



# 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 July Slum Upgrading Facility Newsletter

For many people, buying a home is the most expensive purchase of their lives, and it requires a mortgage from the bank. But slum dwellers do not have access to formal credit for homes or home improvement. The Slum Upgrading Facility (SUF) Pilot Programme is designed to assist low income groups to mobilize formal credit for this purpose. The following article simplifies the somewhat complicated “architecture” used to make this happen.

The stories from country projects in the newsletter touch on another complex issue: land. At the local level, solutions to land problems will vary, as will national land management policies across countries. Wherever and whenever informal settlements make attempts to formalize, land issues will arise. A SUF Working Paper on land issues in the SUF Pilot Countries is currently under preparation to help our understanding of how some of these problems can be dealt with.

### SUF “Finance Plus”: What does it look like?

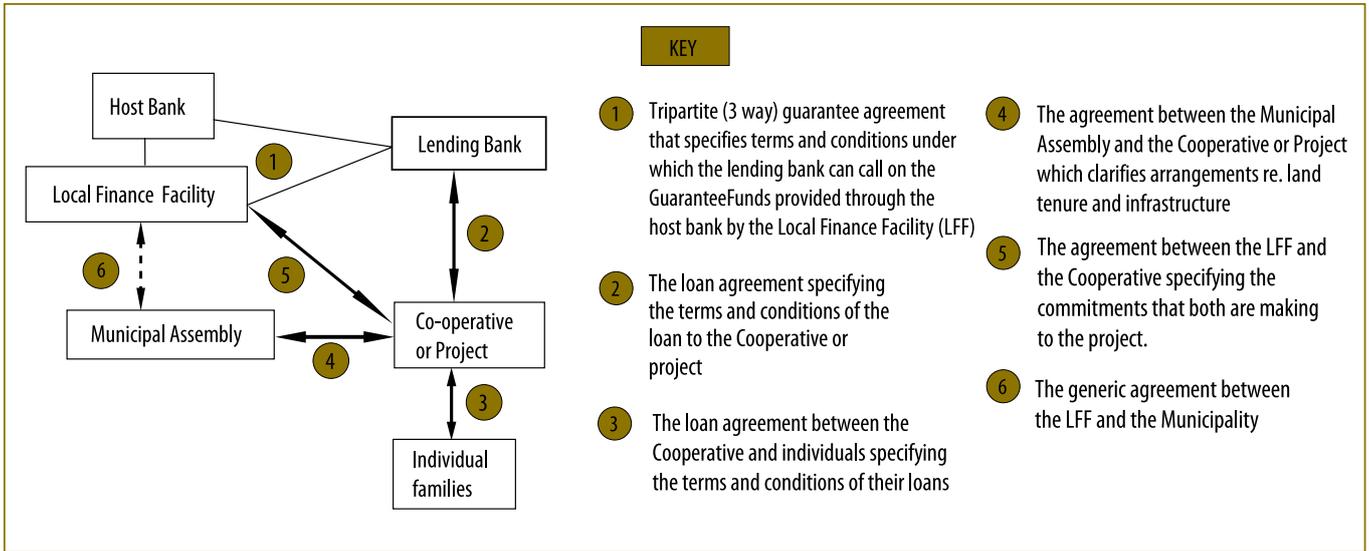
Why don't commercial banks lend to slum dwellers? Commercial banks don't just base their decisions to lend money on calculations – they need to feel “comfortable” about lending, especially to a market that is beyond their traditional lending scope. Lending to people without clear land title or formal employment, and lending to an organized community group, rather than individuals, are new and untested practices for many banks. Ultimately, banks will only lend to slum communities when they clearly understand the risks and arrangements.

The Slum Upgrading Facility “Finance Plus” concept conveys that credit for slum dwellers is about more than just the money. The Board of a local finance facility, comprised of representatives from communities, local government and the private sector, work to ensure projects and proposals that come from organized slum communities are designed, organized and managed so that they can be successfully (and affordably!) implemented.

One important aspect is the set up, or “architecture”, of agreements and arrangements between those involved. This architecture is what is required for a guaranteed loan. By a guaranteed loan, we mean a loan from a bank that is guaranteed, not by individual collateral, but by funds housed in a local finance facility. This guarantee provides one of the main sources of “comfort” to a bank – it is funds that can be called upon if there is an unreconcilable default on the commercial loan.

The graphic that follows shows the six agreements that make up the typical architecture of a guaranteed loan for slum upgrading. It begins with a three-way agreement between the host bank, the local finance facility, and the lending bank (1), stipulating cost (interest rate) and how risk will be shared (i.e., at what point the guarantee will be called upon). Agreement (2) stipulates terms and conditions of the loan with the project or group (also known as a local micro-finance institution). Agreement (3) is between individuals and the lending group – and it is at this point that the money is available for individuals. Agreements (4), (5) and (6) further strengthen the loan arrangements, as they outline the responsibilities of the municipality (for example for infrastructure provision) and of the local finance facility, to support this community effort. This combination increases the likelihood of success.

# The Legal Architecture of a Guaranteed Loan for Slum Upgrading



Source: Working Notes from the SUF Finance Facilities.

## Ghana

Land ownership in Ghana is complex, with a mixture of formal and customary structures and land practices. Community residents of the Ashaiman, Amui Djor pilot project area are working with the Ghana SUF pilot project, using it as a means to help secure tenure to land that they have illegally occupied for over three decades. The community will also work within the SUF project towards developing and acquiring decent sanitation facilities and improving overall quality of life.

In Amui Djor, the Tema Traditional Council has agreed to a demarcation process that will result in the setting out of 50 foot by 50 foot plots. At the same time, a physical survey of the entire area is underway. The kind of arrangements currently being discussed with the Tema Traditional Council and the Ashaiman Branch of the Ghana Federation of the Urban Poor will hopefully result in the land belonging to the Federation on a leasehold basis, with houses then being constructed for purchase by members.

There have been misunderstandings, however, that the Federation wants to take over the land that people already occupy by legalizing it, so there is some mistrust and fear of what that will mean for those living there. This has delayed the land acquisition process and the project, but the Federation is scheduling a meeting with all structure owners to clarify issues and reassure them that no land would be taken from them due to the SUF area development project.

Hafsa Hassan is a tenant resident of the Amui Djor community and a member of the Ashaiman Branch of the Ghana Federation of the Urban Poor. She lives in Amui Djor with her husband and their daughter. Hafsa hopes that through the SUF pilot project, her family would own a two room housing unit they could call their own without any insecurity of tenure. For Hafsa, owning a housing unit is more important than owning a piece of land and her family is saving to take advantage of the SUF pilot project to own a housing unit they can comfortably call home.



Federations weekly meetings with Hafsa receiving and recording daily savings of members, Ghana. Photo © Erika Mamley, June 2006.

The Slum Upgrading Facility project is currently in the process of capitalizing two newly-established local finance facilities to provide guarantees for cooperatives that are willing to upgrade their communities. SUF is facilitating a meeting between the Tema Traditional Council, the TMSUF Board (TMSUF is the local finance facility in the Tema-Ashaiman area) and the Amui Djour community, together with People's Dialogue and the Federation, to agree on an acceptable memorandum of understanding on the land issue as a way easing the complexity so the community upgrading can continue.

compensation to move and make way for a highway in 2005, most residents were unaware of their rights. For most residents, moving away would have meant loss of their livelihoods, and more, and many long term residents did not want to leave. But without any clear picture of the alternative, many ended up signing documents agreeing to vacate, but without getting adequate compensation, despite daily visits to the authorities.

A resident of the Orugodawatta community, Aththidiyage Don Nilanthi was educated and literate, and when presented with a document to sign that lacked basic compensation details, she refused. Instead, she single-handedly campaigned to create awareness among Orugodawatta inhabitants about the consequences of signing these documents until full details were known and agreed. Over a year and a half, she managed to mobilize the residents and organize informal meetings to find a solution for their difficulties – relocation, flooding, and disease in the neighborhood. Nilanthi emerged as a community leader, championing for tenure rights for all residents who wished to stay.

Through community organization and sensitization, Nilanthi and the residents of Orugodawatta were able to demand suitable compensations and uphold their tenure rights in a more effective manner. The government used part of the land and compensated those who left, and those who stayed got both land tenure and compensation. Nilanthi and the Orugodawatta community proved through their determination and persistence that justice is available to those who seek it. Today, 700 people have security of tenure in Orugodawatta with an average plot size of about 40 – 60 square metres.

The next step for this community is to upgrade their homes with the help of loan guarantees through the Slum Upgrading Facility. Commercial banks will provide loans that will be guaranteed through LFSUS (Lanka Financial Services for Underserved Settlements), enabling the community to upgrade their shelter. As Nilanthi says, "I have learnt from my teachers that one should not sign empty documents as it will be disadvantageous for us. I wanted my friends in the community to realize the gravity of the situation and that we could overcome all barriers when united". According to Nilanthi, the 14 years of experience she gained being an integral part of the Women's Bank has enabled her to face such challenging situations with confidence and determination.

## Sri Lanka



Nilanthi at Majid Watta in front of her house, Sri Lanka. Photo © Ayanthi Gurusinghe, February 2006.

Located on the eastern boundary of Colombo, the Orugodawatta community in Kolonnawa town were informally living on prime land – near established oil refineries, and on the site of a new highway proposed by the Government of Sri Lanka. Engaged in low-income port and retail trade activities, Orugodawatta residents are multi-ethnic and largely uneducated. When the Road Development Authority of Sri Lanka offered them

## Indonesia



*Informal settlements in Indonesia. Photo © Suzi Mutter 2005.*

In the SUF project village of Ketelan in Surakarta, Indonesia, residents live in sub-standard houses right along the edge of the riverbank, putting them at risk of losing their homes and even their lives during flood season. A combination of community savings, a municipality stimulant grant and the guarantee provided by the Slum Upgrading Facility will allow 44 households to upgrade their homes.

Of course, success depends on much more than finance. After a series of intensive consultative meetings with the river-based community, land emerged as one of the key obstacles to upgrading the area. The city Mayor and municipality developed a strategy to relocate the vulnerable riverbank houses 3 – 4 meters from the riverbank, so that a fence could be built along the bank

itself. Houses, once moved, could then be upgraded in situ. The community living along the river were allocated land by the municipality on the condition they move away from the river edge. However, there was not enough land registered to the Surakarta municipality to accommodate all the houses, and vertical development is not feasible, given high construction costs and limited land size.

The community and municipality then approached the owners of private land nearby. As a result of discussion and negotiation, the private land owners donated a few square meters of land to the Ketelan community, and the land was duly transferred. This meant that the riverbank houses could be moved away from the river's edge, and upgraded. With full legal support from the municipality, the community secured land tenure through the national adjudication program and, as a result, were motivated to improve their housing conditions. An additional result of this upgrading is that the river has become the front yard of the house and is used less for dumping garbage. Instead, the community has developed a new community based garbage collection and dumping system.

While the Ketelan community succeeded in securing the land they needed, not all types of land can be granted to slum dwellers. In Indonesia, only public land not categorized as a registered asset of the Municipality can be transferred 'free of charge' to the community by the City mayor's authority. If the land is registered in the balance sheet of the city, then the transfer should be approved by local parliament and the community is then required to buy it at the minimum taxable market price (equal to land price set by the tax office). This process will take months to complete, as it goes through public decision making processes involving public hearings, national land authority, political parties, local parliament and tax office approvals. Where slum dwellers occupy private land, the Municipality can only facilitate negotiation processes.

The Municipality concludes that through a participatory approach with specific attention to secure land tenure, city programmes for slum upgrading can be implemented successfully. Over time, trust can be built between the community and the government – trust that works as good capital for the next local election.

## Tanzania

Seventy percent of Dar es Salaam, the heart of Tanzania's growing economy, is unplanned and unserved. Tanzania has no housing policy, no condominium law and no housing finance institution, and the Tanzanian land act does not adequately address mortgage enforcement. Couple this situation with a formal land market under the control of the Government and a planned land delivery mechanism that averaged 8,000 plots annually between 1991 and 2001 against estimated annual demand of 150,000 planned plots, and it is clear that there is much work to be done in Tanzania to improve land management.

It is in this context that we find the Federation of the Urban Poor, a savings organisation established by some of those evicted by the government to accommodate port expansion in the Kurasini Port Area. With a membership of 501 in Dar es Salaam alone, and assistance from the Centre for Community Initiatives (CCI), Federation of the Urban Poor members have been able to develop a daily savings programme. Their intended ambition is that the members will one day own their own homes.

The Federation was set up two years ago with the task of mobilising savings from affected residents of the Kurasini Port Area to both improve livelihoods and provide the needed conduit for eventual home ownership. Evicted from their previous dwelling places in the Kurasini Port area without any form of compensation, Federation members were allocated land in Kibada, which is more than 15 kilometres away. The new location was without water, power or any form of infrastructure. With plot sizes capped at 400 square metres, the government's minimum legal size, and priced at roughly USD 600, these plots were both unpractical (through distance and lack of basic services) and unaffordable for this low income group. As a result, very few people settled in Kibada.

The Federation made the decision to find alternative land. They set up a task force that included some members of the Federation Executive Committee and an aide from CCI with the responsibility of sourcing and negotiating for land. A 30 acre site was identified in Chamazi. Stiff negotiations were held and the land was secured with an initial down payment of roughly 8,000 USD from Federation savings. Priced at roughly 20,000 USD, the Federation, with the help of CCI, focused on the task of raising enough money to actually purchase the plot. Through an engaged process that entailed going to every home of Federation members and sensitizing and mobilising them under this one cause, the Federation was able to raise the necessary funding from savings and additional contributions from members raised through daily and ad hoc lump sum contributions. The money was then deposited into a Bank account administered by CCI and held in trust subject to a proper housing cooperative being established. The payment was then made to the land owner and the plot purchased by CCI on behalf of the Federation, all within the one-month deadline imposed by the owner of the land.

Nevertheless, challenges still remain. How does one address the minimum plot size issue? Will Banks provide the needed funding under these unconventional circumstances (for example, lack of asset-based guarantees, lending to a group rather than an individual, lending to low-income people)? How will the titles be structured when the law does not stipulate details in situations like this? Will home ownership eventually be realised? It takes a huge commitment but at least one issue has been resolved – that of land ownership.

*A collapsing building due to rainfall in Manzese, Tanzania. © Suzi Mutter 2005.*



# 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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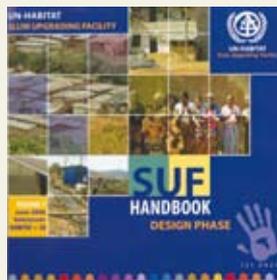
Emerging Markets Group is implementing the Slum Upgrading Facility Pilot Project on behalf of UN-HABITAT. The Slum Upgrading Facility is funded by the Governments of the United Kingdom, Norway and Sweden.

## PUBLICATIONS AND REPORTS

Slum Upgrading Facility (SUF)  
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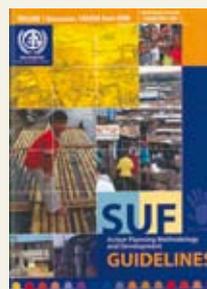
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Handbook



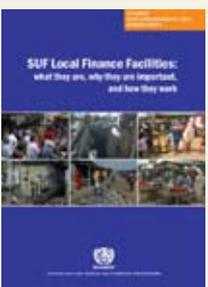
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Slum Upgrading Facility (SUF)  
Action Planning Methodology and  
Development Guidelines



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



- **Working Paper 1:** Domestic Financial Sector Analysis for Housing and Related Infrastructure in Ten Selected Developing Countries, SUF Team, UN-HABITAT, December 2005,
- **Working Paper 2:** Leveraging Commercial Investment Funds: A Special Purpose Vehicle Discussion Paper and Expert Group Meeting, Peter Lever, September 2005
- **Working Paper 3:** Field Testing Design Instruments for Financing Slum Upgrading and Low-Income Housing in Developing Countries: A Sri Lanka Case Study December 2005
- **Working Paper 4:** Field Testing Design Instruments for Financing Slum Upgrading and Low-Income Housing in Developing Countries: Slum Upgrading Vehicles, Products and Instruments. November 2005
- **Working Paper 5:** Development of a Sustainable Low-Income Housing Finance Programme in Sri Lanka January 2006
- **Working Paper 6:** Pre-Investment Development Finance Concept Note September 2006
- **Working Paper 7:** Flyer on Microfinance for Housing and Small-Enterprise Development to Low-Income Households in Urban Ghana 2006
- **Working Paper 8:** Local Finance Facilities: What they are, why they are important and how they work, by Ruth McLeod, April 2008

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