

Urban Poverty Technical Notes

TN 1: Urban Observatory System

Background information

The Global Urban Observatory (GUO) of UNCHS/Habitat, which coordinates the network of local, national, and regional urban observatories, is working through partner institutions that provide training and other capacity-building expertise.

The GUO supports the development of Local Urban Observatories (LUOs), which will be test beds for urban poverty data gathering and management tools. An LUO can be a local government department, a university, an NGO, or any other capable organization in the public or private sector. Networks of LUOs will be facilitated by National Urban Observatories (NUOs) responsible for coordinating capacity-building assistance and compiling and analyzing urban poverty indicators data for national policy development. The broad-based participatory process established in the Indicators Working Groups organized by the Urban Indicators Program of the GUO may be institutionalized at the national or city level through the urban observatories. The GUO is collaborating with the World Bank and other donors in providing guidelines, tools, and technical assistance to encourage capable institutions to become observatories with the mandate to develop and apply urban poverty indicators.

The urban observatory system is funded by UNCHS, World Bank, DFID, and various governments.

Work in progress

The Global Urban Observatory is establishing a network of observatories at global, regional, national, and local (city) levels to help national and local governments develop and use indicators. A one-month training of trainers was held in New Delhi, India, in November 1999 for trainers from six regions (Anglophone and Francophone Africa, Arab States, Asia and Pacific, Eastern and Central Europe, and Latin America and Caribbean). The contractors have now begun to work with the key partners in these regions, and 18 cities in Africa, 11 in Arab States, 26 in Asia and Pacific, 9 in Eastern and Central Europe, and 9 in Latin America and Caribbean regions have been identified for establishment of urban observatories. Decisionmakers and technicians from these urban observatories will receive training on indicators collection, management and application in policy development, focusing on a set of about 25 key urban indicators and at least 10 more extensive indicators, selected specifically within each region.

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TN 2: Dimensions of Urban Poverty

This technical note is an illustration of urban poverty matrix (table 1), presented in section 1.2 of the main chapter text. Different dimensions of poverty—i.e., Income; health; education; tenure insecurity; personal insecurity; and disempowerment—are discussed with reference to their visible and policy related causes.

Income Poverty

Dependence on cash for purchases: in cities people have to rely on market exchanges to buy basic goods and services such as food, water, electricity, and transport. The ability to earn cash income thus becomes an important determinant of food security and other aspects of human well being. Food expenditures for example can make as much as 60 to 80 percent of total income among low-income urban households; transportation, water and sanitation have also been reported to absorb far higher shares of household income than planners have predicted.

Ability of urban poor to earn cash income however is constrained by:

Employment insecurity and casual work: urban poor are likely to be engaged in casual and informal sector work. Therefore, employment insecurity and irregularity of incomes are the risks that they are exposed to.

Box 1. Lack of Regular Jobs As a Cause of Urban Poverty

Urban poverty tends not to be primarily the result of lack of work but the lack of well-paying, steady jobs. Many of the urban poor work in garment factories or at home for piece-rate work, sell food or cigarettes in the street, scavenge in garbage dumps, sweep streets, clean latrines, drive rickshaws, or seek day work in construction.

Seasonality effects the earnings of the urban poor—just as surely it does those of the rural poor. Incomes decrease among casual laborers such as rickshaw drivers and construction workers in Dhaka in the rainy season, primarily because they work outdoors and suffer from increased likelihood of illness.

Source: Ruel et. al. 1999

Unskilled wage labor: Lack of skills is a common characteristic of the urban poor, implying an inability to get well-paid jobs (box 1).

Bad health: Illness of a family member imposes huge costs on the rest of the household, both in terms of loss of income, especially if the main income earner is sick, and from the cost of treatment. This is especially true in the case of HIV (AIDS) which is very prevalent in many urban areas.

Lack of access to job markets and opportunities: geographical isolation (e.g., for residents of periurban slums) and lack of access to information channels exacerbates the income poverty (box 2).

Box 2. Lack of Access to Job Markets and Opportunities

In a participatory poverty assessment in Mombasa, Kenya in 1997, lack of practical training and exposure to the world of work and business, inadequate access to credit, and insufficient information on employment or on markets for their products and services were identified as the major determinants of the high unemployment rate among young people.

Source: Rakodi et al. 2000

Macroeconomic crises not only reduce real incomes but increase prices of essential goods and services, while reducing the demand for the goods and services supplied by the poor, which leads to job losses in both formal and informal sectors (box 3).

Box 3. Macroeconomic Crisis

A 1998 workshop of urban managers and central government officials from China, Indonesia, the Philippines, Thailand, and Vietnam, reported that the regions' financial and economic crisis is having particularly strong effects on the urban economy, underscoring the vulnerability of urban populations. Job losses in the formal sector were an early outcome. But more pervasive and devastating have been income losses due to reduced demand for manufactures and transport and other services, the main sources of livelihood for urban residents, and price increases, especially for food, utilities, and essential imported goods resulting from sharp exchange rate depreciation.

Cities in Transition, World Bank, 2000.

High costs and inadequate availability of essential public services: Efficient provision of public services can lower the income that a household needs to have access to those services (by reducing the necessary expenditures). Public services are largely available, especially in big cities, but often not to the poor. Regulatory and policy frameworks constrain service provision to informal areas. Urban poor in many countries have to pay informal service providers more than they would have paid for formal provision, and/or connect themselves illegally and have to pay bribes to officials. (box 4).

Box 4. Spontaneous Settlements Are Not Addressed by Service Regulations in Turkey

In Turkey, none of the municipal or service related laws address spontaneous settlement. Furthermore, the regulations of service providers limit them to serving areas within structure plans. In fact the Public Works Law indicates that water, sewerage, and electricity connections should only be provided to formal areas. There is generally access to basic services in spontaneous settlements, but there are serious problems with the affordability, quality and quantity of the basic services. For example, privately provided water is 9-30 times more expensive per liter than public network. Water supply is sporadic, electricity cuts are frequent, solid waste is not often picked up, drains are nonexistent or not maintained. Illegal electricity connections can cause life threatening accidents for the users.

Source: Leitmann and Baharoglu 1999

Lack of safety nets and labor protection: urban poor are not protected by health and unemployment benefits or worker safety regulations etc., because most of them are employed in informal sector jobs. Furthermore, their low and irregular incomes prevent them from getting to private insurance and pension schemes. This lack of protection exacerbates the vulnerability of urban poor. (box 5)

Regulatory constraints on small enterprises perpetuates informality of work available to the poor, discourages asset accumulation and access to credits, and increases vulnerability of workers.

Box 5. Unprotected Labor

Research carried out in Coimbatore (India) argues “that labor status is the single most important factor for explaining poverty, basically through the difference between protected and unprotected wage work and within the latter between regular and irregular workers”.

Source: Harriss. 1989

Health Poverty¹

Food insecurity and thus malnutrition, overcrowded and unhygienic living conditions; lack of sanitation and water; and the juxtaposition of residential and industrial functions are among the major causes of health poverty in cities.

Inadequate cash incomes of the poor, especially when coupled with problems in the food distribution system (e.g. bad roads linking agricultural production areas with the cities and inadequate storage facilities, run-down and obsolete wholesale markets increase costs by causing high losses), lead to food insecurity. Available evidence indicate that malnutrition is increasing in cities (Ruel et. al 1999). (box 6)

The urban poor are more exposed to environmental hazards than other groups, as they occupy the most polluted environments (e.g., near factories and waste dumps) and risk-prone sites, such as dump sites, river-beds and hillsides (see also **Environment** chapter).

For example, in a recent incident in Manila, (the Philippines), a wall of refuse collapsed on squatters' houses in Manila's biggest dump (Payatas dump), at least 60 people were killed and dozens were missing (*Washington Post*, July 11, 2000).

Such sites often the only ones available for housing of the poor because they are unattractive to other potential users and land use policies make other locations unaffordable. (box 7).

Box 6. Food Insecurity and Malnutrition in Cities

Poverty and malnutrition data in 16 countries show that for a majority of them, not only has the absolute number of the urban poor and undernourished increased in the last 15 - 20 years, but it has done so at a rate that outpaces corresponding changes in rural areas.

Nutrition data show that for 12 out of 16 countries studied, the absolute number of underweight children in urban areas is increasing and at a faster rate than the numbers in rural areas. For 10 out of 16 countries, both the absolute number of underweight children in urban areas and the share of underweight children in urban areas are increasing.

Source: Haddad 1999

¹See also the **Health** chapter of this toolkit.

Box 7. Juxtaposition of Residential and Industrial Functions

In the Dharavi slum of central Bombay, India there are about 400 leather-processing units which are a major source of air and water pollution. In a survey of a community that lives in the leather processing area, it was noted that waste water flowing in open drains contained hair, worms and chemical and other effluents, including acids, discharged after the cleaning of hides. In these environmental conditions, the storage of food is difficult and the possibility of contamination is high.

Noise pollution is also very high in certain locations. Among people living close to the suburban railway tracks (as close as ten feet away), medical doctors have recorded cases of neurosis caused by unbearable levels of noise.

Source: Swaminantham 1995

Indoor pollution due to household level energy sources is also among major causes of health poverty in cities.

Housing regulations that raise the costs of housing for the poor, and unsound policy and institutional frameworks for providing public services such as water, sewerage, and garbage collection, force the poor into unhygienic living conditions. (box 8).

Box 8. Multiple Impacts of Inadequate Water Supply on the Poor

In Kumasi - Ghana, while piped water is available in most parts of the city, poor households do not have individual connections and so depend on purchasing water from privately owned taps, at prices considerably higher than the cost of Ghana Water and Sewerage Corporation water, or obtaining it from polluted streams. Water provision is particularly poor on the urban periphery where there is rapid urban growth. According to rules set by its parent ministry, Ghana Water and Sewerage Corporation is not supposed to extend the network into unplanned settlements, thereby preventing it from improving services to some of the city's poorest. Even where there is piped network in the area, water pressure is often inadequate and the service not continuous. These inadequacies impinge particularly on the poor, not just in terms of cost and time spent collecting water, but also in terms of undermining informal sector businesses, such as food-processing, which depend on good supplies of potable water. The impact is felt particularly by women who operate such businesses and who may have to collect water at night, and on girls whose education may be curtailed by the time spent collecting water.

Source: Devas and Korboe 2000

Urban poor are also prone to work and employment-related diseases and accidents. Children are also sufferers of unhealthy work conditions. In carpet shops of Lahore (Pakistan) there are reports of children bonded to carpet masters at four years of age suffering from severe physical handicaps as a result of their working conditions (Drakakis-Smith 1996)

The people who are most prone to environmental hazards and job related diseases are those least able to avoid them and who have the most serious health impacts, because they lack the income or assets (insurance etc.) to cope with illness and injury (Satterthwaite 1998). Taking time off threatens their family's economic survival. Poorer households lose a higher proportion of total income from being ill than richer households (Pryer 1993).

Education Poverty²

The urban poor's access to education is constrained by:

Crime and violence: Insecurity, especially in public transport, due to crime and violence deter school attendance among the urban poor. (box 9)

Insufficient school places: the urban poor's access to education is also constrained by insufficient school places in rapidly growing cities. Public authorities fail to provide sufficient school places especially at the outskirts of cities where low-income/slum settlements are burgeoning but which often fall outside of existing municipal boundaries.

Inability to afford school expenses, including transport costs, is another constraint on school attendance in cities where the urban poor is heavily dependent on cash income. Withdrawing children from school is a common strategy during family economic hardships, in the absence of safety nets for the urban poor to enable them to maintain their investment levels in education (box 9).

Box 9. Constrained Access to Education

Impact of violence and crime on girls:

In a six-month period in 1992, one in five women in Cisne Dos, Ecuador, was robbed on a bus, and one in two women had witnessed such an attack. The lack of safe transport during off-peak hours has caused girls, generally from the poorest families, to drop out of night schools.

Inability to afford education:

Armando and Juan, aged fifteen and thirteen, are the two older sons in a household of seven children in Cisne Dos, Ecuador. Their father, Santiago, a skilled construction worker, has been reduced by a decline in contract work to a casual daily laborer with an irregular income. With five young children, the boy's mother, Teresa cannot get out to work. In 1991 the boys were forced to leave day school to help keep their younger siblings in school. Working as shoe shine boys in the city's bus terminal, they earn half the family's income. Although they registered for night shift at the local school, they are generally too tired to go

Source: Moser 1996

Tenure Insecurity

Most of the urban poor do not have tenure security because their dwellings are:

- ◆ built on public land; or
- ◆ constructed on private property not belonging to the owner; or
- ◆ built on shared title land; and/or
- ◆ constructed without occupancy or construction permits; or
- ◆ rented in slums without formal renting contracts

Many of the urban poor have to house themselves illegally because:

Land policies do not make sufficient developed land available: Urban planning tools, including master planning, zoning and plot development regulations, are not appropriate to make land available in pace with rapid urbanization, resulting in insufficient land supply and increases in land prices. Master plans in many developing and transition countries are too centralized, take too long to prepare, and fail to address implementation issues or the linkages between spatial and financial planning. Resulting regulations are outdated and inappropriate.

²More details are provided in the PRSP Sourcebook chapter on **Education**.

Policies and/or regulations as well as public authorities' approach are not conducive to regularization of tenure because:

- ◆ There is a widespread assumption by authorities that regularization may encourage illegal practices
- ◆ Issuance of land documents can create considerable conflict, especially in places with multiple forms of property rights
- ◆ Authorities may prefer to retain the informal status of some spontaneous settlements, as the land may be demanded by other uses, and informal occupation provides a sufficient ground for eviction (Durand-Lasserve and Clerc 1996; Payne 2000).

Land and housing regulations make housing unaffordable: Unrealistically high standards for subdivision, project infrastructure, and construction make it impossible to build low-income housing legally

Land and housing regulations make it difficult for the poor to follow cumbersome procedures: Procedures can be unduly cumbersome, difficult for poor people to save time and follow (box 10). Observations from many developing countries show that the processes of obtaining construction and occupancy permits are complicated, not well-understood by the poor, especially immigrants, time consuming and costly. The result is invasions of state land or purchases of unplanned land from illegal agents.

Lack of access to credits

There is ample evidence from Africa, Asia, Latin America and Caribbean countries that low-income and even moderate income households do not have access to housing credits, because:

- ◆ They cannot afford the debt service required to finance the cost of a minimum unit. They can not meet the criterion used to qualify households (i.e. the mortgage payment to income) by financial institutions. For example the ratio of mortgage payment to income for low-income households is 104 percent in Bolivia and 40 percent in Colombia, far exceeds the maximum (25 percent and 30 percent respectively) allowed by commercial financial institutions in these countries (Ferguson 1999)
- ◆ Mortgages require payments every month for a long period of time. However, low-income households are often self-employed, their incomes vary greatly and they occasionally face crises—such as sickness and injury—that absorb all their available resources (Ferguson 1999).
- ◆ Commercial financial institutions usually have little interest in lending to low-income households (even if financial conditions allow), as the small loans required by these households are much less profitable (Payne 2000).

Box 10. Long Process of Land Adjudication in Peru

In Peru, State lands are adjudicated through a long and time consuming process, which takes about 43 months, consists up to six stages, and even involves the president of the republic. An adjudication comprises 207 bureaucratic steps involving 48 different government offices. The worst part of all this is that in the end the title to the allocated land is still not clear and holders are unable to exercise their full rights.

Source: Farvaque and McAuslan 1992

When housing loans are not available households have to use their own savings, sweat equity, and/or loans from relatives. Estimates from various countries show that it takes from 15 to 30 years of saving (30—50 percent of monthly income) for low-income households to afford a minimum standard unit in authorized stock. It should be noted that in reality households in the lowest deciles of the income distribution cannot save (like the households in upper echelons of income distribution), as in most cases monthly incomes are irregular and hardly sufficient for minimum nourishment requirements. Thus, building in illegal areas, without construction and/or occupancy permits, remains as the only option for the urban poor.

Lack of tenure security leads to:

loss of physical capital, damage of social and informal networks for jobs and safety nets, and sense of security (box 11). Several million urban dwellers are forcibly evicted from their homes each year, most without any form of compensation.

Inability to use the house as a resource when other sources of income reduced. For poor people housing is an important productive asset, that can cushion households against severe poverty during economic hardships. Renting a room, or creating an extra space for income generating activities are the common coping strategies. (box 12). When the poor have secure ownership of their housing, they often use it with particular resourcefulness when other resources of income are reduced (Moser—Cisne Dos Study 1996).

Personal Insecurity

Personal security of urban poor is jeopardized by:

Family breakdown (which often caused by drug and alcohol abuse), social diversity and visible income inequality in cities, evictions due to tenure insecurity, social and institutional exclusion, and lack of assets and opportunities, often lead to community and domestic violence. Women and children are most often the victims of domestic violence (box 13).

Box 11. Evictions Deteriorate Physical and Human Capital

When evictions take place in Nairobi, Kenya, the results are destruction of property and people's development initiatives and displacement. The consequences are far reaching: lives are lost, children miss school, livelihoods are destroyed, homes are razed to the ground and children are forced to streets as parents ponder where and how to start a life a fresh. The lack of security has serious social consequences as it demobilizes the people's ability to organize themselves so that they can reinvest in their communities.

Source: Apiyo 1998

Box 12. Home As a Work Place

Nilofar who lives with her husband in a one room dwelling in the squatter settlement of Jahangir Puri in Delhi, India, says: "there was no work, so what could we do? Things were so expensive and we had no income. First we took a room to rent through my husband's uncle, and then we managed to get a plot. We have now made this house ourselves..." Nilofar's home is also a work place. They make and sell "bangles" which are worn on the wrist by Hindu and Muslim women. Nilofar paints and sorts bangles and her husband sells them on the streets. The research showed that the struggle to increase household income is intimately linked to the process of gaining and improving shelter.

Source: Kellett and Tipple 2000

Family breakdown often leads to reduced support for children, and youths are often involve in drugs and gangs (a negative form of social capital network) instead of family support. Gang, drug, and gun violence involves youths not only as perpetrators, but victims as well, and threaten personal security of others in low-income areas. Lack of jobs, inability to continue education, and lack of opportunities for other constructive activity are the underlying factors.

Social diversity and especially visible income inequality in cities increases tensions and temptation for crime.

Evictions organized by public or private landlords also threaten personal security in low-income/slum settlements. Burning of settlements to make way for subsequent developers, and threats to tenants by slum landlords are reported by various studies (Apiyo 1998; Amis 1984)

Box 13. Geographical Concentration of Violence and Stigmatized Areas in Jamaica

Violent crimes tend to be geographically concentrated in poor communities in Jamaica, with more than half of them occurring in Kingston and St. Andrew, and almost three-quarters of murders and more than 80 percent of shootings take place in poor neighborhoods. Both victims and perpetrators of violent crime tend to be young men, who account for 60 percent of all arrests for murders. Increasingly violence has involved women, not only as victims of crimes by men, but also as perpetrators of violence against other women. At least 40 percent of murders are a result of domestic disputes with women as the victims. Over a third of adolescent girls had been involved in a fight themselves and 30 percent had been afraid to go to school because of violence in their communities.

Several focus groups perceived a breakdown of moral codes among some individuals within their community, with references made to sexual offences against women and children. Rape was seen as a serious problem. Local police in the Greenland area maintained that it is young children who suffered most from domestic violence.

Residents of low-income areas in various towns in Jamaica felt that their lack of mobility added to their difficulty in finding employment and this led to increased violence. Many participants said that the violence itself was a cause of the lack of mobility, due to what they call "area stigma". One group of youths said everyone in their community was disrespected by outsiders and the police alike, was branded either a criminal or an accomplice to one, and was therefore unable to secure a job or learn a trade. They said this area stigmatization lead to hunger, frustration, and idleness, which encourage gang war and gun violence, with death or imprisonment is the ultimate price.

Source: Moser and Holland 1997

Social and institutional exclusion i.e. not having full rights and responsibilities of "citizens" make the poor susceptible to causes of insecurity

Lack of assets, services and opportunities (both communal and personal) stigmatize certain residences in cities as centers of crime and desolation (box 13).

Disempowerment

Participatory studies have shown that non-material factors contribute to people's poverty. Isolation, exclusion and disempowerment are as important to the poor as low incomes. (box 14)

Social exclusion in a broad sense is being deprived from the rights to be "citizens":

- ◆ Poor are not given the rights to participate in decision making;
- ◆ They are not given full civil protections;
- ◆ They are not asked to take responsibilities of being normal citizens

Box 14. Disempowerment

Uganda Participatory Poverty Assessment showed that poor people suffer directly from being disempowered. Powerlessness, described as inability to affect one's surroundings, was reflected in the findings of Uganda Participatory Poverty Assessment Project (UPPAP). The National Integrity Survey also found that 40 percent of the users of public services had to pay bribes. Such experience are not only materially impoverishing, they are also demoralizing. More broadly, people experience frustration when they cannot perceive their influence over public policy. UPPAP reported, for instance, that poor people saw no effective mechanisms to hold service deliverers accountable

Source: Uganda Poverty Reduction Strategy Paper and Joint World Bank-IMF Staff Assessment of the PRSP.

The urban poor are prone to social and institutional exclusion and thus disempowered due to:

Illegitimacy of their residences and work:

The majority of urban poor live in informal settlements for reasons discussed earlier. Furthermore, urban poor are likely to be engaged in casual and informal sector work. They are not addressed by policy and regulatory frameworks regarding either service provision, housing and land, nor labor rights and safety nets. Therefore, they are institutionally and socially excluded in two most important aspects of their life: work and residence (box 15).

Insufficient channels of information:
urban poor do not have sufficient access to channels of information on jobs, legal rights to services, etc.

Not being treated as "citizens": the urban poor are not given rights and responsibilities that go with being citizens. They are often assumed to be passive consumers rather than active participants with something to contribute. Even being asked to express needs and demands, without accepting responsibilities that go with being citizens, does not really empower people. In various countries slum residents express their needs for infrastructure and urban services in particular, and they may get what they want in return for their votes. Such populist policies, however, often do not require them to pay the costs of such services or land that they occupy even at a subsidized level. Public authorities

Box 15. Lack of Rights and Responsibilities of Being a Citizen

In Ghana Kumasi There is a wide-spread perception that the Kumasi Metropolitan Assembly Chief (the Mayor) has been able to control the assembly by rewarding his supporters and penalizing those who oppose him, for example, by withdrawing services from their communities. Those communities who are denied basic services, simply because of not supporting the assembly chief, are not protected. Poor communities then have to bribe utility providers for example to empty the septic tanks.

Equally worrying is Kumasi Metropolitan Assembly's arbitrary response to the informal sector, which probably represents over 70 percent of employment in Kumasi. The assembly has adopted a ruthless approach towards informal traders in the central area and regularly leads raiding parties on such premises. The traders who often among the poorest, regularly lose equipment and stock.

Source: Devas & Korboe 2000

in such cases retain the political advantage of being the sole decision makers in allocating resources.

Negative contact with authorities: While government policies can have important positive impact on poverty alleviation, many poor people experience the state in negative ways, as an oppressive bureaucracy, which attempts to regulate their activities without understanding their needs. Due to the illegitimacy of their residences and work, urban poor are vulnerable to corruption (box 15). They often have to bribe police and other public officials to be allowed to continue their income generating activities or their illegal connections to services.

Geographical isolation: urban poor have to trade-off between costs of housing and long distances from city centers. Communities at the outskirts of cities are disconnected from job opportunities and urban services.

TN 3: Interventions at the Project/Program Level

Integrated urban development projects

Table 1. Slum-Upgrading Projects

Type	Multi-sectoral	
Different approaches	<p><i>Focus on neighborhood improvement</i></p> <ul style="list-style-type: none"> ◆ Predefined packages of integrated services provided in a coordinated manner ◆ Defined specific areas or neighborhood(s) on the basis of service deficiencies and community interest ◆ Assumed to be replicable in other neighborhoods, based on the experiences of first (pilot) projects ◆ This type of approach may be more appropriate in cities where there are particular pockets neighborhoods without services 	<p><i>Focus on citywide service(s) improvement</i></p> <ul style="list-style-type: none"> ◆ Provision of a few basic services on an incremental basis in coordination with (or as components of) larger-scale urban development projects, where main infrastructure networks are built or upgraded ◆ Reaching a larger share of urban poor lacking of access to basic services ◆ This type of approach may be more appropriate in cities where majority of population do not have access to basic services
Objective(s)	Improving quality of life and economic opportunity for residents of specific settlements, through improvements in services and community-building	Improving quality of life of urban poor on citywide basis through incremental improvements in provision of basic services
Components	<ul style="list-style-type: none"> ◆ Physical improvements: potable water, sanitation, solid waste disposal, storm drainage, roads, sidewalks, footpaths, street lighting ◆ Provision of tenure security ◆ Development of marketplaces and other income-generating activities ◆ Development of clinics, schools, community centers ◆ Some of the projects include training of beneficiaries; for example, on sanitary conditions, simple construction techniques, etc. 	
Targeting beneficiaries	Geographic area defined by poverty, service deficiencies, and community interest	Target groups defined by their lack of one or more basic services. (Citywide urban poor without access to basic services.)
Financing arrangements	<ul style="list-style-type: none"> ◆ Grant transfer to local governments or other implementing agency by national government and/or external donor/finance organizations ◆ Local governments contribute to the investment cost ◆ Community contributes in kind or sometimes in cash (mostly 5—10 percent of the investment costs, in some cases higher (e.g., 30 percent in El Mezquital project of Guatemala), and residents pay user charges for specific services. People may be asked to pay user fees if private goods (e.g., electricity or water) are provided. Public good services (e.g., access roads) are assumed to be covered by general and local tax revenues ◆ Private-sector firms may also contribute to investment costs 	

Table 1 (cont'd.)

Roles of NGOs, CBOs, and private sector	Communities involved at all stages; NGOs mobilize communities; private firms may carry out construction/investment works. Private sector can contribute to finance and execution of physical works	
Advantages	<p><i>Focus on neighborhood improvement</i></p> <ul style="list-style-type: none"> ◆ Comprehensive, cross-sectoral coverage of service deficiencies in given geographic areas ◆ Reaches all residents including poorest, within target neighborhoods ◆ On-the-spot coordination and execution of investments across sectors (re: installation of pipes, road works, drainage channels, etc.) saves costs and improves efficiency ◆ Creates high-visibility improvements across targeted area 	<p><i>Focus on citywide service(s) improvement</i></p> <ul style="list-style-type: none"> ● Easy to incorporate into municipal programs ● Addresses linkages of services beyond slum neighborhoods as it works at city level ● Easy to involve local governments and other service provision agencies in O&M
Disadvantages	<ul style="list-style-type: none"> ◆ Cost and organizational advantages of providing comprehensive package of investments need to be balanced with variations in community demand and priorities ◆ Does not necessarily address linkages of infrastructure beyond neighborhood communities ◆ Use of special implementation unit facilitates investment coordination, but local governments and sectoral agencies need to be involved for sustained O&M 	<ul style="list-style-type: none"> ◆ Provides only limited services, not a comprehensive package—at least in the short run ◆ Target groups may not/cannot be defined clearly ◆ Does not create a high-visibility improvements as it is done incrementally
Impacts	<ul style="list-style-type: none"> ◆ Projects have reduced unit costs for infrastructure ◆ Relatively high rates of return on slum-upgrading programs, especially when tenure security provided. The projects generated greater-than-anticipated private investments and created employment in the informal construction industry ◆ The projects have revealed that the poor are willing to pay for services and to mobilize their own savings 	
Conditions for sustainability & replicability	<ul style="list-style-type: none"> ◆ Need to address the structural distortions in housing and land markets, financial incentives and policies, and urban governance ◆ Have to be articulated with municipal programs ◆ Target groups have to be defined clearly 	

Where to obtain more information: Thematic Group on Services to the Urban Poor: The World Bank, Urban Help (e-mail: urbanhelp@worldbank.org). A compact disc (CD) on urban upgrading is also available from, and can be accessed online, at: <http://web.mit.edu/urbanupgrading>; e-mail address: urbanupgrading@mit.edu.

Box 1. How to Move from Slum-Upgrading Projects to Large-Scale Upgrading Programs

1. **There is no universal model:** Content of, and approach to, upgrading programs will vary from one context to another. What is needed is an operating structure that supports and encourages local solutions and local implementation. Local participants are best placed to design and implement solutions.
2. **Keep it simple:** The larger upgrading projects tend to have better results when simplicity of implementation and content is built in. Local definition of the list of improvements and how to divide the task for their simplified delivery at the local level yields quicker and more appropriate large-scale results.
3. **Political commitment is fundamental:** The evidence from 20 years of international experience in slum upgrading indicates that the obstacles to scaling up are not mainly financial (affordability of households or on the public budget), but rather political and institutional. Projects that have had the strong endorsement and backing from government have met their objectives. A large-scale program will need even more clearly expressed support, commitment, and leadership from politicians and policymakers.
4. **Coalition of actors is needed:** Large-scale upgrading programs call for (a) a broad coalition of participants, each with its area of contribution and agreed-to role; and (b) a convergence of action among the participants based on a shared vision, common goal, and agreement on a process.
5. **Building on existing experience:** It is best not to create new institutions, but rather, build on the existing community of practice. The scaling-up challenge is to work with existing institutions, under arrangements at all levels (local and central government, private sector, etc.) with clearly assigned responsibilities that in concert will accomplish this task.
6. **The poor can, and are willing to, pay for services:** The poor are willing to pay for services if the services respond to their demands, are favorable, and are of good quality. Appropriate policies for cost recovery and subsidies will contribute to scaling-up efforts.
7. **Upgrading is affordable if done right:** Applying appropriate standard of infrastructure provision is critical to keeping costs low and affordable. One alternative is to start with low standards but build up incrementally as affordability increases.
8. **Security of tenure is important:** One of the first steps in designing a large-scale upgrading program may well be the up-front work needed to move quickly and to scale on the land regularization front, thereby ensuring the tenure status of communities being upgraded.*
9. **Include and strengthen municipalities:** Programs that carry out upgrading on a citywide scale require to evaluate and plan for helping local governments respond to the additional demands to be placed on them.
10. **Citywide service networks must be able support the upgrading program:** A large-scale upgrading program must start with a well-conceived plan of network expansion and expanded service delivery.
11. **Communities must participate:** Experience overwhelmingly shows that participation (contribution to, and involvement in the process of upgrading) by residents in upgrading projects is key to success and long-term benefits. Ideally large-scale programs will find ways to help the poor move from powerlessness to inclusion; vulnerability to assets; violence to security.
12. **Improving basic services and infrastructure is the necessary base:** A well-selected package of basic services and securing tenure, installed quickly, can have a substantial impact on the environment, the communities' self-confidence and buy-in, and can be the foundation for add-on actions and programs. Scaling up implies a sequence of actions, many of which can come on stream by sequencing.

Source: International Video Conference Series: A large-scale slum improvement programs. Summary of presentation by Thematic Group on Services to the Urban Poor—World Bank; The Cities Alliance*

**While tenure security has proven to be an important condition in many upgrading projects, there are also cases where formal ownership (free hold title) is not a priority. Therefore, cultural context and community priorities should be taken into consideration in dealing with tenure security matters. (See also land regularization and tenure security program table.)*

Box 2. Slum Improvement Project (SIP) in Bangladesh

A UNICEF-funded, community-based program in Bangladesh to improve the slum environment, provide primary health care, and empower poor women living in these communities. Beginning in the mid-1980s, by 1994 the project had grown to include 25 cities and towns and 185 slum clusters. The project aimed at connecting existing urban services to slum communities and improving institutional capacity to work with the urban poor. The project also emphasizes interagency collaboration and featured a national, city, and community management structure.

Major achievements:

- ◆ Increased many poor families' incomes through loans and savings.
- ◆ Enhanced economic and social activities among women through credits and savings schemes and through organization of women around various social activities, thus empowering the women (40,000 reached).
- ◆ On the social capital side, increased awareness of health, sanitation, and community participation.
- ◆ Significantly improved the physical and environmental conditions in slum areas. The incidence of diseases (such as diarrhea, respiratory problems, and scabies) reduced substantially.

Major constraints and weaknesses:

- ◆ The SIP guidelines are not flexible enough to meet different physical and social characteristics and needs of different groups of poor. Furthermore, the SIP guidelines has a bias toward physical/technological solutions.
- ◆ Land tenure is not fully addressed by the SIP to date.
- ◆ The SIP did not contemplate any direct cost recovery for the operation and maintenance of infrastructure facilities. It only required the contribution of community labor and Tk 500 to a community fund that was to be used to pay community workers. This plan has been only partially realized.
- ◆ There were problems due to dual management—by municipalities and LGED.

Source: Upgrading Slum Communities—Cities Alliance; World Bank; MIT

(<http://web.mit.edu/urbanupgrading>); and Siddique et al., Local Government Engineering Department of Ministry of Local Government, Rural Development and Cooperatives, Bangladesh, World Competitive Cities Congress 1999

Box 3. Slum Upgrading in El Mezquital, Guatemala City

This project aimed at to improve housing and basic infrastructure; to induce additional private investment in housing; to develop an efficient and well-targeted subsidy program in addition to substantial cost recovery; to expand the role of NGOs and CBOs; and improve the performance of urban land markets. The project featured community participation in the planning, execution, and financing of the project. It was supported initially by UNICEF and later funded by the World Bank.

Major achievements:

- ◆ Total costs for water, sanitation, roads, land, etc., were kept to the equivalent of US\$1,300 per family and largely recovered from beneficiaries.
- ◆ Over the past two years since the investments were completed, infant mortality rates have dropped 90 percent, crime has decreased 40 percent, and there is an estimated tenfold rise in property values
- ◆ The project encouraged beneficiaries to participate in planning, executing, and financing—some 1,200 residents were active members of the residents' associations that represented the community in negotiations with city officials and handled financial transactions in the project.
- ◆ The community-based organization COIVIEES, which has finished implementing the improvements with Bank financing, now operates and maintains the water and sanitation systems. COIVIEES also manages the revolving housing credit program and oversees street and drain maintenance. COIVEES has begun expanding water and sanitation services to neighboring slums, set up a training and capacity- building program for CBOs in other poor communities, bought a new garbage collection truck, and initiated a solid waste management program. COIVEES has even received a contract from a private developer to build around 100 low-income housing units in another part of the town.

Source: Upgrading Slum Communities—Cities Alliance; World Bank; MIT (<http://web.mit.edu/urbanupgrading>); and *Noti Coivviees*, newsletter, September 1998

Interventions in land and housing

Table 2a. Site and Services and Core Housing Projects

Type	Single sector investment
Objectives	<ul style="list-style-type: none"> ◆ Providing affordable housing to lower-income households or to those who are re-located ◆ Increasing housing choices at lower echelons of the income distribution ◆ Introducing new construction techniques (including traditional) and beneficiary organization models to the formal housing sector
Components	<ul style="list-style-type: none"> ◆ Serviced plots ◆ Core units (e.g., kitchen and sanitary facilities; or additionally, a small living space) that the owner can expand on incremental basis (vertically or horizontally) ◆ Loan schemes for beneficiaries
Targeting beneficiaries	By income group and/or geographic area based on housing, environmental conditions, and tenure insecurity
Financing arrangements	<ul style="list-style-type: none"> ◆ Grant transfer to a housing agency or local government by central government and/or international donor agencies ◆ Housing agency or local governments contribute to the investment costs—in cash or kind, e.g., provision of public land, infrastructure, and social facilities ◆ Households contribute both in kind (self-help housing constructions) and in cash ◆ Loans are made available either directly by formal credit organizations—e.g., housing banks—or through NGOs microcredit schemes for purchase of plot and core unit
Roles of NGOs, CBOs, and private sector	<ul style="list-style-type: none"> ◆ Communities are involved during project preparation/design and implementation phases ◆ NGOs assist community organizations and mobilizing resources for constructions as well as loan repayments ◆ Small and micro-scale enterprises provide services (e.g. iron works, plumbing etc.)
Advantages	<ul style="list-style-type: none"> ◆ Creates high-visibility improvements across targeted group ◆ Provides opportunity to introduce diverse construction techniques while providing low-income housing ◆ Can address sectoral policy and institutional reform issues of housing as well as specific intervention formulas for low-income households
Disadvantages	<ul style="list-style-type: none"> ◆ Difficulty of ensuring that targeted low-income groups are reached, due to tendency of construction to incorporate higher-than-minimum affordable design standards.
Impacts	<ul style="list-style-type: none"> ◆ Like slum-upgrading programs, these projects have introduced affordable housing and service standards to permit cost recovery, but only where client consultations are done correctly and taken into consideration by the concerned authorities ◆ They showed that low-income people can contribute both in kind and cash if correct incentives are created
Conditions for success and replicability	<ul style="list-style-type: none"> ◆ Standards have to be modest in accordance with affordability and needs of target groups. Local and/or central public authorities may be reluctant to establish very modest standards for fear of repeating squatter/informal settlement quality. There are project examples where standards are set relatively high and make the products unaffordable for low-income groups but attractive for better-off households. Such projects lead to inefficient use of subsidies while the actual demands of the poor remain unmet. ◆ Eligibility criteria and selection procedures have to be transparent to prevent better-off groups from becoming the main beneficiaries ◆ Structural and policy reforms in housing sector, institutional finance, and urban management are necessary to make projects replicable

Box 4. Private Sector and NGO Roles in Site and Services and Core Housing Projects—El Salvador

State's facilitating role: Since 1989 the state in El Salvador has gone from being the provider of housing for the poor to being a facilitator. Supporting property consolidation and registration, and facilitating new lot divisions under the "Progressive Urban Development Program," are among the major efforts of the state to guide and encourage housing production, especially for low-income households. There is another modality, through which lot divisions are defined and sold to households; this type of division requires only the approval of the concerned municipalities.

NGO activities: The Progressive Urban Development Program has given momentum to NGO activities. Over 15 NGOs work on site and services, and progressive housing, and help households to get loans from FONAVIPO (National Fund for Public Housing). The types of products NGOs produce vary from lots with services to core units (progressive housing) that the owner develops incrementally. Many lot holders build a provisional roof or walls, which they replace little by little with long-lasting materials, and then start to enlarge the living space according to their needs and finances. Experience with illegal settlements and with programs sponsored by the state in El Salvador showed that site and services, and core housing, are more viable solutions to the housing needs of the poor than public provision of finished housing.

Private sector role: A private company, ARGOZ, has been subdividing and selling lots (with or without services) for a decade. According to its president, the company has and sold a total of 250,000 lots throughout the country through its local branches. ARGOZ defines the settlements as "progressive social development plotting," which are divided and registered as rural parceling, according to an article in the *Political Constitution*. Clients are also offered loans for both home improvements and expansions, as well as for other household needs, up to half the amount of the advance payment, at a monthly interest of 3 percent. Prospective clients are asked to fill out a questionnaire about their socioeconomic conditions. Low-income people are given priority as much as possible. The company reserves 18 percent of its profit for basic infrastructure such as street works and electrical connections.

The El Salvador example shows that when regulations are changed to create an encouraging context, stakeholders such as NGOs and the private sector mobilize to provide services and sites for the urban poor. The program carried out by the private sector can be improved to ensure that the poor households are the prime beneficiaries and can be scaled up through more supporting regulatory adjustments and loan mechanisms.

Source: Parada, P.C. 1996.

Table 2b. Land Regularization and Tenure Security Programs

Type	Policy based	
Objectives	<ul style="list-style-type: none"> ◆ Improve tenure security for urban poor ◆ Reinforce improvements in housing through mobilizing community resources ◆ Support development of land and housing markets by establishing property rights ◆ Increase local revenue basis <p>Land tenure regularization schemes are carried out either as a part of slum-upgrading projects or alone, to provide security tenure in particular areas</p>	
Different approaches	<p>Property rights (ownership) Property right (ownership) is provided through various arrangements: land sharing, or direct titling of the plots to the occupants</p>	<p>Use rights Right to use the land is provided, but tenure status is not. In some projects dwellings are given simple place recognition (“addressage”) facilitating access to services</p>
Targeting beneficiaries	<ul style="list-style-type: none"> ◆ Residents of particular slum areas subject to upgrading ◆ Nationwide: for those who occupy public land 	
Financing arrangements	<p>Varies in different types of interventions:</p> <ul style="list-style-type: none"> ◆ Land can be sold to de facto owners with varying level of charges ◆ Mortgage programs can be devised to enable communities to buy the land that they occupy, e.g., Community Mortgage Program in the Philippines 	<p>Generally modest ground rents are charged</p>
Roles of NGOs, CBOs	<p>NGOs may organize communities and help CBOs, and assist with mobilizing savings especially when mortgage programs are involved</p>	
Advantages	<ul style="list-style-type: none"> ◆ Encourages investment in housing construction and improvements ◆ Improves access to formal channels of credit ◆ Widens property tax revenue base of local authorities ◆ Encourages efficiency of land and housing markets and allows transaction of property ◆ Can address sectoral policy and institutional issues 	<ul style="list-style-type: none"> ◆ Makes it easier for the poor to get plots that would otherwise be beyond their means ◆ Decreases likelihood of land price increases and consequent forced moves of tenants ◆ Easy to apply since it does not create political and social conflicts (e.g., rewarding those who break the law) ◆ Simpler to apply in terms of administrative procedures

Table 2b (cont'd.)

Disadvantages	<i>Property rights (ownership)</i>	<i>Use right</i>
	<ul style="list-style-type: none"> ◆ Governments may be reluctant to regularize land tenure for squatters (especially as a nationwide program) as this is seen to be protecting property rights of people who break the law ◆ Issuance of land documents can create considerable conflict, especially in places with multiple forms of property rights such as Indonesia; where squatters paid for a shared title land illegally; or where more than one owner exists for the same land, e.g., Breglumasi program in Tirana, Albania ◆ Property rights can push up land and housing values and may force tenants to move out ◆ Nationwide applications (slum amnesty programs), if not carried out carefully, include all illegal houses, even the ones erected with speculative expectations ◆ Administratively complex and time-consuming for authorities 	<ul style="list-style-type: none"> ◆ Does not provide the user with access to formal credits ◆ Does not contribute to increased revenue basis of local authorities ◆ Conflicting results regarding the contribution to house improvements ◆ Cannot be sold, bought, and bequeathed officially. During economic hardships the property (housing or a part of the land) cannot be transferred into cash easily ◆ Perceived as “less safe” and “less free”
Conditions for success	<ul style="list-style-type: none"> ◆ Cultural context, affordability, and willingness of households should be considered carefully. There are examples (boxes 5 and 6) where property rights do not automatically lead to expected outcomes e.g., increases in housing improvements or increase in property tax revenue ◆ Experiences in some countries show that property rights when offered together with the provision of services stimulate considerable investment in house construction and improvement and increase in local tax revenue for local authorities. 	<ul style="list-style-type: none"> ◆ To mobilize household resources for home improvements, residents should be guaranteed compensation for the houses, if they have to be displaced.
	<ul style="list-style-type: none"> ◆ Systems should be flexible; use rights or protected tenancy rights given initially can be gradually upgraded to full ownership rights, depending on the needs and priorities of communities 	

Sources: Payne 2000; Farvaque and Mc Auslan 1992; WB Housing Policy Paper 1993; Farvaque-Vitkovic and Godin 1998

Where to obtain more information: United Nations Center for Human Settlements (UNCHS—Habitat)—Shelter Branch Tenure Security Program. P.O. Box 30030 Nairobi, Kenya, www.unchc.org.

Box 5. Tenure Security Without Title—Freehold Titles May Not Be a Desired Option

In Egypt a modest ground rent (*hekr*) is charged to informal settlers on government or unclaimed desert land. This does not grant title and cannot be transferred, but it ensures that if households have to be displaced, they will receive compensation for the buildings they have erected on their plots. Such an arrangement distinguishes between the ownership of land and the ownership of the property, and it makes it easier for the poor to get plots that would otherwise have been beyond their means.

During the 1980s, the government of Pakistan offered freehold titles to about 100,000 households living in Karachi's squatter settlements. Only 10 percent eventually took up the offer; the remainder presumably considered the administrative charge for the title deeds not worth paying (i.e., it did not confer sufficient benefit over their situation), or they did not wish to expose themselves to paying property taxes. In Karachi the provision of titles does not generate a corresponding increase in tax revenues. This may be because households that perceive they are secure refuse to pay taxes or perhaps tax rates are too high for these households to afford.

In another case, in Cairo, Egypt, residents of a squatter settlement rejected offers of freehold titles because they considered the cost too high; yet the offer of titles, together with the provision of services, stimulated considerable investment in house construction and improvement and increased land values.

Source: Payne, paper presented in World Bank Urban Forum, April 2000

Box 6. Priorities of the Poor

In conditions of dire poverty, such as in the tenements gardens of Colombo, Sri Lanka, or in places where people prefer to invest in their home villages instead of committing to stay in an urban area (such as in Papua New Guinea), improved tenure has not necessarily increased housing investment. In places where squatters feel relatively secure, they may be reluctant to accept legal tenure for fear of future taxation or of identifying themselves to the authorities, as has been observed in Mexico City.

Source: World Bank Housing Policy Paper, 1993

Finance-based interventions

Table 3a. Municipal Development Funds

Type	Multisectoral—programmatic design (line of funding for subprojects)
Objective	Municipal credit supply; improvement in quality of investment preparation/selection and in municipal creditworthiness
Components	<ul style="list-style-type: none"> ◆ Physical improvements: Potable water, sanitation, solid waste disposal, storm drainage, roads, sidewalks, footpaths, street lighting ◆ Development of marketplaces, other income-generating activities, and social infrastructure ◆ Technical assistance to municipalities in investment programming and fiscal management
Targeting beneficiaries	Eligibility for loans defined by poverty, service deficiencies, community size, etc. Evidence of beneficiary demand and commitment is also a major criterion for the selection of subprojects
Financing arrangements	<ul style="list-style-type: none"> ◆ Loans to local governments ◆ Local government may also contribute up-front to investment costs ◆ Beneficiaries may contribute in kind or in cash
Roles of NGOs, CBOs, and private sector	<ul style="list-style-type: none"> ◆ NGOs can be active in subproject identification, preparation, implementation, cofinancing, and community mobilization ◆ CBOs are involved in defining priorities with municipalities ◆ Private sector involves as contractor for execution of physical works
Advantages	<ul style="list-style-type: none"> ◆ Supports decentralized authority to local governments by providing funding for local investments, i.e., services prepared and prioritized by them ◆ Supports municipal reforms to enhance financial management and creditworthiness ◆ Can set stage for eventual shift to funding local investments through financial market intermediaries
Disadvantages	<ul style="list-style-type: none"> ◆ Programmatic financing approaches can pose a greater risk than area-specific projects of dispersing funds too widely through unrelated small projects, potentially reducing their economic development impact ◆ Requires institutional capacity at local level ◆ MDFs can become highly politicized in credit decisions and thus not promote sound prioritization of investments or sustainability of services
Conditions for success and sustainability	<ul style="list-style-type: none"> ◆ Local governments need to have responsibility and capacity for mobilizing fiscal resources. These types of programs have done better where decentralization has transferred responsibilities for local investment and services, and local revenue mobilization, to municipalities which have also improved their creditworthiness ◆ Experiences have been much better with MDFs that work with the private financial sector ◆ MDFs have been most effective when they serve as transitional arrangements that help city agencies learn to mobilize and allocate resources and serve as the first stage creating a commercially –based municipal credit market ◆ Sectoral departments must cooperate to provide the necessary technical support and evaluation of subprojects ◆ Detailed operational guidelines are required to support municipalities as they plan and implement the subproject ◆ Project loans have to be allocated to each municipality through a transparent formula (e.g., based on population size and/or service deficiencies) ◆ Beneficiaries should be involved and consulted, and as they are expected to contribute financially to cost recovery, they should be told cost implications of alternative investments

Box 7. Different Types of Municipal Development Funds

Two basic types of MDFs:

The first type of MDFs currently more common in the developing world operates primarily as a substitute for government capital grants to local authorities. These programs supply capital through MDFs at below-market rates, often combining subsidized loans with grants. Typically MDFs of this type have a monopoly in lending to the municipal sector. Such MDFs exploit the favorable terms of their loans to impose stricter standards of project preparation on localities and to incorporate central or state government investment priorities in determining which projects should be funded. Credit Local de France and several other MDFs in Western Europe have evolved through financial deregulation from closed-circuit lending institutions, which obtained capital at below-market rates (from state grants) and lent to municipalities at below-market rates, to institutions that compete freely with private-sector lenders.

The second type of MDFs is intended to serve as a bridge to the private credit market. They prepare the municipal and financial sectors for private lending to municipalities. MDFs of this type lend at market rates of interest, allocate capital through arm's-length decisions of commercial banks or other private-sector lenders, require that private lenders assume the credit risk of municipal loans, and try to establish a track record of municipal creditworthiness. One such market-oriented MDF developed in the Czech Republic. There, the MDF borrows fund from abroad, with a national government guarantee, then on-lends the funds to domestic commercial banks, which in turn lend to municipalities. The municipalities do all project selection and preparation. The commercial banks perform all credit analysis and accept all repayment risk. The parastatal MDF merely confirms the creditworthiness of the commercial banks to which it on-lends and makes capital available to nine banks participating in the system, so as to strengthen competition.

The two models of MDFs need not be strict alternatives to each other. MDFs of the first kind normally have been introduced in environments where there is virtually no private lending to local governments and where public authorities believe that private credit markets cannot be developed in the short and medium term.

MDFs have also tried to fund investments for the poor:

FINDETER in Colombia is a market-oriented MDF. It operates as a rediscount facility for commercial bank lending to the municipal sector. FINDETER supplements the banks' project appraisal capacity and thus improves the technical quality of their lending, but the banks take the commercial risk. Unlike some other MDFs, FINDETER has a poverty alleviation mandate that it has tried to fulfill by giving particular attention to institutionally weak small towns and by favoring investments in essential services—water and sanitation mainly.

Source: Urban Finance Colloquium—Summary Report of Habitat II 1995

Tamil Nadu Municipal Development Fund, India:

The World Bank-financed Tamil Nadu Urban Development Project, which included slum upgrading of 72,000 households among other components, set up a loan and grant program as the Municipal Urban Development Fund (MUDF). By October 1996 the government-owned MUDF had financed over 500 subprojects in 90 out of 110 municipalities in Tamil Nadu. Building on that success, in 1996 the MUDF was converted into a new financially and legally autonomous financial intermediary with participation of private capital and management—the Tamil Nadu Urban Development Fund (TNUDF). Restructuring suggests a direction in which existing municipal funds in some other projects may evolve to draw the private sector into small-scale urban investments. TNUDF will be managed by an asset management company, a joint venture between the TN government and private investment companies. The new arrangement is expected to bring private-sector management expertise to the selection and financing of subprojects sponsored by either public or private agencies, and to facilitate access to creditworthy municipalities to the private capital market. It is expected that government's share would be reduced eventually through sale to interested investors and that on-lending interest rates would be made to conform to market rates. A separate grant window for poverty-oriented investments such as slum upgrading and cost of resettlement would also be handled by the asset management company and would provide technical assistance to municipalities in preparing such investments and improving their own financial management.

Source: Tamil Nadu Project Appraisal Document 1999

Table 3b. Social Funds and AGETIPs

<p>Social Funds (Box 2.29)</p> <p>Social funds are nongovernmental intermediaries that normally channel grant resources, according to predetermined eligibility criteria, to small-scale projects for poor and vulnerable groups. The projects are proposed, designed, and implemented by private and public agencies, such as local governments or NGOs, or by the community groups themselves. Only eligibility criteria are laid down when a social fund is established; the individual subprojects are not determined then. Social funds are vested with investment programming powers and enjoy special status, such as exemption from prevailing public-sector rules and regulations relating to procurement and hiring. Social funds select and fund projects. Social funds are typically located in the prime minister's office, president's office, or a line ministry.</p>	<p>AGETIPs (French acronym for Executing Agency for Public Works for Employment)</p> <p>AGETIPs are delegated contract management agencies for public works. While in typical social funds, the social fund agency selects eligible subprojects and channels financing to them, the AGETIP—in addition to performing both of these functions—also prepares and executes the selected subprojects on behalf of the agency sponsoring the subproject. (in most cases a municipality). The sponsoring agency surrenders authority for the execution of the subproject to AGETIP management until delivery of the completed works. Thus, AGETIP management assumes more functions than does the typical social fund agency. However, the newer-generation AGETIPs more often focus on the execution of physical works, and municipalities select the projects. AGETIPs are commercially oriented, not-for-profit private associations usually governed by national NGO or “private association” laws</p>
Type	Multisectoral—Programmatic (line of funding for subprojects)
Objectives	<ul style="list-style-type: none"> ◆ Financing urban services subprojects through an enclave agency ◆ Providing funds for investments on competitive basis, according to rules and eligibility criteria ◆ Generating temporary urban employment through developing community facilities and infrastructure
Components	<ul style="list-style-type: none"> ◆ Physical improvements: Potable water, sanitation, solid waste disposal, storm drainage, roads, sidewalks, footpaths, street lighting, ◆ Economic infrastructure, e.g., development of marketplaces, other income-generating activities ◆ Microfinance (social funds only) ◆ Improvement of dwellings (social funds only) ◆ Social infrastructure and social services: clinics, schools, community centers
Targeting beneficiaries	<p>Eligibility for funding defined by poverty, service deficiencies, community size, etc. Evidence of beneficiary demand and commitment is also a major criterion for the selection of subprojects.</p> <p>Employment during sub-project implementation is generally self-targeted e.g. low income level.</p>
Financing arrangements	<ul style="list-style-type: none"> ◆ Mainly grant transfers to municipalities or other implementing agency ◆ Grants sometimes may be transferred to communities or NGOs directly ◆ Local government may contribute to investment costs ◆ Community or NGO sponsor contributes in kind or sometimes in cash
Roles of NGOs & CBOs, and private sector	<ul style="list-style-type: none"> ◆ NGOs and CBOs Can be active in subproject identification, preparation, implementation, cofinancing, and community mobilization ◆ Private sector carries out physical works (construction) as contractors

Table 3b (cont'd.)

<p>Advantages</p>	<ul style="list-style-type: none"> ◆ Enclave entities like social funds or AGETIPs can fill the gap in situations where the formal government institutions are extremely weak—as in countries emerging from periods of civil or economic crises ◆ Independence from politics/non-politicized character of funds and agencies ◆ Efficiency and responsiveness in funding mechanisms ◆ Cost-effective and timely results (due to contract management expertise, in the case of AGETIPs) ◆ Flexibility: can respond to shifts in demand and priorities of subproject sponsors and adapt criteria based on experience ◆ Permits demand to be expressed across range of subsectors and service levels ◆ Encourages various intermediaries, including NGOs and community groups, to sponsor subprojects and work with formal sector agencies ◆ Supports and strengthens decentralization
<p>Disadvantages</p>	<ul style="list-style-type: none"> ◆ Approach biased against communities lacking capacity to identify priorities and prepare proposals ◆ Does not address linkages among investments within areas of city or across sector networks (e.g., possible efficiencies of coordinating WSS, road works, resettlement, etc.) ◆ Generally lacks emphasis on municipal and sectoral institutional reforms ◆ Inadequate maintenance of finished works ◆ Diversification of social, productive, economic, and income-generating activities can strain the agencies' capacity ◆ Programmatic financing approaches can pose a greater risk than area-specific projects of dispersing funds too widely through unrelated small projects, potentially reducing their economic development impact
<p>Conditions for sustainability and replicability</p>	<ul style="list-style-type: none"> ◆ Appropriateness of the technical standards to which infrastructure is developed or rehabilitated in the light of community demand and the capacity of the organization receiving the subproject ◆ Availability of recurrent budgets, which require complementary sectoral and public finance reforms, as well as mobilizing funds at household, municipal, and national levels ◆ Operations and maintenance requires commitment of sectoral agencies and/or community maintenance committees ◆ Autonomy, transparency, and accountability: social funds and AGETIPs must be largely free from political influences. The best assurance of autonomy remains the agencies' bylaws, operational manuals, and independently selected staff ◆ Capacity building is essential at both community and intermediary level to sustain microprojects. Investments should be made in building organizational capacities of communities, as well as their technical skills ◆ One of the weaknesses of the social funds is not addressing linkages among investments within city or across sector works. However, some second-generation projects are aiming for greater compatibility with sector policy ◆ Better targeting: improving poverty methods of reaching the intended beneficiaries, systematically introducing poverty maps, and revisiting targeting mechanisms ◆ Client and stakeholder consultations: best-practice social funds and works currently include systematic consultations with clients and broader feedback through consultation with stakeholders at town meetings. Community involvement beyond project identification should be ensured ◆ Monitoring outcomes on the ground is necessary

Source: Frigenti et al. 1998. See also **Community Driven Development** (chapter 13)

Box 8. Benin's Variations on Social Fund– and AGETIP-Type Agencies for Urban Public Investments

Organizational structure and division of responsibilities: Two complementary agencies were set up in Benin, SERHAU and AGETUR, to improve the programming and execution of urban public investments. The former was originally a government unit within the Department of Urban Affairs with a mandate in urban planning, grassroots participation, research, and feasibility studies. SERHAU is a mixed public-private and for-profit firm. By design, the shares of the state and parastatal entities are 48 percent of the firm's assets. The other shareholders are private companies and individual investors. SERHAU's service menu includes feasibility and other studies, technical assistance to municipalities, public investment programming for priority microprojects, coordination with ministerial investments in urban areas, simple cadastres at the city and neighborhood levels to improve local resource mobilization and grassroots participation. AGETUR is simply an executing agency that implements works on behalf of the municipality. The reason for this dual setup was twofold: (a) to free municipalities and government from maintaining in-house capacity to plan and program microproject investments; and (b) to separate planning and programming from implementation of urban works. SERHAU has a distinct commercial orientation and sells its services to the private and public sectors. AGETUR operates through the system of contract management. Its institutional autonomy is coupled with business accountability, private management culture, and staff selected competitively from the private sector. For its services AGETUR charges management fees of 4 percent of the amount of the contract. It covers its operating costs with incurred income, and the general assembly decides on the use of any surplus.

Example of a community-driven subproject: SERHAU piloted a bottom-up approach that allied a local NGO and a large low-income community to prepare an improvement plan. The Menontin neighborhood in Cotonou was selected, and the improvement plan covered environmental sanitation, public hygiene, self-care health prevention, a neighborhood clinic, and small, local infrastructure works. The residents identified and partly financed the works, and AGETUR, with the participation of local residents, implemented them. This component illustrates Benin's hybrid use of both a social fund and contract management agency.

Long-term objectives: A key distinction of the Benin program was the inclusion of long-term objectives other than urban employment creation. The long-term objectives were to (a) prepare a public investment strategy in the urban sector; and (b) begin reforms in urban management practices.

Achievements: Benin's two agencies have succeeded because they take a businesslike approach toward small public works. With only 20 employees, AGETUR has created a significant number of temporary urban jobs in the construction sector—about 1 million person-days in four years. Over four years it contacted about 190 microprojects in local facilities, such as roads, sidewalks, drainage, schools, clinics, and other social infrastructure. Seventy-five percent of the projects cost under \$200,000 and are built by local small and medium enterprises. The procurement process was reduced to an average of two months, in contrast to at least seven months in the public sector; and the average turnaround time for paying bills was 12 days, in contrast to more than three months in the public sector. In addition, because of the intense competition that developed among local contractors, the price of a square meter of street paving, for instance, was reduced by at least 20 percent. On the planning side, SERHAU has helped prepare a rolling five-year investment plan and developed an up-to-date "addressage" system to identify all plots and streets. It has also helped the public authorities to locate their infrastructure and identify (through street numbering) their customers.

Less-successful aspects: There has been less progress in the long-term need to increase local fiscal resources, build capacity of local government staff, and develop and maintain a municipal development strategy. The stakeholder assessment in Benin defined other less-successful aspects of this operation: (a) mayors need to be more involved in all aspects of subproject choice; (b) *chef de quartier* should be closely involved to develop greater ownership for maintaining works as well as for long-term sustainability; (c) NGOs and beneficiaries need more maintenance training, and construction firms need more management training; (d) there should be more competition among material suppliers; (e) the financing plan for microprojects must always provide for real grassroots motivation and sensitization.

Source: Frigenti et al., "Local Solutions to Regional Problems," World Bank 1998

Table 3c. Microfinance of Housing and Home Improvements³

Type	Multisectoral—programmatic design (line of funding for housing/home improvement)
Objective	Providing loans for low- and moderate-income households or communities, according to rules and eligibility criteria
Types of subprojects	Incremental upgrading of an existing dwelling or a new core unit
Targeting beneficiaries	Eligibility for funding defined by poverty and lack of access to official/conventional finance schemes
Financing arrangements	<ul style="list-style-type: none"> ◆ Small loans—typically US\$300 to 3,000—at market rates of interest ◆ Amortized over short terms—often two to 10 years ◆ Sources of fund are: government funding; small savings of households; specialized banks like Grameen Bank in Bangladesh; foreign donor funding; savings associations ◆ Loan securities: <ul style="list-style-type: none"> □ Peer pressures/solidarity groups as guarantee mechanisms □ Individual guarantees. In cases where households lacked legal titles, NGOs help them secure small loans through amassing documentation
Roles of NGOs CBOs and private sector	<p>NGOs are generally the key actors in packaging small loans to low-income households. They:</p> <ul style="list-style-type: none"> ◆ Mobilize external and community resources ◆ Preparing plans and costs estimates for construction work ◆ Reconstruct self-employed income ◆ Prepare other necessary documentation for the credit file for loan underwriting <p>Private sector may contribute to lending</p>
Advantages	<ul style="list-style-type: none"> ◆ Enables low- and moderate-income households to improve their housing conditions or become homeowners ◆ Increases the productivity and efficiency of construction: in the absence of complementary inputs, households' stocks of building materials often deteriorate or are diverted/stolen ◆ Loans permit households to save, invest, and use assets more efficiently
Disadvantages	<ul style="list-style-type: none"> ◆ Clients of these systems are more sensitive/vulnerable to macroeconomic structural adjustments, e.g., increases in interest rates, decreases in real wages, than customers of conventional finance schemes ◆ Solving the collateral and credit risk problem (underwriting) at reasonable cost may depend on the legal framework and paralegal practices that govern the rights to property ◆ In many countries the commercial financial sector is conservative and hesitant to lend money for such programs. Bad examples where guarantee mechanisms fail can easily distract people's as well as financial organizations' confidence with microcredit schemes and makes funding even more difficult ◆ Peer pressures and solidarity group guarantee mechanisms may become ineffective in the case of large groups of beneficiaries
Impacts	<ul style="list-style-type: none"> ◆ The projects revealed that the poor are willing to mobilize their own savings and can pay debt services if their needs and constraints are understood and programs designed accordingly. There are concrete examples to convince finance organizations that loans to the poor can work as long as their circumstances and needs are understood ◆ In many countries such programs have enabled poor people to improve their living conditions ◆ Increases the self-confidence of poor households, and especially women
Conditions for success	<ul style="list-style-type: none"> ◆ Changes in relation to the property rights in legal frameworks is required, e.g., acceptance of paralegal practices, to solve collateral and credit risk problem at reasonable costs. ◆ Cultural and social characteristics of the societies should be taken into consideration in designing credit schemes

³Microfinance for SMEs is another type of finance-based intervention, which is covered by SME section of the **Pro-poor Growth** Chapter.

Box 9. Slum-Upgrading, Credit, and Saving Schemes in India

Background information: The Self Employed Women's Association (SEWA) Bank is one of the support services that was developed in response to the demand from the members of SEWA Union. SEWA is a trade union registered in 1972. It is an organization of poor, self-employed women workers in the informal sector. These are women who earn a living through their own labor or small businesses. They do not get salaried employment with welfare benefits. They are the unprotected, informal labor force of India. Constituting 93 percent of the total labor force, these are workers of the unorganized sector. Of the female labor force in India, more than 94 percent are in the informal sector. The Bank is owned by self-employed women through individual shareholdings, and its policies are formulated and ratified with their own elected board of women workers. The Bank is run by qualified managers, who are held accountable to the board. In 1974 SEWA Bank was established with 4,000 depositors. Today over 125,000 poor women are depositors. The Bank's total working capital is currently Rs 210 million. Additional funds of Rs 28.8 million from HUDCO (Housing and Urban Development Corporation Limited) and Rs 27 million from HDFC (Housing Development Finance Corporation) were released recently. Currently SEWA Bank has an average loan repayment rate of 94 percent.

The Mahila Housing SEWA Trust (MHT) was formed in 1994 in response to a growing need from self-employed women. The major objectives of the trust are to improve housing and infrastructure conditions of poor, self-employed women; to create improved access to shelter-related services including credit, legal, and technical advice; and to influence policy in order to provide improved living conditions to self-employed women.

Slum networking project: The urgent need to improve the quality of life of slum dwellers had led to the concept of a pioneering effort called the Slum Networking Project (or Parivartan). Each family has to contribute Rs. 2,100 in the program. In addition, local industries contribute Rs. 2,000 per family and the balance of Rs. 2,000—3,000 per household is provided by the Ahmedabad Municipal Corporation. The aim is to provide a comprehensive service package to every family living in slums, consisting of the following: individual water supply, underground sewerage, solid waste disposal service, storm water drains, internal roads and paving, street lighting, and landscaping. To date 18 slums have been identified for upgrading and two pilot cases, Sanjay Nagar and Sinheswari Nagar, have been completed. Two factors are critical to the program's success: (a) "buy in" concept, on a basic level, unless each household living in the slum pays its portion of cash contribution, the physical work is unable to move ahead; (b) the provision of financial and credit-related services by a credible financial institution, respected and trusted by the community. SEWA Bank was appropriate financial intermediary for the program, playing the dual role of centralized cash collection point prior to the handover to the corporation, as well as providing credit to meet individual contributions, where necessary.

Credits: Each family had to contribute Rs. 2,100 for the program, in cases where residents cannot accumulate the full amount, they have accessed loans from SEWA Bank up to Rs. 1,600. Loans have to be repaid in minimum monthly installments of Rs. 100, or as a lump sum. Interest (at 13 percent) is calculated on an outstanding balance basis. Most of the women in one of the pilot areas (Sinheswari Nagar) who have taken loans to meet their cash contribution are widows and thus economically worse than off than others.

Individual initiatives: In addition to slum-upgrading network program participants, there are many instances throughout Ahmedabad, where the poor have begun to pay voluntarily to install drinking water and/or sanitation facilities. SEWA Bank has facilitated this process by disbursing loans to individual women, who wish to upgrade their existing infrastructure facilities. Panna Lal ki Chali in Saraspur area of Ahmedabad is one such slum area, where a number of SEWA Bank depositors have taken loans to build their own toilets. Loan amounts vary from Rs 3,000 to Rs 3,500. Engineers from the Mahila Housing SEWA Trust provide the technical supervision for building the toilets.

Mobilization of savings: Mahila Housing SEWA Trust field workers have been visiting Sinheswari Nagar since 1996 urging residents to save. Thus, when physical upgradation work began in August 1997, residents were ready, their contribution safely deposited in individual accounts at SEWA Bank.

Source: UNDP-World Bank Water and Sanitation Program: South Asia Region Field Notes