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Enabling private investment in informal settlements

Exploring the potential of community finance

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About ICED

Infrastructure and Cities for Economic Development (ICED) is DFID's catalytic, flexible facility designed to accelerate DFID's infrastructure and cities initiatives across the world to contribute to poverty reduction and to resilient, inclusive and transformative economic growth.

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Climate & environment, political economy analysis, and gender & inclusion cut across these sectors and the ICED facility works to ensure that they are effectively mainstreamed as part of technical programming.

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Executive summary

With around 1 billion urban residents living in informal settlements across the global South, there is an urgent need to reconsider how development is targeted and financed in order to improve access to housing and to adequate water and sanitation. The level of resources needed to meet demand for housing and service infrastructure significantly exceeds existing public and private sector expenditure. Yet meeting this challenge is not just financial. **It requires rethinking how urban development is structured** to create an investment environment where all available resources and capabilities can be mobilised.

Across the global South, low-income communities have come together to create schemes at city and national level to compensate for a lack of access to financial services and to **build collective assets to support the construction of affordable housing, water and sanitation**. This provides a platform to overcome barriers to private-sector involvement in the development of informal settlements. Community finance provides the human and organisational capacity to address the difficulties and associated risks that deter lending, capital investment and large-scale delivery of infrastructure programmes that may benefit residents of low-income communities.

Organised communities supported by Shack/Slum Dwellers International (SDI) and the Asian Coalition for Housing Rights (ACHR) are active in over 600 cities across the globe, have over 800,000 members that regularly save money, and have a financial asset base of some US$70 million. More important than the financial value, these groups undertake **enumerations and mapping of informal settlements that generate vital information** on the structure and population of urban communities, an invaluable aid to effective and inclusive planning. They organise communities to co-produce services with municipal government, **reducing the investment needs associated with core infrastructure**. These groups also have strong international networks that share knowledge, innovate and leverage funding from international donors for community-led development schemes.

Community finance capacities have been used effectively to deliver collaborative programmes with state and private-sector organisations, as detailed in the case studies from Kenya, India and Thailand in Section 5. There is, however, much **broader potential for collaboration and risk reduction** to be achieved by community and private-sector organisations working together. Three areas of opportunity are identified as particularly important.

- **The extension of financial services to low-income communities.** Formal saving and lending services could support group housing and livelihood initiatives for residents of informal settlements. Formal financial institutions could also provide investment capital for urban housing and infrastructure projects. Community finance provides a capacity to facilitate household contributions and mitigate real and perceived risks associated with under-served markets, ranging from management of loan repayments through to co-financing investment capital. To realise this opportunity, there is a need to generate evidence on the performance of existing community-led initiatives, and to explore the potential for states and donors to provide guarantees and subsidies that could attract commercial banks.
- **Leveraging investment in low-income housing.** Private-sector participation in affordable housing construction has been limited by the perceived difficulties, risks and low returns associated with investments in informal settlements. Many community finance organisations have significant land holdings or control access to key city-centre sites, but lack the capital to drive development of housing and mixed-use schemes. There are clear opportunities for profit and pro-poor benefits from collaborations that make full use of existing assets and capabilities. To exploit the available potential, further work needs to be done to map land holdings and development opportunities, refine the financial model to deal with issues of affordability and risk assessment and mitigation, and identify partnership arrangements with interested impact investors. There is a further potential value in improving access to capital finance guarantees at city level through regional development banks and national housing banks.
- **Enabling infrastructure investment and improving its efficacy**. The scale and complexity of infrastructure investment in cities of the global South provides a major challenge for governments and development agencies. Issues include a lack of knowledge about urban populations, limited access to informal settlements for prospective investors, and the difficulty of negotiating with multiple stakeholders in the context of unclear ownership. Information gaps and communication lines can be established using community finance institutions, which have established consistent and transparent practices to involve the community in planning and delivering infrastructure improvements. Existing examples demonstrate the wide-ranging benefits of collaboration, which could be further enhanced by evaluating and experimenting with models of co-productive practice to show how costs and efficacy can be improved through joint working between states, communities and the private sector.

Cities in the global South are struggling to develop models and practices that help to realise the economic gains of urban population growth. It is clear that existing ways to finance urban development are insufficient to meet the scale of the challenge. It is also clear that **solutions will only be found through inclusive discussions** that push against established approaches to development. Communities need to be involved in planning and delivering urban development to ensure equitable distribution of benefits, but moreover because **communities are essential stakeholders in the future of cities**. Working with community finance structures offers an opportunity to reduce the risks associated with formal, private-sector provision of financial services, housing and infrastructure in low-income areas, while generating wider social and economic returns to urban residents.

1 Introduction

More than 880 million urban residents lived in informal settlements in 2014. This included nearly 60% of the urban population in sub-Saharan Africa and more than 30% of the urban population in South Asia.[1] Informal settlements are defined by the absence of secure land tenure, durable housing, adequate living space and affordable access to improved water and sanitation. As a consequence of these conditions, residents of informal settlements experience poor health, reduced income and vulnerable livelihoods that deny both the country and its citizens the productivity gains historically associated with urbanisation, and which limit development options.

Addressing the economic, social and environmental challenges faced by urban centres in the global South will require substantial investment. One estimate suggests that the expenditure gap in public and private investment to deliver the Sustainable Development Goals is some US$1.4 trillion per year, with most of the shortfall in low- and lower-middle-income countries.[2]

However, commercial banks, utilities and other private actors are often unwilling to operate in informal settlements due to perceived and actual difficulties that reduce the anticipated profitability of providing financial and other services. These barriers include:

- **Illegality and informality** that reduce the value of assets.
- **Local politics** that threaten the delivery of development schemes and make it difficult to extract both assets and revenues.
- **Lack of short-term returns**.

Policymakers therefore need to find ways to reduce risks and improve returns for corporate and institutional investors to mobilise private investment in under-served parts of the city.

We argue that stakeholder partnerships including domestic and international public finance can help to meet this deficit and secure more inclusive urban outcomes. Once appropriate models are developed, there will be substantial opportunities for private investment to accelerate infrastructure provision and service delivery. Forging new approaches is a substantial challenge to public- and private-sector practice, but is essential to delivering transformative change across the global South.

[1] UN-Habitat. 2016. *World cities report 2016: urbanization and development.* United Nations Human Settlements Programme. Nairobi, Kenya.
[2] Schmidt-Traub, G. 2015. *Investment needs to achieve the sustainable development goals: understanding the billions and trillions*. United Nations Sustainable Development Solutions Network. http://unsdsn.org/wp-content/uploads/2015/09/151112-SDG-Financing-Needs.pdf

In this paper, we explore the potential of community finance to enable private investment in informal settlements of Asia and Africa. Community finance refers to the savings and collective capacity of residents of low-income communities, working together. Community finance is founded on women-led savings groups within informal settlements, which are formed among neighbours who are unable to access formal financial services. These savings groups, typically of around 30 members, collect small deposits of money daily to enable savers to cope with unexpected shocks or loss of livelihoods, meet the cost of healthcare or education, and save for housing improvements.

Many of these savings groups belong to federated networks of slum and shack dwellers, where savings are pooled to create revolving funds at the city and national level. The **financial resources of thousands of savers** are thereby brought together to finance public goods and to lever state and donor funding, blending multiple sources of finance to deliver housing and infrastructure for the urban poor.

The community savings model provides a **basis for collective action** in low-income settlements. The creation of a financial asset and human capacity can be used to contribute to, leverage or fill gaps in public- and private-sector resources in ways that initiate or enable development. The co-production (i.e. joint planning, managing or financing) of water, sanitation and housing with the state has long been an important element of community finance. Similarly, the enumeration and mapping of informal settlements by residents can document patterns of land use, which generates the data needed by those agencies involved in upgrading to navigate the politics of informal spaces.

Section 2 introduces urban community finance to show **how it is overcoming practical and procedural barriers** to upgrading informal settlements. Community finance contributes to the provision of low-cost housing and basic infrastructure, thereby demonstrating the potential to reduce asset poverty and bridge the divide between the formal and informal sectors. Section 3 provides an overview of private finance and forms of private investment important for urban development. Section 4 explores three particular opportunities for private actors to partner with community finance organisations.

- **The extension of financial services to low-income communities.** Working with savings groups offers significant opportunities for commercial banks to reduce the risks associated with mortgage and livelihood lending to informal settlements.
- **Leveraging investment in low-income housing.** Communities often have significant inner-city land assets and public authorities may provide subsidies for low-income housing and infrastructure. Partnerships between community and private property developers could enable the joint development of land,

with businesses providing investment capital in return for satisfactory risk-adjusted returns.

- **Enabling infrastructure investment and improving its efficacy.** Construction firms and utilities can plan and deliver core urban infrastructure (transport, water, electricity) with reduced risks where grassroots organisations help to engage and manage relations with low-income community members, thereby reducing costs and construction delays.

Section 5 presents case studies of how state-market-community partnerships from India, Kenya and Thailand have worked in practice. Section 6 concludes by highlighting the potential of community finance to create an enabling environment for private investment, release the capabilities of organised communities to contribute to inclusive urban development, and ultimately lay the foundation for more productive, inclusive and equitable cities in the longer term.

2 Community finance

Community finance takes a number of forms, depending on the context and the specific aims of the individuals and groups involved. Broadly, community finance has the following characteristics.

- **A savings scheme is formed by its members to create collective financial capital.** Funds can be used for a number of purposes, including to support individual members in need and for the delivery of joint development projects. The collective character of community finance excludes individualised forms of saving and borrowing, for example through microfinance personal borrowing.
- **The management and control of community finance is led by its grassroots members.** Savings schemes and collective funds have clear frameworks of accountability and joint decision-making, which involve members in determining the most effective and sustainable means of realising development goals. Community finance has embedded systems of subsidiarity and network oversight in the management of savings and investment.
- **The operation of community finance reinforces the agency of low-income communities to deliver transformative development.** The common purpose and strong bonds of trust between people provide the foundation for collective action.

The basis of community finance is multiple small savings schemes, created among neighbours and friends, that construct a financial resource and service that is otherwise unavailable. Savings schemes are predominantly established and run by women as a means to cope with low and unstable earnings and as a response to their inability to keep savings safe in the home. The operation of savings schemes is both structured and informal, with members required to play an active part in the collection, banking and auditing of money. All financial transactions are recorded in the books of individual savers, as well those of the group's collector and treasurer. The treasurer keeps all bank receipts, which are audited weekly to reconcile the collection and withdrawal.[3] This approach builds **clear mechanisms of accountability within savings groups**, as well as creating a platform for disseminating information and collective decision-making about loans and investments.

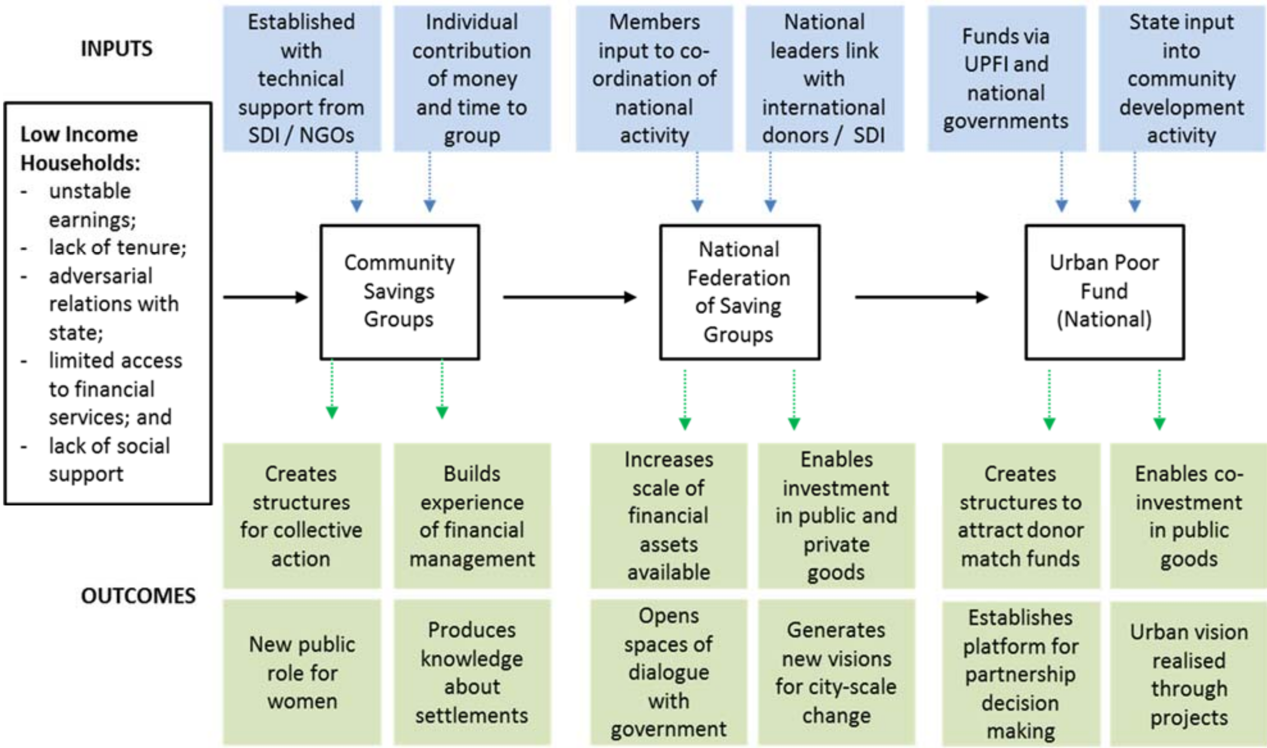
[3] D'Cruz, C and Mudimu, P. 2013. Community savings that mobilize federations, build women's leadership and support slum upgrading. *Environment and Urbanization* 25(1) 31–45. http://journals.sagepub.com/doi/full/10.1177/0956247812471616; Mitlin, D, Satterthwaite, D and Bartlett, S. 2011. *Capital, capacities and collaboration: the multiple roles of community savings in addressing urban poverty*. International Institute for Environment and Development. London, UK. http://pubs.iied.org/10611IIED

Although these savings groups form among neighbours, they often federate at city and national levels. The process of forming savings groups and growing a national movement of slum dwellers (as illustrated in Figure 1) is centred on **building structures of mutual support**. This relational asset is formed within communities – among members and with support organisations – and externally with state and commercial partners. These relationships create capabilities to act:

- **Organise** for collective action.
- Make **joint decisions** on difficult issues.
- Obtain **commitment and support** from individual households.
- **Negotiate** as a constituency of urban residents.

Notably, the aggregation of savings at a city or national level also creates a significant financial asset – an Urban Poor Fund[4] – that communities can use to issue loans or make collective investments in public goods. These Urban Poor Funds have proven capable of attracting grants and concessional loans from domestic governments and donor organisations.

Figure 1. The evolution from community savings groups to Urban Poor Funds[5]



[4] Also called City Development Funds. See: Archer, D. 2012. Finance as the key to unlocking community potential: savings, funds and the ACCA programme. *Environment and Urbanization* 24(2) 423–440. http://journals.sagepub.com/doi/abs/10.1177/0956247812449235
[5] Adapted from: Shand, W. 2017. *Local-level finance: improving the accountability and effectiveness of urban development programmes*. International Institute for Environment and Development. London, UK. http://pubs.iied.org/10176IIED

Communities and national federations have worked to address their members' needs and contribute to **building inclusive cities**. The practices of enumeration, co-production and international networking are particularly pertinent to discussions about enabling private investment because they fill information gaps and establish stable structures to allow alignment of people and resources to drive development in complex urban environments.

The **enumeration and mapping of informal settlements** is a tool to build knowledge and networks. It has two important functions: the collection of detailed information on households, buildings and infrastructure within informal settlements, and the involvement or 'mobilisation' of residents in decision-making processes. The outputs of enumerations – geospatially tagged maps, censuses and other information – enables informal settlement dwellers to be formally recognised by city authorities, who lack any robust data on the size, composition and population of these areas.

Enumeration outputs provide the **evidence for negotiating** in situ housing upgrades. For example, the Local Board of Epworth (Zimbabwe) used the enumeration conducted by the Zimbabwe Homeless People's Federation to develop an in situ upgrading plan for an area with high levels of informal housing. The community data were superimposed on satellite images and linked to geographic information systems (GIS) spatial data, and could be used to inform the regularisation of plots for more than 6,500 households.[6] In many cases, the outputs of enumeration and mapping have been **formally recognised by government agencies** who may have staff working alongside community enumerators. The South African SDI Alliance, for example, has secured two government tenders from the provincial Department of Human Settlements to profile and enumerate 1,500 households in informal settlements to inform citywide urban planning.

The **co-production** of housing, services and infrastructure has proven an effective way to manage the challenges of demand and affordability by using the capabilities and resources existing within informal settlements. Co-production refers to the **joint production of public services by citizens and state**, with any one or more elements of the production process being shared.[7] In the context of informal settlements, co-production most commonly describes partnerships between municipal authorities and residents organised through savings groups. These partnerships allow organised communities to obtain support (such as secure tenure, engineering expertise or machinery) to incrementally improve housing, services and

[6] Chitekwe-Biti, B, Mudimu, P, Nyama, GM and Jera, T. 2012. Developing an informal settlement upgrading protocol in Zimbabwe – the Epworth story. *Environment and Urbanization* 24(1) 131–148. http://journals.sagepub.com/doi/abs/10.1177/0956247812437138
[7] Mitlin, D. 2008. With and beyond the state – co-production as a route to political influence, power and transformation for grassroots organizations. *Environment and Urbanization* 20(2) 339–360. http://journals.sagepub.com/doi/pdf/10.1177/0956247808096117

infrastructure in situ. Upgrading is funded through savings blended with public finance or development assistance, with communities retaining control over targeting and delivery of investment.

One example of co-production is the housing upgrading programme being delivered in Dzivarasekwa Extension, a low-income settlement 20km west of the city centre of Harare in Zimbabwe. Local residents, supervised by city council engineers, dig trenches and lay piping for water and sanitation that connect households to the reticulated mains system. The use of **local labour significantly reduces the cost** of installing infrastructure and ensures household connection to mains provision.[8] The programme is funded by the Bill and Melinda Gates Foundation, Zimbabwe Homeless People's Federation's Gungano Urban Poor Fund and the City of Harare Council.

The scaling of national savings programmes, enumeration and co-production has been enabled by the creation of **international networks of the urban poor**. Groups including SDI and the Asian Coalition for Housing Rights (ACHR) support and reinforce national and local activity by providing technical support, joint advocacy, sharing experience and providing access to state and donor funding (see boxes 1 and 2). SDI established the Urban Poor Fund International (UPFI) as a vehicle to direct capital funds, available from large international charitable foundations, to support national federations to deliver targeted housing, infrastructure and environmental improvements.[9] The fund is flexible, offering loans, grants and bridging finance to national SDI federations where these funds are a catalyst for larger-scale public and private investment. When compared to mainstream development budgets and broken down to national and city level, the cash value is very small. However, the impact is significant when seen as leverage for donor and state income, and as a means to release the organisational and human resources of community members.

The support of city and national governments is central to the success of community-led programmes in informal settlements. The residents of these neighbourhoods are economically and politically marginalised, and must therefore build relationships with politicians and government officials to dismantle institutional barriers to securing tenure and delivering services in informal settlements. In best-case scenarios, the state can establish policies and financing mechanisms to supplement the efforts of organised communities. Active dialogue helps to overcome mistrust, build understanding and **devise new solutions to long-standing development challenges**. Where trusted relationships are established as in Thailand (see Section

[8] Shand, W. 2014. What are the institutional implications of co-production as a strategy for development? PhD thesis submitted to the University of Manchester. www.research.manchester.ac.uk/portal/files/54563823/FULL_TEXT.PDF
[9] See http://upfi.info/about

5.3), these can bring important benefits to both communities and the state in reducing urban poverty.

Communities from across the global South have made important contributions to **generating investment funds for urban development**, and have formed new partnerships with public and private organisations. However, the resources available to communities are insufficient to address the scale of investment required. Community finance now needs to connect with commercial banks, property developers, engineering firms and other private-sector companies interested in investing in the global South. But before large-scale private finance can be secured, new models need to be developed to reduce the risks for all of those involved.

Box 1. Shack/Slum Dwellers International (SDI)

SDI is a global network of grassroots organisations of the urban poor, founded in 1996. Membership is made up primarily of people belonging to women-led savings schemes based in informal settlements with insecure tenure and inadequate shelter. SDI members have a shared approach that uses community savings to strengthen neighbourhood social capital; peer exchanges to build the skills, ambition and confidence of the urban poor; and federation structures to institutionalise learning and negotiate political deals with local, city and national governments.

SDI federations have 414,679 savers across 492 cities in 32 countries.[10] The federations have achieved a nationwide presence in Botswana, Brazil, Ghana, India, Kenya, Malawi, Namibia, Nepal, the Philippines, Sierra Leone, South Africa, Sri Lanka, Tanzania, Uganda, Zambia and Zimbabwe, and have worked with governments to secure and develop land for the urban poor. In 2013, SDI reported a total of US$17.29 million locally held as savings, outstanding loans and repayments plus a further US$18.5 million in national Urban Poor Funds.[11]

By the end the 2015/6 financial year, SDI federations had completely enumerated and mapped the informal settlements of 90 cities across Asia and Africa. The process of profiling these settlements informed the specific interventions identified in Table 1, as well as urban planning in partnership with municipal authorities.

[10] SDI. 2016. *Annual Report 2016: 20th Anniversary Edition.* Shack/Slum Dwellers International. Cape Town, South Africa. http://knowyourcity.info/wp-content/uploads/2016/11/SDI-Annual-Report-2016.pdf

[11] SDI. 2014. *SDI Annual Report 2013–14*. Shack/Slum Dwellers International. Cape Town, South Africa. http://knowyourcity.info/wp-content/uploads/2015/04/SDI_Annual_Report_2013-14.pdf

Box 2. Asian Coalition for Housing Rights (ACHR)

ACHR is a regional network of civil society groups, urban development professionals and grassroots organisations of the urban poor. It was founded in 1989 to enable these organisations to work collaboratively to improve conditions in informal settlements. ACHR provides these organisations with a shared framework for grassroots leadership and advocacy on housing and urban development, championing communities as expert and capable delivery agents.

ACHR savings groups have 399,686 savers across 206 cities in 16 countries: Afghanistan, Bangladesh, Cambodia, Fiji, India, Indonesia, Lao PDR, Mongolia, Myanmar, Nepal, Pakistan, the Philippines, South Korea, Sri Lanka, Thailand and Vietnam. By the end of 2014, these groups had collectively saved US$33,944,572.[12] In all 206 cities, citywide community surveys are being conducted, and these surveys are being used to identify, prioritise and plan settlement-upgrading projects. These projects are then carried out by community people themselves, in partnership with municipal authorities. Between 2009 and 2014, community savings contributed US$12.54 million to big housing projects, supplemented with contributions of US$4.97 million. These resources successfully leveraged US$84.18 million from governments.

These projects involve the establishment of joint development committees, which offer new platforms for low-income communities to work with municipal authorities to deliver upgrading and housing initiatives. In many cases, committees have evolved into City Development Funds (CDFs) that are jointly managed by community organisations and municipal authorities. While initially capitalised by household savings, governments now contribute an average of 10% of CDF capital in ACHR cities. These monies are in addition to in-kind contributions such as technical assistance, building materials, the loan of heavy construction material, land for housing and infrastructure such as paved roads, drains, sewers, electricity and water connections (see also Table 2).[13]

[13] Ibid.

Table 1. Cities and savers in SDI network, 2016 and households benefiting by project type[14]

	Asia	East Africa	Latin America	Southern Africa	West Africa	Total
Cities	105	51	6	290	40	492
Savers	59,741	165,235	1,083	152,550	36,070	414,679
Number of households benefiting from projects:						
Water	32	36,643	4,564	136,212	7,742	185,161
Sanitation	158,712	22,330	4,612	32,293	1,421	60,656
Housing	10,770	402	1,511	21,949	199	49,645
Drainage	-	13,350	584	19,158	300	33,402
Waste management	-	352,346	584	41,118	4,000	398,048
Re-blocking	29	200	-	47,435	2,010	49,645
Energy	-	-	-	18,520	-	18,520

Table 2. Number of savers, value of savings and households benefiting from ACHR projects by country, 2009–2015

	Number of savers	Value of savings (USD thousands)	Number of households got loans	Number of households got secure land tenure
Afghanistan	997	4,505	*No capital projects between 2009 and 2014.*	
Bangladesh	117,102	2,629,959	172	969
Cambodia	14,304	589,508	721	3,407
China	-	-	10	10
Fiji	39,565	245,220	345	5,525
India	1,794	84,652	67	1,035
Indonesia	2,853	77,218	856	3,418
Japan	-	-	9	0
Lao PDR	96,941	17,568,951	656	1,210
Mongolia	7,478	107,555	229	36
Myanmar	3,826	262,231	*No capital projects between 2009 and 2014.*	
Nepal	13,450	1,958,186	525	877
Pakistan	3,806	73,880	839	19,702
Philippines	22,016	757,091	2,578	8,216
Sri Lanka	11,716	3,871,029	601	980
South Korea	115	25,242	*No capital projects between 2009 and 2014.*	
Thailand	17,074	2,093,111	1,193	3,552
Vietnam	46,649	3,596,233	498	797
TOTAL	**399,686**	**33,944,572**	**10,280**	**49,356**

[14] SDI. 2016. *Annual Report 2016: 20th Anniversary Edition.* Shack/Slum Dwellers International. Cape Town, South Africa. http://knowyourcity.info/wp-content/uploads/2016/11/SDI-Annual-Report-2016.pdf. Note that these figures are underestimates as they do not include the housing and services that have been provided by others as a result of SDI affiliate negotiations.

3 Private finance

Global infrastructure spending is forecast to grow from US$4 trillion in 2012 to more than US$9 trillion in 2025.[15] Much of this investment is likely to bypass informal settlements, or be less effective within them. **Even small shifts in the way that these resources are allocated** could have an enormous impact on low-income communities in urban areas. Most of this will be financed by domestic public and private actors, although international public finance remains crucial in low-income countries.

Community finance is perceived by the private sector as being high risk and carrying high transaction costs. Due to a limited experience of collaboration within the private sector, the structures and processes of decision-making adopted by community savings schemes can appear complex and inconsistent with the regulatory requirements for financial institutions. Because a lack of knowledge deters investment by conventional capital, it is **important to examine forms of private investment** in order to identify potential areas of partnership activity.

3.1 Types of private investors

Investors are generally divided into two categories: individual investors and institutional investors, with the latter group including commercial banks and charitable foundations deploying private finance and foreign direct investment.

Financial systems in many developing countries have historically relied primarily on the banking sector. Credit issued by commercial banks tends to be short term with high interest rates. This means it is ill-suited to financing longer-term community finance projects. In addition, gross savings rates in many low-income countries remain significantly below the amount necessary to support sustained, large-scale domestic investment.[16]

However, in the global South, the **presence and diversity of institutional investors** has been growing over recent decades. Pension funds in emerging markets are estimated to manage US$2.5 trillion in assets, and a sizable portion of these portfolios is invested in domestic sovereign debt.[17] Some national pension funds have also been investing directly in national or regional infrastructure, including in South Africa, Ghana, Chile, Mexico and Peru.

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[15] PwC. 2016. *Capital project and infrastructure spending: outlook to 2025.* PwC. www.pwc.com/gx/en/capital-projects-infrastructure/publications/cpi-outlook/assets/cpi-outlook-to-2025.pdf
[16] ICESDF. 2014. *Report of the Intergovernmental Committee of Experts on Sustainable Development Financing*. United Nations. New York, USA. www.un.org/esa/ffd/wp-content/uploads/2014/10/ICESDF.pdf
[17] Inderst, G and Stewart, F. 2014. *Institutional investment in infrastructure in developing countries: introduction to potential models*. World Bank. Washington DC, USA. http://documents.worldbank.org/curated/en/238121468325297049/pdf/WPS6780.pdf

Table 3 provides a brief overview of the most common types of investors and their time horizons, risk appetites and liquidity needs.

Table 3. Types of private investors[18]

Client	Time horizon	Risk tolerance	Liquidity needs
Individual investors	Varies	Varies	Varies
Endowments and foundations	Very long term	Typically high	Typically quite low
Banks	Medium	Low	Low, as debt or loan arrangement. If speculative investments for funds, liquidity needs are high to meet repayment of deposits
Insurance companies	Short term for property and casualty insurance; long term for life insurance companies	Typically low	High to meet claims
Investment companies	Varies by fund	Varies by fund	High to meet redemptions
Private equity	Long term	Medium to high	Medium (usually 5–15 years exit expectations in frontier markets)

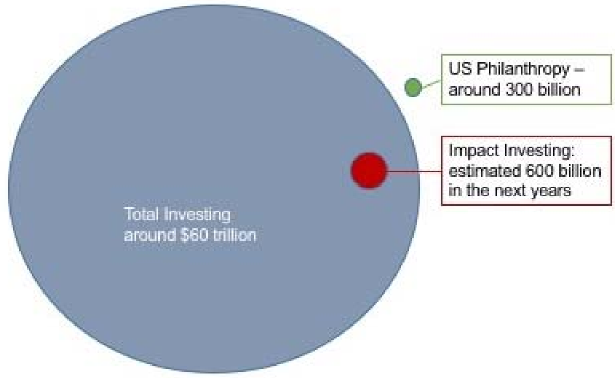
Although community finance has not been conventionally eligible or attractive to these private investors, an increasing supply of capital combined with a shift towards socially responsible investment offers avenues to explore alternative financing mechanisms for urban development. **Socially responsible investment** is a term that combines a variety of investors that are not only seeking a financial market return, but are also motivated by creating value (value-based investments) and increasing social impact (impact investing).

Some of the largest global asset management firms have committed to adopt and implement responsible environmental, social and corporate principles in their investment practices, where consistent with their fiduciary responsibilities.[19]

As these financing streams increase, the **potential for social and economic returns at scale** will make community finance an increasingly attractive proposition to emerging value-based and impact investors (see e.g. Figure 2).

[18] Chartered Financial Analyst Institute. 2017. *CFA Level 1, Portfolio Management*.
[19] UN PRI. 2017. *About the PRI.* United Nations Principles for Responsible Investment. London, UK. www.unpri.org/about

Figure 2. Size of the impact investing market[20]



3.2 Types of private capital

Table 4 provides an overview of the spectrum of capital for socially responsible investments. The column furthest to the left describes a traditional, finance-only approach compared to the right, where impact is more important than return. As ethical investment focusing on **environmental, social and governance (ESG) impact** becomes mainstreamed, socially responsible investors seek to reduce 'negative externalities' that occur as a result of a company's operations. Thereafter, investors begin to make financial decisions to **ensure positive social and environmental outcomes**. Table 4 shows how the broad category of 'impact investors' encompasses some private actors who expect a competitive financial return, some who accept below-market returns to achieve impact, or others who may be willing to innovate with projects where financial returns are not yet proven.

Table 4. Spectrum of private capital[21]

Finance only ←			→	*Impact only*
Traditional	**Responsible**	**Sustainable**	**Impact**	**Philanthropic**
Limited or no focus on ESG targets beyond regulatory requirements and fiduciary responsibilities	ESG operationalised to protect value by reducing risks associated with harmful practices and projects	ESG operationalised to enhance value through adoption of progressive practices	Addresses ESG issues that may or may not generate satisfactory financial returns for investors	Focuses on areas of social and environmental need that require 100% financial tradeoffs
Competitive returns				
	ESG risk management			
		ESG opportunities		

[20] Data from: Arabella Advisors. 2015. *Essentials of impact investing: a guide for small-staffed foundations*. www.arabellaadvisors.com/wp-content/uploads/2016/11/Essentials-of-Impact-Investing.pdf

[21] Adapted from Bridges Ventures. 2012. *The Bridges spectrum of capital: how we define the sustainable and impact investment market.* http://pfc.ca/conference2016/wp-content/uploads/2017/02/impact-investing_bridges-ventures_how-we-define-the-market-2015.pdf

Initially, given the risk and return profile of the different investors, **community finance is likely to attract impact investors** that are willing to take below-market returns or invest in models where returns are unproven. These include predominantly specialised impact investing funds such as Oikocredit and Actis. SDI and ACHR have already demonstrated their appeal to philanthropic foundations, having received generous support from the Bill and Melinda Gates Foundation, the Skoll Foundation and the Sigrid Rausing Trust.

Another way of thinking about attracting impact capital into community finance is through analysing the different asset classes and targeting investors within a certain spectrum, for example bank finance for debt, philanthropy capital for grants and angel investors for equity investments.

To facilitate private-sector experimentation and innovation with different financing mechanisms, the state may have to contribute development capital, i.e. public investment made in the private sector to achieve social objectives. Development capital follows a double-bottom-line approach by seeking modest financial returns alongside **significant development impact**.[22] One of the primary ways in which development capital achieves scale is through demonstrating or increasing the viability of **new technologies and business models** that could also deliver social returns.

While the perceived risks associated with community finance will remain too high to attract traditional investment in the near term, **strategic use of development capital could help attract impact investors**. These investors can bring financial and legal expertise to help structure projects that could reduce the risks currently associated with community finance, as well as providing a platform for community organisations and municipal governments to build relevant experience and capacities. The following sections outline some opportunities for community finance organisations to **improve risk-adjusted returns and de-risk investments** to take advantage of the growing opportunities that are opening up on the impact-investing spectrum.

[22] DFID. 2015. *Development capital: catalysing investment to benefit poor people*. Department for International Development. London, UK.
www.gov.uk/government/uploads/system/uploads/attachment_data/file/445502/DevCap_approach_paper_FINAL.pdf

4 Improving risk-adjusted returns in informal settlements

Between 1990 and 2015, the number of urban dwellers grew from 2.3 billion to 4 billion people. Cities and towns are now home to some 54% of the world's population. While global urban growth has been uneven, increases have been concentrated in Asia and Africa and often in towns and cities that are least able to cope with growing demand for land, housing and infrastructure.[23]

Achieving human development goals and realising the economic potential of cities will demand **large-scale investment in housing and infrastructure, including informal settlements**, where sufficient provision is needed for low-income urban residents. National governments, municipal authorities and donors do not have the resources to fund this alone, so there is an urgent need to attract private capital to fill the financing gap. However, such investments are currently viewed as being high risk or offering low returns.

Both returns and risks can, in many cases, be improved through collaborations between grassroots organisations, the state and private actors. The following section identifies **potential opportunities for collaboration between private and community agencies**, with a focus on risks and returns in financial services, housing development and large-scale infrastructure (see Table 5). This is a preliminary overview intended to stimulate dialogue and generate further exploration of opportunity.

4.1 Expanding financial services to the urban poor

The World Bank states that 2 billion people do not use formal financial services and more than 50% of adults in the lowest-income households are 'unbanked'.[24] This is because conventional models and procedures used by formal financial services create barriers for low-income households to set up bank accounts and access credit. Despite the large demand for financial services among people with low incomes, perceived risks associated with unstable earnings, lack of credit history and limited collateral deter business innovation in this sector. Many mainstream financial institutions also consider that providing these services can be high cost and low profit when traditional approaches are taken.

Where low-income individuals are unable to access formal financial services, informal arrangements (such as community finance) provide a means to save,

[23] UN-Habitat. 2016. *World cities report 2016: urbanization and development.* United Nations Human Settlements Programme. Nairobi, Kenya. http://wcr.unhabitat.org

[24] World Bank. 2017. *Financial inclusion*. www.worldbank.org/en/topic/financialinclusion

borrow and create assets to improve access to services and housing. Community finance arrangements are attractive to people with low incomes because of:

- **Ease of access**, with little requirement for formal identity documents and no upfront administration charges.
- **Ready access to savings** when needed for emergency situations.
- The ability to **save very small amounts** of money on a daily basis.

Savings schemes operate as ‘people’s ATMs’ for those unable to access banking. Community savings are attractive because of **embedded welfare arrangements** that may be provided alongside savings and loans. Individuals save small amounts to cover medical costs, education or burials and also rely on the support of savings schemes to meet loan repayments when lenders have no income. Typically, these services are unavailable to low-income households through commercial bank accounts, although routinely provided to higher-income households.

Community finance can also act as a **bridge between informal and formal financial services**. The social and financial capital developed by savings groups can mitigate risks for commercial banks to enable individual and group mortgage and livelihood lending. Partnerships between community savings and banks can use savings group membership data to address identification requirements and generate financial histories. Savings groups can also form the basis of group accounts that reduce transaction costs for banks.

Digitising savings and use of communications technologies offers further market potential for innovations. The Indian federations, Mahila Milan and the National Slum Dwellers Federation of India, began digitising loans in the early 1990s, with technical assistance from the support NGO Society for the Promotion of Area Resource Centres (SPARC). The role of SPARC was not to police transactions, but rather to develop documentation and processes that would enable the federations to review transactions and track repayments. Digitisation subsequently supported lending beyond emergency loans to income generation and home upgrading.

As these experiences shows, banks can benefit from responding flexibly to the specific circumstances of low-income customers, for example by designing group rather than individual lending arrangements (see e.g. Box 3). Working collaboratively with community finance organisations provides an **opportunity to create new financial products** suitable for people on low and variable incomes and (as shown in Section 4.2) to invest in urban development schemes. Creating products that account for the context and needs of residents of informal settlements and providing capital investment into urban development initiatives would enable banks to access a large and under-served market opportunity.

Table 5. Improving risk-adjusted returns: the role of community finance

	Perceived risks and low returns	Community finance
Financial services	**Perceived risks** • Lack of ID and formal address of savers prevents opening accounts. • People with limited credit history are perceived as a higher risk of default. • Low-income groups have limited availability/value of collateral to use for borrowing. **Low returns** • Small and irregular deposits have higher transaction costs. • Community-level investments are too small scale for commercial investment. • Need for new branches in low-income neighbourhoods.	• Digitalisation of savings information can validate savings histories. • Savings funds can be used as collateral to guarantee group borrowing. • Strong social networks can reduce individual borrower risk. • Community finance can help to coordinate repayments for housing and income-generation loans. • Use of city- and national-level community funds can support large-scale development investment.
Investment in housing development	**Perceived risks** • Complexity of informal and illegal landownership and use. • Limited access to sites with established informal settlements. • Variable application of regulations and politicised decision-making. • Risk to sale value on completion of scheme. **Low returns** • Lower profit on low-cost housing than higher-value schemes. • Incremental housing is costly to organise by contract with limited formal construction.	• Community enumeration and networks can provide a framework for understanding land-use patterns in informal settlements. • Existing relationships between communities and governments can be used to clarify access to land and services, and to negotiate regulatory issues. • Community finance can access and manage state subsidies (sometimes bridge funds are required). • Community initiatives can use savings and donor/governmental subsidies, and subcontract to construction companies.
Delivery of urban infrastructure	**Perceived risks** • Construction risks due to lack of site access/disruption by informal settlers. • Reputational risks associated with involuntary displacement of informal settlers. • Financial risks associated with compensating beneficiaries where number and legitimacy are uncertain. • Large initial outlay to secure access to pre-finance subsidy monies. • Management of complex political relationships. **Low returns** • Low payment rate from households formally connected to utilities. • High rate of theft from urban infrastructure.	• Community involvement in planning and designing infrastructure can manage compensation and site access issues. • Community information about entitlements can reduce risks and speed up resettlement. • Use of local labour inputs, organised through community finance to reduce labour costs. • Use of component sharing (co-production) can reduce costs of access and enhance viability of scheme.

Development capital could have a role to play in underwriting lending to low-income communities, particularly when piloting new partnerships to mitigate perceived risks. Special guarantee funds or one-off deposits could have a catalytic role in reducing the stringency of commercial banks' lending requirements, as Thailand's experience shows (see Section 5.3). Thereafter, **hybrid arrangements that support collective action by communities** can be sufficient to reduce private-sector risks in this under-served market and improve access to formal lending for low-income households.

Box 3. Standard Bank and Shack Dwellers Federation of Namibia

In Namibia, Standard Bank have established practices to engage with community savings activities. Rather than requiring individuals to come into branches, bank staff visit communities to open accounts. Standard Bank has also introduced a policy that members of the Shack Dwellers Federation of Namibia savings groups do not pay deposit fees on their savings accounts, reducing transaction costs for low-income households. Standard Bank have now made charitable donations to the savings groups worth NAD1.5 million (approximately US$120,000) in 2015/16.

4.2 Leveraging investment in low-income housing

Research by McKinsey[25] highlights the provision of affordable housing, including for the lowest income groups, as an overlooked opportunity for developers and investors willing to think more creatively about the housing market. There are a number of areas where **collaboration between private and community-sector organisations** could enable the development of affordable housing, using the networks and resources established by community finance bodies. Beyond community finance, the involvement of regional development banks and municipal authorities to underwrite urban development is an area that requires further elaboration. Key to meeting the scale of housing demand is blending the resources of state, community and private-sector stakeholders.

One possible opportunity to engage private firms is through the **joint development of land for housing development**. In many cities of the global South, the development of high-value land in central locations is frustrated by unclear ownership or planning conditions, occupation of sites by informal settlements, and the costs associated with resolving disputes to allow development to progress. Where there are multiple layers of ownership and occupation, as found in many informal settlements, it becomes very difficult to negotiate separately with landowners, 'structure owners' who build and rent shacks illegally, and tenants. In the Mukuru informal settlement in Nairobi, 92% of residents are tenants paying

[25] McKinsey Global Institute. 2014. *A blueprint for addressing the global affordable housing challenge*. www.mckinsey.com/global-themes/urbanization/tackling-the-worlds-affordable-housing-challenge

between Ksh1,500–2,000 (US$15–19) per month in rent. This level of rent income incentivises structure owners to resist development.

Some SDI federations collectively own or control land in commercially valuable city-centre locations. Community groups, however, lack the capital to develop their land holdings and are seeking to identify potential partnerships for mixed-use land development. Private firms can **develop high-yield commercial or residential property on community land** in return for capital to develop affordable low-income housing and safeguard space for informal trading opportunities alongside offices and retail. But there is a need for a model that shows them what they need to do and which gives them confidence that profits can be realised.

An alternative approach is through the **capitalisation of Urban Poor Funds**. As outlined in Section 2, household savings have been pooled to capitalise revolving funds at a city and national scale. These have often been supplemented with public finance and development assistance. Low-income communities can obtain loans from these revolving funds to finance housing, infrastructure and public goods, with interest rates below those offered by commercial lenders (see e.g. Box 4).

Box 4. Kinawataka Market upgrading, Uganda

Kinawataka Market forms part of an informal settlement in the eastern part of Kampala. To improve the environment and performance of the market, in 2015 UPFI provided a loan for the construction of a community-managed sanitation unit to serve the market vendors as well as residents of the adjacent settlement. Negotiations with city authorities secured the release of land and technical support for the facilities, which were constructed and managed by the community. The UPFI loan will be repaid over six years using projected revenue from the sanitation unit. The project provided a precedent for partnership working with the city council and has contributed to a wider programme of upgrading in Kinawataka.

To date, the Urban Poor Funds have not sought to attract private finance. However, there are opportunities to secure satisfactory risk-adjusted returns through blended finance. In Malawi, for example, the Mchanga Fund is a revolving fund established by the Malawi Homeless People's Federation and the Centre for Community Organisation and Development (CCODE), primarily to provide housing microfinance (Box 5). Between 2003 and 2011, it supported 1,583 members (99.5% of whom are women) to obtain loans valued between Mwk70,000–140,000 (US$496–993). The household also contributes in 'sweat equity' and building materials. Interest is charged at the rate of 12% per year on reducing balance accrued monthly.[26] The recovery rate exceeds 85%.

> **Box 5. Mchanga Fund**
>
> The Mchanga Fund in Malawi has provided housing loans to 1,583 people who live and work in the informal sector. It offers an interest rate of 12% per year, compared to 17.5% for commercial banks. Recovery rates exceed 85%.

From the perspective of low-income households, this rate offers a **significant improvement over conventional mortgage finance**, as the commercial financial sector is often a high-cost lender: the interest rate on loans is 17.5% for owner-occupied houses, 22.5% for commercial premises and 24.5% for other personal or business purposes. Moreover, borrowers from these formal institutions are required to be salaried employees who can produce a pay slip, which excludes many prospective applicants.[27]

Capitalising Urban Poor Funds could therefore be attractive to impact investors, allowing them to **obtain market returns while reaching an under-served sector**. However, this example also shows the limitations of exposing very low-income groups to the market without some form of mediation. Some degree of financial blending is needed to ensure that pressure to repay does not increase the difficulties faced by low-income households.

Most organised communities have a detailed understanding of the local political context and experience of mobilising large numbers of people to engage in, for example, **co-production of service infrastructure** with local authorities. These constructive relationships mean that communities may be able to negotiate credit guarantees, subsidies or other contributions from the state that can improve risk-adjusted returns from Urban Poor Funds. For example, federations in India and Namibia secured interest rate subsidies for housing loans; federations in Brazil, India and South Africa secured capital subsidies for land development projects; and federations in Kenya, Malawi, Sri Lanka, Zambia and Zimbabwe secured direct land allocations for projects that received investment finance from Urban Poor Funds.[28] In other cases, bespoke services could be linked to a specific development opportunity, for example, to enable the kinds of inner-city mixed-use mixed-income developments mentioned above.

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[26] Houston, A. 2010. *Housing support services for housing microfinance lending in East and Southern Africa: a case study of Centre for Community Organisation and Development/Malawi Homeless People's Federation/The Mchenga Urban Poor Fund*. Centre for Affordable Housing Finance in Africa. Johannesburg, South Africa. http://housingfinanceafrica.org/app/uploads/CCODE-case-study2.pdf?x77297

[27] Manda, MAZ, Nkhoma, S, and Mitlin, D. 2011. *Understanding pro-poor housing finance in Malawi*. International Institute for Environment and Development. London, UK. http://pubs.iied.org/pdfs/10596IIED.pdf

[28] Mitlin, D. 2008. *Urban Poor Funds: development by the people for the people*. International Institute for Environment and Development. London, UK. http://pubs.iied.org/10559IIED

4.3 Improving the efficacy of infrastructure investment

There can be significant procedural and cost issues associated with constructing infrastructure on land occupied by informal settlements. These may include problems of site access to dense settlements; delays and the negative public relations impact of site clearance; costs of connecting peripheral locations to existing urban trunk systems; and the affordability of network maintenance. Construction firms can address these types of challenges by working with organised communities.

As an end user of infrastructure, communities have a strong interest in ensuring **effective delivery and the viability of service provision**. Enumeration and consultation among communities can improve the design of proposed infrastructure through providing accurate information about local demand. In many cases, there is a need to construct infrastructure through informal settlements, particularly transport systems such as railways and ports (see Indian case study in Section 5.2.3). Community organisations with **strong local membership** can be effective in contributing to solutions that protect the interests of informal settlers and enable development to take place. **Enumeration and mapping** practices equip communities to determine which households would be affected by proposed land-use changes, and therefore identify legitimate beneficiaries. This may allow construction and engineering firms to provide compensation, organise relocation or arrange tenured, shared use without the reputational risks associated with evictions or the financial risks associated with an uncertain number of prospective beneficiaries and potential delays to the construction schedule. [29]

There are two ways in which communities have been involved in construction. The first is **component sharing**, in which the communities support neighbourhood development to increase the numbers reached. Community input into construction design and delivery can effectively increase the number of users (for example, sanitation blocks designed and operated by communities have proved to have much longer lifespans than those planned by governments or donors) and lower total costs.[30]

An example is the Orangi Pilot Project in Karachi, which has supported the residents of informal settlements to work together to fund and construct sewers to connect 96,994 houses to the trunk system of the city. The cost of this network is estimated to be around one-sixth of the cost of using local authority contractors.[31] This model was driven by organised communities who persuaded authorities to invest and the trunk infrastructure is now provided by the city through conventional construction

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[29] Ibid.

[30] McFarlane, C. 2012. The entrepreneurial slum: civil society, mobility and the co-production of urban development. *Urban Studies* 49(13) 2,795–2,816. SPARC SHARE.

[31] Hasan, A. 2008. Financing the sanitation programme of the Orangi Pilot Project – Research and Training Institute in Pakistan. *Environment and Urbanization* 20(1) 109–119. http://journals.sagepub.com/doi/abs/10.1177/0956247808089151

contracts. Partnerships with community finance organisations potentially enable utilities to reach more households with the same levels of capital expenditure.

The second method is where settlement residents are directly involved in infrastructure construction through **community contracting**. Community finance organisations support delivery by providing labour to construct local distribution infrastructure networks through settlements to homes. As well as reducing costs and using community organisations to resolve access issues, community construction contracts provide local employment opportunities. For example, the introduction of community contracting arrangements for phases 2 and 3 of the government's Transforming Settlements of the Urban Poor programme in Uganda has increased the accountability and transparency of the contracting process leading to better value for money (Box 6).

Box 6. Co-production of infrastructure in Jinja, Uganda

Following a city-wide enumeration in 2011, the National Slum Dwellers Federation of Uganda and Jinja Municipal Council jointly established a community-upgrading fund to support community-led initiatives to improve informal settlements. This was part of the Land Citizenship and Services Programme supported by the Bill and Melinda Gates Foundation through Cities Alliance with circa US$700,000. This project supported:

- Taps and toilets for 25,037 people
- Taps and water-storage tanks benefiting 10,880 people
- A stone pitch drainage channel serving 15,800 people
- Street lights serving 34,700 people
- Renovation of two health centres serving 6,830 people
- A recreational park
- A medical waste incinerator, and
- A walkway serving over 20,000 people.[32]

As of 2014, the community fund had been capitalised with US$161,949 from daily savings. Delivery of community-led sanitation and livelihood projects has been supported by the Jinja Municipal Council, who identified suitably qualified contractors to undertake the works. This partnership underpinned the subsequent development of Transforming Settlements of the Urban Poor in Uganda (TSUPU), financed by the World Bank.

The Mbale Federation gave the example of an access road of 520 metres where the external contractors BOQ quoted Ugx57.6 million (US$15,800), but the community

[32] Personal communication from Sarah Nandudu, vice chairperson of the National Slum Dwellers Federation of Uganda.

were able to implement the project for Ugx30.6 million (US$8,400). The federation leadership in Mbale estimated that on average the community contracting process led to savings of 20% or more in the costs of small projects (such as water points).[33]

Sections 4.1 to 4.3 illustrate how satisfactory risk-adjusted returns could be achieved through collaborations between grassroots organisations, the state and private actors. There are particular opportunities for commercial banks, property developers and procurement, construction and engineering companies to **benefit from partnerships with community finance organisations**. In Section 5, we explore how women-led savings groups in Kenya, India and Thailand have established strong relationships with municipal authorities and national governments and laid the foundation for partnerships with corporations and private investors.

[33] King, S and Kasaija, P. Forthcoming. *What has shaped state vision, commitment and capacity for the co-production of urban poverty reduction in Uganda?* ESID working paper series. www.effective-states.org

5 Case studies

5.1 Kenya

Muungano wa Wanavijiji (Swahili for 'united slum dwellers') is a movement of urban poor people in Kenya, which emerged in Nairobi during 1996. The movement has grown to involve some 64,200 savers, networked across 15 Kenyan cities. In 2003 the Akiba Mashinani Trust (AMT) was established as a vehicle to support delivery of Muungano's objectives and 'to raise and manage bridging finance that enables communities to animate their savings towards development'. Similar to other Urban Poor Funds, AMT has strong foundational principles of collective action to secure improvements to informal settlements and markets.[34]

5.1.1 Financial services – Toi Market savings scheme, Nairobi

Toi Market is a large and vibrant trading area on the edge of the Kibera informal settlement in Nairobi. Operating since 1983, the market has expanded to occupy some six acres of land and has become a key supplier of fresh produce for Nairobi. As a burgeoning economic centre, the Toi Market attracted a number of microfinance institutions (MFIs) which provided business loans to traders. Despite the availability of investment finance, trading declined around 2000, with traders closing down or defaulting on MFI loans. By 2003/4, half the market stalls had closed.

An investigation by the leaders of the market found that the operation of the MFIs was undermining the viability of many traders and leading to poor repayment rates. The lack of knowledge about the operation of the market and weak tailoring of banking processes proved damaging both for the MFIs and the market traders. Problems included:

- The issue of loans that were much larger than actually needed by traders.
- High interest rates of 18–24%.
- Repayment amounts and timescales that were unachievable.
- An absence of training and support by the MFIs to help traders manage cash flow and repay loans.
- Use of market stalls as collateral in circumstances where traders did not have full ownership.

To reverse the decline of the market, leaders established a **daily savings scheme**, based on the SDI model, to **build a capital asset** available to traders and develop

[34] Lines, K. and Makau, J. 2017. *Muungano nguvu yetu (unit is strength): 20 years of the Kenyan Federation of Slum Dwellers.* International Institute for Environment and Development. London, UK. http://pubs.iied.org/10807IIED and
Weru J, Njoroge P, Wambui M, Wanjiku R, Mwelu J, Chepchumba A, Otibine E, Okoyo O and Wakesho T. 2017. *The Akiba Mashinani Trust, Kenya: role of a local fund in urban development*. International Institute for Environment and Development. London, UK. http://pubs.iied.org/10182IIED

financial products for the specific conditions in Toi Market. The savings scheme generated Ksh50,000 (US$484) in its first three months, with members of the scheme allowed to save any amount above Ksh10 (10 cents) daily, in line with their earnings. Loan products were introduced that included business capital loans, emergency loans, a welfare fund and express loans. The latter form of loan was for one day to provide cash for traders to bargain for lower-cost wholesale prices than they could have achieved on credit.

By 2007, the savings scheme had a membership of 1,200 traders and a savings capital base of Ksh15 million (US$145,000). **The market was full and the savings scheme was actively used** by members to improve business performance. The effective performance of the Toi Market savings scheme provided a basis for commercial loans of Ksh200,000 (US$1,937) from AMT for the construction of a sanitation block in the market – a loan repaid within three months.

AMT additionally provided a loan of Ksh7 million (US$67,800) for the purchase of an 80-acre plot for housing development. Toi Market savers also negotiated a credit facility of Ksh18 million (US$ 174,3000) with Equity Bank to meet demand for business loans. The credit facility was unsecured but based on the established procedures and social collateral of the membership. The 800 traders were able to access loans of up to Ksh30,000 (US$290) to improve their business. All loans were repaid which established credit history, allowing some traders access to individual bank loans.

5.1.2 Low-income housing – Great Rift Valley Region

Towns in the Rift Valley region have some of the most active women-led community savings groups in Kenya. They developed a strong track record of small-scale lending to boost livelihood activity. This led to larger projects including the purchase of 24 acres of land for housing construction in the town of Nakuru. The purchase of land was completed using members' savings, accumulated from earnings over a number of years. Low interest loans have been provided to members of savings groups, enabling them – with support from Muungano and AMT – to construct 52 homes on the site.

This initial development has created a demand for more loan capital to fund housing construction: a level of demand that the savings group and AMT are unable to meet. The 24-acre site can accommodate around 1,200 homes, which at a cost of Ksh250,000 (US$2,420) for a basic starter unit creates a capital demand of Ksh300 million (US$2.90 million). The savings network is now looking for investment partners. There have been discussions with the state-supported Women Enterprise Fund (WEF).

5.1.3 Enabling infrastructure investment – Nairobi Railway Relocation Action Plan

The effective planning and delivery of vital infrastructure is central to realising the full economic potential of urban growth and development. In Nairobi, improvements to the operation and safety of the rail network were impeded by large-scale land occupation along railway lines through the Mukuru and Kibera informal settlements.

In 2006, the operation of Kenya railways was contracted to Rift Valley Railways, a private company given responsibility to run passenger and freight services for 25 years. Rift Valley Railways identified that the presence of informal settlements along the railway line created serious hazards and limited the profitability of the service. In response, government proposed to remove and compensate settlers and construct a wall to prevent future encroachments.

Following extensive consultation, it was concluded that constructing a wall would be an ineffective deterrent to reoccupation of the land along the railway line. Many residents stated that they would prefer help with relocation rather than cash and there were significant detrimental effects which would disrupt livelihoods in Mukuru and Kibera. An alternative plan was negotiated with the community whereby homes and businesses were able to remain, but were restricted to an area outside of an exclusion corridor (a reserve of 20 metres each side of the railway line). The new plan involved the construction of small housing units and market stalls in a 10-metre strip beyond the reserved area, which created a 'living wall' against encroachment. The plan used **local enumeration data** to inform planning of footways to direct pedestrians away from the track and minimise the demolition of existing structures. Additionally, relocated traders did not have to move more than 500m away from their original place of work and five market sites were set up for these vendors.

To deliver this programme, an agreement was negotiated between the World Bank and government of Kenya to produce and implement a Relocation Action Plan (RAP). The RAP has full engagement of affected populations who are facilitating the delivery of the programme. This plan includes:

- **Enumerating and verifying** affected households.
- **Input into the technical design** to meet the requirement of the railways company while also protecting the interests of low-income communities.
- **Support for construction** of housing and business units.

This highly participative approach has enabled significant improvements to rail infrastructure to go ahead, while protecting the interests and livelihoods of affected communities.

5.2 India

The Indian Alliance is a partnership between the National Slum Dwellers Federation, Mahila Milan and SPARC. Together, these groups operate in 70 cities across India, working with around 2 million slum dwellers. In Mumbai alone, seven major housing projects have been undertaken including a large resettlement programme with 20,000 households.[35]

5.2.1 Financial services – loan guarantee for community housing development

An important barrier to effective collaboration between private- and community-sector organisations that limits access to financial services is a mutual lack of knowledge about practices and cultures. The Indian Alliance has worked to address this through close engagement with private-sector and donor organisations and the **delivery of pilot development projects**. A key partnership has been established with Citibank to build the capacity of the alliance to obtain commercial finance. Access to banking expertise was particularly important to design delivery arrangements for a major development scheme in Dharavi, the largest slum area in Mumbai.

The Rajiv Indira informal settlement cooperative scheme in Dharavi was the first major re-development programme the alliance undertook itself. The scheme aimed to construct 208 units plus ground-floor shops and commercial offices in a key city-centre location. Building on the partnership with Citibank, the alliance applied for a loan of US$1 million from Citibank, with 10% of the loan guaranteed by Homeless International.[36] Additional funds for the guarantee were provided by a UK airways charity. The process of finalising the financial package, working through regulatory requirements and managing community expectations was **an important learning experience** for both the alliance and for the funding partners.

The loan was structured with repayments generated by the sale of transferable development rights assigned to the scheme, the sale of apartments and letting of commercial space. The finance provided a **model for integrating commercial loan finance in private and community ventures**, using donor resources to offset the perceived risk by the private sector of lending to community developers.

5.2.2 Low-income housing – Oshiwara Joint Venture Partnership

In Mumbai, residents of informal settlements have legal protection under the 1997 Slum Rehabilitation Act. Land developers are required to offer re-housing options to residents of affected settlements, offering a minimum $21m^2$ unit with water and

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[35] Patel, S, Viccajee, A and Arputham, J. 2017. *Taking money to making money: SPARC, NSDF and Mahila Milan transform low-income shelter options in India*. International Institute for Environment and Development. London, UK. http://pubs.iied.org/10181IIED

[36] Homeless International is now called Reall: www.reall.net

sanitation, funded as part of the site development scheme. With rising land values in Mumbai, there is a strong incentive for the private sector to partner with community-based organisations to comply with planning regulations and negotiate with residents of informal settlements to release city-centre sites.

The Indian Alliance was approached by a private landowner to discuss a joint venture for the development of site in the Oshiwara neighbourhood in northern Mumbai. Oshiwara is a key location in the city where land values have been boosted by the construction of a new train station on the Mumbai suburban railway line. For the community, it is an important and established settlement, positioned in an area with few viable alternatives for affordable housing. As a partner to the project, the alliance supported the development of 800 homes, drawing on their connections and experience in the community to manage consultation and resettlement processes. The involvement of the Indian Alliance **enabled access to loan capital** through the Community-Led Infrastructure Finance Facility (CLIFF) to meet the costs of initial design and temporary resettlement of residents to allow construction on site to commence.

The Oshiwara project demonstrates, in the Indian context, how **joint ventures between private-sector and community organisations can be highly effective** where landowners do not have the capacity or expertise to meet planning conditions to realise the full value of sites. The impact of the initiative was underlined when the owners of an adjoining site approached the alliance with a more ambitious scheme for more than 3,000 homes.

5.2.3 Enabling infrastructure investment – Mumbai railway relocation

> *In 2001, 18,000 households in Mumbai voluntarily demolished their shacks along the railway tracks so that the city could make long-overdue improvements to its vital railway system. There were no confrontations or coercion, no bulldozers, tear-gas, or police. In a time of unprecedented numbers of forced and even violent evictions in the world, this was an unusual event.*[37]

Millions of people in Mumbai depend on the railways to reach their places of work each day. But the service had become slow because of the number of people illegally occupying land close to the tracks. Wherever shacks are within 9 metres of the tracks, trains were required to slow down to 5 kilometres per hour. Many shacks were much closer than this.

[37] Extract from: Patel, S. and Bartlett, S. 2009 Reflections on innovation, assessment and social change: a SPARC case study. *Development in Practice* 19(1) 3–15.

To deliver the improvements, the Indian Railways and the government of Maharashtra sought support from the alliance to undertake a census of all people affected by the works that may require relocation. Every structure within 24 metres of the tracks was mapped and numbered and community surveys were completed. Residents organised to form the Railway Slum Dwellers Federation (RSDF) to identify their priorities. Existing residents were keen to move away from the noisy, dirty and dangerous spaces along the tracks, but wanted to remain close to the area to maintain economic and social ties.

Using data and community feedback, changes to the scheme were negotiated that included reducing the safety corridor each side of the line from 9 to 3 metres. This reduced the numbers of households that needed to be relocated. In total, some 60,000 people were relocated to nearby Mankhurd district in Mumbai, to a seven-storey apartment block built by and purchased from the Maharashtra Housing and Area Development Authority. The alliance built transit housing to facilitate the move.

The process of relocation came with some problems that included longer journeys to work and school for some, a lack of local shops in new locations, and unfamiliar costs of having to pay for utilities in housing with basic amenities installed. However, to the former trackside dwellers, the **benefits of relocation were evident**: security of tenure and much-improved housing conditions.

The state was able to complete improvement to the railway lines and address an important poverty reduction goal by working with the alliance. The collaborative approach proved an effective investment in both **enabling the delivery of a key economic development scheme** for Mumbai and, by working with the community, it reduced travel delays, the necessity for court cases and consequent bad publicity.

5.3 Thailand

The Thai government established the Community Organizations Development Institute (CODI) in 2000, an entity with its own legal identity and with a fund of some US$91 million. CODI provides assistance to low-income people to organise themselves into groups around community-based savings and loan schemes. It also offers services to support networking among community organisations and strengthen relationships between community organisations, and private and governmental bodies.

In 2003, CODI was directed by the central government to run the national slum upgrading and tenure programme called Baan Mankong (meaning ‘secure housing’). The programme calls for participation of all stakeholders to map out a citywide plan for clarifying land tenure and upgrading houses and basic infrastructure. The plan also includes provisions for economic and social upgrading, extending support to community enterprises that could generate income, and community welfare systems.

A core tenet is the **strategy of land sharing**. When landowners want to evict informal settlers to make way for commercial development, mediation is used to determine the division of land to allow residents to remain on site while making space for development. Once land-sharing agreements and city-scale plans are completed and approved, CODI then channels government funds (in the form of infrastructure subsidies and housing loans) directly to organised groups of low-income residents, who are responsible for managing funds at a neighbourhood level. CODI has supported upgrading activities in 300 cities across Thailand.

5.3.1 Financial services – access to capital investment, Thailand Government Housing Bank

An organised community group in Sengki, Bangkok, reached a land-sharing agreement with the landowner, who agreed to sell them one-fifth of the land they occupied at one-third of the market price. With the support of the National Housing Authority, loan applications were made to several commercial banks assuming that the value of the land would be sufficient to obtain finance. All of the banks refused to grant a loan, citing difficulties in assessing the collateral.

After this experience, CODI brokered an agreement with the Government Housing Bank (GHB) to establish a refinance facility in order to overcome the reluctance of the formal financial sector to lend to residents of informal settlements. In 2007, CODI sold a portion of its Baan Mankong loan portfolio to GHB to establish a pilot refinance facility of Thb100 million (US$2.8 million). CODI had to provide a deposit to GHB of the same amount to cover 100% of any loss, and compensate GHB for the lower interest rates charged for Baan Mankong loans.

This initiative established GHB as a direct lender to low-income communities, enabling community groups to **acquire a formal credit history and direct customer relationship with the bank**. This underpinned a second agreement in 2009, which increased the total refinancing amount of Thb100–500 million (US$14.3 million). Importantly, the loan loss coverage was reduced to 20% of the total value, demonstrating growing trust in the repayment rates secured through lending to organised communities. The new lending requirements were less stringent than the initial loan offered by GHB. However, GHB loan conditions remained more stringent than CODI, which consequently remained the lender of choice for low-income communities. While a facility of Thb500 million was available from GHB, just Thb69 million (US$2 million) has been used.

5.3.2 Low-income housing – land sharing in Klong Lumnoon, Bangkok

In 1997, the landowner of Klong Lumnoon issued eviction notices and offered compensation to residents. Forty-nine of the residents were unable to find alternative accommodation or work and refused to move off the land. The dispute between the landowner and residents continued for three years.

During this time, the 49 families formed a community-based savings organisation to strengthen the group and obtain external support, including that of the local authority. A land-sharing agreement was reached whereby the community group registered as a cooperative and took a housing loan from CODI of Thb10.91 million (US$311,600) to purchase a portion of the land. The Klong Lumnoon cooperative also secured a government subsidy of Thb3.63 million (US$103,800) from the national Baan Mankong Housing Programme. This was used to finance new accommodation, a safe walkway, access to utilities and drainage. The upgraded settlement also included the provision of a community and day-care centre. CODI made a loan to the community organisation at a rate of 1% interest over 15 years. The community organisation passed this loan to members at a rate of 3% – the additional 2% being used to cover organisational costs.

While land sharing in Thailand has typically followed a period of dispute, it generates important benefits for all parties:

- **Land sharing releases valuable urban sites** so that landowners can commercially develop a proportion of their land, and the value of that land is improved through the upgrading of proximate informal settlements.
- **Communities strengthen their negotiating position** through organising savings funds, and obtain a collective land title through the CODI loan, which helps to safeguard their future.
- The city authorities see the **transformation** of dilapidated sites and **reduction of urban poverty**.

These development programmes have proven even more effective where discussions about land sharing can take place at a city level. Enumeration and mapping data can be used to identify alternative sites for relocation and the creation of alternative settlements. This allows commercial development to proceed at scale, while creating mixed income and mixed land use at the local scale.

5.3.3 Enabling infrastructure development – neighbourhood-level approaches in Bo Farang

The land in Bo Farang belongs to Siam Cement Group (SCG), one of Thailand’s largest conglomerates. In 1927, a large pond was dug in Bo Farang to provide water and soil for the cement production process for SCG’s Bangsue Plant, which is no longer in operation. The land around the pond has been occupied by about 340 low-income households. Having no proper housing registration, these residents have no access to basic infrastructure or services, such as water, electricity or sewerage. The water in the pond is highly polluted and the surrounding environment is in very poor condition. The area has no public exit, so people have to pass through land belonging to the State Railway of Thailand (SRT) authority without proper permissions.

The residents have established savings groups, and 45 housing units have been built under CODI's Baan Mankong Housing Programme. SCG, CODI and the local savings groups have worked together to design a comprehensive plan for Bo Farang, which aims to:

- **Construct 365 housing units** for current residents in the forms of two-storey townhouses and four-storey buildings, alongside a multipurpose facility hall and community training centre.
- **Facilitate housing registration** to ensure access to basic amenities and social welfare.
- **Improve water quality** in the pond, install a waste-water treatment system for households and raise awareness about environmental conservation.
- **Build facilities to attract visitors** around the pond (a shopping arcade and public recreation park) to create opportunities for income generation.

The total budget is estimated at approximately US$13 million, which would come from four sources. SCG will contribute about 40% of the project cost (as well as granting landownership to the residents). This is a corporate social responsibility project for SCG, but also **reduces risks associated with the environmentally degraded land** in Bo Farang. The government would provide about 37% of the cost for the construction of housing and infrastructure installation. The community itself is expected to contribute 20% of the cost, while the remaining amount would come from CODI. The total plan is expected to be completed by the end of 2019.

6 Conclusions and recommendations

With nearly 1 billion people living in informal settlements across the global South, there is an urgent need to look at how development is targeted and financed to improve access to housing and to adequate water and sanitation. Existing approaches that rely on either public- or private-led development do not sufficiently address the demand from, or needs of, low-income households. They also miss the **efficiencies of coordinated cross-sector activity** that could be gained with the involvement of organised low-income communities.

The evidence gathered in this report highlights many of the innovative initiatives that have been developed by grassroots organisations to build local-level financial assets through community savings and drive the improvement of informal settlements. The evidence also underlines the **potential for development capital and impact investing** to pilot and prove new models that could underpin large-scale private-sector investment in low-income urban areas. The report has focused on three areas where there appear to be particularly strong opportunities for private investors willing to partner with community-based organisations.

6.1 Extension of financial services to low-income communities

There is an existing and under-served market for financial products that address the specific needs of residents of informal settlements. This includes **tailoring financial services** to people with low and irregular incomes and lending for group housing and livelihood investment initiatives. The experience of grassroots organisations in Africa and Asia has demonstrated how group savings at city and national level can be used to **reduce the risk** of investment by banks and provide leverage to attract government and donor subsidies for poverty-reducing development investment.

It is clear however, that more needs to be done to demonstrate the market and potential profitability and impact of offering tailored financial services to low-income communities. Building on the existing evidence and experience of grassroots organisations, the following recommendations are made.

- **Generate evidence** on the performance of community savings to clarify the market opportunity for group lending and investment. Identify and study exemplars such as Toi Market that demonstrate how community insights have made it possible to redesign financial products to address local needs successfully.

- **Support commercial banks** to establish direct customer relationships with low-income households, including through the creation of innovative financial products such as group lending arrangements to reduce risks.
- Where low-income households are already able to open accounts, work with governments, development agencies and philanthropic funds to explore the scope for partial or full credit guarantees to **reduce the cost of borrowing** for community-led housing and livelihood development initiatives.

6.2 Leveraging investment in low-income housing

There is strong demand for affordable housing in urban centres that meets the needs of low-income communities. Private investment in this sector has been limited by the perceived difficulty of delivering schemes and extracting value in contexts where there are established informal settlements. However, collaboration between organised communities and private developers can overcome this barrier. Grassroots groups often have ownership or access to city-centre sites that they lack the capital to develop. Organised communities also have local knowledge and capacity to navigate through the complex politics of informal settlements.

There is a range of market-state-community partnership routes to invest in housing that includes the joint development of schemes and capitalising Urban Poor Funds. By **blending finance and delivery capacity**, cross-sector partnerships offer the potential to produce housing and mixed-use development at scale. To advance collaborative approaches, the model needs to be developed to demonstrate how housing is produced to be affordable to low-income communities and how developer risk is identified and mitigated in order to capture the interest of business. To address this challenge the following recommendations are made.

- **Map opportunity sites** by identifying land holdings of organised communities interested in joint housing ventures with the private sector. Use the data to broker discussions with municipal authorities and property developers operating in that city.
- **Develop the delivery model** focusing on affordability, risk assessment and mitigation. Drawing from evidence of existing schemes, demonstrate how risks have been managed and how this practice could be extended to other contexts.
- **Engage regional development banks and national housing banks** to discuss the feasibility of city-level funds that would enable blending of public, private and community funding for housing development. Identify impact investors who may be interested in capitalising such funds, with the social objective of changing the face of inner cities away from exclusive developments and towards integrated and inclusive spaces.

6.3 Enabling infrastructure investment and improving its efficacy

The scale, cost and complexity of delivering infrastructure to and through informal settlements provides a major challenge for governments and development agencies. Obtaining basic information on resident populations, negotiating access to and securing agreement for the relocation and formalisation of settlements can quickly block prospective investment. These difficulties occur despite the level of need within informal settlements and the positive benefits that can be accrued for low-income residents. Examples of co-productive approaches taken across cities in the global South demonstrate the **added benefits of recognising the interest of communities in infrastructure improvements** and their role to facilitate delivery in the planning and construction of water, sanitation and transport infrastructure and improved electricity connections.

To maximise the benefits of co-productive approaches to infrastructure investment requires further discussion of both financing and delivery arrangements. **Organised communities provide an underused resource** to coordinate planning, reduce construction costs and contribute to the long-term maintenance of infrastructure. This necessitates active dialogue between government, utilities and communities who share an interest in effective service delivery. To achieve this goal the following recommendations are made.

- **Identify major infrastructure investments** taking place in cities in which community finance federations and networks have a strong presence. Facilitate the engagement of federations and networks in infrastructure planning and document the process, scale and financial implications of this engagement.
- **Use enumeration data** to demonstrate the potential customer base to utilities and other service providers. Collect additional evidence on current financial and time expenditure on key services (water, sanitation, electricity, solid-waste management) and households' willingness to pay for formal provision. This can inform investment decisions around different infrastructure options in low-income parts of the city.
- **Support community organisations, municipal authorities and utilities** to develop detailed plans for extending trunk infrastructure into informal settlements, recognising the importance of balancing affordability constraints with the need to cover operating costs. When plans have been agreed, capitalise Urban Poor Funds with resources to support the construction and connection of these service networks to households.

Aligning private, community and state resources to upgrade informal settlements is essential to delivering the economic development of cities and improvements in the lives of urban dwellers. However, **realising this goal can only be achieved through collaborative effort**. The experience and the structures already established by grassroots organisations across cities in the global South can be used to guide and reduce the risk for commercial investors. But the private sector must also be prepared to innovate and recognise the importance of balancing short-term profit with long-term economic gain. This paper aims to build the conversation and initiate a process of collective learning and action.