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Urban Poor Funds: development by the people for the people

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Living conditions in many towns and cities in Africa, Asia and Latin America have long been unacceptable. More than 900 million urban dwellers live in dangerous and/or insecure accommodation in these regions. The basic necessities for health and security are not in place in many settlements. This Brief is not concerned with documenting these conditions but rather, on understanding what might be done to improve them. The Millennium Development Goals include a commitment to significantly improve the lives of at least 100 million slum dwellers. It is not yet clear how this target can be achieved. At the same time, grassroots groups formed by the urban poor are developing innovative solutions to help address their needs.

In ten nations, a new kind of finance agency, Urban Poor Funds, are working with federations of savings groups formed by slum or shack dwellers or homeless people. These funds support the members of these federations to obtain better quality shelter with basic services, by providing finance systems that serve their needs (including supporting their savings). In doing so, they also help to change low-income households' relations with government agencies and the law, as these households obtain housing solutions that are legal and that can be served by publicly provided infrastructure and services. This is achieved either through a move to new sites or through upgrading and legalizing their existing homes. Box 1 gives some examples of these funds.

Box 1: Examples of Urban Poor Funds

In Cambodia, the Urban Poor Development Fund has been operating for ten years and is supporting the work of 225 savings groups in Phnom Penh and 42 outside the capital city. More than US$ 2 million has been provided in loans to members, including for income generation and in relation to shelter. Some of these loans have helped the development of communities resettled on land with secure tenure following central city evictions.

The Kenyan Homeless People's Federation set up an independent organization, the Akiba Mashinani Trust (AMT), to manage its loan funds. The Trust has supported a number of developments, including housing loans for about 100 members and, more recently, land purchase in four locations. The Kenyans have introduced another institutional tier, a community-managed Urban Poor Fund, much like those in Malawi, Zambia and Zimbabwe. This fund pools community savings in order to interface politically and financially with the formally managed AMT, and to side-step it for small transactions and direct development finance. Negotiations with the government have opened a number of possibilities for further developments, and the state has allocated land to some savings schemes.

The Malawi Homeless People's Federation has used the Mchenga Trust to finance the construction of just under 1,000 houses in the three largest cities of Malawi. Finance for further construction continues to be difficult as there is limited savings capacity and the state has not provided finance. The federation is supported by the Centre for Community Organization and Development (CCODE).

The Namibia Shack Dwellers Federation was established in 1998 after many years of work on savings schemes supported by the Namibia Housing Action Group. The federation has been working to secure land and reform regulations with Windhoek and other municipalities throughout the country. The Twahangana Fund helps to finance local investments with its own monies and acts as a conduit for low-cost loans provided by a government-run housing programme, Build Together.

[1] This Brief is drawn from a working paper to be published in August 2008: Mitlin, Diana (2008), *Urban Poor Funds; development by the people for the people*, Poverty Reduction in Urban Areas Series, Working Paper 18, IIED, London. This can be downloaded at no charge from http://www.iied.org/HS/index.html#pub.

The Philippine Homeless People's Federation has drawn on its earlier microfinance expertise to accumulate and manage savings. The Urban Poor Development Fund was established in 2000, and drew on these experiences in lending between savings schemes to address tenure insecurity. The fund is gradually formalizing its processes in ways that enable local savings schemes to manage at city level. The fund is active in the three main regions for the federation: Luzon, Visayas and Mindanao.

In South Africa, the Federation of the Urban Poor (FEDUP) has majority membership on the governance structure of a professionally managed fund known as uTshani Fund. Between 1994 and 2004, uTshani helped the federation by pre-financing state subsidies and enabling them to build more than 15,000 houses. FEDUP has also established its own community-managed Urban Poor Development Fund. This fund accumulates the savings of individual groups so that they can either access resources through uTshani Fund or fund projects directly. This Urban Poor Fund built more than 300 houses between 2004 and 2007, at which time uTshani ceased providing pre-finance. In 2008, uTshani resumed its function as a conduit for subsidies. In six months, it has processed 967 subsidies for FEDUP.

Activities in Zambia have developed rapidly since the first building began in late 2007. The operating processes for the National Swalisano Urban Poor Fund are emerging from the experiences of these first developments. The federation has negotiated four plots of land in different towns across the country.

The Zimbabwe Homeless People's Federation has been active since the late 1990s. It grew rapidly and within two years began building houses. It set up the Gungano Fund to support its work. The federation was building in about ten towns across Zimbabwe prior to the current political and economic crisis, which has resulted in reduced building activities and severe repayment difficulties among members. The committee of the Gungano Fund remains active.

Urban Poor Funds are unusual for a number of reasons:

Who they serve: They support those with incomes too low or too uncertain to get housing loans, including those whose livelihoods are derived from the informal economy and those living in informal (sometimes illegal) homes in illegal settlements. They support existing grassroots savings groups and encourage new savings groups to form.

Who owns them: Urban Poor Funds are managed by boards, with members drawn from the grassroots savings groups and their federations, and from local professionals working in support NGOs. Individual members often make financial contributions to the funds.

What and who they fund: By supporting and working with grassroots savings groups, they provide finance to groups, not individuals. This means that they can fund investments that serve these groups – for instance roads, water supplies and drains for groups of houses or whole neighbourhoods; they also support savings groups to purchase and service new land sites. They can also work with and support loans in response to disasters and livelihoods.

Building grassroots savings groups' collective capacity: The support provided by Urban Poor Funds to organized savings groups helps these groups move from managing savings to managing land development and sometimes housing projects, and managing negotiations with government agencies, including those that can help provide infrastructure and services. This builds their capacity to manage investments, resolve disputes, motivate members to contribute labour and plan for future development. Belonging to a federation and having access to an Urban Poor Fund helps to transform savings schemes from community self-help groups, constrained by their own lack of incomes, into associations able to support a broader vision of societal transformation, with upgrading for all urban poor communities led by the residents through organized groups and partially financed, state-organized redistribution. These funds' capacity to support many savings groups also means they support the development of an urban poor movement – as savings groups federate and learn from each other and support each other. Urban Poor Funds support the exchanges between savings groups and other measures that support the federations, including federation-led citywide surveys of informal settlements, and detailed enumerations and maps of such settlements that provide the information base needed for upgrading.

Linking action to policy change: The Urban Poor Funds support the initiatives of many savings groups. When these work well, they become not only examples from which other savings groups learn but are also "precedent setting", as they demonstrate to local governments and other potential supporters solutions that work for the urban poor. They often serve as the means to negotiate changes in official standards and can lead to changes in regulations.

Using loans in ways that keep down debt burdens: Urban Poor Funds provide loans where possible and where appropriate, because this allows funding to go further and to be constantly recycled to serve more people. But this is done with a different orientation to that of conventional market-oriented loan finance. Any loan repayment is difficult for households with low or fluctuating incomes, and loan finance can so easily demand repayments that cannot be kept up and, as such, trigger crises and exclusion. Because the savings schemes that make up each federation are involved in the management of Urban Poor Funds, they manage the tension between ensuring loan obligations are met and supporting people who find loan obligations difficult to meet. It is the savings groups that manage the loan repayments. Urban Poor Funds have to learn how to support the groups that take on loans to maintain very high repayment rates, and to be seen to treat all loan-taking savings groups equally. They also support other measures to keep down loan obligations – for instance, wherever possible seeking to keep down capital costs. They are not market driven, but their management recognizes that market relations are very much a part of all low-income settlements and the investment strategies of their residents.

Working with the state while avoiding cooption: As federations and the Urban Poor Funds expand their work, politicians or senior civil servants often offer support. This often provides opportunities for state–federation partnerships but there are also risks, particularly a need to avoid cooption. Working with the state also means having to manage bureaucratic and technical staff anxious to maintain professional standards that are inappropriate and that help price lower-income groups out of legal housing.

Working at scale and building citywide and national social movements: The Urban Poor Funds' support for collective action is not only because this best serves low-income households to improve their shelter options but also because it builds the capacity and influence of urban poor groups to negotiate with, and work with, the state. The funds provide the mechanism through which the knowledge, resources and capacities of grassroots organizations throughout a city or nation are brought into the public domain. They all support citywide and nationwide solutions, both by strengthening the organizations of the urban poor in their relations with government and international donors and in their support for solutions that keep down units costs and the need for subsidies. This active engagement with city governments also helps to avoid city development strategies that see the poor's informal settlements as a major barrier to increasing the city's attractiveness to new international and national economic opportunities.

To achieve citywide strategies, federation members learn about the challenges of inclusion and universality through their experience of fund management. Urban Poor Funds force the federations and their NGOs to engage in planning and managing urban development programmes at scale in ways that offer opportunities to all members, not just a lucky few. The point is not that Urban Poor Funds function to provide finance that is universal and affordable for the lowest-income federation members but rather, that by publicly stating their ambition to provide such finance, the funds provide a space for federation leaders and members to engage each other (and the state) in striving for this.

Supporting a transnational network of urban poor federations through Slum/Shack Dwellers International (SDI): There are now national federations of slum or shack dwellers that are members of SDI in 17 nations – including ten that have developed their own Urban Poor Funds. These all support each other and learn from each other – and encourage and support the development of grassroots savings groups and their federations in other cities and nations. SDI has been developing new international funding sources and mechanisms to support member federations, and Urban Poor Funds serve as the institutions through which national and city federations can access external funding that they can manage.

Creating accountability both to the urban poor and to external funders: The Urban Poor Funds provide a transparent, accountable financial institution through which external funding (from local or national government or international agencies) can be channelled to support community-managed housing solutions and community-managed financial systems. Many national and local governments have contributed funding to these funds, or contributed land to the housing schemes they support. By coming through the Urban Poor Fund, the funds can be managed to serve donor accountability and community processes.

Table 1: The Urban Poor Funds' equity and assets

Country	Start date	External funds (US$)	Urban poor savings (US$)	Land		Houses	
				Number of families	Value in US$	Number	Value in US$
Brazil	2005	25,000	5,000	150	225,000		
Cambodia	1998	897,958	58,876	5,000	750,000	700	1,000,000
Colombia	2001	5,000	1,000	60	25,000		
Ghana	2004	120,000	50,000	150			
India		23,000,000	100,000	35,000	17,000,000	35,000	70,000,000
Kenya	2003	500,000		1,000	500,000	100	350,000
Malawi	2005	500,000	20,000	3,000	500,000	800	560,000
Namibia	1999	1,700,000	110,000	3,500	100,000	1500	3,000,000
Nepal	2004	210,000				44	160,000
Philippines	2000	2,242,097	25,530	26,166	3,500,000	547	2,094,900
South Africa	1995	12,000,000	220,000	20,000	5,600,000	13100	65,000,000
Sri Lanka	2004	120,000	100,000	120	120,000	50	50,000
Tanzania		25,000	10,000	250			
Uganda	2004	45,000	3,000	109	50,000		
Zambia	2006	100,000	5,000	1,000	300,000		
Zimbabwe	1998	1,942,000	67,632	8,500	600,000	1000	300,000
Total		**43,189,958**	**870,603**	**104,005**	**29,270,000**	**52,841**	**142,514,900**

This table does not include the community toilet blocks built by several federations. In India, more than 600 toilet blocks have been built by the Alliance of the National Slum Dwellers Federation, Mahila Milan (a federation of women's savings groups) and SPARC, with a value of more than US$ 11 million. External funds include grant and loan finance, mainly from Northern donors. Urban Poor Funds are local communities' savings held within the fund. Communities can also have other savings funds at community level. Land is normally individual plots, except in India, where multi-storey blocks are constructed. Houses built using traditional materials are not included as they are constructed without the use of loan finance. The value is based on market value of the houses, inclusive of the value of the land.

Federation members' comments[2]

Zolile Solwandle (Joe Slovo, South Africa): "*One day someone told me about the federation and I joined. They have given me a lot of knowledge. I have technical knowledge on housing building. I learnt how to make quotations, how to speak to people, how to negotiate with suppliers... My hope is that everyone gets a house. A house is very easy to build if everyone works together*."

[2] These are drawn from SDI (2007), *Voices from the Slums*, Shack/Slum Dwellers International (SDI), Cape Town.

Egreni Sisero (Blantyre, Malawi): "*I was contributing so well to the Mchenga Fund that the federation gave me a house. It will take me eight years to repay the house, but it's my house. No more rent*!"

Pauline Wangui (Huruma, Kenya): "*We lived in a shanty in Kambi Moto… In 2000, there was a big fire in the settlement. Everything was burnt. It was a tragedy. No one died luckily but it destroyed everything. Homes, possessions, the lot. This depressed me. This fragile living. Our shanty home was gone. We had nowhere to go and nothing to eat and nothing to wear… Today I live in Kambi Moto Muungano Village. After we were given title to the land, we built the houses ourselves. That day was the happiest moment, when I entered my very own house. A real house! Now the kids are also secure*."

Future challenges

The Urban Poor Funds are funding informal processes and working with among the lowest-income groups. Yet they must meet the demands of external funders for a formal accounting system – and balance serving their members within current savings groups with providing support for new members and savings groups to join. This is always challenging, given the gap between the cost of a legal housing unit with infrastructure and services (and land costs) and what low-income households can afford. Reducing this gap between the cost of a good quality secure house and what can be afforded almost always means a need for incremental construction – whether for new housing or for upgrading – even as this may be disliked by local government and by savings group members. For new housing, it is always difficult to find or obtain land sites that are affordable yet also well located in relation to income-earning opportunities (including existing livelihoods sources). Securing subsidies, in this context, is critical to affordability.

1 Introduction

Background

Living conditions in many Southern towns and cities have long been unacceptable. Children grow up in squalor, adults live in fear of eviction, piped water supplies are intermittent if they exist at all, sanitation facilities are lacking, housing investment is inadequate with materials that frequently require replacement, drainage is non-existent, resulting in pools of stagnant water, and solid waste is left in dumpsites close to living spaces. In many cases, low-income settlements are located some distance from major economic centres, poorly connected with under-serviced and expensive transport routes. However, it is equally common for these settlements to be proximate but segregated: perceived as separate and characterized as dangerous and undesirable. In summary, the basic necessities for health and security are not in place in many settlements; and the residents of these neighbourhoods face discrimination.

This working paper is not concerned with documenting the conditions under which people are living, but rather concentrates on understanding what might be done to improve them. The Millennium Development Goals include a commitment to reduce by 100 million those living in “slum” settlements. However, it is not yet clear how this target can be achieved. In many cases, addressing the needs of low-income settlements is perceived as institutionally complex and requiring multi-faceted interventions (Stevens et al. 2006). Despite this, many national governments have invested in a great variety of attempts to improve shelter opportunities, with greenfield development, upgrading and other strategies to support home ownership. Section 2 of this paper, after a brief outline of some of the major problems, considers the result of these attempts and highlights some reasons for their failure to address the problem at scale.

Focusing on strategies to address the problem of inadequate shelter, this working paper reports on an institutional innovation that has been replicated in more than ten countries in Asia and Africa by a transnational network of people’s federations and support NGOs: Shack or Slum Dwellers International. The mechanism, national or city-based Urban Poor Funds, can be represented both as capital funds and as institutions that change relationships between organized groups of the urban poor, their members and the state. Funds catalyse relational changes through accumulating and distributing capital which is invested in neighbourhood improvements managed by local residents’ associations. The choices about priorities and subsequent allocations are made by the people’s federations.

The research process described in this working paper came about when SDI requested IIED’s help to analyse and document the work of these funds. SDI affiliates were anxious to understand the ways in which funds had developed in different contexts and the outcomes that they had achieved. A further objective was to support learning inside the network about these experiences and, in so doing, to enhance decision-making about current choices in fund development. Working with IIED would support this process within SDI, and would also enable these experiences to be shared with a wider audience. The work has taken place over the last three years and has involved community exchanges, research visits, interviews and the collection of additional data. There has been a particular focus on the experiences in India, Namibia, the Philippines and South Africa with visits and focussed analysis of each of these experiences. In addition, the working paper also draws on a wider number of other fund-related activities across the network, notably from Kenya, Malawi, the Philippines, Thailand and Zimbabwe. Numerous people have participated in this exercise and it has not be possible to acknowledge the depth and quality of all these contributions in the pages that follows. The author greatly appreciates the chance to share in these experiences; all errors remain her responsibility.

Urban Poor Funds

In making their investments, the funds seek to support the aspirations of organized homeless and landless groups to improve their immediate surroundings and create new development opportunities for themselves and their families. The underlying premise behind the design of the funds is that lasting and substantive change requires more than just a capital injection. Success, in terms of improved local conditions that are sustained over time, requires local (and sometimes national) government, together with urban residents, to change their approach towards urban development at both neighbourhood and city levels. A particularly interesting aspect of this mechanism is not that it is successful in accumulating funds to invest in low-income areas, or that it catalyses low-income groups to set their own agendas – but rather that capital, so often a mechanism for exclusion, becomes a trigger for progressive social change.

Urban Poor Funds have developed to support a particular set of activities within the methodology of Shack or Slum Dwellers International (SDI). Section 3 of this paper expands on the history and development of Urban Poor Funds. SDI's methodology, in summary, involves catalysing and strengthening forms of social organization in low-income settlements to enable low-income citizens, particularly women, to define and realize their own development agenda. The methodology uses savings to catalyse the transformation of relationships at multiple levels from the household upwards. The savings of members create local pools of finance that build up financial management skills and support the realization of aspirations and goals. The federating of such local groups is a critical component, creating a network of learning, solidarity and political mobilization.

Belonging to a federation and having access to an Urban Poor Fund helps to transform savings schemes from community self-help groups, constrained by their own lack of incomes, into associations able to support a broader vision of societal transformation with upgrading for all urban poor communities led by the residents through organized groups and partially financed, state-organized redistribution. Section 3 outlines both the core characteristics of Urban Poor Funds and the diversity around these characteristics as national and sometimes city federations have sought to modify strategies and tools as appropriate for their particular localities. The discussion in this section includes examples of the outcomes of investments made to date, to offer readers an understanding of the achievements of Urban Poor Funds.

Urban Poor Funds seek to achieve transformation through design and operation to shift urban development outcomes towards those that are inclusive and pro-poor. Their mechanisms and processes interact with both market and state to introduce new options for the urban poor and a range of related agencies. The dominance of market institutions and their ubiquitous presence in resource acquisition, exchange, production and consumption means that market relations are very much a part of low-income settlements and the investment strategies of their residents. However, such market relations often disadvantage those with low-incomes who are unable to benefit from the deals offered to those with greater wealth and/or incomes.

There is an acknowledged electoral interest on the part of politicians who offer assets to particular groups in order to increase their chances of political success. The interests of the state and state actors are multiple, with political popularity and personal self-interest co-existing with bureaucratic and technical staff anxious to maintain professional standards, and with some anxious to secure international and national economic opportunities through improving the attractiveness of the city. There are opportunities, but also risks, particularly to the autonomy of movements, as they seek to negotiate for their members. This is the context in which the federations and their support NGOs seek to position Urban Poor Funds, using this institution to secure changes that favour the interests and wellbeing of low-income and otherwise disadvantaged citizens.

Outline

The problems that Urban Poor Funds seek to address are described in Section 2 which summarises the conditions in low-income neighbourhoods in Southern towns and cities. The section highlights both the scale of informality in shelter provision, and the need for secure tenure and basic services, as well as the limited nature of the solutions offered to date. An emphasis on market mechanisms (in the form of both mortgage finance and shelter micro-finance) has not assisted the lowest income families to improve their shelter options. Alternative approaches (such as sites and services) have offered more effective interventions but remain limited in scale.

As a network of landless and homeless people's organizations, SDI has developed Urban Poor Funds to assist in their members to secure improved shelter options. Section 3 outlines the strategy of SDI and its affiliates with an explanation of the role and form of savings schemes and their consolidation into city and national federations. Table 1 summarises the size of Urban Poor Funds and their impact in the network affiliates. The section looks in detail at a number of specific aspects of fund operations including the financial composition of funds, their strategies to acquire subsidy finance and the development of regional funds in a number of countries. The governance of funds is also explained and the scale of federation membership in governance structures is reported. Finally, loan management processes are elaborated including the strategies used to secure loan repayments in a context in which many members have a limited capacity to afford shelter loans. The final subsection discusses the impacts and scale of Urban Poor Funds.

Section 4 analyses the contribution of Urban Poor Funds to the objectives and work of SDI and its affiliates. SDI affiliates have to avoid compromising their independence and autonomy in their dealings with the state, and Urban Poor Funds play a central role in their strategies. As noted above, Urban Poor Funds must avoid the problems of existing programmes, ensuring that the people's organizations remain politically autonomous, and able to negotiate from a position of strength. At the same time, they have to be able to negotiate state resources, either securing new finance with appropriate conditionalities, or securing access to existing subsidy streams with necessary modifications to operating procedures. This process is one of the central tensions embedded within the operation of Urban Poor Funds – accessing state funds on favourable terms in ways that build the savings-scheme movement. The section begins with a historical reflection on funds in India, the oldest affiliate of SDI. Further subsections consider how the fund interacts with the market and market-orientated development intervention. The final subsection examines the collective challenge that federations face in working with funds, the issues that they raise for the internal management of the affiliate and responses that have been developed. Urban Poor Funds, as established by SDI affiliates, are a pivotal mechanism for securing pro-poor change enabling organized low-income communities to interact with the state from a position of power, drawing down state finance for their own interventions, designed by and for their members. Section 5 is a brief conclusion, highlighting the particular contribution of Urban Poor Funds and their potential for catalysing sustainable development benefiting the lowest-income and most disadvantaged people.

2 The challenge for Urban Poor Funds: setting the context

Introduction

The significance of Urban Poor Funds lies in their ability to support shelter improvements for the "hard-to-reach" group that is typically left out of both poverty-reduction and housing programmes. This section begins by summarizing the scale and extent of informal shelter. It then considers state efforts to support improved shelter and analyses the success of these efforts. The section examines the concerns that donor assistance and state agencies do not reach some of the lowest-income and otherwise most disadvantaged households.

There have been many efforts to improve inadequate shelter but they have failed for a multitude of reasons. In particular, the inability of groups to afford complete housing and the breadth of "informality" in their livelihood and shelter solutions mean that the realities of the housing solutions of the urban poor often do not fit well with professionally conceived plans and programmes. At the same time, the interaction between state and private providers (the market) in shelter provision has helped to create a context in which effective interventions to improve shelter are particularly difficult. Shelter is often an important resource that can help politicians achieve electoral success, and it is also an opportunity for income-earning among state employees and through speculative asset accumulation. Shelter programmes may be therefore be led away from their explicit objectives and intentions, to address these other interests. The discussion in this section sets up the challenge for Urban Poor Funds as they seek to intervene in established social relationships to support new and emerging outcomes that improve development options for low-income residents.

To address shelter needs, households require access to land, services and the finance for dwelling construction, or they need to be able to find affordable and adequate rental opportunities. In the North mortgage finance is a primary mechanism through which home-ownership is achieved, while the state is of major significance in supporting opportunities for low-income households to access rental accommodation.[3] However, both mortgage finance and a large-scale state-supported rental sector are unavailable in most Southern countries (with notable exceptions such as Singapore and Hong Kong).

The problems of mortgage finance in the South indicate the prevailing context and help to explain the prevalence of informal shelter. The low level of mortgage finance is related to a lack of demand, as the vast majority of households in most Southern countries cannot afford the lowest-cost complete dwelling that can be provided by the market in accordance with state construction regulations. There is also a lack of supply, as mortgage companies do not perceive customers able to meet their credit requirements. Mortgage finance requires legal compliance with land and building regulations and, in the majority of cases, it also requires formal employment status of the borrower (Calderón 2004; Stephens 2004). The emphasis on complete legal housing reflects the mortgage companies' dependence on repossession and resale in the case of default. Hence the house must have a legal status, which in most cases requires it to have legally documented land tenure and to be built in compliance with construction regulations. The requirement for formal employment is present both because of the common link between the maximum size of mortgage and income (which requires verification), and because it offers the possibility of deducting mortgage payments at income source, reducing lender risk.

As shown below, complete legal housing is simply unaffordable for most of the poor who, in many cases combine illegal land status with dwellings that do not comply with building standards (for example, because of the lack of services, lack of required building materials and inadequate building design). Formal rental housing is also unaffordable and those unable to acquire land for residence find themselves renting rooms in contravention of basic standards and with no legal protection. And, the prevalence of informal employment, estimated at 48, 33 and 45 per cent for Africa, Asia and Central and South America, respectively, simply makes it impossible for households to acquire loans even if their household incomes are sufficient to invest in a complete legal dwelling (Schneider 2002). This is the context in which informal shelter options and informal neighbourhoods have developed.

The scale of informal shelter

In the absence of formal mechanisms to address the shelter needs of the millions who require homes – because they have moved to urban areas, or have grown up as children in the city and now require dwellings for an adult home or their current dwelling is inadequate – informal mechanisms flourish. In past decades, squatting of either state, private or quasi-public land (i.e. land over which the state has some notional claim but no specific plans), has been a widely used strategy to secure somewhere to stay. Settings such as Villa El Salvador in Lima began when one community established a foothold and others came and squatted on desert land (Peattie 1990). Squatting, in this case occupation of common land, also helped FEGIP (a federation of informal rental famities) to shift hundreds of thousands from being tenants in Goiania to having their own land (Barbosa et al. 1997). In the Philippines, the National Government Centre is an area that rapidly acquired residents once the government published plans to shift government offices and other buildings from the centre of Manila to this location; it now has a population of 40,000 informally settled families (Antolihao and Van Horen 2005).

Some of these households may be able to afford a complete dwelling but are unable to access legal residential land. In many cases households build incrementally, improving the dwelling over a long period of time to spread their housing costs, further compounding the illegality of their housing solution. Incremental housing solutions occur in circumstances of both legal and illegal land tenure, as the costs of complete housing units are simply unaffordable. In the Philippines, 93 per cent of owner-occupied houses have been built through an incremental building process (Ballesteros 2002, 3). In Tanzania, it is estimated that 98 per cent of the housing stock in urban areas is constructed on an incremental basis (Mutagwaba 2003). Estimates of cement producers conclude that 70 per cent of housing investment in Mexico is occurring incrementally (Ferguson 2004, 4). Examples of the scale and significance of informal shelter strategies are given in Box 1.

[3] The state has reduced its direct involvement in actual provision in recent decades, but it retains a role in ensuring that there are appropriate providers and in providing finance.

Box 1: The scale of informal shelter: some examples
In India, there are an estimated 52,000 slums in urban areas (based on data from 2002). Nearly 14 per cent of urban households (8 million) live in slums; every seventh person in the city is a slum dweller (Satyanarayana 2007). In Bhopal, one Indian city, 31 per cent of the inhabitants, or 480,000 people, live in low-income settlements with uncertain tenure and/or inadequate services (Lall et al. 2006).

In Pakistan, about one-third of the population lives in katchi abadis *(informally developed areas) and slum areas. Around 60 per cent of the population belongs to the lower middle-class that earns an income of Rs3,000–10,000, demonstrating that in this case at least the scale of informal housing is not simply a function of absolute poverty but is also related to the affordability of existing housing.*

The same argument is highlighted in Philippine data; while an estimated 20 per cent of urban families in the Philippines fall below the poverty line (about 1.5 million households), there are 3.6 million families in housing need, most of them currently living in informal urban settlements. More than one third of urban families live in makeshift dwellings (Llanto 2007, 1).

In Thailand, in 2003, there were some 5,500 low-income urban communities, with 8.25 million residents (out of a total population of 64 million) living in poor-quality housing. In 3,700 of these communities, land tenure was insecure; 30 per cent of the people were squatters and 70 per cent rented the land on which they lived but had no secure long-term contracts. In these communities, 70–80 per cent of inhabitants could not afford formally provided housing, either through the market or through conventional government housing programmes (Viratkapan and Perera 2006).

The situation is similar in many urban centres in Africa. Three-quarters of Angola's urban population lives in informal, peri-urban "musseque" settlements and over 80 per cent of these residents have no clear legal title to the land that they occupy (Cain 2007). It is estimated that Angola's shortfall of housing is over 875,000 units (for a population of just over 12 million) and that 65 per cent of existing housing lacks basic services such as water and sanitation (Cain 2007).

In Lilongwe (the capital of Malawi) only 20 per cent of the population lives in formally planned housing areas (Manda 2007). In 2002, Dar es Salaam had a population of 2.5 million, of which 70 per cent was living in informal settlements (United Republic of Tanzania 2003, quoted in Sheuya 2007).

The two factors of illegal land tenure and incremental housing together make it impossible for households to be assisted by conventional mortgage finance. Even in a middle-income country such as Mexico, only 12.6 per cent of the housing stock is currently mortgaged (JCHS 2004, 12–14). Most recently, and unusually, SOFOLEs in Mexico has sought to provide housing loans to those working in the informal sector but this is an exceptional example (World Bank 2004, 4; JCHS 2004, 35). SOFOLEs (Sociedad Finaciera de Objeto Limitado) who were created in 1994 to serve as intermediaries in the residential mortgage market. By 2004, SOFOLEs were estimated to be the main source of private home lending, following the withdrawal of the banks from the market after 1995; they can make loans and raise debt on the capital markets, but cannot take deposits from the public. In this regulatory context, the private sector may seek to provide at the price that consumers can afford, but for many the resultant dwelling will be illegal (for example because the plots are located within an agricultural zone); home-owners purchasing such properties join the "informal" sector. In other contexts, households find accommodation through sub-dividing existing (legal and illegal) plots, perhaps making plots that fall below the regulatory minimum. In many cases, this land is rented; in some cases an informal title is exchanged. Renting of rooms may also be common, particularly for those wanting to live in well-located areas.

Seeking tenure security
Critical to establishing some kind of tenure security is access to land with legal tenure, or with the possibility of negotiating legal tenure. However, for many households of low and not-so-low income, this has proved very difficult. While some of the land that has been squatted was suitable for development, in other cases it was chosen simply because it was of low development value and hence, the people believed, there was less likelihood of them being evicted. In addition to steep hillsides and floodplains, urbanization has brought its own high-risk areas, such as the land adjacent to railway lines or roads or close to airports and under power lines. All these places became potential homes for low-income families. In Manila (the Philippines), for example, residents settled in small pockets along the Pasig River, despite the risks of flooding, because of the advantages of a central location. In Mumbai (India), residents were pushed towards the marshy land around what was originally a fishing village in Dharavi.

As urban populations have grown and urbanization levels increased, there are indications that it is increasingly hard to secure land by squatting, in part due to the lack of available land close to the centre (Rakodi 2006). The core allocation mechanisms for land are increasingly with the state and the market and there are fewer possibilities for self-help (realized tenure through squatting on vacant land). With economic growth, land that was previously not worth developing, or which had been left (for example, road reserves), is now being claimed by the state or commercial companies who are increasingly aware of the potential development value. Several Asian cities have seen land previously left unused by government and the corporate sector now being claimed for development. Box 4 in Section 3 below describes the consequences for some Philippine squatters as infrastructure improvements have taken place. In this case, there is an acceptance that the families will be resettled and the box describes the governance arrangements to organize the resettlement and some of the contestation of these resources. More recently, a redevelopment plan has been announced for Dharavi in Mumbai, reputed to be Asia's largest slum, with hundreds of thousands of people (*Economist* 2007; Patel and Arputham 2008).

Families may be at risk of eviction as the state and/or private sector seek to clear land of squatters so that they can benefit from redevelopment. COHRE (2006) documents the scale of evictions that have taken place over three years, recording that over 5.5 million people have been forced from their homes. Many more go unrecorded as they are relatively small-scale events that push families away from land on which they have been living, often for many years.

In many situations, urban residents have not found land through squatting but through the informal market. The example of Pakistan in Box 1 highlights the close relationship of informal shelter with the state (despite the relationship that the formal world might anticipate). Almost 94 per cent of land in Karachi is both directly or indirectly state-owned and has been occupied or encroached on to form the informally developed *katchi abadis* (Naqvi 2007, Hasan 1990). In this city, most squatting has been organized through a complex web of market and state interests, as "land mafias" brought agricultural land into the informal real-estate market, subdividing plots for sale, and often marking out those plots into a township. Services were not provided but adequate space was sometimes left for both infrastructure and services such as schools, religious institutions and health centres. Residents organized themselves, sometimes with the support of the developer, into welfare associations able to lobby the state to provide essential services. The patterns of private-sector land development are numerous. Much happens on a smaller scale than in Karachi, as individual plots are exploited for their potential market rent. In many cities, low-density areas have been turned illegally into higher-density areas, as the legal home-owners construct rental units on their plots to expand their incomes through this private enterprise (see Sheuya 2007 for a discussion of this consolidation process in Dar es Salaam).

Equally significant is direct political involvement in the land-development process. As discussed above, state institutions, as providers of residential serviced land and as the authorities that set construction standards, are embedded in defining the legality and illegality of housing solutions. A different dimension is the political significance of shelter provision both as a route to political popularity and electoral success, and as an asset to strengthen clientelist relations. The relationship between shelter provision and government survival is realized through diverse strategies. In Nairobi, land was allocated by President Moi to selected followers to retain their political support for his government; these followers subdivided and rented the land to secure their own incomes. In this case the government saw its political interests as being served by consolidating relations with a small group of supporters.

In other cases, larger-scale land redistribution has been used to increase the popularity of political parties and governments. In Peru, the dictatorship offered tenure security to informal settlers, recognizing the value of this in increasing its political support (Castells 1983, 194). Some decades later, political parties in a democratic Peru continued to be embedded in the occupation and legalization of new areas (Arevalo 1997). In other cases, state programmes involve more than simply access to land but include support for housing development. In Chile, the political significance of housing resulted in the Pinochet government introducing a capital subsidy for housing despite lobbying against this policy from the World Bank and a neo-liberal orthodoxy as the main state ideology; in part this was a response to widespread evictions of informal settlements (Gilbert 2002). The use by governments of subsidised state housing loans and other forms of housing subsidy as a form of political patronage, with allocations made on the basis of political alliances and obligations, has been documented for India (Roy 2004) and for Brazil with respect to housing programmes within President Collar's presidency (Valença 2007).

This is the context in which governments have introduced formal programmes to respond to housing need. The discussion in the following subsection highlights some of the key approaches and underlying directions of state shelter programmes in the last decade. The description of the general orientation of state-programming support for shelter is indicative of the kinds of state monies that might be available for new initiatives and helps to elaborate the context within which SDI affiliates are seeking to support grassroots shelter initiatives.

State solutions to shelter needs

Governments have, for multiple reasons, been interested in developing programmes to address shelter needs including tenure security. Explicit state involvement in housing is common, although programmes are very small in some of the lowest-income countries in sub-Saharan Africa. Support for the shelter sector has continued despite reductions in state expenditure following structural adjustment programmes and stabilization policies (UN-Habitat 2005). While there are indications that governments have responded to pressure to do less, rather than more, and to switch from being direct providers to enablers, there are numerous examples of government programmes and policies (see, for Latin America, IDB 2006, and Stein and Vance 2008; and, for Asia, Watanabe 1998). In their search for new approaches, governments have come to draw on the private sector and, particularly with respect to programmes to reach those with low-incomes, on non-governmental organizations.

Housing programmes offer a valuable asset and differ from alternative social programmes such as those focused on education or health. Access to housing programmes appears to be particularly appreciated by those successful in securing an allocation. For individuals able to benefit, the attraction of such programmes lies both in the essential contribution of shelter to the wellbeing of citizens, and in the present and potential values of land as an urban asset, especially in central city areas. Programmes are often structured as loans and, if the state has borrowed the finance, the costs (for state and households alike) may be borne only in the future; hence housing programmes may be a particularly attractive political proposition.[4] As summarized above, access to land and housing has been used to strengthen relationships of patronage and dependency – in some cases between the leadership and organizations in low-income settlements and state functionaries and elected officials, in other cases between the political elite and a second grouping of power brokers whether organized by parties or other criteria such as ethnicity. One significant implication is that the use of resources to maintain and strengthen patronage requires their scarcity; as soon as access to state programmes and privileges becomes routine, bureaucratic and predictable (even if not universal), then such access cannot be used to favour discretionary and partial political relations. In many cases, resource scarcity is a product of state decision making, with shelter programmes being just one mechanism to maintain privilege and consolidate dependency.

[4] It might be added that this attractiveness is evident to many including development agencies that are, for the most part, reluctant to finance housing and land transfers.

In this context, it is very difficult to establish more democratic allocation processes. In many cases, the state is embedded within existing informal strategies to address shelter needs, although it is notable that such strategies do not deliver large-scale housing solutions. There are multiple rationales behind housing programmes, reflecting both strategizing to advance political and state interests and the need to address significant and legitimate citizen need. Box 2 exemplifies those political motivations for one programme in Brazil, while Porio et al. (2004) illustrate somewhat similar tendencies in the Philippines when exploring the political dynamics around the Community Mortgage Programme (a low-cost programme of housing loans for those facing eviction):

> In many cases, politicians have treated urban poor communities as vote banks during elections and support bases for their political agenda. They make promises and investments with local community groups in order to strengthen their political alliances that become crucial to advance their political ambitions. This is particularly significant in LGUs [local government units ie. local government] with local officials who are closely connected with landowning interests and also steeped in patron–client politics.
> Porio et al. (2004, 68)

Box 2: Poor politics, poor housing: the Collor government in Brazil

The housing sector has often been accused of being a stronghold of clientelism in Brazil. However, showing how clientelism occurs within the formal structures that support public housing provision is not easy. At the time of the Collor government (1990–92), proposals around housing were complex and far reaching, which helped the National Housing Secretariat (Secretaria Nacional de Habitação – SNH) maintain the appearance of desperately trying to solve the country's problems. Housing, the government insisted, was a "priority". The Collor government set up a scheme to encourage the use of available resources for "social" housing. Public housing support in Brazil was at its lowest by the time Collor took office in February 1990.

A number of trends emerged following Collor's proposed and actual course of action in the housing field. For instance, it served to give support to constituent regions and businesses that were a source of political support for the government and Collor's presidential election, that is small and medium-sized municipalities in the interior (especially the more conservative constituencies in the interior of São Paulo, Paraná and Goiás states) and small and medium-sized entrepreneurial businesses. The Collor government attempted to circumvent the financial bottleneck that impeded certain politically attractive constituencies and supporting interests from benefiting from federal government housing programmes.

The house-building system operated through a set of institutions that served the government's political goals, with access to house-building funds being exchanged for the votes of selected members of the National Congress, in order to get Bills passed. As long as Brazil fails to address the real housing needs of the poor and to move away from regressive market and political arrangements, there will be no solution to the country's considerable housing problems.

Source: Valença 2007.

Mortgage finance has been a popular area of state support, although of little relevance to the lowest-income groups for reasons elaborated above. A number of interventions have sought to increase its relevance to lower- and low-income households, most notably the growing popularity of capital subsidies to draw low-income households into mortgage finance with the subsidy reducing the loan to affordable proportions. Building on the success achieved by capital subsidies in Chile, similar programmes have spread throughout Latin America; such programmes aim to increase the affordability of mortgage finance by offering a capital subsidy to cover part of the capital required for the purchase of a legal complete house or apartment (Stein and Vance 2008). Furthermore, this approach aims to address the problems of previous programmes, most notably their inadequate scale and subsequent political favouritism and corruption in the allocation (Gilbert 2004, 15; Gilbert 2002, 310). An aspect of the Chilean programme that is considered essential is its clarity of conditions and transparency of selection:

> The process of selection of the applicants is a very important part of the housing process. One of the reasons for the success of the Chilean model is that almost everyone believes that the process is transparent. This process is computerized and in general terms people know which are the criteria upon which they will be selected (for example, level of poverty as indicated by a socio-economic survey of each family and the amount of initial saving). The result of this selection is published in a local and/or a national newspaper so people could be informed.
> (Fernandez 2004, 4)

The use of a savings requirement as part of the conditions for receiving a subsidy may mean that this programme is of limited relevance to the lowest-income households who can barely afford to make this contribution let alone commit to repay a loan. Stein and Vance (2008) explain how a number of Latin American countries have introduced systems that are either fully subsidized or that enable the lowest-income households to contribute sweat equity in place of a savings contribution, with the remaining costs being paid by the subsidy. It should also be noted that there might be reluctance within the private banking sector to offer loans unless they are underwritten by the state (Pardo 2000).

Capital subsidies have helped to finance a new generation of government-supported, contractor-built housing for those in housing need; but they have not been without problems. In Chile, for example, the state sponsored more than half a million dwellings over the last twenty-five years, housing 20 per cent of the nation (Rodríguez and Sugranyes 2007). However, despite initial intentions the state faced difficulties in persuading the banking sector to take on the top-up loans required in addition to the state subsidy. In South Africa, the state followed a different route, offering a subsidy sufficient for a complete house. An attempt to replicate the Latin American model more closely, by offering top-up subsidies, was attempted through the Cape Town Community Housing Company but did not succeed in achieving scale. In both Chile and South Africa there have been concerns that the private construction companies who have a major role in delivery have built low-quality housing on sites that are generally considered to have peripheral locations and often few public services (Rodríguez and Sugranyes 2007, 55–57). In Chile, 65 per cent of residents in publicly financed housing projects in Santiago would like to leave but cannot afford to do so (Rodríguez and Sugranyes 2007, 52). Considerable effort was made to reduce the deficit but the consequences have been a new stock of very poor-quality housing. Profits are maximized when land costs are minimized and as much as possible of the subsidy is allocated to construction. (For similar conclusions, see Stein 2007 with respect to El Salvador, and Swilling 2007 in the case of the North Rail Project in the Philippines).

Targeting and implementation may continue to be difficulties limiting the effectiveness of these programmes. Despite their interest in and commitment to providing subsidies, many governments have a notable incapacity to establish such targeting mechanisms. In Chile, generally considered to be one of the stronger institutional states, an estimated 50 per cent of those in need of subsidy finance to assist with the payment of water bills do not receive these benefits (Lobo-Gomez and Contreras 2000). In India, a planned scheme for railway improvements was delayed for over a decade because of an inability to establish a scheme to manage resettlement entitlements and avoid false claimants delaying progress (Patel et al. 2002). These difficulties reflect significant shortcomings in programme designs and mechanisms. Perhaps above all they demonstrate the incapacity of government bureaucratic programmes to interface with informal, "on the ground" rules and procedures in a predictable way to achieve the intended, explicitly stated objectives.

Other programme approaches seek to provide capital subsidies for incremental development in recognition of the high cost of completed housing and hence its inappropriateness in addressing the shelter needs of the poorest. In some cases, such as a recent programme financed by a loan from the World Bank to Mexico for shelter-related grants and loans, capital subsidies for completed new units are provided alongside smaller grants for housing improvement and upgrading (World Bank 2004). However, equally evident in this case is the low priority given to this kind of intervention: within this programme, there is a strong emphasis on the "formal" housing solution, with 92 per cent of the funds being earmarked for the purchase of a completed minimal house (about 60 per cent of the loans). In general and despite a recent statement in favour of incremental development by Inter-American

Development Bank staff, there appears to be little support for incremental development (IDB 2006). This is a common problem also experienced outside Latin America. As Porio et al. (2004, 60) explain in the context of the Philippines: "the CMP [Community Mortgage Program] has also failed to obtain the support of government officials, including heads of housing agencies, because of the perception that it legitimizes the existence of squatters and degraded neighbourhoods in urban areas…. At the heart of this issue are the different perspectives informing what constitutes a valid housing solution."

Further state interventions to address the needs of those living in informal settlements have generally avoided the "sites and services" schemes popular in earlier decades. These schemes sought to replicate informal land-tenure formation with legalized and regulated incremental development, and were an attempt to create more affordable and effective alternatives to complete housing provision. State agencies, sometimes financed by international development agencies, provided serviced sites that were sold to low-income residents. A number of experiences emerged from these strategies – and were positive in some cases. Siddiqui (2005) discusses a programme in Hyderabad (Pakistan) that went to considerable effort to replicate an informal approach and avoid the abuses seen elsewhere. However, in other cases, the approach has been more problematic, with land being poorly identified and too far from local livelihoods, plots being misallocated, and the hoped-for development not taking place or large numbers of informal dwellings being constructed without regard to the capacity of the infrastructure.

The reduction in "sites and services" programmes is a likely consequence of the cutback in state expenditures. Moreover, these programmes are relatively unattractive to the private sector, which makes money on the construction component of urban development, including both infrastructure and housing construction. In Kenya, for example, there is now no site-and-service development (Alder and Mutero 2007). A modern variation of this type of intervention is the land-development programme in El Salvador in which the state subsidizes the development of infrastructure and the household takes a private loan for the construction of a simple dwelling (Stein and Vance 2008). Once more, there have been problems with the peripheral location of the land, and households have faced difficulties in maintaining the quality of their neighbourhood while also securing an income.

An alternative to "sites and services" has been programmes for "slum" and neighbourhood upgrading which seek to ameliorate the conditions in sometimes formal but mainly informal settlements. These programmes have sought to provide legal land title and the improved provision of basic services enabling those living in informal settlements to remain there. Micro-finance for shelter (i.e. small loans) to speed up the process of incremental development and housing improvements has become a popular addition to state-financed site-and-service schemes and/or slum upgrading (UN-Habitat 2003). In other cases, housing micro-finance provided by NGOs and specialist finance agencies may be encouraged by the state in part through the provision of capital (UN-Habitat 2003; for further examples see Cain 2007 and Mills 2007).

Each of these approaches has had some success but their collective impact has failed to deal with the scale of need, and they have had limited success in reaching the lowest-income groups. The scale of slum and neighbourhood upgrading programmes remains limited; in part this is a consequence of neo-liberal economic policies and a reduction in state expenditure. Even where there has been exceptional commitment, such as in Central America and Thailand, the scale remains small in comparison to need. Stein and Vance (2008) conclude that:

> According to the different reports produced by the five programmes, between 1989 and 2005 more than 110,000 low-income families in the main urban areas had access to resources for improving their habitat conditions. This represented about 3 per cent of the total urban population of the five countries in 2005, and about 6.5 per cent of the urban poor.
> …In Costa Rica, programmes reached 24 per cent of total urban poor families; in El Salvador, 4.5 per cent; in Guatemala, 1.6 per cent; in Honduras, 7.1 per cent; and in Nicaragua, about 8.2 per cent. These are small numbers relative to the huge potential demand for new housing and housing improvements, and the introduction of basic services and infrastructure in the region, but they are still significant.
> Stein and Vance (2008, 25-6)

A familiar concern, even when upgrading has been secured, is that the lowest-income families no longer remain in the upgraded areas. This may be because of the additional costs incurred by living in an improved area, as well as the relative value of the housing asset in a context of acute resource scarcity. The transfer of a capital asset to a household in income poverty may do little to address its development needs. The first major crisis may lead to the family selling this asset because it has no other way of raising finance, and the costs of borrowing are high. This situation does not mean that it is impossible to improve shelter but rather that improvements have to be sensitive to the realities of the poor, and (ideally) be embedded within more comprehensive programmes to address poverty. Properties in slum and neighbourhood upgrading programmes may be particularly prone to sale if, due to the location, the plots are worth a considerable amount.

The use of micro-finance for shelter improvements has been widely acclaimed for its contribution to income generation and livelihoods. Micro-finance extends the operations of the financial market to low-income households, offering them access to loans and in some cases providing additional services such as savings and insurance. Small loans for enterprise creation and consolidation have demonstrably assisted better-off households to increase their capital and hence their income-earning capacity. However, the situation for lower-income households is more complex. Many cannot afford to take loans and, if they do so, struggle to manage the associated risks (Hulme 2001). In this context, micro-finance may be associated with growing inequalities within settlements; Copestake (2002) highlights these issues during a study of one micro-finance programme in the Copperbelt, Zambia. While income differentials may help to support a growing internal market in both labour and commodities (for example, hairdressing, street foods, car repairs) within low-income settlements, their positive impact on collective action is less clear. A frequent finding in studies of community organizations in low-income settlements is the dominance of higher-income and higher-status groups who act in their own group interests (see, for example, Scheper-Hughes 1992; Ngware 2006).

Micro-finance for shelter has sought to provide access to loan finance for those building incrementally. As a programming innovation, it has emerged both from micro-finance for enterprise development in the last decade (Daphnis and Ferguson 2004), and from housing-support programmes in the South, where lending programmes go back several decades (Arrossi et al. 1994). Micro-finance is provided by a range of agencies; in some cases, NGOs are the providers, in other cases loans are given by specialist agencies, and a third provider, the commercial sector, is emerging in a number of countries including India and Colombia (Mitlin 2003). Most shelter micro-finance programmes offer loans of US$500–3,000 for housing improvement and development (CGAP 2004; UN-Habitat 2005). Lending strategies are broadly similar to those used for enterprise lending: individual loans, sometimes supported by group guarantees and others forms of guarantee provision. The key differences are that loans are generally given for longer periods, generally between one and five years, and in many cases interest rates are lower than those used for enterprise lending. The scale of some such programmes may be considerable; the Grameen Bank, for example, has provided over 600,000 loans in rural areas. However, many programmes are considerably smaller and capital can be a particularly difficult issue for micro-finance programmes seeking to expand housing lending.

Micro-finance strategies are largely outside the government's intervention in the shelter sector although they may be capitalized through government support for micro-finance. With their strongly individualized approach, they are essentially a relationship between a borrower and financial provider. The resultant housing investments may fall outside the formal regulatory process to control housing development. In the overwhelming majority of low-income settlements, penalties from the contravention of building standards can be ignored as the state has no capacity to regulate the construction process.

There are two main constraints on shelter micro-finance in terms of its relevance to addressing the shelter needs of the poor, and both are important in understanding the contribution of Urban Poor Funds. First, the individualized nature of lending, with a contract between household and agency, makes it difficult for infrastructure-access needs to be addressed because such assets require collective purchase. There are a number of exceptions to this generalization. For example, ASB in Pakistan has established a loan fund supported by the UK charity WaterAid which is used by communities in Faisalabad to lay down water lines (Alimuddin et al. 2004). However, in the vast majority of cases, micro-finance for housing follows a similar model to that used for micro-enterprise lending, with households borrowing directly from the provider and repaying them directly.

Second, a considerable level of tenure security is required to secure the loan, which is difficult for individuals living with insecure tenure. Shelter micro-finance agencies lend to relatively secure and relatively well-off households among the urban poor who can afford to take loans to improve their dwellings, and who have acquired land in well-established informal settlements that are very unlikely to be evicted. The lack of collective lending means that it is unlikely that groups will be able to use these monies to purchase land. As elaborated below, while Urban Poor Funds support lending activities among the urban poor, a core difference is that they are orientated towards such collective investments.

A further reason why micro-finance for shelter struggles to reach the poor is that housing loans are generally for a longer period than enterprise loans, and households may struggle to maintain the repayments over the loan term and to pay the associated interest charges. Many of these programmes are targeted at the higher-income urban poor, sometimes those with formal employment (for at least one member of the family) and often those with diversified household livelihood strategies. For example, the programme in Kenya supported by KREP and ITDG requires that borrowers have secure land ownership and are able to offer the house and/or land as collateral (or have some equivalent) (Mitlin 2003). Without a regular income, even small debts can no longer be repaid and the household enters into an increasingly adverse situation with respect to the market with lower incomes for less stable work, higher interest rates for smaller and shorter-term loans and a reduction in investment activity with, for example, children being expected to work rather than attend school and improve their educational qualifications and job prospects. The shift in terminology, from micro-credit to micro-finance, reflects a widespread acknowledgement that savings may be the financial services that are of greatest value to those with the lowest incomes.

In some of the more recent programming initiatives such as those in Central America and the Philippines (Stein and Vance 2008; Llanto 2007), shelter micro-finance has been added to existing strategies for neighbourhood (slum) upgrading. While the precise details vary between programmes, these combined approaches involve strategies to regularize land tenure (in the case of informal land ownership) and to improve infrastructure and services in addition to offering finance for housing improvement. Cain (2007) describes a similar initiative, currently experimental, in Angola.

Tenants are a particularly vulnerable group. Tenants' demand for home-ownership is evident once affordable programmes are available. In South Africa, tens of thousands of landless families (many renting backyard shacks) have joined the SDI-affiliated Federation of the Urban Poor in anticipation of securing state subsidies for home ownership. In Goiania, a successful grassroots movement shifted ten per cent of the city's population from the rental sector to secure land through invasions of public common land (Barbosa et al. 1997). However, there have been very few initiatives concerned to improve rental-housing opportunities. In just a small number of countries, the state supports low-income rental markets through direct provision (Ho 2004, 486; Lamoreaux 1998, 71; see also the South Africa Department of Housing website, www.housing.gov.za). In other countries, governments have been reducing their investment in public housing stock and in some cases divesting (see Ping Wang et al. 2005, 1875–1876, for an example from China).

Conclusion: positioning of the funds

The above summary of current approaches to address shelter needs illustrates the context from which they have emerged. The state seeks to use land and housing allocations (both formal and informal) to address shelter needs and to strengthen its control over the local process and to influence political preferences and processes in its favour. At one level there are a set of sometimes explicit, sometimes implicit, political and financial transactions between groups within the state and local residents in relation to access to resources (primarily land and state programmes) for shelter improvements. At the same time, there is a set of programming approaches that influences the rules around which resources are distributed. In recent years, the primacy of neo-liberalism within formal programme approaches may have exacerbated the prevalence of patronage policies as the state is under pressure to withdraw more comprehensive programmes due to their greater costs. However, as discussed above in the case of Chile, greater transparency in programme allocations may have gone some way to mitigating this problem.

The increasing provision of capital subsidies is an attempt to go beyond government's historic tendency to support direct provision with its evident limitations and, in many cases, inappropriate design and limited choice. The proclaimed intention behind these programmes is also to address the nature and scale of patronage in the allocation of state resources. While this intent is evident, there are also indications of the continuing emphasis placed on more exclusive programmes that can more easily be partisan. Those able to access the increased number of market opportunities can escape clientelist relations, but for many others there appear to be few options. As a result of these constraints, programming approaches to date have struggled to be inclusive of the lowest-income households, to reach adequate scale and to deliver lasting shelter benefits to the many in need.

There are numerous indications that social movements are very aware that they will lose their autonomy as soon as they engage with the state on a basis that accedes to the intention of local (and national) political elites to control local political processes in their own favour. There may be short-term gains, but in the medium-to-long term the interests of the poor will suffer because the grassroots organizations will be unable to negotiate from a position of strength, having become compromised through their engagement with the political elites. As one community leader in Rio de Janeiro commented to the author in 1995: "there are two things that destroyed the community organizations in Rio: drugs and democracy". A very similar comment was reported by Perlman (2004). A further illustration from Brazil reinforces the deliberate tactics used by political parties to maintain their position of control over local grassroots organizations: Barbosa et al. (1997) discuss how politicians sought to control the community organizations affiliated to the FEGIP (the Goiânia Federation for Tenants and *Posseiros*). As outlined in Huchzermeyer (2004), this time in the context of struggles of the South African Homeless People's Federation to promote community development in Port Elizabeth, such problems are not unique to Brazil. In this context, the task faced by organizations of the urban poor is to secure state resources in ways that enable them to maintain their independence – a considerable challenge given the extent to which patronage-style politics often dominates. To secure resources they are forced to engage, and they have to strategize so that such engagement strengthens rather than weakens their capacity to remain at the negotiating table.

This is the context in which the mechanism of Urban Poor Funds has developed. The strategies of SDI, particularly with respect to Urban Poor Funds, suggest that they recognize the multiplicity of problems with state shelter programmes to date. SDI affiliates require programmes to be free from party-political influence and to allocate their entitlements effectively, based on criteria related to need. The federation members, as beneficiaries of the programmes, seek to identify allocation processes that favour the inclusion of their members' needs within a systematic strategy to reach all of those who are homeless and landless. At the same time, programmes are likely to be accepted only if they are seen to be technically competent and efficient in delivering the resources required within the broad policy directions that exist at present. Politicians and officials wish to have public recognition for their contribution to addressing evident inadequacies in present strategies of urban management. Programming suggestions must fit with the broad ideological directions of existing policies, and be seen to offer a real possibility of improvements for all, or at least many, urban citizens.

3 The development and operation of Urban Poor Funds

Shack/Slum Dwellers International (SDI) is a transcontinental network of organized communities of the urban and rural poor in Asia, Latin America and Africa. SDI-affiliated communities are engaged in many struggles reflecting the difficulties faced by their member organizations. Savings schemes defend themselves against eviction threats and negotiate for secure tenure as well as exploring strategies to improve their members' livelihoods using a variety of methods and approaches. SDI's methodology encourages residents living in informal low-income settlements to organize themselves into savings schemes, which then federate at the city and national levels. A key mechanism for investing in improved tenure and services has been Urban Poor Funds.

This section begins by elaborating SDI's methodology – thereby presenting the broad framework within which Urban Poor Funds have emerged and been consolidated. Following subsections provide details of the establishment, role, function and operation of the funds.

SDI – a summary and overview of the methodology

There are 15 core affiliates within the SDI network (Box 3), each with a federation of neighbourhood-based people's organizations or savings schemes and a support NGO. The federations are formed from locally managed savings schemes, organized at a neighbourhood level, whose members are mainly women. The Thai Federation is also an affiliate although with access to government fund and therefore they are not included in Box 3.

Box 3: Summary of affiliates in terms of Urban Poor Fund activities

The Federation in Brazil is still emerging. It has a presence in Brazilia, Recife and Sao Paulo. Savings are taking root in many settlements. Two settlements in Sao Paulo will benefit from a new Presidential Slum Upgrading Programme. Subsidies will be blended with savings to provide housing solutions for over 500 families.

In Cambodia the Urban Poor Development Fund has been operating for ten years and is supporting the work of 225 savings groups in Phnom Penh and 42 outside the capital city. Over $2 million has been given in loans to members, including for income generation and in relation to shelter. Some of these loans have helped the development of communities resettled on land with secure tenure after central city evictions.Ghana is one of the youngest affiliates. Its fund is currently being established to assist in the development of land that has been acquired. They are actively involved in UN-Habitat's Slum Upgrading Facility (SUF) – where all the contradictions outlined in section 1 are evident.

The Indian Alliance includes the National Slum Dwellers' Federation, Mahila Milan (a network of women's collectives) and the support NGO SPARC (Society for the Promotion of Area Resource Centres). With respect to Urban Poor Funds, the Indian Alliance operates somewhat differently. It has pioneered the workings of the Community Led Infrastructure Finance Facility (CLIFF) a major institutional pillar now helping define the architecture of the International Urban Poor Fund. The Indian alliance has built the most houses, with the most complex financing arrangements, without a formal Urban Poor Fund. Instead it has evolved a strategy in which community initiatives are financed through a construction company and/or through small, separately managed revolving funds (see Section 4)

The Kenyan affiliate set up an independent organization, the Akiba Mashinani Trust (AMT), to manage its loan funds. The Trust has supported a number of developments including housing loans for about 100 members and, more recently, land purchase in four locations. The Kenyans, like the South Africans, have introduced another institutional tier. This is a community managed urban poor fund, much like those in Malawi, Zambia and Zimbabwe. The community managed Urban Poor Fund pools community savings in order to interface politically and financially with the formally managed AMT and to side-step it for small transactions and direct development finance. Negotiations with the government have opened a number of possibilities for further developments and the state has allocated land to some savings schemes.

Continued overleaf

The federation in Malawi has used the Mchenga Trust to finance the construction of just under 1,000 houses in the three largest cities of Malawi. Finance for further construction continues to be difficult as there is a limited savings capacity and the state has not provided finance. After a couple of years of operation, the relationship between the federation, support NGO (CCODE) and Mchenga Trust is currently being restructured.

The Namibia Shack Dwellers Federation was established in 1998 after many years of work on savings schemes supported by the Namibia Housing Action Group. The Namibia Federation has been working to secure land and reform regulations with Windhoek and other municipalities throughout the country. The Twahangana Fund helps to finance local investments with its own monies and acts as a conduit for low-cost loans provided by a government run housing programme, Build Together.

The groups in Nepal work with a savings and credit cooperative structure that has grown into a federation of women's savings schemes. The city-based Urban Community Support Fund was launched in 2004, part-funded by the municipality, and has supported one project in Kathmandu. This fund has been replicated in Birgunj, another city in Nepal. As in the Philippines, the accumulation and allocation of savings between savings and credit groups has enabled some groups to purchase land.

The Philippine Federation has drawn on its earlier micro-finance expertise to accumulate and manage savings. The Urban Poor Development Fund was established in 2000 and drew on these experiences in lending between savings schemes to address tenure insecurity. The fund is gradually formalizing its processes in ways that enable local savings schemes to manage at city level. The fund is active in the three main regions for the federation: Luzon, Visayas and Mindanao.

In South Africa, the Federation of the Urban Poor (FEDUP) has majority membership on the governance structure of a professionally managed fund known as uTshani Fund.. Between 1994 and 2004 uTshani helped the federation by pre-financing state subsidies and enabling them to build over 15,000 houses. FEDUP has also established its own community managed urban poor development fund. This fund accumulates the savings of individual groups so that they can either access resources through uTshani Fund or fund projects directly. This Urban Poor Fund built over 300 houses between 2004 and 2007 when uTshani ceased providing pre-finance. In 2008 uTshani resumed its function as a conduit for subsidies. In six months it has processed 967 subsidies for FEDUP.

The Women's Development Bank in Sri Lanka has been active for many years. It was part of a more formal credit union but broke away because of the members' frustration with some of the union practices. The federation consolidated its savings and lending activity, drawing on existing skills and capacities. The tsunami resulted in a new initiative in the town of Morotuwa where the federation is seeking a city-level shelter solution. A fund has been established for these developments and construction activities are beginning.

The Tanzanian Federation of the Urban Poor is supported by the Centre for Community Initiatives. The federation was established in 2004 and is active in Arusha, Dar es Salaam and Dodoma. The federation is currently working to support 30,000 people facing resettlement as a result of port expansion in Dar es Salaam. The Jenga Fund has been established and is planning to finance its first projects in 2008. The Federation is involved in UN-Habitat's Slum Upgrading Facility (SUF), but is not yet a major partner.

The Uganda Federation has grown significantly in2006-7 after many years of being restricted to one settlement in Kisenyi. As a precursor to an urban poor fund, savings groups in Kisenyi (Kampala) have used their savings to secure resources from the state to purchase land and construct a sanitation unit and six houses. Other groups in Kampala and groups in Jinja have now secured land for development.

Continued overleaf

Activities in Zambia have developed rapidly since the first building began in late 2007. The operating processes for the National Swalisano Urban Poor Fund are emerging from the experiences of these first developments. The federation has negotiated four plots of land in different towns across the country.

The federation in Zimbabwe has been active since the late 1990s. It grew rapidly and within two years began building houses. The federation was building in about ten towns across Zimbabwe prior to the current political and economic crisis, which has resulted in reduced building activities and severe repayment difficulties among members. The Committee of the Gungano Fund remains active.

Source: Author's interviews with SDI staff and federation leaders, and SDI Secretariat information.

The emphasis on local savings emerges from a commitment to strengthen social relations and social capital between some of the most disadvantaged urban dwellers living in informal settlements without legal tenure. The mechanism of savings appeals particularly to women because they can see the multiple benefits that arise from coming together in small groups and collecting available finance (pennies, cents, rupees). Savings-scheme members form active local organizations able to consider how best to address their own needs and those of their families. The savings groups are immediately useful, providing members with crisis loans quickly and easily. The accumulation of each member's savings provides them with a fund for housing improvements or income-generation investments. Particularly significantly, the collective management of money and the trust it builds within each group increases the capacity of members to work together on development initiatives. Finance, rather than being a means of exclusion, becomes a trigger for the formation of strong local organizations, as women combine to find ways to aggregate, protect and enhance their small change.

Just under US$17 million is currently in the savings accounts of the federation. Much of this finance is being locally circulated within savings schemes, as loans are given to members (for consumption, emergencies and small enterprise loans) and then repaid. These figures are very much an underestimate as the scale of money kept and circulated at a local level is captured only intermittently.

As they grow, savings schemes are encouraged to federate at the city and national level, creating institutions that can share assets and resources (mainly knowledge and finance), and thereby strengthen and extend the activities of local savings groups. These city and national federations also have a significant role in negotiating with state agencies to secure policy improvements and additional resources. As Appadurai elaborates (2001, 33), federating is a strategy to achieve political influence:

> It is a simple formula: without poor women joining together, there can be no savings; without savings there can be no federating; without federating, there is no way for the poor themselves to enact change in the arrangements that disempower them.

Each of these federations works alongside a support NGO, staffed by professionals who assist in a range of tasks related to grant management, technical development services and documentation for a professional audience.

The individual members, working within the savings collective, develop the confidence and skills to identify and realize their ambitions (Appadurai (2004) talks about this as being the "capacity to aspire"). As a result of organizing among some of the lowest-income women living in informal settlements, a strong emphasis on shelter-related activities has emerged. Throughout the countries in which SDI affiliates are active, women take on most domestic and child-rearing responsibilities, often completing the associated tasks alongside home-based income-generation activities. Many of the savings-scheme members do not have secure land tenure and are at risk of eviction. They are without access to basic services, such as running water and toilets. In this context, improved shelter is a priority.

Groups have developed a number of strategies to improve their shelter, including investment in tenure security and physical improvements (precedent-setting investments). Through a set of specific activities related to planning of land and installation of services, and sometimes construction of dwellings, members of savings schemes illustrate how they can improve their neighbourhoods, demonstrate their understanding of the costs associated with this process, and learn sufficiently to develop a more ambitious proposal. As the process has grown in significance, city governments and some national governments have become interested in supporting these community-driven approaches, recognizing their potential contribution to poverty reduction and urban development. As elaborated below, Urban Poor Funds are used to provide finance once these kinds of activities grow to a significant level.

In addition to financial mechanisms, SDI affiliates use a number of further measures to consolidate an empowerment-based development process. Savings schemes are strengthened and federations are consolidated through members' visits to each other to exchange knowledge and experiences. All the federations are catalysed and strengthened through community-to-community exchanges, and these take place on a daily basis within cities. There are also frequent community-to-community exchanges between cities and between groups in different countries. These exchanges help to ensure that ideas come from the poor themselves and that solutions are not dominated by professional theories and approaches (Patel and Mitlin 2002). The strategies used by the federations are embedded in the proven practices of the urban poor, and, because the savings-schemes members have worked out what to do themselves, they are able to change their strategies as circumstances change. They learn what is effective through their own experience, supported by that of other communities around them. Learning, rooted at this level, consolidates confidence in the capacities of low-income groups. Moreover, the consistent horizontal exchanges build strong relationships between peers, adding to the effectiveness of local negotiations. These exchanges may be experiential (for example seeing how a savings group has negotiated for land), related to the development of specific skills, and/or with a political purpose by bringing politicians, officials and community members together for a visit to development activities in another country.

All the federations use community-managed enumerations, surveys and maps to create the information base needed for mobilization, action and negotiation (see Appadurai 2001; Weru 2004; Patel et al. 2002). The surveys done by the federations are part of a mobilizing strategy, drawing in residents who want to participate in a locally managed identification and verification of their shacks and plot boundaries. Managing these processes strengthens existing savings groups, and the high-profile local activities related to the enumeration helps to create new groups. These surveys and maps also help to change the attitudes and approaches of governments and international agencies, through providing a resource to the state. They shift negotiating advantage as, in many contexts, politicians and officials recognize the federations' capacity to provide a fair and accurate information base widely accepted by residents; and this is required for upgrading and housing development. This is information that the local authority needs but generally does not have.

SDI affiliates seek a development partnership with government, especially local government. Affiliates recognize that large-scale programmes to secure tenure and provide services are not possible without government support. As most of the homes and settlements in which federation members live are illegal, such relationships are essential if security is to be achieved. Often the groups are squatting on land belonging to a state agency, and require the government to acknowledge their right to stay and to give them tenure. In other cases, they are on private land and need state support either to negotiate tenure, or to find an alternative location. In addition to legal tenure, as mentioned in Section 2, numerous local state institutions control aspects of shelter development. Local government agencies control zoning and building regulations, often placing affordable housing beyond the reach of most citizens. For shelter improvements to be affordable, such regulations need to be renegotiated. The purpose of precedent investments is as much to demonstrate the kinds of regulatory amendments that are required for an inclusive city as it is to elaborate on the scale of finance and the kinds of cost-sharing arrangements that might be necessary.

The federations are aware that governments face the problem of managing the city, including dealing with squatter settlements, some of which are located on land needed for infrastructure (such as road reserves), coping with the additional pressure on existing services that accompanies in-migration, and handling the fact that poor-quality settlements are often judged to compromise the image of the city. In some cases, government agencies can be persuaded to be partners in precedent-setting investments:

federations and city governments collaborate to identify improvements in which both groups have a stake. The challenges that governments face draw them into an engagement with federations; often they are open to working with federations if they are persuaded that federations can help them address such challenges. Exchanges of community residents, politicians and government staff provide a platform to explore these issues within some kind of neutral space. For example, during an exchange from Malawi in August 2006, staff from the Housing Ministry began a dialogue with federation leaders about offering resettlement to squatters in the centre of Lilongwe. The government wished to reclaim the land for its own use, but preferred to negotiate with, rather than evict, the residents. After being exposed to the resettlement activities of the federation in India, the officials understood how the Malawi Federation might assist them in this process.

The experience of the Philippine Federation in the resettlement processes related to the North Rail Project in Manila is illustrative of both the general problem of tenure security and the experiences informing the thinking of SDI affiliates in how they can successfully negotiate with the state (Box 4). This project is part of a series of urban upgrading investments being undertaken by the Government of the Philippines to increase the international competitiveness of Manila. Financed by the Export-Import Bank of China, the North Rail Project is intended to support new outer-city spaces for residential, non-residential and tourism activities by improving rail links between peripheral locations and Metro Manila. The development of these railways involves the relocation of 13,000 families who have squatted on state land that now needs to be cleared for rail development. Box 4 elaborates the governance structures and outcomes with respect to land; it highlight how elite political interests seek to influence outcomes, and how the federation strategizes to secure benefits for its members.

Box 4: Land allocations and land development in Philippine resettlement

To implement the North Rail Project, an elaborate participatory governance structure was established to facilitate effective coordination of the various government departments involved and to create a space for the involvement of selected NGOs and people's organizations. The National Inter-Agency Committee (NAIC) comprised representatives from the Housing and Urban Development Coordinating Council (HUDCC), National Housing Authority (NHA), Philippine National Railways (PNR), Presidential Commission for the Urban Poor (PCUP), Commission on Human Rights (CHR), National Anti-Poverty Commission (NAPC) and the Technical Education and Skills Development Authority (TESDA).

Although participation in the National Committee was limited to government bodies, this was not the case when the Local Inter-Agency Committees (LIAC) were established for each municipal area. These committees included representatives from three categories of stakeholders: national government agencies; local government including both social departments and provincial government and Barangay representations; and NGOs, community associations, people's organizations and various private groups.

The Homeless People's Federation of the Philippines (HPFP) was one of the people's organizations that participated in the LIAC, and by all accounts the most significant given its active presence on the ground via affiliated community associations. Four issues became the focus of conflict and negotiation within the LIACs: the relocation land that government, in collusion with developers, had selected; the process of selection, i.e. who has the right to decide where people move to; whether relocatees would move into their already built houses or whether they had first to move into temporary shelter; and the cost of the land, services and houses and how much of this would be a subsidy and how much would be a loan. The federation played a leading role – often with local mayors as allies – in contesting these issues and proposing alternatives. How these played out tells an important story about the new terrain of struggle that the HPFP has entered into.

Continued overleaf

Most government agencies assumed from the start that the relocation would be to a site known as BUHAI located in Norzagaray. The development of this large outer-city site goes back to 1997 when the relevant local government in Bulacan and a private developer agreed to build what was defined as a 'self-contained' community. Unconfirmed reports refer to Php120 million being spent by NHA to buy the land. Many local mayors and the HPFP were unhappy with the site because it was inappropriately located. During the conflict over the site, however, much information surfaced about the role that private developers play in the land deals that determine where the urban poor end up living, i.e. on the outer edges of the city. There is plenty of evidence that elite networks between developers, senior officials and politicians were used by developers for the development of low-value land for re-locatees. Their profit margins, however, were dependent on the land price that government was prepared to pay; the higher the land price, the less was available for the state to spend on services and top structures. This, in turn, meant that the cheapest land with the maximum number of sub-divisions (and so the smallest plots) would generate the best possible return for the developer. This pitted the developers against the Community Associations and People's Organizations involved in the LIACs who wanted what came to be called 'in-town/city' locations (which are invariably more costly), larger plots, and the lowest possible land price.

Source: Swilling 2007.

Exchanges and the sharing of experiences in the early 1990s between organizations with similar values and principles resulted in growing bilateral links and an awareness of the value of international networking. By 1996, the federations and their support NGOs recognized the need for an umbrella organization, Slum/Shack Dwellers International (SDI), to promote and support international exchanges between member federations and to support emerging federations in other nations. Such a network would also enhance the capacity of the affiliates to influence the policies and practices of international agencies so that they are more supportive of the agendas of the urban poor. Since its inception, the network of federations that make up SDI has grown from the seven founding members (South Africa, India, Zimbabwe, Namibia, Cambodia, Nepal and Thailand) to 15 active affiliates in 2008 (with the addition of Kenya, Malawi, Uganda, Ghana, Zambia, Sri Lanka, Philippines and Brazil). Exchanges are now taking place with groups in many other countries, including Egypt, Angola, Mozambique, Indonesia and East Timor. The network interacts through an intense programme of international (mainly bilateral) exchanges; it is held together by a mutual recognition of the multiple benefits of solidarity between urban poor groups.

Over time, and working with particular donors, the network has secured access to donor funds that it has the capacity to allocate itself (rather than being directed by the donors). These funds are now referred to as the International Urban Poor Fund; the pre-genitor of the fund has been located both within IIED and at the international Secretariat (see Mitlin and Satterthwaite 2007 for a discussion of the operation of the fund based at IIED). The embryonic International Fund has operated as a grant-making pool of financial resources and one very significant role has been to capitalize the national and city funds. These centrally allocated monies have supported new activities and functions within the network, including exchanges about the most effective strategies for Urban Poor Funds. More significantly the grants have helped to support the growth of the network with a growing number of affiliates and an increased awareness of the contribution of network activities in adding value to local development. These funds have helped to support the emergence of a number of local funds. Together with a parallel more institutionalized finance facility managed for SDI by Homeless International and known as CLIFF, the IIED managed funds have created the conditions for the emergence of a more formalised mechanism, managed by the SDI Board and known as the International Urban Poor Fund. This working paper focuses on the experiences with SDI local funds and does not elaborate the experiences of CLIFF (see Morris with Mullard and Jack 2007 and Morris 2006). While the embryonic fund within IIED and the Secretariat demonstrated the power of the network to allocate small grants to good effect, CLIFF has been important in facilitating learning about the impacts, for SDI, of having access to large-scale capital, financed by bilateral agencies, able to draw in available subsidy and development finance. CLIFF was first piloted in India (2002), spreading to Kenya in 2005 and then to the Philippines in 2007.

Urban Poor Funds – form and purpose

Urban Poor Funds are the "war chests" of SDI affiliates that they use to finance their struggle to secure land tenure, infrastructure and housing for their members, and to force state institutions and other stakeholders to invest directly in the realisation of these rights.

In financial terms, an Urban Poor Fund is a pool of financial assets set up by affiliates of SDI. The funds are independent of the state but may be established with the support of governments, either local or central. The monies are allocated for the purpose of securing land, housing, water and sanitation; in some cases, they are also used to improve access to financial resources for income generation. Increasingly within SDI, Urban Poor Funds are the mechanism that is being used to address the financial needs of the federation members above the level of the savings schemes' own accumulated monies. These funds are needed in part because groups have no substantive access to credit within the formal financial system. But it would be a mistake to see the funds as simply replacing bank loans; their evolving design means that their role is more significant than simply being a source of micro-finance.

Urban Poor Funds are a mechanism through which ideas and potentials created by the federations are brought into the public domain through physical investments that take place in low-income settlements and which are financed by a community-managed formal institution. An Urban Poor Fund of some shape or form has been instituted in all of the mature SDI affiliates, generally after the core organizing and federating work has begun to generate a mass movement. This initial organizing work catalyses strong groups able to analyse the problems that they face and consider potential solutions to attract political attention and hence offer an opportunity to negotiate for state support for shelter and tenure improvements. Examples of such solutions are a toilet block to provide sanitation to a community that is too dense for individual provision (such as Kisenyi in Kampala), and a low-cost adobe-block house in Lilongwe. The initial finance for such solutions may be provided through an emerging Urban Poor Fund, or through other available monies; but what is significant is that, at this point, an Urban Poor Fund is created if it does not exist. The creation of the Urban Poor Fund reflects SDI's commitment to ensure that the solutions to the inadequacies found within low-income settlements are not achieved through uncertain and erratic injections of project finance with the implied "unique" nature of each such activity. Funds aim to enable finance to be provided to all savings schemes that meet the terms and conditions required by the federation – that is, they are a mechanism to shift from precedents to predictable interventions able to be undertaken throughout federation member savings schemes. The fact that finance is not available for all in the initial stages of fund development is less significant than the creation of an institution that has the ambition of being responsive to all who meet its requirements.

Urban Poor Funds advance loans to organized collectives of the urban poor who have demonstrated, through following the practices of savings schemes, that they are ready to receive additional investment capital to address their shelter needs. The capital is generally a mix of savings scheme and donor monies, sometimes with a state contribution. The savings schemes then repay these loans to the fund, enabling them to be recycled to other communities. The interest rate is generally sufficient to cover inflation and administrative costs. As discussed below, the funds are governed by boards with a membership of professional staff and federation leaders. Administrative support is generally provided by the support NGO; in some cases, this is located within a dedicated organization. Terms and conditions are established through federation consultation of savings schemes, and discussions between federation leaders and support NGOs. Over time they are modified due to changes in circumstances and as the experience of borrowing informs the federation members' understanding of the potential contribution and effective operation of such a fund. For example, the Namibian Federation decided to add a savings-scheme contribution to its fund capital to increase local ownership, and the Zimbabwe federation changed repayment strategies in the face of rampant inflation.

With respect to the scale of activities, the challenge for the NGO and federation leadership is to be able to accumulate and recycle sufficient capital to enable the fund to respond to demand, while at the same time maintaining an essentially relational rather than bureaucratic process that enhances federation control and management of the investment and the empowerment of savings-scheme members. (This is discussed further in Section 4 below.)

In the case of most affiliates, the Urban Poor Fund has been the first provider of finance for shelter investment. However, in both the Philippines and Sri Lanka, lending for land acquisition and/or housing investment was first financed through the accumulation of savings-scheme funds which was at a sufficient scale to enable shelter-related lending. In both countries, recognition of the inherent limitations of a system without external finance has encouraged the affiliates to establish a fund that is designed to draw in external finance on favourable terms, enabling the expansion of lending activities. Box 5 describes the emergence of the fund in the Philippines, where the affiliate is notable for having a strong, locally managed savings and loan practice.

In Kenya, Namibia and South Africa this evolution happened in reverse. Land acquisition and housing investment were first financed through external finance that was raised by formally constituted Urban Poor Funds: Akiba Mashinani, Twahangana and uTshani Fund respectively. When Federations discovered that these semi-formal institutions they had formed themselves were too constrained by the relatively onerous conditions imposed on them by their back donors they began to pool community savings into collective funds that achieved sufficient "investment" to fund shelter related activity directly (see below).

This has been a very important learning process for the SDI network as a whole and has informed the design of SDI's formally constituted International Urban Poor Fund. It is worth noting that many formal financial institutions remain hesitant to support SDI's formally constituted Urban Poor Funds such as Akiba Mashinani and uTshani Fund. From the opposite perspective, three of the more mature federations have felt compelled to develop a secondary mechanism, wholly controlled at the grassroots, to deal with or bypass the formal Funds because they are seen as unresponsive and bureaucratic (see Box 7).

Box 5: An emerging fund and associated practices in the Philippines

At present, savings schemes are involved in the design of innovative strategies for up-scaling community-led slum upgrading on a city-wide basis. The central focus of this strategy is the idea of a city-wide Urban Poor Development Fund (UPDF) that can be used to mobilize development funds for injecting into communities to match savings collected for investment in land, services and housing. To build up the case for a UPDF that both government and the private sector can eventually support, the Homeless People's Federation of the Philippines (HPFP) has started to raise funds to pilot slum upgrading and relocation projects that demonstrate what can be achieved if external funds match locally generated savings to finance the construction of infrastructure and housing.

All members are asked to contribute 50 pesos a month to the Urban Poor Development Fund. These savings are held at the group level. Some groups are negotiating to buy land (generally the land on which they are presently squatting). The landowners may allow the groups to spread payments, assisting with affordability. However, some landowners demand their cash quickly and groups need to accumulate the required funds. Groups that need access to finance to purchase land are encouraged to apply to other savings schemes within the city for the funds. They have to show that they have their own savings contributions, there is a plan for the development of the land, they have a strategy for covering the costs of technical assistance and to provide proof that the landowner is demanding payment all at once. The lending savings schemes decide on the interest rate but the federation has insisted that it cannot be more than 6 per cent a year. The regional committee has to agree with the loan that is being made. Donor contributions have enabled this lending process to be scaled up to a fund in three regions where financial support also enables the construction of simple housing units in addition to land purchase.

Sources: Swilling 2007, 7; and interviews with Sonya Fadrigo (February 2008)

A crucial contribution to the capital of Urban Poor Funds has been the urban poor's own resources. The significance of the monies is less to do with their quantity than with strengthening community ownership with respect to fund management. Federation savings provide about two per cent of the equity in the funds at present (Table 1). Their role is central for many reasons that are detailed below. The two federations that began their Urban Poor Funds solely with external funds, Namibia and South Africa, have now amended their systems to encourage local contributions. Communities contribute to Urban Poor Funds through their savings schemes; generally the national federation and/or fund board set a guideline for the scale of contributions (see Table 1). As noted above, in addition to community contribution to national funds, in a number of countries including Namibia and South Africa, regional funds had been established with savings-scheme contributions to help ensure that capital held in the savings schemes could be used more effectively; these funds are called Ashisha funds in Namibia and Inquolobane (the Granary) in South Africa.[5]

The importance of local contributions reflects the centrality of community control within SDI institutions and processes, and the importance of ensuring that the urban poor are central to the management of each part of the process. Savings schemes are used to accumulating their own funds and managing these monies, lending to their members as required within their capacity. This process is located at the level of the savings schemes – their own neighbourhood. Urban Poor Funds require local groups to set up financial-management mechanisms above the level of their immediate community; this is analogous to the organizational strategies of SDI and the way in which federating brings together savings schemes, enabling them to have a political presence and catalysing associated political strategizing.

Funds are a significant development from local financial (saving and lending) activities, transforming a financial neighbourhood process into a city-wide financial process with associated political dimensions. The local funding process (settlement-level savings and lending) is relatively self-sufficient – although additional capital may be required for some lending, such as larger income-generation loans. The management focus is local and concerned with addressing local needs in ways that maintain financial sustainability. The relationships that are required to manage this process are immediate and familiar, although this does not mean that they are always easy to manage. The fund process is a very different one that seeks to support the emergence of new kinds of political and social relationships within the city. The savings schemes, working together through the federation, are required (by themselves) to develop systems of accountability and transparency within the federation for the allocation of fund monies within processes that are effective in meeting the objectives of the network and the needs of savings schemes across the network. The experience of affiliates is that savings schemes are more engaged in this process if the fund includes their own savings.

The contributions of savings schemes to the Urban Poor Fund are augmented by external donor funds as well as government resources. Table 1 shows the capital and equity leveraged by community funds in the 16 countries where Shack/Slum Dwellers International is most active, with established savings schemes and federations. These external funds are sourced from a wide variety of agencies. To date, all the international donors supporting funds have a longsta
nding relationship with SDI and hence are willing to commit monies to a financial mechanism where the allocations are determined by the fund management team of each affiliate. This is a significant change from most development-assistance allocations in which the donor agency determines the priorities. The fund in Thailand is not included in the table because it is a state fund within a state agency (the Community Organization Development Institute, CODI) rather than one managed by the SDI affiliate. Nevertheless, the savings schemes in Thailand work closely with SDI groups and are interested in exchanging experiences with SDI affiliates.

[5] A more recent trend is the decentralization of national Urban Poor Funds into regionally managed sub-funds; this is returned to in Section IV.

The savings schemes are considering a community fund at the national level, as explained by Supanee Tiamseeha (one of the savings-scheme members from Banan Kluay Community, Klong Toey, Bangkok at an international meeting of savings schemes in November 2007):

> Because CODI is a government fund, and it must always be associated with a degree of uncertainty. The communities wish to create their own fund at the national level. They know that at present there are the resources to do this. People have the fund but it is scattered across many communities. If we link these resources together, we can create a very big fund. Then, in future, if CODI cannot support our work, we will have access to our own monies. This is not yet established but it is a clear plan.

Table 1: Equity and assets of Urban Poor Funds

Country	**Start Date**	**External funds[6]**	**Urban poor[7] savings**	**Land[8]**		**Houses[9]**		**Infrastructure[10]**		**Toilets[11]**		
		US$	**US$**	**No. of Families**	**Value in US$**	**No.**	**Value in US$**	**No. of Plots**	**Value in US$**	**No. of blocks**	**No. of seats**	**Value in US$**
Brazil	2005	25,000	5,000	150	225,000							
Cambodia	1998	897,958	58,971	5,000	750,000	2798	1,130,000	11,591	477,318			
Colombia	2001	5,000	1,000	60	25,000							
Ghana	2004	120,000	50,000	5075								
India		23,000,000	100,000	35,000	17,000,000	35,000	70,000,000			600	6,000	11,500,000
Kenya	2003	500,000		1,000	500,000	100	350,000			2	20	50,000
Malawi	2005	1,000,000	35,000	1,770	500,000	770	560,000	900	60,000	3	15	
Namibia[12]	1999	1,700,000	110,000	3,500	100,000	1500	3,000,000	800	400,000		800	50,000
Nepal	2004	313,847		44		44	160,000					
Philippines	2000	2,242,097	25,530	26,166	3,500,000	547	2,094,900	1,089	326,250			
South Africa	1995	12,000,000	220,000	20,000	5,600,000	13100	65,000,000	850	800,000	3	25	40,000
Sri Lanka	2004	120,000	100,000	120	120,000	50	50,000				500	250,00
Tanzania	2007	8,000	12,000	250								
Uganda	2004	45,000	3,000	109	50,000					1	18	50,000
Zambia	2006	100,000	5,000	1,000	300,000							
Zimbabwe	1998	1,942,000	67,632	8,500	600,000	1000	300,000	2,000	100,000	1	20	200,000
Total		44,018,902	991,133	107,994	29,300,000	54,909	142,644,900	17,230	2,163,568	610	7398	11,890,000

6 External funds include grant and loan finance mainly from Northern donors.

7 Urban Poor Funds are local communities' savings held within the fund. Communities can also have other saving funds at community level.

As noted above, community contributions are not the only source of finance (this is elaborated in the following subsection). In some countries, Urban Poor Funds also provide a route through which low-income households, working collectively, can access state funds for urban development including individual subsidy entitlements. There are several ways in which this can happen:

- the federation has negotiated with the state so that the Urban Poor Fund becomes a conduit for existing state subsidy programmes
- the federation has negotiated with the state for a capital contribution to the fund, and
- the federation uses the loan finance to negotiate the release of other subsidies direct to communities either financial or in kind (e.g. land).

State support is important. The network affiliates are clear that the needs of the urban poor cannot be addressed without significant redistribution to ensure that land, services and housing are affordable even to the poorest. Low income levels in urban areas mean that improved shelter cannot be achieved without state support. However (as elaborated in Section 2), state funds for urban development and upgrading have often been problematic, helping to consolidate existing patterns of clientelism in which the relations are hierarchical and paternal with the subsequent investments strengthening the dependency of the residents on the existing political system. Therefore, the challenge for Urban Poor Fund is to change the mode of delivery as much as it is to secure additional monies.

When seeking state resources, the fund becomes an institution that replicates some state treasury functions within a framework of community management. The institution exemplifies what Appadurai (2001) refers to as "governmentality from below". This is not the only federation activity (or tool) that mirrors certain state functions. However, unlike the tools and mechanisms of enumeration and participatory planning/design, in which the community replicates state practices and seeks acceptance from the state for the associated outputs, the fund seeks an institutional presence through its organizational form. Urban Poor Funds are a linking institution claiming credibility, legitimacy and the potential involvement of the state while at the same time being controlled by the organized urban poor through their representative organizations. The funds are framed within a discourse of participatory governance and are compliant with the strictures of modern urban management in the sense of being accountable, transparent loan funds with interest rates set to cover the cost of capital and administrative costs.

However, at the same time, the experience of fund management seeks to be transformative by embedding the learning about the challenges of inclusion and universality within the federation's own experience, hence building its knowledge of what can be done and about the broader implications of these experiences for its own objectives. Rather than letting the state monopolize knowledge about the tools and mechanisms of government, Urban Poor Funds force
the federations and their NGOs to engage in planning and managing urban development programmes at scale in ways that offer opportunities to all members. For example, the consequences for federation members of following such requirements as market interest rates can be understood only through considered experience. The point is not that Urban Poor Funds function to provide finance that is universal and affordable for the lowest-income federation members but rather that, by publicly stating their ambition to provide such finance, the funds provide a space for federation leaders and members to engage each other (and the state) around striving for this reality.

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[8] Land here is normally individual plots, except in India where multi-storey blocks are constructed. Plot sizes vary considerably.

[9] Houses are normally constructed in concrete blocks or brick. Houses built using traditional materials are not included as they are constructed without the use of loan finance. The value is based on market value of the houses inclusive of the value of land.

[10] Infrastructural developments vary from country to country, and range from communal facilities to individualized water and sanitation.

[11] Toilets refer to toilet blocks, in most cases communal.

[12] This does not include Build Together Programme monies.

A further essential non-resource contribution is the reform of regulations and building standards so that low incomes do not result in illegality with respect to shelter provision. Existing standards help to ensure social exclusion, because they are unaffordable to the poor and hence define their informality (illegality). The professionalization of urban development has reinforced standards maintaining such exclusion and helped to ensure that those with low incomes are also deemed to be of low status by virtue of their practices. Social respect (and for some self-respect) can emerge only once these standards become challenged through demonstrated alternatives for which acceptability generally has to be negotiated. Through such a process their partiality becomes exposed, and what was once thought to be better through being "modern" and representing "progress" is recognized to be simply one particular construction process and/or outcome. The demonstrated alternatives may simply be more affordable, although in some cases they may also involve lower environmental costs. For example, Box 6 describes the work of the Malawi federation and their use of adobe technology.

Box 6: Adobe houses in Lilongwe

The first housing development of the Malawi Federation took place in Lilongwe in 2005/06. The federation decided to build with adobe bricks due to the cost advantages. For about US$700, it was possible to construct a house with an internal dwelling space of about 40 square metres. Staff from the Sustainability Institute in Stellenbosch showed the federation members how to make the mud blocks.

This construction material was not legal in Lilongwe but the savings-scheme members worked out what they could do. The Institute had shown them how to cover the external walls in a lime finish so that the houses could easily be painted and withstand rain. Once they were painted, the houses looked like conventionally constructed dwellings. The federation members invited the Mayor to come to open their completed settlement of 200 homes. Once it had been officially sanctioned in this way, they reasoned, there was little that officials would do.

The federation has continued to use the same building material in two further developments in Blantyre and Mzuzu. Many other groups are keen to come and see the construction and learn about the new technology. The federation is keen to continue with adobe houses because of their significantly lower cost.

Source: interviews with Federation members and CCODE staff, August 2007

Urban Poor Funds have primarily concentrated on shelter-related investments, including land purchase, infrastructure installation and/or dwelling construction. A number of funds have also supported economic development and income generation in response to requests from members. The most extensive initiatives in these areas are those that build on the practices of affiliates whose savings schemes are particularly active in lending to their members for income-generation activities. In both India and the Philippines, for example, there are widespread entrepreneurial activities among local members, and in some cases these require additional capital that may be provided by the Urban Poor Fund. Income generation is seen as a primarily individual strategy for livelihood improvement that is likely to have limited relevance for some members. A greater interest lies in more broadly based economic development strategies but to date these have been relatively under-developed as more emphasis has been placed on shelter.

Urban Poor Funds – affiliate approaches to operational issues

The subsection above has summarized the purpose, activities and scale of the Urban Poor Funds. However, it should be emphasized that there is no single form or model for these funds, and they differ in a number of dimensions. The specific identity of each fund is determined by the constraints and opportunities within each national context. Numerous factors are important in influencing the possibilities that affiliates have to raise external funds, and most notably the ease with which donor contributions and/or state allocations can be secured. The context also influences perceptions about the role of professionals, the opportunities for recruiting supportive professionals and the extent to which professionals may contribute to a management role within the organization. Other differences include the depth of savings experience with low-income settlements, and the ways in which individual savings-scheme members perceive their relationship to the emerging fund.

This subsection describes the operational policies of Urban Poor Funds, and in so doing elaborates some of the ways in which funds have differing identities and characteristics. The discussion highlights four such dimensions to examine the choices that SDI affiliates have made about the strategic direction and hence organization of their Urban Poor Funds. The first dimension is the composition of the financial assets within the fund, including the contribution that the federations have decided their members should make. The remaining dimensions are governance strategies, loan management responsibilities and approaches to repayments.

Financial composition

For some federations, the catalyst for the fund is very much an aggregation of the savings of local groups. In these cases, the establishment of a fund enables the consolidation and deepening of federation activities beyond the settlement as the financial relationships both trigger and reflect increased solidarity between individual savings schemes. The strengthening of relationships between savings schemes may lead to more effective lobbying of local government and central state agencies, particularly at the level of the city. It may also have a more specific financial purpose, increasing the availability of capital for lending as funds are pooled, enabling their more rapid allocation to borrowers. Pooling enables those savings schemes where demand for borrowing is high to access the savings of members in other schemes. In Sri Lanka and the Philippines, the strength of local savings activities has resulted in lending for housing (in the case of Sri Lanka) and land (in the case of the Philippines) prior to the establishment of Urban Poor Funds with external finance. This helps to demonstrate to the state what is possible, as well as responding to the needs of local members. It is notable that in both these cases, the federations have drawn in earlier traditions of savings within a credit-union and micro-finance approach. The initial accumulation strategy within the funds is one of savings aggregation.

In addition to the accumulation of funds from existing savings, a key purpose of the fund for many affiliates is to attract and negotiate for external resources. In many cases, as noted above, community savings offer an initial contribution with these savings then being used to leverage additional funds from a range of donors and/or the state.

There are two broad mechanisms through which funds have accessed state monies and a third in which they have encouraged the state to grant resources directly to savings schemes.

1. A capital contribution to the fund, which enables the fund board to allocate these monies alongside other capital.
2. Using the fund as a conduit for existing state subsidies with their own associated conditionalities. Fund managers negotiate so that savings schemes and/or savings-scheme members that are entitled to these benefits can draw them down through the fund. This means that members can top up their subsidy entitlements with loan finance, and there is less bureaucracy involved than in direct dealings with government offices and hence the state subsidies can be allocated and used more efficiently.
3. When the fund encourages the contribution of assets to groups. This typically involves land and/or infrastructure finance to groups who can show that, because of the fund, they have the resources to develop the land.

In India, Malawi, Namibia, Nepal, the Philippines, South Africa and Uganda, either national or local government, or both, have contributed to the Urban Poor Fund and/or activities supported by the fund.

- Direct capital contributions: in Namibia and South Africa the government has offered capital to the Urban Poor Fund to be allocated as the fund determines. In Kathmandu, the local authority made a contribution to the Urban Poor Fund for the first housing development in Nepal.
- Conduit payments related to the use of the fund to distribute state subsidy payments to those entitled: in India, Namibia and South Africa, funds have received payments from the state for members’ shelter investments (either already made or to be made) that have been allocated subsidy finance within existing shelter programmes. These subsidy programmes are all

significantly larger than the scale of investment supported by the fund. They have specific entitlement criteria that the fund has to manage alongside its own priorities. In India, these funds have been channelled through a construction company, Nirman (see below) rather than a fund.

- Direct land allocations to savings schemes that are to receive investment finance from the Urban Poor Fund: in India, Kenya, Malawi, Sri Lanka, Zambia and Zimbabwe, savings schemes have negotiated land from the state at zero or discounted cost in anticipation of their capacity to develop that land. In this case, the resources are not allocated to and/or through the fund as such but the fund's presence legitimizes the concessionary arrangements by providing some kind of guarantee that development can take place.

Table 2 summarizes the financial composition of funds and further access to state subsidy finance.

Table 2: The financial composition of funds

Country	Scale of federation Savings	Compulsory contribution to Urban Poor Fund	Scale of external funds	State capital contribution to fund	Availability of state funds
Brazil	5,000	Fund not yet established.	25,000	No	Capital subsidy to projects for land. Infrastructure and maybe housing development
Cambodia	58,971	Used by some groups and locally determined	897,958	No	Some land provided due to resettlement of evicted communities. Prime Minister's contribution to the fund
Ghana	50,000	US$3/month	120,000	No	No
India	100,000	Housing savings but not fund contribution	23,000,000	No	Capital subsidy by project (land, services, housing), interest rate subsidy for some groups for loans. Different possibilities in different states
Kenya		Contribution to regional funds	500,000	No	Land allocations at no cost
Malawi	35,000	US$0.15/month.	1,000,000	No	Land allocations at no cost
Namibia	110,000	None yet	1,700,000	Yes	Interest-rate subsidy for housing loans with fund as a conduit
Nepal	548,931	Minimum US$1.5/month	210,000	Yes	No
Philippines	25,530	US$1.25/month	2,242,097	No	Some limited support for selected communities
South Africa	220,000	Contribution of R750 ($100) to the regional fund for those wanting to borrow	12,000,000	Yes	Capital subsidy by project, land infrastructure and housing. The fund is used as a conduit
Sri Lanka	100,000	US$1/month	120,000	Yes in Morotuwa only. Also national fund with savings	Land sharing
Tanzania	8,000	Less than US$0.5/month	12,000	No	No
Zambia	5,000	US$2.2/month	100,000	No	Land allocations at no cost
Zimbabwe	67,632	US$1/month (on official exchange rates)	1,942,000	No	Reduced-cost land allocations

Note: Currency adjustments, 08 March 2008, www.economist.com

In Asia there are often housing subsidy funds that are offered to low-income households. In both India and the Philippines, savings schemes have been strong enough to negotiate for access to these programmes. In 2008, Sri Lanka has also been successful in securing such monies. In Sri Lanka and Nepal some progress has been made with specific one-off contributions but the relatively smaller scale of the federations means that access to regular finance has yet to be achieved. In sub-Saharan Africa there is considerably less state finance for low-income housing. However, what is evident from Table 2 is that even young affiliates are able to negotiate access to free or low-cost land in a number of urban centres. In both South Africa and Brazil, the federations have been able to secure access to state programmes to contribute capital finance to the development of low-income settlements.

In exploring the engagement with subsidy finance, it may be helpful to consider how the shelter-financing strategies of SDI affiliates have developed in response to the opportunities and constraints within their context. Table 3 elaborates African affiliate strategies in relation to both fund monies and other available support. As illustrated in columns two and three, both the products and the financing strategies vary according to the available resources in each country.

Table 3: The shelter financing strategies of SDI African affiliates

Country	Source of funds for savings-scheme members	Suitability of finance for community-managed development	Financial viability of the affiliate strategy
South Africa – from mid-1990s	State subsidy of land, infrastructure and housing. Loan capital available in uTshani Fund.	Attempts to improve the subsidy framework to favour community priorities and management objectives but were not successful. The Federation modified its financial strategies to fit the subsidy. No success in shifting subsidy policy and finding alternative financial models.	Loan-related bridge finance for savings schemes to build when they were ready seemed to be possible but the Federation was not able to manage this successfully. Hence the current strategy of securing subsidies prior to building. This is a viable but very slow strategy.
Namibia – from mid-1990s	Land from local authorities at low cost. Infrastructure improvements financed through fund loans and savings. Low-interest housing loans (two–four rooms) from state programme through Twahangana Fund.	Low land costs mean that plots are affordable. Savings schemes finance infrastructure improvements with savings, as members are reluctant to take loans. Housing loans work well for higher-income households, but are too expensive for the poor.	Some groups have problems with land repayments. Savings-financed improvements avoid debt. Housing repayments are an estimated 60 per cent of full repayment, but higher than those that the government manages, so there is little pressure to improve.
Zimbabwe – from late 1990s	Land sold by local authorities at a discount. Federation members take fund loans for housing and infrastructure.	No subsidy but significant state pressure for complete housing with services. This makes the homes difficult to afford for low-income households. Due to inflation the loans are now repaid in building materials.	Some early problems with affordability (Mavambo) but the next groups seemed to manage better (e.g. Beitbridge). Overtaken by political economic and financial crisis. Financial viability of model not clear.

Kenya – from 2001	Land at no cost from the state. Shelter investment financed with fund loans. Tried to provide one-room houses with infrastructure (Kabimoto).	No available subsidy, and the cost of infrastructure and housing is high for low-income households. Now interested in developing an incremental model with land and services.	Repayments have been a struggle for a significant number of families from the beginning. It is evident that this approach is not appropriate for the lowest-income members.
Malawi – from 2005	Land for free (but peripheral location). Fund loans for infrastructure and housing.	No available subsidy so some affordability issues. Adobe units improve affordability of four-room houses. Members' desire finished houses, as land is relatively easy to obtain in the country. Need for lower-cost model and for access to infrastructure.	Emerging conflicts may be triggered by repayment difficulties. In Blantyre, savings schemes collect about 50 per cent of the anticipated repayments one year after completion. The land is peripheral (so there are livelihood issues), and a need for infrastructure-subsidy finance.
Uganda to start in 2008/ Zambia began late 2007	Land for free. Fund loans for housing and infrastructure.	No available subsidies. There may be infrastructure monies from other donors. Construction is very expensive, and the federation is seeking innovation to reduce costs.	The costs of complete housing are likely to be unaffordable for many.

So far this subsection has discussed the financial composition of funds with the presumption that the federation is managing a single fund (generally national). However, one emerging trend within SDI affiliates is the creation of multiple funds within a multi-layer financial structure that involves a national fund and city or regional funds to which savings schemes make significant contributions and the fund disburses monies for on-lending. In this model, the city and regional funds do not benefit from direct donor monies, which are directed to the national fund. (In some cases, such as Sri Lanka and Nepal, there are only city-level funds and donor finance is grant-aided at this level.) As noted above, in Namibia and South Africa such funds were created with community contributions at a time when savings-scheme residents did not themselves contribute to national funds. In Sri Lanka and the Philippines, regional funds are longstanding and have emerged from savings-scheme activities. In 2007, regional funds have been created, or are being created, in Kenya (Box 7), Zambia and Thailand.

The catalyst for the creation of such funds is related to strengthening practice with respect to fund operations and management. An additional reason is that with the strengthening of decentralized local government, there may be possibilities for city and/or regional governments to contribute to these regional funds. In Kenya, for example, there is a possibility that state funding which is disbursed to the regional levels of government will be sought. These regional funds have not been included in Table 1, which reports information for the apex fund. This is a national fund except in Nepal and Sri Lanka where there are only city-based funds.

Box 7: Regional funds in Kenya

The regional Muungano Development Funds (MDFs) were created when members across Kenya realized that they could not afford daily savings or loan repayments without business (income-generating) activities. Federation members agreed to pool savings in the Muungano Development Fund to enable income-generation loans. It was anticipated that the regional funds would also help to secure repayments, addressing emerging weaknesses within savings schemes. Savings schemes were collecting savings and making loans but struggling to manage repayments. Borrowers did not repay promptly, arguing that there was no need to pay as it was their own money. "As the first set of borrowers did not repay, the process died." Equally, at the national level, the management of the Akiba Mashinani Trust (AMT) believed that it would secure better repayment through MDFs. The AMT was seen as very Nairobi-centred, and it was felt that members would be more willing to contribute their money to MDFs.

By December 2007, there were five MDFs, in Kisumu, Nairobi (with two funds), Athi River and Nakuru. In Kisumu, for example, each share is KSh50 (US$0.7). Loans are linked to shares – after eight weeks members can apply for a loan which can be up to ten times the value of their share holding. Members can deposit savings at MDF level and there are no charges. If they have more than KSh1,000 (US$14) in savings, they earn interest, which is raised by the monies being held in an investment account. Muungano Development Funds are held in a fixed deposit account in a commercial bank. Investment decisions are made by the managers in Nairobi; however, most of the management of the MDFs is undertaken by representatives of local savings schemes.

Members in the areas covered by the MDFs have savings books recording both savings and shares in the fund. Members have control over savings and can withdraw their savings any time they are in need. Shares can be withdrawn only when a member leaves the MDF and the federation. Livelihood loans have a repayment rate of between 85 and 90 per cent. These are very small, short-term loans which start at KShs5,000 (US$70) and can go up to KShs40,000 (US$570) with a two-to-three-month repayment period. In future, the trust anticipates that it will disburse funding to the MDFs. In addition to livelihoods, it is hoped the MDFs can develop loans for water supply and small housing improvements.

Source: interviews with Jane Weru (Pamoja Trust) and Felix Ongono (MDF, Kisumu).

Governance

A second aspect of fund operation in which different choices are made by affiliates is that of governance, and particularly the relationship of the fund to the professional NGO, and to the federation. In terms of the legal identity of the fund, it may be an independently registered body, or it may be an activity of the NGO that provides professional services to the federation. In some cases this choice is constrained by the charitable laws pertaining to the particular country (and particularly the rules related to savings and lending) but in other cases the choice emerges from the experiences of the affiliate. For example, in Malawi the separate registration of the Mchenga Trust happened because federation members in the first development, Area 49, did not see why they should repay the NGO that received donor grant finance. Members questioned whether their houses had in fact been financed through loan capital. After discussion with federation leaders, it was agreed that it would be clearer if a separate organization was formed with independent accounts, and trust registration appeared to be most appropriate. In this case the motivation for the institutional form of the fund was related to its effectiveness as a loan fund, and the ways in which federation members perceived their loan obligations. In South Africa, the decision was made before loan finance was offered to federation groups that the loan capital should be in a separate institution, the uTshani Fund. In Namibia, despite a distinct presentational identity for the fund, Twahangana has its legal identity secured through the support NGO. Table 4 summarizes these details.

In making these choices, there appears to be a tension between the degree of proximity to the savings schemes (catalysing an active sense of ownership over funds) and the degree of distance (engendering respect towards loan obligations). This challenge is particularly difficult because the fund is not a financial tool for investment, but a means to support people-led development through its ability to trigger specific political processes (see Section 4). Hence, although issues of responsible ownership and loan repayments are important, affiliates are clear that fund financial management should not become the primary purpose of federation interaction with the fund. The experiences in 2004 in Namibia demonstrated some of the problems that emerge when federation leaders orientate their work towards loan collection at the cost of community cohesion (see Box 15 below). The degree of separateness from the federation support NGO may also be pertinent when negotiating access to resources from the state. Politicians may be reluctant to give support to an institution that is seen as partial and which is linked to only one group among the many in need of shelter improvements.

A further issue of governance is the formation of the Urban Poor Fund board and the extent of federation participation. SDI is committed to ensuring that the urban poor themselves, through participatory democratic institutions, lead the development process. However, the role of professionals is also recognized to be important. In the Urban Poor Funds, with their relatively high public profile, the legitimacy provided by independent "outsiders" may be considered important; although in practice it may be difficult to find appropriate individuals. These considerations are some of the factors behind the different approaches indicated in Table 4. In Zimbabwe, for example, the Gungano Fund is directed by a federation board of about 12 members drawn from the regional groups. It had been intended to invite a professional also to take part, but it proved too difficult to identify an appropriate person who was willing to sit in a voluntary capacity. Table 4 outlines the procedures used by the different funds.

Table 4: Fund governance arrangements

Country	Legal status of the fund	Federation representation on the board?	Proportion of federation membership on the board?
Brazil	No formal status to date	N/a	N/a
Cambodia	Memorandum of understanding between the Municipality of Phnom Penh, the community savings network and the Asian Coalition for Housing Rights	Yes	Five of eleven board members are community members
Ghana	In People/s Dialogue	100 per cent federation – regional membership	100 per cent
India	Some revolving loan finance with SPARC and some within Nirman*	Yes (Nirman*)	Up to 33 per cent
Kenya	Legal trust	Yes	60 per cent
Malawi	Legal trust	Currently being decided	Currently being decided
Namibia	No separate legal status – within NHAG Trust (NGO Registration). NHAG given the mandate by the federation	Federation representation on governing body of the fund	Governing body 100 per cent federation representation – regional federation has representatives on this body. NHAG staff members sit in the governing body.
Nepal	A municipal level fund utilizing the provision in Local Self Governance Act (1999)	Yes	33 per cent
Philippines	Within PACSII in the case of fund with donor contributions. Savings schemes otherwise	Here is no formal board for the fund; functions are located within the regional federation process. Representation only of the Federation.	100 per cent

South Africa	Company non-for-profit	Yes, both of the members of the entity and the directors	Four of the nine directors are federation members
Sri Lanka	Credit union legislation for fund financed by savings; independent on NGO. Also a fund established in Morotuwa	Yes in both cases	100 per cent of the Credit Union Board and 60 per cent in the case of Morotuwa
Tanzania	Finance located within each savings scheme, soon to be brought together in region	Regional boards (7 in Dar es Salaam and 6 in the other two regions). National Board is made up of the three Federation coordinators and CCI representative.	75 per cent
Uganda	No formal status to date		
Zambia	Within NGO but likely to move to separate organization	Fund managed by the federation	100 per cent with non-voting NGO support
Zimbabwe	No independent legal status. Incorporated in the objects of the Dialogue on Shelter Trust	Fund managed by a national committee made up of nine federation members. Dialogue on Shelter staff attend meetings to provide advice and information.	100 per cent

* Nirman is *Samudaya Nirman Sahayak, meaning SPARC's assistance to construction collectives). Nirman* is a non-profit company founded by SPARC, NSDF and Mahila Milan in 1998 for construction activities.

As shown in Table 4, there are two models widely used by affiliates. One model is when the fund is embedded within the support NGO with its own board, which is 100 per cent composed of federation members. The federation members are decided through some form of regional representation. Members of staff from the support NGO sit on the board to offer advice and respond to information requests. The second model is when the fund has a legal status independent of the support NGO. In this case the board tends to be made up of a mixture of federation and non-federation members.

Loan management

A third significant area of difference between Urban Poor Funds relates to the management of fund loan allocations and commitments. There are three particular areas that it may be useful to highlight.

1. Who decides on loan allocations – and what, if anything, is the emerging role of regional or city-based funds?
2. Who monitors individual loan balances?
3. How are local management costs (of the savings scheme and regional federation) covered?

None of these choices is fixed and changes take place in the management of funds reflecting the experiences of SDI affiliates. In India, for example, individual loan details have been captured centrally by SPARC for income generation loans above Rs1,500 for many years as this was a pre-condition for receiving government funds. In 2006, SPARC staff have decided to capture individual loan balances in the case of group loans for toilet and/or housing investment; previously these were left to savings schemes to manage. In this case it is to help to identify groups needing support in managing repayments (Box 8)

Box 8: Information gathering in India – Rashtria Mahila Kosh (RMK)
Once the savings schemes began lending, a role for SPARC rapidly emerged around maintaining books and sharing information. Community leaders were worried that they would be pressured into giving loans to people who had no intention of repaying, or that they would have other problems. So, the NGO SPARC set up a fund from its grants, and this fund operated like a guarantee for the savings. The lending process remained with the community, but the community saving was guaranteed against theft. This gave the women's savings collectives the courage to carry on. The NGO came under pressure from the communities to secure more capital, and with that came a system of peer accountability. If one community failed to repay the capital they had borrowed, another went to investigate the non-repayment and support the community to resolve any problems. SPARC became a wholesale banker, identifying each transaction and sending the information to communities. Like a bank, every transaction is identified and that information is fed back every month to the federation, so the federation and savings schemes know who has paid, and who has not.

Loans are re-capitalized by SPARC on an aggregated but individual basis. This means that the resource centres (groups of savings schemes) have to add up all the loans that they want to be reimbursed for, and provide baseline information to SPARC. SPARC will then return the funds that these schemes have advanced for the loans to the schemes. They do not allocate schemes a block amount, rather they have to request specific contributions based on loan allocations. This system evolved from a loan made by Rashtria Mahila Kosh (RMK) (Women and Children Welfare Department) for income-generation activities. Through this programme, SPARC became committed to refinancing the loans granted by local groups; the system worked well and so it was continued for additional monies. In some cases RMK rejected a specific loan request when it was forwarded on to them (for example, because it was for housing not income-generation, or because it was requested by a man, or because it was over Rs5,000). However, SPARC found alternative sources of funds to offer savings schemes the flexibility to lend to members according to their own terms and conditions.

Source: discussions about fund management in India with Sheela Patel, director of SPARC, the NGO support group to the SDI affiliate in India, August 2006.

The issue of loan monitoring is a microcosm of the bigger organizational challenges faced by affiliates. The process seeks to promote and support people-centred development; this requires developing an understanding of what needs to be done at the local level, and developing the capacity to do it. The affiliates recognize the importance of information lines (upward and downward) in supporting accountability and promoting behaviour consistent with stated objectives and practices, and minimizing the potential of powerful individuals and groups to distort processes away from publicly agreed objectives. These elements are all present in the emerging patterns of loan allocation and management. SDI affiliates all believe that the right group to determine loan allocations to individuals is the savings scheme. There is widespread recognition that this does not mean that they get it right all the time, indeed a frequent problem of the first allocations is that they are given to powerful individuals rather than those most in need. But as this lending process unfolds, the experience of allocation and repayment enables the savings schemes in the locality to reflect on who was allocated loan finance and how they have responded to this opportunity. The role of city and regional federations is critical in supporting local groups, identifying which are ready to manage a development process and what kind of skills and capacities they require; local exchanges are the first mechanism that can help acquire this training.

As shown in Table 5, the affiliates use different processes to monitor the local management process. In India, as explained in Box 8, the NGO has established a monitoring process that enables it to track the larger loans to individuals. The NGO does not get involved in local disputes but its role in maintaining individual loan-repayment records is widely understood. Borrowers regularly contact the NGO to find out their individual balances if, for example, they want to repay one loan and take another. However, this degree of individual loan tracking is relatively unusual among SDI affiliates. As seen in Table 5, in many cases the savings scheme is has the information on individual balances; fund and NGO managers capture this information only at the group level.

Loan management costs are essentially covered from three sources: interest rate charges, voluntary community contributions and NGO funds. The communities in Thailand have pioneered a system of interest rate augmentation in which savings schemes (and the networks to which savings schemes belong) on-lend to their members (or savings schemes in the case of networks) at a rate higher than that at which they borrow funds from the government fund managed by CODI. For example, CODI may lend at 3 per cent but the interest rate paid by members is 8 per cent. The difference provides a source of funds for local-level activities such as administration costs for fund management (account books and pens) and travel to support local activities. A similar idea is used in India. Within Mahila Milan, the interest rate charged on income-generation loans is 2 per cent a month (on the remaining balance); 1 per cent a month goes to compulsory community savings to provide capital for additional loans. This pool helps to provide the capital for large consumption loans (e.g. for marriages) and to cover the costs of loan waivers (e.g. when a borrower dies). The community pool also met one of the conditions of the RMK finance, which was that people had a certain amount of savings prior to accessing income-generation loans: the pool enabled the group to lend this required deposit to those individuals who were too poor to accumulate their own savings funds.

Alternatively, local groups may cover their costs by raising funds directly, for example, gathering contributions when there is a necessary visit to the municipality, or each helping to cover administration costs through small regular contributions made by the members. In Malawi, for example, the Mzuzu savings scheme collects a regular payment from the savings-scheme members to cover administration costs (they are building houses at present). Finally, a further strategy is for the NGO to raise finance and support the local process.

Table 5: Local management and information issues

Country	Who decides on loan allocations to savings schemes?	Which is the highest-level body with information on individual loan balances?	How are loan-management costs covered (community, federation, NGO)?
Cambodia	The key group is the sangkat (ward) committee, chaired by the local sangkat chief. The sangkat community network (of 5 or 10 savings schemes) helps to improve the loan proposals. Proposals then go to the district level, and the city-wide Community Savings and Credit Network Committee before being send to the UPDF Board, which tends to rubber-stamp them.		Many community members who get a stipend of $50–$100 from the fund. Donors support the administration costs of the fund.
Ghana	Fund committee	Saving schemes – maybe the NGO in beginning	No loans to date
India	Depends on source of funds	NGO	Federation groups
Malawi	Decisions are currently being made at the national and group levels, as the district- and regional-level leadership is still being instituted.	Someone in the office who tracks repayments. Groups that have loans are still few. Will see what happens. Mchenga people need to work towards giving loans to groups and not individual members. There tends still to be a focus on individuals rather than the group.	Groups cover their own costs – scale as yet unknown. When people need to follow up, this is covered through exchange costs. The group in Mzuzu collects an extra 10 kwacha per member per month to cover transport and stationary costs.

Namibia	Decision at regional level. It has never been necessary to allocate money, as there is enough capital. Regions say when savings schemes are ready. Regional committees visit savings schemes to confirm application.	Savings group – supported by networks. If the networks are not strong enough, or not there, it goes to the region. Regions do work on the savings-scheme balances. NHAG is not involved in the balances but works with income and expenses. If the regions come to the national level and say they cannot solve a problem, then the national organization will address it.	Loan-management costs – savings schemes cover their own costs. Network, region and national support are covered by NHAG, for example through exchange budgets, and Twahangana support costs – eg. Treasurer's budget.
Nepal	Fund committee	Fund secretariat which is with Lumanti (support NGO)	Community
Philippines	Regional committee	Savings scheme	Federation
South Africa	Regional joint working groups with Govt approve projects for subsidies. Regional leaders request bridge finance	Savings scheme	Partly through Govt grants, partly through donor funds, partly through community contribution
Sri Lanka	Zonal committee	The group manages the loan and repays to the primary branch (this is the level below the zonal committee).	Federation
Thailand	Group-need loans – discuss in network		Network and savings schemes cover costs through differential interest rates.
Zambia	Federation loan committee	Savings schemes with the regions supporting as needed.	Lending has just started; it seems that savings schemes cover most local costs.
Zimbabwe	Federation regional committees	Individual loan information is kept at group level. Aggregated group loan information is kept by regional committees, the national committee and at Dialogue on Shelter	Groups cover management costs. An NGO covers regional and national committee meetings as well as administrative costs at NGO level.

Repayment

Finding a strategy for repayments is part of the federation building process. If the fund is run like a bank then no one is interested but if the community sees a link with the larger vision of improving quality of life for urban poor communities in their city they will position it differently. The discourse has to be beyond just repayments. Federation leaders have to be conscious about this as a part of a strategy; if not they sound like money-lenders whose main focus is to only get the monies back. This is not to under-estimate the need for repayments but the need is to increase the stake of the community in the process. (Celine d'Cruz, then deputy director of SPARC and now one of SDI's coordinators, commentating on Twahangana, October 2005)

The use of loan finance is closely linked to SDI strategies for achieving scale in city development (through the ability to recycle capital) and for addressing members' needs. It is anticipated that successful precedents will provide a platform from which to negotiate for state subsidies. However, by offering loans, Urban Poor Funds become a point of engagement between the urban poor and a financial system (albeit through a not-for-profit agency). The political benefits have been touched on above and are realized when the federation, as a campaigning body, persuades the state to subsidize shelter improvements and use the Urban Poor Fund as a self-managed tool for subsidy-related allocations and expenditures. In terms of their dealings with financial markets, the federations, through their Urban Poor Funds, seek to establish a protective "barrier", ensuring that their members do not have to deal directly with commercial financial markets.

However, the funds also, through their use of loan finance, bring financial markets into the day-to day-work of their movements. Federations, on the one hand, encourage loan take-up, enabling local improved shelter investments to be made. In many cases, these have immediate financial benefits (for example, reduced payments for informally provided basic services). At the same time, such loans draw their members into debt, and a further task of the federations is then to protect members from the inevitable increase in vulnerability that is associated with such debt. On occasion, at the level of an individual, savings scheme or federation, this contradiction is made explicit when very low-income members cannot repay their loans.

In this sense, the management of repayments is a potential nemesis – with the potential risks being the increasing vulnerability of members if they cannot afford the loans and are evicted from their newly secured homes and/or denied access to services, and a demonstration of the inability of federations to act inclusively. However, they can also be a potential demonstration of federation effectiveness – if ways are found for finance to support the aspirations of low-income groups, rather than increasing vulnerability and hence exclusion. Loan-repayment issues can also be problematic in another sense if federation activities become overly preoccupied with loan repayments; and/or such repayments become a source of dispute and friction among savings schemes, reducing solidarity between members.

This contradiction or tension is explored in more depth in Section 4. One of the consequences of such tensions is that a fourth operational issue is that of repayment strategies. As noted above, some of the funds have secured access to subsidies and this provides them with a source of finance for repayments. However, in many cases, communities themselves have to repay all or some of the cost of improvements with part being financed through existing savings and/or contributions in kind. In such contexts, the federations face a considerable challenge in managing repayments. Their task is difficult both because their members have very low incomes – with multiple expenditure demands including food bills, school fees and service charges – and because many incomes are informal and hence highly variable.

The federation in South Africa was one of the first affiliates to face these contradictions when it developed a financing strategy that was dependent on saving schemes taking on bridging loans which they then had to repay in anticipation of subsidy releases (see Box 18 below). Thousands of households took loans in the expectation that subsidy finance would enable them to repay the larger part of their debt; however, the subsidies were not released. While loan repayments stayed high for two or three years, they then fell sharply as households struggled to maintain payments, most of which were simply covering the interest charges. The NGO was putting some effort into securing the subsidy releases but the primary blockages were political (particularly in terms of local and provincial political manoeuvrings) and hence dependent on lobbying by the federation. Federation leaders did not prioritize subsidy-related work partly because they were anxious to recruit new members and focused on construction activities. The resultant financial crisis resulted in an end of lending for the pre-financing of subsidy funds. The experience highlights the difficulties faced by integrating financial tools that require financial management practices alongside and within an empowerment-orientated grassroots organization. This issue is returned to in Section 4.

A very different repayment problem was faced in Zimbabwe as the accelerating political and economic crisis resulted in high price inflation, declining real wages, and families finding it increasingly difficult to repay loans despite their falling real value. The government deliberately targeted the urban informal sector, as Operation Murambatsvina destroyed hundreds of thousands of shacks in an effort to eradicate informal settlements and informal trading. In this context, house building remained a political priority for the federation, as it was the capacity to build formal housing that was key to accessing state allocations of land. However, the loan committee was anxious that repayments should maintain their real value when measured in construction terms. The committee agreed that members would make their repayments in building materials rather than cash ("imba to imba") (Box 9). It was originally estimated that all the material would be returned in four or five years, but this target proved over-ambitious; nevertheless the federation continues to operate a revolving fund despite the scale of the economic crisis.

Box 9: Imba to imba – loan repayment in kind in Zimbabwe
Given the current economic environment in Zimbabwe, sustaining the Gungano Fund has been largely a social concern. While the federation continues to try and find ways to ensure that the limited capital available does as much as it possibly can, a revolving loan fund is impossible in the present economic situation. The federation's experiment with indexing loans under the imba-to-imba concept (repayment in kind) has had mixed results, with some groups maintaining revolving rates of about 30 per cent of the real value of the loans which has enabled them to continue housing construction, albeit at a limited scale, while other groups have failed. The federation remains committed to a principle of self-sustainability. Therefore, groups that are constructing are expected as far as possible to continue with the indexing system. There is a need to keep reflecting on this process and realigning it to ensure that it continues to meet the needs of the poorest members of the community.

Source: Dialogue on Shelter 2007

The difficulties of repayments are illustrated above: first, by the crisis of Zimbabwe based on a lack of resources; and secondly, by the crisis in South Africa based on plentiful resources but the inability of the federation to secure such resources on their own terms. As these examples illustrate, federations face many challenges related to repayments. There are several strategies to assist in this process, and those most commonly considered and used are:

- small loans, cheap houses, improved affordability
- cross-subsidies through the sale of higher-income units
- additional financial support raised by the support NGO
- savings orientated to housing, to build up a capital fund
- income-earning opportunities
- loan rescheduling.

These approaches are discussed further in the rest of this subsection.

Small loans, improved affordability: While many affiliates argue in favour of small loans, this has frequently not been a priority. Concerns about repayment levels in Namibia in 2004 led to an international SDI reflection and this process helped the Namibian Federation rethink its strategies towards the Twahangana Fund. In Namibia and elsewhere, there is now a much greater understanding that affordability is critical and that affordability is enhanced if smaller houses are built, that is if an incremental or progressive housing model is used. In Namibia, the first unit now to be considered is a two-room house. If the borrower is a pensioner with limited income, a one-room unit is proposed. Evelyn Wosas (a Federation leader) explained how sometimes the family comes and try to persuade the pensioner to build a larger unit, promising to assist. The federation members ask the family why it did not help earlier. They try to show the pensioner that if the family does not help, they cannot afford the loan. The monthly repayment on the regular terms and conditions for an eleven-year loan on a one-bedroom house is N$60 (US$7.6, as of 8 March 2008).

A further change in Namibia since 2004 is that members are encouraged to pay what they can and are not expected to make the full repayment if this is not possible. In many cases they can only afford N$50 in some months when livelihoods are difficult. Previously members felt very bad when they could not pay and avoided contact with the federation, not attending meetings. Now they are less likely to avoid the federation, recognizing their responsibilities to repay with a smaller payment. The low rate of interest in Namibia means that even a low payment is likely to cover the interest payment and contribute to the capital repayment.[13] As a consequence of these changes, repayments are less of a problem and now affect only about 10 per cent of federation borrowers. There is a general feeling that repayments in new groups are better than among older groups.

Other SDI affiliates working in a non-subsidy environment have had a similar experience with the initial approaches to housing proving too expensive to scale up, and the emergence of new lower-cost housing construction approaches. While a number of federations have begun their ventures into housing with two-to-four-room units, experiences suggest that these initial designs may be ambitious. There is significant evidence to suggest that a considerable proportion of low-income households cannot afford to pay for a complete housing unit through loan finance with an interest rate equal to inflation. In Blantrye (Malawi), 450 four-room units were built by federation members. Loan repayments began in July 2007; ten months later it was estimated that collections were equal to about half the total amount that might be expected if all members repaid fully. Some of this may be put down to the need for stronger collection systems, but the figures also reflect a real problem of affordability in the case of the lowest-income households.

In an interview in July 2007, Jane Weru (director of Pamoja Trust, the support NGO in Kenya) explained the options that the Kenyan Federation is now considering:

> In Huruma, house building is going well. The major challenge is affordability. We are thinking now of focusing on security of tenure and water and sanitation more than house construction – with support for incremental construction. We should just do the floor slab; anything else is unaffordable. With housing, if it is too expensive, poorer people get pushed out and new people come in from neighbouring areas.

In all cases, savings schemes encourage daily repayments. This is particularly important in ensuring adequate repayments from households that are informally employed as they have irregular incomes and find it difficult to accumulate the cash for a monthly repayment at one time. This does not mean that households make daily contributions. It is more common to make payments every three or four days – but experience has shown that the regular opportunity to save and repay is important.

Cross-subsidies through the sale of higher-income units: A further option is the redevelopment of part of the site for commercial sale. This has been widely discussed and undertaken in Mumbai. In this model, some units are designed for middle- and/or lower-middle-income housing, and the additional income earned from the sale of these units helps to subsidize the costs of low-income households. The state has introduced transferable development rights within the Slum Rehabilitation Act and funds (for the cross-subsidy) are provided by developers who are allowed to build at higher densities if they also provide accommodation for low-income slum residents. In Bangalore, the communities have built multi-storey dwellings with commercial areas that have been sold to part-subsidize the accommodation.

Additional financial support: One of the critical roles played by the NGO is to provide support to enable the federation members to explore options and redesign approaches. In many cases, the first housing initiatives incur additional costs, as groups have to learn a range of additional skills and capacities in technical, financial and social areas. Additional funds raised by the NGO help to cover the necessary learning and capacity-building costs

Savings for housing: As experience with housing lending has increased, federations have become more aware of the need to support loan repayments through specialist housing savings. As discussed above, housing savings and/or contributions to the Urban Poor Funds are often encouraged to strengthen local ownership but federations may also see them as important to assist members to become more experienced in making regular loan repayments. Box 10 describes the development of greater skills in loan management in the subsidy-rich context of South Africa. Frustrated by the lack of loan opportunities

[13] The Twahangana Fund follows the interest rates in the government housing loan programme (Build Together) and charges 0.5 per cent per month.

due to poor repayment records, federation groups began to devise ways in which they could finance their own housing improvements and build more effective loan-management systems.

Box 10: Housing investment financed by savings in South Africa

Impatient waiting for uTshani,[14] *some groups have begun to see what they can do for themselves. In Orange Farm (Gauteng), the community has collected a number of R750 savings (the required deposit for housing loans from uTshani) and is using them to build houses. They have built two so far. The idea is that these funds will be given to people who qualify for the subsidy and who can be added to a subsidy list posted with the province for subsidy releases. When the subsidies are released, the monies will be refunded and the next building can take place.*

There are other examples of groups that have used these funds to catalyse additional building. In the East Rand (also in Gauteng) one group is lending R70,000 out to members to complete their houses. If members do not repay, they have agreed that the federation can put a tenant in one of their rooms and the rent from the tenant will be used to repay the loan.

Source: discussions with representatives of savings schemes in Gauteng, August 2005.

Income-earning opportunities: The importance of income-earning opportunities to assist with loan repayments is highlighted in accounts of income-generation strategies in Blantyre. These initiatives were closely linked to concerns that the repayment of housing loans would create many difficulties for members, particularly as the site in question was some distance from the centre of town and had required relocation and disruption of existing livelihood strategies. The experiences of income generation in Blantyre highlight the ways in which SDI affiliates are seeking to create employment opportunities related to their core activities of addressing landlessness and homelessness (Box 11). In some places, for example, Mumbai, a buoyant local economy means that relocation is not that problematic for livelihoods and members are confident that they will easily find new employment or trading opportunities. Hence when the women were moved from the pavements of Byculla to houses in Milan Nagar some 15 kilometres away, there were few fears about reduced incomes. However, this is often not the case, and few Southern cities have an economy as buoyant as that of Mumbai.

Box 11: Blantyre, Malawi – support for income generation

A variety of income-generation strategies have been developed to help residents cover the costs of their housing loans. The families need access to water and have negotiated a water point in one section of the settlement. One member, a woman, manages this water point for a small income, and the water point earns the community about 25,000 to 30,000 Kwacha each month. A current community challenge is to accumulate the finance for more water points, as this is presently the only one for 465 houses.

There is a concrete oven in the middle of the settlement, paid for with a donation of 14,000 Kwacha from an MP. There are 20 women in the bakery group, together earning about 1,500 Kwacha every two days. They are still learning and hope to increase their incomes, and would like another oven to produce more rolls. There is considerable demand for their products which are cheap and good quality, bringing buyers from other neighbourhoods. There were 40 members in the group to begin with but many have left because the earnings are so small.

Other income-generating activities in Blantyre include building toilets, paid for by individual members, and carpentry for house-building. The community centre has a briquette machine, used by a group of women making an alterative fuel from paper and sawdust, bound together with a little water and then compressed into briquettes for burning.

Source: author's discussions with federation members in Blantyre.

[14] The loan fund of the federation in South Africa.

Despite success in Blantyre, members may struggle to maintain their incomes. In part this reflects the frequency with which federation members relocate onto greenfield sites to address their housing needs. One of the earlier experiences in Thailand suggests that, while greenfield developments may appear to be advantageous in terms of space and facilities, the dislocation costs are very significant. The first housing developments in Thailand often involved developments on greenfield sites located far from the city; as a result some household members were unable to find employment locally and so families had the cost of renting a bed or room closer to the city.

> The 1996 survey showed that 49 per cent of those who were planning to relocate but had not done so had housing expenditures of 1,001–2,000 Baht per month whereas 61 per cent of those who had already relocated were paying more than 4,001 Baht per month for land, housing, infrastructure and travelling expenses…. Regarding repayments, in the first two or three years following loan release, 76 per cent of repayments were punctual, 6 per cent were occasionally late and 18 per cent were missed frequently. In general, those people with problems were those who were attracted by the prospect of housing and had over-extended themselves. With increased unemployment, they were unable to maintain the previous rate of repayment. Boonyabancha (2004, 46)

As more capable networks developed in Thailand and as the experience of these first housing relocations began to emerge, alternative options began to be considered. The networks provided a platform through which communities in the same city could broaden and deepen their understanding of the situation and the implications of different tenure-security strategies. At the same time, the networks strengthened communities' negotiating power with city authorities. In some cities, networks created permanent forums on housing and land at the city level; in other cases these remained less formal but the social relationships between community leaders, politicians and city officials began to deepen. Networks encouraged communities under threat of eviction to consider other options apart from relocation. Their stronger political influence made it easier for communities to negotiate alternatives with their landowners and/or look for state land close to their original settlement. In 2007, 80 per cent of the 626 communities (42,111 households) within the Baan Makong programme secured tenure on or within 2km of their original residence.

Exactly comparable data are not available for the first 57 communities (3,182 households) supported by housing loans under the earlier UCDO programme, but only 12.6 per resettled on or close to their original land and 74.9 per cent were relocated, with 27 per cent of relocations being 30km to 40km from the city centre (Boonyabancha 2004). These lessons are being absorbed into the federations are experience grows. Greater emphasis is now being placed on the upgrading of existing settlements, with strategies to draw non-members into the improvement process.

Loan rescheduling

> Now it is the end of the year and our repayment rate is maybe 99 per cent. You don't believe me? It is always like this. If you ask maybe in June or July then you will find families with problems. But the staff have to sort out these problems for the end of the year. They reschedule loans, asking savings schemes to help as necessary. So now, in December, it is 99 per cent. (Somsook Boonyabancha, Director of CODI in Thailand, interview, December 2007)

If all else fails and members have loans they cannot repay, the federation groups and NGO support organizations have become adept at loan rescheduling, adjusting repayments to account for sudden crises or longer-term difficulties. In some cases, interest payments are waived to ensure that the rescheduling does not exacerbate the problems that families face. The ability to reschedule loans is partly related to the capacity of the NGO to raise additional finance to support this process. It also requires a strong local process, embedded in an accountability structure to peer-savings schemes (through the federations), to ensure that families are treated equally and that certain members are not favoured while others are treated unsympathetically.

Urban Poor Funds – impact and scale
This description of Urban Poor Funds concludes with a discussion of their impact and scale. Tables 1 and 7 illustrate the effectiveness of the urban poor funds in terms of equity raised and shelter assets accumulated. Table 1 above is a summary of the value and equity created by Urban Poor Funds as of March 2007, which also demonstrates the scale that the funds have reached within the core affiliates to SDI. Table 7 summarizes the benefits of securing this loan finance for housing construction through comparing the value of housing produced to prevailing market costs in selected countries.

As demonstrated in Table 1, with an equity base of just over US$42 million SDI groups have created a current asset value of US$186 million. The federations in three countries, South Africa, India and Thailand, have built significant numbers of houses; in all three countries access to subsidy finance has been secured. These three together and the federation in the Philippines have also each assisted over 20,000 families to secure land tenure. While housing construction is more limited in countries in which the affiliates have not secured subsidy finance, land acquisition is significant in Cambodia, Ghana, Malawi, Namibia and Zimbabwe. Namibia's figures are particularly notable because of the small size of the country with just over 2 million residents. All those who have secured housing have improved infrastructure.

Housing constructed has been of a better quality and size, and lower in cost than commercial market production. The market value of the houses constructed ranges between 160 and 400 per cent more that the cost of the units with community construction (Table 7). This increase in value occurs for many reasons. A major reason is that, in most circumstances, the funds are delivered to community groups who organize the construction process, and sometimes the manufacture of building materials, themselves. In these circumstances, there are many ways in which they can modify the material inputs to the construction process. Existing materials are re-used (or may have been pre-purchased), and finishing is likely to be completed at a later date. A further reason is that many community groups immediately begin to renegotiate standards and building regulations with local authorities. As they are successful in their negotiations, costs fall.

Costs are also reduced when unskilled labour is provided free or at low cost, and skilled labour rates are often lower than those secured by the private commercial sector as they are negotiated directly by local community organizations. The community-based organizations provide the project management, reducing these charges and enabling more to be invested in the house. Finally in all communities where housing has been constructed, access to water and sanitation has improved, further adding to the value of the houses. In some cases, the communities have been successful in securing state subsidies, in other cases they have to finance the infrastructure costs themselves. Box 12 examines the added value from the SDI development process in South Africa where communities are keen to access the subsidy directly rather than through private contractors.

Box 12: Adding value to the capital housing subsidy – people's development in South Africa
By 2003, People's Dialogue (the support NGO to the South African Homeless People's Federation) had received some R79 million on behalf of the federation. Of this, R31 million had been used for ongoing expenditure (community exchanges and capacity building, administration costs and documentation expenses). A further R48 million had been provided to capitalize the uTshani Fund from international donors and the national government, with the majority of these monies being only for housing-related lending.

The effectiveness of this use of development finance can be assessed with conventional techniques of investment appraisal. The 'costs' are the funds invested in the process, including both contributions to the capital fund and recurrent expenditure. The benefits are the assets created or the recurrent benefits that those assets offer. Taking a somewhat conservative view of the benefits secured, making modest assumptions about the value that has been generated, and considering only those benefits that can be quantified financially, the development investment in People's Dialogue and the federation has created a net present value of R540 million (at 2000 prices). Continued overleaf

The benefits have been received by some of South Africa's lowest-income citizens. Families that have secured housing through federation membership have received an asset that will benefit them for many years to come. Not included in this calculation is any value for the 15,000-plus families that have secured land through the federation but who are waiting for subsidy releases before construction. The value of R540 million also takes limited account of the negotiating and operational capacity and other social assets that have been generated in communities. Many federation groups that have successfully constructed housing have developed good relationships with their local authorities and have secured additional poverty-alleviation funds for their communities.

The overwhelming bulk of the value added is attributable to housing. In contrast to much privately developed state housing in South Africa, a federation house is worth considerably more than the resources put into it. Values of three to eight times the cost of the building materials and skilled labour are common assessments offered by potential non-federation purchasers, although few federation members have been interested in selling. The value of federation houses stands in sharp contrast to the experience of many contracted housing developments, where beneficiaries have resold their new houses for far less than the amount spent on them by the state.

Federation members receive more for their, and the government's, money than in the private-sector delivery mode for the following reasons:
- *federation members provide unskilled labour free of charge (for construction and management)*
- *skilled labour is provided at low cost as members negotiate with local artisans, or find skilled family members or friends to assist*
- *materials are bought collectively, securing discounts from wholesale building suppliers*
- *old materials from shacks are re-used*
- *quality is higher because federation self-builders pay more attention to quality than commercial contractors; the sense of ownership in the federation model ensures that problems are dealt with as they arise and improvements are planned using the skills already learnt.*

Source: Baumann and Mitlin 2003.

The estimates of the value created that are given in Table 1 above are low because they are based on a very few cycles of the funds. These funds are lent out to community groups that return the greater part of these funds as they repay their loans. As is evident from the "start date" of the affiliate (given in Table 1), these are young organizations and hence there have been relatively few cycles of investment. Over time, many more assets will be created as repayments are made and the capital lent out again. Also, the greater part of this asset value relates to the value of permanent housing with secure tenure and improved shelter. The figures in the table attribute no value to the local investment members have made to their dwellings (whether constructed of traditional or unconventional building materials) as a result of successful negotiations for tenure security with local authorities and other state agencies where there has not been a housing project with loan finance. A further reason why these figures are, in general, under- rather than over-estimates is that the value of infrastructure investments is based on the construction value rather than the financial value to residents. The financial value is likely to be considerably greater than the construction value.

The loan repayments associated with housing loans are generally less than households were previously paying in rents (Table 7). Many households can afford an improvement in their shelter options if they work collectively to secure low-cost land and negotiate for reductions in standards that permit incremental development. Acquiring land and improving shelter secures a valuable asset and in at least some cases reduces expenditures. However, despite the reduction in housing costs, service payments may be higher as households are expected to pay water bills and other services charges. In South Africa households may have to pay US$40 a month in service charges; prior to acquiring formal houses, many of them paid less than this. In Namibia households may have to pay up to five times the costs they previously paid. This emphasizes that there are costs to the formalization of tenure.

SDI affiliates have become increasingly aware of the difficulties of the present neo-liberal political regime with respect to basic services (which are increasingly run on a cost-recovery basis and so can be included in this subsection). Many of their members living in informal settlements do not pay the costs of formally provided services. Once they move into improved dwellings, they then become liable to pay for these services – and there are significant costs for low-income households. In some cases, subsidies are available either through pricing mechanisms such as increasing block tariffs, or through state-supported low-cost or free water (see Muller 2008 for a discussion of the policy in South Africa). There are emerging problems for low-income families facing these costs in both Namibia and India. These experiences suggest that the difficulties are as much related to the formal processes associated with these services and associated payments as to the scale of the charges. Families find it difficult to accumulate the monthly or two-monthly monies for bill payments; they may also struggle to understand the pricing policy and do not anticipate the size of bills. In some cases, consumption is not easy to control – many different family members may use water or, as the Railway Slum Dwellers Federation found in the case of high-rise apartment blocks, communally accessed services such as lifts may be difficult to restrict. In some cases the considerable lack of public services means that market solutions predominate; in Blantyre (Malawi), for example, families living in federation greenfield settlements buy water from a community-managed kiosk and finance their own sanitation through the construction of elevated pit latrines.

In addition to the quantifiable increase in financial assets and reduction in expenditures, further benefits are secured by the urban poor as a result of their participation within the activities of Urban Poor Funds (see also the discussion in Section 4). As one Namibian member explained: "Twahangana is good. Before Twahangana, I was silent. I could not say anything. Now I go to meetings. I talk" (savings-scheme member, Oshakati, 12 August 2004). The broader benefits of participating in the federation processes are numerous and far more extensive than those directly arising from fund-sponsored activities. They include psychological growth with the development of increased personal aspiration and confidence, and the acquisition of specific skills and capacities. These benefits also include greater confidence in collective capacity and an understanding of the benefits of solidarity and collective action. It is impossible to separate these benefits between fund and non-fund activities as the funds are embedded within federation processes through their provision of resources for new development options.

Box 13 draws on open-ended interviews with 120 federation members to illustrate how individual members perceive activities related to Urban Poor Funds.

Box 13: The perceptions at the grassroots

Evelyn Benekane (Joe Slovo, South Africa, page 15) "The best thing about the federation is the way it empowered me by giving me knowledge of things that I thought I could never do, that I always believed only professionals could do. Now I negotiate directly with government. I do personal and community banking each day... I got a house, I got land to accommodate 2,000 families."

Zolile Solwandle (Joe Slovo, South Africa, page 25) "One day someone told me about the federation and I joined. They have given me a lot of knowledge. I have technical knowledge on housing building. I learnt how to make quotations, how to speak to people, how to negotiate with suppliers... My hope is that everyone gets a house. A house is very easy to build if everyone works together."

Noluthando Mbaliso (Joe Slovo, south Africa, page 27) "We have started building 56 houses with a loan from uTshani. The federation has been very good for me. I am a happy member as I am respected by politicians, government and officials! I raise the voice of the poor proudly, because ultimately we built our houses through our own hard work and savings."

Continued overleaf

Nonhlanhla Mbatha (Piesang River, South Africa, page 52) "Joining the federation has taught me many things, and allowed me to share my problems with other members and get solutions. Now I have my own house through FEDUP. Getting this house means a lot to me since it takes me out of poverty and heavy pain! And my voice can be heard as a collective rather than as an individual. This has given me power I never had before."

Mary (Chilindi, Malawi, page 71) "We came to town for a better life. But it is a troubled life. We are alone. We rent this broken house, without it we are homeless. Because we only have little money sometimes, we are not secure in our living. We are prisoners of our poverty. There is no one to talk to, no one to share my troubles with, no one to discuss solutions with. I joined the federation and learnt to save and loan. The savings group women all know each other. We all help each other in our troubles. We sing and dance! In our group, we share ideas, so many ideas. We are rich with ideas."

Rebecca Laison (Chilinde Slum. Malawi, page 81) "Town was a shock for me. When I first arrived I did not know anyone, I had no friends and I did not trust anyone. I saw how everyone in the town was, fighting each other to get a piece of bread, to get a job… Now I am in the federation, no mistake! I have now very good friends. We share ideas and advise each other on business. We help each other. From my friends, I learnt how to bake, how to make shoe polish, how to grow mushrooms and soaps to sell. I learnt how to make slabs for the federation houses and toilets… This is my group, I belong."

Sarah Malenjeka (Tandile, Malawi, page 119) "My dream is to have a nice house that no one can evict us from. I want that security. I want to have a business to grow, to go to sea and get fish. Open a fancy food shop selling more than tomatoes! Through the federation I can talk to ministers directly, I can go to the City Assembly and talk freely. I can go anywhere. The federation has given me this confidence... The federation has opened many doors for me. It has even opened a door to the minister, but it has opened many more house doors for the poor!"

Merry Litete (Blantyre, Malawi, page 129) "I joined the federation in 2005. They have helped me a lot. They have taught me to save and loan as well as some basic business practices. Before I had no capital, now I can borrow capital from them at an affordable interest. Cash, cash, cash! That's how we make our living in the city."

Egreni Sisero (Blantyre, Malawi, page 135) "I was contributing so well to the Mchenga Fund that the federation gave me a house. It will take me 8 years to repay the house, but it's my house. No more rent!"

Pauline Wangui (Huruma, Kenya, page 213) "We lived in a shanty in Kambi Moto… In 2000 there was a big fire in the settlement. Everything was burnt. It was a tragedy. No one died luckily but it destroyed everything. Homes, possessions, the lot. This depressed me. This fragile living. Our shanty home was gone. We had nowhere to go and nothing to eat and nothing to wear… Today I live in Kambi Moto Muungano Village. After we were given title to the land, we built the houses ourselves. That day was the happiest moment, when I entered my very own house. A real house! Now the kids are also secure."

David Maina wa Mwangi (Huruma, Kenya, page 235) "I joined the Muungano in 2003 and have done some work collecting money. The Muungano has helped me get a house and know about other slums. Life in slums is hard. A few years ago my house burned down and I lost everything, including all of my belongings. My happiness is that I live now in a permanent stone house."

Wurayayi Magwidi (Hadcliffe, Zimbabwe, page 243) "In 2005 the government destroyed everything here. They moved us to Caldonia Farm. They told us we had to get out because there was no water, no sewerage or services on this land. But it was not so. Some of us who knew construction investigated. And we found water mains and sewerage pipes. They were here all along. So we came back."

Continued overleaf

Sekai Catherine Chiremba (Crowbrough, Zimbabwe, page 281) "What gives me strength is the federation. I joined in 1998 with small crisis loans. This helped me, especially sharing with the others. Hearing others' problems, you compare to your own and you realize that things are not so bad. We give each other courage. I got my stand in Crowbrough in 2003. Instead of enjoying my stand, I cried! I thought: how am I going to pay for my stand? But Beth said: 'don't worry, you are in the federation'. And surely now I am living happily in my house."

Source: SDI 2007

One crucial benefit relates to skills gained by community members both individually and collectively. Savings groups have already developed the skills they need to manage finance at the community level and Urban Poor Funds scale up that ability to manage larger capital investments. Some of the members whose voices are reported in Box 13 discuss specific construction-related and/or financial skills. Other voices report on how federation leaders and savings-scheme leaders develop new skills in negotiating with local authorities and government staff for access to bulk water and sanitation provision, reductions in standards to improve affordability and/or for subsidized access to secure tenure. The local leadership also has to develop the capacity to gather and analyse information about local needs and ability to afford improvements, as this information is critical to the effective management of development interventions. They have to plan and then manage the construction project. There may be a particular need for mediation skills to address tensions that arise when balancing needs in a context of acute resource scarcity.

The quotations in Box 13 also illustrate how the process of joining a collective movement begins to change attitudes, both about individuals themselves and about the residents of low-income settlements. Despite the labels frequently ascribed to them, these citizens begin to appreciate that they are equal to others, and that they can do much to address their development needs both directly and through the resources of the state. The federation provides them with the security that is often denied to them by other institutions. In so doing it helps to create bonds between individuals that strengthen the movement of which they are a part. Part of that security is emotional, addressing the fact that many of these individuals have expressed periods of acute difficulty as street children and/or in ill health, and have been expected to manage without any assistance. Part of it is also physical as illustrated by the references to burnt shacks. The ability to provide new shelter options helps to illustrate an iterative dynamic in which success in achieving material improvements interacts with experiences of collective action to address the complexity of needs faced by urban poor groups.

Conclusion

Section 3 has illustrated the nature of Urban Poor Funds and highlighted some of the reasons why they appear to be an effective mechanism to assist in addressing urban poverty. Developing a neighbourhood process that can lead to scale while maintaining local control of the project and its activities is very important, and to achieve this process requires the many components that have been elaborated in this section. In summary, the process of urban development, whether upgrading existing settlements or on new greenfield sites, requires participation in collective processes and local management to avoid both free riders and the penalization of families who fall into crisis. The collective management needs to be able to manage investments, allocate expenses, resolve disputes, motivate collective labour and plan for continuing development. It requires households with an experience of saving and loan repayments.

As implied by these capacities, SDI affiliates seek to manage expectations of their members away from viewing access to the fund as an entitlement to be offered to all after a period of time (the "queue" or "proven friends" strategies, with their respective dependency on bureaucratic and clientelist allocation strategies). Rather, access to loan finance is a response to active communities that are able to convince their peers of their ability to manage the monies effectively (within agreed parameters) and who are considered to be worthy/entitled to receive loan finance because of their performance with respect to rituals that have been agreed by all to be important to inclusive, lasting development improvements.

The mechanism of Urban Poor Funds does not exist in isolation; this is evident both from the discussion at the beginning of this section which explains how the funds are embedded within the methodology of SDI, and from Box 13 highlighting the perspectives of federation members. The funds relate to the savings activities, information gathering and broader political positioning of SDI affiliates; they draw on such activities, and contribute to them. Fund-related activity and learning forms an important part of the exchange programmes. Nevertheless, it is a distinct component within the broader methodology.

The associated experiences and practices elaborated in the subsections above have emerged from the concerns of affiliates, issues they raise and discussions ongoing with their organizations. The discussions highlight both commonality and diversity in practice. This reflects both differences in context (such as the availability of subsidy finance) and differences in experiences and/or responses to experiences. The following section examines the strategies that lie behind the successful establishment of Urban Poor Funds. The discussion considers some of the contradictions that have to be overcome and the ways in which SDI affiliates manage to construct pro-poor financial mechanisms within the current context.

Table 6: Comparison of housing costs

Country	**Average house size (m^2)**	**Cost of construction (US$)**	**Market value (US$)**	**Previous rental (US$/month)**	**Loan repayments (US$/month)**
Malawi	45	800	2,500	Max. 30	30
Namibia	26	2,500	7,200	40–80	Between 10 and 50
Philippines	36	1,500	4,000	40	Less than 10
South Africa	56	3,750	14,285	Max. 215	State subsidy – no cost
Uganda	45	4,000	6,400	85	75–85
Zimbabwe	24	1,600	4,000	10	5

4 The contribution of Urban Poor Funds

Introduction

The analysis in Section 2 above demonstrates that both market mechanisms and state agencies have struggled to provide adequate shelter alternatives. This is the context in which Shack/Slum Dwellers International and other civil society groups have been pressing for change that favours low-income households. As elaborated in Section 2, political elites have used shelter programmes as a source of patronage to further their own ambitions and interests, offering resources to a range of grassroots organizations but demanding political allegiance in return. Neo-liberal state policies have resulted in the withdrawal of some programmes, and a partial switch to market-based mechanisms for the allocation of programme benefits. Civil society responses have tended to be reactive and defensive, seeking to protect programmes that exist and challenging changes in policy direction. Rights approaches have provided a powerful discursive platform on which to advance the claims of the urban poor, but have arguably been less successful in promoting the introduction and design of specific pro-poor policies.[15] The consequences have been very partial programmes that generally ignore the needs of the lowest-income groups (who are the least likely to participate successfully in market-orientated programmes). While the general awareness of the need to refocus aid on those most in need is evident in some places and sectors, it has not (to any notable extent) been reflected in policies related to shelter provision.

In this context, SDI has developed and pursued its own strategy, believing that a substantive change in approach is needed. Affiliates recognize that incorporation into the market cannot address the needs of very-low-income households and their communities, especially if the programmes are orientated towards

[15] The strategy appears to be more successful when associated with a significant shift in favour of rights within the state, such as the changing state policies in Brazil following Lula's election as president.

individual households who are vulnerable to unanticipated changes in incomes. Their experiences suggests that changing current state policies requires activities that build relationships and which engage the state, challenging its anti-poor practices by demonstrating alternatives that are more effective in addressing mutual needs. Such strategies can succeed only if there is a demonstrated critical mass of members at the local level that provokes politicians to engage and respond to this potential electorate even if these people are not their traditional supporters.

As outlined at the end of Section 2, SDI affiliates have to avoid compromising their independence and autonomy in their dealings with the state. This is particularly difficult in a context in which there are politically orientated programmes that aim to resolve the contradiction between state withdrawal and electoral success through strengthening patronage and dependency relations. To reduce this risk, federations seek to engage the state and political elites as an organized collective constituency of the urban poor. Their challenge is to pressure the state to invest in the development of low-income settlements, and to do so in ways that avoid the strengthening of paternalistic, patron–client relations; equally they have to avoid the market-orientated responses favoured by many governments today because of their inability to include the lowest-income and most vulnerable families, and because such market responses favour individuals and not collectives, hence weakening the political potential of the urban poor.

As outlined in Section 3, federation groups engage in a constant interaction with the state as part of their ongoing routine activities. Politicians are invited to ground-breaking ceremonies and house openings. Officials are drawn into enumerations and settlement profiling. Savings schemes visit local government personnel to discuss house plans, land availability and inclusion into existing state programmes. These day-to-day meetings build relationships and may provide a venue for informal negotiations; however, they are not formal engagements in which significant requests for assistance are put forward and negotiations for financial support take place. To advance an agenda to address the needs of the urban poor at scale (i.e. throughout the city) requires a city and/or national institution with resources to respond to community development plans and priorities. Urban Poor Funds have developed to be that institution.

This section discusses the ways in which funds seek to position themselves, both to get established and to increase the development options available to the urban poor. As noted above, Urban Poor Funds must avoid the problems of existing programmes, ensuring that the people's organizations remain politically autonomous, and able to negotiate from a position of strength. At the same time, they have to be able to negotiate state resources, either securing new finance with appropriate conditionalities, or securing access to existing subsidy streams with necessary modifications to operating procedures.

The objective of universality, offering appropriate support at scale to all of those in need, is a further related tension. Resources are inevitably limited, and savings schemes must prevent an inward-looking strategy of fund management orientated to sharing out resources between those who are already members. Instead, they aim to use existing monies strategically to push for scale, creating opportunities for those who have not yet joined the federation. Universality is one of the core principles: the objective is predictability of development opportunities given the acquisition of specific savings-schemes capacities and skills. Transparency and predictability in allocation decisions prevents the arbitrary allocation of resources which leads to fatalism and inactivity – and which is so damaging to building a mass movement of activists. It is to state the obvious to say that universality is simply not possible in many contexts; the scale of resources in Table 1 above shows that only limited investment can be made by many affiliates. However, in the interim, funds can maintain an open and transparent process of loan allocations, while strategizing towards the more ambitious goal of universality.[16]

[16] This means that allocation choices are made by loan committees according to a number of criteria, one of which is the potential for political visibility and success in securing state resources.

A third tension lies in the management of SDI principles and values towards savings and loan finance, and the favoured ideologies and realities of the current time with respect to such finance. Financial markets are seen as a key source of prosperity and there is considerable interest within government agencies and development organizations in facilitating improved access to savings and loan facilities.[17] Federations attract attention partly because their strategies fit within an analysis of need and response based on micro-finance, and this fits within the neo-liberal orientation of many official development agencies. SDI affiliates use these opportunities but have to avoid damage to their own principles and values through their engagement with this very different perspective about the contribution of financial markets. At the same time, while federation groups see savings primarily as a community-building tool, affiliates are also conscious that members may see loan finance differently. At least some households invest heavily in their own shelter and wish to continue to do so; loan finance assists household with asset accumulation. Federation members are, broadly speaking, interested in acquiring loans and supportive of increased borrowing opportunities to address their individual need for housing improvements. However, the problems associated with debt are well known. This mix of orientations, directions and interests is embedded within the third tension – including loan finance and debt, so often the trigger for crises, poverty and exclusion, as part of an inclusive strategy and transformatory development programme.

This section analyses how the pro-poor development processes introduced, explored and consolidated by Urban Poor Funds navigate these tensions and potential contradictions. The discussion begins with a historical reflection on funds in India, the oldest affiliate but one in which the concept of a single fund is least developed. It then considers how the fund interacts with the market and market-orientated development intervention. How do Federation groups manage the realities of loan repayments and prevent vulnerabilities from increasing? The third subsection below examines strategies to draw in state support without compromising the community-led nature of the process and the autonomy of the movement. The final subsection examines the collective challenge that federations face in working with funds, the issues that they raise for the internal management of the affiliate and responses that have been developed.

Historical reflection – understanding funds in India

Among the mature SDI affiliates, the Urban Poor Fund is least developed in India, the longest-standing affiliate. In deepening our understanding of the role that funds play within SDI strategies, it is useful to explore the limited development of a fund in this case. It is not that savings and loan activities have been slow to develop in India; savings and lending activities have been taking place since 1987 and the Indian groups are well known for their ability to manage locally capitalized loan funds (Patel and d’Cruz 1993). External donor funds have been made available by SPARC to local processes. These external funds include both donor monies and government loan capital to encourage micro-entrepreneurs from Rashtria Mahila Kosh (RMK), the Indian Women and Children Welfare Department (see Box 8 above). Such funds have helped to strengthen local saving-schemes capacities and provide essential loan capital to communities.

As the process began to grow and strengthen in its political capacities, these small revolving loan funds began to expand into new activities. In 1993, it was anticipated that people’s shelter savings would be drawn together with supportive loan capital into a single institution (Patel and d’Cruz 1993, 16). However, for multiple reasons, these monies continued to be managed by SPARC and the federations as small, separately managed, and low-profile funds rather than being aggregated into a single fund. These smaller funds play a critical role in supporting the work of the federations, performing the following functions at city level:

- supporting an understanding of the federation as a collective force – through anti-individualism
- strengthening political influence as a strategic tool with which to go to the city
- forming a conduit for external funds and money from other savings schemes,
- helping to access state resources on people’s terms and dealing with abusive local politics

[17] See, for example, the growth of micro-finance including housing micro-finance (CGAP 2004; Daphnis and Ferguson 2004).

- building organizational capacity to reach the poorest
- building social relations with service providers
- sharing knowledge of land across the city.

All this helps the federation to be more independent of the support NGO, and provides an increased level of public responsibility.

One reason why housing savings could not easily be aggregated at the saving-scheme level is because individual members held them in specific bank accounts.[18] Without the community contribution to housing investment, it did not make sense to the federation to form a specific fund. As Jockin Arputham, president of SDI and formally president of the National Slum Dwellers' Federation in India, explained:

> By the time we thought of a model, it was difficult. For a long time we had been thinking about setting up something similar to the Cambodian model but by then the [Indian] federation had grown so large – we were already collecting four to five kinds of money from the people – daily savings, housing savings, withdrawal repayment, crisis credit, housing credit – almost six kinds of monies being collected from the people. Hard to take separate money – another monthly contribution – from the people.

Second, even if the will had been there, legislation did not permit NGOs such as SPARC to collect savings. As an NGO, SPARC is not allowed to borrow money or to undertake construction activity. Therefore, as federation construction activities began to grow in the second half of the 1990s, there was a need to establish a company for this purpose. Third, the way that state support in India could be accessed did not lend itself to the approach of an Urban Poor Fund. State subsidies were available only for specific investments and (at this stage) it was judged that the state had little interest in making a generalized contribution to support direct investments by the urban poor.

Fourth, there was an evident mismatch between the scale of likely funds and the scale of demand. By the time there was interest in establishing a fund, SPARC faced intense competition from other NGOs for donor resources and was not sure how much could be raised. However, by this time there were tens of thousands of women who were active Mahila Milan savers and anxious to acquire housing loans. In this context, allocations through an Urban Poor Fund would be difficult because of the gap between demand for funds and the supply of funds. In India, the evolution of mechanisms took place alongside the growth in scale of activities. By the time the concept of the fund had been refined, the Indian Alliance's process had grown beyond any possible use of the fund as an innovation tool – what was now required was large-scale investment funding. In the case of other affiliates, each fund has emerged as savings schemes have begun to be established, and the relatively small number of organized groups place manageable demands on the available resources.

In India, an alternative financing strategy developed, centred on but reaching beyond the Community Led Infrastructure Financing Facility (CLIFF) described in Box 14. As experience with loan finance and construction has grown, the Indian Alliance has become more ambitious in its plans. The evolution of Nirman, the construction company set up in the late 1990s, reflects the constraints and opportunities facing the Indian Alliance. The context in India is one of dominance by market-orientated development, with development assistance agencies being squeezed out (in some cases literally, as bilateral agencies leave the country) and intense competition for donor funds. The political stance of the Indian Alliance, and particularly its pragmatic orientation to alliance-making to further the interests of the poor, has resulted in some resistance from the more ideological Northern agencies.

In this context, there are fears about future financial inflows for the Alliance and interest in reducing dependency on Northern NGOs. One of the current strategies being explored is to change SPARC from something like an NGO into more of a foundation managing an endowment. The endowment would be capitalized by income generated through managing housing projects for the resident population of areas benefiting from Transferable Development Rights (TDRs) in the redevelopment of Dharavi (Mumbai). The TDR is a government mechanism to subsidize improved housing in full, for households living in

[18] These individual bank accounts were grouped together within a savings account group.

designated slum areas. The costs are covered by the sale of "rights" that enable developers to build at higher densities in the city, therefore creating additional properties and hence profits. It is intended that the six TDR projects to which Nirman was committed in August 2006 will make a contribution to a capital fund to be used for further construction. Once the existing projects have been completed, it is possible that Nirman will be ready for evolution into a new mechanism.

The experience of CLIFF has resulted in significant learning for SDI affiliates. CLIFF provides large-scale capital to enable communities to access state subsidies without the kind of burdensome interest payments that caused problems for Federation members in South Africa. The scale of finance available within CLIFF means that the process can be attractive in countries such as India, where there are large numbers of members and where the state may show little interest in small-scale ventures. CLIFF has enabled SPARC and the Federations, through Nirman, to access the system of Transferable Development Rights and assess how it can work tofurther the interests of the Alliance.

Box 14: Community-Led Infrastructure Finance Facility (CLIFF)

The Community-Led Infrastructure Finance Facility (CLIFF) is a financial mechanism that provides organized communities of the urban poor with direct access to the venture capital they need to develop creative and sustainable solutions to the problem of slums. With other finance, it helps to expand the existing portfolios of demonstration construction projects that work for the poor as well as for the city as a whole. These demonstration projects result in improved housing and sanitation for significant numbers of people; they are used to influence the policy and practice of various relevant actors (such as banks, local and national government, and international development agencies), in an attempt to achieve scale through the replication of such demonstrations.

CLIFF is financed by the UK Department for International Development and the Swedish International Development Co-operation Agency. The **Indian Alliance** *was chosen to pilot CLIFF and Nirman is the first institution to host a local CLIFF. The Alliance contributed by initiating many projects using its own revolving loan funds (valued at £1.2 million in India). CLIFF provides a variety of financial support in the form of grants. These are technical assistance grants, capital/investment grants used to provide loans for project construction and related costs, knowledge grants and management grants.*

SPARC Samudaya Nirman Sahayak (Nirman for short, and meaning SPARC's assistance to construction collectives) is a non-profit company founded by SPARC, NSDF and Mahila Milan in 1998. The federations along with SPARC negotiate for land and support local communities to manage and participate in construction. Nirman focuses on handling the financial and technical assistance that communities need, while the federation provides them with grassroots and leadership support. As the Indian Alliance's projects became larger in scale and complexity, a need for more sophisticated legal, financial and technical expertise arose and Nirman was created to meet this need. Nirman is based in Mumbai and has been responsible for implementing CLIFF in India. It also has many other activities. In 2004/05, for example, it supported the construction of 5,459 units in eight cities. In addition to CLIFF, Nirman and SPARC work with other banking institutions in India to explore their potential in providing capital to savings-scheme construction activities.

Sources: www.homeless-international.org and SPARC (2005)

One consequence of the lack of single imagery around external finance in India is that the funds are seen as learning exercises at every level. The projects supported by these revolving funds are precedents – investments by local settlements in change processes within their own local context. They enable the community to consider what works for them, and how it can best operate. In particular, they enable local groups to have an understanding of the affordability of loan-financed improvements. In this context, repayment rates are viewed as information helping to assess the affordability of the intervention. These small-scale revolving funds are not financial instruments, but rather a way to finance activities within a process of social development. While there is concern to support repayments, it is recognized that this is only a minor part of the process. As Sheela Patel, director of SPARC, elaborated in 2004:

> Our system never says that repayment is 100 per cent! We discovered that about 65–70 per cent of communities are able to repay on time in any single month. The others have a problem and need longer to repay. Now we assume that, at any given time, there will be 30–40 per cent of people who don't have money in their pocket for that period. It's not designed in this fantasy that it is 98 per cent. We are not saying that people don't repay that money, but we always find that about 30 per cent of people need to extend beyond the initial point. (Sheela Patel, 2004)

Addressing market incapacities

As noted in the introduction to this section, a central tension that Urban Poor Funds have to manage is their engagement with financial markets, and the current imagery about the contribution of financial markets to poverty reduction. Current pro-market attitudes are reflected both in the emphasis placed on capital subsidies to address housing need, and on housing micro-finance as a potential solution to inadequate shelter. The discussion below first identifies the difficulties of such approaches for work with the poorest people, and then elaborates SDI's strategies to negotiate support within this context.

Market mechanisms and market-based relationships struggle to address the needs of those with the lowest incomes, and of those uncomfortable with formal institutions. Participation in the market requires finance, and the urban poor are characterized by their lack of incomes and low level of financial assets. Within a capitalist economy, households are consumers (purchasing goods and services), and suppliers of labour. The market, as currently constituted, is able to deal with individuals and groups aggregated together into some kind of legal collective. It struggles to deal with informal groups of consumers because, even if they have a considerable demand, they are not a legal entity able to make contracts. In the absence of market institutions some civil society groups have sought to complement market processes with locally managed collective institutions. For example, water committees may organize a water point (with any one of a number of water sources), charging residents for water consumption. However, a typical arrangement is to divide residents into those paying a monthly charge and those who cannot afford a monthly payment but who are allowed to buy by the unit at a higher cost.

As land is generally cheap only if purchased in bulk, and infrastructure improvements cannot be installed without a collective capacity to manage the installation (which may include re-blocking the site, organizing voluntary labour, making decisions about technology and construction quality, and collecting financial contributions), some form of collective organization is essential. In many cases, this has resulted in households forming themselves into housing cooperatives. However, as is the case with credit unions and the water committees outlined above, the practices and orientation of the typical cooperative makes it difficult for low-income households to participate. The prevalence of market-based economics has led to a number of rules that are orientated to financial success rather than inclusivity. The emphasis on regular contributions and formal legal processes deters the participation of those who are informally employed and who have low and irregular incomes. Collectives of the urban poor copy the institutions developed by the market for higher-income groups without reflecting the extent to which they address the needs of all low-income residents. Practices are judged superior not because of any intrinsic merit but because they are associated with a more powerful world of higher status. It is such practices that confirm to SDI affiliates that there is a need to rethink and redevelop how urban development takes place, with a primary need being for low-income residents to experiment, innovate and refine alternatives that are more effective in meeting the needs of all residents.

This is the context in which the federation engages with loan finance. While market-orientated approaches favour neither inclusion nor collectivity, their ubiquitous adoption in state policies and institutional practices means that federation cannot ignore them. Moreover, the practices of savings and, to a lesser extent, loan finance mean that federation funds are often considered to belong, at first glance, within the broad grouping of micro-finance. SDI affiliates are aware of the advantages that this can bring but over time have become more cautious of such affiliations, in part due to the very real difficulties in ensuring that loan finance can work for those with the lowest incomes. Some savings-scheme members demonstrate an acute awareness of the difficulties that they face in managing loan finance to the benefit of all members, partly due to previous experience with micro-finance.

In 2007, in Zambia, federation leaders negotiated a 3 per cent annual interest rate for housing loans.[19] One NGO staff member explained the reasons for this: "they are concerned about repayments…. the micro-finance agencies, they just come into people's houses. They take their things when they do not repay the loans. Sometimes the woman has not told the man she has taken a loan. It causes a lot of problems." In Thailand, the community members who first participated in setting the terms and conditions for lending from the Urban Community Development Office had a very similar view and also argued for a 3 per cent interest rate on housing loans. The Thai groups had benefited from community revolving funds established in the 1980s by UNICEF, and had experience of the local management of borrowing and debt. A key challenge for the federations of Urban Poor Funds is to manage the funds in the interests of both current borrowers and those who may borrow in the future and who wish the fund to maintain its value. Most fund committees set interest rates for shelter finance close to inflation rates and considerably below rates charged by commercial lenders. For example, in the Philippines, Urban Poor Fund housing loans are given at 6 per cent a year, compared to 11 per cent in the formal sector; in South Africa, the equivalent figures are 12 and 33 per cent respectively.

Even if the funds are not aware of the problems of loan finance before they begin to manage the process, these issues rapidly emerge. Lending from local savings-scheme capital may be problematic in some contexts (particularly those where there is not a strong tradition of such local lending, and fewer possibilities for enterprise activity) but in many affiliates this process happens smoothly and is managed at the local level. As lending is scaled up through Urban Poor Funds, then other issues emerge. At the risk of a somewhat crude generalization, the experience with funds is that the first group struggles due to the scale of innovation that it needs to undertake, while following groups establish effective systems for collecting repayments and remain strong. Groups that are drawn into the loan process manage repayments for a number of years but, as the repayment period proceeds, some families experience difficulties as their situation changes for the worse. In general, loan periods are eight years and longer, partly because the convention has been to construct small complete units, or to part-finance subsidized housing.

As detailed in Section 3, there are many reasons why repayments are difficult; three of the most significant are summarized here.

1. In some cases, there are no significant state subsidies and so families must bear the costs of improvements. Experience to date has demonstrated that many members cannot afford the costs of complete houses, even when these have only two rooms. However, the state may place the federation under pressure to build this type of dwelling. Additional difficulties occur when developments are on greenfield sites and the costs of relocation are not fully taken into account when repayments are anticipated.
2. Long periods of loan repayment make it difficult for households to manage to pay. In Namibia, low-income members often choose to use savings to pay for infrastructure improvements and do not take housing loans because they do not want to increase their vulnerability.
3. Formal housing can involve higher monthly outgoings in addition to the need to make loan repayments. When families living alongside the railways in Mumbai were resettled into high- rise apartment buildings, they rapidly found that the electricity bill for the lift was very expensive. The local savings schemes made several attempts to identify rules that might restrict costs (for example, that the lift should be used only to get to the higher floors by families living in those flats) but still struggled to keep costs to an affordable level. In Windhoek, groups have faced increased problems with council service charges. Once families managed to construct permanent housing, they found themselves being charged higher rates as the authorities decided they were living in improved areas.

[19] However, Mama Makona, one of the national federation leaders, explained how their view was changing as they began (early in 2008) to give loans and worry more about the scale of financial returns: "we need to revise it to sustain the money", she explained.

The federations believe that it is critical that loan finance does not increase vulnerabilities, resulting in some families having to withdraw from the project (or make other difficult choices) and fracturing local organizations. As reported in Box 15, one local federation leader when considering repayment issues argued that "The fund is good, the problems are ourselves." A core challenge for the federations and their support agencies is how they can manage the contradiction between conformity to existing norms and transformation into new norms that maintain adequate repayments and which meet their social goals. To a significant extent, federation leaders have imbibed some of the language and concepts of the formal world, with (in some cases) reference to the importance of disciplining members and establishing certain practices. However, at the same time, there is the recognition that the purpose of the fund requires federation members to go beyond this, finding new practices and languages. Box 15 describes how the Namibian Federation reacted when faced with repayment problems in 2004.

Box 15: The Namibian Federation's reflection on Twahangana

By 2004, federation leadership (local and national) in Namibia had become profoundly concerned about the low level of fund repayments. Federation leaders noted that people were happy to receive loans but, after about six months, many become weak at repayment. Most of those with loans are poor, but the general conclusion was that people could afford to make repayments but chose not to. Consequently, leaders spent considerable time managing loans. They asked SDI to help them with a review to identify and consider the issues.

Relationships between members and federation leaders had become based around loan repayments, and internal conflicts had grown. In the Khomas region, savings-scheme members were refusing to complete the bookkeeping, arguing that this was the responsibility of NHAG (the support NGO). This lack of information meant that it was difficult to assess the national scale of the repayment problems. There were also problems within savings schemes as illustrated by the experience of Habitat II, one of the first savings schemes to acquire land and build houses. Some money was owned to the municipality for the repayment of the land. It was not clear if this was a problem with unenthusiastic bookkeepers who delayed depositing the monies, the misappropriation of funds or the municipality not matching up payments correctly with specific groups.

After some time, the payments were clarified and the municipal staff came to confirm that the amounts were correct. However, this information was not accepted by all members. A further problem was that the bookkeeper for the Twahangana service loan had a fire in her house and the books were burnt. A group within the savings scheme called The Dissatisfied wanted to leave the scheme and make their repayments direct to the municipality. The federation recognized that most savings schemes did not have these problems, and was very concerned. At the same time, many of the members blamed themselves for the repayment problems: "The fund is good, the problems are ourselves" (Meeting with federation leaders, 14 August 2004)

The SDI review team found that at least some of the problems with Twahangana were structural, arising from allocating loans that require full repayment to low-income women with multiple demands on their scarce resources. Following the review and a widespread internal discussion, a much better understanding emerged. The leaders developed a set of new strategies to help members manage repayments and began to think about how they could move beyond becoming a federation of debt collectors. The new measures were successful and by March 2006, Rosalyn Hendricks (one of the leaders) explained: "The members can now see how they will work on the fund so they can solve the problems, especially the repayments of the loans that they have received."

In addition to a better conceptual understanding, the skills required for fund management are also being imparted to local groups: "Now they are able to do their own bookkeeping and information is shared with the members. Members know who is paying what." In Khomas region, for example, the bookkeepers meet each month to check that the books are being completed. Leaders believe that more work is needed to expand the capacity of the savings groups. If members are not willing to complete these tasks, the regional loan team that approved the loan requests from the groups, works together with members to support the process. The difference between now and the time of the review is that this work has been decentralized from the national and regional leadership to a group of active members.

Sources: report on Twahangana Fund, August 2004; report of follow-up visit, March 2006

As in other aspects of SDI's work, the savings scheme is the critical central node; it is through saving schemes that members gain experience and amend practice, sharing outcomes through the federations. The savings schemes are simultaneously a local university and a government, enabling learning, negotiating and rule making between members. In terms of improvements financed by Urban Poor Funds, groups learn through their mistakes as they explore operational activities within local development projects. Despite the considerable amounts invested in poverty reduction, there has been very little experience among organized low-income communities about how such funds can best be allocated and managed. Individual leaders may have been asked to participate in project committees but such invitations do little to build a consolidated, reflected analysis within a broader group of leaders about what has been tried, the consequences, and the reasons for those consequences. Urban Poor Funds enable savings schemes and their members to ground improvements within alternative approaches, including alternative types of social relations. A central challenge for savings schemes is how to manage repayments and the extent and nature of pressure that should be exerted on members.

As noted above in Section 3, savings schemes and federations have developed diverse strategies to assist households with repayments. Formal-sector loan makers talk about repayment management as being related to both ability and willingness to pay. For savings schemes, the first element is translated into affordability– can households afford the repayments in the context of other family needs? The second element is related to local ownership and the extent to which members prioritize fund repayments in the context of other demands on their income. The federations have little interest in setting up coercive structures to enforce repayment schedules in part because such structures reinforce the actual and/or symbolic violence that has been responsible for the creation and perpetuation of much poverty and exclusion. Savings-scheme members are not foolish, short-sighted, irresponsible, criminally orientated deviants who need to be disciplined and controlled into civilized behaviour. Rather, they are primarily women who are doing a difficult job with considerable skill: maintaining the health and wellbeing of themselves and their families in very difficult circumstances. In this context, lack of willingness to pay reflects many realities (including experiences of non-payment being associated with externally funded state or donor programmes, arbitrary rules which create impossible local conditions and high levels of exclusion from other benefits). Federation leaders believe that repayment difficulties can best be combated by supportive mechanisms (as outlined in Section 3), including a political process to secure external subsidies, and by strengthening local ownership of the process.

As noted above, federations see a strong sense of ownership as critical to providing motivation to follow the application rules and to repay. Ownership goes beyond the management of repayments, and is central to the functioning of the fund as a democratic instrument for social change. Local ownership has a critical contribution in reconciling the tensions between market pressures and pro-poor policies, although the contribution of the larger collective in negotiating subsidies from the state is also critical. A number of funds have taken specific measures to increase members' sense of ownership and involvement in fund management in recent years, and these are discussed in Section 3.

If these are the strategies used by affiliates to enable very-low-income households to manage loans and debt successfully, how do affiliates seek to manage the representation of the Urban Poor Funds within the neo-liberal context? There is no single strategy, as possibilities and perceptions differ between the contexts of different affiliates. There are significant differences between the countries in which significant subsidies are available (Brazil, India, South Africa and Thailand) and those in which they are not.

If subsidies are available, it is significantly easier to put together a financing plan that involves savings, and in some cases a small loan, for households to secure improved shelter. In these cases, there is broad acceptance among professionals that low-income households cannot finance adequate shelter and that the state should play a role. In South Africa and more recently Brazil there are significant state subsidies for low-income settlements and the upgrading of living conditions. In India, federation members living in Mumbai have been able to benefit from upgrading strategies for designated slum areas and an additional subsidy financed with private monies and generated through building-regulation concessions for those providing free housing for slum dwellers (Patel et al. 2002). There have also been other dwellings (again in Mumbai) financed through resettlement provision associated with large infrastructure projects (Patel et al. 2002). In other towns and cities there are national and state subsidies available that provide between 50 and 90 per cent of the cost of new dwellings. The system of Transferable Development Rights has pioneered a very different kind of market engagement in which the affiliate becomes a housing developer. However it is unlikely that this role will emerge in other cities in India, unless real-estate prices rise to the level found in Mumbai and there are central- city low-income areas with a potential for redevelopment.

Many affiliates have to work outside any comprehensive subsidy programme and have to raise capital (including loan capital) from donor agencies to provide finance for their Urban Poor Funds. This capital is important both because it enables activities to take place and because it shows governments that this is an affordable option for when they are ready to invest in shelter improvements. However, with respect to the rhetoric of finance markets and what the poorest people can and cannot afford to do for themselves, SDI affiliates have struggled most significantly with their donor agencies. Several donors perceive their contributions to the Urban Poor Funds as being associated with micro-finance and had anticipated the establishment of formalized individual lending with commercially orientated repayments. Perhaps more damaging than the rhetoric of this process is the associated grant management and monitoring procedures and the pressure on affiliates to manage their fund activities conventionally. Over time there has been greater clarity about the process, and some donors have withdrawn their support, while affiliates have become more aware of the risks associated with donor finance.

Working with official development assistance agencies has been significant in extending the reputation of SDI affiliates and in opening up new possibilities. A project with Cities Alliance catalysed the formation of the affiliate in Sao Paolo as interested officials from the city learnt more about SDI methodologies in a three-way city learning exercise with Durban and Manila. CLIFF has been important in helping official development agencies to learn more about how their systems and finance can support people's development. As is the case at a more local level, the day to day processes associated with project/programme implementation provide a rich source of experiential learning. The CLIFF experience has also helped SDI affiliates to understand the constraints that are attached to such official monies both in terms of their bureaucracy and professional/technical orientation, and the continuing interest of official development agencies such as DFID (the UK's Department for International Development) in private market linkages. The evolution of CLIFF has reflected such learning.

At present, the allocation of resources is dominated by markets and by market transactions. The affiliates of SDI have both to work with this reality and to recognize that this process excludes those with the lowest incomes and fewest assets. In their general organizing and savings work, these contradictions are not acute; however, as loan finance becomes a significant strategy to provide improvements, the challenges emerge. The challenge of managing the market is not just related to loan finance but also to other aspects of the development process. Improvements mean a measure of political integration, and integration means formalization. As greater success has been achieved in secure tenure and housing improvements, service charges are becoming a more significant issue. This process is very difficult in a context in which subsidy finance is not available. Donor finance is insufficient for generalized approaches, and the dependence on loan finance increases vulnerabilities, unless the loans are very small. This challenge is significant, especially for the newer affiliates that have emerged in sub-Saharan Africa.

Addressing state inadequacies

As discussed in Section 2, the state has demonstrated its incapacity to address the shelter needs of low-income households. The many state-sponsored initiatives have gone some way to addressing shelter needs but they have struggled to address the needs of the lowest-income households, instead favouring slightly higher-income groups able to respond to the opportunities available. Almost regardless of their specific political orientations, modern states at a time of neo-liberalism have tended to use capacity to pay (through institutions focused on cost recovery) as a route to determining access to entitlements. Hence the interest in subsidy programmes that can be accessed only by those able to put down a deposit, theoretically secured through savings; and many service subsidies require some level of repayment. (See, for example, Lobo-Gomez and Contreras 2000, and Loftus 2007, who discuss water subsidy programmes in Chile and South Africa respectively).

However, even prior to this current ideological period, state programmes were generally partial, with some rule-based system of beneficiary selection. The allocation process generally resulted in the creation of bureaucratic systems (housing lists) alongside which private favours (corruption and bribery) and political manipulation (offering access in return for electoral favours) flourished. As a consequence, past and present state programmes to support shelter improvements have been and remain inaccessible to many low-income and otherwise disadvantaged families. Whatever the system of "rules" used to allocate resources, the urban poor have struggled to secure access to the benefits available to others.[20]

Analysis of the discussion of state programmes in Section 2 highlights the incapacity of the state to devise shelter schemes that establish and realize entitlements to shelter without also disadvantaging those with the lowest incomes. There is an increasing recognition that subsidies may be needed and that efficient subsidies are those that target those households most in need (on water and the World Bank see Komives et al. 2005). In the absence of a comprehensive subsidy programme, complete housing is unaffordable. Even with such a subsidy programme, it can be difficult. Despite this lack of affordability, professionals and the state have combined to construct a vision that has incremental building firmly established as second-rate. This vision helps to ensure that, with respect to housing at least, low-income is associated with low-status, as families that can afford only traditional materials, or live in a shack, are looked down on. A significant problem created by these exclusionary systems is not their immediate consequences with respect to equal access to state services and employment opportunities but rather their influence on practices, perceptions and ambitions within grassroots organizations. Faced with a diverse range of anti-poor practices inhibiting the provision of even the most basic conditions required for a dignified life and family wellbeing, household heads have either sought what they could through agreeing to become "dependants" within hierarchical relations or simply struggled as best they could, recognizing their absolute lack of control over essentials of life.

The ability of federations to address this situation is succinctly captured by Appadurai (2004) in his study of the Indian federation and his argument that federation rituals increase the "capacity to aspire" to a positive future among their members. A task for Urban Poor Funds in their engagement with the state is to translate that "capacity to aspire" into actual plans and programmes which draw down state resources according to a new set of rules that address the practical and strategic needs of federation members and, necessarily, a broader aggregation of the urban poor. SDI affiliates need to persuade their governments that they should contribute to Urban Poor Funds to achieve poverty-reduction goals, even if that means challenging multiple interests: bureaucrats who prefer to follow their own rules, politicians and/or officials who make personal gains through corrupt payments, and politicians who allocate resources for electoral goals. This subsection elaborates on this, and illustrates how the federations proceed here.

The lack of success of bureaucratic systems in including the lowest-income families needs to be demonstrated to the state, enumerations have been important in establishing the credibility of the federation as a source of professional and technical knowledge about low-income settlements. Some officials and politicians are horrified by the prevalence of corrupt practices and this attitude helps to garner a group of supporters within local and/or national government. For example, the Project Officer for the Urban Slum Community Office in Cuttack (Orissa, India) was keen to work with the local Mahila Milan group because he believed that "political factions" were trying to influence a list of individuals for resettlement entitlements. The officer believed that Mahila Milan was able to identify legitimate beneficiaries, many of whom had been excluded from a previous list of those entitled.[21] However,

[20] While systems are indisputably formal in part, in many cases state agencies and officials may be involved in both formal and informal developments seeking personal and electoral advantage. It is therefore unhelpful to distinguish a formal government component to shelter and an informal private component. The state is involved in both "sectors" as it seeks to reconcile its technical role with electoral popularity, historical realities and institutional resource constraints.
[21] Interview, 23 August 2006.

progress cannot rely only on such individuals, and existing political dynamics can be countered only by large-scale, visible demonstrations of mass action. Federation events such as house models, house openings, group enumerations and mass meetings are all important as examples of the potential vote-winning benefits of aligning to this people's movement. As one state politician said to a SPARC staff member in 2006 at a public event of several thousand primarily women members, "I can see this is not a rent-a-mob".

Essential to a pro-poor political strategy is a mechanism that has the potential to address the aspirations of all. The experience of community leaders is that their only option is to develop a solution that works for everyone and which strengthens their collective capacity to act. Partial solutions that are available only to some will make the poor vulnerable to political deals and clientelist politics. As soon as partial benefits are on offer, then local organizations and their wider aggregations as movements will compete with each other to secure access to such benefits. Believing that there is a choice between a little and nothing, history suggests that leaders will compromise and many grassroots organizations will align to political parties partly because of the personal ambitions of their leaders.

Just as savings schemes seek to reconstruct political relations within settlements, so Urban Poor Funds seek to reconstruct relations at the level of the city or settlement and avoid problems of political patronage. Once attracted by the possibility of electoral advantage and/or the opportunity to develop alternative rules that offer effective solutions to urban management problems, politicians and officials begin to engage with this new political possibility. Given the choice, political elites would seek advantageous outcomes that increase their control over the development process. However, an astute movement has room for manoeuvre, particularly if it is seen to be politically powerful (due to the scale of its membership) and credible as an agency. A similar conclusion is drawn by Avritzer (2006) in the context of participatory budgeting in Porto Alegre; he elaborates on how the strategizing of the movements resulted in favourable policies. Both Avritzer (2006) and Abers (1998) suggest that it was the capacity of the city-wide movements to analyse their historical experience of engaging with the state, and to strategize to achieve alternative outcomes, that lay behind this democratic advance.[22]

As the funds develop their activities and secure state finance and/or other resources, they have to strengthen these relations in order to secure additional resources. Finance is offered according to rules agreed by members and with a public allocation system (seen to be fair). Transparency in allocations and rules is taken for granted and uncontested. Funding is never sufficient to address the needs of all member organizations, let alone the needs of the urban poor throughout the city, but the orientation of activities is towards this goal. As precedents begin to be effective, then new opportunities may open. Jane Weru, director of Pamoja Trust, the support NGO in Kenya, has described the response of the government to the first housing developments undertaken by local savings schemes:

> In terms of land, we recently entered into an agreement with an MOU with the Ministry of Lands that we agreed that the Ministry would release all land that is government land that people are occupying…. We are discussing now with the technical people within the Ministry (pushing the political agreement with the Minister) which settlements to work with all over the city and country and then how we proceed and how we divide the responsibilities between the state and ourselves.
> (Jane Weru, 17 November 2007)

Box 16 offers a further illustration of how the fund opens possibilities for changing relations between fund members and the state within a small town. The experience of Gobabis (Namibia) demonstrates how the fund can become a catalyst for a further redrawing of relations between organized citizens and the state. In this case, as in others, financial capital changes both relative differentials in terms of access to resources and the ability of federations to make demonstrative investments that serve as a focal point for particular requests and associated lobbying. One successful development led to a further allocation of

[22] Arvitzer (2006) argues that grassroots capacities are not necessarily replicated in other cities in which participatory budgeting is introduced. Without a strong social movement the approach results simply in decentralized financing decisions, not grassroots capacity building.

land for twice as many residents. A formal committee was established to support the development of this land, and the construction of a community centre offered a meeting place. The council officials were willing to travel to the settlement meaning that land committee meetings took place in a local space, changing the balance of numbers through increased participation and empowering women to speak through their awareness that they were in their own familiar public space. In Namibia, these experiences at the local level have combined with a willingness at the national level to collaborate with the SDI affiliate.

Namibia has been struggling for years to obtain a complete picture of the scope of urban informal shelter. During the Namibian National Housing Conference in November 2006 representatives of the SDI delegations from India, Kenya, South Africa, Zimbabwe and Malawi met with the Namibian Minister of Regional, Local Government and Housing and Rural Development, John Pandeni. The group discussed the possibilities of the Namibian Federation working with local government personnel to carry out a national settlement profiling. The minister agreed to support such an activity and this resulted in a Namibian Community Land Information Programme, initiated in January 2007. Numerous meetings took place in Windhoek with the ministry staff and other ministries to obtain the commitment of the government and other stakeholders to support federation census activity. The distribution of information letters from the ministry to all the local and regional councils is opening more doors for the federation to continue with its work. The aim is to develop key local authorities and their communities as learning centres in each region to enable the councils and members to share their experiences and skills. Once government personnel have been drawn in, there are good possibilities for similar, stronger local relations, as in the case of Gobabis (Box 16).

Box 16: Gobabis, Namibia – changing relationships with the state

The shelter challenge is particularly significant in the smaller towns and villages in Namibia due to the scarce resources available for development. About 50 per cent of households in Gobabis (population 13,000), live in informal shelters, where 85 per cent lack access to toilets. There have been no options in the town for securing affordable land for house construction, since individually developed plots are too expensive for federation members. The Shack Dwellers Federation of Namibia has been organizing in Gobabis for some years and by 2006 had established 16 savings groups.

In January 2002, a group bought a block of land for 50 members and the development of infrastructure and services began immediately. The community has used multiple resources to address its needs. This is not a conventional project with a comprehensive budget and annual plans, but an evolving process that has addressed emerging needs and combined different resources in agreed strategies. In addition to secure tenure and services, 32 families have since improved their housing with loan finance provided by the government's Build Together programme.

The community made a significant human contribution through sweat equity. Estimated construction costs were lowered by 25 per cent through the preparation of all excavations and block making by community members. The members do their own bookkeeping and record keeping. The Namibia Housing Action Group has provided technical support to the process. The savings scheme has hosted exchanges with groups throughout Namibia to share their skills in financial management and construction. Peer-to-peer exchanges have helped to catalyse learning and the analysis of community experiences – both the physical process of urban development and the social processes involved in their negotiations with the municipality. The community information centre (financed by the municipality) has become a resource base for the federation. Records and reports are updated monthly and displayed in the community centre.

Continued overleaf

The national government has provided financial assistance through two routes. Directly, the government has provided housing loans through the Build Together programme. In addition, the government has contributed to the capital in the Twahangana Fund through regular donations and this finance has contributed to service loans. The municipality has continued to be supportive, and in 2004 approved an application for 100 plots. However, land could not be made available to the groups as it was already occupied with shacks and the occupants were waiting to be relocated. When the savings-scheme members realized that the municipality was doing little about the required relocation, they knew they had to act. In June 2004, they persuaded the officials to establish a land committee made up of municipal officials and savings-scheme members. The committee meets monthly at the federation's information centre, with community members chairing the meeting. As a result of this greater cooperation, the resettlement has taken place and the land has now been made available to the federation.

Source: Muller and Mitlin 2007.

As the state engages with the outcomes and processes of community investments, so officials and politicians have a chance to reconsider their views about what is acceptable and not acceptable in housing improvements. Exposure to the views and experiences of community self-managed developments helps to change these perspectives. In Thailand, experiences with community investments in local services resulted in politicians' amazement at how cheaply communities could install walkways; this resulted in their increased support for the decentralized measures introduced by CODI. The design of Urban Poor Funds seeks to draw in the state, strengthening relations with individual and federated community organizations. As relations deepen, new possibilities emerge. Box 17 summarizes the perspective of one Thai federation member from Khon Kaen, a large industrial town in the north-east of the country. Exactly how state and affiliates work together to address shelter needs is not prescribed, although what is essential, for the affiliate, is that the process builds the capacity of the federation to negotiate for increasingly better development options (Appadurai 2001; Muller and Mitlin 2007).

Box 17: Land strategies of the Thai Federation

1. *Communities with land problems start saving and organize themselves internally.*
2. *Each community has to survey all its families, to obtain accurate information about the community, living conditions and land.*
3. *Assess the land status of all slums in the city, to build an accurate information base on who owns land (and where), the status of the land occupied by each community, and which communities are on land under the same ownership with potential for joint negotiation.*
4. *Make a community network and set up a mixed city committee including community leaders, municipal officials, academics, NGOs and other stakeholders, to begin studying the city-wide housing and land problems, and develop a common understand of the information gathered by communities.*
5. *The networks and the city committee can then propose which communities to ask for lease contracts to the public land they occupy; usually a group of communities make the request.*

Source: Malee Ohn (community leader, Urban Community Network in Khon Kaen), in ACHR (2008).

The emphasis in this subsection has been on the national and local state. Also significant is the way in which Urban Poor Funds influence development assistance agencies through providing more decentralized and community-led mechanisms through which both official and NGO development agencies can offer aid. Concerns about development assistance from the Northern NGO and state sectors are well researched; there are many illustrations of the distortion of goals and working practices of Southern NGOs that are dependent on Northern agencies for development finance (see, for example, Hulme and Edwards 1997, Smillie 1995, Wallace 1997). However, there is also a widespread recognition that agencies sharing similar values and objectives can find a constructive working relationship. In this case, SDI affiliates ask their long-standing donors to make commitments either to an international fund or to specific country-based funds. In grant-aiding them to Urban Poor Funds, agencies relinquish control of these monies although obviously they have to be allocated within the broad parameters of the fund. The benefits have been analysed in Mitlin and Satterthwaite (2007) and are summarized here.

With decisions being made locally there is a strong sense of local ownership; and local ownership means that the finance is used as a resource, rather than a gift or contract. Hence there are many ideas from the community about how this money can be used more effectively both through cost savings and through leveraging other resources. As noted above, efforts are being made by a number of funds to ensure that this sense of ownership is spread throughout the savings schemes. Second, the allocating group (at both the international and national/city levels) has a sense of responsibility for the grants that are made. Support, particularly in the form of exchanges, follows from loan allocations. This integration of different kinds of interventions is critical to their success and is so often lacking in the context of grant allocations made by external bodies with relatively little knowledge and a weak local network to draw on. Even if they have such a network, support may be primarily orientated towards meeting contractual obligations rather than adjusted to local needs and values. A further factor leading to success is that the local borrower is accountable to the fund for their activities; in fact, accountabilities of all parties/agencies involved in the process are within an inter-connecting network (upwards, downwards, sideways). This appears to be more effective in improving performance than the strongly vertical linear accountabilities traditionally associated with donor finance.

However, the process is not an easy one. International development agencies (both bilateral and voluntary) have been under pressure to increase their accountability to their core donors in recent years. This makes it harder for them to grant-aid monies to Urban Poor Funds. The UK Lottery, for example, was not able to renew its funding support because legislative change meant that it was unable to give money to funds that would decide the precise destination of the monies.[23]

A collective challenge

> To be successful, a fund is a conduit that embodies trust and helps with accountability. So a formalized informal process – fund management – must embody the qualities required for the external world whilst promoting the values and principles of an informally constructed people's centred development – the fund filters money and turns not useful money into useful money. (Celine d'Cruz, co-ordinator for SDI, August 2006)

The fund catalyses change at the city level just as the process of savings and the emerging social relations catalyse change within settlements. The fund collectivizes the savings schemes' work, strengthening the movement's ability to engage the city through the very specificity of its demands and its investment capacity. In addition to the arenas of the state and market (see above), this process also affects the federation itself. This subsection focuses on internal issues for the affiliates. Just as Urban Poor Funds raise new challenges and break new ground with respect to the market and the state, they also catalyse change within the federations. The process of savings, the bringing together of small and scarce finance at the community level, creates new processes within grassroots organizations and provides a challenge (often indirect) to traditional residents' associations. Likewise, the aggregation of community, donor and state monies catalyses growth within the federation. Such change needs to take place if funds are to be successful in forming new relations with state and market. This is a considerable challenge. Experience also suggests that federations face a number of issues that need to be considered and resolved if funds are to be successful in restructuring the ways in which collective organizations of the poor function, and hence lead to changes in the way in which financial markets and state processes interface and engage with the residents of low-income settlements.

The fund makes the financing process very explicit, with a clear amount of money and clear set of allocation choices. The issue of resource scarcity becomes one that includes the federation (rather than simply the NGO), as the federation is central in resolving conflicts between savings schemes and in working with the city to increase limited resources. The city and national federations need to address the

[23] Correspondence, 15 November 2007.

fact that it is hard to accumulate enough resources, and they need to think about how they can achieve this goal.

With access to finance, federations are able to undertake precedents that should serve as focal points for particular requests and associated lobbying, catalysing a process which results in large-scale state resources being made available to the organized urban poor. However, the process is not always straightforward. Faced with intransigent local authorities, and governments as difficult to deal with who profess interest and enthusiasm but offer little practical assistance, funds can become an alternative source of finance that enables savings schemes and federations to avoid pressing for changes in state policies and attitudes/behaviours. The presence of a fund might enable local federation groups to de-prioritize building a relationship with the state because the fund enables development to take place without state finance.

One of the first Urban Poor Funds was the uTshani Fund in South Africa. The newly elected state democratic government introduced a capital subsidy to assist those living in informal housing to secure improved dwellings together with secure tenure and infrastructure. The federation sought access to the subsidy for community-managed development. The principles were broadly accepted through the creation of a specific subsidy stream, the People's Housing Process. However, the release of the subsidy monies was dependent on provincial government. From 1995 to 2000, federation groups built in anticipation of subsidy releases. In some cases, they were successful in securing subsidy funds, but increasingly antagonistic relations with some local authorities delayed agreement on many subsidies.

The local authorities raised various concerns about federation initiatives. In some cases, authorities worked closely with commercial builders and were reluctant to support competitor initiatives. In other cases, they saw the threat as political. As one member explained at the regional meeting in Gauteng (August 2005), "the municipality is not open and do not have trust in us. They think we are another political organization that wants to sabotage them."[24] The federation was too strong for the state to break it and its independent resources enabled the federation to avoid co-option. However, the councillors could and did respond by blocking subsidy releases. In other situations there were technical concerns about the quality of community building, and/or bureaucratic delays to subsidy releases. Box 18 discusses how one of the causes behind this impasse was the emerging nature of membership and the attractiveness of joining the federation to access the subsidy, rather than being dependent on contractor-built housing projects.

The failure to secure subsidies meant that federation members had to repay bridging finance and after some years repayment rates began to fall considerably as members were frustrated with the continuing demands that they finance bureaucratic delays. After a long period of reflection, the federation agreed that loan finance should be forthcoming only as bridging loans once members had secured agreement for subsidy finance. Had the process in South Africa worked as intended, the fund would have catalysed and strengthened a number of important relationships to improve the development options for low-income citizens. However, as described in Box 18, the anticipated outcomes were not achieved and the process imploded on itself.

Saving did not take place as anticipated in South Africa, and lending and financial management capacity was not established at a savings-scheme level. While collective construction capacity did develop, financial management capacity was weak, notably with respect to house costings and affordability. The scale of the subsidy relative to other incomes and assets, and relative to other development possibilities, led to an overwhelming focus on housing construction. In many cases, households worked together on individual housing units that varied slightly, in response to household needs and to reuse existing materials. In other countries, there is a range of local activities that savings schemes undertake, although

[24] One problem was that the federation was a separate organizing force that was, by virtue of its existence, a threat to the incumbent councillor. Even if federation members were closely associated with the same political party (in most cases the ANC), the conflict was not resolved because the individual councillors were at risk from the party processes which could result in them being replaced as candidates.

most are located around the acquisition of land, basic services and livelihoods. These activities help to demonstrate the benefits of organizing collectively, for example in installing a toilet block in a dense settlement without sanitation. However, the subsidy system in South Africa meant that the major purpose in joining the federation was subsidy acquisition directly by households. The process individualized rather than collectivized social relations through housing design and construction, state pressure for individual house plans and a subsidy allocation process which required the registration of individual identity numbers.

The federation's national and regional leadership perceived that its interests lay in housing and had no interest in developing alternative products. The federation leaders secured their power (in the greater part) by the size of their following. With millions without secure tenure and basic services, and with the continued expansion of the government's capital housing subsidy programme, there was no incentive for the leadership to develop new programmes. People joined the federation, secured their house and drifted away. This understanding is broadly consistent with the general perception of development in South Africa, which is that households advance through taking up opportunities to increase incomes and accumulate assets. This failure to secure a stronger collective consciousness was just one of the factors preventing a super-circuit which is what the SDI process seeks to attain. Ideally, strong local savings organizations build local activities and demonstrate the worth of collective activity through achieving redistribution (serving social justice and basic needs). This in turn strengthens local financial management, strategic capacity and knowledge, and builds a further cycle of collective activities to address poverty through successfully arguing for state redistribution, and negotiating additional resources.

The South African experience demonstrates that the particular framework through which subsidies are released to the federations, and the positioning of subsidy policies, matters considerably. The challenge is not just to secure the resources of the state, but also to change the relationship between the state and citizens. As described in Box 18, the persistence of collective endeavour resulted in the federation leadership recognizing the problems that they faced. From 2001 onwards, there was a grassroots redesign of federation systems and greater local ownership of the processes, with a clearer understanding of the challenges involved.

Box 18: The difficulties of engaging with the state

By 2002 the South African federation was in crisis as a result complex contradictions and tensions. Although in theory the rapidly expanding savings and loans groups were the organizational foundation of the federation, by the mid-1990s this began to change as access to housing and housing delivery became the focus within a national context dominated by pressures to demonstrate the benefits of democracy. The Indian model had been replicated in South Africa, but without a history of many years of bottom-up community organizing around self-managed savings and loans routines as the sub-structure of social solidarity. The deal with the Department of Housing to transfer R10 million into the uTshani Fund, and for the fund to act as a conduit for subsidies, demonstrated the benefits of engagement but also profound dangers that were not apparent to all at the time. The benefits were clear: access to funds to take the 'people's housing process' to scale. Across the country, federation leaders announced the good news. Support NGOs and state structures were geared up to spend and deliver. Mobilization levels were intense, high energy and large-scale. People expected to get something for their efforts.

But on the ground a subtle but vital shift took place: savings became a means for accessing the subsidy. The simple message was: save R500 and you can get a R15,000 subsidy via the fund. Getting houses became an end in itself – amelioration became the priority, and transformation fell away. As thousands of houses began to get built, energy was directed into the complex processes of land acquisition, house design and construction. The focus became the 'beneficiaries' and not the urban poor as a whole. However, the subsidies were delayed by cumbersome and resistant bureaucracies, which meant that the process of housing delivery was funded by bridging loans to members from the fund. By 2003, the state owed the fund R54 million.

Continued overleaf

On the other hand, federation leaders were under enormous pressure to make promises to non-beneficiaries who wanted the same deal as beneficiaries despite the fact that building costs were rocketing while the subsidy remained static. Fund managers got squeezed between a state that broke its promises (while restating its positive policy commitments to the contrary) and federation leaders who were reluctant to push back members' expectations.

Unsurprisingly, once houses were built, 'beneficiary' members were not locked into sufficiently strong daily savings and repayment routines resulting in declining levels of loan repayment. This was exacerbated by the 'non-beneficiary' members having no incentive to pressurize 'beneficiary' members to repay because there was no direct relation between loan repayment to some distant 'national fund' and accessing new loans at the local level. Vertical financial flows had broken the horizontal flows of social capital. In combination with this, the constitutionally loose (almost populist) framework of accountability of national and regional leaders who were starting to be blamed for delays and contestable decisions on allocation, led to a contorted matrix of institutional and personal tensions that became increasingly redundant for the tens of thousands of non-beneficiary members on the ground.

Source: Swilling 2005, 17–18.[25]

A second problem that affiliates face is that, rather than using the fund to disregard the realities of the state, the fund management may be orientated to complying with government perspectives with insufficient attention to whether or not they can be scaled up without radical change. Federations, delighted to be asked to the negotiating table and offered resources, may find themselves agreeing to what is offered even through it is insufficient. This problem is particularly evident in the younger affiliates such as Malawi, Uganda and Zambia. In all three countries, federation groups are using fund monies to build complete houses without any considered assessment of whether or not this is affordable to all federation members, despite the fact that subsidies are unlikely to be forthcoming.

These younger affiliates benefit from the international reputation of SDI, which has helped them to secure donor funds and given them relatively rapid access to state donations of land. However, the international exchanges have resulted in expectations that complete housing will be constructed as government ministers and officials have been exposed to houses in India and South Africa (both countries in which considerable subsidy finance is available). The costs of such units are considerable. In Uganda and Zambia the estimated cost of a complete two-room unit is over US$2,000. In Malawi, the use of adobe blocks has resulted in the federation constructing four-room houses for about US$700–800. The lower-income members in Zambia are likely to be able to afford repayments of about $12 a month, considerably less than the anticipated monthly repayment costs for a loan of US$2,000. There is an evident gap between affordability and cost, which can be resolved only through a re-examination of the principles and role of precedent-setting activities.

One factor encouraging federations into building complete houses is that members also aspire to these solutions. Those about to receive loans have little incentive to argue for smaller units because they fear they will never have another opportunity to improve their shelter. There is not simply a need to influence the expectations of government and ensure that affordable housing strategies are given greater credence and attention. There is also a need to address the tension between the needs of existing members and those of future members (including those who have not yet joined). This applies more broadly to development plans and negotiations but obviously has particular relevance to Urban Poor Funds as the financing mechanism for such activities. This tension reflects the difficulties in conceptualizing the possibility and potential consequences of universal programming strategies; in the absence of such a vision and the confidence in its realization, members and leaders are tempted to consolidate their personal assets around more limited approaches.

[25] This analysis draws heavily on research conducted by two colleagues of the author; for some of the published results see Pieterse, E. and F. Khan (2006) 'The Homeless People's Alliance' in Ballard et al. (2006).

For example, a savings scheme in Choma (Zambia) persuaded the municipality to allocate land to its members in August 2007. One hundred plots were identified of 600 square metres each in a location close to bulk services and with a stream (offering possibilities for urban agriculture). Among the population of 90,000 residents, it was estimated that there were perhaps some 2,000 to 3,000 households in need of land. The savings scheme was relatively new and had 85 members, and hence there was enough land for all of these. However, the intended plots were large and the costs of servicing would be high. In addition, it is very likely that rental units will be established, assisting the livelihoods of the landowners but perpetuating landlessness. Some federation leaders recognized that the interests of all the landless in Choma would best be served by the further sub-division of the plots, perhaps to 150 or 200 square metres each. Such units would be cheap to service and would assist in housing up to 400 families in need. After discussions with this community it was agreed to request that the Council permit each plot to be sub-divided into two plots, offering 200 families 300 square metres each. This was the outcome of a negotiation between federation leaders and the local savings schemes, and highlights the dilemmas faced by federation leaders and the support NGO. This development will, of course, be a further learning experience for the federation. The experience illustrates how the fund can be transformative through offering choices and options that have previously been denied to organizations of the urban poor.

The role of affiliate strategies in learning and reflection becomes critical. The process has to recognize and overcome the problems associated with engaging with urban development and financial management practices that have often been hostile to low-income residents. It also has to understand how to adjust such practices so that they are more effective in meeting the needs of federation members.

- Over time, as has taken place in South Africa, the collective processes related to the fund provide a mechanism through which practices and policies can be appraised and reconsidered.
- In Zimbabwe, the Gungano Committee was instrumental in reducing the size of houses in 2000 when it appraised the results of the first rounds of lending.
- As noted above in Section 3, the Kenyan affiliate is presently reconsidering its construction strategies to develop strategies that have a greater likelihood of going to scale.
- The early lending experiences in Zambia have resulted a reconsideration of the earlier commitment to low-interest loans because there is a greater recognition of the need to maintain the capital value of the fund.
- Reflecting on the difficulties of living in a peripheral location combined with maintaining loan repayments has resulted in the Malawi Federation reorganizing its activities, with greater emphasis being placed on supporting savings schemes to negotiate with local authorities to secure better-located land with discussions about what other services can be provided.
- In India, CLIFF monies have helped the Federations to learn about the construction of large scale housing projects, particularly in Mumbai.

The management process related to the fund helps the federation and saving schemes make choices about objectives and strategies as they seek to balance the need to offer government a sense of satisfaction with respect to its contribution with addressing shelter deficiencies and putting the state under pressure to deliver more resources to the urban poor.

The contribution of the fund to the experiential learning processes with SDI affiliates is critical. The nature of the social transformation required, with some of the lowest-income and most vulnerable members of a community taking up leadership positions, can be accomplished only through a struggle to find new ways of being and doing, through actual development experiences being realized and the successes and failures analysed, and through new practices emerging. In particular, the lowest-income and most vulnerable members need to be empowered to take a leading role in decision-making.

This process seeks a culture shift in social relations so that processes and outcomes favour the lowest-income and most vulnerable members, requiring a more caring, supportive, inclusive and equitable way of working things out on the ground. Gender roles mean that, in many contexts, women are more orientated towards such cultural practices. The savings-schemes methodology seeks to provide a space within which women and other lower-income, more vulnerable members are comfortable and empowered to become more active. However, in many cases, women may be intimidated by men and/or by other powerful individuals both within savings schemes and in the interaction between savings schemes and other neighbourhood organizations. This is related to specific acts of violence that women have witnessed and their existence within a world in which power is associated with and generally controlled by men. Women have to function in a world in which they may be expected to sit on the floor while men sit on chairs; women are put down forcefully and/or more subtly on numerous occasions. For these and other reasons, women frequently defer to men (even when male strategies do not make sense to them). Such patterns of domination are not unique to gender. However, the emphasis of SDI affiliates on nurturing a women-led development process means that overcoming gender discrimination is central to the process.

A powerful catalyst for this cultural change is the learning that takes place around development initiatives. As the more conventional strategies that are first used are seen to fail, then a space opens for alternative approaches. Arguably, it is such failure within a reflective process that gives women the opportunity to speak out. It is only then that they feel they have the evidence to say, "actually your way is not a good way and it will not work because…". They may have believed initially that the conventional approach would not have worked, but had insufficient confidence to take a position against "men" and male-orientated cultures and relations. They may have been dubious but they could not or would not contest strategies in a public space. The emerging failure of initial strategies – those determined by the men and/or powerful others – by itself creates a space for women to use.

By providing a space for institutionalized learning above the level of the savings scheme, and by the nature of fund allocations and repayments, the Urban Poor Fund provides a space for a very practical analysis of experience. At the same time, the significance of money gives the debates an imperative that encourages a deepening engagement. The significance of women members of savings schemes, and the lead role they play in local management activities, helps to ensure that these are the experiences that provide the core learning material, and that their voices are those entering into the discussions to plan new and improved strategies.

Conclusion: benefits of Urban Poor Funds

To achieve a redirection of urban development activities and impacts requires the ability to strategize with respect to both the market and the state. The market is the dominant form through which resources are allocated within our society; the state is the legitimate body to redistribute resources from the market allocation. At the same time, the market, through production and consumption processes, has a strong, sometimes dominant, role in determining past and emerging forms of urbanization. Urban Poor Funds represent a challenge to existing financing strategies, as they are a transparent and accountable means by which collective activities can be financed, ideally with a state contribution. Such state contributions transcend previous strategies, being both managed by local grassroots organizations according to their own priorities and using approaches agreed by the fund's governance, and drawing down state finance into such a participatory process.

Urban Poor Funds provide a city-level institutional equivalent of the community centres that savings schemes create (construct, borrow or occupy) at their neighbourhood level. These community centres are used for numerous functions, but one function is to provide a place for meeting with external professional experts such as city officials that enhances the participation of federation members because it is a local and familiar space (as illustrated in Box 16). The funds replicate and transform this "space" at the city level. In terms of replication, the fund and its meetings are a space controlled by organizations of the landless and homeless and designed in ways that they find comfortable. The scope of the process goes beyond the immediate and familiar (i.e. the neighbourhood), as a city- and national-level consideration is part of the larger processes of urban development. Neighbourhood leaders that participate in fund decision making join an institution with responsibility to consider the needs of all landless and homeless people systematically within a spatial area. The emphasis is towards the universal and away from the particular. This is a fundamental difference for both settlement-level community leaders and those individuals from the political elites who engage with community organizations.

Hence Urban Poor Funds provide a mechanism through which communities of the urban poor can redefine their relationship and partnerships with the state at its various levels. Equally significant is that funds provide a mechanism through which federations can learn about the market and what it can and cannot provide for federation members, including the most vulnerable and those with the lowest incomes. Given the domination of market forms of production and distribution, communities have to be aware of the consequences of market relations, and of strategies that can protect members. Funds enable savings schemes to try and fail, and to build on their experiences to find new, more effective strategies to address shelter needs and other consequences of low incomes and social exclusion.

By institutionalizing the process of making an investment in a low-income settlement, Urban Poor Funds establish a quasi-public mechanism for such investment that is accountable to residents of those areas (who can join the savings schemes) and which is independent of the state. Despite this level of autonomy, SDI groups are clear that investments in secure tenure and basic services for the lowest-income households are the responsibility of the state and, therefore pressure the government into addressing this. However, federations also recognize the risk that the state will not fulfil its responsibilities. As political elites respond to mass mobilization and the realities of resource scarcity, a number of risks emerge for the federations: that the state will make no investment, or that the state will make partial commitment but allocate funds in a way that reduces the strength and capacity of the organized poor.

In contexts in which the state is interested in collaboration, Urban Poor Funds help the federations to prevent these problems by providing an accountable conduit through which governments can make commitments to the upgrading of low-income settlements which avoid problems of state corruption and patronage. The funds enable the poor to control the finance, once political commitment is secured. As significantly, even when the financial contribution of government is small or non-existent, the visibility of the funds and their scale of operation attract the interest of local authorities. This enables federation groups to engage with the authority staff members and politicians on issues of planning and building regulations. The experience of SDI is that regulatory reform is generally essential in order to secure pro-poor outcomes.

A further and very significant benefit is that of legitimacy and recognition. Urban Poor Funds enable those living in low-income settlements to be recognized as full and equal members of society participating in their own development. In many contexts, residents of informal settlements are viewed as a “nuisance”, responsible for poor-quality urban environments and who have created their own problems. Urban Poor Funds open up the possibilities for the urban poor to contribute financially to their own development and to ensure that external resources, either development aid or government monies, are used effectively to reach the poorest where the need is greatest. Urban Poor Funds are a visible manifestation of the capacity of the urban poor to address their own needs and those of their city. Embedded within a political movement, Urban Poor Funds are also a conduit through which the state can support a development process led by the people.

5 Conclusion

In a context in which neo-liberal approaches have been in ascendancy, and the state has been, at best, reticent about its contribution to development, pro-poor change is difficult. Many civil society efforts have concentrated on critiquing state positions, contesting policies (such as those towards privatization) and supporting defensive activities against state actions hostile to the poor (such as the eviction of low-income settlements). Other civil society strategies have been to engage with service provision, for example participating in state service-delivery programmes, or to extend financial services to low-income groups through the growth of micro-finance agencies. SDI affiliates, federations of the landless and homeless, have an alternative route to pro-poor development outcomes: they seek to work with the state to further positive change with precedents developed by organized low-income communities that have some track record of success. The strategies that organized urban poor communities develop have a number of notable characteristics: they work for those with the lowest incomes, they work at scale, and they build the capacity of communities to negotiate with more powerful agencies and therefore open up new development options.

Also notable is the extent to which the precedent-setting finance offered by Urban Poor Funds provides a trigger to catalyse contributions from local authorities and/or state agencies. Many local authorities are prepared to recognize the difficulties that low-income families face, and will support them with access to low-cost or free land and, sometimes, additional services. A more difficult task is persuading local authorities to accept that incremental housing is the best strategy for households to consolidate their housing asset in the absence of subsidy funds. Politicians and officials often look down on the shacks that provide a temporary solution as investments take place. Such realities highlight that finance is only part of the answer if inclusive city development strategies are to be secured.

Urban Poor Funds, as established by SDI affiliates, are a pivotal mechanism for securing pro-poor change. Funds offer the finance for precedent-setting activities, the potential to negotiate with the government to secure financial and other resources, and a route through which state funds can support community-managed development. No longer are finances local and internal to the savings schemes that are the base organizations within SDI; rather, they are general (able to be allocated across the network) and public. Once established, the accumulation of funds catalyses new possibilities for urban development. Through experiential leaning from fund management, savings-scheme leaders develop an understanding of these possibilities, and consider in a collective forum how resources can be managed to address the needs of savings-scheme members.

The issues identified in this working paper are those that have arisen to date as the affiliates that have established Urban Poor Funds have sought to make investments and consolidate the associated practices within their particular social and economic contexts. It is these experiences that are being shared across the network and which provide the experiential base for further developments of both national funds and the emerging international fund. As Margret William (SDI 2007, 87) argues, savings within a federation structure can change many things:

> I have learnt saving, controlling money, collecting savings, how to contribute to funds. Federation friendships are very strong, they all help each other when they are sick or when there is a funeral… they helped me when I was sick. They brought me medicine and cared for my children. When I was well, they trained me as a builder. I have learnt a big thing! I learnt that a poor person is not without brains! By talking with my friends I learnt that poor people have knowledge.

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