

Where will the money come from?

SDI and local-level finance

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SDI (Shack/Slum Dwellers International) is a network of federations of women-led savings schemes based in informal settlements across towns and cities of the global South. The federations seek to strengthen the voice of their members and work to increase the development options that are open to low-income and otherwise disadvantaged urban citizens.

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Since the 1980s, SDI has worked to place the urban poor at the heart of the politics and economics that make modern cities unequal and exclusionary. Through its savings-based city funds and global finance facility, SDI helps communities become the main drivers of change, transforming their slums into safe, secure, affordable neighbourhoods. SDI's local funds defy conventional housing microfinance, which comprise three segments: organised end users; informal or semi-formal financial intermediaries; and the stand-ins for the formal financial sector. This paper explores how and why SDI has navigated these segments to transform urban areas by monetising social capital through local-level finance institutions.

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Summary

Federations of slum/shack dwellers and their international secretariat Slum/Shack Dwellers International (SDI) have sought to fund an increasingly ambitious agenda for urban transformation in hundreds of cities and 37 nations. The federations have set up international, national and local funds to support this work and support many community-driven precedent-setting initiatives through which the federations show their capabilities.

Their goal is to place the organised urban poor and their savings schemes at the heart of the politics and economic policies that make cities unequal and exclusionary. They do this by organising and uniting savings groups to become the main drivers of change, transforming their slums into safe, secure, affordable and habitable neighbourhoods. But this also needs changes in existing finance systems and the way they combine their horizontal accountability to federation members and their vertical accountability to external funders.

Background

In 1990, India was the only country with a national federation of slum dwellers. By 1996, there were six national federations, and together, they set up SDI to support their work and help others join them. Today, 37 national federations are active in around 500 cities and have links to grassroots organisations in other nations. The federations' strategies have common ground and include:

- Women-centric, community-based savings groups as the foundation of the federations, mostly organised by informal settlement residents
- Savings groups who form networks that develop into federations, usually with the support of a local non-governmental organisation (NGO)
- Organisation around community capacities and resources for saving, self-surveying, mapping informal settlements, knowledge of the city (especially land availability) and priority setting, and
- Using collective capacities within settlements and cities to negotiate solutions with other stakeholders, especially city governments. This often includes providing alternatives to forced relocations and ensuring solutions that serve all informal settlement residents (including tenants).

The dozens, hundreds or thousands of savings groups that make up each federation share some characteristics with microfinance, delivering small, low-cost loans with little delay, accepting group-based collateral and serving those with the lowest incomes. But federation savings groups also take collective action – dealing with evictions and related land-tenure issues, basic services and shelter challenges. Savings also build material, social and intellectual cohesion to pressure governments.

The development of local urban poor funds

One Malawi federation's slogan states: "Savings have to be for a purpose". They start small and grow. Women in a single settlement come together to save, and other settlements in the city follow suit. These savings groups federate, pooling a portion of their savings into a national or local fund. This larger fund is then made available to other savings groups that need access to finance to stave off an eviction threat, upgrade essential services or improve their dwellings.

These local and national funds set up by federations can be classified in three categories:

Aspiring funds: Formed by local savings groups, these funds can support small-scale community initiatives. Every cent of available capital is community-owned, resulting in local accountability, transparency and trust. But aspiring funds cannot finance settlement-wide upgrading or new housing.

Emergent funds: These funds are possible where federations have the capacity to raise and manage external funds and blend them with federation savings, enabling them to scale up co-production of tenure, services and housing.

Mature funds: These financial instruments are co-managed by communities and government, increasing the possibility of influencing state policy and expenditure. They channel resources from the state and can exploit commercial opportunities in slum upgrading.

The primary aim of all the funds is to achieve transformational goals, making urban development outcomes inclusive and pro-poor. Federation savings groups have to be central partners in mature funds and must include groups that are most excluded and

most financially marginalised. State and other formal institutions have to invest in these and be involved as stakeholders without insisting on control.

Household contributions are essential, but need to be administered through savings collectives to protect individual households from the vulnerabilities associated with debt. Mature funds blend internal and external finances, 'warming' 'cold' money from external sources by mixing it with 'hot' money (community savings) before disbursing it.

The Urban Poor Fund International

SDI seeks external funding to support its member federations, and has secured US\$11 million for the Urban Poor Fund International (UPFI) since 2002. This channels money to national and local funds, mostly to capitalise them – for instance, for start-up finance. When community groups start repaying these loans, they pay them into their local fund.

The primary objective of these funds is to extract resources from the state and, to a lesser extent, the market. They build the social and political capital they need to do this, and to negotiate with formal bodies such as governments, investors, developers and banks.

Potential projects that seek funding from UPFI can be categorised into three types:

- Learning projects, the only type of funding for which aspiring local funds can qualify
- Precedent-setting projects, which emerging and mature funds qualify for, and
- Cost-recovery and income-generation projects, which are only available for mature federations.

Challenges

SDI and all its member federations face four main challenges:

- Changes required to draw in external funding
- A lack of support from conventional development funding agencies
- The pressures of getting full cost recovery, and
- The difficulties of keeping the community engaged and in control of larger, more costly interventions.

External funding brings new and often difficult internal procedures, control mechanisms, allocation systems and reporting structures. And with them comes the

risk of achieving external compliance, cost recovery and vertical accountability at the expense of a vibrant social movement based on horizontal relations of trust, reciprocity and empowerment at the community level.

International aid agencies, NGOs and philanthropic organisations have not provided the support for the federations that was expected. This is despite the fact that many federations have invested in developing national and local funds to provide external donors with the accountability and transparency they require.

Future direction

SDI's federations and their support NGOs and local and national funds will continue focusing on building the instrument (community organisation) and the architecture (local funds) for government and private investment in slum upgrading at scale.

As well as securing external donor finance, SDI will explore commercial opportunities through slum upgrading by:

- Extracting land value through sharing, upgrading and relocating
- Acquiring and selling land, and
- Providing and maintaining public goods and building materials production.

The federations will decide how to use the surpluses they generate, blending them with other sources of income, to be used for learning and precedent-setting projects and for the many other ways that SDI generates social capital.

SDI will outsource financial management and construction to developers and technical professionals, potentially exacerbating tensions between these professionals and the federations. To address this, there will be a clear separation between projects that build the federations by creating social capital and projects that aim to recover costs and generate income. But the federations and their leaders will continue to apply their social capital in all projects, to ensure they are feasible and to reduce risks. They will also secure sub-contracts from developers for assignments that match their skill levels and ensure that the profit incentive does not result in the exclusion and/or displacement of the urban poor.

1

Background

Shack/Slum Dwellers International (SDI) traces its roots back to the eviction struggles of the pavement dwellers of Byculla, Mumbai in the mid 1980s. Persistent demolitions were the crucible in which SDI began to develop unique – and at the time, counter-intuitive – strategies to generate, multiply and consolidate social capital in informal settlements (SPARC 1985). These strategies have evolved and deepened over time, and been replicated, with important contextual variations, in 32 other countries and 484 cities and towns in the global South (SDI 2016).

The essence of these strategies is to mobilise slum-dwelling households into collectives that are:

- Led by women
- Networked and federated with similar collectives in other slums
- Organised around concrete internal capacities and resources – specifically savings, self-surveying, knowledge of the city (especially land availability) and priority setting, and
- Able to use these capacities, collectivised within settlements and cities, to negotiate solutions with other stakeholders, especially city governments.

Many SDI affiliates use this social capital to provide alternatives to evictions and forced relocations. These strategies are explicitly active in engaging the state, recognising that any workable alternative to demolitions has to be based on two things:

- A negotiated solution that includes all stakeholders within a slum settlement – from tenants to structure owners to landowners, be they absent or in situ, legal or illegal, private or government, and
- The willingness and capacity of community organisations and federations to enter into long and complex negotiations with formal institutions, show viable alternatives and participate in their implementation.

The unique social capital of SDI's networks of women-led savings collectives often gives SDI a comparative advantage when it comes to turning developmental deadlocks into opportunities for change. It enables savings groups and federations to take on the challenge of brokering deals at different stages in the urban developmental process – to prevent evictions, negotiate alternatives, facilitate upgrades or actively participate in the development process.

Although these interventions, based on SDI's comparative advantage, have created value in many slums, SDI has not been as effective as it should be in capturing and using this value to upscale its activities. To date, SDI has seldom used this advantage to secure returns from the commercial sector. Rather, it has used its core competency to secure donor funding and in some cases, state subsidies.

SDI will continue to solicit funds from foundations, bilateral and multilateral agencies and the general public and blend these with community savings. It will also retain its redistributive agenda by using these pools of finance to leverage state funds. But at the same time, SDI will explore ways to secure financial gain from the market in return for the social facilitation role it plays in the urban developmental value chain.

This will require specific financial instruments, as those that combine community microfinance, donor finance and state subsidies with market surpluses are few and far between. So SDI's ambitious, action-based developmental agenda aims to explore ways and means of developing these instruments, showing their impact and enabling other local, city-level, national and global stakeholders to partner organised communities to scale them up.

2

Developing expertise in community-managed, local-level finance

The persistent housing finance challenge in developing countries manifests itself in two related ways. Where the private sector or state formally provide adequate shelter, it is generally unaffordable, especially for the poorest. When poor people produce their own informal affordable shelter, it is generally inadequate and illegal.

From the start, SDI-linked federations in 34 countries have sought to bridge this gulf with formal, adequate and affordable shelter. They have tried to reduce costs by building incrementally and drawing state institutions into their land tenure, upgrading and housing interventions. From a delivery perspective, their strategy has been: first, accumulate collective community savings and capacities; second, leverage resources from the state; and third, push for the institutionalisation of state support for co-productive solutions by showing the effectiveness of these bottom-up interventions.

For SDI federations, the first two objectives – saving for self-built, incremental housing and trying to leverage

state resources – have always been connected. The innovative, grassroots finance programmes that SDI has built over the years have always been designed to advance these two objectives. This applies as much to the women-led savings schemes at settlement level as it does to city funds, national funds and Urban Poor Fund International, SDI's global finance facility.

There is a third mechanism that can provide funds for housing. Over time, SDI has seen how its investments in social capital have enabled physical upgrading to take place. This has often had a positive effect on land values and commercial opportunities in slums. Other social forces, most of which have no transformative agenda, have consistently exploited these opportunities. Mature SDI-linked federations have begun to explore ways to capture value from informal land and housing markets, specifically those unlocked by SDI's competitive advantage in the facilitation of otherwise intractable conflicts of interest.

Economic opportunities in slums are complex and come with increasingly high financial and physical stakes. Where profits are extracted, it is generally by way of exploitative informal enterprises, with increasing amounts extorted along the continuum from tenant to structure owner to land occupier and to landowner, legal or otherwise. Local governments' general incapacity to extend services¹ and the private sector's inability to provide adequate, affordable alternatives has made life in most slums unsafe, unhealthy and expensive. In the face of the dire incapacities, inefficiencies and corruption of public agencies and in the absence of regulated private markets, informal entrepreneurs profit.

It is in this context of informal and highly exploitative commercialisation of housing stock and inadequate local government that SDI federations have begun to

explore ways to transform savings collectives – whose members are mainly tenants – into social landlords who produce and manage adequate housing stock.² Where housing is socially produced and managed, it protects the most marginal community members from the negative impacts of rampant speculation. At the same time, the federations can capture some of the value created and use it to subsidise those who are most in need. The networked structure of city federations, national federations and SDI allows this value capture and redistribution to take place on a much broader canvas than a single housing development in a single settlement. This is what gives the federation model the potential for far-reaching change. But this strategy also faces considerable challenges.

¹ Slums on private land cannot attract government investment in infrastructure; governments also often refuse to sanction slums on public land for settlement and service delivery.

² Assuming responsibility for the production and maintenance of adequate and affordable housing does not eliminate informal systems of speculation, except at project level. Any significant restriction of speculation at city level and beyond requires the intervention of the state.

3

Savings collectives: the development of SDI's 'end user' groupings

On a good day, they collect from 500 stallholders – most days the number of savers varies between 300 and 500. Each saver has his/her own book and the collector has a book – the transactions are carefully recorded in full view of everyone in both books. It's a routine transaction, conducted with a certain conscious absent mindedness interspersed with chatter about matters or problems of the day. The connection made, the relationship renewed, the fact that the system has survived another day has been registered – precious certainty when all else can change in an instant. (Swilling 2004)

Saving is a practice that defines all the grassroots organisations affiliated to SDI. While lending and withdrawing money occur with equal regularity, it is important to note that all affiliates place special emphasis on savings. SDI's earliest origins are the same as the microcredit movement's: South Asia in the late 1980s. Superficially, SDI savings networks are similar to mainstream microcredit programmes. They

share some of the same characteristics, delivering small loans with little delay and at comparatively low cost. As with microcredit programmes, SDI affiliates use group-based, relational collateral and the successful repayment of small loans as a precondition for larger-scale finance. Most importantly, microcredit and SDI savings and credit groups both aim to address the gap caused by the reluctance or inability of formal sector institutions to service the poor, especially women.

But it is in their responses to this crucial gap that their paths diverge, as they have different approaches to improving the material conditions of the poor (Bolnick and Baumann 1996). Microcredit initiatives aim to give poor people access to money and financial markets so they can save and borrow their way out of poverty. But SDI groups use savings as a cornerstone practice to deal with evictions and challenges related to land tenure, basic services and shelter. As a result, SDI groups use microfinance not only to adjust credit markets downwards, but also to build material, social and intellectual cohesion to pressure governments to take responsibility for intervening in issues of equity and redistribution. This binary strategy has thrown up some interesting contradictions that the SDI network is now

seeking to address, as we outline later in the document. The following sub-sections discuss the evolution of activities in four SDI affiliates.

3.1 India

Mahila Milan, a decentralised network of women's savings collectives in Byculla, a southern neighbourhood of Mumbai, were SDI's first and most fundamental iterations of local funds designed to address inequality and exclusion in the 1980s. Their primary focus was not to produce income so that poor families could borrow themselves out of poverty. Instead, they focused on creating collective (and women-centric) institutions and value systems that could unite communities in their struggles for tenure security, decent services and adequate, affordable housing.

SDI savings initiatives have always functioned primarily as a means of monetising the political and social capital of organised, women-led, urban poor groups. Every SDI savings collective that has emerged across 34 countries since 1985 has served as a basic building block for the social and economic transformation of the settlements and cities in which it is found.

It is striking that the collectives' initial objective was saving for housing. Traditional microsavings for crisis, consumption and production loans were a logical afterthought, which produced many important benefits, such as developing the systems and experience needed for managing finance – both pre-conditions for seeking loans and guarantees from external financial agencies. Once the groups had been organised and gained some experience with credit for crises and income generation, they began to develop their external credit line.

The Indian experience made a big contribution to the process SDI used to build its own local finance facilities. The Indian savings collectives showed the immense value of women-led, settlement-based organisations; the importance of collective action and collective management and the power of federating individual communities. They also showed how to use that power to create political opportunities around tenure security, access to services and incremental, adequate and affordable housing.

The Indian experience in the early days threw light on a number of barriers and challenges. One of the most critical was that the majority of poor households in the savings collectives could not access mortgage finance or housing microfinance, even with the capacities and experience generated by participating in a savings collective. Another vital lesson was that, while it was possible to get state institutions to respond positively to the contributions of savings collectives, it was much more difficult to influence policies or institutionalise systems to channel state resources through such instruments.

3.2 South Africa

The emphasis on savings as a tool for organising and advocating explains why Mahila Milan's approach had a powerful impact in South Africa during its transition from apartheid to democracy. Savings schemes in South Africa have seldom functioned as microcredit funds;³ instead, they have usually served to attract state subsidies and grants. Ironically, it took decades in India before the federation and Mahila Milan's efforts produced impactful and scaleable housing successes. In spite of a primary focus on housing, the first tangible benefits of Mahila Milan's savings collectives were in traditional microcredit, in the form of small, household-level consumption, production and crisis loans.

In South Africa, the federations leveraged significant state resources within 18 months of forming the first savings schemes and started building formal houses across the country. The Indian savings collectives had shown their South African peers the merits of collective solidarity through financial literacy. In turn, the South Africans encouraged savers in India by proving there was good reason to use savings to leverage state and other resources for tenure security, service provision and housing.

This shows that neither federation (nor any of the sister federations) expected poor people's savings to pay for expensive items such as housing, even when collectivised. Both were explicit from the outset that savings were intended to leverage additional resources. In India, the objective for the first few decades was always to leverage loan finance from the housing finance sector;⁴ in South Africa, it was to leverage subsidy finance from the state.

³ In more recent times, there has been an attempt to engineer such an approach by introducing Grameen Bank-type credit systems in response to a growing demand for livelihood opportunities from families whose housing savings successfully leveraged government subsidies to produce formal housing.

⁴ From 2000 onwards, policies changed, specifically in Maharashtra. So they expanded their strategy to include efforts to leverage subsidies from the market as well as the state, which have been very successful.

Of course, setting up savings schemes was only the first step. Both federations had a long route to travel before developing fully-fledged housing finance instruments. For a long time, India's savings initiative did not succeed in significantly leveraging external resources. And while the South Africans became reasonably adept at leveraging resources, their instruments for revolving and recovering loan finance remained undeveloped and the savings schemes are only now beginning to build viable systems for this.

Importantly, the South African savings collectives quickly showed that, under certain conditions, it was possible to pressurise governments to recognise, support and finance savings collectives of the urban poor. They also showed that self-built housing was better quality and more affordable than housing produced by private developers. The combined effect was to prove that saving was a viable tool for poor communities to mobilise and advocate.

The South African experience also threw a spotlight on the challenges associated with blending formal external finance (in this case, subsidies) and its vertical management systems with community-generated and -managed local funds. Community financial systems struggled to cope with the delays in state reimbursement of monies for subsidy-funded houses that they had to pre-finance.

3.3 Namibia

The first transnational exchange programme within SDI that focused on housing finance was in early 1991, between South Africa and Namibia. Months before the aspiring South African movement had heard about the Indian federation, they had made links with Saamstaan, a housing cooperative building formal housing in Katatura township, just outside Windhoek. Saamstaan, formed in 1987, emerged from a conference sponsored by the Catholic Church to recognise the declaration of the International Year of Shelter. It was the first community group in Namibia to come together to collectively address their housing issues (d'Cruz *et al.* 2014). In the absence of a shelter network, Saamstaan joined SACUL – the Southern African Network of Credit Unions – and followed the standard rules and operating principles for credit unions. As a result, savings formed the bedrock of the organisation, a principle that consequently applied to all SDI affiliates.

The absence of a housing movement or network,⁵ the consequential lack of political impact and a limitation on loan amounts all prompted the Namibians to adopt SDI strategies and move away from the credit union model. The relative rigidity of the credit union model and its inadvertent effect of favouring those who saved larger amounts, who were also probably financially more secure, were barriers to scale and inclusiveness. But at the same time, Saamstaan's first five years as a credit union cooperative and its formative role in the Namibian federation gave it the institutional capacity and discipline that injected greater structure and rigour into the participatory and inclusive strategies that the Namibian alliance adopted from SDI after 1992.

3.4 Kenya

Muungano wa Wanavijiji, Kenya's federation of slum dwellers, has been an SDI affiliate since 1998. Its existence as a grassroots network pre-dates this affiliation by about five years. Starting as a much more traditional social movement, Muungano mobilised around individual (normally male) activist leaders.⁶ Eviction struggles were clearly the initial motivation for forming the network. The shift to federations of collectives as an organising strategy was not a shift away from struggling against evictions, but rather a deliberate decision by seasoned activists to change the way they engaged with the issue in several crucial ways. It was a move away from confrontation to a combination of confrontation and negotiation, sharpening and deepening community demands and clearly articulating alternatives and building the capacity to co-produce solutions.

After a slow start, savings mobilisation gained traction in the Kenyan federation, which diversified and adapted its application as it passed through the hands of seasoned housing activists and community leaders. A number of stalwarts in the struggle against land-grabbing supported the federation in their efforts to add savings to their mobilisation and advocacy strategies. Savings and loans were used for a diverse set of priorities ranging from negotiations with government around relocations to livelihood improvements for slum dwellers who worked as traders in Nairobi's many informal markets.

⁵ By 1992, another seven communities in Namibia had organised themselves to address their shelter needs and come together under the umbrella of the Namibia Housing Action Group.

⁶ Parts of it remain rooted in this paradigm.

All Muungano's savings schemes – even those that are part of its livelihood interventions – are tied to tenure security, service provision and housing. Savings schemes allow and encourage members to save, borrow and earn money to invest in housing. Like all SDI federations, the Kenyans have no interest in using savings and loans to make poor people pay their way out of poverty.

Reductions in donor finance and a lack of any meaningful state support in the 1990s and 2000s meant there were few alternative funding sources available. This forced the Kenyan alliance to look at more formal instruments to recover loans from its federation members.

A cursory glance at SDI's immediate pre-history in Africa reveals an interesting conjuncture. A number of housing activists from Asia attended the seminal grassroots conference that triggered the SDI process in Johannesburg in 1991. The newly formed Asian Coalition for Housing Rights (ACHR) sent representatives from India, Sri Lanka, Thailand, Hong Kong and the Philippines. This meant that, while the leadership from the Indian federation was visiting shack dwellers in South Africa's informal settlements, delegates from the Philippines stopped over in Nairobi

on their way back to Manila. During their stopover, they met with a number of young activists through the African Network for the Prevention and Protection against Child Abuse and Neglect and offered to train them in the Alinsky community organisation method that had been introduced in the Philippines in the 1970s. These young activists became programme officers for Muungano's support organisation; in that capacity, they helped the Kenya federation build savings into their anti-eviction strategies.

This extraordinary cross-pollination of ideas and pro-poor strategies between grassroots communities in Asia and Africa remains a hallmark of SDI's activities. While conventionally associated with the Indian federation's influence on federations in southern and East Africa, this cross-pollination has been multi-faceted and multi-directional.⁷

The way this has played out in Kenya is particularly interesting and enlightening. In theory, community organising through professional activists and grassroots mobilisation through savings do not mix. But in the Kenya alliance, both approaches are etched into the federation's DNA. This would not be possible if SDI savings groups were conventional microcredit platforms or traditional human rights advocacy groups.

⁷ In another fascinating inter-continental connection between slum dwellers, Thai federations influenced city funds in Africa and Latin America. While it was not been an intended outcome, SDI's skills and knowledge transfer between continents affirms that urban poverty does not respect national boundaries and that, despite the global rise in national populism, the urban poor have no country; nationalism divides and weakens them.

4

The emergence of local urban poor funds⁸

Savings may be enough reason for poor people to join a community collective, but they do not guarantee their ongoing involvement and participation. As one Malawi federation slogan says: “Savings have to be for a purpose”. If the purpose is providing small-scale (household) lending opportunities – such as loans for livelihood and consumption – then individual savings groups can be appropriate vehicles.

But SDI's main objective has always been to address shelter needs. Land tenure, services and housing (even when it is incremental) require larger investments that are beyond the savings volumes of poor households. Capital requirements for settlement and citywide interventions are even more onerous and beyond the means of single collectives.

In this section we discuss the emergence of local urban poor funds in their three different stages or categories: aspiring, emergent and mature. Although these categories are not applied in practice, they provide a useful benchmark for the development of SDI's urban poor funds.⁹

4.1 Local funds in aspiring form

Jankalayan Cooperative Housing Society in Mumbai and Windhoek's Saamstaan Cooperative were the first SDI organisations to run housing projects, with bridging finance from local non-governmental organisations (NGOs) SPARC (Society for the Promotion of Area Resource Centres) in India and Namibia Housing Action Group in Namibia. Both projects, which started in the late 1980s, had an impact way beyond the hundred-odd houses they produced. Among other things, they constituted SDI's first bold steps into the terrain of financial intermediation. This was the early origin of urban poor or local-level funds. Over the years, highly innovative and increasingly sophisticated semi-formal systems and structures evolved from these first efforts, bringing interesting challenges and contradictions in their wake.

As the community leaders and their support NGOs began to explore access to funding, they realised that conventional mortgage finance was not an option. Mortgage finance institutions usually require legal compliance with land and building regulations

⁸ Urban poor fund is the term SDI uses to describe its local-level financing systems, formed by pooling the savings of community savings collectives. Urban poor fund also describes more formalised instruments that come into being when external finance is secured.

⁹ In this case, development does not mean chronological progression.

and generally demand that the borrower is formally employed. So they tend to regard slum dwellers, who have no formal title deeds and no regular formal employment, and their cooperatives as extremely high risk.

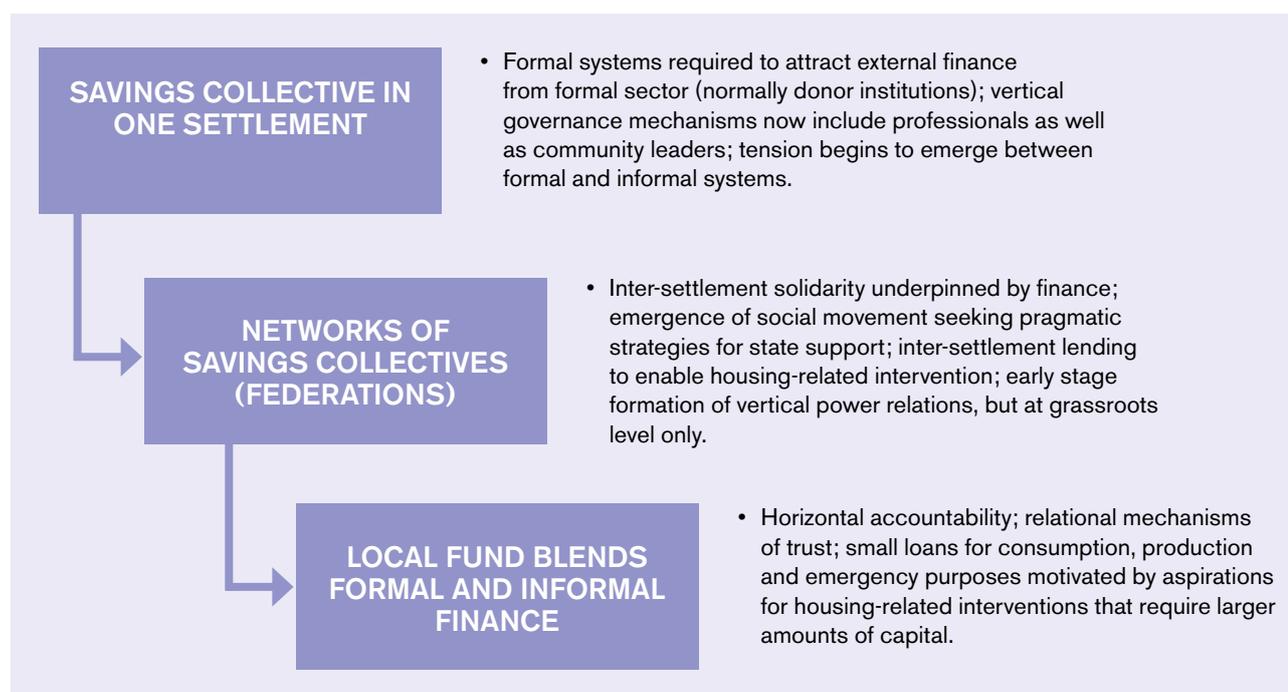
But when the Namibians and Indians turned to shelter microfinance – explicitly designed to provide loan finance for incremental housing – they found a different set of constraints. The lending strategies of housing microfinance institutions were, and still are, broadly similar to those provided for microenterprise.¹⁰ For example, loans are generally made to individuals; if they are tied to group guarantees, it is always in a way that favours the better off; and they are generally not linked to government programmes and therefore government funding. This made it near impossible for the groups to secure microfinance loans for much-needed land acquisition and infrastructure investment (Mitlin 2008).

This consolidation of community capital constitutes the formation of an urban poor fund in aspiring form. Saamstaan and Jankalyan were the first two examples to benefit from early-stage, local-level funds created by federations, and other countries in the SDI network quickly adopted this approach. The simplicity of the instruments that constitute a local fund in aspiring form ensured they were easy to replicate in other countries. One of the many benefits of a network of urban poor organisations – whose members thrive in environments of experiential learning – is that learning about struggles against poverty is easily transportable.

Despite significant contextual differences, SDI's finance facilities in any given affiliate follow a more or less linear growth trajectory. Women in one settlement come together to save as a response to tenure insecurity or lack of services. Other settlements in the city follow suit. The emergent savings collectives federate and pool a portion of their savings. The federation then makes these funds available to those collectives in need of finance to stave off an eviction threat, upgrade essential services or improve their dwellings.

Since housing-related costs are high, especially for poor households, formal intermediaries (usually NGOs) raise funds (normally from donor agencies) for the first identified projects. The federations blend these funds with community savings and loan them through the savings collective to households involved in the project. Once the federation has used these instruments at least once to blend community savings with external finance, a local-level finance facility is effectively operational and the federation has a mechanism to address the financial needs of groups that cannot access credit within the formal financial systems. By the end of 2106, 13 countries in the SDI network had instituted funds of this nature, that seek to institutionalise alternative forms of social self-organisation through the flow of finance within and between communities.¹¹ Blending formal and informal finance in this way, with vertical and horizontal systems of accountability, has addressed some needs in all these countries to varying degrees. But it has also thrown up a range of challenges.

Figure 1: From savings collective to local fund in aspiring form



¹⁰ Of course, there are some key differences. They tend to give loans for longer periods and at lower rates of interest than for enterprise lending.

¹¹ This includes Nepal, Thailand and Cambodia, which all have links to ACHR, and have shared much knowledge with them over the years.

4.2 Local funds at the emergent stage

Merging some of the accumulated funds of several geographically contiguous, self-managed, women-centred savings collectives creates a local fund in its purest form. It also aligns social and financial flows: with every cent of available capital owned by the community, local accountability, transparency and trust relations all increase. Social capital gets monetised in such a way that finance flows reinforce the horizontal solidarities at the core of the SDI process.

But, as we saw with the examples of Saamstaan and Jankalyan, the process reaches a point where local finance is simply not enough. When communities start using these funds for physical upgrading projects, they need additional, external finance. Securing these funds moves a local, urban poor fund from an aspiring to emergent stage.

The benefits are obvious: without external funds, there can be no upgrading projects and the more successful the initial projects, the more the demand for external funds. The risks are less apparent; two potential sets of challenges are especially problematic.

First, there is the problem of matching capital inflows with demand. Physical upgrading projects take a long time to prepare and implement, and cost recovery is stretched over a number of years. The bigger the project, the greater the financial need and the longer the period for recovering costs. This challenge is compounded by formal and semi-formal financial institutions' lack of appetite for community-driven projects. On top of that, most governments in low-income countries do not have the money or political will to make significant investments in infrastructure and housing in low-income areas. As a result, the go-to institutions for external funds in these cases are international agencies and donor institutions who, having assimilated a market-based ideology in recent years, are increasingly likely to respond along the lines of formal financial institutions. They either fail to make funds from these kinds of community projects or they impose prescriptions that exclude urban poor organisations or force them to reconstitute financial flows so they no longer align with local accountabilities, transparencies and relations of trust.

This feeds directly into the second clustered set of dangers. The need for external finance represents a triumph of the SDI mobilisation model in any given city or country. But external finance is by definition vertical, and its flow connects the savings collectives who implement and benefit from the project to vertical lines

of power and decision making. This applies not only to relationships with the external resource provider, but also to increasingly complex internal management systems. The moment external finance enters the equation, a whole lot of demands emerge on internal procedures, control mechanisms, allocation systems and reporting structures. Professionals and community leaders who use the SDI model successfully and mobilise women's collectives at scale now face the challenge of how to manage vertical finance flows without killing the goose that lays the golden egg – in other words, the social capital generated through horizontal solidarities at the community level.

There are many ways to categorise SDI funds. Some, such as Twahangana in Namibia and Guungano in Zimbabwe, are bottom up or come from the communities; others, such as Thailand's Community Organisation Development Institute, are top down or initiated by the state (UN-Habitat 2011). They can be formal (such as Akiba Mashinani Trust, Kenya), semi-formal (Suubi, Uganda) or informal (Twahangana, Namibia), depending on whether they are legally registered. Funds are also categorised according to contextual imperative. For example, the funds in South Africa and India provide bridge finance so households can access subsidies, whereas the Ugandan and Cambodian funds take advantage of resettlement and upgrading opportunities in a context of rapid urbanisation and soaring land values.

Although these categories are helpful, SDI is most concerned about how the federations have designed their funds' governance and management to cope with sudden vertical flows of capital from donor agencies and state institutions. This throws up a huge structural challenge and in many ways the history of funds in the SDI network is a history of how they have managed this challenge. An ACHR newsletter imaginatively captured this issue in 2007: "The mechanics of running finance facilities and being accountable to external funds involve professional systems. They have to, otherwise people wouldn't hand over the capital. It's silly to believe they would. It's quite different when you are talking about community savings funds which communities run themselves." (ACHR 2007)

Throwing external finance into the mix needs a level of professional administration, with different skills from those required to support a social movement, even if it is made up of savings collectives. These financial instruments also need to be community controlled, so community members need to serve on the decision-making structures that manage the fund. But playing a role in fund management is different from mobilising communities into networks and federations.

SDI's urban poor funds have reached a point in their development where we can tentatively postulate that, broadly speaking, the federations have two choices. If they want – or have the capacity – to go to scale, they need to build financial instruments that act as conduits for external resources. In such cases, they can retain and even strengthen the idea of a centralised national (or even regional) fund. This is accompanied by a significant increase in that federation's professional project and finance management and a more strictly institutionalised leadership structure with well-defined lines of vertical accountability and recall. While this makes scale achievable, it cannot happen without some cost to the relational model and horizontal accountability that SDI values so highly.

The alternative is to retain an institutional model that is built around the leadership of the social movement at regional or national level. This is invariably a semi-populist or charismatic leadership that, at its best, enables locally autonomous collectives, not through exhortation and command, but by decentralising financial flows¹² and decision making to city- or neighbourhood-level revolving funds.

It is clear that SDI can become a network that accommodates both, provided they address the contradictions between the two options. In the following sections, we examine how federations in Zimbabwe, South Africa and the Philippines have managed these contradictions.

4.2.1 Zimbabwe

A bankrupt and generally anti-poor government served to motivate the Zimbabwe federation to set up its own urban poor fund. Like many affiliates in Africa, it started with a national finance facility. Like all SDI affiliates, the Zimbabwe federation was set up in the 1990s, first and foremost to unite poor people in their struggles against exclusion and inequality. So its primary focus was to contribute to social change, impact on policy formulation and implementation and influence state resource distribution.

After several years, the Zimbabwe federation realised that, if their Guungano Fund was to remain viable, they would have to decentralise funds to city level, or to regional level in less urbanised parts of the country. This shift to local revolving funds greatly reduced allocative decisions by non-local leaders, which strengthened local solidarity and accountability bonds. A direct benefit was an automatic link between repayment, the generation

of new loans and the approval of new draw-downs from Guungano at national level. Such a shift was not without resistance from the national leadership who, like a few other SDI affiliates in Africa, had bought into the practice of dispensing loans in a way that created top-down accountability, inevitably resulting in a decline in repayments. Ironically, the Zimbabweans were able to reverse this because their country's exclusion from the development assistance community meant that external finance entered Guungano in a trickle rather than a flood.

4.2.2 South Africa

Taking advantage of a unique historical moment (the end of apartheid) in the first half of the 1990s, the South African federation was the first SDI affiliate to take the concept of urban poor funds to the emergent level. In mid-1994, the federation designed and registered uTshani Fund to secure and deliver housing finance to low-income households.¹³ The founding document defined its mission as: "making housing and related finance available to urban poor households who would otherwise not have access to it in a way that maximises the social benefits of adequate housing to individuals and society more generally", with a secondary objective of "striving for financial self-sufficiency within the parameters of these broader goals" (People's Dialogue 2002).

uTshani Fund's achievements in terms of delivery have been salutary. Sometimes numbers speak louder than words, and nothing better shows the impact of urban poor funds than a look at uTshani's multiplier effect over its first ten years of existence. An initial investment of R15,000,000 in community savings and external (mainly state) grants was linked to capital subsidy draw-downs and produced housing stock to the value of R3,000,000,000. Poor people built more than 13,000 houses for themselves. The fund is always cash-strapped because it takes so long to draw down subsidies, making it impossible to scale them up. This shows how difficult it is to manage a finance facility that blends local savings with external finance. It also shows that problems are not always related to challenges at grassroots level.

From the outset, uTshani Fund was national rather than local in both scope and structure. If, in its early years, Saamstaan was a completely localised, informal instrument comprising members who had organised themselves into a community group and if Jankalyan was a localised community group that belonged to a

¹² Mixing 'hot' community money and 'cold' donor or government money, but in much smaller volumes for much smaller projects.

¹³ uTshani is a Zulu word meaning grass. uTshani Fund translates roughly as the grassroots fund.

citywide network of similar groups, uTshani Fund was a more formal instrument. Operating at national level, it mediated between external finance – including (and especially) state funds – and a countrywide network of local savings collectives, which were effectively the South African equivalents of Saamstaan and Jankalyan.

This formalisation, which in many ways characterises SDI funds in their emergent form, produced many important lessons, not all of them positive. Formalisation is a byproduct of managing increased funding flows from external sources, usually through national instruments as was the case in South Africa. The critical challenge is marrying these external finance flows that are necessary to achieve scale with the practices and institutional arrangements at settlement level that were designed in the spirit of social movements (Swilling 2004). Resolving this set of challenges is the most critical learning that South Africa continues to undergo. It is also a pre-condition for the fund's survival and potential to grow into an urban poor fund with mature structure and strategies.

4.2.3 The Philippines

As with most federations, the Filipino federation first financed lending for land acquisition and house construction by accumulating community savings. The aspiring phase of local funds in the Philippines context created a large volume of savings, which allowed for high levels of direct investment. But before long, the federation recognised the inherent limitations of a system without external finance, and set up the Philippines Urban Poor Development Fund (UPDF) in 2001 (Mitlin 2008).

Cities in the Philippines are scattered across many islands. This geographic dislocation contributed directly to the immediate decentralisation of UPDF as it evolved from strong, locally managed savings schemes. A lighter national leadership structure and a skeletal support NGO strengthened local ownership of the savings collectives and horizontal accountability, even when they started blending external finance with community savings. We have already discussed how community-level finance management systems build strong local ownership, transparency and systems of redress; but it can be difficult to align these with the external accountabilities that donor agencies and governments require.

The geographic separation that characterises the Philippines, combined with the relatively high cost of travel, resulted in strongly decentralised local funds in three regions: Luzon, Visayas and Mindanao. If the South African fund was to suffer from over-centralisation, resulting in an erosion of local solidarities and accountability bonds, the Philippines fund was to err in the opposite direction. Its loose structure was almost destroyed when formal institutions that had invested in the Filipino affiliate temporarily withdrew support after its decentralised nature of operation – the very thing that gave life and energy to the local groups – resulted in long delays in producing formal, auditable financial information.

At that moment, deeper devolution would have resulted in the permanent decapitation of the formal process vested in the support NGO and the national community leadership. Light, ongoing support from SDI and its sister network ACHR would have kept the local savings groups active and energised. In the end, the outcome was bifurcated: while some local groups retained their autonomy, others – driven by the almost irresistible momentum of external finance and their own internal institutions' survival needs at national level – have sought other conduits for these arrangements outside the SDI process.

ReALL, the organisation that intervened in the Philippines (and Malawi) is unapologetically corporate in its structure and is first and foremost for-profit.¹⁴ As a result, it has prioritised cost recovery through household repayments only and produced financing models that are meant to be more robust, but are neither sustainable nor inclusive of the poorest. The net result is that the better-off households are reaping the benefits of decades of hard work and federation benefit households who are better off, while their leaders are incentivised to become contractors or loan officers, overseeing house construction and the repayment of high interest loans.¹⁵

¹⁴ Ironically, ReALL grew out of CLIFF, which DFID set up as a result of the financing needs of SPARC, SDI's affiliate in India.

¹⁵ These loans are expensive because, inter alia, an aggressive for-profit model results in high interest rates to recover exchange rate losses and devaluations (Notes on ReALL stakeholder executive meeting, November 2015).

Table 1: Opportunities and threats faced by SDI local funds in intermediate form

OPPORTUNITIES	THREATS
External finance is secured.	Horizontal decision making and accountabilities are compromised. This results in weakened repayments, which in turn:
Local authorities or other state agencies provide seed capital.	
State involvement creates the possibility for scale.	Alienate prospective partners and diminish opportunities to shift resource flows in cities towards the urban poor, and
Mechanism is developed for citywide upgrading interventions.	Reinforce vertical lines of decision making and power that can further corrode local, horizontal priority setting, accountability and autonomy.
New governance procedures, cultures and practices are in place whereby citizens, officials and politicians become co-producers of equitable, inclusive cities.	

4.3 Mature local funds

Introducing external capital benchmarks the transition from aspiring to emergent local urban poor fund. And this brings with it big structural challenges. One option for every savings collective and any national SDI affiliate is to refuse to accept external finance for investment in projects and try using only pooled community savings. But most settlement upgrading projects have to bring in more resources than the communities can generate; and SDI's community funds aim to be much more than institutions that loan to the poor. They are ambitiously trying to change the economic systems of our cities and our societies. As such, they need to build links with the state, which gives them legitimacy as well as the potential to influence policy, determine state spending and go to scale. Government involvement (but not government control) is an essential precondition for the fund to have a large impact. It is rare for a finance facility that depends solely on community savings to sustain itself and grow beyond a few projects in a few settlements, even if the savings are pooled into a citywide fund.¹⁶

To operate in a mature way, community control and managing blended formal and informal finance are just as important as active government participation. Local funds that are mature may have a number of important elements, many of which are contextually, temporally and structurally specific. But there are four fundamental elements.

- 1) Organised urban poor communities have to be central partners. More than anything else, their central involvement ensures the fund's ability to support shelter improvements for the most excluded and most financially marginalised groups.
- 2) State institutions and other formal instruments have to invest in these facilities and be involved as stakeholders without insisting on primacy and authority.
- 3) Cost recovery is an explicit but not primary aim, and repayment of loans by individual households is only one means to achieve this goal. The primary aim should be to achieve transformational goals, not to push the market down. The funds should be designed and operated in ways that seek to make urban development outcomes inclusive and pro-poor.
- 4) Household contributions are essential, but need to be administered through collectives to protect individual households from the vulnerabilities associated with debt. These funds blend internal and external finances in such a way that 'cold' money from external sources is 'warmed' by mixing it with 'hot' money (community savings) before being disbursed. As well as horizontal and vertical finance flows, they need to blend horizontal relations of trust and vertical relations of power. This is arguably the biggest challenge.

¹⁶ There was an exception in Pakistan, where the Orangi Pilot Project (a longstanding SDI associate) successfully followed a different approach. Although it needed a partnership with the state to scale beyond Orangi's neighbourhoods, it reached hundreds of thousands of households within Orangi itself with virtually no external funding. Orangi used external funding for the costs of technical assistance (about 14 per cent of the infrastructure costs) and state funding for additional infrastructure such as main drains and waste treatment plants.

SDI is just beginning to explore a fifth – and extremely important – element that adds to the mature nature of these funds. This relates to federations' ability to extract value – especially land value – from the informal sector. Even savings collectives (local funds in aspiring form) on their own can have a positive impact on the way in which surpluses in slum settings are generated – in most cases by informal enterprises.¹⁷ But it requires a strong federation to pool its resources and capacity at city level at least; to disentangle the web of exploitative social relations between tenants, structure owners and landlords; and to create land sharing (or acceptable relocation) options that can capture fairly significant value.

In general, federations that are still developing scale and muscle – and whose urban poor funds are therefore at an emergent stage – can play a catalytic role in producing this value, but then struggle to benefit materially from it themselves. If we consider the impact a single federation-driven project has on the land on which it takes place, and on neighbouring land, we can appreciate how much value is diverted from urban poor enterprises into the hands of other actors (individual or corporate) who do not have the interests of the urban poor at heart. So the critical fifth element is the ability not only to produce value by upgrading slums but also to manage it properly and in the interests of the federation, ensuring that the benefits accrue to the poorest.

4.3.1 Thailand

Although Thailand's Community Organisation Development Institute (CODI) does not form part SDI's network of local urban poor funds, it is a good example of a fund that is mature in its structure and practice. CODI is a state agency that houses a community fund, the CODI Fund. And while it has a top-down genesis, it shares many characteristics with SDI's urban poor funds. This is not surprising, as the Thai groups linked to CODI have a long historical relationship with SDI groups and there have been regular exchange programmes to and from Thailand over the years. Although CODI has always been a state agency, it started by building community savings activities across the country, and like the SDI groups, it then formed and strengthened large networks of poor communities, providing housing loans and using people's managerial skills to deal with housing problems at a citywide scale (Boonyabanacha 2009).

Working through the Baan Mankong programme, CODI provides subsidies and loans for communities to upgrade their infrastructure and living environments according to the priorities they set, using budgets

they manage and technical assistance they procure themselves. The Thai government pays the working capital for infrastructure subsidies and loan finance for housing improvements into the CODI revolving fund. The fund then provides soft loans to community collectives to: buy or lease the land that they already occupy; buy new land; improve their existing houses; and/or build new ones after upgrading or relocating (Boonyabanacha 2009). These funds then revolve at the local level.

The Baan Mankong programme has been successful because it makes formal systems more flexible, especially in terms of finance flows, tenure and building regulations. But the programme also demands more structure and comparatively more formal procedures from communities. The institutions' group-based nature increases the chances of communities taking ownership of their projects and ensures that they are both flexible and locally rooted enough to include the poor and marginalised. At the same time, communities work closely with local authorities on these upgrading projects, with support from a variety of other urban development partners who have a direct say in the fund's governance structures at national and city levels, but not at local level (Boonyabanacha 2009).

4.3.2 India

SPARC Samudaya Nirman Sahayak (Nirman) is the Indian alliance's equivalent of a local fund, even if it is legally constituted as a not-for-profit construction company. If CODI was top-down in the sense that it was first a government-designed national programme, the Indian instrument started as a much more locally (city) based outfit.

As a fund that can operate in a mature way, SSNS/Nirman seeks to help federations draw down state subsidies for housing and infrastructure. The maturity of the Indian process has enabled it to take advantage of a market cross subsidy, made possible by Mumbai's high land values and the unique policy environment the Slum Rehabilitation Act (SRA) has created in Maharashtra state. Despite the increasing challenges of implementing the SRA, the federation continues to show its capacity and value by engaging the state and the market to deliver houses for the urban poor at no cost while generating modest surpluses (SSNS 2015),¹⁸ which it ploughs back into new construction. At the heart of this work is an effort to produce an institutional framework that will allow the Indian federations – National Slum Dwellers Federation and Mahila Milan – to take on construction. This is both to serve their own needs for improved habitat and to create policies, practices and demonstrations of the power of

¹⁷ For example, by setting up production cooperatives that bring down the cost of goods, or renting out rooms at non-extortionist rates.

¹⁸ By 2015, more than 150,000 households had benefited.

what the urban poor bring into these projects through their participation.

Many factors have influenced the Indian alliance's success in achieving scale. We have outlined some of the more critical ones above. But many questions remain. How have these successes affected the relational systems that underpin the process? How has SSNS/Nirman mediated the tensions between informal and formal cultures, procedures and structures when it comes to financial management, project planning and implementation? How has the Indian alliance managed the pressures that arise when blending the vertical systems of accountability required by investors, state institutions and donor agencies with the dynamic and catalytic horizontal systems at settlement or project level?

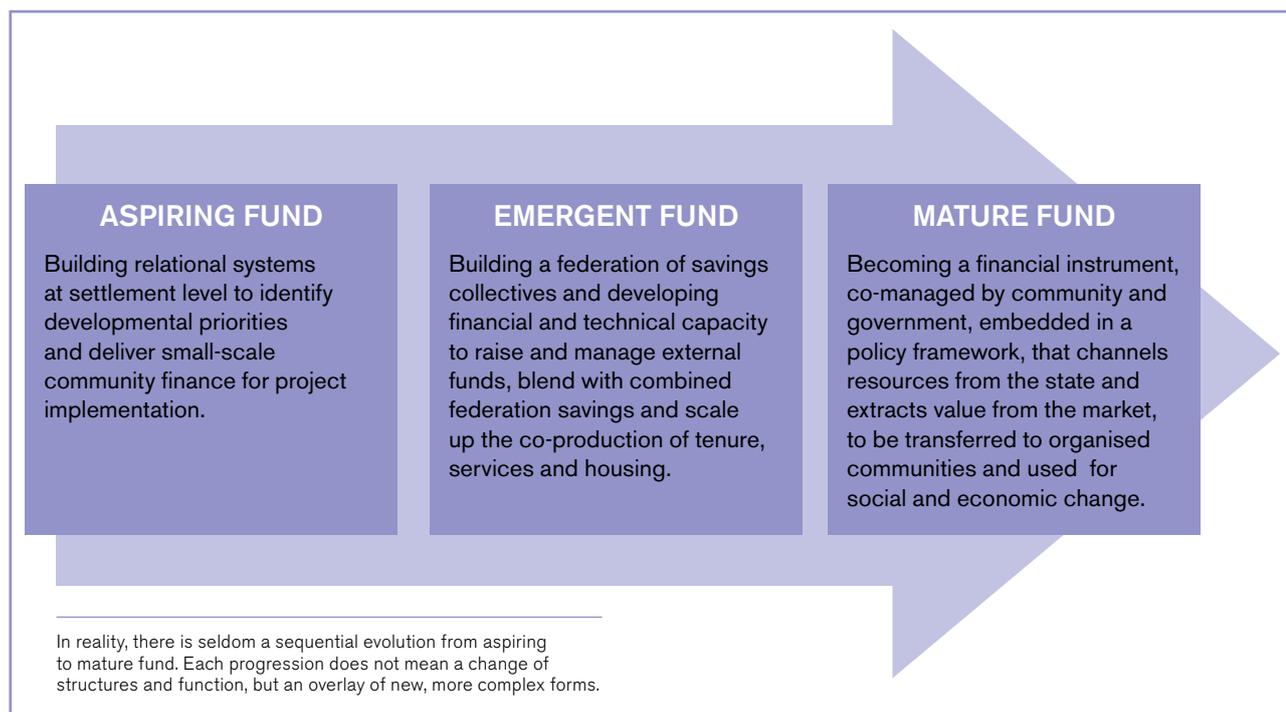
Although the jury is still out on these, there are some clear outcomes, which are both successful and worthy of concern. Ironically, the institutional bottlenecks that held back significant external financing for decades was an enormous advantage for the Indian federation. With their only external financial support coming from SPARC, the Indian alliance emphasised to its savings-based membership the need to work out and implement their own solutions at settlement and city level. Over the years, this built confidence, leadership, trust and reciprocity at community level and survivalist solidarities across networks. Federations built wider alliances, with market interests, with local and state governments and local and international NGOs, who had both resources and technical expertise.

As a result, local microsaving and overall finance management systems were deeply embedded in the federation process, alongside an unwavering commitment to political transformation and redistributing city resources. The federation's social capital grew and deepened as a result of many years of near-complete state neglect, coupled with exclusion from formal financial inputs and accountabilities. This gave the Indian alliance the resilience it needed to protect its informal community-based systems when formal regulatory structures were imposed from above and from outside.

The federation has achieved scale. It has also produced results through policy engagement while ensuring its systems remain strong. But these have not been unaffected. The most apparent weak link is the extraordinary difficulty of getting the government to pay out its obligations to the alliance. In an outcome that mirrors the challenges faced by the South African alliance, the state owes the Indian alliance significant amounts of money.

The extent to which SSNS/Nirman will be able to deflect or absorb these external demands and challenges will be the litmus test for both long-term sustainability and replicability (with adaptation) beyond the alliance and India's national boundaries. It will also determine whether or not – and in what form – community-managed local funds are appropriate vehicles for bridging the finance gap for the urban poor and becoming robust conduits for the increasing amounts of formal finance that are needed for slum upgrading and urban development.

Figure 2: The continuum from aspiring to mature urban poor fund



5

An international dimension

The lack of external confidence for lending to the urban poor or investing in their projects has been a primary driver behind urban poor funds. This problem prompted SDI to seek donor funds that its own governance structures could allocate to projects, rather than donors directing where funds are spent. Since 2002, SDI has secured a little over US\$11 million for project finance and channelled these funds to local funds across the network.

Urban Poor Fund International (UPFI), a global financial instrument that operates as a substructure under the SDI board, is an uncomplicated grant-making instrument whose main function is to capitalise SDI's local funds.¹⁹ UPFI provides external start-up finance to specific projects through local funds, blending external funds with community savings. When the community groups start repayments, these go into a revolving fund, setting into motion the process of shifting an urban poor fund from aspiring to emergent, and from emergent to mature.

The intention from the outset has been to capitalise these funds, but not build a global capital base. Although most local funds in aspiring or emergent phase are managed with an awareness, interest and concern around supporting repayments, the process is about much more than securing repayments. There have

been two unwanted consequences to this approach. First, the UPFI management, having provided capital in the form of grants to the affiliates, chose not to develop the institutional systems and structures to track these funds beyond their initial usage in the approved project to which they had been allocated. Second, there is no information on what the funds deliver and the extent to which their capital base erodes.

It is not that the UPFI management was unaware of these challenges. Rather, it was aware that the funds were primarily instruments to develop social and political capital. Since the primary objective was to extract resources from the state and to a lesser extent the market, this social and political capital was more important and produced more viable tools for cost recovery than repayments from the poorest and most marginalised households. The purpose behind giving the organised urban poor direct control of capital was not so they could become indebted and their leaders turned into loan officers. It was rather to enable them to negotiate as acknowledged potential partners with formal bodies such as governments, investors, developers and banks. The problem, of course, was that if they could not recover funds, there would be no local fund to build social and political capital. The federations' autonomy would persist only as long as the fund maintained its own cash and liquidity. So local and

¹⁹ Grants to affiliates do not flow back to UPFI, partly because of currency restrictions and exchange rate risks, but mainly because the fund has sought to build liquid equity and help make its local funds autonomous and self-sustaining.

international funds intended to grow their capital base over time even as they promoted the SDI mission of supporting the poorest of the poor. The issue was: how could they do this?

As early as 2007, when grants from the UK Lottery and Sigrd Rausing Trust attracted an additional grant from the Bill & Melinda Gates Foundation, the SDI leadership began to explore different approaches to the central management challenge of keeping the local funds solvent while putting capital into ventures with non-recoverable or partially recoverable costs. They soon realised that the federation's transnational scale was a huge potential asset. SDI's national affiliates operate in many different environments and produce different results. In financial terms, this ranges from mature funds that can recover 100 per cent capital through a blend of repayments and leveraging external funds to aspiring funds with low capital recovery potential.²⁰

Because mature, emergent and aspiring federations have different expectations of capital recovery, in the aggregate, UPFI has always been expected to make net cash outflows. From 2007 to 2014, there was just one strategy to stabilise national funds: matching net cash outflows with inflows from donors (SDI 2008). SDI felt that it would be able to secure further inflows from donors because its investments in local funds would:

- Produce many deliverable outcomes, such as houses, toilets and land tenure
- Generate impact through changed relationships with government, policy change and improved climates for pro-poor initiatives
- Leverage funds from other sources, such as communities, governments, international agencies and private capital, and
- Show potential to go to scale by replicating to new environments, building new partnerships and helping other actors replicate SDI methods.

In an effort to match its stabilised outflows (grants) to increasingly stabilised inflows (recoveries through repayments and external sources of finance), UPFI's management has tried to maintain a broad-based capital allocation strategy that essentially divides its money into groups for mature, emergent and aspiring local funds. This capital allocation strategy is roughly tied to a scoring system that categorises potential projects as:

learning projects (so, aspiring local funds), precedent-setting projects (emerging and mature funds) and cost recovery and income generation projects (mature federations only). While the desired long-term outcome was a growing network of self-sufficient local funds, an important interim measure of success would be for the aggregate capital autonomously controlled by the local funds to match or exceed the grants disbursed by UPFI (SDI 2008).

From 2008 onwards, this was the *de facto* operating system for UPFI, which it used to measure the effectiveness and sustainability of the local funds it had seeded or supported. But applying a strategic framework of this nature leaves room for interpretation at international scale, and the practical steps that local funds follow are influenced by many factors, not least institutional readiness. An organisation's leadership has to take decisions to build the necessary institutional capacity and comply with the new demands imposed by the strategic framework that it is designed to deliver.

In a participatory and democratic institution, these governance decisions are the outcome of deal making and consensus. Building consensus and making deals are always complex in a network like SDI, whose members are spread across the developing world. There were divergent views and opinions around the strategic framework for UPFI, mirroring the contradictions we have highlighted in this paper. Generating a shared position around the application of management systems and procedures for UPFI and by extension local funds were arguably the most challenging negotiations SDI has faced to date. It was also the catalyst for some of the most far-reaching changes in the network, all of them hard fought. The process and the outcome slowly pushed SDI to a much more mature level and positioned it to be a leading player in urban development.

The position we outline in Section 6 was the outcome of serious, sustained negotiations and deal making between the two competing forces within the network that have been living, rather uncomfortably, side by side.

On one side, there is a push – mainly from the federation leadership, who are the network's primary decision makers – to continue with a social movement-type leadership that is often charismatic, visionary and semi-populist. This leadership sees itself as the protector of community autonomy and the catalyst for the unique forms of social capital that SDI produces,

²⁰ 100 per cent capital recovery does not happen at scale without state subsidies.

and which everyone in the network agrees is the trigger for urban transformation at scale. In its most extreme expression, it calls for a reduction of professional intervention, leaving a small, semi-populist leadership with like-minded professionals at the top who would have the right to use national finance facilities and UPFI to push resources into projects as agreed by national federations in negotiations with politicians and officials. In its more strategic expression, it simply places projects at the service of building social capital instead of focusing on building social capital until communities have the project and finance management capacity they need to drive the upgrading and construction.

On the other side, there is a push – mainly from middle class professionals in the secretariat and SDI-linked NGOs – to build financial intermediaries that are compliant with the demands of upwards accountabilities and managed by skilled professionals and professionalised federation leaders. This would give financial institutions, donors and government the comfort to invest sizeable amounts in local funds. Given the contradictory imperatives of formal and informal finance management systems, this position poses the risk of achieving external compliance at the expense of a vibrant and driven social movement made up of community-based collectives.

6

Squaring the circle — national and local urban poor funds linked to UPFI

Insiders have been aware since 2011 that the SDI network was reaching a plateau and, like all institutions, would need to adapt to changing internal and external conditions – including a changing development assistance environment, exacerbated by global economic recession – if it was to continue to scale. With governments and donor agencies making more bureaucratic demands and increasingly restrictive sectoral preferences, donor revenue could not keep up with growing demand. Development assistance was also becoming increasingly prescriptive, demanding financial sustainability and market orientation above all else.

Not surprisingly, these external demands put pressure on SDI to bureaucratise and strengthen its internal institutional structure. This was a positive development in many respects, as it strengthened accountability within the network and increased professional proficiency, but it also deepened the tensions between informal grassroots and formal professional knowledge

systems. It gave extra impetus to vertical power relations in the network, with grassroots leaders forced to spend more time feeding the demand for formal knowledge and less time growing and strengthening savings collectives and federations.

Several strong SDI professional supporters have argued that SDI ought to stick to what gives it a competitive advantage – namely its social facilitation role in the developmental value chain.²¹ Counter arguments say SDI must be involved in the production of physical output to ensure benefits for the poorest and, on a more pragmatic basis, so it can use community-managed projects to influence decision makers.

Almost since its inception, SDI's secretariat provided technical and financial support to its affiliates for a wide range of upgrading projects. As well as meeting the needs of its members, these projects have aimed to set important precedents, encouraging governments to channel resources into poor neighbourhoods and

²¹ This reflects views expressed by Sundar Burra and Matthew Nell in private discussions with the author.

develop more pro-poor policies.²² And although these projects have been effective in delivering land, services and housing, in many cases the capital inflows have not matched the outflows. This has been an intended consequence, driven by the twin agendas of using the projects to build and strengthen federations and influence government funding and policies, not for the projects themselves, but for the city and even the country. The same financial principles apply here as they did to producing social capital: they need external resources to catalyse and sustain them; and their benefits will be measured much more broadly than cost recovery alone.

While some supporters and SDI activists argue for a focus on social facilitation alone, others believe that SDI's fundamentally redistributive agenda means that its upgrading projects should be almost exclusively precedent-setting, presenting city (and national) governments with an opportunity to review existing rules and roles that do not work for the poor by showing what does work. In practice, SDI affiliates have excelled at

setting precedents by introducing modest changes at settlement level to impact on rules and roles, enabling the urban poor to participate in urban upgrading (Burra 2003). Through advocacy and partnership building, citywide and national regulatory frameworks have subsequently enshrined these precedent-setting practices in many countries, to varying degrees.

As far as governance challenges are concerned, these precedent-setting projects can generally manage the challenges of formal vs informal, vertical vs horizontal management systems (especially finance management), decision making and accountability. Their focus on building movements (social mobilisation), leveraging state resources and seeking to impact on policy, all favour community control. In these situations, local funds are vibrant, adeptly blending external funds with local savings. Because the amounts are relatively small, the blending is comparatively balanced and local accountabilities are not swamped by vertical ones. But these projects have rarely scaled to reach substantive numbers in need.

²² Between 2002 and 2016, SDI provided small amounts of seed capital to 18 federations, who have used these funds to partially capitalise 192 different projects. These 192 projects constitute less than a third of all projects co-managed by SDI affiliates. See www.upfi.info for more information.

7

From building communities to upgrade slums to upgrading slums to finance the building of communities

From the early 1990s until about 2011, SDI was able to accommodate this tension between formal and informal systems within a fairly straightforward financial model. It used funds from donors and international agencies to build and federate savings schemes and help their ever-growing members develop collective capacity and skills. It then used this social capital to start upgrading projects, with donors providing additional seed funding. Finally, it revolved any funds it recovered through loan repayments and leveraged state resources into new projects, while seeking donor funding to continue producing social capital and replenish project funds.

But it has become clear that this is not enough. Although SDI affiliates must continue to challenge governments and show alternatives that can impact on policy and state resource distribution, the time has come for wider vision. The old financial model is no

longer viable. Not surprisingly, SDI's experience is in line with the global slum upgrading challenge: relying on donor support, government funding and community contributions has failed to produce sustainable instruments or lead to scalable change.

Lessons from the two mature local funds – in Thailand and India – point the way towards a third intervention: adding to public (state and donor) finance and individuals' savings by seeking to extract surpluses from the market. If precedent-setting projects require a step up from producing social capital that is straightforward enough to keep horizontal relational governance and decision making instruments in place, the move to creating income streams through projects requires big institutional adjustment. SDI's discomfort with market solutions has long resulted in a strategy that involved outsourcing financial and construction management for

large projects with income generation potential – for example, SDI's former relationship with CLIFF. This has been highly unsatisfactory, not only allowing other (not pro-poor) institutions to capture the value created by SDI's social capital, but also damaging SDI's bottom-up systems, since these institutions are not convinced about the efficacy of risk mitigation through collective community organisation.

In truth, the problem does not lie in these other intermediary institutions, but in the way they are forced (or have chosen) to respond to external structural challenges. Their need to protect and grow their equity – which donor agencies also now expect – results in the imposition of vertical accountabilities and power relations. There is every indication that SDI faces the same challenges as it ventures into this new terrain.

In February 2016, SDI called together a team of finance and project experts to discuss its efforts to provide finance directly to the urban poor.²³ They noted that SDI needed to continue to focus on its core specialisation, investing in and growing its networks of community-based organisations. They underscored how SDI's community organisations can reduce the risks associated with development interventions needed to upgrade slums. But they also stressed that the people who develop and manage the projects that emerge from this social facilitation will need different skills, and that SDI's competitive advantage in the project management space could be counter-productive. SDI's project portfolio confirms this argument: with a number of exceptions, SDI has not been effective in translating its social capital into project management systems that can produce significant financial returns at scale.

The clear implication was that SDI should be mainly investing in creating and capturing social capital through its standard rituals and practice, including precedent-setting projects. The return on this investment would be revenue received from governments and donor agencies, in exchange for reducing risk in development projects (to the point of making them viable), with the caveat that this revenue for social facilitation would continue to be undervalued and unpredictable. In other words, SDI would have to invest in the land, bricks and mortar elements of the projects that their social facilitation made viable. This could lead to an interesting and counter-intuitive arrangement, whereby the potential revenue created through the generation of surpluses at project level capitalises the core specialisation of building community capacity, including providing the seed capital for learning and precedent-setting projects.

There is enough evidence that the federations' informal governance and management systems are not suited for the complexities and challenges of capital-intensive projects that seek cost recovery and profits. This conclusion is yet to be fully institutionalised, but it is becoming clear to the movement as a whole that they will need to make a sharp distinction between the way SDI builds, manages and sustains its core competencies and the way it manages and implements projects that are intended to produce financial returns. Its core competencies can only thrive and achieve the desired impact if SDI subordinates the vertical, formal systems to the informal, horizontal systems of the community collectives. But the latter can only succeed if SDI can ring fence these horizontal, relational systems from the vertical systems driven by professionals and leaders that produce financial returns, not as ends in themselves, but as a means to capitalise SDI's core business of building and federating organisations of the urban poor.

These lessons have propelled SDI in a direction that partly resolves the tension between informal horizontal systems and formal vertical systems by creating parallel processes made compatible by their co-location within the institutional framework of a global movement of the urban poor. SDI's local funds are the instruments that mediate these relationships, managing the interface between the informal and the formal.

For a number of years, donor insistence and encouragement has been pushing SDI to diversify its funding streams. The Indian federation's success at building systems to secure market cross-subsidy at significant scale have encouraged the SDI secretariat to explore ways in which to use the UPFI to seed cost recovery and income-earning projects in other mature federations. When the projects team in the SDI secretariat was tasked to work with the affiliates to build a pipeline of potential commercial projects and provide more support to the handful already being implemented, they quickly established that vertical cash flows to affiliates – including those from SDI – regularly eroded horizontal social solidarities. They began to ask the hard-nosed question of whether the affiliates' institutional set ups were configured to manage the effects that come with a tidal wave of external finance and its associated demands. These reflections have percolated through federation and NGO leadership at global and national levels.

²³ Including Kecia Rust from the Centre for Affordable Housing Africa, Matthew Nell from Shisaka Development Management Services, Diana Mitlin from the University of Manchester and Aunnia Patton-Power from the Bertha Centre for Social Innovation.

The projects team's assessment, based on their observation of more than 190 projects, was that SDI faces a fundamental choice: if it is serious about extracting surplus from large-scale projects, it needs to build more centralised systems; and regional, national and international leadership structures need to be institutionalised and professionalised with strong project management skills and strict, clear lines of accountability and recall.

The secretariat and key members of the SDI Board acknowledged that the federation leadership at international and national level (in most countries) would be strongly motivated to retain the loose semi-populist, personality-based leadership structure, a model that works well for mass mobilisation and fighting for entitlements (even through co-production, as happens in SDI).

The challenge was going to be to show the leadership that such a model cannot be applied to big projects with large inflows and outflows of external funds, especially those that need to recover costs and produce financial returns, because funds have to travel along vertical channels in such projects. No matter what formal competencies the leadership develops,²⁴ their role as activists building independent, collective social capital at community level would continue to undermine – and be undermined by – the imperatives of cost recovery and vertical financial accountability.

The assessment did not question the leadership's role as activist leaders, but there was one perverse outcome of SDI's ability to secure external finance and entertain the possibility of exploring commercial opportunities through slum upgrading. This was that the leaders and their support NGOs – who were directly responsible for these successes – were in danger of breaking the community-level social linkages and horizontal accountabilities by also managing vertical power and decision making, which demands that come with external finance had made more muscular and bureaucratic.²⁵

The SDI leadership has accepted that, if affiliates are to plan and undertake projects where cost recovery and income generation are among the intended outcomes, the relationship between SDI's technical and financial professionals at the secretariat and its affiliates needs to be sharper and stronger. This is not only to impart skills but to ensure that a combination of professionals

and grassroots technocrats (not activists) take non-local allocation decisions by following clear lines of accountability and recall that emerge from proper project planning and preparation.

In practice, this means that there is a clear separation between federation building (creating social capital), which includes learning and precedent-setting projects, on the one hand, and cost recovery and income generation on the other. Federation building and managing precedent-setting projects have remained grassroots driven, combining horizontal accountabilities at community level with political agenda setting at leadership level.

There is also growing motivation for national funds, seeded *inter alia* by UPFI, to seed local revolving funds at city level. This will encourage these funds to become even more devolved, down to neighbourhood or settlement level. In federations that already do this, devolution has greatly reduced non-local allocation decisions and considerably improved repayments and accountabilities. Flows of finance are one-directional and downwards, from UPFI to national urban poor funds; and from national urban poor funds to local funds. New allocations from UPFI to national and downwards to local funds are determined by a combination of physical need – for example, the threat of eviction, flooding or extreme poverty – precedent-setting potential and rates of recovery. Since SDI will not expect 100 per cent cost recovery, its strategy will include attempts to ensure that these national funds are continually replenished. This is especially true if government subsidies for informal settlement upgrading are not available.

In summary, as well as securing external donor finance, SDI will embark on slum upgrading projects that have the potential to produce returns. It will use any revenue earned to replenish the funds and contribute to construction costs and capacity building. Those identified as income-earning projects will be more highly formalised and regulated, with the SDI secretariat and management committee participating in local decision making and driving an investment strategy that favours outsourcing financial management and construction to developers and technical professionals. In such projects, the federations and their leaders will continue to apply their social capital to make the projects feasible and reduce risks. They will secure sub-contracts from

²⁴ The standard, but completely ineffectual, solution proposed by organisational development professionals.

²⁵ These challenges appear to be much more pronounced in the African affiliates, but are by no means absent from the Asian affiliates. The Latin American affiliates are still at the inception phase when it comes to project delivery.

the developers for assignments that match their skill levels,²⁶ ensuring that the profit incentive does not result in the exclusion and/or displacement of the urban poor (from whom they draw their membership). Finally, the federations and their leadership will make the necessary decisions around any surpluses the projects generate, blending them with other sources of income, to use for learning and precedent-setting projects and continue to generate social capital through SDI systems and rituals.

The SDI secretariat's first step has been to identify the kinds of projects that have the prospect of generating returns. This is important because it makes it easy for affiliates to differentiate between precedent-setting projects that continue to be largely community-managed and controlled and income-generating projects that need to be run more formally, with vertical lines of decision making and management. SDI has identified four specific kinds of income-generating projects that:

- Extract land value
- Develop and sell or manage commercial land
- Provide and maintain communal public goods, and
- Produce and distribute building materials and related products.

7.1 Extracting land value

Land prices in big urban centres are rocketing. This increasingly applies to land in slum areas, especially those that are now well located as a result of urban growth and those with high density. But development conditions in these areas are normally poor, largely because land ownership and occupation patterns are complex and contested, government management is weak and infrastructure provision is inadequate. SDI has the tools, capacities and critical mass in these areas to intervene in ways that will extract the value from the land – through densification and land sharing, sensible relocation or both. There are successful examples in India and Thailand, and new efforts to adapt and replicate these projects are taking shape in Zambia, Tanzania, Uganda and Kenya.

7.2 Developing and selling or managing commercial land

A similar (and not necessarily separate) strategy is acquiring and rezoning land. Peripheral land becomes increasingly valuable as cities grow and land prices consequently rise. Land in or near slum areas on arterial intersections can be connected to formal sewer and water services and rezoned to increase its value. Urban service infrastructure is rapidly expanding in cities and towns in Africa and Asia. Investment in land parcels that can be taken through rezoning can increase the aggregate land value and make the parcels ready for residential or commercial development or both. Federations that have the necessary skills and capacities can invest in the development process itself; others can extract value through zoning and price escalation. The Tanzanian, Kenyan and South African federations took advantage of strategic opportunities to buy well-located land, and have seen its value increase over time and through rezoning.

7.3 Providing and maintaining communal public goods and services

SDI has supported many affiliates to build and maintain communal sanitation units.²⁷ While affordable and sustainable delivery remains a challenge, many federations are getting closer to providing a service for those who are most in need and generating returns that over time cover capital and maintenance costs and generate small returns. The location of these sanitation units is a critical factor in determining their viability. Indian slums – with their high densities and construction subsidies – have higher prospects of achieving sustainability. In many African cities, these sanitation units can generate revenue if they are built near informal markets. There are working examples in Uganda, Zimbabwe, Tanzania and Malawi. SDI is now trying to replicate the process, with renewable energy provision.

²⁶ These skill levels will increase over time, perhaps starting out with glazing and painting, as successive projects build new technical skills in the local federations.

²⁷ SDI's sanitation interventions have been one of the most successful examples of learning by doing, enabling most federations to see, in practice, the way that SDI methodology creates a continuous interconnection between: social organisation and collective goods; affordability and sustainability; and collective endeavour and broad-based resolution of need. The challenge of sustainability has also come into sharper focus because capital costs are high, relative to potential income.

7.4 Producing and distributing building materials and related products

The objective of these projects is to capture value along the entire supply chain. The South African federation has tried to set up a comprehensive building materials supply system, based on learnings from Hogar de Cristo in Chile. The Ugandan federation has done similar, with support from Cities Alliance.

The system begins with a small action-based research component (community and professional) that investigates innovative and appropriate technologies

from the perspective of the communities – after all, federation members know a lot about the kind of technologies communities use for infrastructure and house improvements. Once they have identified the technologies, support professionals work with federations to decide which are worth pursuing. The second step is to set up production or warehousing facilities; the third to set up a distribution system to move technologies to site and support communities to install and build them. Finally, there is a marketing and credit provision linked to local savings schemes. As well as building materials – such as bricks, roof tiles, doors and window frames – the federations are developing systems for the production and/or distribution of solar energy kits, clean cooking stoves and innovative waste management procedures. There are good examples in Zambia and in Uganda.

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Conclusion

SDI's great strength is its unique set of skills for developing and sustaining social capital, mainly through women-centred, relational systems of organisation rather than power-based ones. This is where SDI has a competitive edge: without this social capital, it is difficult to mitigate risk and unlock value when it comes to development in slums. SDI's federations and their support NGOs need to continue to focus on building the instrument (community organisation) and the architecture (local funds) for government and private investment in slum upgrading. Precedent-setting projects play an important role in this.

There are increasing pressures and incentives for SDI federations to generate their own revenue to cover the costs associated with building and strengthening community organisations and seeding precedent-setting slum upgrade projects. But although SDI affiliates tend to be good at creating and sustaining social capital, they are generally inexperienced when it comes to managing projects or acting as developers in ways that recover costs and produce surpluses while still targeting the poorest. This is because horizontal, collective and relational finance management and accountability systems are difficult to reconcile with the vertical demands that come with large amounts of external capital. The further the source of funds is from the local base, the greater the challenge. This is why SDI has discovered, time and again, even in its most mature federations, that most financial institutions – including many housing microfinance institutions – and investors demand systems of finance management and accountability that are incompatible with those that SDI uses to build social capital and manage community-driven, precedent-setting projects. The formalisation they demand ends up empowering professionals,

accountants and managers at the expense of grassroots movements and communities (Swilling 2004).

Formalisation also creates conditions for leadership capture of the grassroots.

As SDI has grown its membership in communities, cities and countries over the last ten years, it has tried to follow a strategy to marry increased funding flows from international agencies (including SDI itself) to national urban poor funds with local (project-level) finance management and accountability. The national inventories and balance sheets that SDI commissioned from its affiliates attest to this methodology being broadly effective: the federations' political aptitude as social movements enables them to compensate for the almost unavoidable corrosion of horizontal accountability by leveraging resources from the state.

So the challenge now is this: how does SDI continue to increase access to external finance to significantly upscale its federations' poverty eradication impact without undermining the vital importance of horizontal relations of trust, reciprocity and empowerment at community level? Over the past two years, SDI has invested a lot of time and energy trying to address this challenge. The outcome has been to change the institutional model that governs SDI's finance facilities.

The first step was to devolve local funds from national facilities to regional and city funds. The second step was to realign the relationship between the urban poor funds or SDI affiliates' local finance facilities and the UPFI. The latter seeds national funds via a one-way, downwards flow of external funds. The national funds replicate this with local funds, with the difference that they mix community savings with these contributions.

The third step was to explore commercial opportunities in slum upgrading. SDI has identified four kinds of projects that fall into this category: extracting land value through land sharing, upgrading and relocation; acquiring and selling land; providing and maintaining public goods; and producing and distributing building materials and related products. Local and national funds can use any revenue they generate to seed new projects or contribute to the financing of federation building and federation operating costs.

As far as these projects are concerned, preparation and management will follow much more formal systems and procedures. As such, the SDI secretariat and management committee will play an active part, trying to ensure cost recovery (without exclusion). They will also try to prevent more formal and vertical systems from corroding the federations' horizontal, relational accountabilities – primarily by building institutional Chinese walls between these projects and the federation process as a whole. These projects operate on more formal business lines, with federation involvement clearly targeted at social facilitation and channelling potential surpluses to the national funds, which take allocation and managerial decisions according to local-level priorities and capacities. The SDI secretariat hopes that in the future, the national federations, with SDI representation, will negotiate financial capital between themselves, enabling transnational investments and fund transfers between organisations of the urban poor.

We live in a world where capitalism dominates every aspect of our lives. This goes beyond our dependence on markets as a means of interpersonal transaction, the modality by which we secure and redistribute resources and the logic by which we secure our basic needs. Money has been rarefied such that we consider financial worth an indicator of social value, social status and good citizenship. In spite of deluded arguments to the contrary, markets are no friends of the urban poor.

But it is equally deluded to ignore the power that capital – especially in the form of privatised land – gives those who use it for their own ends. In most countries, SDI affiliates have ignored this to their own cost, as those who have been far-sighted have shown. Land capital and other forms of value in the market can play a role in dealing with the causes of poverty by helping communities finance their own solutions to their tenure and housing problems (Boonyabantha 2009). At the same time, it is important to understand the dangers that market-based tools can present to poor communities and how to use more conventional, formal systems of extraction and accumulation without damaging the collective accountability of communities and the informal systems they use to deal with the same market forces that generally exclude them. If SDI can accomplish this effectively, it could point the way to upgrading slums and cities at significant scale, including the poor instead of pushing them politically, economically and spatially to the margins.

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Acronyms

ACHR	Asian Coalition for Housing Rights
CLIFF	Community Led Infrastructure Finance Facility
CODI	Community Organisation Development Institute (Thailand)
NGO	Non-governmental organisation
SDI	Shack/Slum Dwellers International
SSNS	SPARC Samudaya Nirman Sahayak
SPARC	Society for the Promotion of Area Resource Centres
SRA	Slum Rehabilitation Act (India)
UPDF	Urban Poor Development Fund (Philippines)
UPFI	Urban Poor Fund International

Since the 1980s, SDI has worked to place the urban poor at the heart of the politics and economics that make modern cities unequal and exclusionary. Through its savings-based city funds and global finance facility, SDI helps communities become the main drivers of change, transforming their slums into safe, secure, affordable neighbourhoods. SDI's local funds defy conventional housing microfinance, which comprise three segments: organised end users; informal or semi-formal financial intermediaries; and the stand-ins for the formal financial sector. This paper explores how and why SDI has navigated these segments to transform urban areas by monetising social capital through local-level finance institutions.

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