



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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UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME

Welcome to the Slum Upgrading Facility newsletter! The 2008 SUF year started with a “bang” with the approval of two of our Finance Facilities in Sri Lanka and Indonesia. This sets the stage for the process of lending and concrete upgrading projects. After a long preparation phase, this is something to celebrate. Future editions of the newsletter will update you on the progress.

In this edition we talk about the importance of savings schemes in slums, and the why slum dwellers should be involved in decisions around design and affordability of upgrading projects. This is a part of the “Finance Plus” approach of SUF – it isn’t just about money or what the banks need; equally important is the involvement of communities and local governments and the continued focus on improvements for low-income households.

The Sri Lanka article shows the difference one dynamic woman can make, and highlights the benefits for thousands of women through the Woman’s Bank in Sri Lanka, a major SUF partner in slum upgrading. Issues of land management in Ghana are explained – critical factors in any slum upgrading project, and often the most complex. The article from Indonesia reinforces the importance of community involvement in slum upgrading – advocating for community-led efforts. A story about a woman in Tanzania who used organized savings to improve her life is very inspiring, and a good example of how SUF can help real people. Enjoy.

A new financial tool for slum upgrading

The Slum Upgrading Facility (SUF) is a technical cooperation and seed capital facility with a central objective: to mobilize domestic capital for slum upgrading projects and activities. SUF has pilot projects in Ghana, Indonesia, Sri Lanka and Tanzania, where various approaches are being tested to support this objective.

SUF operates under the premise that slums can be upgraded successfully when the existing slum dwellers are involved in the planning and design of upgrading projects. SUF works with local actors to make slum upgrading projects “bankable” – that is, attractive to retail banks, property developers, housing finance institutions, service providers, micro-finance institutions, and utility companies.

Snapshots of decision making

At first glance, slum dwellers and bank managers don’t seem to have much in common. However, where community groups can demonstrate their own commitment to savings schemes for improved housing, there is a starting point for the design of bankable projects – and a working relationship between slum dwellers and bank managers! Savings schemes give confidence to commercial bank managers because they allow them to understand and accept the ‘common interest’ commitment for upgrading. They are also a means to demonstrate the affordability by each of the members.

“Build investment in slum upgrading on a firm foundation of community based savings and loan systems”

Although the sums of money may be small, bank managers immediately recognise the commitment to making regular payments by all of the members of the savings scheme. This generates confidence. And it is only with this confidence that a financial institution will be willing to lend money to what it perceives as a “high risk” group.

But don’t assume that community involvement is best restricted to cost recovery and loan repayment. Where communities are involved in decisions on design and cost of slum upgrading and new low income housing projects, they will lead to more affordable business plans. This is because the slum dwellers are speaking for themselves, since they are the ones that will be repaying the loans. Involvement and agreement on design and affordability is also an incredible confidence-builder for financial institutions.



Members of Cities Alliance view the slum upgrading plan. Photo © Suzi Mutter.

So how do you record this decision-making and agreement within communities, so that it can be “packaged” for banks to understand? Decisions and agreements need to be recorded. It’s important that a transparent process can be observed by all (not just banks; community

members also need to refer to this), but it is seldom done. Instead, people rely on the spoken word and common bonds between the members – “of course we know what has been decided!” But this cannot be seen or readily understood by other interested parties, especially the financial advisers creating the ‘case’ for a bank loan, nor indeed the bank management credit review team.

There are guidelines and documents that can help guide and record the decision-making process such that they can lead to a recognisable business plan. Local organisations have their own record keeping and the SUF Action Planning Methodology and Guidelines were also created for this purpose. But there are other ways to document this process.

There is a case for the use of photography as a process medium – bringing the decision-making process to life through pictures. In this way, the snapshots of particular decisions can be observed later – an item for the file. They can provide proof and record of what was decided, and who was involved. This can complement the financial records that are kept by the community savings groups. Together, these can be powerful aids in getting both construction advice and financial advice.

The Slum Upgrading Facility is working to simplify the Guidelines, and at the same time, testing the photographic record method as an additional means to record, in a transparent way, the commitment and decisions being made.

Ghana

The challenge of land in Ashaiman, Ghana

The Amui Djor area development project in Tema, Ghana, involves an innovative rearrangement of existing land use to enable upgrading in the settlement as a whole. The project is expected to benefit many low income families currently living on the land as structure owners and tenants. A range of local organizations are involved in the project, including the Traditional Council, the Ghana Federation of Urban Poor, Peoples Dialogue Ghana and the Tema Development Corporation. It is anticipated that the initiative will be one of the first to be supported by the Tema Municipal Slum Upgrading Fund which has been established under the SUF programme.

Designing the project so that it is financially viable and can be afforded by local residents presents considerable challenges. One of the most important is the challenge of land, in order to understand the SUF project in Ghana, it is important to understand the broader context of land in Ghana.

Ghana has three systems of land administration: State lands, stool lands and family lands. State lands are held in custody by the government (national or local) in trust for the people of Ghana. Stool Lands are held in custody by the Stool, represented by the Chief, in trust for the people who come from that traditional area. Family lands are lands owned by families.



Old Fadama Accra, Ghana. Photo © Suzi Mutter.

Land in Ghana traditionally belonged to Stools; however, the government acquires land from Stools for development projects. In the same way, families acquire land from Stools for farming and dwelling. Families who settled initially in locations acquired land and passed it from generation to generation. The rest of the land belongs to the Stool.

The land in the Amui Djor community in the Tulaku Electoral Area belongs to the Tema Traditional Council (TTC), which is the Tema Stool. However, in 1952, the land was acquired by the Government for the development of the Tema Township and Port. It was, however, agreed between the Government of Ghana and the Tema Traditional Council that portions of the Tema land, including Ashaiman, where the Amui Djor community is located, be given back to the Traditional Council. It therefore becomes the responsibility of the traditional council to ensure that the necessary processes and documentation for this repossession occurs.

Due to the multiple family members (both nuclear and extended) who own land, both for Stool and Family lands, there are usually multiple sales of land in Ghana, causing litigations and protracted court cases, contributing to a prolonged development processes. In view of this, the Government of Ghana, under the Land Administration Project, streamlined all land activities to ensure a formal process for all types of land administration systems. The Ashaiman land has since been entrusted to the Tema Development Corporation (TDC), the authorized Institution for land sub-division for Tema, until the repossession of land to the Tema Traditional Council is completed.

The transfer of land to the development council occurred in March 2007, which implied that the traditional council had not earlier gone through the process of repossessing the land from the Government. Upon learning of this, the SUF Ghana Team was notified and assisted technically the traditional council in initiating the repossessing process with the development council for land committed by the traditional council to Amui Djor squatters.

Consultations are now on-going for the completion of the necessary documentation for the process to ensure land acquisition for the Amui Djor pilot project. Though these land issues in Ghana can be resolved, it usually takes time, and may result in prolonged development processes as sorting out the land situation is a vital step. This can only be resolved when there is a strong political will to make the processes work in a transparent and accountable way and with respect for cultural practices.

Sri Lanka

A SUF Partner in Sri Lanka

The story of Mrs Rupa Manuel Silva and the Women's Bank



Rupa Manuel Silva Speaking on her favorite subject.

At the October 2007 meeting of the SUF Consultative Board, Rupa Manuel Silva made the presentation on behalf of the Women's Bank--a major SUF partner in Sri Lanka. The Women's Bank is now working with SUF in three municipalities to upgrade seven slum settlements. During the presentation Rupa left no doubt in the minds of the audience that she was a passionate, and committed leader of the Women's Bank but few actually know her story and how she came to help create an organization that has served thousands of Sri Lankan women to gain a productive skill, make significant contributions to their

family's financial security, and even recently to secure a pension. Nevertheless, few in the audience actually knew what a truly extraordinary woman Rupa is.

The Women's Bank has been the center of Rupa's life for the past 20 years. In 1978 Rupa and her family moved to Colombo from her small rural community in the hill country of central Sri Lanka. That same year she began forming savings groups in her community. In 1990, Rupa joined efforts with 3 other women and Mr. Nandasiri Gamage and formed the Women's Bank.

By 1994, she was able to extend the network to rural areas which transformed the Woman's Bank into a truly national organization. For many of these women, life now meant not just housework, cooking, raising children and supporting their husband, but also separate livelihoods, savings, strength to fight back against social and domestic abuse and a stronger voice in the decisions that are made for the family. Because she was from a village herself, she knew their problems well and recognized the importance of being able to stand on one's own feet during the ups and downs of life, without resorting to pawning one's jewelry or getting high-interest loan from a loan-shark. She had the opportunity to mobilize these women to use their own skills and creativity in believing in themselves and their ability to raise above the challenges that society and tradition places on them.

As Rupa puts it in her usual humble way "Together we have turned mud houses into brick homes with electricity and running water; we have created community based organisations; we have developed the bargaining skills of many; many who could not have learned to read and write; we have tried to instill principles of protecting our environment; and have introduced mobile libraries so that rural folk will learn more about the outside world. Some who did not own land are now proud landowners; when we first visited the Mahaweli C zone, nearly 95% of the farmers in the region had pawned the title deeds to their properties. At present nearly 70% of these have been redeemed"

Rupa is particularly proud of her recent contribution to the creation of the Bank's pension scheme. Until now most women in the informal sector could not even imagine the concept of "retirement". For them to live is to work everyday in order to live again. It's a never-ending cycle. But with the Women's Bank, for the first time, women can imagine the possibility of a "pension" in old age or retirement. Though the savings that are deposited into the bank, at the end of a member's loan period, the programme will calculate her monthly pension based on her savings and the number of years of membership.

And these are just a few of the many initiatives and services provided by the Women's Bank that Rupa has

helped to create over the past 20 years of hard work and dedication. The Women's Bank has now gained international recognition as a leader in the field of micro finance and community development and so far, visitors from 90 countries have come to Sri Lanka to study the Bank's systems and programs. Rupa has also published a booklet entitled "voices of true development" featuring 100 real-life stories of women's courage, strength, ambition, patience and commitment stories (chosen from 1000 stories written by beneficiaries of the scheme) so that others can witness what they have done and learn from it.

Today the Bank works in 18 districts, has 4,500 savings groups representing 37,000 women participants, and manages over 60 million rupees (\$600,000) in collective saving.

SUF Sri Lanka is very proud to have as its partner this incredible person-Rupa Manuel Silva- and with the Woman's Bank.

Indonesia

Community learning: The Surakarta city experience



Ferry between two informal settlements, Indonesia. Photo © Suzi Mutter.

Mr. Widi Srihanto is the Head of Welfare Improvement and Women's Empowerment division in the Surakarta Municipality, and he is also the founding chairman of the SUF-supported Finance Facility called "LP3" in Surakarta. Mr. Widi believes that for slum dwellers to improve their lives, communities need to organize themselves. He sees the Slum Upgrading Facility Approach as a method of stakeholder learning through its participatory-based community action planning, savings and loan mechanisms, and geographical 'slum cluster' intervention by the municipality. Mr. Widi also advocates that any slum

upgrading initiative that uses public funds should be based on clear standards and procedures regulated in a city mayor decree to get maximum benefit, lessen horizontal conflict within the community, and provide accountability to the program. The SUF Surakarta programme does this, and as a result, promotes a better governance system within the municipality.

There has been a lot of interest in the Surakarta LP3 Finance Facility, with visits from government officers of cities such as Padang, Banda Aceh, Blitar, and recently Klaten, as well as the National Land Authority to learn more about SUF and the finance facility. Community representatives in the SUF pilot programme area of Totogan Ketelan village have asked to be trained on how to assess the 'bankability' of community initiatives on housing improvement and the eligibility of group and individual borrowers to make use of the LP3 finance facility.

This shows a grassroots demand for the SUF products, and an understanding of what is at stake. Community members understand that a well-managed loan works to raise responsibility and can serve as a tool to discipline community members via savings and loan mechanisms. Grants that are ill-designed and do not involve the community can trigger conflict and misallocation of the grant – and can even result in projects that the community do not see as a priority.

The Surakarta city mayor and Kompip, a leading local community-based organization advocating for marginalized communities, are encouraging upgrading through affordable housing loans, and not direct grants. This is seen as a better way for communities to learn and stay involved. It appears that there is a need for SUF to support the community financial capacity building to help identify and prepare a practical programme for financial literacy – something that can be replicated in other slum upgrading areas across Indonesia.

Building on a foundation of community involvement and financial understanding at the local level can bring real results. The implementation of SUF activities and support in Totogan Ketelan has inspired the community to look for other sources to improve living conditions in their village. Through LP3 board members, the Indonesia central bank branch in Surakarta, encouraged and reassured by the community efforts, granted its corporate social responsibility fund of IDR6 million (651.699 USD) to improve and extend the village's public toilet. The LP3 finance facility assisted the community in the preparation of a technical and financial proposal for this purpose. The construction process will start in early February 2008.

The Totogan Ketelan community recently sent a letter to LP3 asking to be granted affordable housing loans to complete upgrading work initiated by grants from the

municipality. They state: "The result of the municipal grant is a half-done house improvement. We need an additional loan to finish our house renovation. SUF is a loan, we understand that. But we need an affordable housing loan. That is what SUF is for, isn't it?". Indeed it is, and the residents of this community will soon have an opportunity to access affordable housing loans to finish their own upgrading.

Tanzania

From paltry to poultry in Tanzania

It takes one look at Hadija Kingi, mother of four, to understand the real impact that diligent savings can have for one with paltry means. For years, she struggled to make ends meet. Odd loans from different microfinance institutions kept her going when things got rough. The burden was heavy as she battled high interest rates common with microloans extended to the urban poor. She pondered daily on how she would get out of her precarious situation.

By chance, she met an old friend three years ago who told her how she was working with others to establish a savings federation. Through joint efforts with the Centre for Community Initiatives (CCI), a local civil society organisation, the aim of the community based federation would be to mobilize savings. These savings would be used by the members for inexpensive short term loans, while a portion would be used to establish a "Progress" fund. The "Progress" fund would have the distinct purpose of saving towards building a house.

Attracted by the opportunity to engage in something that would bring about financial stability for her and her

family, she became involved. With her first saving of 200 Tanzania shillings (which is slightly less than 20 US cents), her savings have accumulated to approximately 170,000 Tanzania shillings (slightly above 160 USD) since January 2005.

The savings scheme involves daily deposits of any amounts, however small. Members are issued with a passbook where whatever is brought in for the day is recorded. Loans starts from 30,000 Tanzania shillings (slightly above 25 USD) and are repaid over a maximum period of one year. Hadija took her first loan and managed to start a small chicken business. She purchased 10 chicks. Today she has a poultry farm with 500 broilers. Looking proudly at her achievement, she is still determined to expand her business and eventually strive towards building her own house.

With keen eyes looking out for an opportunity to achieve this goal, she listened with interest on how SUF could help her realise the dream of owning a home. Explaining that the first steps were already in motion with her first savings, one could clearly see her determination to keep her spirits high.

Hadija is one of many. As a part of a savings federation, she becomes part of a bigger picture. With little savings from a collective group of savers, the course towards becoming "bankable" is charted. With people like Hadija, the proof of her savings and a small successful business, realizing the dream of owning a home becomes a reality. It is the desire to bring about these changes in human lives through a regimen of disciplined savings and the appropriate financial structures which SUF provides that will continue to enable the likes of Hadija to rise from 'paltry to poultry'!

Poultry farming as a source of income for Hadija. Photo © Joe Bishota.



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.

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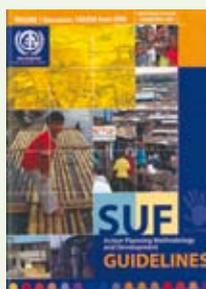
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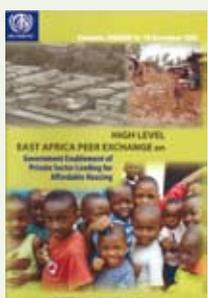
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Slum Upgrading Facility (SUF)
Action Planning Methodology and
Development Guidelines



Slum Upgrading Facility
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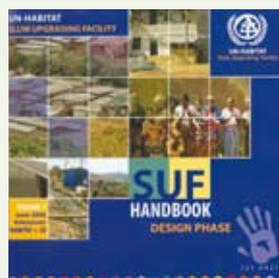


Slum Upgrading Facility (SUF)
Brochure



- **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

Slum Upgrading Facility (SUF)
Handbook



For more information on SUF please visit the UN-HABITAT website at

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