



The UN-HABITAT Slum Upgrading Facility

NEWSLETTER

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

In this issue

Indonesia	1
Ghana	4
Sri Lanka	4
Tanzania	5
Financing Slum Upgrading Do & Don't	7

April is a milestone month for Slum Upgrading Facility (SUF). The Pilot Team concludes a two and a half year contract and the Programme Management Unit in Nairobi UN-HABITAT takes full control of all SUF activities.

As one phase ends, it feels like many aspects are just beginning. Credit enhancement funds have been in place in the Local Finance Facilities in Sri Lanka and Ghana since January 2009. The first projects are obtaining loans. The Tanzanian Local Finance Facility, TAFSUS (Tanzania Financial Services for Underserved Settlements), was formally registered in January as a not-for-profit company and the facility boards in all countries are gaining strength. The political decision to transform the Local Finance Facilities in Indonesia from local non-profit foundations to a Local Public Service Agency has delayed the transfer of credit enhancement funds for administrative reasons, but this new arrangement will see stronger political support and more sustainable delivery.

While issues on the local level are being addressed through Local Finance Facility structures and with SUF support, there are other global challenges to face. SUF, working locally, can proactively address some of these global issues, as the article from Indonesia suggests.

The SUF Programme Management Unit in Nairobi looks forward to the coming months, with an active focus on monitoring, collecting lessons learned and capacity building as we work through project finance and implementation. We are confident that efforts at the country level are well placed to help with this.

Indonesia

Community learning: The Surakarta city experience

Today the people of Solo city are facing three major issues simultaneously: the effect of the financial crisis, the negative consequences of climate change and the need to speed up local governance reform. This article aims to describe how the Slum Upgrading Facility is working to support a fiscal stimulus programme to deal with the financial crisis, to adapt to climate change, and to pioneer the institutionalization of local governance reform.

The **global financial crisis** that started in Wall Street in the United States can now be felt on the streets of Solo. Thousands of people have lost their jobs or have weakening purchasing power, and more will be affected in the coming months. The Government of Indonesia has implemented a fiscal stimulus programs called PNPM (Program Nasional Pemberdayaan Masyarakat = National Program on Empowering Community) in which housing is one of the major areas identified to stimulate the local economy. The SUF Pilot Team and SUF Local Finance Facility board members are now working together with Solo municipality and the office of Self-help housing Deputy Minister of Housing to boost local investment through a cluster-based comprehensive community housing and settlement upgrading programme called Bedah Kampung (Fixing Our Village).

Bedah Kampung includes national cash transfers of USD 500 per eligible house for housing upgrading and additional grants for village infrastructure upgrading and community empowerment projects. The programme is designed to leverage the blended funds from national and local budgets, corporate social responsibility funds, local community investments, and commercial finance from local micro finance institutions. It will start in June 2009 with a pilot project of 50 houses in a clustered slum area in Pucang Sawit village, and will then be replicated as a Solo city wide intervention. The SUF Local Finance Facility will coordinate the pilot project and provide wholesale credit guarantees if needed.



A food vendor along a canal in Yogyakarta, Indonesia. Photo © Ruth McLeod.

Climate change has also had an effect on Solo city. Since 2008, massive flooding, a result of extreme changing patterns of rain, covered about 45% of Solo city. Those who live in slum settlements on the banks of the Bengawan Solo River are most affected. Solo municipality has responded by introducing a community-based relocation program. The existing riverbank dwellers will choose the location of their new settlements and the Municipality will grant them a maximum 60m² free-hold land worth USD 1,200 for each relocated house in the new location. This is combined with a construction grant of USD 850 for each eligible relocated house provided by the Coordinating Ministry of Welfare. All the procedures of land acquisition and building construction are managed by the relocated communities through their working groups in a transparent and participatory way.

The Solo municipality has asked the SUF team and the Solo Local Finance Facility to provide best practices for settlement relocation. This would include helping identify new land use of the ex-sites of riverbank settlements, designing site plans of new settlements, designing standard new houses and staging the house construction within the community's limited budget and non-permanent income stream.

SUF will develop schemes of affordable housing micro-finance to top up the government construction grant and link the relocation programme to local commercial bank finance if needed. Three communities of 121 relocated homeowners have expressed the need for additional affordable commercial funding for their home construction. The relocation will include a total of 2,700

houses, most of them in substandard condition. In 2008, there were 560 houses relocated and the remaining will be completed in 2009. The SUF-supported affordable housing micro-finance for this relocation is scheduled to be effective once the transformation of Solo LFF into Badan Layanan Umum Daerah (BLUD) is completed and it is capitalized from SUF UN-HABITAT.

The ex-sites of the riverbank settlements will have three new land uses. These are a ring-road for Solo city, an urban forest and green open space. The thousand-hectare planned urban forest along the Bengawan Solo River will be included in the basket of Indonesian Ministry of Environment's carbon trading scheme.

Successful local governance reform is a pre-requisite of any effective fiscal stimulus programme and slum upgrading initiative. Partial and uncoordinated government initiatives may lead to mistrust from the relocated home-owners in the riverbanks. An effective and cost efficient local government help ensure that fiscal stimulus efforts achieve their objectives. After frequent consultation with the Indonesian government, the transformation of the Solo Local Finance Facility from non-profit foundation into a Local Public Service Agency (Badan Layanan Umum Daerah – BLUD) will support reforming local government to provide better quality service in a cost effective and sustainable way. A BLUD that includes representative of communities in its board is designed to introduce the spirit of entrepreneurship and performance-based management into the public service system. This approach in Solo may be the first of its kind in Indonesia, with a new accountable governance structure and support from local business communities, professionals, community service organizations, the Ministry of Housing and the State Auditor Office.

Though SUF is still in its pilot project stage, Solo's communities and government believe it will result in a better future, taking environment, social and continues governance reform into its core principles. This is reflected in Mr. Sarwono's comment, a former senior government officer of Solo Municipality:

'the SUF supported BLUD is a long waited initiative and governance structure to reform the local government that will not overlook the environmental, social, entrepreneurial, technical and legal issues as an on-going concern'

Ghana

Profile of Kojokrom Market Project, Ghana

Kojokrom is one of two pilot communities under the Sekondi-Takoradi SUF Pilot Project in Ghana. It has an approximate population of 8,409, an average house hold size of 5.5 and a room occupancy rate of 5.9. 62.7% of the population in this area is engaged in the service sector, mostly buying and selling at the market. The Kojokrom market development project was initiated as a result of intense lobbying from the Kojokrom Market Women Association (KMWA), who felt that before they could afford loans to upgrade their homes, they needed to improve their marketplace to support a steady income.



Vendors in New Takoradi Metropolitan Assembly have plans to upgrade their market, Ghana. Photo © Ruth McLeod.

The Kojokrom Market complex development is a joint initiative of the KMWA and Sekondi-Takoradi Metropolitan Assembly. Started in 2002, the Assembly was able to construct 8 sheds with the support from the Village Infrastructure Project (VIP) before VIP concluded in 2004. From 2004, however, funds have not been available to continue the market project. The women therefore approached SUF and the Ghana local finance facility, with their idea. The board decided to support the project because the market is vital for the livelihood of the community. Currently, over 500 market vendors are without market sheds and therefore sell their products in the open, unprotected from the weather. The board agreed with the market women - completing the sheds will help improve working conditions, thereby increasing income and savings for housing upgrading.

Working together, the women's association and the Local Finance Facility have further developed detailed business plans to construct 6 market shed (in phases) under a build-operate and transfer arrangement with

the Assembly. The market sheds have been designed to accommodate 40 market vendors each, meaning 240 vendors will benefit directly when all the six sheds are completed. The estimated cost of the one shed is approximately USD 30,000.

The women's association is mobilizing their members while the SUF team are facilitating the preparation of a project business plan, negotiating a build-operate-transfer agreement, negotiating for a loan to finance the project as well as facilitating the procurement and construction of the market shed. So far, a draft business plan, a build-operate-transfer agreement and a bill of quantities had been produced and two local banks (Amalgamated Bank and United Bank for Africa Ltd) have been approached. Both have shown interest in financing the projects with guarantees from STMA-CSUF, the local finance facility.

When completed, the sheds will be allocated to interested vendors after they have paid deposits and agreed to make daily payments, which will be used by the Kojokrom Market Women's Association to finance the loan. Affordability of the project is becoming an issue, however. The interest rates are over of 30% with the base rate at 27%. After negotiations with the two banks, both indicated their willingness to bring down the interest rates to 24% with a cash collateral deposit. 24% is still high, bearing in mind that at the start of the project, interest rates were 6% - 18%. In order to make the financing affordable, there is the need to explore all means possible to reduce the interest rate.

Sri Lanka

The Lanka Financial Services for Under Served Settlements (LFSUS) in Sri Lanka achieves Slum Upgrading Facility milestones

February was a very important month for the Sri Lanka SUF Local Finance Facility, the Lanka Financial Services for Under Served Settlements (LFSUS). With the receipt of credit enhancement funds from UN-HABITAT in January, the first Housing Loan Guarantee was made available to the Hong Kong and Shanghai Banking Corporation (HSBC) and the settlement upgrading project in Kirulapona was launched. At the same time, the Government of Sri Lanka committed \$600,000 over three years to LFSUS.

This first housing loan project consists of two settlements (Kirulapura and Siddharthapura) with 40 beneficiaries. A payment of 10 million Sri Lankan Rupees (approximately 100,000 USD in total) was made

available on the 12th of February at the launching event organized at the Siddharthapura community centre. The 10 million Sri Lankan Rupees loan received from HSBC is for a period of 3 years with 50% of the loan being guaranteed by LFSUS. The beneficiaries will use this loan to upgrade their houses and construct new ones.

The Kirulapona community has had a long relationship with the project partner, South Asia Partner Sri Lanka, who in turn has been involved with other micro finance development projects with a commercial bank. This involvement, along with the capacity building activities and community empowerment that has taken place, enabled the communities in Kirulapura and Siddharthapura to mobilize and improve their earnings and their savings habits. Their strengths in saving and their financial stability played a crucial role in convincing a commercial bank to provide a loan. The 50% guarantee required is also a sign that the lending bank has confidence in this community.

The inauguration of the project took place on 12 February at the Siddharthapura community centre. Hon. Dinesh Gunawardana, the Minister Urban Development and Sacred Area Development Ministry, took part. On this day loans were issued for the low income settlers from South Asia Partner Sri Lanka (SAPSRI),

SAPSRI provided all the necessary data while organizing and coordinating the development project. SAPSRI is a non-profit organization committed to developing society by improving the abilities of citizens to be self-reliant and become active partners in governance and development.

Dr. Padma Rathnayake, the Executive Director of SAPSRI, says: *"SAPSRI is happy to be the pioneer in bringing UN-HABITAT, LFSUS, HSBC and other agencies into a unique multi-partite partnership to serve the under-privileged communities in Kirulapona. We are proud to have had a three year working relationship with the Kirulapona community, which has led us to identify the potential and capability of these people in uplifting their living conditions under correct guidance. We, at SAPSRI, see this new initiative, as a way forward, for the communities to live with dignity and pride"*.

The chairman of LFSUS, Mr. Chandula Abeywickrema, believes that, with the start of its first project, LFSUS provides viable opportunities to its stakeholders. He states that: *"I think this finance facility provided by LFSUS is a viable opportunity that should be capitalized by commercial banks and other financial institutions, low income communities, CBOs and any other interested stakeholders"*.

Slum and settlement upgrading is not an easy task. At its simplest, it means providing proper dwelling places, clean water supply and adequate sewage disposal to those living in slums and informal settlements. An essential feature is 'legalizing' and 'regularizing' land tenure and providing settlers with a formal ownership to their land. In order for this upgrading to be a success it needs commitment by everyone: the country, the community and the families is very important. This is where LFSUS in Sri Lanka has been able to bridge the gap and link all the relevant stakeholders together. With the achievement of the first LFSUS project we can see the results on the ground – a path towards creating sustainable development projects where all stakeholders benefit.

Tanzania

Tanzania Strategic Review Meeting: The Birth of TAFSUS

The Slum Upgrading Facility has been working in Tanzania since 2004 to develop innovative financial mechanisms for slum and settlement upgrading projects. As the work developed in 2008, a partnership was explored with Financial Sector Deepening Trust to build a SUF Local Finance Facility into the existing structure. This option was reported on in the October 2008 newsletter.

As discussions with a wide range of partners continued, however, there was a sense that the SUF Local Finance Facility in Tanzania would be best served as an independent, stand alone body that would have a national mandate to provide "Finance Plus" - both credit enhancement and technical capacity - much in the way the Local Finance Facility was established in Sri Lanka.

In February 2009, SUF had reached a point in the work where it was important to undertake a strategic review on the way forward – outlining options that would allow private sector finance a place in community-led slum and settlement upgrading projects – and make a final decision. A Tanzania Strategic Review meeting was held in Dar es Salaam on 9 and 10 February with representation from key senior officials from the Ministry of Lands, Housing and Human Settlements Development, Prime Minister's Office – Regional Administration and Local Government, all three Municipal Councils and the City Council, the Banking community, microfinance and communities themselves.

At that meeting, the participants confirmed their support for the establishment of TAFSUS - the Tanzania Financial Services for Underserved Settlements. TAFSUS has been registered as a not-for-profit company under the Tanzanian Companies Act and the next step, currently underway, is establishing the composition of the Board. This was discussed at the meeting and a range of potential partners will be approached and confirmed. There is support at all levels of government and projects continue being developed for support.

A very important policy statement was delivered by Professor Tumsifu Nkya, the Director for Housing at the Ministry of Lands, Housing and Human Settlements Development, on behalf of the Honorable Minister Retired Captain John Chiligati (MP). In his speech, the Minister pledged support for and cooperation with SUF upgrading work. The Tanzanian government is committed to improving the lives of those living in informal settlements in the country. A joint government / World Bank programme called the Community Infrastructure Upgrading Programme is already underway across Dar es Salaam City and will cover 31 informal settlements. Hand in hand with these improvements, the Ministry, in

collaboration with Dar es Salaam Local Authorities, have issued residential licenses to up to 50% of residents living in informal settlements. With 270,000 people now in possession of these licenses, there are efforts to upgrade them to certificates of occupancy. This is a very welcome development. Addressing land tenure issues is critical in settlement upgrading and will make it easier to obtain private financing.

Two acts have also recently been passed by Parliament: the Mortgage Financing (Special Provisions) Act No. 17 of 2008 and the Unit Titles Act No. 16 of 2008. With these new important pieces of legislation, and the decentralization of some of the functions of the Commissioner of Lands to five zonal offices around the country, both borrowing and lending will be easier.

The strong government interest and support in the complex details of land tenure and private financing opportunities, very much in line with SUF objectives, is a very positive sign. With this kind of overall support, SUF is in a much better position to succeed, and to "scale up" in Tanzania.

A Tanzania Strategic Review meeting held in Dar es Salaam on 9 and 10 February 2009 with representation from UN-HABITAT Slum Upgrading Facility, key senior officials from the Ministry of Lands, Housing and Human Settlements Development, Prime Minister's Office – Regional Administration and Local Government, all three Municipal Councils and the City Council, the Banking community, microfinance and communities Tanzania. Photo © UN-HABITAT.



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

SUF Pilot Team

Ruth McLeod
Greg Polk
Marie-Odile Zanders
John Pollard
Bikram Ghosh
Geoff Norman

Erika Mamley Osae
Marcel Pandin
Joe Bishota
Ayanthi
Gurusinghe

SUF Programme Management Unit

Michael Mutter
Angela Mwai
Jacqueline Macha
Richard Mugo
Liz Case
Inam Ullah

Editorial Team

Michael Mutter
Liz Case
Tom Osanjo

Design & Layout

Anne A. Musotsi

Published by

SLUM UPGRADING FACILITY (SUF) - UN-HABITAT

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

PUBLICATIONS AND REPORTS

Slum Upgrading Facility (SUF)
Newsletter October 2008 -
Issue No.6



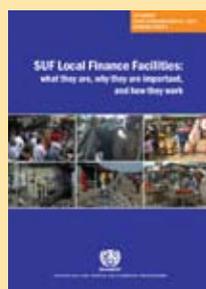
Slum Upgrading Facility (SUF)
Newsletter January 2008 -
Issue No.3



Slum Upgrading Facility (SUF)
Newsletter July 2008 -
Issue No.5



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.4



- 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: 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

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

www.unhabitat.org

Correspondence

Slum Upgrading Facility, UN-HABITAT, P.O. Box 30030, Nairobi GPO 00100, Kenya.
E-mail: suf@unhabitat.org Website: www.unhabitat.org Telephone: (254 20) 762 3131, Fax: (254 20) 762 5227.