of 10% from SPARC. That basically boiled down to an annual charge of 3.5% In addition we had a letter of comfort from Homeless International which increased our confidence. We made the guarantee arrangements to cover 20 toilet blocks at a time which meant that until all the 20 toilet blocks in the group were finished the guarantee could not be released. We learnt from that. In future we would recommend that guarantees be arranged for each individual toilet block which would reduce the expense of the financing arrangement. It took us about 45 days from the first contact with SPARC to issuing the Guarantee so we were able to respond fairly quickly. However this has not become part of UTI's regular banking policy and is not recognised as priority lending by the Reserve Bank of India (RBI). What is the bottom line? No financial demand has been made on us by BMC so the arrangement has worked. One of the other important things to note is that the risk we were assessing with the toilet project was very different to the risk that Citibank had to assess when they looked at the Rajiv Indira Scheme. Citibank had to assess a commercial risk – the potential price of TDR and the units that would be for sale. We simply had to assess the ability to deliver toilets so that the Municipality would honour its contractual obligations. However when something is new and hasn't been tried before the problem is always with the mindset. So if you have a successful demonstration project to show people it makes it much easier. We had that advantage in being able to visit the Pune work".

Box 5 – A Bankers perspective on working with the Federations

The Executive Director of the Reserve Bank of India (RBI), Mr Thorat, was also participating in the discussion from which the account above was taken. He posed a challenging question - "*Bankers working at the cutting edge of credit have always faced difficulties. The kind of results that bankers produce lead to best practice and in time lead to new parameterisation. The important thing is that these initiatives should lead to a change in perception by more conservative banks. How can the message be spread?*
There is information asymmetry between the cutting edge work being carried out by bankers and the prioritisation of the Reserve Bank. To tackle this we would hope that banks will use venture capital to

develop the precedents, the demonstrations of what can be achieved." He went on to issue a challenge to the banks who were participating in the discussion – "*I will give you a challenge. Give me a one-page note on how you would go about it (financing slum upgrading) If the National Housing Bank was to partner you what would add comfort? If the RBI was to incentivise you how would it do it?"*

The banks agreed to collaborate in developing a proposal and two days later the Board of the Reserve Bank of India agreed to consider making lending for slum upgrading a priority area. If this is agreed it will mean that lending for slum upgrading will be included as an option in the 40% of each bank's loan portfolio that Government stipulates must be allocated to prioritised areas of development. This may well be an attractive option for banks because the major option open to them at the moment under priority lending is to extend agricultural credit under the NABARD scheme which has become notorious for poor repayment. However it remains to be seen if anything will materialise from this initiative as Mr Thorat has since been transferred to become the Managing Director of NABARD.

The involvement of UTI Bank in supporting the sanitation initiative became an option because the Indian Alliance had previously been able to use funds available in its own Urban Poor Fund to finance a previous sanitation initiative in Pune. The response of the Reserve Bank of India on hearing about the experience demonstrates that openings do exist for further commercial banking involvement where national policy is modified to create an incentive for them to do so.

6.10. Including the poorest

All the Urban Poor Funds have a clear aim to include the poorest people. However this has been achieved with varying degrees of success and has led to an important and interesting debate within the broader SDI/ACHR networks. In South Africa the manner in which the UTshani Fund developed meant that its operations became skewed by the Government's housing subsidy delivery system. The resources and time that this took up meant that the priorities of poorer groups were not incorporated into the Fund sufficiently and as its operations are being re-designed this is a critical factor that is being considered. The matter has also been discussed within the Zimbabwean Federation who have emerged with an important proposal that the Urban Poor Funds be accessible not just to Federation members (i.e. members of savings groups) but to anyone living within a settlement where the Federation is active. The suggestion is that the focus should be on communities as a whole and not just the Federation. This opens up important possibilities, which are being widely discussed throughout the networks. In India the Alliance estimates that the 30% of Federation members with the least income will continue to have difficulty paying loans and with the costs involved in moving into permanent housing as a result of upgrading or resettlement. To address this issue they have prioritised lending for income generation to these families and are ensuring that they are provided with support from the collective membership of the Federation so that they can resist the economic pressure to sell the new housing that many of them have acquired.

6.11. Defining and achieving sustainability

The issue of financial sustainability is contentious among managers and users of Urban Poor Funds. It has already been noted that there is a strong resistance to the notion that the Funds should be expected to develop the kind of financial efficiency that is seen as characteristic of the new generation of micro-finance institutions. Somsook Boonyabancha, Managing Director of CODI in Thailand sums the argument up in emphasising the need for political rather than financial sustainability:

"Financial sustainability refers to a situation in which the future of an agency is secured because of its ability to cover all costs, including the cost of new capital, without recourse to sources other than commercial financial markets. Political sustainability means securing the future of an agency through the distribution of subsidy finance (and other resources) in ways that strengthen the community organisations so that they are able to put pressure on the state or other institutions in order that the subsidy finance can continue. The strengthening of the community organisations' capacity to interact with external agencies is seen as critical to securing the continuation of the housing finance programmes".[46]

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[46] Quoted in Kavita Datta and Gareth A.Jones, Housing and Finance in Developing Countries, Routledge Studies in Development

Having said that CODI has proved able to cover its administration costs more than adequately generating on average a 7% annual return whilst keeping total development activities and management costs to an average of 3% per year[47]. CODI has perhaps been able to achieve this financial sustainability because of the level of capitalisation that it has received. For other funds with lower levels of capital this is more problematic, particularly when the Funds are at a relatively early stage of development. The investments that have to be made in developing systems, skills and broader organisational capacities are considerable and losses on projects inevitably have an impact particularly when they are designed to establish totally new precedents. It can however justifiably be argued that it is these losses that constitute the real research, development and advocacy costs of the initiatives that take place. Further when the impact of the precedents lead to changes that favour the poor in main stream approaches to upgrading and resettlement the investment made in covering these costs can be more than justified.

In the long term the issue of financial sustainability of the Funds will need to be addressed more rigorously to develop ways to retain their flexibility to respond to the needs of the urban poor but also to maintain their capital base. This will require investment in inter-fund learning and exchange so that those responsible for managing the funds have a better opportunity to benefit from each others experience and to share in the development of systems and processes that prove effective.

6.12. Sharing learning and knowledge

Community-to-community exchange and learning is embedded within the Federation Process. Increasingly exchanges have begun to incorporate local and national government officials and have proved a powerful means of exposing policy makers and bureaucrats to new options for dealing with slum upgrading and resettlement that are based on government collaboration with organisations of the urban poor. In recent years the SDI/ACHR networks have also engaged with multi-sectoral agencies at a global level, particularly with UN Habitat and with the World Bank. This ongoing process of knowledge creation and learning exchange plays an important part in the development of Urban Poor Funds enabling lessons learnt to be rapidly shared with others. However it is an area of activity that we have already noted is difficult to resource and that donors could usefully consider supporting.

6.13. What differentiates Urban Poor Funds from other Funds and Facilities?

A number of features differentiate Urban Poor Funds from other funds and financial facilities that have been designed to support the urban poor, including micro-finance institutions. These are summarised below:

- They have clear development objectives aimed at strengthening the capacity of organisations of the poor to play a lead role in human settlement development.

- Their use is determined by strategic choices made by Federations of the urban poor in the belief that these choices will enhance their collective capacity to improve living conditions in poor settlements.

- They are embedded in a broader alliance structure and constitute one strategic tool in an integrated toolbox that contains other important tools such as savings and loan systems and processes, enumeration, settlement surveying and mapping, and information and knowledge exchange processes.

- They have the flexibility to respond to opportunities and crises that face the Federations as and when they emerge and enable the Federations to withstand pressure to conform to systems, policies and processes that undermine their interests.

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and Society

[47] Source Somsook Boonyabancha, 2003, op.cit.

- The help Federations to withstand pressures caused by external events over which they have no control such as elections, macro-economic crises and natural disasters.

- They facilitate the development of new upgrading and resettlement methodologies that reflect the priorities and preferences of the urban poor and offer financial products that they design.

- They provide a credibility that strengthens the capacity of the urban poor to play a legitimate role within local governance systems. As Satterthwaite[48] has pointed out they "strengthen municipal governance by initiating explicit mechanisms to strengthen partnerships between community organisations and local government agencies" opening up new options for community-city collaboration.

- They have the capacity to provide mechanisms for channelling credit from formal finance institutions to the poor, not as a replacement for the services that those institutions should be offering but as an interim measure while banks develop the internal systems they need in order to extend credit, including venture capital, to the poor.

- They deliver important financial services but this is not their primary purpose. Their primary purpose is to enhance opportunities for the urban poor to become active agents of change and leaders in developing safer, more secure and more sustainable shelter and livelihoods – they constitute in short, a war chest in the battle against poverty.

- They provide an effective mechanism for channelling funds to support local processes that are community driven, locally appropriate and implemented at significant scale.

[48] David Satterthwaite, Local Funds – their potential to allow donor agencies to support community development and poverty reduction in urban areas; Environment & Urbanization Vol 14 No1 April 2002

7. RECOMMENDATIONS

The achievements of Urban Poor Funds, given the low level of mainstream support that they have received is impressive. However if the advantages that they offer are to be expanded and developed they will need considerably more support. The following steps are recommended.

- A co-ordinated drive to persuade Social Development Funds, Local Development Funds, and HIPC programmes to allocate funding to slum upgrading

- The development of a structured dialogue with banks, including reserve banks, about options for financing slum upgrading.

- A quantum leap in the level of funding made available to support the basic Federation Process so that community mobilisation can be accelerated in order to create widespread effective demand on the part of poor communities. This is required to ensure that the infrastructure to absorb and effectively use large-scale development funds is in place.

- An expansion in the capital provisions made available to Urban Poor Funds.

- Donor co-ordination to ensure that the finance facilities that they support and the programmes that they fund, particularly in the provision of large-scale infrastructure provision that requires relocation of poor communities, are able to work together strategically. This co-ordination should consciously seek to strengthen the ability of organisations of the poor to participate in designing, managing and developing slum upgrading, resettlement and infrastructure initiatives at city level.

- A programme to strengthen the management of Urban Poor Funds that recognises and respects their need to maintain their ability to respond flexibly to the needs of the Federations and the communities where they are based. This should include support at every level at which Funds function from community leadership through to professional managers.

- Integration of financial planning for long term maintenance of buildings and facilities that are constructed within slum upgrading projects.