

Urban Poor Funds: development by the people for the people

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.

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 unit 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 proc-

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.”*

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. 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. (ISBN 978-1-84369-709-1)

This can be downloaded at no charge from <http://www.iied.org/pubs/display.php?o=10559IIED>.

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