HiFi NEWS

This newsletter brings together the experiences of groups working on microfinance for shelter in the South

Feb 2005 No.13

Introduction

Innovative strategies to enhance shelter finance based around the strengthening of savings and savings organizations can transform conventional finance into a catalyst for empowerment and development. Savings and loans increase local community development options by building confidence, securing recognition from state agencies and providing financial assets. In such programmes, money is no longer simply a means of exchange enabling the poor to participate in financial markets; money becomes a unifying force enabling people to enhance the resources that are immediately available to them and develop their collective skills.

Discussions at a recent meeting highlighted a number of key characteristics and challenges. In particular, participants discussed some of the challenges in helping these programmes grow and spread. Following a discussion of some of the benefits of savings programmes, critical key issues are summarised here including:

- The use of community exchanges and networking,
- The role of the state in supporting such initiatives
- Repayments and affordability
- Inclusion of those in need
- Scaling up

The core role of savings

Numerous agencies seeking to address housing need have recognised the importance of savings and loans. Many different approaches have emerged. One distinct approach uses savings strategically to strengthen local community groups. What draws these programmes together is their similarity in approach with respect to savings for shelter improvements. As noted above, savings has a number of advantages and these are discussed in the remainder of this section. First, savings catalyses an empowerment process: it builds confidence and organizational skills in communities. The poor are frequently told that they are no good, and that their problems are the result of their own inadequacies. The process of gathering their resources, setting up systems to accumulate savings, and then lending these savings to local residents helps build their confidence significantly. Second, and somewhat related, documenting this accumulation of savings helps other organizations take the poor seriously. It demonstrates the seriousness of the poor's self-help efforts and validates their engagement in a wider development agenda.

Third, managing collective finance builds within communities an understanding of how to manage money. Many development programmes that seek to be people-centred want to give communities financial responsibility. However, building this capacity once a large-scale externally funded project has begun is very difficult. Local community leaders often fail and that failure knocks their confidence, while associated allegations of corruption and mismanagement further divide communities. Locally managed savings and loan programmes ensure that communities embed financial management within their own organizations and associated social relationships. Groups learn by trial and error to set up robust systems, to call for assistance when needed and to manage problems along the way. By starting with their own funds, they increase their ownership of this learning process.

Fourth, local funds offer communities the chance to lend to members for emergencies and/or enterprise development, and thereby offer immediate material benefits. This further develops skills and experiences of financial management, as fund managers learn from successes and mistakes. As importantly, such activities extend the skills and build the confidence of those participating in the funds. Communities begin to believe that they can do things for themselves, and with that comes a belief in their own capacity to act. No longer do they need to wait for others.

Fifth, and related to all the previous points, the savings process equips communities with new skills and an associated new consciousness, which enables them to strategically engage with the state to obtain the redistribution of resources and regulatory reforms that assist in their access to secure tenure, basic services and housing. Savings and loans processes seek to transform community and state relationships. Community leaders are able to negotiate using their skills and experience and their own resources. In many cases, the scale of these resources is rarely significant when measured against their development needs. What interests local authorities (and other government bodies) is the organizational capacity that has been developed and demonstrated. Savings groups are confident enough to explain their history and articulate their demands in the spirit of partnership. This combination of factors has achieved some success in many different Southern countries.

Box 1: Savings in Nicaragua
The possibilities for savings programmes are influenced by the context in which people are living and the history of shelter-financing and financial opportunities. In Nicaragua, savings – and people's willingness to save – has changed dramatically over time. It has been negatively affected by various factors, for example, high inflation and corrupt community leadership. During the 1970s, a well-developed savings and loans system operated, although it didn't reach the poorest. In the 1980s, the savings and loans system was dismantled and was replaced by a state-controlled financial system. Cooperatives were established and some benefited from state loans but, without the necessary technical assistance, many failed. At the end of the 1980s, high inflation and monetary devaluation further eroded the financial capacities of the cooperatives, and initiatives for savings were further diminished. Severe structural adjustment measures inhibited people's capacity to save. People reverted to individual survival strategies and social capital fell sharply. In the 1990s, micro-finance institutions (run by NGOs) emerged and grew rapidly, offering small loans mainly for micro-enterprises. However, government regulations prevented most loan agencies from taking savings. Today, there are some 300 non-profit organizations lending to the poor, but none are allowed to collect savings due to banking regulations.

Somsook Boonyabancha, director of CODI (one such state fund described in Box 2) argues that such funds are: "*… the first step in the liberation of the poor*." The purpose of community savings is to radicalise the way in which political processes work and to create an umbrella to support a different development system. Hence it is important that the support process for savings and loans programmes helps the funds address people's needs and gives them the freedom to use the funds for what they want.

Whilst there are similarities between these programmes, there are also differences, in part because of legal systems. Differences in financial regulation, recent experience in savings and loans, and economic prosperity are some of the other factors influencing possibilities and opportunities. Box 1 outlines the present situation in Nicaragua and illustrates some of the ways in which these factors can be important.

Not another financial market initiative

These approaches see themselves as very different from conventional micro-finance programmes offering individual loans (sometimes through collective management) primarily for enterprise development. A major limitation of such micro-finance initiatives is that money may not be the major cause of poverty. Moreover, even if lack of money is a primary cause of poverty, it does not necessarily follow that more money is the solution. Where poverty is linked to exclusion from social, political and economic processes, micro-finance alone may be of little assistance. Collectively managed savings and loan Funds help to address such exclusion through building relationships within the community and between the community and the state.

Although the approaches may be different, there is not necessarily a conflict between more conventional micro-finance approaches and these kind of savings and loans Funds. At least some micro-finance agencies recognise that money is just one aspect of what is needed. For example, BancoSol in Bolivia have separated their credit activities from technical assistance ser-

Box 2: CODI, Thailand
In the 1980s, many activities in Thailand were oriented towards financial rewards and market transactions. Subsequently, it was widely agreed that this had failed the poor, and a new programme, combining the state, NGOs and the private sector, was needed to address the problem of urban poverty. The Urban Community Development Office was established, and this Office worked until 2000 to provide state funds to locally managed savings groups for housing, income generation and community revolving loan funds. Using different interest rates for different activities allowed cross-subsidies to be offered and ensured that the total returns from lending were more or less equal to market interest rates. With its interest earnings, the Office was able to maintain the real value of their Fund and pay administration costs.

The Fund proved to be a powerful autonomous process. The experience showed that money accumulates and that the Fund promoted development within its financial targets. As a result of its success, in 2001 it merged with a rural fund, and CODI (Community Organization Development Institute) was born. This merger with the rural process was very significant at a micro level because it blended traditional community practices in the rural areas with urban strategies.

CODI's role is increasingly to draw together key groups within each city, enabling a viable local process that assists the development of strong local networks. Initially, CODI linked to the communities through savings schemes. Then networks were formed from the savings schemes and this enabled the communities to assume a much greater level of responsibility. In 2003, the government built on the CODI process and launched the Baan Mankong (Secure Homes) programme. With this programme, there is an increasing move away from state and market solutions towards people's own housing development. By 2004, it had reached 42 cities.

vices as they have grown; one group has concentrated on credit and another on technical assistance (particularly assistance with product marketing). Another agency in Ecuador is working to assist migrants to more effectively channel their remittances to their families at home. Some conventional micro-finance agencies are very serious about seeking to add value to their financial strategies.

In Central America, Sida has been working with micro-finance agencies to develop new housing products. Research with borrowers has encouraged the spread of micro-finance agencies into new areas, including a move from enterprise loans into housing. Market studies have helped to identify what people want, both in terms of specific loans for housing investment and the financial services that families seek beyond credit. For example, some people living alongside storm drains could not find alternative land, and thus wanted to build retention walls to improve their living conditions and reduce their vulnerability to disasters. Women street sellers of cooked food chose to use their home improvement loans and savings to collectively install a water supply at their stores located at the city bus terminal thereby improving their business opportunities and their shelter situation.

Box 3: SPARC, NSDF and Mahila Milan in India

The savings process in the communities that the NGO SPARC works with began in 1985. At the time, these pavement dwellers were borrowing at high cost, maybe 10 per cent a month. The women started saving to gain greater independence, and for their own dignity. They saved each day with whatever was left over after buying necessities ie. they were not saving from income but from expenditure. At the end of each day, the change was left over from their daily expenditure was pooled and was lent to whoever needed the money for the next day's survival. Within six months, the women identified rules to manage this money that were acceptable to the others involved. These rules helped their savings to expand, and they developed community banks. Now, if they didn't have the money for a bus fare, they could borrow it. Loans could be given immediately, at any time of the day or night, as money was held within the settlements. This gave the women trust in themselves and in their transactions. Gradually, the loans, together with their development ambitions, grew, and the communities that were saving joined the National Slum Dwellers Federation. The women's groups themselves formed a network called "Mahila Milan" (Women Together).

Within both the Federation and Mahila Milan, membership is defined by savings. Women manage these savings and that is what makes them powerful. When negotiating with the state for land, infrastructure and housing, it is their savings that gives them confidence and credibility in these negotiations. The NGO becomes a partner through helping the mainstream institutions understand community realities. They have to learn the financial language but not become seduced by the logic of the financial institutions and mainstream development agencies.

The demonstrated ability of these groups to manage money becomes important when activities are scaled up with state subsidies. SPARC uses the terms "hot money" and "cold money". People lend from their own savings pool (hot money), and SPARC replenishes that savings pool with external (cold) money (borrowed from the central bank at prime plus 0.5 per cent). People still think of this finance as their own savings, even though they know that this is not the case. They repay the money at a higher interest rate than that paid by SPARC on their borrowed funds, and the difference helps deal with delinquency.

The role of networking and exchange

A major question is how the practice of savings can be spread and multiplied. Some programmes working with innovative shelter finance have used community-to-community exchanges to achieve scale through strategies that reinforce the core approaches of these processes. People often accept their present condition as given until they realise that it does not have to be that way. When they see what other communities have managed to do, they re-examine their assumptions and begin to explore alternatives. Teaching from professionals reinforces the image that the poor cannot address their own problems and that they are not going to be the major force behind improvements in their own lives. Exposure to other communities that have already addressed similar needs presents a radical alternative: one where they too, like others, can address their own problems. In some cases, communities have gone beyond single exchanges, and have established networks and federations.

Such networks and federations are significant because most relations that link urban poor communities to other groups are vertical. These are relationships between communities and more powerful groups such as NGOs and local government. Networks link communities horizontally, and multiple benefits arise from this. Box 3 describes the ways in which savings and loan strategies have been spread and developed by one alliance of community federations and an NGO in India. When a significant step forward is taken in one community, it can be fed into other groups; as one group learns, others also benefit. For example, one community network in Thailand was invited to have their office in the municipal building. Initially, every group in the country said: "*This is a very good network, to be able to make the municipality accept them and to be provided with such a nice big space in the municipal building*!" But following a change in municipal government, the network was taken over by the municipality because it was located within the municipal building. Because this particular network had been so exposed and had been talked about all over the country, its experience became a valuable lesson for all the networks.

Exchange programmes may work best when they involved mixed groups of people, including grassroots, mayors and NGO staff. This mix helps to build strong relationships between these groups, and is very good at removing mistrust and helping different actors to communicate with each other – however it needs skilled facilitation.

State funds for the poor

Several programmes discussed at the meeting are state programmes that have secured some kind of subsidy. The Thai programme, CODI, has been discussed above. In Namibia, community-managed savings and credit groups have developed since Independence in 1990. Housing has been a priority, and the government introduced the Build Together Programme to provide housing loans (with a subsidised interest rate of 6 per cent) to communities willing to build for themselves. Initially, the Build Together Programme was run by central government, but this proved difficult. Different groups each had their own strategies for housing, and the programme could not be supported effectively by a single central unit. Management of the programme has now been decentralised to the regions, with the central government maintaining a monitoring and evaluation role. A further example of a government loan programme is the Community Mortgage Programme in the Philippines which provides subsidised loans for land purchase and housing development to community groups facing eviction. In this case, NGOs and other professional groups including local government are given a distinct role and are entitled to be "originators", ie. groups that provide technical support to communities benefiting from the programme.

Several of the NGOs at the meeting had succeeded in drawing down state subsidies for their own activities. In India, there are several state and national subsidies for land, services and housing. In order to secure such subsidies, SPARC has been involved in raising bridge-finance for a number of housing developments. Once construction has taken place, communities are then able to apply to the state or national agencies to draw down the subsidy. Often, an additional savings or loan payment is required to fully repay the costs, and this is managed through the funds that *Mahila Milan* have secured, and augmented by additional loan capital. Once subsidy funds arrive, the bridge finance can be re-used in the next development.

In many cases, the process of savings in community groups has helped to secure access to state subsidies. One example is Maracibo, in Venezuela, where 80 per cent of the people are in poverty despite the best oil fields in Latin America. Once savings schemes

Box 4: Step by Step

The Step-by-Step Programme is taking place in Peru and Ecuador. Implemented by CIUDAD and DESCO with the contribution of European Union–KATE–IEPALA–ASDE and ACSUD / Las Segovias. Activities include the establishment of a revolving loan fund with the related construction of safe and affordable housing through incremental (step by step) development and the promotion of savings among participants. The revolving loan fund for shelter production seeks to establish a credit system that is adaptable to and appropriate for the needs of self-building families. In addition, technical assistance in the building of affordable, healthy and safe houses is also being provided. Training programmes for the people involved in the construction of low-income housing will be provided together with the dissemination of good practices on progressive shelter financing schemes through a training and dissemination centre. In addition to the direct benefits, a further ambition is to improve housing policies for low-income families through the targeted dissemination of the programme's achievements.

The total budget for the programme is 1.8 million Euros. In Peru, the project is taking place in Lima Villa el Salvador with its 1 million residents. In Ecuador, the project is located in Quito, Riobamba, Alausí and Cotacachi, the initial project being support for the San Juan Bosco Housing Cooperative. In total 0.54 million euros are allocated to the revolving fund with an anticipated 2000 loans being provided. In Ecuador there is a national housing subsidy system that offers families a grant of US $ 1,800. However, they have to be able to save 10 per cent of the value of the house to qualify and families find this difficult. Generally they are not eligible for loans and they don't trust formal credit institutions. Hence one use of the revolving fund is for the down-payment to secure the subsidy. Additional uses are part-payment for new houses in existing housing programmes, housing improvement, as a deposit for commercial loans and to provide community facilities.

Local finances can be exemplified through the women association "Luchando por la Vida". The 36 families have an average income of US $ 185 per month with 94% of households falling below state poverty line ($360 a month). The housing programme involves the construction of 6 buildings and 36 apartments (of 60 square metres at a unit cost US $ 5,100). The total costs are being paid by the government subsidy (one-third) and two-thirds by the families (using a combination of savings, commercial loan, and a Step-by-Step deposit to access the housing subsidy).

From 2001 to 2004, Step by Step in Ecuador has granted more than 930 loans; 550 families have acceded to new houses off good quality. 62% of the users of the loans are women. 72 % of families that have secured housing are below the poverty line. Step by Step's loans for a total amount of 750,000 US dollars have mobilized more than US $ 2.5, from the government subsidy (25%) and private banks loans (75%).

started in these neighbourhoods and the funds began to accumulate, people began to think of many things. Their savings helped ensure that they were recognised and legitimised by local government. Over time, they were able to negotiate for state support. People's confidence in savings is reinforced when they can see that the process leads to a real difference in the opportunities that they have: savings creates opportunities. A further strategy (described in Box 4) is exemplified by the Step-by-Step programme in Ecuador in which the NGO-managed loan fund facilitates access to a state subsidy by providing residents with the "savings" that they need to access the subsidy.

Repayment and affordability

Linked to the process of savings, loans and subsidies is that of repayment. The conventional micro-finance process emphasises the importance of high levels of repayment. However, one consequence of this is that many such programmes work with slightly higher-income clients, who are less likely to face a personal crisis or have to deal with other problems that lead to missed or late payments. The experiences discussed here are very different. As discussed below, the desire is to secure inclusion (particularly among vulnerable groups in the community) and opportunities to all. There is a recognition that dealing with the poorest requires less conventional practices, and that specific and temporary financial insolvency for some households is not a reason for abandoning loan finance. At the same time, the strength of the community is critical. When communities cannot address these issues, then loan finance can increase vulnerability, as the poor take loans they cannot afford to repay and have to address the consequences. If a primary purpose of savings is to strengthen the communities' capacity to be development catalysts, the effective loan programmes require them to have the strength to play that role.

Delayed repayment emerged as an important strategy to increase affordability. The issues were exemplified by three programmes, of which the first is SPARC (India). "Our system never says that repayment is 100 per cent! We discovered that about 65-70 per cent of communities were able to repay on time in any single month. The others have a problem and need longer to repay. Now we assume that, at any given time, there will be 30–40 per cent of people who don't have money in their pocket for that period. It's not designed in this fantasy that it is 98 per cent. We are not saying that people don't repay that money, but we always find that about 30 per cent of people need to extend beyond the initial point."

The experience of the Build Together Programme in Namibia was similar. In this case, the programme has a loan recovery rate of about 75 per cent. The groups that work within a community network, the Shack Dwellers Federation of Namibia, are better able to manage the problems associated with affordability and late repayment. The loan programme that has developed from the savings process in Maracibo (Venezuela) also finds that about 30 per cent of borrowers fall into a grey zone and are late with repayments. One reason is the scale of economic difficulties which can be illustrated by the present situation in Brazil where people are really struggling after a three-fold drop in the value of the Real. People have to manage this economic crisis and it is nonsense to think that all can manage easily. But after some time, when people begin to cope with their difficulties, then repayments start again.

These experiences demonstrate that community skills and capabilities are essential. The response to individual crisis is critical. Will community groups lose confidence and hesitate, provoking a vicious cycle in which those with problems are overwhelmed by their sense of failure and abandoned by the group, and those who can manage become isolationist and protective? Or will the group accept that it is responsible for managing a difficult situation, and help to negotiate a way in which people can participate in solving their own problems? Delayed repayments are a common part of the process. But there is a need to recognise that repayments need to be maximised whilst the difficult situation faced by specific families needs to be addressed.

How to ensure that inclusion is addressed

There are two issues with respect to innovative shelter finance and inclusion. First, there are issues of inclusion within the schemes themselves. Second, the process helps to build inclusive cities by creating opportunities for the urban poor to secure tenure, services and housing.

Savings schemes may struggle to reach individuals and groups who do not have a permanent location. A major reason is that savings schemes build up links between neighbours in geographical areas. It is difficult for those who are working but not living in the city to join in, or for those who are very mobile. In Latin America, the Urban Management Programme tried to set up savings schemes with a group of street sellers in Quito, but it failed in part because of local government attitude.

Policies for inclusion in savings and loans schemes may be difficult to operate effectively. To take a very different example from Asia, the Grameen Bank (in Bangladesh) has very strict criteria, and tries to ensure that only the very poor take part. They are nervous that the richer households will be too strong, and will determine the rules and regulations. In other countries, such as Thailand, such a highly targeted policy would not work very easily. Within urban poor communities, there is a lot of sharing between residents. CODI seeks to look at the community more holistically and inclusively, with rich and poor alike. As alternative to the emphasis on targeting is the use of processes that discriminate in favour of the poor. The practice of daily saving in India helps to ensure that even the poorest can participate. The livelihoods of the poor are generally managed daily (or in three to five day cycles), not monthly. Groups that save monthly exclude the poor.

In South Africa, the experience is that inclusion within any specific neighbourhood depends on the strength and direction of the savings scheme. Some savings groups have excluded the very poor from participation in borrowing housing loans because their low incomes make larger loans appear unaffordable. The group wants to increase their chances of getting bridging loans from a community fund prior to receiving the state capital housing subsidy. Other groups are stronger and this is not an issue. With a focus on development through individualised benefits such as housing, it is easy to exclude the poorest. Very poor individuals and families may need special support to be drawn into the process.

Throughout the South, Asia, Latin America and Africa, conventional development processes have failed to deal with many groups of poor people. In some cases, these are the poorest, but this is not always the case. There are particular groups who are vulnerable, such as migrants who are often illegal. For example, Nicaraguans living in Costa Rica, Peruvians in Ecuador or West Africans in South Africa are often treated as non-citizens. Such groups often fall outside of any development scheme, and are excluded from the benefits that others can secure.

In some countries and cities, some residents may find it difficult to participate equally because of the level of violence within the settlement. In Nicaragua and other countries in Latin America, personal security is becoming a major barrier to inclusion. People are fearful of leaving their homes in the evening. They become reluctant to go to meetings. The reality is that when working in communities, it is often necessary to negotiate with gangs, and include them in some way within neighbourhood plans. This is difficult to manage, both for families and development agency staff; moreover, local authorities may be reluctant to work in these areas. There are a strong regional differences in levels of violence, and there are limited opportunities to apply lessons from one context to another. In some places, the community responses that led to gangs were in part based on survival options.

In addition to individuals or groups of individuals who are excluded from settlement activities, there are settlements or whole groups of settlements or otherwise defined communities that are not drawn into the development process. One strategy used in Indonesia involves area upgrading finance being available only for plans which include the poorer informal settlements. Within the available monies is a special fund to build up the human resource capacity of the lowest-income households. Rickshaw workers, for example, are trained to repair their rickshaws and/or offered credit to buy their vehicles.

The processes involved in upgrading programmes are somewhat different from those of Greenfield developments or simple housing investments. Clearly, in the case of upgrading, the strong intention must be to ensure inclusion. In Thailand, current funding for upgrading comes as a complete package for all in the settlement. In some communities, renters are excluded from this opportunity. CODI encourages a stronger process, which discusses everyone's claims and seeks a compromise; a common result is that renters are allowed to take part. This is generally easier in areas where there has been a city-wide survey, which brings together many groups to identify and report on the areas in need of improvement. If this is done properly, the city-wide survey brings all groups at different levels into a networking process. It legitimates all the groups in the city, considers their needs and develops a plan to address these needs. This process helps to ensure that local groups adopt an inclusive attitude.

Another group that may be excluded are workers who are not very poor but who have very few housing opportunities. Some formal sector workers are well paid, but may suffer enormous problems when it comes to accessing services. These problems are especially acute in new settlements, for example, those that have grown rapidly due to the expansion of free trade zones. In Central America, many workers in these areas cannot get housing. In Honduras, for example, it is estimated that 60 per cent of economically active people are employed in free trade zones; thousands of families have jobs but the living conditions are appalling. The state has been unable to respond to the influx of migrants and provide services and infrastructure and other basic needs that are necessary for an adequate life. The possibilities for savings groups within these communities of migrant workers, together with employer contributions, provide some interesting new examples of how savings, matched with dollar for dollar contributions from employers, can be the basis for a model to access housing and shelter facilities.

Scaling up strategies

A challenge for many of those working with shelter finance is how to scale up the activities. This is more than simply raising additional finance to increase the scale of savings and loans. It also involves decisions about the optimum institutional relationship with the state to secure the redistribution of state resources and collaborative development partnerships in upgrading and redevelopment. In different countries, the administrative and public management systems are very different; for example, in Indonesia two-thirds of state finance is allocated to local government, whereas in Thailand, the equivalent figure is 35 per cent. Such differences point to the multiplicity of strategies that will inevitably be required if funding and/or partnerships are going to be secured in such different contexts.

A particular challenge for any institutional strategy is to avoid being sabotaged and hi-jacked. An example was given above of how a network had been offered an office in a municipal building, only to have it taken away when the political situation changed. Similar challenges exist at the programme level. One strategy that appeared to be a good arrangement within the Sida programmes in Central America was that of bilateral development assistance funds to state departments. However, the risks to this strategy have also been demonstrated. Sida supported a programme in Nicaragua that began within a state agency. When it was created, decentralisation was firmly on the agenda so the agency was strong, both in human and financial resources. However, over time things became more difficult, and in this particular case working with the local authorities has proved to be more fruitful. In the case of PRODEL (in Nicaragua), a decision was taken to transform the programme into a foundation, taking it out of the public sphere into the non-government sphere. In this case, there is government representation on PRODEL's Board, so the state has presence and involvement but no power. This experience may be useful, and provides some guidelines on how to go from programme interventions that are short term (three to five years) to institutional relations that can continue indefinitely. Being outside of government has a further advantage in this particular country as the national political situation is often volatile.

Box 5: Micro-credit, small loans and the Kampung Improvement Programme

The newest phase of the Kampung Improvement Programme has been designed to include social and economic development as well as physical upgrading. The Comprehensive KIP was introduced 1996 to address the need for integrated and multi-faceted development activities. The funding itself is divided into a grant component together with a revolving fund which provides for enterprise and shelter related lending. However, the process is designed to attract a lot of further resources through in-kind contributions from the community. It is intended that the management of the revolving loan will itself strengthen communities' skills and capacities.

More specifically the shelter loans enable the improvement and extension of houses together with the upgrading of facilities such as bathrooms and kitchens. Other possible uses of the monies are improvements in the local neighbourhood such as walkways, drainage and public toilets are covered by grant funds if the community decide. Reviewing 18 sub-districts that have received revolving funds since 2001 shows that 15 have offered loans for housing improvements to a total of 860 households.

However, these figures present a somewhat misleading picture of the development process that the Programme is seeking to support. The objective is to catalyse a local development process that encourages people to invest in their dwellings as they develop houses incrementally. It has been shown that such investments may be more than 20 times the initial public investment. The regularisation and upgrading process directly assists in encouraging such private investment. Whilst it is possible to use the revolving loan funds for shelter improvements, the emphasis is often on micro-enterprise development with the expectation that residents will invest in their homes once their livelihoods are more secure and profitable.

Another option is that of a quasi-state agency. In Thailand, it is believed that it is best to be with government but not fully of government. UCDO started life under the National Housing Authority and CODI (UCDO's successor) is now a public agency with its own funds. There are many advantages to being in government, particularly in respect of the legitimacy to bring together other groups. However, the agency can also be vulnerable to political pressures, and the process has to be managed carefully. CODI seeks very deliberately to avoid being in the centre of the processes that it catalyzes. Rather, it seeks to convene local authorities, communities and other interested professionals based on their responsibilities and commitments. If CODI was the centre, others would not collaborate. It has no plans to grow ever larger. Rather, it considers its role to be catalytic and supportive. The intention is that the people's development sector will grow bigger. A further alternative way of allocating state funds is described in Box 5. The Kampung Improvement Programme in Indonesia offers a mixture of loans and grants for local upgrading programmes.

In South Africa, the South African Homeless People's Federation, based around a network of savings schemes, became very strong. At one point, the intention was to set up a state fund, a kind of CODI. But there was no participatory open process and the government distanced itself from the Federation, claiming that it was difficult for them to support a single initiative. In the absence of alternatives, the Federation and its support NGO, People's Dialogue, set up an alternative *uTshani* Fund. This received its loan capital primarily from development assistance agencies, although the state made an initial contribution of 10 million rand. As noted above, this Fund is also used as a conduit for state subsidies.

Within the Philippines, the NGO sector also has an active and important role in demonstrating new options to the government. The Community Mortgage Programme emerged directly from an NGO's programme experience. The Community Mortgage Programme has assisted 140,000 families to secure tenure through offering loans for land purchase and, sometimes, related housing development. This demonstrated a third option, in which NGO innovations are adopted by state agencies. However, this experience has been mixed. Although the programme has been beneficial, the host agency has not always been supportive, and funding has been limited. This is partly because the subsidised interest rate means that the venture is not perceived as profitable, although collection rates exceed those for individualised middle-income home lending with higher interest rates. There is no simple answer as to where the fund should be located. The question is being reconsidered actively in the Philippines, as the government is proposing to establish a Social Housing Finance Corporation.

Even when shelter finance or urban poor funds are located within state agencies, decentralisation, at both a regional and a local level, is important. In Namibia, the central government now recognises that, rather than managing the funding directly, it should disseminate funds that are then allocated and managed locally. The experience in Latin America and Thailand also emphasises the importance of the local authority together with local people. Some of the problems of not including the local authorities are now exemplified by the early activities funded through Social Investment Funds. In some cases, these Funds substituted for line ministries, the goal being to deliver development projects quickly and efficiently to counteract the worst effects of structural adjustment programmes. Not only were the local authorities side-stepped in the planning process, but a further problem was that the projects tended to be "hand-outs" and, at the outset, lacked a participatory approach. The experience in Thailand suggests that, whilst decisions at taken at the municipal level, city authorities are not the ones who allocate the funds. The process draws in a range of interested agencies who support local community groups. The network, together with a wider group of concerned and experienced professionals, then receives a budget from the city and starts a process to allocate the funds.

The Millennium Development Goals have set development agencies significant targets for addressing secure tenure and the extension of basic services. Savings and loan funds are important for more reasons that simply local financial contributions. As discussed here, they can provide an option for local control of a process that addresses basic needs and provides for more extensive development opportunities.

CATALYSING PRO-POOR DEVELOPMENT, THE ROLE OF SAVINGS AND LOAN ORGANIZATIONS
Working paper 15 in 'Poverty Reduction in Urban Areas' series
ISBN 1 84369 549 9
Available to download free of charge at www.iied.org/urban

Printed versions can be obtained from Earthprint Ltd, PO Box 119, Stevenage, Hertfordshire, SG1 4TP
T: +44 1438 748 111 F: +44 1438 748 844
Email: customerservices@earthprint.com Web: www.earthprint.com
for US$20 each plus postage and packing (for the UK $5 for first item, $2.50 for additional items; for Europe $6 for first item, $3 for additional items; for elsewhere $10 for first item, $5 for additional item)

If you would like your name to be added to the mailing list, please email to diana.mitlin@iied.org.
This newsletter is produced and published by IIED and the Asian Coalition for Housing Rights.

For more information about the programmes featured here, please contact

Nicaragua: Irene Vance, ivance@ibw.com.ni

CODI, Thailand: Somsook Boonyabancha, somsook@loxinfo.co.th

SPARC, India: Sheela Patel, sparc1@vsnl.com

Step-by-Step at Ciudad, Ecuador: Mario Vaconez, mvasco@ciudad.ecuanex.net.ec

Kampung Improvement Programme, Indonesia: Johan Silas, rapete@indosat.net.id

The workshop was jointly organized by ACHR, CODI and IIED.

Asian Coalition for Housing Rights
73 Soi Sonthiwattana 4
Ladprao 110, Thailand
Tel: +662 538 0919
achr@loxinfo.co.th

Community Organization Development Institute (CODI)
2044/ 28-33 New Phetburi Road,
Khet Huai Khwang
Bangkok 10320, Thailand
codi@codi.or.th www.codi.co.th

iied

International Institute for Environment and Development

IIED, 3 Endsleigh Street,
London WC1H 0DD
Tel: (44) 20 7388 2117
Fax: (44) 20 7388 2826
Email: diana.mitlin@iied.org