

Annex M

Urban Poverty: Technical Notes

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Technical Note M.1 Urban Observatory System

The Global Urban Observatory (GUO) of UNCHS (Habitat), which coordinates the network of local, national, and regional urban observatories, is working through partner institutions to provide training and other capacity-building expertise.

GUO supports the development of local urban observatories (LUOs), which will be test beds for urban poverty data gathering and management tools. An LUO can be a local government department, a university, an NGO, or any other capable organization in the public or private sector. Networks of LUOs will be facilitated by national urban observatories (NUOs) that are responsible for coordinating capacity-

building assistance and compiling and analyzing urban poverty indicators data for national policy development. The broad-based participatory process established in the indicators working groups organized by GUO's Urban Indicators Program may be institutionalized at the national or city level through the urban observatories. GUO is collaborating with the World Bank and other donors to provide guidelines, tools, and technical assistance to encourage capable institutions to become observatories with the mandate to develop and apply urban poverty indicators. The urban observatory system is funded by UNCHS, the World Bank, DFID, and various governments.

As part of its effort to establish a network of observatories to help national and local governments develop and use indicators, GUO held a one-month training of trainers in New Delhi, India, in November 1999. Trainers from six regions participated: Anglophone and Francophone Africa, Arab States, Asia and Pacific, Eastern and Central Europe, and Latin America and the Caribbean. The contractors have now begun to work with their key partners in these regions; 18 cities in Africa, 11 in Arab States, 26 in Asia and Pacific, 9 in Eastern and Central Europe, and 9 in Latin America and the Caribbean have been identified for the establishment of urban observatories. Decisionmakers and technicians from these urban observatories will receive training on indicators collection and management in and application of policy development, focusing on a set of about 25 key urban indicators and at least 10 more extensive indicators, selected specifically within each region.

For further information, contact the Coordinator, Global Urban Observatory, UNCHS (Habitat), P.O. Box 30030, Nairobi, Kenya. Tel: 254-2 623184; fax: 254-2 624263; email: guo@unchs.org

Technical Note M.2 Dimensions of Urban Poverty

This technical note is an illustration of an urban poverty matrix as presented in section 16.2.1 (table 16.1) of the main chapter text. The different dimensions of poverty—income, health, education, tenure insecurity, personal insecurity, and disempowerment—are discussed with reference to their visible and policy-related causes.

Income poverty

Dependence on cash for purchases. In cities, people have to rely on market exchanges to buy basic goods and services such as food, water, electricity, and transport. The ability to earn cash income thus becomes an important determinant of food security and other aspects of human well being. Food expenditures, for example, can account for as much as 60 to 80 percent of total income among low-income urban households. Transportation, water, and sanitation have also been reported to consume far higher shares of household income than planners have predicted.

The ability of the urban poor to earn cash income, however, is constrained by:

Employment insecurity and casual work. The urban poor are likely to be engaged in casual and informal-sector work, exposing them to the risks of employment insecurity and income irregularity (see box M.1).

Box M.1. Lack of Regular Jobs as a Cause of Urban Poverty

Urban poverty tends to be primarily not the result of lack of work but the lack of well-paying, steady jobs. Many of the urban poor sell food or cigarettes in the street, scavenge in garbage dumps, sweep streets, clean latrines, drive rickshaws, obtain day work in construction, or do piece-rate work, either in garment factories or at home.

Seasonality affects the earnings of the urban poor just as it does those of the rural poor. In Dhaka, Bangladesh, for example, incomes decrease among casual laborers such as rickshaw drivers and construction workers in the rainy season, primarily because, working outdoors, they suffer from an increased rate of illness.

Source: Ruel and others (1999).

Unskilled wage labor. Lack of skills is a common characteristic of the urban poor, implying an inability to get well-paid jobs.

Bad health. A family member's illness can impose huge costs on the rest of the household, both in terms of income loss, especially if the main income earner is sick, and in terms of treatment expenses. This is especially true when HIV—which is prevalent in many urban areas—invades a family.

Lack of access to job markets and opportunities. Geographical isolation—for example, for residents of periurban slums—and lack of access to information sources exacerbate poverty (see box M.2).

Box M.2. Lack of Access to Job Markets and Opportunities

In a participatory poverty assessment in Mombasa, Kenya, in 1997, lack of practical training and exposure to the world of work and business, inadequate access to credit, and insufficient information on employment or on markets for their products and services were identified as the major determinants of the high unemployment rate among young people.

Source: Rakodi and others (2000).

Macroeconomic crises. These not only reduce real incomes but increase prices of essential goods and services, while reducing the demand for the goods and services supplied by the poor. Such crises lead to job losses in both the formal and informal sectors (see box M.3).

Box M.3. Urban Populations Are Vulnerable to Macroeconomic Crises

A 1998 workshop of urban managers and central government officials from China, Indonesia, the Philippines, Thailand, and Vietnam reported that the region's financial and economic crisis was affecting the urban economy particularly strongly. Job losses in the formal sector were an early outcome, but more pervasive and devastating have been income losses due to reduced demand for manufactured goods, transport, and other services—the main sources of livelihood for urban residents; and price increases, especially for food, utilities, and essential imported goods, resulting from sharp exchange-rate depreciation.

Source: World Bank (2000a).

High costs and inadequate availability of essential public services. Efficient provision of public services can lower the income a household needs to have access to those services. Public services are largely available, especially in big cities, but often not to the poor. Regulatory and policy frameworks frequently constrain service provision to informal areas, and the urban poor in many countries therefore have to pay informal service providers more than they would pay for formal provision—or else connect themselves illegally and pay bribes to officials (see box M.4).

Box M.4. Spontaneous Settlements Are Not Addressed by Service Regulations in Turkey

In Turkey, no municipal or service-related laws address spontaneous settlement. Furthermore, regulations limit service providers to areas within structure plans—the Public Works Law, in fact, indicates that water, sewerage, and electricity connections should only be provided to formal areas. Spontaneous settlements generally have access to basic services, but those services have serious problems of affordability, quality, and quantity. For example, privately provided water is between 9 and 30 times more expensive per liter than public-network water. Water supply is sporadic; electricity cuts are frequent; solid waste is rarely picked up; and drains are nonexistent or not maintained. Illegal electricity connections can cause life-threatening accidents for users.

Source: Leitmann and Baharoglu (1999).

Lack of safety nets and labor protection. Because most of the urban poor are employed in informal sector jobs, few are protected by health and unemployment benefits or worker safety regulations. Furthermore, their low and irregular incomes prevent them from joining private insurance and pension schemes. This lack of protection exacerbates the vulnerability of the urban poor. Research carried out in Coimbatore, India, argues that “labor status is the single most important factor for explaining poverty, basically through the difference between protected and unprotected wage work and within the latter between regular and irregular workers” (Harriss 1989).

Regulatory constraints on small enterprises. These perpetuate the informality of the work available to the poor, discourage asset accumulation and access to credits, and increase the vulnerability of workers.

Health poverty

Inadequate cash incomes, and thus food insecurity and malnutrition; overcrowded and unhygienic living conditions; lack of sanitation and water; and the juxtaposition of residential and industrial functions are among the major causes of health poverty in cities (see also chapter 18 “Health, Nutrition, and Population”).

Inadequate cash incomes. This leads to food insecurity, especially when coupled with problems in the food distribution system, such as bad roads linking agricultural production areas with cities, inadequate storage facilities, and rundown and obsolete wholesale markets—all of which increase costs by causing high losses. Evidence indicates that malnutrition is increasing in cities (Ruel and others 1999). (See box M.5.)

Box M.5. Food Insecurity and Malnutrition in Cities

Poverty and malnutrition data in 16 countries show that for most of those countries, not only has the absolute number of the urban poor and undernourished increased in the last 15–20 years, but it has done so at a rate outpacing the corresponding changes in rural areas.

Nutrition data show that for 12 out of the 16 countries, the absolute number of underweight children in urban areas is increasing, and it is also growing at a faster rate than in rural areas. For 10 countries, both the absolute number of underweight children in urban areas and the share of underweight children in urban areas are increasing.

Source: Haddad (1999).

The urban poor are more exposed to environmental hazards than other groups, as they occupy the most polluted environments, such as those near factories, and risk-prone sites such as waste sites, riverbeds, and hillsides (see also chapter 11, “Environment”). For example, in a recent incident in Manila, the Philippines, a wall of refuse collapsed on squatters’ houses in the city’s biggest dump, Payatas. The bodies of at least 60 were recovered. Dozens more remain missing (*Washington Post*, July 11, 2000). Such sites often are the only ones available for housing for the poor, because they are unattractive to other potential users and because land-use policies make other locations unaffordable (see box M.6).

Box M.6. Juxtaposition of Residential and Industrial Functions

In the Dharavi slum of central Bombay, India, there are about 400 leather-processing units that are a major source of air and water pollution. A survey of a community that lives in the leather-processing area noted that waste water flowing in open drains contained hair, parasitic worms, and chemical and other effluents, including acids discharged after the cleaning of hides. In these environmental conditions, the storage of food is difficult and the possibility of contamination is high.

Noise pollution is also very high in certain parts of Dharavi. Doctors treating people who live close to the suburban railway tracks that run through the slum have observed cases of neurosis caused by the tremendous levels of noise.

Source: Swaminantham (1995).

Indoor pollution due to household-level energy sources is also a major cause of health poverty in cities.

Housing regulations that raise the costs of housing for the poor, and unsound policy and institutional frameworks for providing public services such as water, sewerage, and garbage collection, force the poor into unhygienic living conditions (see box M.7).

Box M.7. Multiple Impacts of Inadequate Water Supply on the Poor

In Kumasi, Ghana, although piped water is available in most parts of the city, poor households do not have individual connections and so must either purchase water from privately owned taps, at prices considerably higher than the cost of Ghana Water and Sewerage Corporation supplies, or obtain it from polluted streams. Water provision is especially inadequate on the urban periphery where there is rapid urban growth. Rules set by Ghana Water and Sewerage Corporation’s parent ministry forbid it to extend its network into unplanned settlements, effectively barring it from improving services to some of the city’s poorest inhabitants. Even areas with a piped network often suffer from feeble water pressure and intermittent service. These inadequacies particularly impinge on the poor, not just in terms of cost and time spent collecting water, but also because inferior services undermine informal-sector businesses, such as food processing, which depend on reliable supplies of potable water. The impact is greatest on women who operate such businesses and who may have to collect water at night, and on girls whose education may be curtailed by the time spent collecting water.

Source: Devas and Korboe (2000).

The urban poor are prone to job-related diseases and accidents. Poor children suffer from unhealthy workplace conditions. In carpet shops in Lahore, Pakistan, there are reports of children bonded to carpet masters at four years of age suffering from severe physical handicaps as a result of their working conditions (Drakakis-Smith 1996).

The people who are most prone to environmental hazards and job-related diseases are those least able to avoid them; moreover, the impact of such maladies hits them the hardest because they lack the income or assets (for example, insurance) to cope with illness and injury (Satterthwaite 1998). Taking time off work additionally can threaten the family’s economic survival. Poorer households lose a higher proportion of total income from being ill than do richer households (Pryer 1993).

Education poverty

The urban poor's access to education (see also chapter 19, "Education") is constrained by:

- **Crime and violence.** Insecurity due to crime and violence, especially when using public transport, deters school attendance among the urban poor (see box M.8).
- **Inability to afford school expenses,** including transport costs, is another constraint on school attendance in cities where the urban poor are heavily dependent on cash income. Because safety nets that would enable the poor to maintain their investment levels in education are often absent, withdrawing children from school is a common strategy during times of family economic hardship (see box M.8).
- **Insufficient school places.** In many cities, the number of school places has not kept up with the rapid pace of urban growth. Public authorities frequently fail to provide sufficient school places. That is especially true in the low-income settlements that burgeon on city peripheries—places that often fall outside existing municipal boundaries.

Box M.8. Constrained Access to Education

Impact of violence and crime on girls:

In a six-month period in 1992, one in five of all women in Cisne Dos, Ecuador, was robbed on a bus. One in two women witnessed such an attack. The lack of safe transport during off-peak hours has caused girls, generally from the poorest families, to drop out of night schools.

Inability to afford education:

Armando and Juan, aged 15 and 13, are the two older sons in a household of seven children in Cisne Dos. Their father, Santiago, a skilled construction worker, has been reduced by a decline in contract work to casual daily labor at irregular wages. With five young children, the boy's mother, Teresa, cannot get out to work. In 1991 the boys were forced to leave day school to help keep their younger siblings in school. Working as shoeshine boys in the city's bus terminal, they earn half the family's income. Although they registered for night classes at the local school, they are generally too tired to go.

Source: Moser (1996).

Tenure insecurity

Most of the urban poor do not have tenure security. Their dwellings may be built on public land; constructed on private property belonging to someone else; built on shared-title land; constructed without occupancy or construction permits; and/or rented in slums without formal renting contracts.

Many of the urban poor have to house themselves illegally because:

Land policies do not make sufficient developed land available. Urban planning tools, including master-planning, zoning, and plot-development regulations, are not appropriate to make land available in pace with rapid urbanization, resulting in insufficient land supply and increases in land prices. Master plans in many developing and transition countries are too centralized, take too long to prepare, and fail to address implementation issues or the linkages between spatial and financial planning. The resulting regulations are outdated and inappropriate.

Policies and/or regulations are not conducive to regularization of tenure or provision of other forms of tenure security. There are three main causes for resistance. First, there is a widespread assumption by authorities that regularization may encourage illegal practices. Second, issuing land documents (or use rights) can create considerable conflict, especially in places with multiple forms of property rights. Third, informal occupation provides sufficient grounds for eviction: the authorities may prefer to retain the informal status of some spontaneous settlements in case, some day, the land may be desired for other use (Durand-Lasserve and Clerc 1996; Payne 2000). Land and housing regulations may also make housing unaffordable. Unrealistically high standards for subdivision, project infrastructure, and construction make it impossible to build low-income housing legally. Finally, land and housing regulations make it difficult for the poor to follow cumbersome procedures. Procedures can be unduly cumbersome and difficult for poor people to follow (see box M.9). Observations from many developing countries show that the processes of obtaining construction and occupancy permits are complicated; not well understood by the poor, especially immigrants; time consuming; and costly. The result is invasions of state land or purchases of unplanned land from illegal agents.

Box M.9. Long Process of Land Adjudication in Peru

In Peru, state lands are adjudicated through a long and time-consuming process that takes about 43 months, consists of up to six stages, and even involves the president of the republic. An adjudication comprises 207 bureaucratic steps involving 48 different government offices. Even at the end of this process, title to the allocated land is not clear and holders are unable to exercise their full rights.

Source: Farvaque and McAuslan (1992).

Lack of access to credits. There is ample evidence from Africa, Asia, and Latin American and Caribbean countries that low-income and even moderate-income households do not have access to housing credits because:

- They cannot afford the debt service required to finance the cost of a minimum unit. The major criterion financial institutions use to qualify households is the ratio of mortgage payment to income. Bolivia and Columbia provide typical illustrations. The ratio of mortgage payment to income for low-income households is 104 percent in Bolivia and 40 percent in Colombia—far exceeding the maximum 25 percent and 30 percent allowed by commercial financial institutions in those countries (Ferguson 1999).
- Mortgages require payments every month for a long period of time. However, poor households may be unable to meet this steady obligation. Because their incomes can vary drastically due to the vagaries of self-employment and occasional crises such as sickness and injury that can absorb all their available resources (Ferguson 1999).
- Commercial financial institutions usually have little interest in lending to low-income households, even those that can pass conditional hurdles, because the small loans required by these households are of low profitability (Payne 2000).

When housing loans are not available, households have to use their own savings, sweat equity, and/or loans from relatives to purchase a home. Estimates from various countries show that it would take from 15 to 30 years of saving at 30–50 percent of monthly income for low-income households to afford the outright purchase of a minimum-standard unit in authorized stock. We must note that in reality households in the lowest deciles of income distribution cannot save at these rates simply because such families' monthly incomes are already irregular and may be barely sufficient even for minimum food needs. Building in illegal areas, without construction and/or occupancy permits, remains their only option.

Lack of tenure security leads to:

Loss of physical capital, damage to social and informal networks for jobs and safety nets, and loss of sense of security (see box M.10). Several million urban dwellers are forcibly evicted from their homes each year, most without any form of compensation.

Box M.10. Evictions Degrade Physical and Human Capital

When evictions take place in Nairobi, Kenya, the results are destruction of property and of people's development initiatives. The consequences are far reaching: lives are lost, livelihoods are destroyed, homes are razed to the ground and children miss school and are forced onto the streets as parents ponder where and how to start life afresh. The ensuing lack of security has serious social consequences, as it degrades people's ability to organize themselves and to reinvest in their communities.

Source: Apiyo (1998).

Inability to use the house as a resource when other sources of income are reduced. For poor people, housing is an important productive asset that can cushion against severe poverty during times of economic hardship. Two common coping strategies are renting out a room or creating an extra space for income-generating activities (see box M.11). When the poor have secure ownership of their housing, they

Box M.11. Home as a Workplace

Research shows that the struggle to increase household income is closely linked to the process of gaining and improving shelter. Nilofar, who lives with her husband in a one-room dwelling in the squatter settlement of Jahangir Puri in Delhi, India, says, "There was no work, so what could we do? Things were so expensive and we had no income. First we took a room to rent through my husband's uncle, and then we managed to get a plot. We have now made this house ourselves." Nilofar's home is also a workplace, where she makes bangles Hindu and Muslim women wear on their wrists. Nilofar paints and sorts the bangles and her husband sells them on the streets.

Source: Kellett and Tipple (2000).

often use it with remarkable resourcefulness when other resources of income are reduced (Moser-Cisne Dos Study 1996).

Personal insecurity

Many things may jeopardize the personal security of the urban poor. These threats include family breakdown, often caused by drug and alcohol abuse; social diversity and visible income inequality in cities; evictions due to tenure insecurity; social and institutional exclusion; and lack of assets and opportunities. Often, these problems may lead to community and domestic violence. The victims of such violence are most often women and children (see box M.12).

Family breakdown often leads to reduced support for children and to youths becoming involved in drugs and gangs (a negative form of social capital network). Gang, drug, and gun violence involves youths not only as perpetrators but also as victims, and threatens the personal security of others in low-income areas. Lack of jobs, the inability to continue schooling, and a lack of opportunities for other constructive activities are the underlying factors behind violence and delinquency.

Social diversity, and especially visible income inequality, in cities increases tensions, and tempts the poor to commit crimes.

Evictions organized by public or private landlords also threaten personal security in low-income/slum settlements. The burning of settlements to make way for developers and threats to tenants by slum landlords have been reported by various studies (Apiyo 1998; Amis 1984).

Social and institutional exclusion also makes the poor vulnerable. When the poor lack the full rights and responsibilities of citizens, they become susceptible to the causes of insecurity.

Lack of assets, services, and opportunities, both communal and personal, stigmatize certain residential areas in cities as centers of crime and desolation (see box M.12).

Box M.12. Geographical Concentration of Violence and Stigmatized Areas in Jamaica

In Jamaica, violent crimes tend to be geographically concentrated in poor communities. Almost three-quarters of murders and more than 80 percent of shootings take place in poor neighborhoods. The victims and the perpetrators of violent crime tend to be young men, who account for 60 percent of all arrests for murder. Local police maintain that it is young children who suffer most from domestic violence. Increasingly, violence has involved women. At least 40 percent of murders are a result of domestic disputes, with women as the victims. Women are now not only the victims of crimes by men but also the perpetrators of violence against other women. More than one-third of adolescent girls have been involved in a fight themselves, and 30 percent report being afraid to go to school because of violence in their communities. Several discussion groups have perceived a breakdown of moral codes within their community, with specific reference made to sexual offenses against women and children. Rape is seen as a serious problem.

Residents of low-income areas in various towns in Jamaica feel that their lack of mobility adds to their difficulty in finding employment, and this in turn leads to increased violence. Others have said that the violence itself is a cause of the lack of mobility, due to what they call “area stigma.” One group of youths said everyone in their community is disrespected, by outsiders and the police alike, is branded either a criminal or an accomplice to one, and is therefore unable to secure a job or learn a trade. They said this area stigmatization has led to hunger, frustration, and idleness, encouraging gang warfare and gun violence, with death or imprisonment the ultimate price.

Source: Moser and Holland (1997).

Disempowerment

Participatory studies have shown that nonmaterial factors also contribute to poverty. Isolation, exclusion, and disempowerment are as threatening to the poor as are low incomes (see box M.13).

Box M.13. Disempowerment

The Uganda Participatory Poverty Assessment Project (UPPAP) described powerlessness as the inability to affect one’s surroundings, and showed that poor people suffer directly from being disempowered. The National Integrity Survey additionally found that 40 percent of the users of public services have to pay bribes. Such experiences are not only materially impoverishing, they are also demoralizing. More broadly, people become frustrated when they cannot perceive that they have any influence over public policy. UPPAP reported, for example, that poor people see no effective mechanisms to hold service deliverers accountable for their performance.

Source: Uganda Poverty Reduction Strategy Paper and Joint World Bank-IMF Staff Assessment of the PRSP (2000).

Social exclusion in a broad sense is a consequence of being deprived of citizens' rights. The poor are excluded from the right to participate in decision making; they are not given full civil protections; and they are not asked to take on the responsibilities of being citizens.

The urban poor are prone to social and institutional exclusion and are thus disempowered due to:

Illegitimacy of their residences and work. Most of the urban poor live in informal settlements and are likely to be engaged in casual and informal sector work. They are not addressed by the policy and regulatory frameworks regarding service provision, housing, land, labor rights, and safety nets. That is, they are institutionally and socially excluded in two of the most important areas of their life: work and residence (see box M.14).

Box M.14. Lack of Citizen Rights and Responsibilities

In Kumasi, Ghana, there is a widespread perception that the Kumasi Metropolitan Assembly Chief (the mayor) has been able to control the assembly by rewarding his supporters and penalizing those who oppose him—for example, by withdrawing services from their communities. Those communities that are denied basic services, simply because they do not support the assembly chief, are not protected. They must consequently bribe utility providers for such basic services as emptying their septic tanks.

Equally worrying is the Kumasi Metropolitan Assembly's arbitrary response to the informal sector, which probably represents more than 70 percent of employment in Kumasi. The assembly has adopted a ruthless approach toward informal traders in the central area and regularly leads raiding parties on them. During these raids the traders, who often are among the poorest of the poor, routinely lose equipment and stock.

Source: Devas and Korboe (2000).

Insufficient channels of information. The urban poor do not have sufficient access to information about many essential matters, such as jobs or their legal right to services.

Not being treated as citizens. The urban poor are not given the rights and responsibilities that go with being citizens. They are often assumed to be passive consumers rather than active participants with something to contribute. Simply asking the poor to express their needs and demands is insufficient to empower them. They must also assume the responsibilities that go with being citizens. In some countries, slum residents will express their needs, particularly for infrastructure and urban services, in return for their votes. While they may get the services they require, however, often they are not required to pay for the costs of such services or for the land that they occupy, even at a subsidized level. The public authorities in such cases retain the political advantage of being the sole decision makers in the allocation of resources.

Negative contact with authorities. Government policies can have an important positive impact on poverty alleviation, but many poor people's experience of the state is negative—to many, it is an oppressive bureaucracy that attempts to regulate their activities without understanding their needs. Due to the illegitimacy of their residences and work, the urban poor are vulnerable to corruption (see box M.14). They often have to bribe police and other public officials to be allowed to continue their income-generating activities or to maintain their illegal connections to services.

Geographical isolation. The urban poor have to trade off between the costs of housing and long distances from city centers. Communities at the outskirts of cities are disconnected from job opportunities and urban services.

Technical Note M.3 Interventions at the Project/Program Level

Integrated urban development projects

Table M.1. Slum Upgrading Projects

Type	Multisectoral	
Different approaches	<p><i>Focus on neighborhood improvement</i></p> <ul style="list-style-type: none"> • Predefined packages of integrated services provided in a coordinated manner • Defined specific areas or neighborhoods on the basis of service deficiencies and community interest • Assumed to be replicable in other neighborhoods, based on the experiences of first (pilot) projects • This type of approach may be most appropriate in cities where there are pockets or neighborhoods without services 	<p><i>Focus on citywide services improvement</i></p> <ul style="list-style-type: none"> • Provision of a few basic services on an incremental basis in coordination with or as components of larger-scale urban development projects, where main infrastructure networks are built or upgraded • Reaching a larger share of the urban poor who lack access to basic services • This type of approach may be most appropriate in cities where most people lack access to basic services
Objectives	Improving quality of life and economic opportunity for residents of specific settlements, through improvements in services and community building	Improving quality of life of the urban poor on a citywide basis, through incremental improvements in the provision of basic services
Components	<ul style="list-style-type: none"> • Physical improvements: potable water, sanitation, solid waste disposal, storm drainage, roads, sidewalks, footpaths, street lighting • Provision of tenure security • Development of marketplaces and other income-generating activities • Development of clinics, schools, and community centers • Some of the projects include training of beneficiaries in, for example, sanitary conditions or simple construction techniques 	
Targeting beneficiaries	Geographic area defined by poverty, service deficiencies, and community interest	Target groups defined by their lack of one or more basic services. (Citywide urban poor without access to basic services)
Financing arrangements	<ul style="list-style-type: none"> • Grant transfer and loans to local governments or other implementing agency by national government and/or external donor/finance organizations • Local governments contribute to the investment cost • Community contributes in kind or sometimes in cash (mostly 5–10 percent of the investment costs but in some cases more, such as the 30 percent community contribution to the El Mezquital project in Guatemala), and residents may be asked to pay user fees if private goods such as electricity or water are provided. Public-good services such as access roads are assumed to be covered by general and local tax revenues • Private-sector firms may also contribute to investment costs 	
Roles of NGOs, CBOs, and private sector	Communities involved at all stages; NGOs mobilize communities; private firms may carry out construction/investment works. The private sector can contribute to the finance.	
Advantages	<p><i>Focus on neighborhood improvement</i></p> <ul style="list-style-type: none"> • Comprehensive, cross-sectoral coverage of service deficiencies in given geographic areas • Reaches all residents, including the poorest, within target neighborhoods • On-the-spot coordination and execution of investments across sectors, as in the cases of installation of pipes, road works, and drainage channels, saves costs and improves efficiency • Creates high-visibility improvements across targeted area 	<p><i>Focus on citywide services improvement</i></p> <ul style="list-style-type: none"> • Easy to incorporate into municipal programs • Addresses linkages of services beyond slum neighborhoods, as it works at city level • Easy to involve local governments and other service provision agencies in operation and maintenance (O&M)

(Table continues on the following page.)

Table M.1. Slum Upgrading Projects (continued)

Disadvantages	<ul style="list-style-type: none"> • The cost and organizational advantages of providing a comprehensive package of investments need to be balanced with variations in community demand and priorities • Does not necessarily address linkages of infrastructure beyond neighborhood communities • Use of a special implementation unit facilitates investment coordination, but local governments and sectoral agencies need to be involved for sustained O&M 	<ul style="list-style-type: none"> • Provides limited services rather than a comprehensive package—at least in the short run • Target groups may not/cannot be defined clearly • Does not create a high-visibility improvement as it is done incrementally
Impacts	<ul style="list-style-type: none"> • Projects have reduced unit costs for infrastructure • Relatively high rates of return on slum upgrading programs, especially when tenure security is provided. The projects generated (greater than anticipated) private investments and created employment in the informal construction industry. • Projects demonstrated that the poor are willing to pay for services and to mobilize their own savings 	
Conditions for sustainability and replicability	<ul style="list-style-type: none"> • Need to address the structural distortions in housing and land markets, financial incentives and policies, and urban governance • Have to be articulated with municipal programs • Target groups must be defined clearly 	

For more information, contact the Thematic Group on Services to the Urban Poor, The World Bank, Urban Help (email: urbanhelp@worldbank.org). A compact disc (CD) on urban upgrading is also available from, and can be accessed online, at: <http://web.mit.edu/urbanupgrading>; email: urbanupgrading@mit.edu.

Box M.15. How to Move from Slum Upgrading Projects to Large-Scale Upgrading Programs

1. There is no universal model. The content of, and approach to, upgrading programs will vary from one context to another. What is needed is an operating structure that supports and encourages local solutions and local implementation. Local participants are best placed to design and implement solutions.
2. Keep it simple. Larger upgrading projects tend to have better results when simplicity of implementation and content is built in. Local definition of the list of improvements and how to divide the task for their simplified delivery at the local level yields quicker and more appropriate large-scale results.
3. Political commitment is fundamental. The evidence from 20 years of international experience in slum upgrading indicates that the obstacles to scaling up are not mainly financial (low levels of affordability of households or limited public budget), but rather political and institutional. Projects that meet their objectives have had strong endorsement and backing from government. A large-scale program will need even more clearly expressed support, commitment, and leadership from politicians and policymakers.
4. Coalition of all actors is needed. Large-scale upgrading programs call for (1) a broad coalition of participants, each with its area of contribution and agreed-to role; and (2) a convergence of action among the participants, based on a shared vision, common goal, and agreement on a process.
5. Build on existing experience. It is best not to create new institutions but to build on the existing community of practice. The scaling-up challenge is to work with existing institutions, under arrangements at all levels (local and central government, private sector, and so forth), with clearly assigned responsibilities to accomplish this task in concert.
6. The poor can, and are willing to, pay for services. The poor are willing to pay for services if the services respond to their demands, are favorable, and are of good quality. Appropriate policies for cost recovery and subsidies will contribute to scaling-up efforts.
7. Upgrading is affordable if done right. Applying an appropriate standard of infrastructure provision is critical to keeping costs low and affordable. One alternative is to start with low standards but build up incrementally as affordability increases.
8. Security of tenure is important. One of the first steps in designing a large-scale upgrading program may well be the preparatory work needed to move quickly and to scale on the land regularization front, thereby ensuring the security of tenure status of communities being upgraded.^a
9. Include and strengthen municipalities. Programs that carry out upgrading on a citywide scale require evaluation and planning for help to local governments to respond to the additional demands that will be placed on them.
10. Citywide service networks must be able support the upgrading program. A large-scale upgrading program must start with a well-conceived plan of network expansion and expanded service delivery.
11. Communities must participate. Experience overwhelmingly shows that participation (contribution to and involvement in the process of upgrading) by residents in upgrading projects is key to success and the realization of long-term benefits. Ideally, large-scale programs will find ways to help the poor move from powerlessness to inclusion, from vulnerability to assets, and from violence to security.

Box M.15. How to Move from Slum Upgrading Projects to Large-Scale Upgrading Programs (continued)

12. Improving basic services and infrastructure is the necessary base. A well-selected package of basic services and secure tenure can have a substantial impact on the environment and on a community's self-confidence and buy-in, and can be the foundation for add-on actions and programs. Scaling up implies a sequence of actions, many of which can come on stream by sequencing.

- a. While tenure security has proven to be an important condition in many upgrading projects, there are also cases where formal ownership (freehold title) is not a priority. Therefore, cultural context and community priorities must be taken into consideration in dealing with tenure security matters. (See also boxes M.19 and M.20.)

Source: *International Video Conference Series: A Large-Scale Slum Improvement Program*. Summary of presentation by Thematic Group on Services to the Urban Poor-World Bank; The Cities Alliance.

Box M.16. Slum Improvement Project (SIP) in Bangladesh

A UNICEF-funded, community-based program in Bangladesh to improve the slum environment, provide primary health care, and empower poor women living in these communities was initiated in the mid-1980s. By 1994, the project had grown to include 25 cities and towns and 185 slum clusters. The project aims to connect existing urban services to slum communities and to improve institutional capacity to work with the urban poor. The project also emphasizes interagency collaboration and features a national, city, and community management structure.

Major achievements:

- Empowered women by enhancing their economic and social activities through credit and savings schemes and by organizing them around various social activities (40,000 reached).
- On the social capital side, increased awareness of health, sanitation, and community participation.
- Improved significantly the physical and environmental conditions in slum areas. The incidence of diseases such as diarrhea, respiratory problems, and scabies has fallen substantially.

Major constraints and weaknesses:

- The SIP guidelines are not flexible enough to meet the different physical and social characteristics and needs of different groups of poor. Furthermore, they have a bias toward physical or technological solutions.
- The SIP to date has not addressed land tenure.
- The SIP did not contemplate any direct cost recovery for the operation and maintenance of infrastructure facilities, requiring only the contribution of community labor and 500 Bangladeshi Taka (U.S. \$8.70) to a community fund that was to be used to pay community workers. This plan has been only partially realized.
- Dual management by the municipalities and the Local Government Engineering Department of the Ministry of Local Government has produced problems.

Sources: *Upgrading Slum Communities*. Cities Alliance; World Bank; MIT (<http://web.mit.edu/urbanupgrading/>); Siddique and others, Local Government Engineering Department of the Ministry of Local Government, Rural Development and Cooperatives, Bangladesh, World Competitive Cities Congress (1999).

Box M.17. Slum Upgrading in El Mezquital, Guatemala City

This project aimed to improve housing and basic infrastructure; to prompt additional private investment in housing; to develop an efficient and well-targeted subsidy program in addition to substantial cost recovery; to expand the role of NGOs and CBOs; and to improve the performance of urban land markets. The project featured community participation in its planning, execution, and financing. It was supported initially by UNICEF and later funded by the World Bank.

Major achievements:

- Total costs for infrastructure such as water, sanitation, roads, and land were kept to the equivalent of US\$1,300 per family and were largely recovered from beneficiaries.
- In the two years since the investments were completed, infant mortality rates have dropped 90 percent, crime has decreased 40 percent, and there has been an estimated tenfold rise in property values.
- Beneficiaries were encouraged to participate in the planning, execution, and financing of the project. Some 1,200 residents became active members of the residents associations that represented the community in negotiations with city officials and handled financial transactions in the project.
- The community-based organization *Cooperativa Integral de Vivienda Esfuerzo y Esperanza (COIVEES)*, which has finished implementing the improvements with Bank financing, now operates and maintains the water and sanitation systems. COIVEES also manages the revolving housing credit program and oversees street and drain maintenance. COIVEES has begun expanding water and sanitation services to neighboring slums, has set up a training and capacity-building program for CBOs in other poor communities, has bought a new garbage truck, and has initiated a solid-waste management program. COIVEES has even received a contract from a private developer to build approximately 100 low-income housing units in another part of the town.

Sources: *Upgrading Slum Communities*. Cities Alliance; World Bank; MIT (<http://web.mit.edu/urbanupgrading/>); and *Noti Coivvees*, newsletter, September 1998.

Interventions in land and housing

Table M.2. Site and Services and Core Housing Projects

Type	Single-sector investment
Objectives	<ul style="list-style-type: none"> • Providing affordable housing to lower-income households or to those that are relocated • Increasing housing choices at the lower echelons of income distribution • Introducing new construction techniques (including traditional) and beneficiary organization models to the formal housing sector
Components	<ul style="list-style-type: none"> • Serviced plots • Core units such as a kitchen and sanitary facilities or, additionally, a small living space that the owner can expand on an incremental basis (vertically or horizontally) • Loan schemes for beneficiaries
Targeting beneficiaries	By income group and/or geographic area based on housing, environmental conditions, and tenure insecurity
Financing arrangements	<ul style="list-style-type: none"> • Grant transfers and loans to a housing agency or local government by central government and/or international donor agencies • Housing agency or local governments contribute to the investment costs in cash or kind, such as the provision of public land, infrastructure, and social facilities • Households contribute in kind, through self-help housing constructions, and in cash • Loans are made available either by formal credit organizations (for example, housing banks) or through NGO microcredit schemes for the purchase of plot and core unit
Roles of NGOs, CBOs, and private sector	<ul style="list-style-type: none"> • Communities are involved during project preparation/design and implementation phases • NGOs assist community organizations and mobilize resources for construction and loan repayments • Small enterprises and microenterprises provide services such as iron works and plumbing
Advantages	<ul style="list-style-type: none"> • Creates high-visibility improvements across targeted group • Provides opportunity to introduce diverse construction techniques while providing low-income housing • Can address sectoral policy and institutional reform issues of housing as well as specific intervention formulas for low-income households
Disadvantages	Difficult to ensure that targeted low-income groups are reached, due to tendency of incorporating design standards higher than the minimum affordable
Impacts	<ul style="list-style-type: none"> • Like slum upgrading programs, these projects have introduced affordable housing and service standards to permit cost recovery, but only where client consultations have been done correctly and taken into consideration by the concerned authorities • These projects have shown that low-income people can contribute both in kind and cash if the correct incentives are in place
Conditions for success and replicability	<ul style="list-style-type: none"> • Standards must be modest in accordance with the affordability and needs of target groups. In some past projects, authorities fearful of repeating squatter/informal settlement quality have set standards relatively high, making the products unaffordable for low-income groups but attractive for better-off households; such projects lead to the inefficient use of subsidies and leave the actual demands of the poor unmet • Eligibility criteria and selection procedures must be transparent to prevent better-off groups from becoming the main beneficiaries • Structural and policy reforms in the housing sector, in institutional finance, and in urban management are necessary to make projects replicable

Box M.18. Private Sector and NGO Roles in Site and Services and Core Housing Projects: El Salvador

The facilitating role of the state: Since 1989, the state in El Salvador has gone from being the provider of housing for the poor to being a facilitator. The state's major efforts to guide and encourage housing production, especially for low-income households, include supporting property consolidation and registration and facilitating new lot divisions under the Progressive Urban Development Program. There is also another modality, through which lot divisions are defined and sold to households; this type of division requires only the approval of the concerned municipalities.

NGO activities: The Progressive Urban Development Program has given momentum to NGO activities. More than 15 NGOs work on Site and Services and Progressive Housing Programs, and help households to get loans from FONAVIPO (National Fund for Public Housing). The types of products NGOs produce vary from lots with services to core units (progressive housing) that the owner develops incrementally. Many lot holders build a provisional roof or walls, which they replace little by little with longer-lasting materials; they then gradually enlarge the living space according to their needs and finances. Experience with illegal settlements and with programs sponsored by the state in El Salvador showed that site and services and core housing are more viable solutions to the housing needs of the poor than public provision of finished housing.

The private-sector role: A private company, ARGOZ, has been subdividing and selling lots, with or without services, for a decade. According to its president, the company has sold a total of 250,000 lots throughout the country through its local branches. ARGOZ defines the settlements as "progressive social development plotting," divided and registered as rural parceling in accordance with an article of the political constitution. Clients are also offered loans for home improvements and expansions and for other household needs up to half the amount of the advance payment, at a monthly interest of 3 percent. Prospective clients are asked to fill out a questionnaire about their socioeconomic conditions. Low-income people are given priority as much as possible. The company reserves 18 percent of its profit for basic infrastructure, such as street works and electrical connections.

The El Salvador example shows that when regulations are changed to create an encouraging context, stakeholders such as NGOs and the private sector will mobilize to provide services and sites for the urban poor. The program carried out by the private sector could be improved to ensure that poor households are the prime beneficiaries, and could be scaled up through more supportive regulatory adjustments and loan mechanisms.

Source: Parada (1996).

Table M.3. Land Regularization and Tenure Security Programs

Type	Policy based	
Objectives	<ul style="list-style-type: none"> • Improve tenure security for urban poor • Reinforce improvements in housing through mobilizing community resources • Support development of land and housing markets by establishing property rights • Increase local revenue basis • Land-tenure regularization schemes are carried out either as a part of slum upgrading projects or alone at national, city or neighborhood scale 	
Different approaches	<p><i>Property rights (ownership)</i></p> <ul style="list-style-type: none"> • Property right (ownership) is provided through land sharing or direct titling of the plots to the occupants • In community ownership, land belongs to the community with individual members owning the development and improvements, but not the plot 	<p><i>Use rights</i></p> <p>Right to use the land is provided, but ownership is not. In some projects dwellings are given simple place recognition ("addressage"), facilitating access to services</p>
Targeting beneficiaries	<ul style="list-style-type: none"> • Residents of particular slum areas subject to upgrading • Nationwide for those who occupy public land 	
Financing arrangements	<p>Varies according to the type of intervention:</p> <ul style="list-style-type: none"> • Land can be sold to de facto owners with varying level of charges • Mortgage programs can be devised to enable communities to buy the land that they occupy; for example, the Community Mortgage Program in the Philippines 	Generally modest ground rents are charged
Roles of NGOs, and CBOs	NGOs may organize communities and help CBOs and assist with mobilizing savings, especially when mortgage programs are involved	

(Table continues on the following page.)

Table M.3. Land Regularization and Tenure Security Programs (continued)

<p>Advantages</p>	<ul style="list-style-type: none"> • Encourages investment in housing construction and improvements • May improve access to formal channels of credit • Widens property-tax revenue base of local authorities • Encourages efficiency of land and housing markets and allows transaction of property • Can address sectoral policy and institutional issues 	<ul style="list-style-type: none"> • Makes it easier for the poor to get plots that would otherwise be beyond their means • Decreases likelihood of land price increases and the consequent forced moves of tenants • Easy to apply since it does not create political and social conflicts; for example, it does not reward those who break the law • Simpler to apply in terms of administrative procedures
<p>Disadvantages</p>	<ul style="list-style-type: none"> • Governments may be reluctant to regularize land tenure for squatters, especially as a nationwide program, as this may be seen to be protecting the property rights of people who break the law • Issuance of land documents can create considerable conflict, especially in places with multiple forms of property rights, such as Indonesia; where squatters paid for shared title land illegally; or where more than one owner exists for the same land • Property rights can push up land and housing values and may force tenants to move out • Nationwide applications (slum amnesty programs), if not carried out carefully, include all illegal houses, even the ones erected with speculative expectations • Administratively complex and time-consuming for authorities 	<ul style="list-style-type: none"> • Does not provide the user with a collateral to use for loans • Conflicting results regarding the contribution to house improvements • Cannot be sold, bought, and bequeathed officially. During economic hardships the property (housing or a part of the land) cannot be transferred into cash easily • Perceived as less safe and less free
<p>Conditions for success</p>	<ul style="list-style-type: none"> • Cultural context, affordability, and willingness of households should be considered carefully. Property rights may not automatically lead to expected outcomes, such as increases in housing improvements or increases in property-tax revenue (see boxes M.19 and M.20) • Experiences in some countries show that property rights, when offered together with the provision of services, stimulate considerable investment in house construction and improvement and increase local tax revenue for local authorities 	<p>To mobilize household resources for home improvements, residents should be guaranteed compensation for the houses if they have to be displaced</p>
<p>Systems should be flexible: use rights or protected tenancy rights given initially can be gradually upgraded to full ownership rights, depending on the needs and priorities of communities</p>		

For more information, contact UNCHS (Habitat), Shelter Branch Tenure Security Program, P.O. Box 30030, Nairobi, Kenya (<http://www.unchs.org>)

Sources: Payne (2000); Farvaque and Mc Auslan (1992); World Bank Housing Policy Paper (1993); Farvaque-Vitkovic and Godin (1998).

Box M.19. Tenure Security Without Title: Freehold Titles May Not Be a Desired Option

In Egypt, a modest ground rent (hekr) is charged to informal settlers on government or unclaimed desert land. This does not grant title and cannot be transferred, but it ensures that if households have to be displaced they will receive compensation for the buildings they have erected on their plots. Such an arrangement distinguishes between the ownership of land and the ownership of the property, and it makes it easier for the poor to get plots that would otherwise have been beyond their means.

During the 1980s, the government of Pakistan offered freehold titles to about 100,000 households living in Karachi's squatter settlements. Only 10 percent eventually took up the offer. The remainder presumably considered the administrative charge for the title deeds not worth paying (perhaps because it did not confer sufficient benefit over their situation) or did not wish to expose themselves to paying property taxes. In Karachi the provision of titles does not generate a corresponding increase in tax revenues. This may be because households that perceive they are secure refuse to pay taxes or because tax rates are too high for these households to afford.

In another case, in Cairo, Egypt, residents of a squatter settlement rejected offers of freehold titles because they considered the cost too high. The offer of titles, together with the provision of services, nonetheless stimulated considerable investment in house construction and improvement and increased land values.

Source: Payne (2000).

Box M.20. Priorities of the Poor

In conditions of dire poverty, such as in the tenements gardens of Colombo, Sri Lanka, or in places where people prefer to invest in their home villages instead of committing to stay in an urban area (such as in Papua New Guinea), improved tenure has not necessarily increased housing investment. In places where squatters feel relatively secure, they may be reluctant to accept legal tenure for fear of future taxation or of identifying themselves to the authorities, as has been observed in Mexico City.

Source: World Bank Housing Policy Paper (1993).

Finance-based interventions**Table M.4. Municipal Development Funds (MDFs)**

Type	Multisectoral—Programmatic design (line of funding for subprojects)
Objective	<ul style="list-style-type: none"> • Municipal credit supply; improvement in quality of investment preparation/selection and in municipal creditworthiness
Components	<ul style="list-style-type: none"> • Physical improvements: potable water, sanitation, solid waste disposal, storm drainage, roads, sidewalks, footpaths, street lighting • Development of marketplaces, other income-generating activities, and social infrastructure • Technical assistance to municipalities in investment programming and fiscal management
Targeting beneficiaries	<ul style="list-style-type: none"> • Eligibility for loans defined by such factors as poverty, service deficiencies, and community size • Evidence of beneficiary demand and commitment is also a major criterion for the selection of subprojects
Financing arrangements	<ul style="list-style-type: none"> • Loans to local governments • Local government may also contribute up-front to investment costs • Beneficiaries may contribute in kind or in cash
Roles of NGOs, CBOs, and private sector	<ul style="list-style-type: none"> • NGOs can be active in subproject identification, preparation, implementation, cofinancing, and community mobilization • CBOs are involved in defining priorities with municipalities • Private sector can be involved as contractor for execution of physical works
Advantages	<ul style="list-style-type: none"> • Supports decentralized authority to local governments by providing funding for local investments • Supports municipal reforms to enhance financial management and creditworthiness • Can set stage for eventual shift to funding local investments through financial market intermediaries

(Table continues on the following page.)

Table M.4. Municipal Development Funds (MDFs) (continued)

Disadvantages	<ul style="list-style-type: none"> • Programmatic financing approaches can pose a greater risk than area-specific projects of dispersing funds too widely through unrelated small projects, potentially reducing their economic development impact • Requires institutional capacity at local level • MDFs can become highly politicized in credit decisions and thus may not promote sound prioritization of investments or sustainability of services
Conditions for success and sustainability	<ul style="list-style-type: none"> • Local governments need to have responsibility and capacity for mobilizing fiscal resources. These types of programs have done better where decentralization has transferred responsibilities for local investment and services, and local revenue mobilization, to municipalities that have also improved their creditworthiness • Experiences have been much better with MDFs that work with the private financial sector • MDFs have been most effective when they serve as transitional arrangements that help city agencies learn to mobilize and allocate resources and serve as the first stage creating a commercially based municipal credit market • Sectoral departments must cooperate to provide the necessary technical support and evaluation of subprojects • Detailed operational guidelines are required to support municipalities as they plan and implement the subproject • Project loans have to be allocated to each municipality through a transparent formula—for example, one based on population size and/or service deficiencies • Beneficiaries should be involved and consulted, and, because they are expected to contribute financially to cost recovery, they should be told the cost implications of alternative investments

Box M.21. Different Types of Municipal Development Funds

There are two basic types of MDFs. The first type, currently more common in the developing world, operates primarily as a substitute for government capital grants to local authorities. These programs supply capital through MDFs at below-market rates, often combining subsidized loans with grants. Typically, MDFs of this type have a monopoly in lending to the municipal sector. Such MDFs exploit the favorable terms of their loans to impose stricter standards of project preparation on localities and to incorporate central or state government investment priorities in determining which projects should be funded. Credit Local de France and several other MDFs in Western Europe have evolved through financial deregulation from closed-circuit lending institutions, which obtained capital at below-market rates from state grants and lent to municipalities at below-market rates, to institutions that compete freely with private-sector lenders.

The second type of MDF is intended to serve as a bridge to the private credit market, preparing the municipal and financial sectors for private lending to municipalities. MDFs of this type lend at market rates of interest, allocate capital through arm's-length decisions of commercial banks or other private sector lenders, require that private lenders assume the credit risk of municipal loans, and try to establish a track record of municipal creditworthiness. One such market-oriented MDF developed in the Czech Republic. There, the MDF borrows fund from abroad, with a national government guarantee, then on-lends the funds to domestic commercial banks, which in turn lend to municipalities. The municipalities do all project selection and preparation. The commercial banks perform all credit analysis and accept all repayment risk. The parastatal MDF merely confirms the creditworthiness of the commercial banks to which it on-lends and makes capital available to nine banks participating in the system, so as to strengthen competition.

The two models of MDF need not be strict alternatives to each other. MDFs of the first kind normally have been introduced in environments where there is virtually no private lending to local governments and where public authorities believe that private credit markets cannot be developed in the short and medium term.

MDFs have also tried to fund investments for the poor. Financiera de Desarrollo Territorial (FINDETER) in Colombia is a market-oriented MDF, operating as a rediscount facility for commercial bank lending to the municipal sector. FINDETER supplements the banks' project appraisal capacity and thus improves the technical quality of their lending, but the banks take the commercial risk. Unlike some other MDFs, FINDETER has a poverty-alleviation mandate that it has tried to fulfill by giving particular attention to institutionally weak small towns and by favoring investments in essential services, mainly water and sanitation.

Source: Urban Finance Colloquium: Summary Report of Habitat II (1995).

Box M.22. Tamil Nadu Municipal Development Fund, India

The World Bank-financed Tamil Nadu Urban Development Project, which included slum upgrading of 72,000 households among other components, set up a loan and grant program as the Municipal Urban Development Fund (MUDF). By October 1996 the government-owned MUDF had financed more than 500 subprojects in 90 out of 110 municipalities in Tamil Nadu. Building on that success, in 1996 the MUDF was converted into a new, financially and legally autonomous financial intermediary with the participation of private capital and management: the Tamil Nadu Urban Development Fund (TNUDF). Existing municipal funds in some other projects may evolve in the direction of restructuring, enabling them to draw the private sector into small-scale urban investments. TNUDF will be managed by an asset management company, a joint venture between the government and private investment companies. The new arrangement is expected to bring private-sector management expertise to the selection and financing of subprojects sponsored by either public or private agencies, and to facilitate access to the private capital market for creditworthy municipalities. It is expected that the government's share will eventually be reduced through sale to interested investors and that on-lending interest rates will be made to conform to market rates. A separate grant window for poverty-oriented investments, such as slum upgrading and cost of resettlement, will also be handled by the asset management company and will provide technical assistance to municipalities in preparing such investments and improving their own financial management.

Source: Tamil Nadu Project Appraisal Document (1999).

Table M.5. Social Funds and AGETIPs

Social Funds (see box M.23)	AGETIPs (Agences d'Exécution des Travaux d'Intérêt Public)—Executing agencies for public works
<p>Social funds are nongovernmental intermediaries that normally channel grant resources, according to predetermined eligibility criteria, to small-scale projects for poor and vulnerable groups. The projects are proposed, designed, and implemented by private and public agencies, such as local governments or NGOs, or by the community groups themselves. Eligibility criteria are laid down when a social fund is established, but the individual subprojects are not determined at this point. Social funds are vested with investment programming powers and enjoy special status, such as exemption from prevailing public sector rules and regulations relating to procurement and hiring. Social funds select and fund projects. Social funds are typically located in the prime minister's office, president's office, or a line ministry</p>	<p>AGETIPs are delegated contract management agencies for public works. In the case of a typical social fund, the social fund agency selects eligible subprojects and channels financing to them; in addition to performing both of these functions, an AGETIP also prepares and executes the selected subprojects on behalf of the agency sponsoring the subproject (in most cases a municipality). The sponsoring agency surrenders authority for the execution of the subproject to AGETIP management until delivery of the completed works. Thus, AGETIP management assumes more functions than does the typical social fund agency. However, the newer-generation AGETIPs more often focus on the execution of physical works, and municipalities select the projects. AGETIPs are commercially oriented, not-for-profit private associations usually governed by national NGO or "private association" laws</p>
Type	Multisectoral—Programmatic design (line of funding for subprojects)
Objectives	<ul style="list-style-type: none"> • Financing urban services subprojects through an enclave agency • Providing funds for investments on a competitive basis, according to rules and eligibility criteria • Generating temporary urban employment through developing community facilities and infrastructure
Components	<ul style="list-style-type: none"> • Physical improvements: potable water, sanitation, solid waste disposal, storm drainage, roads, sidewalks, footpaths, street lighting • Economic infrastructure such as the development of marketplaces and other income-generating activities • Microfinance (social funds only) • Improvement of dwellings (social funds only) • Social infrastructure and social services: clinics, schools, community centers
Targeting beneficiaries	Eligibility for funding defined by such factors as poverty, service deficiencies, community size, often based on poverty maps. Evidence of beneficiary demand and commitment is a major criterion for the selection of subprojects

(Table continues on the following page.)

Table M.5. Social Funds and AGETIPs (continued)

Financing arrangements	<ul style="list-style-type: none"> • Mainly grant transfers to municipalities or other implementing agency • Grants sometimes may be transferred to communities or NGOs directly • Local government may contribute to investment costs • Community or NGO sponsor contributes in kind or sometimes in cash
Roles of NGOs, CBOs, and private sector	<ul style="list-style-type: none"> • NGOs and CBOs can be active in subproject identification, preparation, implementation, cofinancing, and community mobilization • Private sector may carry out or oversee physical works
Advantages	<ul style="list-style-type: none"> • Enclave entities like social funds or AGETIPs can fill the gap in situations where the formal government institutions are weak; for example, in countries emerging from periods of civil or economic crisis • Nonpoliticized character of funds and agencies • Efficiency and responsiveness in funding mechanisms • Cost-effective and timely results (in the case of AGETIPs, due to contract management expertise) • Flexibility: Can respond to shifts in demand and priorities of subproject sponsors and can adapt criteria based on experience • Allows demand to be expressed across range of subsectors and service levels • Encourages various intermediaries, including NGOs and community groups, to participate in subprojects and work with formal-sector agencies • Supports and strengthens decentralization
Disadvantages	<ul style="list-style-type: none"> • Approach biased against communities lacking capacity to identify priorities and prepare proposals • Does not address linkages among investments within areas of city or across sector networks and therefore may not realize potential efficiencies of coordinating water and sanitation systems, road works, resettlement. • Generally lacks emphasis on municipal and sectoral institutional reforms • Inadequate maintenance of finished works often a problem • Diversification of social, productive, economic, and income-generating activities can strain the agencies' capacity • Programmatic financing approaches can pose a greater risk than area-specific projects of dispersing funds too widely through unrelated small projects, potentially reducing their economic development impact
Conditions for sustainability and replicability	<ul style="list-style-type: none"> • Appropriate technical standards to which infrastructure is developed or rehabilitated in the light of community demand and the capacity of the organization receiving the subproject • Availability of recurrent budgets, which require complementary sectoral and public finance reforms, as well as mobilizing funds at the household, municipal, and national levels • Firm commitment of sectoral agencies and/or community maintenance committees to operations and maintenance • Autonomy, transparency, and accountability: Social funds and AGETIPs must be largely free from political influences. The best assurance of autonomy is the agencies' bylaws, operational manuals, and independently selected staff • Capacity building is essential at both the community and intermediary level to sustain microprojects. Investments should be made in building the organizational capacities of communities, as well as their technical skills • One of the weaknesses of social funds is their failure to address linkages among investments within a city or across sector works. However, some second-generation projects are aiming for greater compatibility with sector policy • Better targeting: Improving methods of reaching the intended beneficiaries, systematically introducing poverty maps, and revisiting targeting mechanisms • Client and stakeholder consultations: Best-practice social funds and works currently include systematic consultations with clients and broader feedback through consultation with stakeholders at town meetings. Community involvement beyond project identification should be ensured • Monitoring outcomes on the ground is necessary

Source: Frigenti and others (1998). See also chapter 9, "Community-Driven Development."

Box M.23. Benin’s Variations on Social Fund and AGETIP-Type Agencies for Urban Public Investments

Organizational structure and division of responsibilities: Two complementary agencies were set up in Benin, SERHAU and AGETUR, to improve the programming and execution of urban public investments. The Société d’Études Régionales d’Habitat et d’Aménagement Urbain (SERHAU) was originally a government unit within the Department of Urban Affairs with a mandate in urban planning, grassroots participation, research, and feasibility studies. The agency is a mixed public-private and for-profit firm. By design, the shares of the state and parastatal entities are 48 percent of the firm’s assets; the other shareholders are private companies and individual investors. SERHAU’s service menu includes feasibility and other studies, technical assistance to municipalities, public investment programming for priority microprojects, coordination with ministerial investments in urban areas, and simple cadastres at the city and neighborhood levels to improve local resource mobilization, and grassroots participation. L’Agence d’Execution des Travaux Urbains (AGETUR) is simply an executing agency that implements works on behalf of the municipality. The reason for this dual setup was twofold: first, to free municipalities and government from having to maintain the in-house capacity to plan and program microproject investments; and second, to separate planning and programming from implementation of urban works. SERHAU has a distinct commercial orientation and sells its services to the private and public sectors. AGETUR operates through the system of contract management: its institutional autonomy is coupled with business accountability, private management culture, and staff selected competitively from the private sector. For its services AGETUR charges management fees of 4 percent of the amount of the contract. It covers its operating costs with incurred income, and the general assembly decides on the use of any surplus.

A community-driven subproject: SERHAU piloted a bottom-up approach that allied a local NGO and a large low-income community to prepare an improvement plan. The Menontin neighborhood in Cotonou was selected for an improvement plan that covered environmental sanitation, public hygiene, self-care health prevention, a neighborhood clinic, and small local infrastructure works. The residents identified and partly financed the works, and AGETUR, with the participation of local residents, implemented them. This component illustrates Benin’s hybrid use of both a social fund and contract management agency.

Long-term objectives: A key distinction of the Benin program was the inclusion of long-term objectives other than urban employment creation. The long-term objectives were to (1) prepare a public investment strategy in the urban sector; and (2) begin reforms in urban management practices.

Achievements: Benin’s two agencies have succeeded because they take a businesslike approach toward small public works. With only 20 employees, AGETUR has created a significant number of temporary urban jobs in the construction sector—about 1 million person-days in four years. Over four years it has contracted about 190 microprojects in local facilities, such as roads, sidewalks, drainage, schools, clinics, and other social infrastructure. Seventy-five percent of the projects cost less than US\$200,000 and were built by local small and medium-sized enterprises. The procurement process was reduced to an average of two months, in contrast to at least seven months in the public sector; and the average turnaround time for paying bills was 12 days, in contrast to more than three months in the public sector. In addition, because of the intense competition that developed among local contractors, the price of a square meter of street paving, for instance, was reduced by at least 20 percent. On the planning side, SERHAU has helped prepare a rolling five-year investment plan and developed an up-to-date “addressage” system to identify all plots and streets. It has also helped the public authorities to locate their infrastructure and identify (through street numbering) their customers.

Less successful aspects: There has been less progress than hoped toward the long-term goal to increase local fiscal resources, build the capacity of local government staff, and develop and maintain a municipal development strategy. The stakeholder assessment in Benin also defined other shortcomings of this operation: (1) mayors need to be more involved in all aspects of subproject choice; (2) communities and their leaders should be more closely involved to develop greater ownership for maintaining works as well as for long-term sustainability; (3) NGOs and beneficiaries need more maintenance training, and construction firms need more management training; (4) there should be more competition among material suppliers; and (5) the financing plan for microprojects must provide for more real grassroots motivation and sensitization.

Source: Frigenti and others, “Local Solutions to Regional Problems,” World Bank (1998).

Table M.6. Microfinancing Housing and Home Improvements

Type	Single sector (line of funding for housing/home improvement)
Objective	Providing loans for low- and moderate-income households or communities, according to rules and eligibility criteria
Types of subprojects	Incremental upgrading of an existing dwelling or a new core unit
Targeting beneficiaries	Eligibility for funding defined by poverty and lack of access to official/conventional finance schemes
Financing arrangements	<ul style="list-style-type: none"> • Small loans (typically US\$300 to US\$3,000) at market rates of interest • Amortized over short terms (often two to 10 years) • Sources of funding include government funding; small savings of households; specialized banks such as Grameen Bank in Bangladesh; foreign donor funding; and savings associations • Loan securities: peer pressures/solidarity groups as guarantee mechanisms; and individual guarantees—in cases where households lack legal titles, NGOs help them secure small loans through amassing documentation
Roles of NGOs, CBOs, and private sector	<ul style="list-style-type: none"> • NGOs are generally the key actors in packaging small loans to low-income households. They: mobilize external and community resources; prepare plans and cost estimates for construction work; and prepare other necessary documentation for the credit file for loan underwriting. • The private sector may contribute to lending
Advantages	<ul style="list-style-type: none"> • Enables low- and moderate-income households to improve their housing conditions or become homeowners • Increases the productivity and efficiency of construction • Loans permit households to save, invest, and use assets more efficiently
Disadvantages	<ul style="list-style-type: none"> • Clients of these systems are more sensitive/vulnerable to macroeconomic structural adjustments—for example, to increases in interest rates and decreases in real wages—than customers of conventional finance schemes. • Solving the collateral and credit risk problem (underwriting) at reasonable cost may depend on the legal framework and acceptance of paralegal practices that govern the rights to property by the legal framework. • In many countries the commercial financial sector is conservative and reluctant to lend money for such programs. Bad examples where guarantee mechanisms fail can easily degrade the confidence of individuals as well as financial organizations in microcredit schemes, making funding even more difficult. • Peer pressures and solidarity group guarantee mechanisms may become ineffective in the case of large groups of beneficiaries.
Impacts	<ul style="list-style-type: none"> • Projects have revealed that the poor are willing to mobilize their own savings and can pay debt services if their needs and constraints are understood and programs designed accordingly. There are concrete examples to convince finance organizations that loans to the poor can work as long as their circumstances and needs are understood. • In many countries, such programs have enabled poor people to improve their living conditions. • Increases the self-confidence of poor households, and especially of women
Conditions for success	<ul style="list-style-type: none"> • Changes are required in relation to the property rights in legal frameworks; for example, paralegal practices should be permitted to solve collateral and credit risk problems at reasonable cost. • The cultural and social characteristics of societies should be taken into consideration when designing credit schemes.

Box M.24. Slum Upgrading, Credit, and Saving Schemes in India

Background information: The Self-Employed Women's Association (SEWA) Bank is a support service that was developed in response to demand from the members of the SEWA Union, a trade union registered in 1972. SEWA is an organization of poor, self-employed women workers in the informal sector who earn a living through their own labor or small businesses. They are the unprotected, informal labor force of India, without salaried employment or welfare benefits. The informal sector provides 93 percent of India's total labor force, and more than 94 percent of the female labor force works in this sector. SEWA Bank is owned by self-employed women through individual shareholdings, and its policies are formulated and ratified by its own elected board of women workers. The bank is run by qualified managers, who are held accountable to the board. Established in 1974 with 4,000 depositors, the bank now has more than 125,000 poor women depositors and a total working capital of 210 million rupees. It recently received additional funds of 28.8 million rupees from HUDCO (Housing and Urban Development Corporation Limited) and 27 million rupees from HDFC (Housing Development Finance Corporation). The bank's average loan repayment rate is 94 percent.

The Mahila Housing SEWA Trust (MHT) was formed in 1994 in response to a growing need from self-employed women. The major objectives of the trust are to improve housing and infrastructure conditions of poor, self-employed women; to create improved access to shelter-related services, including credit, legal, and technical advice; and to influence policy in order to provide improved living conditions to self-employed women.

Slum networking project: The urgent need to improve the quality of life of slum dwellers led to the concept of a pioneering effort called the Slum Networking Project (Parivartan). Each family in the program has to contribute 2,100 rupees; in addition, local industries contribute 2,000 rupees per family, and a balance of 2,000–3,000 rupees per household is provided by the Ahmedabad Municipal Corporation. The aim is to provide a comprehensive service package to every family living in slums, consisting of the following: individual water supply, underground sewerage, solid-waste disposal service, storm water drains, internal roads and paving, street lighting, and landscaping. To date, 18 slums have been identified for upgrading and two pilot cases, Sanjay Nagar and Sinheswari Nagar, have been completed. Two factors are critical to the program's success: a basic "buy-in" concept: unless each household living in the slum makes its cash contribution, the physical work is unable to move ahead; and reliable financial service: a credible financial institution respected and trusted by the community provides financial and credit-related services. SEWA Bank was an appropriate financial intermediary for the program, playing the dual role of centralized cash collection point prior to the handover to the corporation and, where necessary, providing credit to meet individual contributions.

Credits: In cases where residents were unable to make their full contribution to the program, SEWA Bank made available loans of up to 1,600 rupees, repayable in minimum monthly installments of 100 rupees or as a lump sum. Interest, at 13 percent, is calculated on an outstanding-balance basis. Most of the women in the Sinheswari Nagar pilot area who have taken loans to meet their cash contribution are widows and thus economically worse than off than others.

Individual initiatives: There are many other instances throughout Ahmedabad where the poor have begun to pay voluntarily to install drinking water and/or sanitation facilities. SEWA Bank has facilitated this process by disbursing loans to individual women who wish to upgrade their existing infrastructure facilities. In the Panna Lal ki Chali slum in the Saraspur area of Ahmedabad, a number of SEWA Bank depositors have taken loans to build their own toilets. Loan amounts vary from 3,000 to 3,500 rupees. Engineers from the Mahila Housing SEWA Trust provide the technical supervision for building the toilets.

Mobilization of savings: Mahila Housing SEWA Trust field workers have been visiting Sinheswari Nagar since 1996, urging residents to save. Thus, when physical upgrade work began in August 1997, residents were ready, their contribution safely deposited in individual accounts at SEWA Bank.

Source: UNDP–World Bank Water and Sanitation Program: South Asia Region Field Notes (2000).