



# The UN-HABITAT Slum Upgrading Facility

## NEWSLETTER

**The Slum Upgrading Facility:**  
*Improving access to domestic capital for slum upgrading and low income housing projects*

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Welcome to the January 2009 SUF Newsletter! As the new year begins, SUF is pleased to be a position where the Local Finance Facilities in Ghana, Indonesia and Sri Lanka are established with staff and funding for operation and development. The LFFs have already been "capitalized" in Ghana, Sri Lanka, with Indonesia to follow. Projects there are now at the stage where project partners and communities can begin serious negotiations with local banks to secure the loan element of the financing they need to move their slum upgrading projects to the construction phase.

## Financial Modeling

SUF is founded on the concept that slum upgrading projects, if carefully designed, can attract financing from private lenders. But if an upgrading project is to be of interest to a bank, it must be packaged in a way that meets the expectations of the bank for clarity and feasibility, and banks also expect to make a return on their investment. At the same time, the project must be affordable to slum dwellers.

Balancing these potentially conflicting requirements (return vs. affordability) means that the project must be well understood and well tested financially.

How can we ensure that the financial element of a project is as clear as possible? In addition to assessing the feasibility through things like social, demand and risk assessments, sensitivity analysis, capital investment plans, etc, projects also require an element of **financial modeling**.

Financial modeling provides a framework to do the following:

- capture, modify and test the project costs;
- determine financial viability of the project;
- determine whether the project is affordable for borrowers;
- assess how sensitive the project will be to potential variation in risk variables, and;
- provide a means to track financial progress during the operational phase of the project.

It's important to emphasize that financial modeling is not a tool to be used at the end of the process. Rather, it should be a part of the planning. By having some rough estimates of costs from the beginning, even if based on assumptions, guesses and ideas, those involved can both manage expectations and anticipate problems as the project develops.

The SUF Financial Model is a calculation tool based in Excel. It generally has three parts: a cash flow statement, an income statement and a balance sheet. Those involved with the project input data into the various Excel sheets so that calculations can then be run, providing important information of project 'bankability' and affordability.

This work does require basic technical skills using Excel and interpreting the outcomes, but it's a crucial part of getting clarity on what the project really means in financial terms. In the SUF projects, a local NGO or CBO, which includes the community involved in the slum upgrading project, will take the lead on this, as SUF projects are implemented through an intermediary rather than by working directly with individual lenders. SUF is building capacity where communities need support in undertaking financial modeling, and as Local Finance Facilities establish themselves, they too will provide support in this area at the community level, where necessary.



**Women in Solo Indonesia, preparing roofing materials for upgrading their housing** © Ruth McLeod, October 2008.

*A SUF working paper on "The Role of Financial Modeling in Project Feasibility Assessment" will be available by April 2009 and training and toolkit development is on-going for SUF partners in this area.*

*Cover photo: Women's bank member from Ferguson Road settlement Sri Lanka. © Ruth McLeod, October 2007*

## Ghana

### *The Amui Djor Housing Cooperative*



**A housing cooperative meeting in Amu Djor, Ghana.**  
© Ruth McLeod,

Individual homeownership is rarely an option for people living in informal settlements. To make matters worse, many people don't feel confident that their homes are actually their own. Amui Djor in Ghana was no exception, with about seven thousand people living with constant worry that they are temporarily or illegally living in their homes, despite having been there for 30 years.

Dealing with this problem in Amui Djor meant organizing the community by forming a housing co-operative – a formally registered body in which individual community members come together to collectively improve their housing on a non-profit basis.

The Amui Djor Housing Cooperative was incorporated in October 2007 under the Ghana Slum Upgrading Facility Pilot Project. 80% of its 40 members are women, and membership is a diverse mix of members from the Ashaiman Chapter of the Ghana Federation of the Urban Poor (GHAFUP), residents of the Amui Djor community and members of the Amui Djor Structure Owners Association. It also includes a mix of ethnic groups including Dagombas, Dagatis, Konkombas (all from northern Ghana), Gas, Ga Adangbes, Ewes and Akans.

What are the benefits of a housing cooperative? First, it enables the community to participate in providing their own housing. It provides the opportunity for everyone – including the marginalized – to take some control over where they live and what they live in. Secondly, it mobilizes the skills of the community and its financial resources. Thirdly, it can

help mobilize additional resources into the housing delivery system.

It is delightful to watch the Amui Djor cooperative mature through the various stages of community development in such an inclusive way. From a stage where members asked “who owned the land if they have to live upstairs”, they now understand that through the cooperative, they would have a joint share in ownership with a right to occupy their unit. They have been exposed to a range of building materials and their cost implications. Members now have an understanding of the possibility of borrowing from banks and the implications of interest rates and loan terms. Emmanuel Zonyrah, Felicia Amanor and Hon. Christian Martey, Hafsa Hassan and Hajia Ajara Bawa, all of the federation (executives and ordinary members alike), now have a broad knowledge of housing finance for negotiations for credit that would be affordable to them and their families.

Under the leadership of People's Dialogue on Human Settlements and the Ghana SUF pilot project, members of the housing cooperative have been through the process of analyzing housing costs through the calculation of building costs and interest rates, and this process will continue. The Amui Djor Housing Cooperative is now working on a financial and project plan so it can approach the Local Finance Facility and move forward on negotiating with banks for loans for the members. In the meantime, it is also making preparations for the clearing of the land for the construction of their demonstration housing unit.

## Indonesia

### *Banking the “unbankable” in Indonesia*

What makes a slum upgrading project “bankable”? The SUF project in Indonesia has been working with bankers on this question since the pilot started in 2007 – and is starting to get answers in the form of loans and constructed houses.

Having banks involved in the process has brought some ideas to light. Banks in Indonesia are looking for 3 things: new markets, secured margins and the ability to multiply geographically if SUF supported projects succeed. Credit officers confirm that the three major factors they look for in a new project in terms of its “bankability” are: affordability, documentation and investment in basic housing infrastructure.

Before



After



**Kratonan capacity building demonstration project before and after Indonesia.** © Marcel pandin.

## Affordability

Borrowers living in slums can be seen to be bankable in one of (or a combination of) three ways: by cash-flow, by cash or fixed-asset guarantee or by subsidy. Can the borrower afford the loan? This is determined by calculating whether there is enough free cash flow available after a borrower's total income is deducted from their total expenditure. It takes time and effort to calculate household expenditure and ensure applicants can and will repay the loan, and this is where the efforts of a community housing cooperative or other community based organization is critical. In Kratonan, a capacity building demonstration project involving eleven households, the affordability survey was able to make use of income from family living outside Solo, who agreed to meet monthly payments if their relatives in the village were unable to pay. Now the houses are built!

## Documentation

Land and secure tenure will always be a critical factor for slum upgrading, and banks want to see some form of tenure for the community on the land in question. In the Kratonan case, the eleven homeowners were living illegally on public land, but were granted free-hold land ownership by the Municipality. With this resolved, the bank agreed that the land could be used to secure the loan as a quasi-mortgage to reduce legal costs. This quasi-mortgage is only to discipline the borrowers to repay their loan, because the land value would not be enough to off-set bank risks.

At this early stage in a relationship between the bank and a low-income community, an additional 'liquid' guarantee was also needed. That was when SUF-supported Local Finance Facility (LP3) credit guarantees came into the loan agreement. The LP3 guarantees the principal loan whereas the bank takes any interest payment in arrear of loan default. Further, to ensure that the loan is used for home upgrading only, borrowers must submit a community-based project and construction management plan demonstrating that the loan was disbursed to the community working group and not to individual bank accounts.

## Public Infrastructure

Before the loan applications were finally approved, the bank requested that the housing cluster should have access to electricity and water, and the road connecting these houses should be able to accommodate at least a water canon to the far end corner of the housing cluster in case of fire. This public infrastructure needed investment from the Municipality. Banks simply want confirmation that there will be no additional expenses outside the housing construction loan that might reduce the affordability level of the borrowers during the loan tenure. At the same time, infrastructure inputs are a key element in making projects affordable for the local residents. Kratonan residents were provided with infrastructure upgrades from the Surakarta municipality.

As a capacity building project within SUF, the Kratonan project upgraded only 11 substandard houses, but it went into a full process of commercial housing finance, and allowed the bank, the Solo Local Finance Facility (with all its partners) to work through the various aspects of financing slum upgrading. Work is underway on the next site, with 44 substandard houses in Ketelan sub-district as well as a mixed use project in Pringgolayan village with 77 households. Upgrading for 1000 substandard houses city wide is also in the pipeline.

Mr Indro Wibowo of Micro center/Swamitra Coop noted that it is now clear that both the SUF projects and the banks follow the same logic, "but we in the banking industry have never been exposed before to such a scheme".

*Mr Miftbarudin of Bukopin Bank Solo urged that banks/coops step out of their usual practice and take calculated risks to learn more of this new and potential market'.*

## Sri Lanka

### ***A new window for women to access housing microcredit opens in the SUF Project in Kirulapona***



**Ms Indranie in front of Kirulapona project smiling with trust & hope in the SUF project to change the future of her children. Sri Lanka. © Ayanthi Gurusinghe, September 2008.**

"I have worked determinedly to achieve the things I have in life right now. And I want to help others like me to fulfill their dreams in life as well," says Ms. W.G. Indrani, the champion of the Kirulapona Slum Upgrading Facility project in Sri Lanka. A 48 year old mother, Ms. Indrani raises 9 children in her little house. She is tirelessly involved in caring for them and loving them amidst the demanding work load she carries out.

Among her many daily chores, she is involved in development work with the South Asia Partner for Sri Lanka (SAPSRI), the project partner for the Kirulapona project. She has been the Treasurer of SAPSRI since 2005. She is well aware of how difficult it is for low-income women to access credit, despite the fact that it is now well documented that organized women's groups have excellent repayment rates and are credit worthy.

The Kirulapona project involves 31 houses located in the Colombo Municipal Council. With the first housing loan disbursement for the settlement ready to take place in the

near future, Indrani is pleased that Kirulapona was chosen as the first community to receive this support from SUF. SAPSRI has been working with the Kirulapona settlement for the past three years, engaging in micro credit disbursement for the community, linked with a commercial bank. After the selection of Kirulapona as one of the SUF projects, SAPSRI, along with Ms. Indrani, carried out community mobilization, capacity building activities and other activities required.

Although there has been development in the Kirulapona settlement over the years, much remains to be done. One of the issues in the settlement is that most of the inhabitants' existing housing conditions are inadequate. The small houses are over crowded and uncomfortable. Unhealthy sanitation coupled with insufficient infrastructure leads to environmental problems and ill health.

The Kirulapona project will be implemented in two segments. The first phase concentrates on 31 households out of the entire settlement of 360 houses. Loans will be obtained using credit enhancement guarantees provided by the Local Finance Facility in Sri Lanka (LFSUS) in partnership with Hong Kong and Shanghai Bank Ltd (HSBC).

Under this phase, the outputs expected to be achieved are area development and house upgrading. SAPSRI has conducted a feasibility study to evaluate and assess the repayment capacity of the individuals based on their average monthly income habits. Only the households that have proved their creditworthiness have been selected as the potential beneficiaries. This will mitigate the risks that might arise from any payment defaults.

In the current location of the first phase, the existing spaces for these houses are approximately 180 square feet. As this land is currently owned by the Colombo Municipal Council (CMC) and the Urban Development Authority, the ownership of the plots will be transferred to the community after the completion of the project. On behalf of the community, SAPSRI have begun negotiations with authorities and about two thirds of the settlement has received "land ownership documents". The rest of the households are currently illegal settlers in the community. This uncertainty with regard to ownership means the dwellers are afraid that once they are removed from the land, the authorities might not allow them back. This fear was a significant one, and SAPSRI had numerous capacity building activities to addressing this issue. Now the matters have been cleared with the community and the transfer of the ownership of the land will resolve many land issues for the community and create a significant change in their life styles.

The women of Kirulapona settlement believe in their strength to make the future different for their children. Ms. Indrani, with smile on her face, states how much she is happy about the results her hard work has brought about.

## Tanzania

### *Chamazi celebration*

Saturday 20 December 2008 was a very special day for members of the Tanzania Federation of the Urban Poor. It was a sun-scorched day, but very few people seemed to notice the heat. Instead, there was an atmosphere of exuberance and joy for the former residents of Kurasini, who had seen their homes destroyed in 2006 to accommodate the expansion of the Dar es Salaam port. This painful event led to the Kurasini residents organizing themselves under the Tanzania Federation of the Urban Poor, and collectively saving and planning so they could buy land for secure homes of their own – homes that would last.

Now, approximately 400 members were together again, planting 1,000 trees on the 30 acre site in Chamazi that they had purchased through community savings, with coordination from the Centre for Community Initiatives. Their happiness was obvious through the choruses of age-old African spiritual songs mixed with local 'taarab' chanting. After a difficult time, hope was alive for the future.

As the shade tents and banners were being erected, many walked around the plot, where holes had been dug and prepared for the day – each hole with a tree, manure and fresh soil – ready for planting. Many seemed to want to get on their knees immediately to plant the trees that would

one day provide shade to their homes, but they knew that patience was needed. This was a ceremony and protocol was to be observed as they waited for the guest of honor, the Temeke District Commissioner, to arrive.

District Commissioner Abdullah Kihatu arrived to the sound of loud applause, drums and traditional dancing. A resident of Chamazi by birth, he was elated by the thought of seeing more progress in the area. Tim Ndezi, the founder and head of CCI, together with one of CCI's board members, a writer, and the councillor for Chamazi were the first to welcome the guest of honour. Introductions were made, followed by a poetry recital and a comedy show by some of the federation members. Laughter seemed to be the order of the day.

The District Commissioner gave a very encouraging speech offering his full support to the project. When he planted the first tree to officially open the tree planting ceremony, there was great jubilation. The ceremony continued with review of architectural plans and planting of the rest of the trees, while a TV crew filmed for broadcast on the evening news. It was a special day – marking the end of a long process of obtaining land, and marking the beginning of the next phase of developing the land – building homes and planting trees that will make it a lasting community. SUF is pleased to be able to provide support to such a community-led effort.

**Chamazi councillor planting tree, Tanzania.** © Joe Bishota, December 2008.



# FINANCING SLUM UPGRADING

✓ DO

✗ DON'T

Ensure that financing for slum upgrading is recognised as a priority within national development planning and as a key investment element contributing to economic growth. This emphasis should be reflected in a slum upgrading budget line within national and local authority budgets.	Don't rely on one off poverty-focused upgrading projects.
Encourage local and international banks and micro finance institutions to become active participants in financing upgrading as part of their core business.	Don't rely solely on housing or government finance institutions.
Ensure that guarantees are available to encourage banks to lend to slum upgrading projects.	Don't provide guarantees that support interventions based on political patronage.
Build investment in slum upgrading on a firm foundation of community based savings and loan systems and local authority commitments to provide in kind and monetary allocations on an annual basis.	Don't assume that community involvement is best restricted to cost recovery and loan repayment and that local government has no responsibility for planning investment in upgrading.
Recognise that financing for slum upgrading requires a mix of short, medium and long-term loans, integrating finance for building, infrastructure and livelihoods.	Don't assume that one financial product fits all.
Provide mechanisms to blend municipal finance, cross subsidies and beneficiary contributions to ensure financial viability of upgrading projects and home improvement programmes.	Don't rely on government subsidies or on full cost recovery from slum dwellers.
Develop a process for sharing risk analysis and planning for risk mitigation and management with all the key stakeholders.	Don't expect residents of slums to be the only risk takers in developing new approaches to upgrading.
Plan projects on a mixed-use basis with revenue generating elements such as saleable residential units and rentable commercial space in order to maximise financial viability.	Don't assume that lending for slum upgrading will necessarily be asset-based. Where banks do lend for this purpose lending is more than likely to be revenue based.
Ensure that subsidies are effectively targeted so that the benefits reach those for whom they are intended and build on the basis of long term engagement.	Don't assume that all the problems of a slum can be addressed quickly with the framework of a single project.
Recognise that not everyone who lives in a slum is poor. Where an area upgrading strategy is to be implemented provision needs to be made for a range of income groups with steps taken to ensure that the poorest are not excluded.	Don't insist that interventions should only benefit low-income families.
Recognise that home ownership is not the solution to everyone's problems. Provision for the development of affordable rental property is an important component of financing slum upgrading.	Don't restrict interventions to developments based on clear land title and private ownership of property.
Make the real cost of finance very clear so that people clearly understand the commitments they are making to loan repayment.	Don't hide the real cost behind misleading promotional messages.
Where appropriate establish local upgrading finance facilities so that funding is locally available.	Don't assume that existing finance institutions will have the capacity to deliver the full range of financial services required.
Explore options to use land allocation, readjustment and sharing methods to release finance for upgrading.	Don't place unnecessary restrictions on land use.

# The Slum Upgrading Facility Newsletter

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## PUBLICATIONS AND REPORTS

Slum Upgrading Facility (SUF)  
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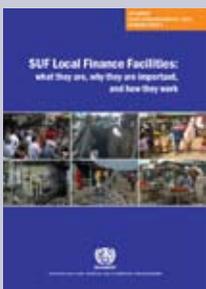
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SUF Local Finance Facilities:  
What they are, why they are  
important and how they work  
(Working Paper 8)



Slum Upgrading Facility (SUF)  
Newsletter April 2008 -  
Issue No.3



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- **Working Paper 8:** Finance facilities: What they are, why they are important and how they work, by Ruth McLeod, April 2008
- **Working Paper 9:** Guarantees for slum upgrading, February 2009

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