Evaluation Report 4/2011

Slum Upgrading Facility
Pilot Programme
End-of-Programme Evaluation

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UN-HABITAT
FOR A BETTER URBAN FUTURE

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ABBREVIATIONS AND ACRONYMS

AADCHSL	Ashaiman Amui Dzor Cooperative Housing Society, Ltd. (Ghana)
AIP	Annual Implementation Plan
BLUD	Badan Layanan Umum Daerah (Solo, Indonesia)
CA	Cities Alliance
CBO	Community Based Organization
CCI	Centre for Community Initiatives
CE	Credit Enhancement
CHF	Cooperative Housing Foundation
CIUP	Community Infrastructure Upgrading Project
CPIP	Country Project Implementation Plan
CPR	Committee of Permanent Representatives
DED	Deputy Executive Director, UN-Habitat
DFID	Department for International Development
ED	Executive Director, UN-Habitat
EMG	Emerging Markets Group
ERSO	Experimental Reimbursable Seeding Operations
FSDT	Tanzania Financial Sector Deepening Trust
GC	Governing Council, UN-Habitat
GHAFUP	Ghana Fund for the Urban Poor
GWOPA	Global Water Operator’s Partnership Alliance Programme
HNB	Hatton National Bank
HSBC	Hongkong and Shanghai Banking Corporation
HPM	UN-Habitat Programme Manager
HRC	Housing Resource Center (Solo, Indonesia)
IFC	International Finance Corporation
INGO	International Non-Governmental Organization
KfW	Kreditanstalt für Wiederaufbau
KotaKITA	LFF in Yogyakarta, Indonesia
LFF	Local Finance Facility
LFSUS	Lanka Financial Services for Underserved Settlements
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
M&E	Monitoring & Evaluation Unit, UN-Habitat
MFI	Micro Finance Institution
MTSIP	Medium - Term Strategic and Institutional Plan
MUPF	Moratuwa Urban Poor Fund
NGO	Non-Governmental Organization
NORAD	Norwegian Agency for Development Cooperation
OIOS	Office of Internal Oversight Services
OLA-NY	Office of Legal Affairs, New York
PDI	People’s Dialogue, Inc.
PM	Programme Manager

PMU	Programme Management Unit
PRC	Project Review Committee
PSD	Programme Support Division
PT	Pilot Team
RFP	Request for Proposal
SAEMA	Shama Ahanta East Metropolitan Area
SDI	Slum Dwellers International
SIDA	Swedish International Development Cooperation Agency
SMC	Steering and Monitoring Committee of ERSO
SP4/HSFD	Special Programme 4, Housing and Settlement Financing Division
SPV	Special Purpose Vehicle
STMA-CSUF	Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund
SUF	Slum Upgrading Facility
SUF-DT	SUF Design Team
SUF-PMU	SUF Programme Management Unit
SUF-PT	SUF Pilot Team
TA	Technical Assistance
TAFSUS	Tanzania Financial Services for the Underserved Settlements
TAMSUF	Tema/Ashairman Metropolitan Slum Upgrading Fund
TAWLAT	Tanzania Women Land Access Trust
TOR	Terms of Reference
UFB	Urban Finance Branch
UNCDF	United Nation Capital Development Fund
UN-Habitat	United Nations Human Settlements Programme
UNON	United Nations Office at Nairobi
WASH	Water, Sanitation and Health
WB	World Bank
WSP	Water and Sanitation Programme
WSTF	Water and Sanitation Trust Fund
YLP3	Yasasan Lembaga Pembiayaan Permukiman Perkotaan (Indonesian NGO)

EXECUTIVE SUMMARY

I. INTRODUCTION

UN-Habitat established the Slum Upgrading Facility (SUF) as a technical advisory facility designed to assist national government, local government and community organizations in the development of their own slum upgrading, low cost housing and urban development projects so that they can attract funding primarily from domestic capital markets. This would involve using seed capital grants where necessary and bringing in existing guarantee and credit enhancement facilities, the whole process being packaged in such a way that the projects can be regarded as financially sustainable.

This evaluation was a response to a request by the Governments of Norway, Sweden/Swedish International Development Cooperation Agency and the Department for International Development of the United Kingdom, the donors of SUF pilot programme, for a final evaluation of the achievements, experiences and lessons learned. It was also in line with UN-Habitat Governing Council Resolution 20/11 which indicates that an independent evaluation of the SUF Pilot Phase will help inform decisions on how to proceed. The evaluation was conducted between March and July 2011 by two independent consultants, Per Ljung and Carlos Gavino.

The overall objective of the evaluation was to assess the extent to which the objectives and expected outcomes of SUF and its associated projects in each of the pilot countries (Ghana, Indonesia, Sri Lanka and Tanzania) have been met. The reason for undertaking a pilot programme was to gain experience that will provide sound basis for subsequent large scale programmes. Thus, the evaluation was concerned less with the past and comparing achievements with targets and more with the lessons that can be drawn for the future.

II. METHODOLOGY

Different methods of data collection were used, and included an extensive review of the documentation from the design and Pilot Phases, interviews with some 80 SUF stakeholders, visits to all four pilot countries and discussions with stakeholders of all six Local Finance Facilities.

No scientific socio-economic surveys were carried out, and it was therefore difficult to accurately assess the impact on SUF beneficiaries. However, simple surveys undertaken by the evaluation team to assess the ability to repay by the Local Finance Facility sub-projects allowed an assessment of the extent to which the programme had reached the urban poor. Another limitation was that the Local Finance Facilities were new organizations still building up their pipelines of projects. This made it difficult for this evaluation to assess their performance in the medium- and long-term.

III. KEY FINDINGS AND ASSESSMENT OF SUF

A. Key Findings

Implementation Arrangements

The main operational part of SUF was contracted out rather than being run 'in-house.' Implementations involved a SUF design phase which defined the tasks to be carried out by the consultants and initiated the work while the consultancy services were procured. During this phase, a SUF design team was established at UN-Habitat Headquarters in September 2004 and several short term consultants were hired. The procurement process was protracted and it was not until November 2006, that a contract was signed with a consortium led by the Emerging Markets Group. The consultants, functioning as the SUF Pilot Team, started working in December 2006, at the start of the SUF Pilot Phase with projects in Ghana, Indonesia, Sri Lanka and Tanzania.

The pilot team reported to the SUF programme manager at UN-Habitat in Nairobi. The SUF-programme manager was supported by a small Programme Management Unit. The operations of SUF were guided by a consultative board that met twice a year. The Executive Director of UN-Habitat chaired the consultative board that comprises donor representatives, the Cities Alliance, developing country recipients, the United Cities and Local Governments, the international NGO community (from Slum Dwellers International) and the International Finance Community. The consultative board's main role was to advise UN-Habitat and the Programme Management Unit on all aspects of the programme—monitoring progress, reviewing working papers, etc. The Board assisted in knowledge dissemination.

Although the contract with the emerging markets group consortium expired in April 2009, the Pilot Phase continued with support of staff from the Programme Management Unit in Nairobi, operating under the auspices of the Urban Finance Branch.

The Local Finance Facilities

The Local Finance Facilities are multi-stakeholder special purpose vehicles established for implementation of slum upgrading. During the Pilot Phase, six Local Finance Facilities endorsed by the SUF consultative board were established. Two of them have nationwide mandates (Lanka Financial Services for Underserved Settlements in Sri Lanka and Tanzania Financial Services for the Underserved Settlements in Tanzania) while the other four serve a single city/metropolitan area (Tema/Ashairman Metropolitan Slum Upgrading Fund in Tema and Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund in Takoradi, Ghana and Badan Layanan Umum Daerah in Solo and Local Finance Facility in Yogyakarta, Indonesia).

The Local Finance Facilities are considered Associations Limited by Guarantee rather than NGO's or corporations. Their board membership is drawn from local and central governments, NGO's, community-based organizations, microfinance institutions, commercial banks and other private sector entities. In some sense, the Local Finance Facilities can be regarded as 'mini-SUFs'. They bring various stakeholders together, help structure projects and package programmes, provide technical advice and mobilize financing from project beneficiaries, both public and private sources. The Local Finance Facilities facilitate the mobilization of financing from commercial banks by providing bridge financing, especially credit enhancements in the form of partial credit guarantees. Actual projects are typically implemented through cooperatives, NGO's and microfinance institutions. Thus, the Local

Finance Facilities constitute a link between local and central governments, the slum community (and their representatives) and the local financial sector. Typically, they have a small core staff of one to four persons.

The mandates of the Local Finance Facilities have evolved during the Pilot Phase. The Local Finance Facilities have two functions: (i) To work with stakeholders to put together financially viable housing development/improvement and slum improvement schemes; and (ii) To provide credit enhancement, especially in the form of guarantees, to encourage lending by commercial banks. By necessity, SUF initially focused its capacity building efforts on the first function. Over the last year, as the guarantee portfolios of the Local Finance Facilities have grown, SUF's capacity building emphasized prudent financial management and sound project appraisal.

Other Pilot Operations

The Programme Management Unit had overall responsibility for the implementation of the pilot programme. It provided oversight and guidance to the pilot team. The Programme Management Unit also managed a number of field activities, typically with support from the Habitat Country Programme Managers and the SUF Country Project Consultants, purposely designed to test out financing models. The field activities managed by the Programme Management Unit were:

- Pilot slum upgrading project in Moratuwa Sri Lanka implemented with support of the Moratuwa Urban Poor Fund, established with financing from SUF and Slum Dwellers International's Urban Poor Fund International. So far, a four-storey apartment building with eight units has been completed and another building with 12 units is under construction.
- A low income home improvement finance product for BOAFO Microfinance Services Limited in Ghana. BOAFO is a joint venture between cooperative housing foundation International (a US based NGO concerned with cooperatives and community housing finance) and HFC Bank Ltd (a Ghanaian financial institution).
- The Ghana Fund for the Urban Poor for activities in Tema and Takoradi (the two cities where Local Finance Facilities had been established).
- The Tanzania Women Land Access Trust is a non-profit organization established in 2004 to assist low-income women gain access to land and affordable and secure home ownership. It has put up a building with 20 apartments, five shops and some other commercial space. The construction cost is estimated at USD 1.6 million. The project has also benefited from various direct and indirect subsidies amounting to around USD 0.8 million.

Sources and Uses of Funds

UN-Habitat mobilized some USD 18.75 million from donors (Department for International Development of the United Kingdom, the Government of Norway and the Swedish International Development Cooperation Agency) for the pilot programme. Some of the funds (22.4 per cent) were used by the Pilot Team during the pilot phase. The Local Finance Facilities were allocated just under a third of the budget (30.3 per cent) out of which USD 4.72 million were allocated to the credit enhancement activities of the Local Finance Facilities. Most of the funds (31.7 per cent) were used for the operation of the Programme Management Unit in Nairobi. In-country personnel and consultants, and field testing amounted to just over a tenth of the budget (12.4 per cent). The administration and development costs amounted to USD 825,000 i.e less than one twentieth of the total and barely more than the overhead (of 3.2 per cent) charged by UN-Habitat in programme support costs.

B. Assessment of SUF Achievements

This section presents assessment of the achievements of SUF based on the evaluation criteria: relevance, effectiveness, efficiency, sustainability and impact on the intended beneficiaries. While judging the performance of SUF, it should be kept in mind that most participants from the Local Finance Facilities, the pilot team, Programme Management Unit and donor agencies interviewed concluded that the initial goals and expectations of SUF were not realistic.

Relevance of the SUF pilot programme

SUF is a highly relevant initiative, dealing with an important area of the mobilization of domestic commercial capital for slum upgrading and housing for the urban poor, a window that traditional donor programmes have not addressed in a systematic manner.

The Local Finance Facilities have shown that they can effectively support housing improvements and small-scale neighbourhood infrastructure—a special market 'niche'.

Effectiveness of SUF

The key question is what did UN-Habitat accomplish with the money? In a narrow sense, SUF pilot programme has improved the lives of 340-350, predominantly, poor urban households or a total about 1,600 individuals. In the long run, the programme has convincingly demonstrated that it is possible to mobilize commercial banks funding for housing improvements and small scale infrastructure, a market that the commercial banking sector traditionally has resisted because of its inherent risks.

The pilot programme's objectives were much broader and much less specific to the extent that SUF has not yet managed to 'take slum upgrading to scale'. Contrary to the initial expectations, SUF has not helped a single municipality mobilize financing for infrastructure development from local financial markets. It has also not attracted support from other international facilities (such as GuarantCo, or PPIAF (Public Private Infrastructure Advisory Facility) or from new donors. Moreover, SUF has only moderately succeeded in achieving the expected outcomes for the Pilot Phase, as outlined in the Operations Manual.

There is general agreement that the main outcome of the Pilot Phase - the establishment of six Local Finance Facilities was unanticipated. Yet, the Local Finance Facilities represent an important innovation that potentially can have an impact on the lives of millions of slum dwellers, not only in the four pilot countries but throughout the developing world.

Community driven slum improvement programmes tend to be small and the cost of supporting them directly with foreign expertise is high. Similarly, they are generally too small to justify the high transaction costs associated with international financing entities such as GuarantCo and International Finance Corporation etc. Even if the scale of the slum upgrading initiatives was large enough, credit enhancements from international financial institutions will tend to be too costly, since the guarantee fee has to reflect project risks as well as country risks. Therefore, the Local Finance Facility concept is an appropriate response to these challenges.

Efficiency of SUF

Project Management: The SUF Pilot Programme was a highly experimental undertaking. It can best be described as 'learning by doing'. The lack of 'practical' financial expertise in the Programme Management Unit and the pilot team, relative to the financial capacity requirements of the Local Finance Facilities, as well as the impediments to staffing the Local Finance Facilities due to delays in approving funds for development and administration led to difficulties in building the capacity of the Local Finance Facilities. This resulted in tension with stakeholders and unhappiness with the lack of progress in bringing projects to financial closure. According to the Programme Management Unit, the contract had established that financial closure was the responsibility of emerging markets group.

UN-Habitat's policies and procedures were not geared to support a programme of this type. During the early stages of the programme, UN-Habitat had difficulties in attracting and retaining staff with the required skills, especially in the finance area. At the same time, the consultative board was too large and reflected too many diverse interests to be an efficient decision making body.

Pilot Project Implementation: The experience of SUF pilot programme (including operations managed by the Programme Management Unit reconfirmed the 'common wisdom' (which unfortunately was not reflected in all the schemes supported by SUF) that *in situ* upgrading is preferable to relocation and new construction, especially if this involves apartment buildings.

As originally envisaged SUF has not played a catalytic role in mobilizing financing for municipalities and large scale public or private infrastructure facilities. This role requires specialized expertise (and substantial financial resources) that the Local Finance Facilities do not have and should not try to obtain. Instead, the catalytic role can be better supported through institutions like municipal development banks, municipal guarantee facilities such as LGUGC, UN-Habitat in the Philippines, International Finance Corporation and GuarantCo.

Sustainability

A major sustainability element of SUF was increased emphasis on financial capacity building of Local Finance Facilities since 2009. For house improvement loans, the Local Finance Facilities developed sound risk mitigation approaches to ensure that the micro-lender had a good track record; the loan payments were affordable to all participating families, whenever feasible, require that the beneficiaries had a history of savings, among others.

Despite the initial efforts, capacity building remained a challenge. Scaling up of the Local Finance Facility activities will take a longer time (three to five years) than the two years that most of them have been in operation. In order to fine-tune their policies and procedures, and fully develop their staff, all the established Local Finance Facilities require additional technical assistance and nurturing for one or a couple of years.

Impact of SUF

Direct Impact: The direct impact of SUF was limited to pilot projects' beneficiaries who were mainly the urban poor. The Local Finance Facilities improved and upgraded the slum housing of the urban poor and increased income earning opportunities to 340-350, predominantly, poor urban households or a total around 1,600 individuals.

Broadly, SUF programme was a model through which slum dwellers, for the very first time, accessed the domestic capital market for housing development.

Catalytic Effects: The Local Finance Facilities helped micro-financing institutions to get longer term capital and, thus, enabled these institutions to venture into low cost housing finance area. Further, SUF had also started to influence government policies and programmes, for instance, in Indonesia.

IV. CONCLUSIONS

The SUF initiative is approaching the end of the (extended) Pilot Phase. The main conclusions of this evaluation are that the Local Finance Facilities are important innovations that potentially can benefit millions of slum dwellers; the SUF pilot programme should be scaled up while new Local Finance Facilities should be established. Although UN-Habitat deserves great credit for having initiated the SUF programme, it may not have the required human and financial resources to implement a major scale-up of the SUF programme. In addition, there is inadequate of infrastructure for financial transactions in the UN-Habitat.

To successfully run a large financial operation requires lawyers with experience in financial transactions, a policy unit that fully understands commercial finance, a 'credit committee' comprising senior managers with relevant financial expertise, a peer group of finance officers that can provide guidance and advice. To create such an institutional infrastructure takes years. Thus, the Evaluation Team has reached the same conclusion as the Governing Council that in its Resolution 23/11 *'requests the Executive Director… to transfer… the technical loan guarantee oversight responsibilities of the slum upgrading facility programme to an appropriate external development finance partner.'*

V. MAIN LESSONS LEARNED

Overall, SUF has confirmed that *in situ* upgrading is preferable to slum redevelopment, especially if the latter involves construction of apartments. Two categories of lessons relating to how UN-Habitat initiates and manages major initiatives are:

Management of Major New Initiatives

(1) Major new initiatives, especially those that fall outside UN-Habitat's traditional roles, if not preceded by an institutional analysis to identify policies and procedures might hamper programme implementation (such as procurement, disbursements to outside entities, and recruitment of appropriate staff) and mitigation measures put in place during the programme design.

(2) Experimental programmes must have sufficient flexibility and on-going monitoring to inform approaches, budget allocations, etc. as experience is gained.

(3) Building new institutions takes time, and expectations of various stakeholders must be appropriately managed.

Implementation of the SUF Programme

(4) Financial operations are fundamentally different from the traditional roles of most UN agencies, including UN-Habitat. To successfully engage in finance at any significant scale requires a supportive institutional environment, in terms of human and financial expertise'.

(5) Municipal powers and resources, macroeconomic conditions, characteristics of slums, civil society capacities, income levels vary tremendously from country to country, city to city and even within cities, thus a 'cookie-cutter' approach to slum upgrading does not work. Sustainable success comes from applying traditional affordability assessments and financial structuring tools.

6) Early engagement of national and municipal governments and inclusion of the SUF programme into the comprehensive national housing policy framework is important for its success.

7) Sustainability guarantee and similar financial operations require a proper sharing of risks to avoid moral hazards problems.

8) Cross subsidies from the sale or lease of shops and 'high-end' apartments rarely produce enough revenues to make apartments affordable to the urban poor.

VI. RECOMMENDATIONS

The viability, benefits and success of the Local Finance Facility approach were clearly established through the SUF Pilot Phase. The challenge now is to continue to strengthen and sustain the existing Local Finance Facilities and to replicate the model in other countries. To achieve this, requires actions by SUF stakeholders.

A. Recommendations to UN-Habitat

1) In scaling SUF UN-Habitat should work proactively with International Finance Corporation, the World Bank, the Cities Alliance, perhaps the regional development banks, bilateral donors, prominent NGO's in the sector as well as foundations to find a new 'home' for SUF.

2) Anchor the new/reshaped SUF in an institution with a clear track record in delivering innovative, market-based financial transactions. However, this new entity should be able to draw on the expertise of UN-Habitat in a collaborative framework. In many respects, the International Finance Corporation-Kreditanstalt für Wiederaufbau Microfinance Enhancement Facility could serve as a model.

3) The design of the new/reshaped facility should be preceded by a rigorous analysis of the experiences from ERSO, SUF, CLIFF (Community-led Infrastructure Finance Facility) as well as national programmes supporting upgrading and the urban poor, such as CODI (Community Organizations Development Institute) in Thailand and PRODEL (PROgrama de DEsarrollo Local in Nicaragua. The evolution of the microfinance industry over the last two decades can also provide useful insights for the fine-tuning of the SUF successor programme. UN-Habitat and the new host institution for SUF should jointly lead this analysis.

4) Until a new entity has been established and funded, UN-Habitat's Urban Finance Branch team should continue to provide technical assistance to all the six Local Finance Facilities established under the SUF Pilot Programme.

B. Recommendations to UN-Habitat and Donors

5) UN-Habitat and SUF donors should develop and adopt strategy for 'honourable exit', to ensure the continued development and viability of the six established Local Finance Facilities, including supporting Local Finance Facilities financially during the transition period.

C. Recommendations to the Local Finance Facilities

6) The Local Finance Facilities should continue to strengthen their financial expertise both at the staff and at the board level.

7) Local Finance Facilities that have performed well during the Pilot Phase should pursue additional financing from local donors, municipalities, central governments and from foundations as well as the private sector, including 'social investors.' However, the Local Finance Facilities must avoid losing their independence by becoming government facilities.

8) To avoid potential conflict of interests, the two main parts of Local Finance Facility activities—(i) Project packaging/advice and (ii) Approval of credit enhancements—should be undertaken by separate staff. When they reach sufficient scale, the Local Finance Facilities should hire a 'chief guarantee officer' responsible for due diligence of credit enhancements. This officer should report to the finance sub-committee of the consultative board.

1 INTRODUCTION

1.1 THE CONTEXT: URBAN POVERTY AND SLUMS

Governments in the developing world find it difficult to cope with unprecedented urban growth. The most visible signs of their failure to manage this process are the mushrooming slum areas that permeate cities. About 830 million people—or some 33 per cent of the urban population—live precariously in these settlements and, if present trends continue, the number of slum dwellers will increase to about 890 million in 2020. The situation is most acute in sub-Saharan Africa and low-income-Asia, where almost two-thirds of the urban population live in slums.

Given well-established linkages between poverty and inadequate housing and related infrastructure, the international community has given considerable attention towards slim upgrading and slowing down the creation of new ones. Indeed, at the UN Millennium Summit in September 2000, world leaders pledged to achieve a significant improvement in the lives of at least 100 million slum dwellers by the year 2020. They also agreed to cut in half the number of people without safe drinking water and basic sanitation facilities by 2015.

The financing needs for addressing the slum problem and improving the housing conditions for the urban poor are massive and external financing from donors and private investors and lenders can play only a minor role. As recognized by the International Conference on Financing for Development in its Monterrey Consensus (2002), the bulk of the financing has to be mobilized locally. Unfortunately, the urban poor and municipalities in low and lower middle income countries have virtually no access to credit. Indeed, in most of sub-Saharan Africa only a small per cent of the urban population has access to mortgage loans for home construction or home purchases. Local governments have little resources available for investments. The fact that the urban poor and the middle class as well as municipalities are regarded as lacking creditworthiness does not mean that they cannot or will not repay loans. Rather it is because lenders (e.g., commercial banks or capital market institutions) cannot assess and mitigate the risks associated with lending to the urban poor or to municipalities. To make the urban poor and municipalities bankable require development of new financial instruments and a high degree of 'financial engineering'.

1.2 THE RESPONSE: THE SLUM UPGRADING FACILITY

In 2003, the Governing Council requested UN-Habitat to *'work with banks, private sector and other relevant partners to field test approaches through pilot projects to mobilize resources to increase the supply of affordable credit for slum upgrading and other pro-poor human settlements.'*

In early 2004, UN-Habitat established the Slum Upgrading Facility (SUF) under the Human Settlements Financing Division. This was subsequently approved by the 20th Session of the Governing Council. SUF is an advisory facility that assists national and local governments and community organizations in the development of slum upgrading, low cost housing, and urban development projects so that they can attract funding primarily from domestic capital markets.

After a two year design phase and with financing from the United Kingdom, Norway and Sweden, UN-Habitat launched SUF as a three year pilot in 2006. (As discussed further below, this phase has since been extended.) The SUF Pilot Phase was *'envisioned as a highly experimental exercise in determining what developing countries need to access domestic capital markets to improve the living and working conditions of the urban poor.'*

1.3 PURPOSE, OBJECTIVES AND FUNCTIONS OF SUF

A. Purpose of SUF

The purpose of SUF was to develop innovative approaches to help mobilize financing for the urban poor.

B. Objectives of SUF-Pilot Phase

The long-term development goal of the SUF is to improve the lives of slum dwellers in line with Target 11 of the Millennium Declaration. As set out in Governing Council Resolution 20/11, SUF will function as a *'technical advisory facility designed to assist national Government, local government and community organizations in the development of their own slum upgrading, low cost housing, and urban development projects so that they can attract funding primarily from domestic capital markets, using seed capital grants where necessary and bringing in existing guarantee and credit enhancement facilities, the whole process being packaged in such a way that the projects can be regarded as financially sustainable.'*

According to the Project Document (PD) which was approved by UN-Habitat's management in March 2005, the objective of SUF and, especially, the Pilot Phase is:

'To assist with the mobilization of local, domestic capital for slum upgrading initiatives…including shelter and related urban infrastructure… The SUF three year pilot is envisioned as a highly experimental exercise in determining what developing countries need to access domestic capital markets to improve the living and working conditions of the urban poor.'

As outlined in the Operational Manual, SUF seeks to achieve this overall objective by:

- Facilitating links between local actors and packaging the financial and technical elements of bankable projects to attract investments in affordable housing for low-income households, upgrading of slums and the provision of urban infrastructure in human settlements, towns and cities of the developing world.
- Identifying projects, building local capacities, networking, providing direct technical assistance and where appropriate mobilizing bridging finance and credit enhancements.

C. Main Functions of SUF

The SUF Operations Manual, adopted in May 2005, remains the guiding document for the Pilot Phase. It defines the governance arrangements from decision making processes to reporting requirements, accounting and audit arrangements as well as oversight, monitoring and evaluation procedures. The Manual defines the following principal functions of SUF:

- **Advisory Services.** By providing technical advisory services, assisting SUF partners (i.e. slum dweller groups, NGO's, professional bodies, municipalities, commercial banks, and capital market institutions) in the financing aspects of their slum upgrading, low income housing, and associated infrastructure projects.
- **Referral Functions.** By helping to connect its partners with local, regional and international institutions, bringing to local projects the expertise and partnership networks of multilateral programmes and international NGO's. Institutional support of this kind can augment the financial packaging assistance of SUF, promoting policy and legislative reforms, strengthening the capacity of municipalities, and improving other aspects of slum upgrading.
- **Financial Packaging.** By helping to structure and package financing for the pilot projects to become 'bankable'—thus, to provide domestic providers of private capital with the necessary risk/return profile and confidence to lend money into, and to invest in, longer term investments that target infrastructure and superstructure projects for the urban poor.
- **Development of Financial Products.** By assisting in the design and application of new financial instruments and products that will enable investors to work with and provide loans to various upgrading initiatives. The types of instruments and products developed will reflect the different forms of available domestic capital (loans, municipal bonds, etc.) and long term debt financing from the local currency capital market. In some cases this will also involve international guarantees.

Implicit in SUF's functions was the provision of:

- **Catalytic financing** in the form of seed money, bridge or working capital financing, and funding of pilot operations to help promote innovations as well as jump-start upgrading schemes.
- **Credit enhancements**, mainly in the form of guarantees.

D. Governance Structure and Implementation Arrangements

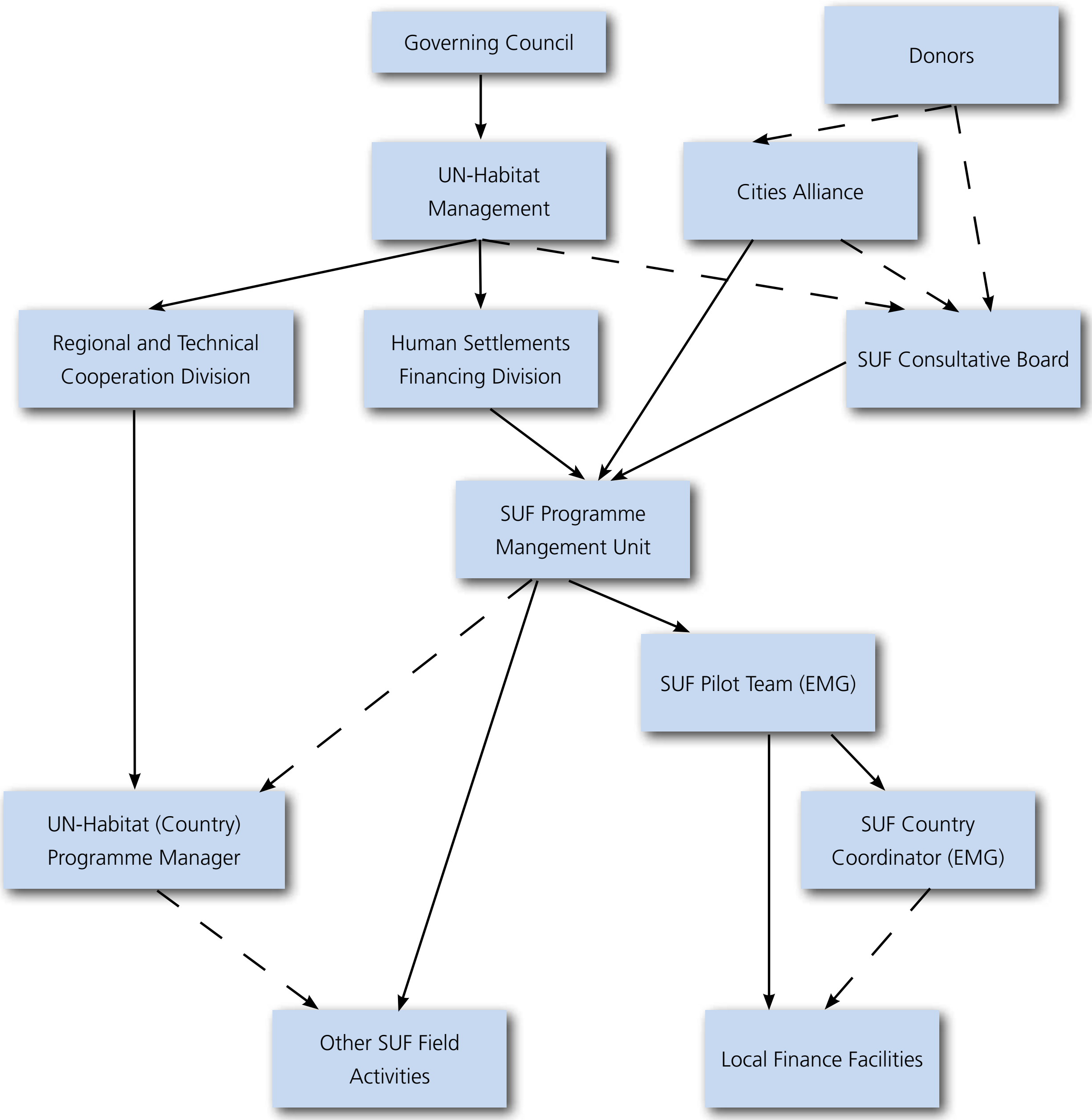
The governance structure and implementation arrangements of SUF are captured in Figure 1.1 The main operational part of SUF's field activities were contracted out to a consulting consortium led by the Emerging Markets Group (EMG). The consortium assembled a group of international experts on finance, housing and slum upgrading who functioned as the SUF Pilot Team. The team members operated from their home bases but visited the four pilot countries frequently. In order to provide continuous support to local partners, the pilot team had a coordinator in each country. After the contract with Emerging Markets Group expired, UN-Habitat continued to use the coordinators.

The pilot team reported to a SUF Programme Manager at UN-Habitat Headquarters in Nairobi. The SUF-programme manager was supported by a small Programme Management Unit. The Programme Management Unit in turn reported to UN-Habitat management through the Director of the Human Settlements Financing Division.

Although the pilot team had the main responsibility for developing the pilot operations, the Programme Management Unit continued to manage certain facilities such as the Moratuwa slum upgrading project in Sri Lanka and the Tanzania Women's Land Access Trust project initiated during the design phase. The Programme Management Unit was assisted by Habitat Programme Managers (HPMs) in each of the four pilot countries.

The Programme Management Unit has undergone a couple of transformations. It started functioning in September 2004 as the 'SUF design team.' When the Pilot Phase was initiated in December 2006, this team was converted into the Programme Management Unit. In October 2009, when the acting Habitat Programme Manager retired, the Programme Management Unit was integrated into the Urban Finance Branch, which also was responsible for the implementation of the Experimental Reimbursable Seeding Operations (ERSO).

FIGURE 1.1: SUF's Governance Structure



The operations of SUF were guided by a Consultative Board (CB), which met twice a year. The Executive Director of UN-Habitat chaired the Board whose membership included the donors, the Cities Alliance, developing country recipients, the United Cities and Local Governments, the international NGO community (from Slum Dwellers International) and the international finance community. The consultative board's main role was to advise UN-Habitat and SUF-Programme Management Unit on all aspects of the programme, monitoring progress, reviewing working papers, etc. The consultative board also assisted in disseminating knowledge.

The SUF pilot programme was funded by Department for International Development of the United Kingdom, the Swedish International Development Cooperation Agency, and the Government of Norway. The Department for International Development of the United Kingdom's grant was channelled through the Cities Alliance.

1.4 EXPECTED OUTCOMES OF THE PILOT PHASE

The Operations Manual defined a number of performance outcomes and indicators for measuring progress. These are provided in Table 1.1 below.

The SUF design team developed a number of concrete project proposals in the four pilot countries. By mid-2006, it had identified a range of schemes. It was agreed that the SUF Pilot Team (i.e. the consultants from emerging markets group) would focus on eight priority schemes in the four pilot countries (Section 3.2.3).

TABLE 1.1: Expected Outcomes of the SUF Pilot Phase

Outputs	Outcomes	Indicators
Meeting Objectives	Pilot projects that result in taking slum upgrading to scale.	Size of projects undertaken in terms of numbers of people enjoying upgraded housing. Proportion of pilot cities with upgraded slums.
Relationship Building/ Networking	Building bridges through mediation, participatory planning and conflict management Increased CBO's/Slum Dwellers participation. Strengthen project ownership among local actors/minimize external intervention. Private/Public partnerships formed for slum upgrading.	Satisfaction of client groups derived from focus group meetings. Number of consultations undertaken with stakeholders and breadth of issues covered. Number of events engaging partners in addressing underlying informal settlements.
Capacity Building	Increase operational efficiencies. Expand the capacity of local stakeholders to raise domestic capital and handle future upgrading activities with minimum external aid. Upgrade the local labor force and strengthen local training institutions Improved capacity and capabilities of local NGOs/CBOs to package and access local capital	Number of capacity building training events organized by the SUF-PT. Numbers of people engaged in "learning by doing" activities on SUF Pilot Projects Range and number of participants at training events. Number of NGO's/CBO's emulating slum upgrading work based on the SUF concept. Success rate of applications from municipalities for credit.
Financial Packaging	Affordable repayment structures developed for servicing debt and repayment of capital. Revenue streams identified capable of attracting capitalisation. Increased level of funding mobilized from the private sector for slum upgrading and municipal development.	Number of bankable projects, identified, packaged and funded with repayment structures agreed. Number of financial instruments designed and successfully applied in pilot project areas. Level of technical/financial support available to SUF projects from existing facilities e.g., GuarantCo, PPIAF etc.

Impact on Capital Markets/ Housing Finance Sector	Deepening of the local capital markets. Mainstreaming of housing finance loans in the loan product portfolio of formal financial institutions.	Amount of capital raised on local capital markets for slum upgrading. Range of capital market products expanded Regulatory framework established and Institutional capacity enhanced to regulate new products. Number of financial institutions having developed new housing loan products. Turn around and success rate of applications from municipalities for credit.
Learning and Knowledge Sharing	Established information systems that bring together stakeholder views. A profile of lessons learned Increased community mobilization.	Number of workshops to share experiences for SUF with partners. Demand for UN publications on lessons learnt from SUF. Number of referrals made by the SUF-PT followed up on.

1.5 THE LOCAL FINANCE FACILITIES

The six Local Finance Facilities established during the Pilot Phase (Table 1.2), became key instruments for the implementation of the SUF programme. The Local Finance Facilities in Ghana (2) and Indonesia (2) served a single city/metropolitan area while Local Finance Facilities in Sri Lanka (1) and Tanzania (1) had nationwide mandates.

The Local Finance Facilities were generally incorporated as Associations Limited by Guarantee rather than as NGO's or Government Corporations. Their boards have representation from local and central governments, NGO's, community-based organizations, microfinance institutions, commercial banks and other private sector entities. The secretariats have a small core staff of one to four persons. In some sense, the Local Finance Facilities can be regarded as 'mini-SUFs'. They bring various stakeholders together, help structure projects and package programmes, provide technical advice and mobilize financing from project beneficiaries, and public and private sources. Local Finance Facilities facilitate the mobilization of financing from commercial banks by providing bridge financing, especially, credit enhancements in the form of partial credit guarantees. Actual projects and programmes are typically implemented through cooperatives, NGO's and microfinance institutions. Thus, the Local Finance Facilities constitute a link between local and central governments, the slum community (and their representatives) and the local financial sector (Figure 1.2).

FIGURE 1.2: The Role of the Local Finance Facilities

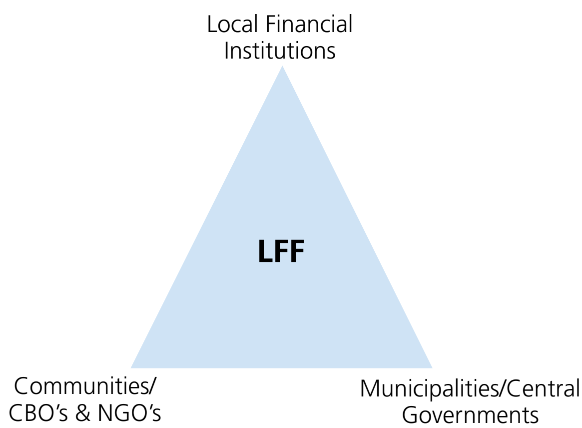


TABLE 1.2: The six Local Finance Facilities

Local Finance Facilities	Full name	City	Country
BLUD	Badan Layanan Umum Daerah	Solo	Indonesia
KotaKITA	Yayasan KotaKITA	Jogjakarta	Indonesia
LFSUS	Lanka Financial Services for Underserved Settlements	Colombo	Sri Lanka
STMA-CSUF	Sekondi-Takorad Metropolitan Assembly Citywide Slum Upgrading Fund	Takoradi	Ghana
TAMSUF	TEMA/Ashairman Metropolitan Slum Upgrading Fund	Accra	Ghana
TAFSUS	Tanzania Financial Services for the Underserved Settlements	Dar es Salaam	Tanzania

1.6 OBJECTIVES, PURPOSE AND SCOPE OF THE EVALUATION

As set out in the Terms of Reference, the overall objective of this evaluation was 'to assess the extent to which the objectives and expected outcomes of SUF and its associated projects in each of the pilot countries (Ghana, Indonesia, Sri Lanka and Tanzania) have been met.' The programme was evaluated based on the evaluation criteria: relevance, effectiveness, efficiency, sustainability and impact on the intended beneficiaries.

The reason for undertaking the pilot programme was to gain experience that would provide sound basis for subsequent large scale programmes. The initial focus of the Pilot Phase was to develop and use new financing techniques to support slum upgrading projects. However, this evaluation will show that the emphasis gradually shifted to the creation and support of a new type of development institutions: the Local Finance Facilities. These nascent institutions are still evolving and building their own capacity to support low income housing and slum improvements. Thus, this evaluation is less concerned with the past and with comparing achievements with targets and more on the lessons that can be drawn for the future. This focus on the future is also in line with the Governing Council Resolution 20/11, which indicates that the independent evaluation of the SUF Pilot Phase should help inform decisions on how to proceed.

This assessment addressed three primary audiences:

- **UN-Habitat** management in determining the future of the SUF programme and as a learning process for the design of similar programmes;
- **SUF donors** for accountability purposes and as a basis for future funding decisions; and
- **Consultative Boards** and the management of the Local Finance Facilities in strengthening and scaling-up their operations in a sustainable manned.

The evaluation covered the full period of SUF operations from the start of the design Phase in September 2004 to the end of May 2011.

1.7 OUTLINE OF THE REPORT

Chapter 1 is on introduction, and presents the context and background of SUF pilot programme, the objectives, purpose and scope of the evaluation. Chapter 2 describes the evaluation methodology. Chapter 3 presents the main evaluation findings, with emphasis on the local finance facilities and overall assessment of the SUF pilot programme based on the evaluation criteria of relevance, effectiveness, efficiency, sustainability and impact on the intended beneficiaries. Chapter 4 is on the conclusions, major lessons learned from the SUF Pilot Phase and actionable recommendations for the future operation of the local finance facilities. It also outlines a couple of next steps for UN-Habitat, donors and implementing partners.

2 EVALUATION METHODOLOGY

2.1 APPROACH

This assessment of the SUF Pilot Programme is based on five key evaluation criteria of relevance, effectiveness, efficiency, sustainability and impact on the intended beneficiaries. It also examines the extent to which SUF achieved its expected outcomes (as outlined in the Operations Manual). However, a key premise is that backward looking evaluations that primarily describe what happened, identify faults and assess blame have limited value. The purpose of SUF (especially during the Pilot Phase) was to develop innovative approaches to help mobilize financing for the urban poor. Almost by definition, this meant that the implementation process was characterized by experimentation and was therefore full of challenges. Thus, the main tasks of the evaluation were to identify and articulate the challenges, learn the appropriate lessons and to make concrete and implementable recommendations for the future (Annex I).

The major innovation that came out of the Pilot Phase was the Local Finance Facilities. More than three-quarters of SUF's beneficiaries were served by the Local Finance Facilities. Furthermore, with the capital the six Local Finance Facilities already have at their disposal; they had the potential to benefit tens of thousands of slum dwellers over the next decade. Thus, this evaluation placed special emphasis on the operations of Local Finance Facilities. The project that received the largest amount of funding from SUF was the Kinondoni apartment building developed by the Tanzania Women Land Access Trust (Tanzania Women Land Access Trust). Because of its high cost, the project became controversial. Consequently, the terms of reference called for a special review of the project. The results of this review are presented in (Annex IX) and summarized in Sections 3.2 and 3.3.

In order to ensure that the evaluation is performed with great objectivity and to the highest professional and ethical standards, the team was guided by the Terms of Reference and the professional and practices contained in the following set of documents from the United Nations Evaluation Group (UNEG):

- Norms for Evaluation in the UN System (2005)
- Standards for Evaluation in the UN System (2005)
- UNEG Code of Conduct for Evaluation in the UN System (2008)
- UNEG Ethical Guidelines for Evaluation (2008)

2.2 DATA COLLECTION AND ANALYSIS

The evaluation used three methods for data and information collection:

A. Review of documents

The Programme Management Unit provided virtually all documents prepared since the start of the design phase. The key documents were the Project Document approved by UN-Habitat management in February 2005 and the SUF Operations Manual dated May 2005. Other documentary sources of information were the Country Project Implementation Plans prepared by the pilot team in the spring of 2007 and its final report submitted to the Programme Management Unit in April 2009. The observation team's reports from Sri Lanka (November 2007), Ghana (April 2008), Indonesia (October 2008) and Tanzania (April 2009) provided useful insights into the evolution of the programme and issues encountered during implementation. One of the observation team members also prepared a mid-term review of the SUF Pilot Programme (April 2009). In addition, the evaluation team reviewed annual work programmes and budgets as well the progress reports prepared by the Pilot Team and Programme Management Unit. UN-Habitat also made available all reports submitted to the consultative board and minutes/records from the Board's meetings and other written comments made by Board members and donors. Finally, the Local Finance Facilities availed to the evaluation team with their business plans, Operations Manuals as well as project reports. (For a more complete list of documents reviewed, Annex II).

The review process covered different aspects of current and pipeline projects such as type, reach, size, target beneficiaries, leverage, impact, risk analysis and risk mitigation measures, financial structuring and cash flows, guarantee arrangements, legal documentation, and compliance with Local Finance Facility operational procedures.

B. Questionnaire administration and Interviews

The evaluation team considered formal questionnaires to collect the views of stakeholders but deemed this impractical. The Pilot Phase operations were highly complex, innovative and were modified to fit local conditions. For a survey to be reasonably informative, the questionnaires had to be very comprehensive and time consuming to fill out. Thus, it is likely that most answers would be incomplete and the number of responses would be low.

Instead, the evaluation team developed—in consultation with SUF staff—a comprehensive list of people to interview. The majority of the interviews were conducted face to face with a few undertaken by phone or email. The interviews in Nairobi covered the present SUF team including consultants, UN-Habitat management and staff from other departments that had been involved in the Pilot Phase, including staff of the Programme Support Department. Interviews with donors, the Consultative Board members, pilot team staff and former UN-Habitat staff were conducted over the telephone. A few interviews were done through exchange of e-mails. The interviews were guided by a checklist of questions, which were not rigorously followed. The stakeholders interviewed in the pilot countries are described further below. A list of people interviewed is attached in Annex III. The checklist is attached in Annex IV. Without considering any meetings with project beneficiaries, about 80 interviews were conducted.

The evaluation team undertook field visits to the four pilot countries, where they met with Board Members and staff from all the six Local Finance Facilities. While in the country, the team also interviewed other stakeholders such as bankers, central and local government officials, programme beneficiaries, representatives from NGO's and community-based organizations as well as the Habitat Programme Manager. The evaluation team also visited project sites supported by Local Finance Facilities, to meet with actual and potential beneficiaries, community groups and community leaders.

Most of the information collected was qualitative. The 'bits' of information were categorized and used to build and support the conclusions on the attainment of the SUF Pilot Phase objectives and to judge how well the various components/ aspects of the programme measured up against the evaluation criteria. The quantitative data available (budgets, expenditures, loan and amounts, beneficiary incomes, etc.) were quite basic to support any sophisticated statistical analysis. Thus, the evaluation team had to settle for simple recasting of the data to illustrate impacts and achievements.

2.3 LIMITATIONS

The SUF pilot programme is in many respects a unique undertaking. It is large, complex and entails activities in a field (financial packaging) where UN-Habitat has little experience. It involved contracting-out the key tasks to a consulting consortium. The contract with emerging markets group and its partner was the largest consultancy contract entered into by UN-Habitat. The objectives of the programme were vague, but appeared to have evolved over time. Indeed, the review of the consultative board minutes and interviews indicated that there was little consensus among SUF key stakeholders on the expected outcome of the Pilot Phase. Thus, there were widely divergent views on the extent to which the programme achieved its objectives. However, there appeared to be a general agreement that the main outcome of the Pilot Phase-the establishment of six Local Finance Facilities- was unanticipated.

No scientific socio-economic surveys have been undertaken in the schemes financed by SUF and the Local Finance Facilities. As a consequence, it is not possible to make objective assessment of the impact of the programme on beneficiaries (i.e., slum dwellers). In addition, the Local Finance Facilities have been in operation too short a time to accurately assess key factors such as loan repayment and call on their guarantees (a key factor determining their long-term viability). This evaluation, therefore, relies more on the judgment of the evaluation team than what is commonly the case.

2.4 EVALUATION PROCESS AND SCHEDULE

The Evaluation Team worked under the overall guidance of UN-Habitat's Monitoring and Evaluation Unit, with administrative and logistical support provided by the Urban Finance Branch. The evaluation was conducted in accordance with the Terms of Reference prepared by the Human Settlements Financing Division in consultation with the Monitoring and Evaluation Unit (Annex I). The evaluation team was mobilized immediately after the contract was awarded on March 1, 2011.

Following an initial review of key documents and a briefing period in Nairobi, the team made field visits to the four pilot countries between March 15 and March 31, 2011. The arrangements for the field visits were handled by the respective Local Finance Facilities in consultation with the Habitat Programme Manager. The initial findings were presented in an expanded Interim Executive Summary that was submitted to UN-Habitat on April 9, 2011 in advance of the Governing Council Meeting. This was followed by a draft Interim Report on April 18, 2011 which, among others, identified gaps in the analysis leading to a more targeted document review and data analysis as well as some follow-up interviews. A draft Final Report was submitted to UN-Habitat on June 12, 2011. The comments received from UN-Habitat management helped correct factual errors and improve the clarity and readability of the report.

3 EVALUATION FINDINGS AND ASSESSMENT OF THE SLUM UPGRADING FACILITY PILOT PROGRAMME

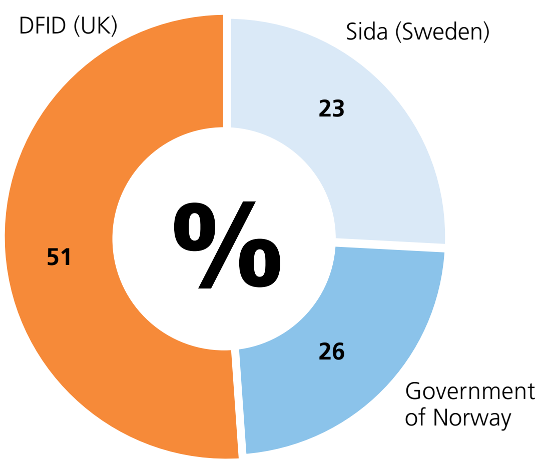
3.1 KEY FINDINGS OF THE EVALUATION

This chapter has two major sections. The first section (3.2) presents the overall findings of the evaluation. It starts with the broad picture of SUF, its sources of funds and their uses, overall achievements, followed by the assessment of the implementation process, the institutional arrangements and the various credit enhancement approaches in different SUF schemes. The next section (3.3) presents a detailed assessment of SUF (and especially the Local Finance Facilities) based on the evaluation criteria: relevance, effectiveness, efficiency, sustainability and impact on the intended beneficiaries. This section also presents a detailed analysis of the market niche for the Local Finance Facilities and their catalytic role.

3.1.1 SOURCES OF FUNDS AND THEIR USES

The Swedish International Development Cooperation Agency and Department for International Development of the United Kingdom provided USD 0.9 million, each, for the design phase. UN-Habitat mobilized some USD 18.75 million from donors for the Pilot Programme. A little more than half of this amount was from Department for International Development of the United Kingdom (and channelled through the Cities Alliance). The Government of Norway and Swedish International Development Cooperation Agency provided roughly a quarter of the funding (Figure 3.1).

FIGURE 3.1: Financing of SUF Pilot Phase



Most of the funds (31.7 per cent of the Pilot Phase expenditures) were used for the operation of the Programme Management Unit in Nairobi (Table 3.1). The Programme Management Unit also managed some in-country programmes (spending 12.4 per cent), including what has been classified as 'field testing of financial instruments'. Although the pilot team (i.e., the emerging markets group consortium) was responsible for the main part of the product and pipeline development, payments to the consultants accounted for less than a quarter of the total (i.e. 22.4 per cent). The Local Finance Facilities were allocated just under a third of the budget (30.3 per cent) out of which almost one-quarter of the SUF funds were allocated to the credit enhancement activities of the Local Finance Facilities (25.2 per cent). The Local Finance Facilities administration and development costs amounted to 4.4 per cent, i.e. less than one-twentieth of the total and barely more than the overhead charged by UN-Habitat in programme support costs (3.2 per cent).

TABLE 3.1: SUF Pilot Phase: Uses of Funds

	USD	Per cent of Total
Programme Management Unit Expenses		
PMU	3,812,603	20.3%
Travel	857,493	4.6%
Operations, Equipment & Training	1,021,573	5.4%
Others	255,732	1.4%
Sub-Total	5,947,401	31.7%
Pilot Team (EMG)	**4,194,616**	**22.4**%
Local Finance Facilities		
Development & Administration	825,000	4.4%
Credit Enhancement Funds	4,729,084	25.2%
Unallocated	127,880	0.7%
Sub-Total	5,681,964	30.3%
Other In-Country Programs		
In-Country Personnel & Consultants	1,400,996	7.5%
Field Testing	918,869	4.9%
Sub-Total	2,319,865	12.4%
Programme Support (UN-Habitat overhead)	**601,192**	**3.2**%
GRAND TOTAL	**18,745,038**	**100.0**%

Source: UN-Habitat; Actuals up to 2010 and Budget for 2011.

3.1.2 OVERALL ACHIEVEMENTS DURING THE PILOT PHASE

The key question is 'what did UN-Habitat accomplish with the money?' In a narrow sense, SUF funds improved the lives of 340-350 predominantly poor urban households or a total about 1,600 individuals (Table 3.2).

However, the pilot programme's objectives were much broader and therefore less specific (Table 1.1). Annex VI provides a detailed assessment of how well the various targets/outcomes were accomplished. The results of this assessment are summarized in Table 3.3. Accordingly, SUF has only been moderately successful in achieving the expected outcomes for the Pilot Phase.

Overall, SUF has not managed to 'take slum upgrading to scale'. Nevertheless, this situation is likely to change: Lanka Financial Services for

TABLE 3.2: Beneficiaries of SUF Pilot Programme

Country Facility/Project	No. of Households	No. of Beneficiaries
Ghana		
TAMSUF	31	155
STMA-CSUF	15	75
BOAFO	n.a.	n.a.
Total Ghana	46	230
Indonesia		
BLUD	14	70
KotaKITA	19	95
Total Indonesia	33	165
Sri Lanka		
LFSUS	204	915
Moratuwa	20	90
Total Sri Lanka	224	1,005
Tanzania		
TAFSUF	0	0
TAWLAT	40	200
Total Tanzania	40	200
TOTAL SUF PROGRAM	**343**	**1,600**

Comments: BOAFO data not available, reportedly "very small"; Number of families in TAWLAT assumes that 3 & 4 bedroom units are shared and includes retail units; Family sizes assumed at 5.0 (4.5 in Sri Lanka).

Underserved Settlements in Sri Lanka has a solid pipeline and has accelerated its approval of new projects. Well before the end of 2011, it is likely to have approved schemes benefiting 700 families or about 3,000 individuals. Within the context of Sri Lanka, this means that slum upgrading has been taken to scale, but this will take five years (rather than the three years the Pilot Phase was expected to last). The two Local Finance Facilities in Indonesia have cautiously focused their initial efforts on very small projects but are now in a position to expand their operations. In Ghana, the Local Finance Facilities have faced various problems, with the Tema/Ashairman Metropolitan Slum Upgrading Fund entangling itself from a poorly designed bridge loan in Amui Djor. The problems are being overcome and the lessons learned should facilitate the development of a pipeline. Tanzania Financial Services for the Underserved Settlements in Tanzania was a 'late starter' and was still hiring staff and building a pipeline. The next year or two was likely to be a period of learning by doing with only modest results on the ground.

Based on SUF's central objective, as stated in the Project Document and from the Operations Manual, SUF was expected to help municipalities mobilize financing for infrastructure development from local financial markets. However, none of the SUF sub-projects included any infrastructure component. SUF has, therefore, not helped any municipality gain access to bank or bond financing. This might have been due to the narrow focus of the Programme Management Unit, the pilot team and the Local Finance Facilities on community led schemes. Furthermore, the legal framework in some of the pilot countries could have prevented municipalities from seeking such assistance. However, the ERSO programme supported a bank loan to Mwanza municipality in Tanzania, the proceeds of which would be used for upgrading a settlement (Annex VIII). Lastly, no other international facility (such as GuarantCo or PPIAF) or any multilateral or bilateral donor had supported SUF projects, possibly due to their small size.

This leads to an inevitable question: Were the objectives for the Pilot Phase realistic? Majority of those interviewed from the Local Finance Facilities, the pilot team, Programme Management Unit and donor agencies concluded that the initial goals and expectations of SUF were not realistic. It was implicitly assumed that, in each pilot country, there were a number of slum improvement schemes

TABLE 3.3: Achievements during SUF Pilot Phase

Outputs	Outcomes	Indicators	Actual Results (as of May 31, 2011)
Meeting Objectives	Pilot projects that result in taking slum upgrading to scale.	Size of projects undertaken in terms of numbers of people enjoying upgraded housing. Proportion of pilot cities with upgraded slums.	The pilot projects were not taken up to scale. Sixteen pilot projects were completed and reached financial closure. Total beneficiaries were around 1,600 individuals and 340-350 households. Given the newness of the LFF approach, the learning curve was steep and the LFF Boards were often very cautious. However, the LFF program is on the verge of a more rapid expansion.
Relationship Building/ Networking	Building bridges through mediation, participatory planning and conflict management. Increased CBO's/Slum Dwellers participation. Strengthen project ownership among local actors/minimize external intervention. Private/Public partnerships formed for slum upgrading.	Satisfaction of client groups derived from focus group meetings. Number of consultations undertaken with stakeholders and breadth of issues covered. Number of events engaging partners in addressing underlying informal settlements.	Based on our field interviews we conclude that there was general satisfaction among the clients. Stakeholder consultations were regularly held with CBO's, local cooperatives and women's groups, where substantive issues were covered, such as designs, costs, down payment requirements, repayment levels and collection method were discussed. While no data exists on number of events, participants, etc., we believe this process was highly participatory in all four countries. Public-private partnerships were formed with private commercial banks and municipal governments.
Capacity Building	Increase operational efficiencies. Expand the capacity of local stakeholders to raise domestic capital and handle future upgrading activities with minimum external aid. Upgrade the local labor force and strengthen local training institutions. Improved capacity and capabilities of local NGO's/CBO's to package and access local capital.	Number of capacity building training events organized by the SUF-PT. Numbers of people engaged in "learning by doing" activities on SUF Pilot Projects. Range and number of participants at training events. Number of NGO's/ CBO's emulating slum upgrading work based on the SUF concept. Success rate of applications from municipalities for credit.	Judging by the successful negotiations of loans with local commercial banks, most local stakeholders did apply "learning by doing." There was insufficient information on the number of capacity building training events organized by SUF-PT, or numbers of people engaged in "learning by doing". However, based on interviews with local stakeholders at the LFF's, training on financial modeling was not particularly effective as what was needed at their level was simple financial modeling, considering the very limited financial transactions that the LFF's had. No municipality sought or obtained any assistance in accessing bank loans or selling bonds.

Financial Packaging	Affordable repayment structures developed for servicing debt and repayment of capital. Revenue streams identified capable of attracting capitalisation. Increased level of funding mobilized from the private sector for slum upgrading and municipal development.	Number of bankable projects, identified, packaged and funded with repayment structures agreed. Number of financial instruments designed and successfully applied in pilot project areas. Level of technical/ financial support available to SUF projects from existing facilities e.g. GuarantCo, PPIAF etc.	Mostly successful. Sixteen pilot projects were packaged and reached financial closure during the pilot phase. Repayment structures were developed based on affordability studies. However, the number of financial instruments applied was essentially limited to commercial bank loans backed by credit enhancements. In one case, the LFF provided bridge/construction financing, which was relatively poorly structured but ultimately successful. The Urban Poor Funds supported by SUF (Moratuwa and Ghana) were less successful in meeting SUF's overall objective of mobilizing domestic resources. Local governments did not provide any funding to these funds. The funds seem to revolve only to a limited extent. While no other existing international financing facilities were tapped for the pilot phase, domestic commercial bank funding for slum upgrading was tapped for the first time in the pilot countries.
Impact on Capital Markets/ Housing Finance Sector	Deepening of the local capital markets. Mainstreaming of housing finance loans in the loan product portfolio of formal financial institutions.	Amount of capital raised on local capital markets for slum upgrading. Range of capital market products expanded Regulatory framework established and Institutional capacity enhanced to regulate new products. Number of financial institutions having developed new housing loan products. Turn around and success rate of applications from municipalities for credit.	We believe that this objective was unrealistic. The SUF pilot schemes were not designed to (or were large enough to) help "deepened" local capital markets. However, with LFF credit enhancements, short to medium term capital was raised in the local capital markets for slum upgrading projects. In short, no new financial instruments were developed under the pilot phase of SUF but a new set of quasi financial institutions were created—the LFF's.
Learning and Knowledge Sharing	Established information systems that bring together stakeholder views. A profile of lessons learned Increased community mobilization.	Number of workshops to share experiences for SUF with partners. Demand for UN publications on lessons learnt from SUF. Number of referrals made by the SUF-PT followed up on.	Only partly achieved. A number of workshops were held and presentations made at various fora. A newsletter was produced for a relatively brief period. Ten Working Papers were written. Some of them are easily available on the web and have been distributed quite widely. Community participation has been exemplary in most sub-projects, but it is difficult to judge the extent to which it has broader impact on participation in the pilot countries.

'ready' for implementation; and they were affordable, largely designed and with a strong community involvement and a clear 'champion' (a municipality or NGO) who could drive the implementation forward. Accordingly, all that was needed was a bit of 'financial packaging' by the pilot team in order to make the project 'bankable.' In reality, things were different. All the priority projects required extensive support in capacity building, design and development (as such, several of them never materialized).

Secondly, problems associated with legal and regulatory issues such as land tenure, building permits and utility connections were underestimated during the design stage. The granting of land to the Amui Djor Cooperative Housing Society was a time consuming and tortuous process involving both Tema Development Corporation and Tema Traditional Council. The legal minimum size of 400m^2 plot made it difficult to make sites-and-services type developments affordable (and, thus, bankable) in Dar es Salaam. The two buildings at Moratuwa were built to modified (i.e., lowered) standards to ensure affordability while the high cost of the Tanzania Women Land Access Trust building in Dar es Salaam was to a large extent driven by the existing building code. Lagging electricity and sewerage connections have meant that the otherwise completed Tanzania Women Land Access Trust building has stood unoccupied for more than one year. For a couple of months, the same problem affected Amui Djor project.

Thirdly, SUF was based on the premise that municipalities would be key actors in the upgrading process. However, with the exception of Indonesia, municipalities have not been a driving force in the experimental projects. As noted above, municipalities in Ghana, Sri Lanka and Tanzania do not have the financial resources to undertake significant infrastructural improvements (Annex V). The commitment of municipal leaders to the basic SUF concept has been weak at times: authorities in Dar es Salaam, Jakarta and Moratuwa seem to have been more interested in slum redevelopment than in upgrading.

Fourthly, it was assumed that the local banks would willingly finance the pilot schemes without requiring any credit enhancements as long as the packaging was done right; and, if credit enhancements were required, they could be provided by a number of global actors such as GuarantCo, International Finance Corporation or some other development finance institutions. Thus, as reflected in the Operational Manual, credit enhancement by SUF would be an exception rather than the rule.

Lastly, UN-Habitat (and the SUF team) did not anticipate the delays in the disbursements of development and administration (funds) and credit enhancement funds due to its own disbursement and contracting procedures.

3.1.3 DESIGN OF SUF

The basic directions and operating procedures for SUF were defined during the design phase. The purpose of this phase was to better define the tasks to be undertaken by the Programme Management Unit and the Pilot Team, and to assist in the procurement of the consultants that would constitute the pilot team. The design team prepared the key documents: the UN-Habitat Project Document, the SUF Operations Manual and the terms-of-reference for the pilot team consultants.

The design phase was expected to last 10-12 months, starting September 2004. However, the procurement process was protracted and the design team continued to function until November 2006. During these 26 months, the design team undertook some 20 scoping and follow-up missions to ten countries. The Country scoping papers documented the economic and political context of the country and established the parameters for the SUF programme. The team subsequently used the following criteria to identify Tanzania, Ghana, Indonesia and Sri Lanka as 'pilot countries.'

- Confidence of Central Government in Local Government's capacity for slum upgrading and commitment to slum upgrading;

- Strength of local civil society activity for slum upgrading; and
- Depth of capital market.

The design team proceeded to deepen country analysis, identified potential slum upgrading projects and developed concrete Country Strategy Papers. It also developed project proposals in the four pilot countries. When the pilot team was mobilized in December 2006, the design team 'morphed' into the Programme Management Unit .

The original consultancy study envisaged SUF primarily as a financial advisory facility that responded to different demands, including demands of clients in developing countries. Part of this concept remained in the Operations Manual for the Pilot Phase (i.e. SUF's Advisory Services). However, during the discussions with Cities Alliance and the donors, a decision was taken that the SUF pilot team should work in only four countries. In response, UN-Habitat proposed that the SUF-Programme Management Unit (rather than the pilot team) would undertake work in six other countries (Bangladesh, Cambodia, Kenya, Senegal, Uganda and Zambia) using its own staff and its own consultants (i.e. not the emerging markets group). However, the donors were concerned about a dilution of effort and insisted that the Programme Management Unit would not take up any projects outside the four pilot countries.

In each of the selected pilot countries, the design team prepared a memorandum of understanding (MoU) between UN-Habitat and the designated lead ministry. The memorandum set the objectives and established the partnership framework between SUF and the country representatives. The MoU with the government of Indonesia was signed in October 2005; with the governments of Sri Lanka and Ghana in June 2006 and November 2006, respectively. A draft MoU prepared for Tanzania may not have been signed.

The SUF design team subsequently identified (and started preparation of) eight priority operations for implementation during the Pilot Phase. Thus, the initial scope of work for the pilot team had been narrowed down to four physical projects and four financial products in four countries as detailed below (Box 3.1).

A. Priority Physical Projects:

- Ghana: Pilot slum upgrading projects in Shama Ahanta East Metropolitan Area;
- Indonesia: Cooperative housing project in Yogyakarta;
- Sri Lanka: Pilot slum upgrading projects in Moratuwa; and
- Tanzania: Housing project with Tanzania Women Land Access Trust Cooperatives.

B. Priority Financial Products:

- Ghana: Low income home improvement finance product;
- Indonesia: Scaling up of Co-BILD Initiative;
- Sri Lanka: Low income housing finance product; and
- Tanzania: Additional housing loan guarantee facility.

BOX 3.1: WHAT HAPPENED TO THE PRIORITY PROJECTS?

Three of the priority projects never materialized or provided little tangible benefits (low income housing finance product in Ghana, the cooperative housing project and the Co-BILD housing finance facility in Indonesia). Two others—involving the construction of apartment buildings—were managed by the PMU with the assistance of the local UN-Habitat Program Manager (the Moratuwa upgrading in Sri Lanka and TAWLAT in Tanzania). As will be seen in Section 3.3.4, these schemes turned out to be non-sustainable due to high costs. The three remaining projects were handled by the SUF Design Team. The low income housing finance product in Sri Lanka took the form of LFSUS that has built up a solid track-record (LFSUS in Sri Lanka). The pilot operation in SAEMA consisted of the construction of 15 market stalls in New Takoradi. This pilot was supported by STMA-CSUF that now is developing a project pipeline and has emerged as a potentially viable entity. The housing loan guarantee facility in Tanzania (TAFSUS) has not yet provided any guarantee, but its first operation is at an advanced stage of development and might reach financial closure later this year. (For further information on the fate of the priority projects and their results, see Annex X).

At least three of these projects were initiated by UN-Habitat well before the SUF design phase started (LSM cooperative housing, Co-BILD in Indonesia and Tanzania Women Land Access Trust in Tanzania). It is noteworthy that none of the projects had any association with slum upgrading/urban development schemes financed by a bilateral or multilateral development institution, although such schemes existed in all four pilot countries.

The design team also set the key performance targets for the pilot team that were incorporated in the Terms of Reference for the emerging markets group/Happold Consulting consortium. In essence, before the end of the pilot team contract, four projects should have reached financial closure (i.e. all relevant financial documents should have been signed). The specific targets were:

A. First two projects:

- Financial agreements (financial closure) between SUF Partners and Financial Institutions or Investors => within 18 months;
- Construction initiated and financial flows initiated (i.e. drawdown of loans or placement of instruments) => within 24 months.

B. Additional two projects

- Financial agreements (financial closure) between SUF Partners and Financial Institutions or Investors => within 24 months;
- Construction initiated and financial flows initiated (i.e. drawdown of loans or placement of instruments) => may occur after the pilot team contract of 30 months.

3.1.4 DEVELOPMENT OF THE LOCAL FINANCE FACILITIES

On October 27, 2006 UN-Habitat signed a contract with the pilot team (i.e. the consulting consortium led by the emerging markets group), for a period of 30 months with an option of a 24 month extension. The pilot team mobilized in December 2006. During the first quarter of 2007, the Programme Management Unit accompanied the pilot team on missions to the target countries to hand-over the pilot operations.

Building on the work undertaken by the design team, the pilot team started out well and achieved the initial intermediate targets. Four pilot projects selected by the SUF design team were prepared, and submitted to UN-Habitat in March 2007. In addition, four Country Project Implementation Plans, which included future project pipelines, were submitted in draft form in April 2007 and, after comments from the consultative board and Programme Management Unit , finalized in June 2007. Between April and May 2007, the pilot team recruited country coordinators for Ghana, Indonesia and Sri Lanka. A temporary country coordinator was contracted in Tanzania.

The pilot team entered into formal agreements with implementing partners (e.g. local authorities, community-based organizations and financial institutions). Two such agreements were in place within 18 months and a total of four within 30 months of contract signing. This took the form of establishing entities that brought together the various stakeholders that supported project implementation. These entities subsequently became the Local Finance Facilities. The rationale for and the initial operation of these facilities varied.

The Lanka Financial Services for Under-Served Settlements originated from a SUF Working Paper on low-income housing finance in Sri Lanka prepared in early 2006. It was conceived as a financial guarantee institution. Its main objective was to *'provide full, partial or other forms of guarantees to banks or other funding sources in order to secure lending to (i) Low income earners or housing societies formed by such groups, for the purposes of financing slum upgrading and settlement development projects, and (ii) Micro-finance institutions, community based organizations or other such similar institutions for the purpose of facilitating access to home improvement loans by low income households'.*

The original approach for the Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading

Fund (Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund) and TEMA/ Ashairman Metropolitan Slum Upgrading Fund in Ghana build on SUF Working Paper #6 *'Pre-Investment Development Finance--Concept Note.'* This note outlined a proposal for the establishment of City-Wide Pre-Investment Development Finance Facilities. These proposed entities were in some respects a hybrid between an Urban Poor Fund and the Local Finance Facility. Thus, the Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund was conceived as *'an innovative and sustainable finance facility blending local government tax revenues and commercial bank finance in order to provide the necessary loan finance for major settlement upgrading initiatives in the city.'*

Reflecting the diversity of the original approaches, the Local Finance Facility in Solo, Indonesia was registered in October 2007 as the Urban Settlement Funding Agency Foundation or the Indonesian non-governmental organization, Yasasan Lembaga Pembiayaan Permukiman Perkotaan. The activities of the foundation included 'social funding activities in order to mobilize the fund resources for the interest of development, to build inhabitable houses and to renovate uninhabitable houses to be inhabitable ones for settlement including supporting infrastructure, supra-structure, and environment.' It turned out that this was an unworkable approach and the Yasasan Lembaga Pembiayaan Permukiman Perkotaan was subsequently replaced by a Local Public Service Authority or Badan Layanan Umum Daerah in Solo, Indonesia.

In September 2007, the pilot team submitted to the Programme Management Unit a Credit Enhancement Application for Lanka Financial Services for Underserved Settlements that outlined, *inter alia*, the proposed functioning of the guarantee facility. The Lanka Financial Services for Underserved Settlements concept was also a major topic of discussion at the SUF Consultative Board meeting held in Colombo in October 2007. While the concept was generally agreed, numerous questions were raised, especially by the Cities Alliance. The institutional, financial and fiduciary aspects were refined over the coming months, but as discussed further in Annex 7, UN-Habitat (especially the Programme Support Division) had difficulties in finding appropriate contractual arrangements for release of funds to Lanka Financial Services for Underserved Settlements. It was not until November 2008 that the contract between UN-Habitat and Lanka Financial Services for Underserved Settlements was signed. Funds were released in January 2009.

Through this rather cumbersome process, the Local Finance Facility concept was further developed and the approaches taken in the four countries became more uniform. The approach to financing the Local Finance Facilities was also refined. It was decided that SUF would provide two types of funding to the Local Finance Facilities:

- **Development and Administration Funds** to support the activities of the Local Finance Facilities during the initial operations phase;
- **Credit Enhancement Funds** to be used by the Local Finance Facilities to provide guarantees, bridge loans or other types of credit enhancements to encourage commercial banks to fund home improvements, low cost housing and slum upgrading activities.

The release of funds by SUF was also made contingent on the Local Finance Facilities meeting certain performance targets. After receipt of the funds, the Local Finance Facilities deposited them into interest bearing accounts. The interest earned on these deposits has been used to cover some of the operating costs of the Local Finance Facilities.

Lanka Financial Services for Underserved Settlements in Sri Lanka, Tema/Ashairman Metropolitan Slum Upgrading Fund and Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund in Ghana were formally established in November and December 2007, respectively. Local Finance Facility in Yogyakarta, Indonesia, the Local Finance Facility in Jogjakarta, Indonesia was established in April 2009, just before the termination of the pilot team contract. The two other Local Finance Facilities (Tanzania

Financial Services for the Underserved Settlements in Tanzania and Badan Layanan Umum Daerah in Solo, Indonesia followed later in 2009 (Table 3.4). In principle, this should have led to a shift in strategy for the pilot team from working directly with stakeholders in the four pilot countries in the 'financial packaging' of projects, to focusing on the creation and capacity development of the Local Finance Facilities. Much of this effort should have taken the form of 'learning by doing' by assisting and advising the Local Finance Facilities in all aspects of their operations. However, there were significant gaps between the establishment of the Local Finance Facilities and the release of development and administration funds. In essence, this meant that the Local Finance Facilities had to operate without any staff. The pilot team, and especially its country coordinators, had to step in and function as the secretariat to the Local Finance Facilities. Thus, the pilot team largely lacked a counterpart to train. This also meant that the main focus of the pilot team remained on developing individual projects for financing by the Local Finance Facilities. A contributing factor to this emphasis might have been the output targets for the pilot team that were to prepare four 'projects' and to bring them to financial closure (i.e. having all financing agreements

TABLE 3.4: Establishment and Funding of the Local Finance Facilities

Local Finance Facility Location Country Date Established	BLUD Solo Indonesia Nov-09	KotaKITA Jogjakarta, Indonesia Apr-09	LFSUS Colombo Sri Lanka Nov-07	STMA-CSUF Takoradi Ghana Dec-07	TAMSUF Accra Ghana Dec-07	TAFSUS Dar es Salaam Tanzania Jun-09
Development and Administration (D&A) Funds						
First Release						
Date	Dec-09	Jun-10	Jan-09	Dec-08	Dec-08	Apr-10
Amount (USD)	105,000	125,000	180,000	65,000	90,000	200,000
Second Release						
Date	May-10		May-10	Mar-10	Feb-10	
Amount (USD)	20,000		20,000	10,000	10,000	
Total D&A Amount (USD)	125,000	125,000	200,000	75,000	100,000	200,000
Credit Enhancement (CE) Funds						
First Release						
Date	Jun-10	Jun-10	Jan-09	Feb-09	Jan-09	Nov-10
Amount (USD)	1,004,084	225,000	650,000	290,000	400,000	1,000,000
Second Release						
Date			Nov-10	Feb-11		
Amount (USD)			550,000	210,000		
Total CE Amount (USD)	1,004,084	225,000	1,200,000	500,000	400,000	1,000,000
Undisbursed CE Funds (USD)					400,000	
Total Funding Commitments from SUF (USD)	**1,129,084**	**350,000**	**1,400,000**	**575,000**	**900,000**	**1,200,000**
Time Lag to 1st release	1 month	15 months	14 months	12 months	12 months	10 months

Source: UN-Habitat

signed and funds being released).

The first scheme to reach financial closure (in October 2008) was the Kratonan I project in Solo Indonesia (Table 3.5). It received a guarantee from the Indonesian non-governmental organization, Yasasan Lembaga Pembiayaan Permukiman Perkotaan , the precursor to Badan Layanan Umum Daerah (Solo, Indonesia). The Indonesian non-governmental organization, Yasasan Lembaga Pembiayaan Permukiman Perkotaan utilized a grant of USD 10,000 from SUF's capacity building funds. This was done to demonstrate the usefulness of guarantees to the consultative board meeting in Solo. Institutional issues (largely related to what type of entity UN-Habitat could support) resulted in modifying the original Local Finance Facility concept for Solo and Badan Layanan Umum Daerah (Solo, Indonesia), established first in November 2009 and SUF's credit enhancement funds were released in June 2010. The second project to reach financial closure was the Kirulapona scheme in Sri Lanka that received a guarantee from Lanka Financial Services for Underserved Settlements in February 2009, just days after UN-Habitat had released the credit enhancement funds.

The pilot team had a number of other projects in the pipeline that were ready for implementation but had not reached financial closure by the time emerging markets group's contract expired in April 2009. The reason given by emerging markets group was the delay in the release of credit enhancement funding for these projects. Some of these 'ready' projects never materialized and most of the others needed financial restructuring. The Amui Djor multi-storey, multi-purpose building in Accra started construction in mid-2009 with bridge financing from Tema/Ashairman Metropolitan Slum Upgrading Fund. Permanent (i.e. mortgage) financing was in place first in April 2011. The Kojokrom Market in Takoradi, Ghana reached financial closure in December 2009, with

TABLE 3.5: Financial Closure Dates for SUF Projects

Local Finance Facility	Financial Close Date	Name of Project	Location	Type of Project	Commercial Bank Lender	Type of Credit Enhancement
BLUD (YLP3)	Oct-08	Kratonan I	Solo	House Improv.	Bukopin Bank	Guarantee (2)
LFSUS	Feb-09	Kirulapona	Kirulapona	House Improv.	HSBC	Guarantee
STMA-CSUF	Dec-09	Kojokrom Market	Takoradi	Market Stalls	Merchant Bank	Guarantee
LFSUS	Jun-10	Kanadola	Ratnapura	House Improv.	Reg Dev Bank	Guarantee
KotaKITA	Nov-10	Badran Bio-Septic Tank	Jogjakarta	Comm. Infra	Bukopin Bank	Guarantee
KotaKITA	Nov-10	Badran Upgrading	Jogjakarta	House Improv.	Bukopin Bank	Guarantee
KotaKITA	Nov-10	Pingit	Jogjakarta	House Improv.	Bukopin Bank	Guarantee
BLUD	Dec-10	Pajang Upgrading	Solo	House Improv.	Bank Pasar	Guarantee
LFSUS	Dec-10	Weeraketiya	Hambantota	House Improv.	Hatton N Bank	Guarantee
BLUD	Jan-11	Guwosari Upgrading	Solo	House Improv.	Bank Pasar	Guarantee
LFSUS	Feb-11	Nuwara Eliya	Nuwara Eliya	House Improv.	Hatton N Bank	Guarantee
TAMSUF	Apr-11	Amui Djor	Accra	Multi-Storey	Amal Bank	Bridge (1) & Guarantee
LFSUS	May-11	Deniyaya	Deniyaya	House Improv.	Hatton N Bank	Guarantee

Source: Concerned Local Finance Facilities: Note (1) TAMSUF provided a Dridge/construction loan in mid 2009 for Amui Djor (2] Kratonan I in Solo received credit enhancement from BLUD's precursor YLP3 (using capacity building funds from SUF rather than I CE funds).

a guarantee from Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund. Like most other projects in the pipeline, this project needed an overhaul of the financial arrangements to ensure that the most favourable terms were obtained by the beneficiaries while the risks to the Local Finance Facility were properly mitigated.

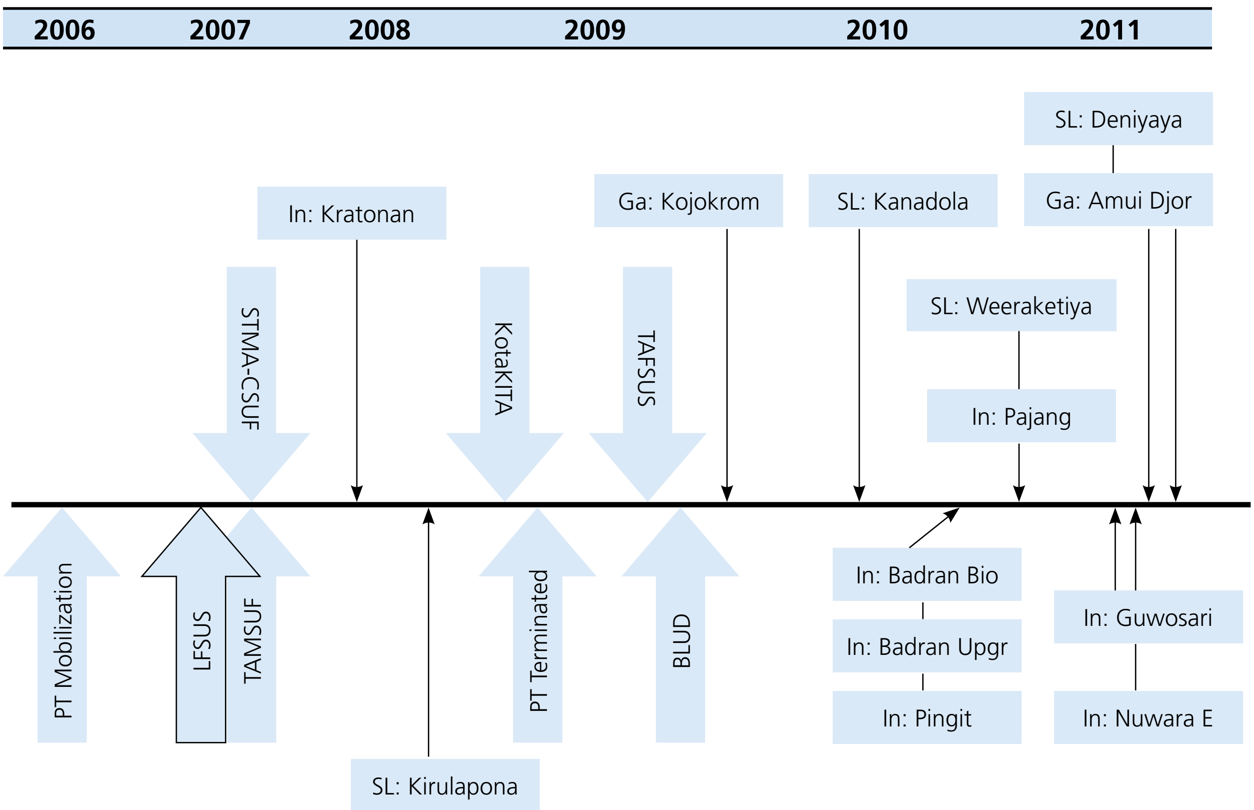
After the departure of the pilot team, the Programme Management Unit assumed the responsibilities for the Local Finance Facilities. However, The Urban Finance Branch (Urban Finance Branch) of UN-Habitat effectively took over the responsibility for SUF in July/August 2009. It undertook a major review of the SUF programme in August/September 2009. The review concluded that the Local Finance Facilities needed significant amounts of technical assistance in project preparation, financial operations, risk analyses, guarantee operations, and legal aspects. In November 2009, the SUF-Programme Management Unit was effectively merged into the Urban Finance Branch. Consequently, Urban Finance Branch has continued to provide considerable technical assistance to restructure and strengthen the Local Finance Facility portfolios and build up the financial and operational capacity of the Local Finance Facilities, an effort that has continued until today.

The timeline for the establishment of the Local Finance Facilities and their 'delivery' of financed projects is presented in Figure 3.2. It clearly shows that after a slow start of the Local Finance Facilities, financing activities have accelerated.

3.1.5 URBAN POOR FUNDS AND OTHER FINANCE SCHEMES

The Programme Management Unit had overall responsibility for implementation of the pilot programme. It provided oversight and guidance

FIGURE 3.2: Timeline for the SUF Pilot Phase



to the pilot team. However, the Programme Management Unit (rather than the pilot team) also managed a number of field activities (typically with support from the in-country Habitat Programme Manager and the SUF Country Coordinators). These activities were generally initiated during the design phase, and were aimed at testing out other assistance/financing models. The most prominent of the field activities managed by the Programme Management Unit were:

A. Pilot Slum Upgrading Projects in Moratuwa Sri Lanka

This initiative was intended to upgrade infrastructure and housing in three informal settlements with some 300 households in Moratuwa town, a suburb in Colombo. The scheme was the result of a broad based community led effort supported by a local NGO, Janarukula, and by Slum Dwellers International (SDI) as well as Women's Bank, a microfinance lender. The programme encountered serious land tenure and affordability problems. So far, a four storey apartment building with eight units has been completed and another building with 12 units is under construction at Usavi Watta. The reduced project was implemented with support from UN-Habitat's Programme Management Unit, including (i) USD 40,000 as 'seed capital' for construction; (ii) USD 60,000 for capitalization of the Moratuwa Urban Poor Fund (Moratuwa Urban Poor Fund); (iii) USD 42,000 for Moratuwa Urban Poor Fund capacity building of the community.

The Moratuwa Urban Poor Fund also received a contribution of USD 50,000 from Slum Dwellers International's Urban Poor Fund International but not from the municipality. The Moratuwa Urban Poor Fund funds were used as collateral for 20-year, subsidized mortgage loans to the 20 beneficiaries (average loan size USD 4,500). In addition to the guarantee provided by the Moratuwa Urban Poor Fund, each beneficiary household received about USD 900 in subsidy from the government and about USD 2,000 from SUF (classified as 'seed money'). These funds will not revolve. Our conclusion is that the scheme is not financially sustainable.

B. Development of a Low Income Home Improvement Finance Product, Ghana

An amount of USD 125,000 were made available to BOAFO Microfinance Services Limited (BOAFO), which was a joint venture between cooperative housing foundation International (a US based NGO concerned with cooperatives and community housing finance) and HFC Bank Ltd (a Ghanaian financial institution). The funds were used for a study to develop a low income home improvement finance product as well as ordinary microloans. While the microloans were popular, it appears that the conditions for the housing loans were too restrictive. According to the Urban Finance Branch, BOAFO has provided very few home improvement loans.

C. Support of the Ghana Fund for the Urban Poor

The Ghana Fund for the Urban Poor developed out of community-driven savings and loans schemes based upon the 'merry-go-round' concept. The Programme Management Unit provided USD 100,000 for the local partner People's Dialogue for the Urban Poor (PD) to help capitalize Ghana Fund for the Urban Poor (USD 75,000) and for capacity building of communities (USD 25,000). Out of the funds earmarked for Ghana Fund for the Urban Poor, half would be used for programmes in Tema and half in Takoradi. People's Dialogue (an affiliate of Slum Dwellers International) was the umbrella NGO of local slum community groups. Besides the USD 100,000 grant from SUF, Ghana Fund for the Urban Poor received a contribution (of at least USD 20,000) from Slum Dwellers International's Urban Poor Fund International. It was also planned that the municipality would contribute part of its property tax revenues. However, it seems that this contribution never materialized. Some of the Ghana SUF funds earmarked for Tema were used for more than 100 small loans to slum dwellers. However, as reported by project document: 'the repayment of the loans has not been encouraging and default is high.' Given that money is fungible, part of the SUF grant may also have been used (at least indirectly) to pay for part of the cooperative's down payment of

USD 60,000 and to buy the toilet block for USD 40,000 in the Amui Djor apartment building that was supported by Tema/Ashairman Metropolitan Slum Upgrading Fund.

D. Tanzania Women Land Access Trust

The most prominent of the priority projects is the apartment building located in the built-up Kinondoni District of Dar es Salaam under the auspices of the Tanzania Women Land Access Trust (Tanzania Women Land Access Trust). Tanzania Women Land Access Trust is a non-profit organization established in 2004 to assist low-income women gain access to land and affordable and secure home ownership. It is one of several Women Land Access Trusts established in Africa with the support of UN-Habitat's Gender Unit. The building has 20 apartments, five shops and some other commercial space. It was essentially completed in May 2010 but has remained unoccupied due to lack of electricity and sewerage connections. UN-Habitat has so far paid out USD 1.26 million. However, the contractor has not been paid since September 2010 and, under the contract, he is owed more than USD 250,000 for completion of the works. With some additional expenses for the electricity connection, the total construction cost is likely to reach USD 1.6 million. The project has also benefited from various direct and indirect subsidies amounting to around USD 800,000. SUF has contributed USD 500,000 to the construction cost of the project, a sum that is greater than the total amount that has been used for guarantees for all the 13 projects supported by the Local Finance Facilities so far. In accordance with the terms-of-reference, the Evaluation Team undertook a special analysis of this project, which is presented in Annex 9.

Tanzania Women Land Access Trust is the umbrella organization for six women's cooperatives that together have more than 500 members. Although most of these women best can be characterized as middle or upper middle class, only a few can afford even the smallest two bedroom apartment. It was quite clear already when the design team first looked at this project that it would be affordable to only the very top income earners in Dar es Salaam. However, support for Tanzania Women Land Access Trust appeared to have been an institutional priority at the time. One member of the design team expressed it in the following terms: *'…there were too many conflicting/competing interests; some of which were really outside the mandate of SUF and distracted from the business SUF was supposed to be doing; but, these interests had to be 'satisfied' or catered to.'*

3.2 ASSESSMENT OF SUF PILOT PROGRAMME

3.2.1 ASSESSMENT OF INSTITUTIONAL ARRANGEMENTS

The governance structure and implementation arrangements for SUF are described in Section 3.2. These arrangements had a significant impact on the implementation of SUF process. The key organizational issues identified during the evaluation are discussed below.

A. The Role of the Cities Alliance

UN-Habitat was the implementing agency for SUF. This implied that all operations had to conform to UN-Habitat's policies and procedures. However, Department for International Development of the United Kingdom's contribution was channelled through the Cities Alliance. Since the Cities Alliance is a trust fund managed by the World Bank, the utilization of its grant had to conform to the World Bank's policies and procedures. Consequently, key documents and operational decisions taken by UN-Habitat and the Programme Management Unit were subject to review and approval by the Cities Alliance. On the one hand, this meant that SUF could benefit from the World Bank's extensive experience in undertaking financial and slum upgrading operations. On the other hand, this arrangement introduced a multi-layered decision making structure that retarded progress. The most striking illustration of both the positive and negative implications of this arrangement was the processing of Lanka Financial Services for Underserved Settlements' application for credit enhancement. The application was submitted in October 2007 but funding was not released until January 2009, some 15 months later (Annex 7). The Cities Alliance raised, inter alia, a number of fiduciary concerns related to Lanka Financial Services for Underserved Settlement's role as a financial intermediary. While the Cities Alliance helped set the framework for the operation of not only Lanka Financial Services for Underserved Settlements but also the other Local Finance Facilities, the decision making process doubtless contributed to implementation delays and, according to the pilot team, to a loss of momentum and credibility with pilot country stakeholders.

B. UN-Habitat's Policies and Procedures

The main reason for the delays in approving credit enhancements was UN-Habitat's own policies and procedures that were based on its traditional model of providing grants for implementation of individual projects not supporting financial institutions. (Thus, there were no difficulties in making the arrangements for release of funds for the Tanzania Women Land Access Trust and the Moratuwa project in Sri Lanka.) The cumbersome process of modifying these policies and procedures highlighted several weaknesses in UN-Habitat's capacity to deal with financial intermediaries: it lacked lawyers with experience in financial transactions; the Programme Support Division did not fully understand commercial finance; and the Project Review Committee (comprising senior managers) had no relevant financial expertise. In addition, the SUF Programme Manager lacked a peer group of finance officers able to provide guidance and advice.

UN-Habitat's procurement was (and still is) handled by the United Nations Office in Nairobi (UNON). The UNON procurement procedures turned out to be cumbersome and time consuming and were the major factor contributing to the 17-18 month delay in signing the contract with the pilot team (Box 3.2). During the design phase, UN-Habitat also experienced difficulties in hiring local experts for SUF. In one case the process took five months. In another case, the local financial expert found the UNDP mandated maximum rate to be unacceptable (but agreed to work for the project on a pro bono basis).

C. Functioning of the Consultative Board

The Consultative Board generally met twice a year. It had 11 members who could (and many did) bring along additional support personnel. The Board Meetings were also attended by Programme Management Unit staff (the SUF Programme Manager acted as Secretary to the Board). The pilot team and Local Finance Facility/ country representatives also attended most of the consultative board sessions. Thus, attendance ranged between 30 and 40 persons.

The main duties of the Board were rather vaguely defined in the Operations Manual as *'review the progress, monitoring and evaluation reports and make recommendations, based on their views, to the SUF Programme Manager for the overall direction of the pilot projects.'* One of the key tasks was to review the annual implementation plan (Annual Implementation Plan) that outlined the work programme and the budget. The Annual Implementation Plan and other SUF spending were subject to the approval by the donors and the Cities Alliance. Since they were represented on the consultative board, the consultative board sometimes appears to have taken policy as well as operational decisions. However, a review of Board documents (agendas, minutes, meeting notes, etc.) as well as interviews with Board members and others who attended the meetings seems to indicate that the Board provided little substantive guidance to the Programme Management Unit and the pilot team. The SUF Mid-Term Review observed: *'the Board has not functioned as well as it might have done given a more precise mandate. There is little contact between members between meetings, and little direction and support is given to SUF. There are probably too many Board members and it might be possible to reduce its size and make it more of an executive board.'*

In several occasions, SUF held ad hoc expert group meetings (EGM's) on the day before the Board meetings. The EGM's were attended by specially invited experts as well as Board members. These meetings were quite useful and provided some guidance to the Programme Management Unit and the pilot team.

D. Contracting-Out of Pilot Operations

A key feature of the implementation arrangements was the contracting out of the global operations to a consortium of consultants. This was a key condition for the funding from the Department for International Development of the United Kingdom. The rationale for its position was the lack of financial expertise in UN-Habitat. Department for International Development of the United Kingdom also had a positive experience from the use of private firms in the implementation of the various initiatives under the Private Infrastructure Development Group (such as Emerging Africa Infrastructure Fund and GuarantCo). Given a choice, UN-Habitat's management would have preferred to operate SUF in-house.

The current arrangement had several implications. First of all, it prolonged procurement and contracting process delaying the start of the Pilot Phase. Although the design team continued to work, and developed both methods and potential projects during the interregnum, important momentum was lost.

The pilot team comprised a group of international experts assembled specifically for this task (a common practice in the consulting business). They operated from their home bases. The team leader worked from Nairobi for one out of the 21/2 years of the contract period, but was not located within the Programme Management Unit. This complicated information sharing and collaboration between UN-Habitat and the pilot team. It is likely that the policy and procedural issues related to the release of credit enhancement funds could have been resolved easier if the pilot team had been UN-Habitat staff and could interact directly with the Programme Support Division and UN-Habitat management.

The initial directions for the pilot team were set during the hand-over missions undertaken jointly with the design team between December 2006 and February 2007. The following 18 months were critical for the development of the upgrading schemes. However, the international consultants spent very little time in the field. A review of the pilot team's travel schedules indicated that a mission visited Ghana, Indonesia and Sri Lanka for about a week every 2-3 months (Table 3.6). The missions to Tanzania were for three days, every three months. Two-thirds of the missions comprised only one of the international experts.

The limited amount of time that the pilot team spent in the field raises questions about the ability of the team to fully understand complex land tenure, social, political and institutional conditions in the pilot areas and at the same time provide capacity building and 'learning-by-doing' to local stakeholders.

The Programme Management Unit also regularly travelled to the pilot countries to deal with the Programme Management Unit managed projects and to observe first-hand progress on pilot projects. According to some country stakeholders, Programme Management Unit

BOX 3.2: TIMELINE FOR APPOINTMENT OF THE PILOT TEAM CONSULTANTS

The request for expressions of interest for firms to enter into an international service contract for the Pilot Team was released by United Nations Office at Nairobi (UNON) in December 2004. Following a rapid evaluation, the Request for Proposals (RFP) was issued by UNON on 15 February 2005. Five proposals were received on 29 March 2005. The five team leaders of bidding consortia made presentations to Consultative Board on 31 March 2005. UN-Habitat and UNON completed the technical and financial evaluations of the proposals in May 2005. The following month the Executive Director called upon the New York-based investigation unit of the Office of Internal Oversight Services (OIOS) to undertake a background check on the five consortia. All were cleared by OIOS in November 2005, but at this time two consortia had withdrawn. On 28 February 2006 UNON awarded the SUF Pilot Team contract to the Emerging Markets Group Consortium (EMG). Contract negotiations were completed in a couple of months. However, UN-Habitat's management decided to wait with signing of the contract until firm financial commitments were received from the donors. After receiving commitments from Sida and the Government of Norway, the contract was signed on 15 November 2006.

(Sources: SUF Design Phase Draft Final Report, 31 March 2006; SUF Progress Report No 5, 21 November 2006; and interviews)

TABLE 3.6: Days that a Pilot Team Mission visited the Pilot Countries

	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Total
Ghana			8				10			5	6	7	6		6		4	4	56
Indonesia			8	5	10			9				6					6	6	50
Sri Lanka	5			6				5			10		10		5	7		4	52
Tanzania		4			3		3			6	3	3				2			24

Source: Pilot Team Quarterly Reports.
Notes: Excludes time when the Pilot Team attended Consultative Group Meetings Figures in italics are estimates when no dates have been given

missions occasionally led to some confusion and 'mixed signals.' It is also possible that if all the pilot operations were run directly by the Programme Management Unit, some efficiency gains might have been made through increased time working directly with the country stakeholders.

SUF was an experimental undertaking. When the contract was signed, UN-Habitat's design team had some ideas about which projects and financing approaches would be explored during the Pilot programme, but the team did not really know which approaches would work, where or how much effort would be required to bring any project to financial closure. The emerging markets group consortium had even less knowledge of what conditions they would meet 'on-the-ground' once the assignment started. This should have called for a flexible contracting approach. Unfortunately, the contract signed was conventional, inflexible and provided some wrong incentives (Box 3.3).

Swedish International Development Cooperation Agency, and to some extent the donors community, saw their support to SUF as a way of strengthening UN-Habitat's capacity to deal with urban housing financing issues. While some learning has taken place and UN-Habitat has gained some experience in handling financial intermediary operations, UN-Habitat's capacity to manage financial operations remains weak.

BOX 3.3: THE PILOT TEAM CONTRACT

The Programme Document described SUF as "a highly experimental exercise." It was clearly an explorative undertaking aimed at "determining what developing countries need to access domestic capital markets." The SUF Pilot Programme evolved significantly since its inception from initial focus on specific schemes to the establishment and nurturing of the LFF's. At the time the contract was signed, not much was known about the potential projects in the four pilot countries. Still, the contract with the EMG consortium was very conventional with a number of specific output targets, especially bringing four projects to financial closure, of which two would be under construction within 24 months. The contract also included cost estimates for a dozen key outputs. The reason for the specificity of the contract was a desire to hold the Pilot Team "accountable" for results.

This evaluation has noted the limited capacity building of the LFFs that the Pilot Team provided. In part, this was due to the delayed release of D&A funds but also the incentives provided to the Pilot Team. The Mid-Term Review observed: "The focus of the PT on small pilot subprojects resulted from the terms of the contract with EMG, which establishes specific milestones…"

Given the uncharted territory that the Pilot Team had to navigate, a more flexible type of contract would have been more appropriate. For example, UN-Habitat could have entered into a framework contract or indefinite delivery contracts (IDC) with EMG. ADB describes IDCs in the following terms: "These are contracts in which individual consultants, firms, or consortia of firms are pre-qualified and retained for an extended period… to provide advice on a particular activity, the extent and timing of which cannot be defined in advance." Under such a contract, EMG would have agreed to provide specified professional services (at agreed costs). At regular intervals (say every six months) UN-Habitat would issue service or task orders specifying the work to be done during the next six months.

E. The 30 Percent Limit on Credit Enhancements

Donors had three main conditions regarding their grants. Two of which were discussed above (i.e. the role of the Cities Alliance and the contracting-out solution for the pilot team). In addition, donors set a limit on how much of their grants could be used for credit enhancements. This limit was expressed in the Operations Manual in the following terms:

> ***'…there is a limit of not more than 30 per cent of the CIP [Country Implementation Plan] funding may be used for credit enhancement/ bridge finance / seed capital purposes.'***

The rationale for such a limit was quite simple: The donors were firmly committed to SUF's central objective of mobilizing domestic capital for slum upgrading and saw the pilot team's main role as assisting local partners in the financial packaging of their projects. They were well aware of the SUF's plans for the Tanzania Women Land Access Trust and Moratuwa and, were concerned that UN-Habitat would use grants as substitutes for bank and bond financing rather than as complements.

Although UN-Habitat staff pointed to this condition as a major constraint on SUF's operations, the evaluation team found no evidence that this was the case. While the availability of credit enhancement funds was a problem for the Local Finance Facilities, which severely impacted the evolution of the Local Finance Facilities and the creation of a viable project pipelines; the cause was the delay to release funds, and not the amount of money available for credit enhancements. Indeed, the Local Finance Facilities have so far utilised only 7.5 per cent of the allocated credit enhancement funds, with a maximum of 15.0 per cent for the Lanka Financial Services for Underserved Settlements. Lanka Financial Services for Underserved Settlements was likely to be the first Local Finance Facility to hit the present limit on its credit enhancement funds, but this was not expected to happen until late in 2012, by which time it will hopefully manage to augment its capital from other sources.

3.2.2 ASSESSMENT OF SUF'S CREDIT ENHANCEMENT APPROACHES

A basic premise of SUF was that commercial banks and bond holders would not lend to the urban poor and to municipalities because these category of borrowers were too risky (i.e. not creditworthy). Thus, it was acknowledged that some form of 'credit enhancement' was required to mobilize domestic financing for shelter and related infrastructure in slum areas. The Operations Manual and the Terms of Reference for the pilot team assumed that existing institutions such as GuarantCo, International Finance Corporation and USAID through its Development Credit Authority facility would provide the credit enhancement. However, the Operations Manual acknowledged that these institutions might not be *'in a position to provide the type or extent of credit enhancement required.' In such a case, the pilot team 'may request such credit enhancement support from the SUF.'*

The Operations Manual did not clearly define 'credit enhancement.' However, in a note on 'SUF credit enhancements' submitted to the consultative board on September 26, 2007, the Programme Management Unit suggests that*'… these credit enhancement grants will be one of three types:*

- Project implementation support, either in the form of TA funds for developing a project, or matching grants to leverage private financial participation.
- Bridge finance and other revolving fund mechanisms, such as urban poor funds; and
- Guarantee funds, in form of grant to local financial institution, which would provide a guarantee.'

Most of these types of financing do not meet the traditional definition of credit enhancement (Box 3.4) but, for consistency with all SUF documents, this evaluation report has adopted the SUF terminology.

BOX 3.4: THE CONVENTIONAL DEFINITION OF CREDIT ENHANCEMENT

As commonly defined in the financial industry, credit enhancement is a financial arrangement intended to reduce the risks to a lender (bank or bond holder). It can take various forms such as collateral, letters of credit, mortgage insurance, corporate guarantees, or other agreements to provide the lender with some assurance that it will be compensated partly or fully in the event of a financial loss.a

Thus, the basic objective of credit enhancements is to compensate the lender in case of borrower default. Technical Assistance funds, matching grants, bridge loans, revolving loan mechanisms or urban poor funds cannot be regarded as "credit enhancements."

[a] (See for example http://www.investopedia.com/terms/c/creditenhancement.asp)

Credit enhancements became the norm in the SUF pilot operations. Besides TA funds, SUF explored a number of different models for credit:

- The Local Finance Facilities (e.g., Badan Layanan Umum Daerah, Yayasan KotaKITA, Lanka Financial Services for Underserved Settlements, Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund, Tanzania Financial Services for the Underserved Settlements and Tema/Ashairman Metropolitan Slum Upgrading Fund)
- Non-Local Finance Facility guarantees (Moratuwa and Tanzania Women Land Access Trust)
- Urban Poor Funds (Ghana and Moratuwa Urban Poor Funds)
- Bridge Loans/Revolving Funds for Construction (Tanzania Women Land Access Trust)
- Matching grants/seed money (Moratuwa project)

The Local Finance Facilities' credit guarantees have proved to be effective instruments in mobilizing commercial bank financing for housing improvements and community infrastructure (e.g. the collective septic tank in Jogjakarta). All the Local Finance Facilities have provided such guarantees to all sub-projects; in addition, Amui Djor of Ghana received bridge/construction financing from the Tema/Ashairman Metropolitan Slum Upgrading Fund. The guarantees have covered 50 per cent to 100 per cent of the outstanding loan amount (Table 3.7), with a portfolio average of 80 per cent due to the low ratio for Lanka Financial Services for Underserved Settlements (68 per cent).

Given that the Local Finance Facilities lack financial strength, an amount equal to the guarantee ceiling has been placed in an interest bearing escrow or trust account that the lender can draw upon in case of borrower default. They provide leverage and once the underlying loans are repaid, the guarantee revolves, i.e. the money can be used for new guarantees. As long as the risks are properly mitigated, the Local Finance Facilities are sustainable (provided that their scale of operation is sufficiently large to generate sufficient revenue to cover their administration and technical assistance costs).

The two upgrading projects supported by SUF outside the Local Finance Facility operations (Tanzania Women Land Access Trust and Moratuwa) also involved guarantees to secure long-term mortgage finance. In Tanzania, traditional mortgage financing is available to only top 3 per cent of income earners. This means that banks could not lend to the urban poor or the middle class without any risk mitigation measures in place. UN-Habitat provided funding to Tanzania Women Land Access Trust for credit enhancement. The MOU between Tanzania Women Land Access Trust and Azania Bank provided for a guarantee from Tanzania Women Land Access Trust (in the form of a deposit in an escrow account held by Azania) to secure 10-15 year mortgage loans to the owners of the Tanzania Women Land Access Trust condominium apartments. At the time of signing of the MOU, the guarantee was in the amount of USD 100,000 as a grant from UN-Habitat. A total amount of mortgage loans of USD 400,000 was expected. It should be noted, however, that the mortgage holders would meet Azania's general qualification requirements. Further, it should be noted that

TABLE 3.7: Credit Enhancements provided by the Local Finance Facilities

Local Finance Facility	Financial Close Date	Name of Project	Commercial Bank Lender	Project Cost (USD)	Commercial Bank Loan (USD)	Per cent of Credit Enhancement	Amount of Credit Enhancement
TAMSUF	Apr-11	Amui Djor	Amal Bank	281,879	97,315	100%	97,315
STMA-CSUF	Dec-09	Kojokrom Market	Merchant Bank	51,350	51,350	100%	51,350
Sub-Total Ghana				**333,230**	**148,666**	**100%**	**148,666**
LFSUS	Feb-09	Kirulapona	HSBC	60,000	54,545	50%	27,273
LFSUS	Jun-10	Kanadola	Reg Dev Bank	25,000	20,805	70%	14,545
LFSUS	Dec-10	Weeraketiya	Hatton N Bank	100,000	95,455	80%	76,364
LFSUS	Feb-11	Nuwara Eliya	Hatton N Bank	55,000	50,000	70%	35,000
LFSUS	May-11	Deniyaya	Hatton N Bank	50,000	45,454	60%	27,272
Sub-Total Sri Lanka				**290,000**	**266,259**	**68%**	**180,454**
BLUD (YLP3)	Oct-08	Kratonan I	Bukopin Bank	11,938	11,938	100%	11,938
BLUD	Dec-10	Pajang Upgrading	Bank Pasar	1,744	1,744	50%	872
BLUD	Jan-11	Guwosari Upgrading	Bank Pasar	814	814	50%	407
KotaKITA	Nov-10	Badran Bio-Septic Tank	Bukopin Bank	860	860	100%	860
KotaKITA	Nov-10	Badran Upgrading	Bukopin Bank	8,488	8,488	100%	8,488
KotaKITA	Nov-10	Pingit	Bukopin Bank	1,744	1,744	100%	1,744
Sub-Total Indonesia				**25,589**	**25,589**	**95%**	**24,309**
Grand Total				**648,818**	**440,513**	**80%**	**353,429**

Source: Concerned LFF's. Notes (1) Amui Djor-TAMSUF provided a bridge/construction loan in mid 2009; (2) Kratonan I in Solo received credit enhancement from BLUD's precursor YLP3 (using capacity bulding funds from SUF rather than CE funds); Exchange rates available in Annex XI.

the members of the Tanzania Women Land Access Trust cooperatives best could be classified as middle or upper-middle class and not as 'urban poor.'

In the Moratuwa project, long-term financing for the new occupants of the two apartment buildings could be obtained from Sanasa Bank only when the Moratuwa Urban Poor Fund offered a 110 per cent guarantee. The beneficiaries of the Moratuwa project (who meet most definitions of being among the 'urban poor) are slum dwellers.

Thus, the experience of both Tanzania Women Land Access Trust and Moratuwa confirm the basic premise of the Local Finance Facilities: Commercial banks in developing countries would not lend to the urban poor without risk mitigation measures, such as guarantees, in place. Indeed, the evaluation team believes that a dedicated guarantee facility, such as a Local Finance Facility, is likely to be more professional, efficient and sustainable in providing guarantees than project entities like Tanzania Women Land Access Trust.

Support for the establishment of the urban poor funds was another form of credit enhancement provided by SUF. Shack/Slum Dwellers International, the leading proponent for urban poor funds, describes them in the following terms:

> ***'Though an urban poor fund operates in different ways in different countries, the basic idea is the same. Each federation (of urban poor) member commits a non-refundable amount of money that will initiate the fund… The idea is that these funds that come from organized communities of the urban poor will attract more from outside sources like governments, donors and the private sector. Then, the fund can begin giving out loans to federation members to build houses, start businesses, buy land, and install services. If the loans are repaid then the fund 'revolves,' meaning that the money can be loaned out again to someone else.'***

However, it should be noted that a recent review of urban poor funds in 16 countries undertaken by Diana Mitlin found that member contributions only made up two per cent of the funds capital. The bulk of the remainder was provided by official donors, private foundations and international NGOs. This apparently was the case of the Moratuwa Urban Poor Fund. It was capitalized with USD 60,000 from SUF, USD 50,000 from Slum Dwellers International's Urban Poor Fund International, USD 3,000 from Women's Bank and USD 2,000 from Janarukula. Ghana Fund for the Urban Poor is primarily capitalized by SUF (USD 75,000) with a contribution of at least USD 20,000 from the Slum Dwellers International managed Urban Poor Fund International. In the case of both Moratuwa and Ghana government grants never materialized in spite of early promises of budgetary funds.

The funds for the urban poor in Moratuwa, Sri Lanka and in Ghana had different governance arrangements. The Moratuwa fund is managed by a board comprised of government officials and NGO representatives while the Ghana fund was managed by People's Dialogue, an NGO. The use of the available money also differed. In Moratuwa, the bulk (if not all) of the fund was used as a guarantee to secure long-term mortgage loans. The Ghana fund was utilized for land and construction pre-financing as well as more traditional microfinance operations. As noted in Section 3.3, default rates were high.

As was the case with the two funds supported by SUF, most funds for the urban poor relied on external funds and, thus, failed to meet the basic objective of SUF, i.e. to mobilize domestic capital for slum upgrading. While the Moratuwa fund did in some sense mobilize domestic funds by guaranteeing the mortgage loans to the new apartment owners, it did so with no leverage—unlike Lanka Financial Services for Underserved Settlements' guarantees.

Urban poor funds were important tools for the empowerment of the urban poor. However, they should be seen as complements to, rather than substitutes for, the Local Finance Facilities and other guarantee mechanisms.

The Tanzania Women Land Access Trust scheme was primarily built on the 'revolving' fund principle. In essence, UN-Habitat's grants to Tanzania Women Land Access Trust were used as 'bridge financing' for the construction. The basic concept was that when the building was completed, the new owners of the apartments would obtain traditional mortgage loans. The proceeds of these mortgage loans would go to Tanzania Women Land Access Trust that in turn would use the funds to finance the construction of another building. This process can, in principle, go on forever. Because of the excessive cost of the building (Annex IX), it was highly unlikely that Tanzania Women Land Access Trust would recover the full amount of the UN-Habitat grants. Thus, much less money would be available for the next project, i.e. the amount that would 'revolve' was significantly lower than UN-Habitat's grants. However, this had more to do with the poor selection and unaffordable design of the building than to the concept itself.

Revolving funds suffered from one fundamental flaw: they did not help mobilize local capital; rather they functioned as substitutes for commercial bank loans. Thus, they did not meet the basic objective of SUF.

'Seed money' amounting to USD 40,000 was provided for the Moratuwa project. In that case, the SUF funds were used as subsidies (USD 2,000 per household) to make the two apartment buildings affordable for the new inhabitants. This was in addition to a subsidy of around USD 900 per family from the municipality. Although the buildings were creatively designed to reduce costs, they were still too expensive for the people resettled to the new site. While subsidies were often justified in schemes serving the urban poor, they have to be sustainable (i.e. when donor financing dries up can the local or central government continue providing such subsidies on a broad scale rather than just benefiting a lucky few. On average, local government expenditures in Sri Lanka are around USD 14 per person—an amount that has to cover all types of urban services. Thus, it is unlikely that the subsidy is sustainable in the Sri Lankan context.

3.2.3 RELEVANCE OF LOCAL FINANCE FACILITIES

A. The Local Finance Facility approach

The evaluation team considers the concept and evolution of the Local Finance Facility a 'breakthrough' in providing slum dwellers access to housing finance. This view was echoed by virtually all interviewed stakeholders. The funding approach of the Local Finance Facilities was not only appropriate in adding value by increasing financing for slum upgrading, but also by mobilizing financing from a hitherto untapped source – the domestic commercial banking sector. The Local Finance Facility approach was also consistent with other financing mechanisms for the urban poor, and with UN-Habitat's objectives for increasing financing of slum upgrading. The Local Finance Facility approach catalyzes domestic resource mobilization, provides leverage, and is sustainable since the guarantee funds are 'rolled-over' as the loans are repaid. Assuming a 60 per cent guarantee coverage (as in Lanka Financial Services for Underserved Settlements the most recent scheme) and a three year loan maturity, USD 1 million in Local Finance Facility capital will over a nine year period generate USD 5 million in funding of slum upgrading. This means a ratio of 5:1 leverage and, as will be discussed later, this leverage can be increased further. Thus, the Local Finance Facility approach can be expected to catalyze a potential major source of future financing for slum upgrading, provided that the track record of repayment by initial beneficiaries of Local Finance Facility remains satisfactory.

B. Flexibility

In most cases, the SUF sub-projects were flexible in meeting different user needs and in delivering products and services. Most sub-projects were demand-driven. The target groups benefited from regular consultations with various NGO's and community-based organizations in partnership with the Local Finance Facilities. However, for some cases (e.g. Amui Djor in Ghana, Moratuwa in Sri Lanka and Tanzania Women Land Access Trust in Tanzania), where the projects were multi-storey apartment buildings, the flexibility afforded by 'incremental' housing improvements were absent.

C. Reaching the target populations

The Local Finance Facilities reached the urban poor in the three pilot countries where projects were financed (Box 3.5). For example, some 70 per cent of Lanka Financial Services for Underserved Settlements' beneficiaries had income below the international USD 2 per day, as compared to 39 per cent for the Sri Lankan population in general. Some 98 per cent of the beneficiaries had incomes below the average GNI per capita (Figure 3.3).

BOX 3.5: WHO ARE THE URBAN POOR?

The SUF Operations Manual notes that "the ultimate target population of SUF project interventions" is "the urban poor living in sub-standard conditions," but leaves the definition of "poor" to the reader. While there are official definitions of "urban poverty" and/or "urban poor," these tend to vary from country to country—and often over time. Official definitions tend to use a simple income (or sometimes, consumption) cut-off. The international poverty lines commonly referred to as "one dollar day" and "two dollars per day" are of this type. However, "poor" and "rich" are also relative concepts. Thus, for many years, the development community often used "the poorest 40 per cent" as tool for targeting poverty interventions.

Detailed poverty assessments typically use a combination of income criteria and various measures of deprivation such as housing conditions and access to education, health and infrastructure services. This approach is more valuable in designing anti-poverty interventions than simple income cut-offs or relative measures.

Unfortunately, there are no poverty assessments or detailed socio-economic surveys available for the SUF projects. The evaluation team is using a number of absolute and relative indicators to illustrate the extent to which SUF has reached its target population. In low and lower middle-income countries, a broad range of people live in slums. Thus, it is usually not possible to prevent the benefits of SUF interventions to flow to some "middle class" families. Consequently, the evaluation team would regard projects where the great majority of beneficiaries have incomes below the 50th percentile as reaching the urban poor. On the other hand, the evaluation team believes that a project, which primarily benefits the top 20-30 per cent of the income earners in a pilot country, does not reach SUF's target population.

FIGURE 3.3: Income Distribution for Lanka Financial Services for Underserved Settlements' Borrowers

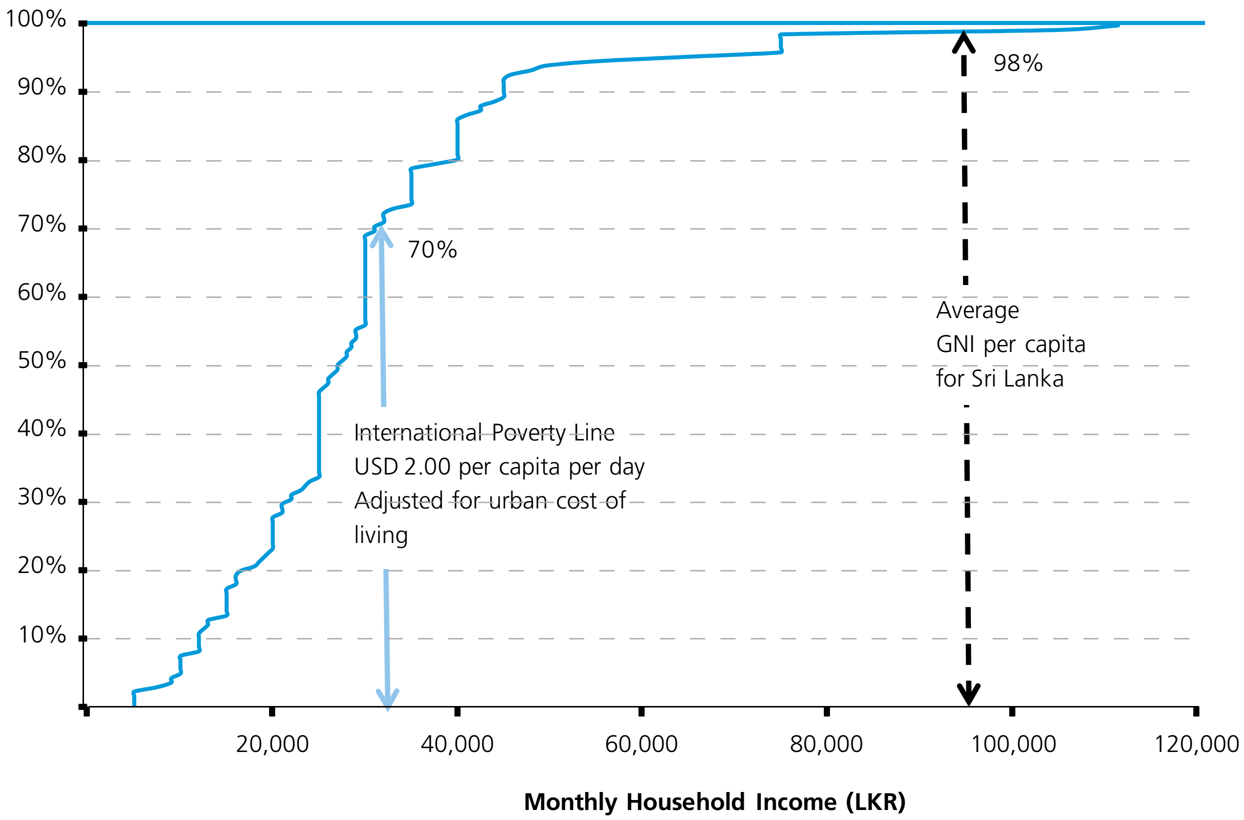


FIGURE 3.4: Incomes of Local Finance Facility Beneficiaries

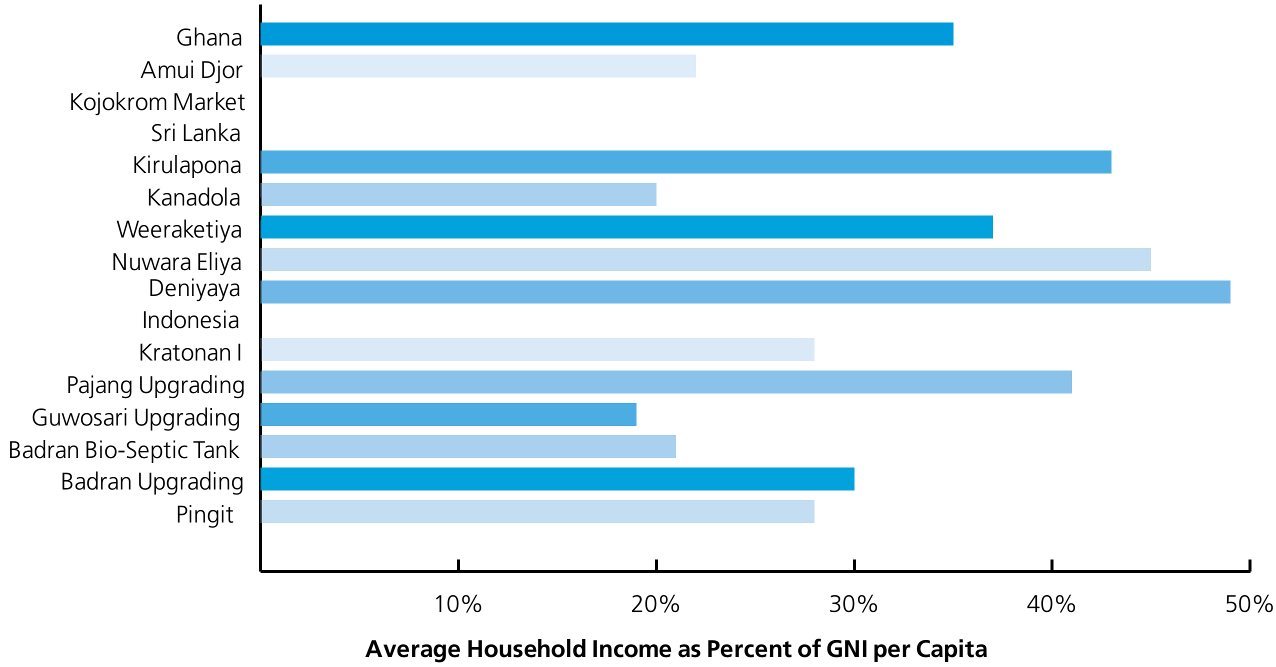
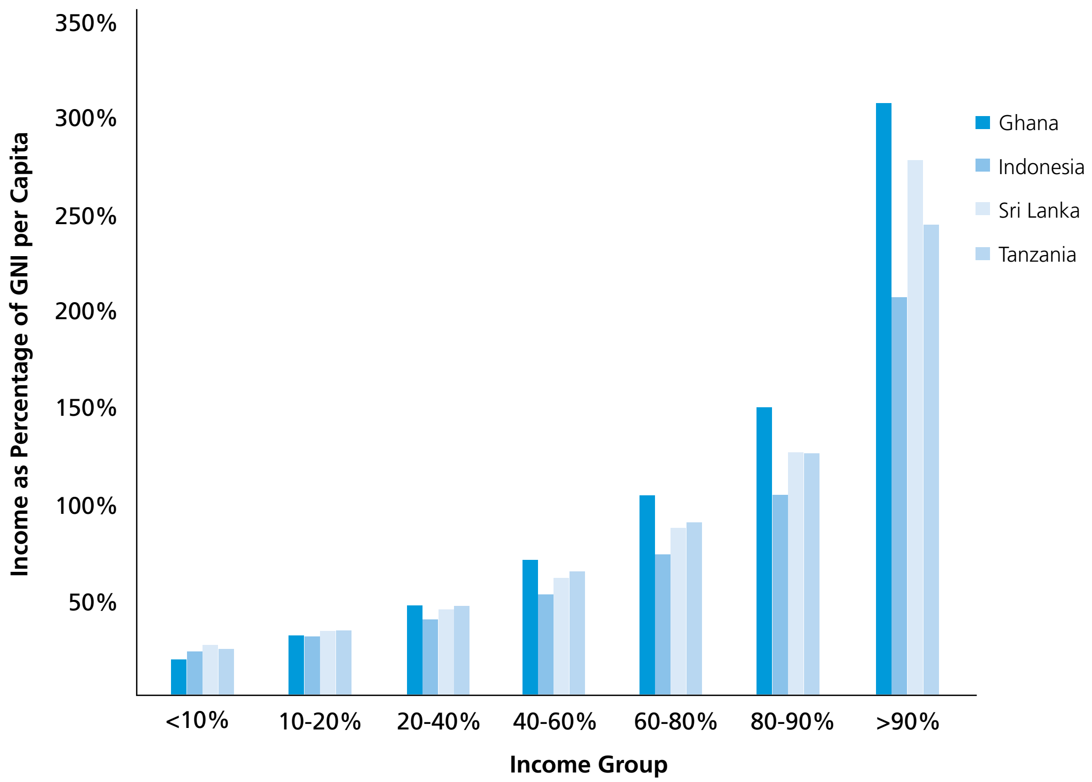


FIGURE 3.5: Urban Income Distribution in Pilot Countries



Source: World Development Indicators 2011 and authors' calculation

Figure 3.4 compares the average income of the project beneficiaries with the GNI per capita in the respective countries. The average ranges between 20 per cent and 50 per cent of the GNI per capita.

The income distribution in the four pilot countries was such that an urban household with an income of less than 50 per cent of GNI per capita belongs to the poorest 40 per cent of the population (Figure 3.5). If the income is less than 25 per cent of GNI per capita, the family belonged to the poorest 10 per cent. Consequently, it was quite clear that all of the Local Finance Facility sub-projects reach the poorer sections of the community. The evaluation team did not have access to income data for the other SUF initiatives. However, given the nature of the settlements, the Moratuwa project and Ghana Fund for the Urban Poor with all probability had also reached the urban poor.

As illustrated by Tanzania Women Land Access Trust, multi-storey apartment buildings were generally not affordable by the urban poor, even with cross-subsidies from sale of commercial space, etc., and required significant public subsidies. Tanzania Women Land Access Trust was, of course an extreme example, but even the Amui Djor and Moratuwa buildings that were designed to minimize costs required direct and indirect subsidies of nearly USD 3,000 per family. Experience (and simple mathematics) shows that such subsidies were not sustainable. Fortunately, most Local Finance Facilities have generally avoided such schemes and focused on financing of home improvements, minor/neighborhood infrastructure, and modest core houses that can be expanded and improved upon over time.

Table 3.10 shows that the reach was far too limited (total urban poor beneficiaries reached by Local Finance Facilities combined from inception to date, was only around 1,250 people. However, it should be pointed out that this was a pilot programme set up to demonstrate the viability of an innovative approach (the Local Finance Facility concept) and that the effective period that Local Finance Facilities were operating was short (approx. 2 years). However, the Local Finance Facilities are now at a stage when the scope of their operations will accelerate. Lanka Financial Services for Underserved Settlements alone expects to approve six more schemes with over 2,000 beneficiaries before the end of 2011 (Figure 3.6). The two Local Finance Facilities in Indonesia had well developed project pipelines, but the build-up in Ghana and Tanzania can be expected to be slower.

3.2.4 EFFECTIVENESS OF LOCAL FINANCE FACILITIES

A. Linkages with Government Policies

The four pilot countries were selected to reflect the overall goals of poverty reduction. The SUF subprojects and their framework for providing assistance to slum dwellers were closely linked to appropriate government policy, strategy and interventions. Various local and central entities were represented on the Local Finance Facility boards and played coordinating and facilitating roles. As discussed in Section 3.3, SUF and the Local Finance Facilities influenced government policy in Indonesia. In Tanzania, Tanzania Financial Services for the Underserved Settlements was represented on a recently established working group helping the government to develop a policy for housing microfinance.

B. Partnership with Housing Cooperatives, Community-Based Organizations, NGO's and Microfinance Lenders

Local Finance Facilities pro-actively involved slum housing cooperatives or active housing associations and community-based organizations as partners and linkages in SUF. Partnering with these organizations proved very effective in organizing slum dwellers and facilitated technical assistance to set up a system to mobilize their savings and ensure a clear understanding of the loan mechanism. In Accra, Tema/Ashairman Metropolitan Slum Upgrading Fund had a formal working agreement with the Ashaiman Amui Dzor Cooperative Housing Society Ltd., the association of slum dwellers, and the People's Dialogue, an affiliate of Slum Dwellers International, was instrumental in organizing and articulating the SUF programme to the slum dwellers. In Ghana, the Local Finance Facility Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund worked very closely with the Kojokrom Women's Markets Association. The Local Finance Facility in Yogyakarta, Indonesia was working very closely with a community working group (Forum Komunikasi Winongo Asri) which organized slum dwellers to collectively avail a commercial loan for their housing improvements. In Sri Lanka, Lanka Financial Services for Underserved Settlements was supporting programmes undertaken by NGO's (e.g., Eksath Lanka Welfare Foundation), community-based organizations (e.g., Ruhuru Women's Organization) and established microfinance institutions (e.g., Women's Bank).

C. Funding for SUF Subprojects

Funding for Local Finance Facilities had applications from commercial banks, supported by guarantees. These loans were negotiated, packaged and guaranteed by the Local Finance Facilities. One of the Local Finance Facilities, Tema/Ashairman Metropolitan Slum Upgrading Fund, also provided a bridge/construction loan for the Amui Djor apartment building. A few of the Local Finance Facility projects benefited from modest cash subsidies from the government or, in the case of Amui Djor, from People's Dialogue, possibly using funds from SUF. The Moratuwa project benefited from a commercial bank loan guaranteed by the Moratuwa Urban Poor Fund (in turn financed by SUF). All the construction costs for the Tanzania Women Land Access Trust apartment building have been born by UN-Habitat.

D. Government Contributions and Subsidies

The main government contribution in the Local Finance Facility projects related to enhanced tenure security. In a few cases, this involved provision of land free of charge for new construction (e.g. the Kojokrom market stalls in Takoradi), but mostly it involved issuing residence/land use permits of varying durations. It was difficult to estimate the monetary value of the enhanced tenure security. Still, the enhanced tenure security was an important benefit to slum dwellers—without imposing any budgetary burden on the government (i.e., a 'win-win' solution). In Indonesia, the Local Finance Facilities helped the slum dwellers access existing government subsidy programmes (in Kratonan I project in Solo, this subsidy was USD 230 per family).

Apartment building projects supported by SUF also received *ad hoc* government subsidies of USD 900 per family in Moratuwa and about USD 600 per family in Amui Djor. In Moratuwa, the beneficiaries also received 'seed money' from SUF amounting to USD 2,000 per family. A similar amount was received by the Amui Djor residents from NGO's and/or Urban Poor Funds. (It appears that at least part of these subsidies ultimately came from SUF.) In the case of Tanzania Women Land Access Trust, it was estimated that the direct and indirect subsidies amounted to USD 800,000 for 20 apartments—and this amount did not include the money from UN-Habitat that ultimately was to be written off rather than recycled.

E. Local Finance Facilities' Capacity to Deliver

The capacity of Local Finance Facilities to prepare projects, conduct the due diligence, including affordability surveys and risk analyses, and deliver its stated products and services, was mixed. Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund in Ghana, Badan Layanan Umum Daerah (Solo, Indonesia) in Solo, Indonesia and Lanka Financial Services for Underserved Settlements in Sri Lanka, had the capacity to evaluate and package their projects at the present scale of operations, others such Tanzania Financial Services for the Underserved Settlements in Tanzania and Tema/Ashairman Metropolitan Slum Upgrading Fund in Ghana the rest are still building the requisite capacity to deliver these services. However, it was clear that all Local Finance Facilities have to recruit additional staff—especially with financial skills to scale up and deliver future projects that will require rigorous evaluation and risk analysis. It was also anticipated that as more projects were developed and delivered, more financial resources were required to deliver these services.

F. Willingness and Ability to Pay

Individual programme beneficiaries and, where applicable, community organizations in the slums were willing and able to repay their housing and infrastructure loans and were timely servicing their debts.

In some instances, slum dwellers were organized into community groups programme (e.g., slum dwellers cooperative in Amui Djor and the women market vendor cooperative in Kojokrom in Ghana and the community working groups in Solo and Jogjakarta, Indonesia) that established 'savings and loan' type mechanisms where borrowers' repayments were diligently recorded and transmitted to the lending institutions. The repayment record has so far been satisfactory. In the case of Kojokrom Women's Market project in Takoradi, Ghana, initial loan repayment delinquencies were experienced, but with stepped-up collections undertaken by the Local Finance Facility, the delinquent borrowers are now up-to-date with their payments.

Perhaps even more important for the Local Finance Facilities was prudent risk management and ensuring that the loans were within the beneficiaries' capacity to pay. Thus, debt service-to-income ratios typically range between 10 per cent and 25 per cent for home improvement loans (Table 3.8). The highest ratio was found in

TABLE 3.8: Debt Service to Income Ratios for Local Finance Facility Projects

Local Finance Facilities	Name of Project	Type of Project	Average Loan Size (USD)	Monthly Household Income (USD)	Monthly Loan Payment (USD)	Debt Service to Income Ratio (%)
TAMSUF	Amui Djor	Multi-Storey	3,139	140	45	32%
STMA-CSUF	Kojokrom Market	Market Stalls	2,677	91	21	23%
Sub-Total Ghana			**3,232**	**124**	**37**	**30%**
LFSUS	Kirulapona	House Improvement	1,558	295	56	19%
LFSUS	Kanadola	House Improvement	693	135	24	18%
LFSUS	Weeraketiya	House Improvement	2,512	245	66	27%
LFSUS	Nuwara Eliya	House Improvement	1,000	307	38	12%
LFSUS	Deniyaya	House Improvement	891	331	47	14%
Sub-Total Sri Lanka			**1,305**	**274**	**46**	**17%**
BLUD	Kratonan 1	House Improvement	1,085	201	35	17%
BLUD	Pajang Upgrading	House Improvement	1,744	291	57	20%
BLUD	Guwosari Upgrading	House Improvement	407	131	19	15%
KotaKITA	Badran Bio-Septic Tank	Comm. Infra	215	148	11	7%
KotaKITA	Badran Upgrading	House Improvement	1,213	213	36	17%
KotaKITA	Pingit	House Improvement	218	192	33	17%
Sub-Total Indonesia			**775**	**193**	**32**	**16%**
Grand Total			**1,557**	**240**	**43**	**18%**

Source: Concerned LFF's

the Amui Djor apartment building where, in spite of subsidies, the ratio averages was 32 per cent. The latter ratio was at the upper range of current market upper limit for home loan payments (30-35 per cent).

G. Credit Enhancement Approach

Credit enhancements in all Local Finance Facility cases (and Moratuwa) took the form of credit guarantees. In addition, Amui Djor in Ghana received bridge/construction financing from Tema/Ashairman Metropolitan Slum Upgrading Fund. The guarantees have covered 50 per cent to 100 per cent of the outstanding loan amount (Table 3.7), with a portfolio average of 80 per cent, mostly due to the low ratio for Lanka Financial Services for Underserved Settlements (68 per cent). Given that the Local Finance Facilities lacked financial strength, an amount equal to the guarantee ceiling was placed in an interest bearing escrow or trust account that the lender can draw upon in case of borrower default. While a guarantee percentage below 100 per cent provided some leverage, this was an inherently inefficient structure since it assumed that potentially all borrowers would default on the loans in the portfolio. It was also unrealistic assumption; some of the borrowers would certainly service their debt properly. A 'first loss' structure would enable the Local Finance Facilities to leverage their resources more effectively. However, this increased the risk to the Local Finance Facilities and required more sophisticated risk mitigation approaches than they were able to adopt at present. It should be noted that as the Local Finance Facilities establish a track record, they should be able to gradually reduce the guarantee percentage and, thus, increase the leverage of their resources over time.

3.2.5 EFFICIENCY OF LOCAL FINANCE FACILITIES

A. Cost-Effectiveness

Nearly USD 13 million was spent on project design, product development, execution, piloting of the SUF programme and capacity building provided to the Local Finance Facilities, combining in-country activity expenditures and administrative costs. Some USD 4.7 million were provided to the Local Finance Facilities for their credit enhancement (credit enhancement) programmes, which was responsible for catalyzing that amount for housing assistance that directly benefited slum dwellers. About USD1.2 million was spent on development and administration funds for the Local Finance Facilities and additional credit enhancement funds are expected to be disbursed to the Local Finance Facilities soon. The results 'on the ground' were modest—especially before mid-2009. The Local Finance Facilities capacity building undertaken by the pilot team was not completely successful; in part because the late release of development and administration funds prevented the Local Finance Facilities from recruiting permanent staff and too little emphasis given to the financial aspects of Local Finance Facility operations.

Furthermore, the constraints imposed on the SUF operation by decisions made during the design phase (Section 3.3) made it difficult for SUF, and especially the pilot team, to go after the 'low-hanging fruit', resulting in some wasted effort. The most critical factor was to limit SUF's pilot operations to only four countries. A study undertaken for Swedish International Development Cooperation Agency in 2006 concluded:

> ***'We believe that that there is a high risk that a large percentage of these projects might not be completed within the Pilot Phase. We also consider it important that the SUF Pilot Team works with a broader set of projects and products, reflecting a greater variety of client groups, participatory approaches and country situations.***
>
> ***For these and other reasons, we recommend that the mandate for the emerging markets group consultants should be expanded to cover field activities in all the ten countries proposed by UN-Habitat.'***

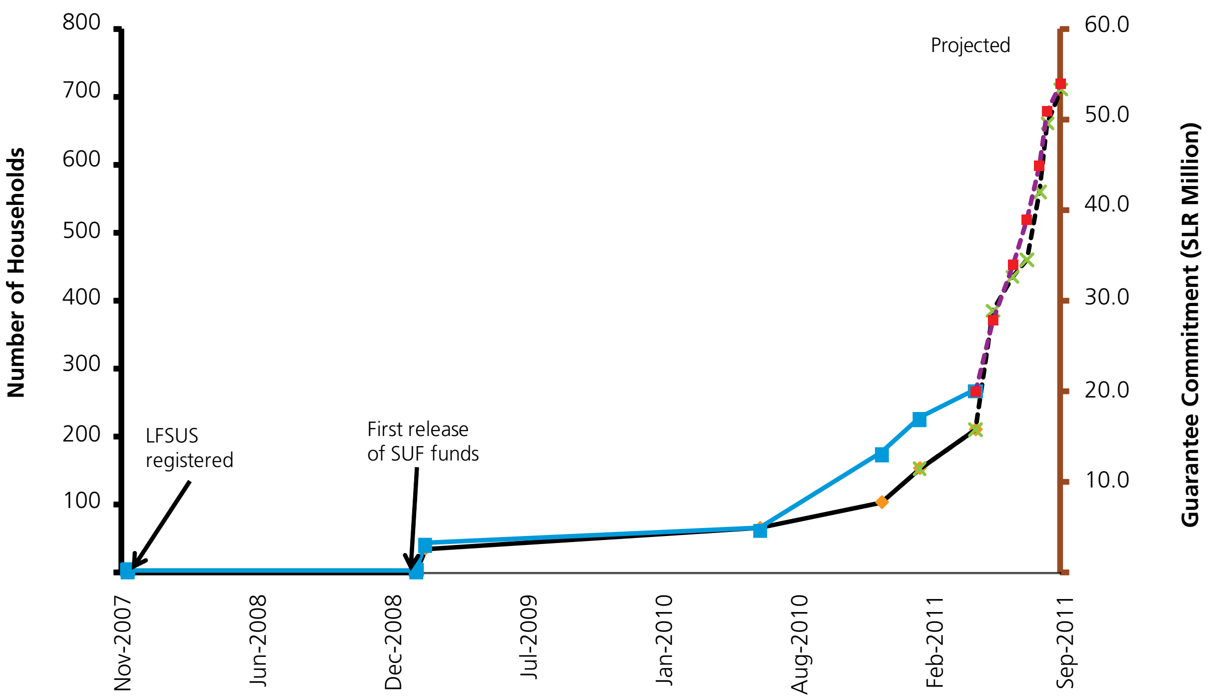
B. Scale of Operations

A review of the Country Project Implementation Plans (country project implementation plans) prepared by the pilot team revealed that the projects that were originally considered were, by and large, city or area-wide slum upgrading projects. Ten of the thirteen Local Finance Facility projects that reached financial closure under SUF were 'house improvement projects' in Indonesia and Sri Lanka. There was one market stall project in Ghana, a bio-septic tank project in Indonesia, and a multi-storey building in Ghana. Virtually all were relatively small, micro housing projects that did not capture the essence of 'city-wide' slum upgrading envisioned in the original concept and design of SUF.

SUF emphasized the central role of municipalities and community based organizations in slum upgrading. There was an obvious contradiction between city and area-wide upgrading on one hand and communities- and the municipalities-led efforts on the other hand. First of all, in three of the four pilot countries, municipalities had no budgetary resources to undertake area-wide upgrading (Annex V). Indeed, the experience from other low and lower middle income countries (e.g. Indonesia, Jordan and Tunisia) where large-scale upgrading programmes were successfully implemented, central government agencies rather than municipalities played the key role. In a few cases, there was lack of political will or, more accurately, misplaced ambitions. Local authorities in Moratuwa, Dar es Salaam, Jakarta and Tema, for example, appeared more interested in *slum redevelopment rather than slum upgrading.*

Furthermore, community led upgrading programmes rarely reached any significant scale. The Orangi pilot project in Karachi was the exception. However, this scheme was led by an exceptional community leader, Dr Akhtar Hameed Khan, who also created the Comilla cooperative movement in Bangladesh (then East Pakistan). However, it should have been possible to achieve a larger scale than, for example, a septic tank serving four households. This required getting over the learning curve as the SUF approach was

FIGURE 3.6: Build-Up of Lanka Financial Services for Underserved Settlements' Operations



new and untried. It was important to demonstrate to stakeholders (especially to the banks) that the projects would be financially viable.

The next generation of Local Finance Facility projects is likely to be larger—but still rather modest. The real impact of the Local Finance Facilities will come when they start 'multiplying' their project portfolios, i.e. the scale will come from many relatively small projects rather than a few large ones. This is clearly illustrated by the recent performance and present plans for Lanka Financial Services for Underserved Settlements. Assuming some slippages, it is expected that well before the end of 2011; Lanka Financial Services for Underserved Settlements operations will have benefited some 700 families or around 3,000 poor urban dwellers (Figure 3.6).

C. Management Capacity of the Local Finance Facilities

The management capacity of the Local Finance Facilities was challenged by the lack of adequate and relevant personnel. Only Lanka Financial Services for Underserved Settlements had a reasonably complete team of four people. The management capacity of the other Local Finance Facilities needed to be strengthened if they were to take on more projects and scale up. In the case of Tema/Ashairman Metropolitan Slum Upgrading Fund in Ghana, the Chairman of the Board was running the day-to-day activities of the Local Finance Facility. In Tanzania, the board chairman had no staff. Badan Layanan Umum Daerah in Solo Indonesia was being run by a retired Municipal housing official, paid by the Local Finance Facility at the equivalent civil service rates. Both Jogjakarta in Indonesia and the Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund Local Finance Facility in Takoradi, Ghana were run by young executives. They were competent in project management and had sufficient knowledge of finance and the housing finance market in their respective communities.

D. Selection of Upgrading Projects

The Evaluation Team considered multi-storey construction the least efficient, with the highest risk. On the other hand, incremental housing construction and basic infrastructure services were more efficient in helping improvement of the lives of the urban poor.

E. Utilization of Credit Enhancement (credit enhancement) Funds

The Local Finance Facilities were, so far, quite cautious in utilizing their credit enhancement funds. The total credit enhancement funds committed for all the Local Finance Facilities were about 7.5 per cent of the total available credit enhancement funds (Table 3.9). The utilization rate ranged from a low of 0.0 per cent for Tanzania Financial Services for the Underserved Settlements in Tanzania to a high of 15.0 per cent for Lanka Financial Services for Underserved Settlements in Sri Lanka. The Tema/Ashairman Metropolitan Slum Upgrading Fund was the second highest (12.2 per cent). However, unlike the other Local Finance Facilities only part of the credit enhancement funds were disbursed to Tema/Ashairman Metropolitan Slum Upgrading Fund, of which 24.4 per cent of the funds received were utilized. Indeed, until recently almost three-quarters of the Fund's credit enhancement funds were tied up in the bridge loan for Amui Djor. Indonesia's credit enhancement utilization was also very low (4.9 per cent and 1.3 per cent for KotKITA in Jogjakarta and the Badan Layanan Umum Daerah in Solo, respectively). In general, the low utilization of credit enhancement Funds for the SUF Programme can be attributed to:

- The strategic objective that was overly conservative in initial investment decisions for fear of failure;
- The innovative nature and the 'newness' of the slum upgrading facility concept, which made the Local Finance Facilities risk-averse,
- The lack of adequate staff of Local Finance Facilities to adequately identify, prepare and package the projects; and
- The time that it took to build up a pipeline.

Each Local Finance Facility worked differently.

TABLE 3.9: **Utilization of Credit Enhancement Funds**

Local Finance Facilities	BLUD	KotaKITA	LFSUS	STMA-CSUF	TAMSUF	TAFSUS	All Local Finance Facilities
Location	Solo	Jogjakarta	Colombo	Takoradi	Accra	Dar es Salaam	
Country	Indonesia	Indonesia	Sri Lanka	Ghana	Ghana	Tanzania	
Date Established	November 2009	April 2009	November 2007	December 2007	December 2007	June 2009	
CE Funds Utilized (USD)	13,217	11,093	180,454	51,350	97,315	0	353,429
CE Funds Allocated (USD)	1,004,084	225,000	1,200,000	500,000	800,000	1,000,000	4,729,084
Percentage of CE Funds Utilized (%)	1.3	4.9	15.0	10.3	12.2	0.0	7.5

Source: UN-Habitat and concerned LFF's.

Note: Only half of the allocated CE funds have been disbursed to TAMSUF. (Based on funds received, the percentage would be 24.4 per cent.)

Lanka Financial Services for Underserved Settlements reached out to established NGO's and microfinance institutions and supports them in the packaging of projects. However, the institutions were expected to take the lead in project implementation. Lanka Financial Services for Underserved Settlements also managed to get its message out through newspapers and other channels. Thus, increasingly potential clients approached Lanka Financial Services for Underserved Settlements for support. On the other hand the two Local Finance Facilities in Indonesia worked much more directly with the slum community and package all aspects of the projects.

3.2.6 SUSTAINABILITY OF THE LOCAL FINANCE FACILITIES

A. Institutional setup

The institutional setup of the Local Finance Facilities being within the legal framework of the pilot country's laws and regulations is replicable and sustainable. The Local Finance Facility Board of Directors attracted a cross-section of community members, including municipal housing officials, members of institutes of architects and engineers, lawyers, community leaders, 'paying back' to their community by helping the urban poor. UN-Habitat played a unique role in implementing the SUF programme and provided value added in delivery of technical assistance through SUF. It built on the gains of the pilot team that established the Local Finance Facilities, and provided support and guidance to the Local Finance Facilities in their formative stage. UN-Habitat spent sufficient time and resources to review the operations of the Local Finance Facilities, and provided oversight to improve product quality and service delivery, and to build capacity of Local Finance Facilities in project selection, financial packaging and leveraging and due diligence. UN-Habitat also helped the Local Finance Facilities in organizational strengthening and human resource management, risk mitigation, legal frameworks and others. This was anticipated to enhance the sustainability of the SUF initiative into the future.

B. Local Finance Facility structure

The present structure of Local Finance Facilities was a practical and sustainable long-term model to strengthen, upgrade, and re-focus the financial objectives of sustaining the urban poor's access to commercial funding rather than the social objectives of the slum upgrading programme per se. The purpose and objectives of the SUF as a financing facility needed to be understood by the Boards and Local Finance Facilities' management. A majority of the Local Finance Facilities had at least one board member with commercial banking sector experience. This evaluation recommends that this should be the standard practice in all Local Finance Facilities. Furthermore, the Local Finance Facilities need to 'beef up' their staffing in order to develop new and robust pipelines of projects, while giving sufficient attention to day-to-day operations of the Local Finance Facility.

C. Subproject sustainability

Overall, the SUF subprojects are sustainable; particularly the incremental housing improvement projects and the revenue-generating projects supported by the Local Finance Facilities that directly benefit the slum dwellers. The latter had strong incentives to maintain (and even further improve their dwellings). This was true of Kojokrom market stalls in Takoradi, Ghana. (Reportedly, the women who moved into the stalls have seen their incomes more than double.)

D. Local Finance Facility sustainability

The Local Finance Facilities operated using mainly the development and administration funds received from SUF and the interest earned from the investment of credit enhancement funds. In the case of Badan Layanan Umum Daerah in Solo, the local government financed the operations by seconding (and paying the salaries of) two fulltime staff. Both Local Finance Facilities in Ghana get in kind contributions from the local governments, primarily in the form of free rent. To be sustainable without government or SUF grants in the future, the Local Finance Facilities will need to increase their capital. Ideally, their capital should be in the order of USD 3-5 million. This would allow them to cover their operating costs from the interest earned on deposits and from guarantee fees while at the same time establishing adequate loss reserves (Box 3.6). The Local Finance Facilities also require technical assistance for the next one to two year period to ensure that they have all the required skills.

BOX 3.6: WHAT IS FINANCIAL SUSTAINABILITY?

The World Commission on Environment and Development's 1987 report Our Common Future (the "Bruntland report") contains the most commonly used definition of sustainability:

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Financial sustainability is a more limited concept but still based on the same concept. In the case of a financial institution (bank, insurance company or LFF) sustainability implies that it can continue operate indefinitely at the same (or higher) real level indefinitely without injection of new capital. It means that its premium income should be sufficient to cover not only its operating costs and cost of capital but also adequate provisions for losses. This implies that a revolving fund that sets its interest equal to the inflation rate but experience a 10 per cent default rate on its loans will see its capital depleted. The same would happen to a Local Finance Facility if it didn't mitigate its risks and provide adequate loss reserves.

Government subsidy and other expenditure programs are sustainable if the cost of the program is within prudent macroeconomic limits and it can afford to extend the program to all people who meet basic eligibility criteria. For example, the subsidies associated with the TAWLAT project in Tanzania. It benefited from direct and indirect subsidies amounting to over USD 800,000 (Annex 9). The number of beneficiaries is around 200 persons, i.e. the subsidy is about USD 4,000 per person. There are around 7.5 million slum dwellers in Tanzania (Annex 5). Thus, to provide the same subsidy to all deserving people (i.e. slum dwellers) in Tanzania would cost around USD 30,000 million. The government's total budgetary expenditures are around USD 6,000 million per year of which capital expenditures are around USD 1,700 million. Thus, it is definitely clear that this amount of subsidies is not sustainable.

E. Risk Mitigation

For house improvement loans, the Local Finance Facilities developed sound risk mitigation approaches to i) ensure that the micro-lender had a good track record; ii) ensure the loan payments were affordable to all participating families, based on actual surveys; iii) ensure the beneficiaries have a history of savings; iv) create a default or 'first loss' reserve through proper structuring of lending and guarantee arrangements. Close adherence to these principles will ensure the financial sustainability of the Local Finance Facilities.

Revenue earning projects were somewhat challenging because the main risk was a market risk: how many customers will come, how much were they willing to pay for a toilet visit, a shower, a bucket of water or regular collection of garbage? For larger projects, these questions would be addressed through formal marketing surveys; something that would be unaffordable for small Local Finance Facility financed schemes. However, it might be possible to cooperate with universities and have students doing such surveys as part of their training as in the case of Badan Layanan Umum Daerah. These projects will require more complex risk mitigation approaches which are likely to change from case to case.

F. Moral Hazard

There is some obvious risk for moral hazard problems in the operation of the Local Finance Facilities. The credit enhancement funds were provided by UN-Habitat/donors as grants to the Local Finance Facilities. There was some pressure on the Local Finance Facilities from the SUF team to 'get the money out,' i.e. to approve projects. Faced with such a pressure and knowing it was 'somebody else's money' might lead to imprudent risk taking. To some extent, this might have been the case with the bridge loan for the multi-storey building in Ghana. While the Local Finance Facilities became better at handling this type of problems, the evaluation team sees potential moral hazard problems in Solo, Indonesia, where the Local Finance Facility was *de facto* run by municipal staff.

Guarantee coverage of 100 per cent contributed to potential moral hazard problems in lending by commercial banks. With such a cover, the banks faced no risks and would lend to projects that were financially not viable or to borrowers who could not afford to repay the loans. Another negative outcome of high guarantee coverage was that banks do not really engage in the projects or the target markets because they did not have to share the risk and therefore there was no need to understand the clients. This does not contribute to the goal of bringing local domestic banks into the market over the longer term, when guarantees are expected to reduce.

3.2.7 IMPACT OF LOCAL FINANCE FACILITIES

A. SUF Impact on Slum Dwellers

Lack of socio-economic surveys made it difficult for the evaluation to demonstrate whether the SUF programme had impacted the lives of slum dwellers. Following visits made to the projects and talking to numerous beneficiaries, the evaluation team learned of different benefits: the newly added room that was rented out or enabled the oldest son to study undisturbed; the new roof that stopped the monsoon rain pouring into the bedroom; the freshly painted rooms that impressed the neighbors and brightened up their own lives; the improved kitchen that enabled them to cook and sell more meals. A SUF beneficiary Pak Suparno from Kratonan, Solo, Indonesia, for instance had managed to obtain a loan from Swamitra Bukopin Bank, thanks to a credit guarantee from Badan Layanan Umum Daerah. The flexibility of the housing microloans allowed the participants to spend the money on what they regarded as most important and rewarding. From our informal discussions with borrowers the SUF programme is having a significant and lasting impact on their lives.

While the important impact of the Local Finance Facilities was better housing conditions, reduced overcrowding and improved quality of life, there were many instances where the loans led to increased incomes from renting out rooms and from being able to earn higher incomes from home-based businesses. More than double incomes were reported by the women who occupied the new stall at the Kojokrom. While the direct impact of the Local Finance Facilities was the improvement and upgrading of the slum housing of the urban poor and increased income earning possibilities, their broader impact demonstrated a model through which slum dwellers, for the first time, can get access to the domestic capital market for housing development (Table 3.10). Most importantly, was that the experience from four countries showed that the model can be

TABLE 3.10: Local Finance Facility Project Beneficiaries

Local Finance Facilities	Name of Project	Location	Type of Project	Project Cost (USD)	Commercial Bank Loan (USD)	No. of Households	No. of Beneficiaries
TAMSUF	Amui Djor	Accra	Multi-Storey	281,879	97,315	31	155
STMA-CSUF	Kojokrom Market	Takoradi	Market Stalls	51,350	51,350	15	75
Sub-Total Ghana				**333,230**	**148,666**	**46**	**230**
LFSUS	Kirulapona	Kirulapona	House Improv.	60,000	54,545	35	155
LFSUS	Kanadola	Ratnapura	House Improv.	25,000	20,805	30	135
LFSUS	Weeraketiya	Hambantota	House Improv.	100,000	95,455	38	170
LFSUS	Nuwara Eliya	Nuwara Eliya	House Improv.	55,000	50,000	50	225
LFSUS	Deniyaya	Deniyaya	House Improv.	50,000	45,454	51	230
Sub-Total Sri Lanka				**290,000**	**266,259**	**204**	**915**
BLUD (YLP3)	Kratonan 1	Solo	House Improv.	11,938	11,938	11	55
BLUD	Pajang Upgrading	Solo	House Improv.	1,744	1,744	1	5
BLUD	Guwosari Upgrading	Solo	House Improv.	814	814	2	10
KotaKITA	Badran Bio-Septic Tank	Jogjakarta	Comm. Infra	860	860	4	20
KotaKITA	Badran Upgrading	Jogjakarta	House Improv.	8,488	8,488	7	35
KotaKITA	Pingit	Jogjakarta	House Improv.	1,744	1,744	8	40
Sub-Total Indonesia				**25,589**	**25,589**	**33**	**165**
Grand Total				**648,818**	**440,513**	**283**	**1,310**

Source: Concerned LFF's

duplicated in many different settings and each Local Finance Facility can scale up and reach thousands of slum dwellers.

B. Youth and Gender

By working with women's organizations like the Kojokrom Women's Market Cooperative Association in Ghana and the Women's Bank and Ruhuru Rural Women's Organization in Sri Lanka most Local Finance Facility projects directly targeted women beneficiaries. Even when women were not directly targeted, they were the most active and vocal participants in the programmes, as was the case in the Amui Djor housing cooperative. Thus, the SUF projects confirm the experience from most slum upgrading and microfinance initiatives that women were leading actors. On the other hand, the nature of the projects was such that youth were not directly targeted, but children and adolescents were major beneficiaries of improved housing conditions and reduced overcrowding.

C. Banking Sector Involvement in Slum Upgrading and Increase in Private Sector Funding

The Local Finance Facilities mobilized about USD 440,000 in commercial bank financing. The guarantee from the Moratuwa Urban Poor Fund backstopped USD 100,000 in mortgage loans for the new apartment dwellers. As a result the Local Finance Facilities have started to change the way banks deliver products and services for housing and slum upgrading for the poor, by lending to this market for the very first time. However, the lending has not reached any significant scale because of the modest credit enhancement funding provided in the pilot programme. Overall, there has not been a measurable increase in the level of funds mobilized from the private sector for slum upgrading and municipal development at the moment. However, the Local Finance Facility model has the potential to reach scale and help fill housing gaps, but will require continued technical assistance to the Local Finance Facilities and to the beneficiaries to maintain a record of solid loan repayments.

D. Implications of SUF Pilots for Housing Finance

The SUF programme did not impact the traditional mortgage housing market. There is a growing awareness that traditional mortgage loans might not be appropriate for the urban poor, even if they have access to such loans. Most slum dwellers not only had low incomes, but they also suffered from a high degree of income insecurity. Thus, they can ill afford fixed monthly mortgage payments and face the risk of losing the house in case of temporary loss of income. As Gilbert notes:

> ***'…this reluctance [to borrow from banks] may be due primarily to fear of what may happen if they cannot pay back the loan. For very poor family, repaying a loan is a burden that may endanger the household's whole financial viability.'***

Consequently, the urban poor relied primarily on their own savings and loans from family and friends and build their houses in stages. Housing microloans of the type supported by the Local Finance Facilities allowed for greater flexibility in repayments but did not lock-in the households in long-term repayment commitments. Last, but not least, the beneficiaries will not lose their house in case of default.

The SUF pilot programme opened up a new avenue for financing slum upgrading projects and house improvements. It can be anticipated that Local Finance Facilities activities will influence slum upgrading at scale in the next five years.

3.2.8 THE LOCAL FINANCING FACILITIES' MARKET NICHE

The Local Finance Facilities market 'niche' was effective support to house improvements, new house construction and small-scale neighbourhood infrastructure (Table 3.11). SUF did not play a catalytic role in mobilizing financing for municipalities, as originally envisaged. Financing of municipalities and large scale public or private infrastructure facilities requires specialized expertise (and financial resources) that the Local Finance Facilities did not have and should not try to obtain. Rather, such financing should be supported through institutions such as municipal development banks, municipal guarantee facilities e.g., LGU Governing Council, UN-Habitat in the Philippines, International Finance Corporation, and GuarantCo etc.

Community driven slum improvement programmes tended to be small and the cost of supporting them directly with foreign expertise was too high. Similarly, they were too small to justify the high transaction costs associated with international financing entities (such as GuarantCo, and the International Finance Corporation etc.). Even if the scale of the slum upgrading initiatives was large enough, credit enhancements from international financial institutions will tend to be too costly, since the guarantee fee has to reflect not only project risks but country risks as well. Therefore, the Local Finance Facility concept is an appropriate response to these challenges.

TABLE 3.11: The Market Niche for the Local Finance Facilities

Level	Main Actors	Finance Channels	Finance Sources	Support Mechanisms
House	Household	Housing Microfinance	Commercial Banks	LFF's
Neighbourhood	Community (CBO's)	Local Funds/Group Lending	Commercial Banks	LFF's
City	Municipal/Public Sector	Direct Loan/Bond	Commercial Banks/ Capital Markets	Municipal Dev. Bank Mun. Gurantee Facility

Experience has shown that Local Finance Facilities functioned best when they had a strong intermediary that could mobilize the slum community. In Sri Lanka, Lanka Financial Services for Underserved Settlements managed to expand rapidly because it was working with established NGOs and microfinance lenders such as South Asia Partnership-Sri Lanka (SAPSRI) and Women's Bank. In Ghana, People's Dialogue for Human Settlements was indispensable for the successful implementation of the Amui Djor project. The experience from the other SUF projects reconfirmed the importance of capable organizations that work with the urban poor. Janarukula was the driving force behind the Moratuwa projects. Janarukula and People's Dialogue were both associates of Slum Dwellers International. While the Evaluation Team found that affordability of the Kinondoni apartments was poor, this should not obscure the fact that Tanzania Women Land Access Trust demonstrated both competence and dedication in organizing 500 women into savings cooperatives and overcoming substantial difficulties in implementing the project. In Indonesia, NGO's involvement was less and the Local Finance Facilities and the local governments in essence played the 'developer role.'

3.2.9 THE CATALYTIC ROLE OF THE LOCAL FINANCE FACILITIES

Although there were a few microfinance organizations specialized in housing such as NACHU in Kenya and Kuyasa Fund in South Africa, most housing loans were provided by 'multi-line' microfinance lenders. This was common in Latin America, but some organizations in Africa and Asia also made housing loans. A few, like SEWA Bank in India, had significant housing portfolios (27 per cent in case of SEWA), but most were only marginally involved in the sector. Grameen Bank in Bangladesh and Bank Rakyat Indonesia (BRI), the world's largest microfinance institutions, offered various housing loans, which contributed only one to two per cent of total assets.

A recent survey of the housing microfinance industry by Merrill and Mesarina identified a number of areas that needed capacity building and policy changes. It also found a number of financial constraints, including:

- Scarcity of liquidity for most if not all segments of the market;
- Asset-liability mismatch with microloan products were with fixed rate and short-term for small amounts, it was difficult for institutions to access longer term funds at a fixed rate, given the interest rate risk and duration mismatch;
- Lack of linkages between microfinance institutions, commercial banks, mortgage lenders, and capital market institutions, such as pensions and insurance companies.
- Lack of secondary market financing from capital markets;
- Legal constraints on borrowing in foreign currencies; and

- Lack of resources to hedge currency risk where foreign borrowing is permitted for microfinance institutions.

The Local Finance Facilities were designed to overcome these constraints. Lanka Financial Services for Underserved Settlements, for example, enabled a number of established microfinance institutions such as Women's Bank and SEWA Finance enter into the housing field. Thus, it played an important catalytic role in creating a new market for housing microfinance.

The Local Finance Facilities played a catalytic role in various other ways. There were a number of local NGO's that work with the urban poor; however, which were too small and unknown to attract the support of donors and international NGO's. Rather they operated on a voluntary basis with modest charity contributions. Their programmes were small and had limited impact. The Local Finance Facilities supported such organizations to scale-up and implement programmes and projects that they earlier only could dream of. An example of this was the Eksath Lanka Welfare Foundation that with the support of Lanka Financial Services for Underserved Settlements was undertaking a programme in Nuwara Eliya, one of the poorest areas in Sri Lanka.

Perhaps more important was the influence of the Local Finance Facilities were on national policy. In Indonesia, a revised housing law, passed in January 2011, decentralized responsibility for housing delivery to the district authorities. The new law supported local governments to provide technical assistance to local communities in terms of planning, managing, organizing and controlling housing delivery (a key role for the district level Local Finance Facilities in the country). The law also created a 'National Housing Finance Liquidity Facility for Non-Fixed and Low Income Communities' (FLPP) that will provide insurance/ guarantees encouraging commercial banks to lend to them' based on SUF- Local Finance Facility approach (Box 3.7). The Government of Indonesia consulted SUF's former country advisor and SUF Programme Manager to draft the law. In Tanzania, Tanzania Financial Services for the Underserved Settlements was represented in a recently established working group that was helping the government develop a microfinance housing policy.

BOX 3.7: SUF IMPACT ON HOUSING FINANCE POLICY IN INDONESIA

New National Housing Finance Liquidity Facility for Non-Fixed and Low Income Communities (FLPP) in Indonesia to be Established.

The new Housing and Settlement Law No 1 Year 2011 of Indonesia provides for a national/local finance facility to provide housing credit guarantee or insurance to access local financial institutions for housing loans (Article 126). Further articles of the new housing law provides for the national/ local governments to provide technical assistance to local communities in terms of planning, managing, organizing and controlling housing delivery.

According to Minister of Housing Republic of Indonesia H.E. Suharso Monoarfa, "the design of the facility aims to extend credit for non-fixed and low income communities of Indonesia, for instance, making available a kind of insurance /guarantees so that banks will be willing to lend to them". Mr. Monoarfa also mentioned that the Indonesian government is now ready to furnish funds of IDR 1 Trillion (note: approx USD 110 Million) to Bank Tabungan Negara (BTN) as an executing bank for the FLPP programme.

According to Marcel Pandin, former Country Manager, SUF Programme in Indonesia, "combining the two services (TA and credit enhancement) in this scheme, then one may see that it is the very soul of the SUF scheme". Mr. Pandin and the new UN -HABITAT Programme Manager in Indonesia, Kemal Taruc have both been consulted by the Indonesian Government about the SUF programme.

4 CONCLUSIONS, MAIN LESSONS LEARNED AND ACTIONABLE RECOMMENDATIONS

4.1 CONCLUSIONS

A. Relevance of the SUF Pilot Programme

SUF is a highly relevant initiative that is addressing an important area, the mobilization of domestic commercial capital for slum upgrading and housing for the urban poor. This is a window that has not systematically been addressed by traditional donor programmes. The programme tested different approaches such as urban poor funds and other revolving fund mechanisms. The most successful and sustainable approach was the guarantees provided by the Local Finance Facilities. Basically these vehicles replaced rather than mobilized local capital (except when, as in the case of the Moratuwa Urban Poor Fund, they were used for guaranteeing bank loans along the same lines as the Local Finance Facilities). All the 16 SUF schemes, except one (Tanzania Women Land Access Trust in Tanzania), reached the urban poor.

B. Effectiveness of SUF

The SUF pilot programme has demonstrated that it is possible to mobilize commercial banks funding for improvement of housing and small scale infrastructure, a market that the commercial banking sector traditionally has resisted because of its inherent risks. The most effective vehicles for reaching this goal were the local finance facilities (Local Finance Facilities). The approaches and the credit enhancement provided by the Local Finance Facilities attracted major commercial banks to participate in slum upgrading projects. As of May 2011, the Local Finance Facilities had helped mobilize some USD 440,000 from seven different commercial banks in three countries with different socio-economic conditions.

To date, around 1,600 persons have benefited or are in the process of benefiting from SUF sub-projects out of which 1,250 benefiting from the Local Finance Facilities operations. Due to its broader objectives SUF was only moderately successful in achieving the expected outcomes for the Pilot Phase. Contrary to the initial expectations, the SUF has not yet managed to 'take slum upgrading to scale.' Only one sub-project included an infrastructure component (a septic tank in Jogjakarta serving four families). SUF has also not helped a single municipality mobilize financing for infrastructure development from local financial markets. Further, SUF has not attracted support from other international facilities or new donors. However, those interviewed were optimistic that the initial goals and expectations of SUF were not realistic.

There is consensus that the main outcome of the Pilot Phase, the establishment of six Local Finance Facilities, was unanticipated. The Local Finance Facilities represent an important innovation that potentially can have an impact on the lives of millions of slum dwellers, not only in the four pilot countries but throughout the developing world.

Community driven slum improvement programmes are small; yet the cost of supporting them directly with foreign expertise is high. Similarly, such projects are too small to justify the high transaction costs associated with international financing entities such as GuarantCo, and International Finance Corporation. Even if the scale of slum upgrading initiatives was large enough, credit enhancements from international financial institutions will tend to be too costly, since the guarantee fee has to reflect not only project risks but country risks as well. Therefore, the Local Finance Facility concept is an appropriate response to these challenges.

C. Efficiency of SUF Interventions

i) Programme Management: The SUF pilot programme was a highly experimental undertaking. It can best be described as 'learning by doing.' It started out with a project focus but shifted its emphasis gradually to the establishment and nurturing of new financial institutions. However, the lack of 'practical' financial expertise in the Programme Management Unit and the pilot team, relative to the financial capacity requirements of the Local Finance Facilities, as well as the impediments to staffing the Local Finance Facilities due to delays in approving development and administration funding, led to difficulties in building the capacity of the Local Finance Facilities. This resulted in tension with stakeholders and a general unhappiness with the lack of progress in bringing projects to financial closure.

UN-Habitat's policies and procedures were not geared to support a programme of this type. Firstly, UN-Habitat had difficulties in attracting and retaining staff with the required skills, especially in the area of finance. The decision, albeit controversial at that time, to implement the pilot programme through a consulting consortium would have been more successful if a more flexible contracting approach had been chosen and if the Programme Management Unit provided better supervision and guidance in the area of finance.

Secondly, the consultative board was too large and reflected too many diverse interests to be an efficient decision making body. While the consultative board had a couple of people experienced in finance, it seems like their voices were drowned out by those with a more traditional view on slum upgrading. Thus, the consultative board did not provide effective guidance to the pilot operations.

i**i) Pilot Project Implementation:** The experience of SUF pilot programme (including operations managed by the Programme Management Unit) reconfirmed that in-situ upgrading is preferable to relocation and new constructions, especially if these involve building of apartments. This 'common wisdom' was unfortunately not reflected in the design and implementation of all the schemes supported by SUF.

The Local Finance Facilities' market niche is in supporting improvements of housing and small-scale neighbourhood infrastructures. SUF's catalytic role in mobilizing financing for municipalities has not happened due to lack of expertise (and substantial financial resources) that the Local Finance Facilities do not have and should not try to obtain. Rather, such financing can be better supported through institutions such as municipal development banks, municipal guarantee facilities such as LGUGC in the Philippines, International Finance Corporation and GuarantCo.

Local Finance Facility credit enhancements have in all cases, but one, taken the form of partial credit guarantees. The guarantees have covered 50 per cent -100 per cent of the outstanding loans, with an average of 80 per cent. Lanka Financial

Services for Underserved Settlements, the most established Local Finance Facility, has average coverage of 68 per cent, which implies that one dollar of its own funds has mobilized almost one and half dollars. As the underlying loans are repaid, funds are released for new guarantees. Thus, over time, the leverage can be substantial.

D. Sustainability of the Local Finance Facilities

Increased emphasis on financial capacity building of Local Finance Facilities is instrumental to the Local Finance Facility model that has been established. For house improvement loans, the Local Finance Facilities have developed sound risk mitigation approaches to ensure that i) The micro-lender has a good track record; ii) The loan repayments are affordable to all participating families, based on actual surveys; iii) The beneficiaries have a history of savings; and iv) Create a default or 'first loss' reserve through proper structuring of lending and guarantee arrangements. Close adherence to these principles will contribute to the financial sustainability of the Local Finance Facilities.

Scaling up Local Finance Facility activities will take a longer time (three to five years) than the two years that most of them have been in operation. Most of the Local Finance Facilities are still understaffed. The Tanzania Financial Services for the Underserved Settlements, for example, only has a chief executive and needs to recruit additional staff, especially in the area of finance. In order to fine-tune their policies and procedures and fully develop their staff, all the Local Finance Facilities established under the SUF Pilot require additional technical assistance support and nurturing for one or a couple of years. In the short to medium term, Local Finance Facilities require financial support from governments or donors to cover their operating costs. To be financially independent and sustainable, the Local Finance Facilities need USD 3-5 million in capital.

E. Impact of SUF

Direct impact on the urban poor: The direct impact of SUF has been limited to improvement and upgrading of the slum housing and increased income earning possibilities. However, the Local Finance Facilities are scaling up their operation: As of May 2010, Lanka Financial Services for Underserved Settlements had served 35 families or 150-160 people; by the end of 2011 it is projected to benefit about 3,000 slum dwellers. The other Local Finance Facilities (especially Tanzania Financial Services for the Underserved Settlements) are lagging behind but can be expected to expand significantly over the next couple of years.

Target group: Assessments of the affordability of the loans clearly show that all Local Finance Facility subprojects reached the urban poor.

Catalytic effects: The broader impact of the SUF programme is that it has demonstrated a model through which slum dwellers, for the very first time can get access to the domestic capital market for housing development. The Local Finance Facilities have enabled microfinance institutions to get longer term capital to venture into housing finance. They have also enabled small and unknown NGO's working for the urban poor to scale-up and implement programmes/ projects that they earlier could only dream of.

The SUF initiative has had an impact on government policies and programmes. In Indonesia, the recent National Law on Housing on decentralization of housing to the local governments fully embraces the SUF model. It has made provisions for the establishment of a national (or local) finance facility to provide housing credit guarantees or insurance to help low income households access housing loans.

F. The Future of the Local Finance Facilities

The SUF initiative is approaching the end of the (extended) Pilot Phase. The main conclusion of this review is that the Local Finance Facilities are important innovations that potentially can benefit millions of slum dwellers. Existing Local Finance Facilities should be scaled up and new ones established. UN-Habitat deserves great credit for having initiated the SUF programme, but it may not have the required capacity (in terms of human and financial resources) to scale-up of the SUF programme. In addition, it has no institutional infrastructure for financial transactions.

To successfully run a large financial operation requires lawyers with experience in financial transactions, a policy unit that fully understands commercial finance, a 'credit committee' comprising senior managers with relevant financial expertise, a peer group of finance officers that can provide guidance and advice. To create such infrastructure takes years. Thus, the Evaluation Team has reached the same conclusion as the Governing Council that in its Resolution 23/11 *'requests the Executive Director… to transfer… the technical loan guarantee oversight responsibilities of the slum upgrading facility programme to an appropriate external development finance partner.'*

4.2 MAIN LESSONS LEARNED

SUF has demonstrated that *in situ* upgrading is preferable to slum redevelopment, especially if the latter involves building of apartments. The more specific lessons from SUF fall broadly into the following two main categories:

Management of Major New Initiatives

1) Major new initiatives, especially those that fall outside UN-Habitat's traditional roles, if not preceded by an institutional analysis to identify policies and procedures might hamper programme implementation (such as procurement, disbursements to outside entities, and recruitment of appropriate staff) and mitigation measures put in place during the programme design.

2) Experimental programmes must have sufficient flexibility and on-going monitoring to inform approaches, budget allocations, etc. as experience is gained.

3) Building new institutions takes time, and expectations of various stakeholders must be appropriately managed.

Implementation of the SUF Programme

4) Financial operations are fundamentally different from the traditional roles of most UN agencies, including UN-Habitat. To successfully engage in finance at any significant scale requires a supportive institutional environment, in terms of human and financial expertise'.

5) Municipal powers and resources, macroeconomic conditions, characteristics of slums, civil society capacities, income levels vary tremendously from country to country, city to city and even within cities, thus a 'cookie-cutter' approach to slum upgrading does not work. Sustainable success comes from applying traditional affordability assessments and financial structuring tools.

6) Early engagement of national and municipal governments and inclusion of the SUF programme into the comprehensive national housing policy framework is important for its success.

7) Sustainability guarantee and similar financial operations require a proper sharing of risks to avoid moral hazards problems.

8) Cross subsidies from the sale or lease of shops and 'high-end' apartments rarely produce enough revenues to make apartments affordable to the urban poor.

4.3 ACTIONABLE RECOMMENDATIONS

The viability, benefits and success of the Local Finance Facility approach were clearly established through the SUF Pilot Phase. The challenge now is to continue to strengthen and sustain the existing Local Finance Facilities and to replicate the model in other countries. This requires action by SUF stakeholders.

Recommendations to UN-Habitat

1) In scaling SUF UN-Habitat should work proactively with International Finance Corporation, the World Bank, the Cities Alliance, perhaps the regional development banks, bilateral donors, prominent NGO's in the sector as well as foundations to find a new 'home' for SUF.

2) Anchor the new/reshaped SUF in an institution with a clear track record in delivering innovative, market-based financial transactions. However, this new entity should be able to draw on the expertise of UN-Habitat in a collaborative framework. In many respects, the International Finance Corporation-Kreditanstalt für Wiederaufbau Microfinance Enhancement Facility could serve as a model.

3) The design of the new/reshaped facility should be preceded by a rigorous analysis of the experiences from ERSO, SUF, CLIFF (Community-led Infrastructure Finance Facility) as well as national programmes supporting upgrading and the urban poor, such as CODI (Community Organizations Development Institute) in Thailand and PRODEL (PROgrama de DEsarrollo Local in Nicaragua. The evolution of the microfinance industry over the last two decades can also provide useful insights for the fine-tuning of the SUF successor programme. UN-Habitat and the new host institution for SUF should jointly lead this analysis.

4) Until a new entity has been established and funded, UN-Habitat's Urban Finance Branch team should continue to provide technical assistance to all the six Local Finance Facilities established under the SUF Pilot Programme.

Recommendations to UN-Habitat and Donors

5) UN-Habitat and SUF donors should develop and adopt strategy for 'honourable exit', to ensure the continued development and viability of the six established Local Finance Facilities, including supporting Local Finance Facilities financially during the transition period.

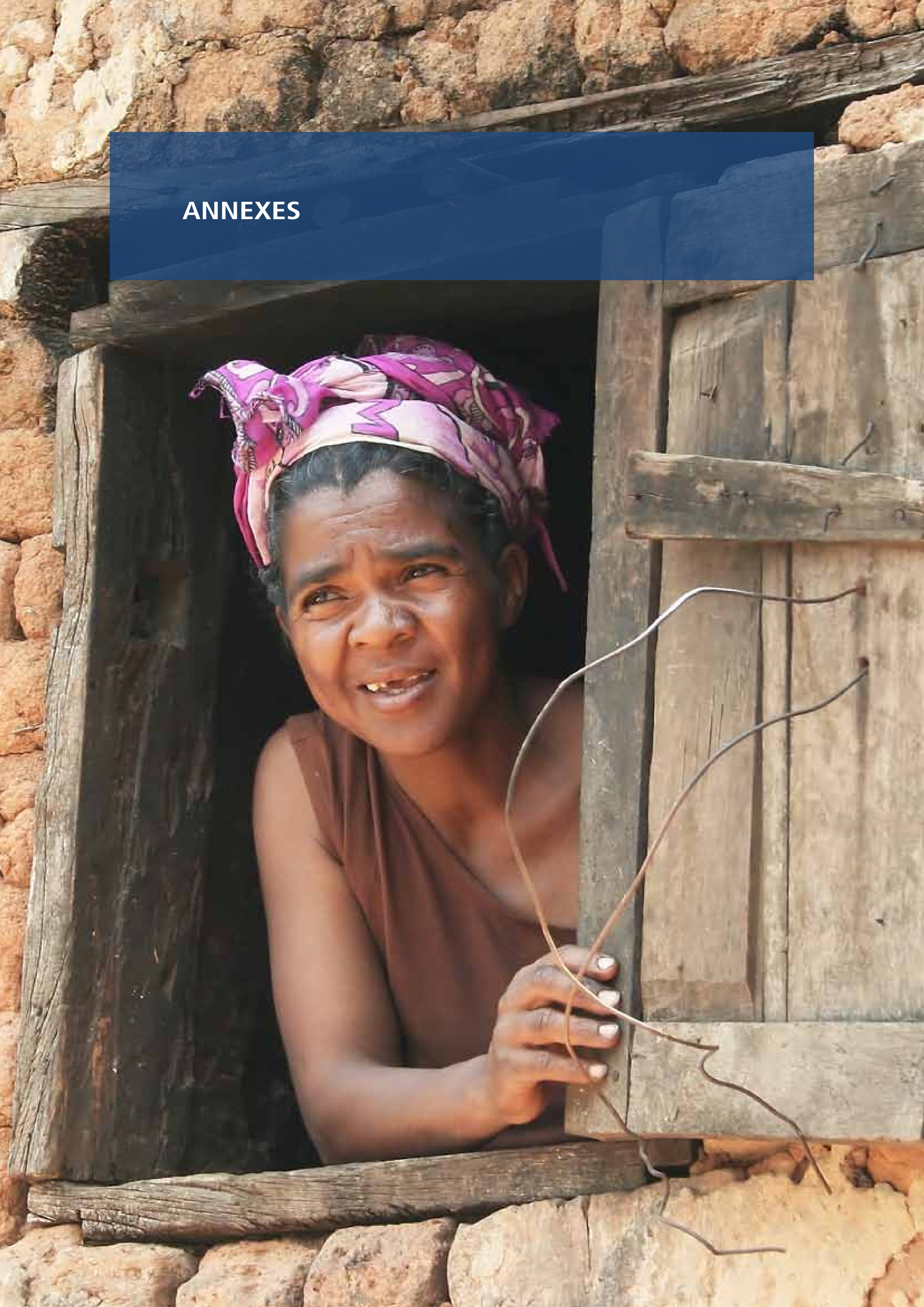
Recommendations to the Local Finance Facilities

6) The Local Finance Facilities should continue to strengthen their financial expertise both at the staff and at the board level.

7) Local Finance Facilities that have performed well during the Pilot Phase should pursue additional financing from local donors, municipalities, central governments and from foundations as well as the private sector, including 'social investors.' However, the Local Finance Facilities must avoid losing their independence by becoming government facilities.

8) To avoid potential conflict of interests, the two main parts of Local Finance Facility activities—(i) Project packaging/advice and (ii) Approval of credit enhancements—should be undertaken by separate staff. When they reach sufficient scale, the Local Finance Facilities should hire a 'chief guarantee officer' responsible for due diligence of credit enhancements. This officer should report to the finance sub-committee of the consultative board.

ANNEXES



ANNEX I: TERMS OF REFERENCE

1. INTRODUCTION

As set out in the Secretary-General's bulletin of 19 April 2000 entitled *'Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation'* (ST/SGB/2000/8), regulation 7.1, the overall objective of evaluation is to determine, as systematically and objectively as possible, the relevance, efficiency, effectiveness and impact of the organization's activities in relation to their objectives; and to enable the Secretariat and Member States to engage in systematic reflection, with a view to increasing the effectiveness of the main programmes of the organization by altering their content and, if necessary, reviewing their objectives.

The Governments of Norway, Sweden/ the Swedish International Development Cooperation Agency, and the Department for International Development of the United Kingdom, the donors of the Slum Upgrading Facility (SUF) Pilot Programme, requested a final evaluation of the achievements, experiences and lessons learned from this pilot programme. The SUF Operations Manual indicates that 'evaluations may be requested by the donors and partners to share lessons learned and adapt strategy and inform decisions on how to proceed.'

Governing Council Resolution 20/11 also indicates that an independent evaluation of the SUF Pilot Phase will help inform decisions on how to proceed.

2. THE SLUM UPGRADING FACILITY

2.1. BACKGROUND AND CONTEXT

In May 2003, the Governing Council , at its 19th session, through resolution 19/11 requested UN-Habitat to 'field test approaches through pilot projects and to develop longer term programmes to increase the supply of affordable credit for slum upgrading and other pro-poor human settlements development in developing countries and countries with economies in transition.

The Slum Upgrading Facility (SUF) Pilot Programme was established in January 2006 as a 'technical advisory facility designed to assist national Government, local government and community organizations in the development of their own slum upgrading, low cost housing, and urban development projects so that they can attract funding primarily from domestic capital markets, using seed capital grants where necessary and bringing in existing guarantee and credit enhancement facilities, the whole process being packaged in such a way that the projects can be regarded as financially sustainable'.

The SUF programme is located in the Urban Finance Branch under the Human Settlements Financing Division of UN-Habitat.

2.2 OBJECTIVES AND PRIORITIES

SUF contributes to progress on the slum target of Millennium Development Goal 7of significantly improving the lives of at least 100 million slum dwellers by the year 2020. The overall objective of the SUF Programme is to assist in mobilization of local, domestic capital for slum upgrading initiatives. SUF was designed to develop significantly greater numbers of bankable projects that promote affordable housing for low-income households, the upgrading of slums and the provision of urban infrastructure in the settlements, towns and cities of the developing world.

SUF aims at achieving this overall objective through the following specific objectives:

- Facilitating links between local actors and packaging the financial and technical elements of bankable projects to attract investments in affordable housing for low-income households, upgrading of slums and the provision of urban infrastructure in the human settlements, towns and cities of the developing world.
- Identifying projects, building local capacities, networking, providing direct technical assistance and where appropriate mobilizing bridging finance and credit enhancements.

2.3. EXPECTED ACCOMPLISHMENTS (OUTCOMES)

Specific performance outcomes of the SUF Programme, as specified in the SUF Operations manual adopted in May 2005 are as follows:

- Pilot projects that result in taking slum upgrading to scale;
- Building bridges through mediation, participatory planning and conflict management;
- Private/Public partnerships formed for slum upgrading;
- Strengthen project ownership among local actors/minimize external intervention;
- Increased community-based organizations/ Slum Dwellers participation;
- Increase operational efficiencies;
- Expand the capacity of local stakeholders to raise domestic capital and handle future upgrading activities with minimum external aid;
- Upgrade the local labour force and strengthen local training institutions;
- Improved capacity and capabilities of local NGOs/community-based organizations to package and access local capital;
- Affordable repayment structures developed for servicing debt and repayment of capital;
- Revenue streams identified capable of attracting capitalisation;
- Increased level of funding mobilized from the private sector for slum upgrading and municipal development;
- Deepening of the local capital markets;
- Mainstreaming of housing finance loans in the loan product portfolio of formal financial institutions;
- Established information systems that bring together stakeholder views;
- A profile of lessons learned;
- Increased community mobilization;
- The SUF Operations Manual outlines four functions of the SUF programme in order to achieve these outcomes;
- 'Advisory services to cities in the four pilot countries and as required in the neighboring countries;
- Referral services for projects beyond the SUF scope connecting identified needs with local, regional and international institutional support by others;
- Financial packaging of different forms of investment through risk sharing with local institutions rendering projects bankable; and
- Development of financial instruments/ products using available including loans from domestic and international banks, capital markets, investments from central and local governments, institutional investors etc.'

2.4. APPROACH

2.4.1 Beneficiaries and Key Stakeholders

The SUF Pilot Programme target group is low-income populations in the selected pilot countries of Ghana, Indonesia, Sri Lanka and Tanzania. Key stakeholders include municipal authorities, community-based organizations, non-governmental organizations and relevant departments of central government, the private sector including retail banks, property developers, housing financial institutions, service providers and utility companies.

2.4.2 Management Arrangements

The SUF Programme was managed by a SUF Programme Manager assisted by a staff team of three people within UN-Habitat, collectively known as the SUF Programme Management Unit. For day-to-day operations in Ghana, Indonesia, Sri Lanka and Tanzania, a SUF Pilot Team of 6 full time consultants plus 4 country managers was hired in November 2006 to implement country level activities and assist the SUF Programme Manager.

The Slum Upgrading Facility is being implemented in partnership with the members of the Cities Alliance and in close cooperation with the SUF Consultative Board. In addition to Department for International Development of the United Kingdom and Swedish International Development Cooperation Agency, the Board is comprised of Norway, World Bank Group, United Cities and Local Governments (UCLG), Slum Dwellers International, as well as representatives of international commercial retail banks, representatives of local capital markets in developing countries and representatives of commercial banks in developing countries.

2.4.3 Local Finance Facilities

In 2007, the Slum Upgrading Facility Programme initiated the establishment of local finance facilities in each of the pilot countries (two in Ghana, two in Indonesia, one in Sri Lanka and one in Tanzania) as institutions to operate between community groups, governments and banks in order to leverage and access community resources, government inputs and commercial lending for bankable slum upgrading projects. Each facility uses one-time grant funding to establish operations and capitalize a revolving credit enhancement programme to support slum upgrading projects developed by communities.

Local Finance Facilities are designed to be self-sustaining, bringing together key partners to form a board of directors with a secretariat staff with the necessary capacity to manage the operations of the facility and to develop projects that are both affordable to those living in informal and slum settlements and able to secure commercial loans.

The intention of these facilities is to do the following:

- Provide a model for dealing with slum upgrading at scale including provision of technical assistance and capacity building;
- Bring together key players involved in city and national level slum upgrading strategies to address technical elements;
- Influence city-level and national policy around slum upgrading;
- Attract and blend the range of resources required (including all forms of subsidy, savings and commercial finance);
- Reach the poorest of the poor;
- Support community-led, demand-driven solutions for low income housing and slum upgrading, and;
- Be financially self-sustaining.

Two main types of projects were envisioned for the facilities: area upgrading projects that addressed land tenure, housing and infrastructure and potentially including new construction, and; individual home improvement programmes, with wholesale loans being secured for on-lending through local savings and loan schemes and/or micro finance institutions. The facilities were designed to make use of credit enhancement in the form of cash collateralized guarantees to domestic banks to attract commercial financing in various forms.

The SUF programme is concluding the Pilot Phase of its operations on 31 December 2010, after receiving a two-year no cost extension beyond the original completion date of December 2008. At that time, all Local Finance Facilities are expected to have demonstrated appropriate capacity and business planning and have established processes and developed projects so they can operate as self-sustaining non-bank financial institutions able to support increased financing for slum upgrading and low income housing in their local contexts.

With the arrival of a new Chief of the Urban Finance Branch in July 2009, and following the departure in May 2009 of the SUF Pilot Team responsible for country-level implementation of the Local Finance Facilities, there has been a concerted effort by the Urban Finance Branch team, with support from external Senior Bankers, to ensure that all Local Finance Facilities are able to operate as self-sustaining financial institutions able to contribute to increased finance for improved housing and infrastructure in their local contexts.

2.4.4 Other Field Testing Activities

The SUF Programme Management Unit also implemented a series of field-testing grant activities, including urban poor fund initiatives in Sri Lanka and Ghana and the Tanzania Women Land Access Trust construction project in Tanzania, among others. These projects were intended to contribute to meeting the overall SUF objective of helping local partners mobilize domestic financing for slum upgrading activities.

2.4.5 SUF Inputs and Budget

The SUF programme had a budget of USD 18.9 million for operations (provided by Department for International Development of the United Kingdom, the Swedish International Development Cooperation Agency and Norway). Approximately USD 5.5 million was allocated for the capitalization of six Local Finance Facilities in four pilot countries (for both credit enhancement purposes and development and staffing costs). USD 1 million was allocated to field testing activities. A further USD 5 million was utilized to hire the SUF Pilot Team for a 3-year period. UN-Habitat provided in-kind contributions in the form of professional staff time. Further in-kind contributions came from the World Bank, Cities Alliance and SUF Consultative Board.

3. EVALUATION PURPOSE AND OBJECTIVES

The overall objective of this evaluation is to assess the extent to which the objectives and expected outcomes of SUF and its associated projects in each of the pilot countries have been met. Assessment of the various aspects of the SUF programme will be guided by the use of five key evaluation criteria: relevance, effectiveness, efficiency, sustainability and impact on the intended beneficiaries.

This evaluation will inform donors and UN-Habitat Senior Management on the outcomes of the SUF Pilot Programme approaches designed to increase access to finance, land and housing for target beneficiaries and the applicability of these approaches for future institutional strategies.

Most crucially, it will present lessons learned and clear recommendations for action that will inform future strategy and direction on slum upgrading strategies, economics and bankable projects.

Results and recommendations drawn from this report will be presented to donors, UN-Habitat management and Committee of Permanent Representatives members for consideration and to guide any decision by them on potential slum upgrading initiatives.

4. EVALUATION SCOPE AND FOCUS

This evaluation will cover the SUF Pilot Programme period from 2005 when the design phase commenced to the present. It will focus on processes and activities of SUF in the four pilot countries (Ghana, Indonesia, Sri Lanka and Tanzania) and all SUF field testing activities, advisory and capacity-building activities conducted to-date. The scope should include an analysis and review of selected transactions in the SUF programme, and a specific review of the Tanzania Women Land Access Trust field testing project being the first field testing project.

The evaluation will cover the SUF programme cycle from design, implementation to the impact on target beneficiaries. The analysis should include both technical and financial aspects of the programme. Challenges and lessons learned and recommendations based on key findings will be presented in the evaluation report. Recommendations should be implementable.

5. EVALUATION CRITERIA

This evaluation will be guided by four main criteria: effectiveness, efficiency, relevance and sustainability. The various pilot approaches and some aspects on progress towards the expected outcomes and impact that could be attributed to some of the SUF projects will be assessed. The table below provides some suggested questions that will guide the focus of the evaluation. The evaluators have the discretion to add or modify suggested evaluation questions that will be discussed in the inception report.

Evaluation criteria	Preliminary questions
Relevance	• Were the initial goals and expectations of SUF realistic? • How appropriate is the Local Finance Facility approach? How appropriate were other approaches including those with Tanzania Women Land Access Trust, People's Dialogue, cooperative housing foundation, USDA and other revolving funds? • What is the relevance of the Local Finance Facility approach in meeting UN-Habitat objectives for increasing domestic financing for slum upgrading? The Women's Land Access Trust approach? The Urban Poor Fund approach? Other grant agreement pilot approaches within the SUF programme? • Was the SUF programme able to be flexible enough in meeting different user needs and delivering the products and services? • Did the SUF programme effectively reach the target low-income populations?
Effectiveness	• Did SUF meet its intended and stated programme objectives? To what extent has SUF achieved delivery of the expected outputs, targets and outcomes and what remains to be done? • Did the selection of pilot programme countries reflect the overall goals of poverty reduction? • Are SUF approaches relevant to and linked with appropriate government policy, strategy and interventions? • Do the Local Finance Facilities have the capacity to deliver their stated products and services? • Are the Local Finance Facilities established under SUF sustainable? Are other SUF approaches (Tanzania Women Land Access Trust, Urban Poor Funds) sustainable?
	• Have the established revolving funds demonstrated that they will be able to revolve? • Is SUF able to reach the target populations? • Are low income communities willing and able to repay housing and infrastructure loans? What debt to income ratio is most appropriate for this target market? • Is it valid to attract private sector finance with guarantees? If so, what type and amount is most relevant and appropriate? How appropriate is a credit enhancement / guarantee approach from a developmental economics standpoint? • Comment on the risk-sharing structures being implemented in the specific projects. Are they useful and relevant? Comment also on how risk is analyzed and mitigated within the Local Finance Facilities themselves. • Have the Local Finance Facilities changed how and in what amount banks deliver products and services for housing and slum upgrading for the poor? • Have guarantees resulted in additionality? • Can we anticipate that any of the SUF models (Local Finance Facilities, WLAT's and Urban Poor Funds) will be effective in reaching scale and addressing housing stock gaps? • Are the implemented SUF models effective in incorporating funding from different levels of government? Other types of government support? • What can be said about leverage with regard to SUF model approaches? What particular inputs have been leveraged through the different SUF approaches? • What can be said about partnerships with regard to the range of SUF model approaches? • What can be said about projects with regard to the range of SUF model approaches? Are the projects reaching target beneficiaries; what is the type, scale and reach?

Efficiency	• Is SUF cost-effective? Comments on the relative spend on in-country activities vs. administrative costs. What were the strengths and weaknesses of the SUF management structure? • Were Local Finance Facilities adequately funded to achieve their intended objectives? • Do the Local Finance Facilities have sufficient and appropriate staffing capacity to continue efficient operations and/or to efficiently revolve to do further additional projects? • Which slum upgrading models are most efficient – progressive upgrading of homes, new construction of homes, multi-story construction, market stall improvements, toilet blocks, water access, septic tank and other access to sanitation projects?
Sustainability	• What aspects of the SUF institutional setup are sustainable and replicable? Is the design of the SUF programme a sustainable model? • Is the present structure of the Local Finance Facility a practical and sustainable model over the longer term? • Are the present structures of field testing projects sustainable models over the longer term? • What is UN-Habitat's niche and value added role if any in the technical assistance to the SUF programme? How will this affect the sustainability of the SUF initiative?
Impact	• What impact did the SUF programme have in improving the lives of slum dwellers? • What are the preliminary direct and indirect impacts of the Local Finance Facilities? Of Tanzania Women Land Access Trust? Of the Urban Poor Funds? • What are the implications of the SUF pilots for housing finance for the underserved low income population? Can it be anticipated that SUF type activities will influence slum upgrading at scale in the next five years? • Has there been measurable increase in the level of funds mobilized from the private sector for slum upgrading and municipal development? If yes, what is the scale of the increase? • To what extent have gender and youth perspectives been integrated into the SUF programme?

6. PROPOSED METHODOLOGY

The consultants are expected to outline the details of their proposed methodology in their Inception Report. It is anticipated that the assessment will be organized as follows:

- In–depth document review and analysis, which may focus on the following
- The Slum Upgrading Facility history background including the structure of the pilot programme, its role in UN-Habitat, the Operational Manual and how it was operationalized from 2005 to present; the SUF Pilot Team responsibilities and results; the SUF Consultative Board, etc;
- The six Local Finance Facilities in the four pilot countries, their structure and the activities so far including project design, development and implementation and all details relating to their business plans, staffing, board structure, projects and project development;
- Review of all aspects of current and pipeline projects in each Local Finance Facility, including but not limited to type, reach, size, target beneficiaries, leverage, impact, risk analysis and risk mitigation measures, financial structuring and cash flows, guarantee arrangements, legal documentation, links with Local Finance Facility operational procedures, etc.
- The strategy, implementation and output of the Tanzania Women's Land Access Trust, the Urban Poor Funds in Ghana and Sri Lanka and other SUF grant agreement activities;
- SUF Donor communication throughout the life of the programme;
- All SUF budgets and expenditure including a comparison of planned budgets and actual expenditure.
- Interviews with key stakeholders, both face-to-face and by telephone and email. Key

stakeholders include UN-Habitat staff, donors, members of the SUF Consultative Board, project partners and selected community members involved in each of the pilot countries.

- Field visits to project sites in the four pilot countries.

7. ROLES AND RESPONSIBILITIES

The Human Settlements Financing Division of UN-Habitat will provide the overall administration of this evaluation. This division will develop the terms-of-reference in consultation with the Monitoring and Evaluation Unit, UN-Habitat and the donors. The process of selection and recruitment of the independent evaluation consultants will be transparent, guided by the Monitoring and Evaluation Unit of UN-Habitat.

The Human Settlements Financing Division Director, the Chief of Urban Finance Branch and the branch team members will provide the administrative and logistical arrangements and support to facilitate the work of the consultants as appropriate. This will include ensuring that the consultants have access to all relevant documents needed for the review, making appointments for interviews, and arrangements for field visits. The division and the unit will also review all the deliverables of the evaluation to ensure factual accuracy.

The donors (Norway, Sweden and the United Kingdom) will be invited to comment on the Terms of Reference and the inception and draft reports. The main SUF findings will be presented to the Committee of Permanent Representatives through Focus Area 5 reporting meetings and in the form of a final evaluation report.

The evaluation process will be guided by the United Nations Evaluation Group Norms and Standards. The independent evaluators will conduct the evaluation and deliver the evaluation outputs detailed in the deliverables of the evaluation

8. MAIN DELIVERABLES OF THE EVALUATION

The consultant(s) should produce the following deliverables:

- Draft Report (not exceeding 40 pages excluding annexes) (First payment = 50 per cent) which will include i) Background and context of the evaluated programme, purpose and scope of the evaluation, detailed methodology, evaluation framework, assessment criteria / questions and evaluation criteria, justification and sampling criteria for field visits and the report structure. ii) Analysis and discussion of evidence on findings of the evaluation, conclusions, recommendations and lessons learned.
- Final report (final payment = 50 per cent) – the final report will incorporate all the back-and-forth comments from the draft report. The final report should have a clear stand alone executive summary and the report should not exceed 45 pages excluding annexes. A sample report format will be provided.

9. WORK PLAN AND SCHEDULE

Output / Activity	Timeframe
Desk review, preliminary interviews and preparation of inception report and presentation to UN-Habitat for review and feedback.	March 9 – 20, 2011
Data collection and analysis and drafting of report; site visits as determined and agreed in inception report; on-going contact with UN-Habitat and other key stakeholders.	March 21- May 20, 2011
Drafting of final reports incorporating comments and other requirements as appropriate and in discussion with UN-Habitat Senior Managers and other key partners	May 21- June 30, 2011
Correction of factual errors and submission of Final Report	June 31-July 9, 2011

10. REQUIRED QUALIFICATIONS AND COMPETENCIES

It is anticipated that the evaluation will be done by two independent consultants recruited through a competitive process.

At least one consultant will have the following financial experience:

- Extensive experience with international banking, particularly in lending and mortgage lending, microfinance (ideally micro housing lending) and financial transactions including experience with emerging, low income housing markets in developing countries;
- Extensive experience in housing finance development strategies and micro housing lending for the poor in developing countries;
- Demonstrated ability and understanding of international best practice standards for micro lending and loan transactions for low and lower middle income communities and; skills and experience in conducting programme evaluations.

The Team Leader should have at least 10 years in the field of development and monitoring and evaluation experience. Experience in urban management and slum upgrading projects will be an added advantage.

The evaluators are required to disclose, in writing, any past experiences of themselves or their immediate family which may give rise to a potential conflict of interest and to deal honestly in resolving any conflict of interest which may arise. The evaluator(s) are also required to be familiar with the Code of Conduct for Evaluation in the UN systems and the United Nations Evaluation Group Norms and Standards.

11. KEY BACKGROUND DOCUMENTS FOR THE EVALUATION

- Governing Council Resolution 19/11.
- SUF Operations Manual May 2005.
- Minutes of previous SUF Consultative Board Meetings 2005 – 2008.
- Documents from the SUF Donor videoconference in November 2009 including Urban Finance Branch Team review of financials and progress for each Local Finance Facility and historic work done by Programme Management Unit and emerging markets group consultants.
- Documents from the SUF Donor meeting in October 2010.
- Agreements of Cooperation between UN-Habitat and all relevant partners (Local Finance Facilities, Urban Poor Funds, NGOs, etc., for all grant agreements effected under the SUF programme).
- Country status reports, financial reports and all other reports and materials from Local Finance Facility teams.
- Emerging Markets Group (Pilot Team) initial and final reports.
- All relevant documents on Tanzania Women Land Access Trust and Urban Poor Funds.
- SUF financials from 2006 through 2010; SUF budget for 2011; corporate financial details for all Local Finance Facilities.
- Other documents as requested and relevant

ANNEX II: SOURCE MATERIAL AND LITERATURE REFERENCES

KEY SUF DOCUMENTS

Governing Council Resolution 19/11.

Governing Council Resolution 20/11.

Governing Council Resolution 21/11.

Governing Council Resolution 23/11

SUF Project Document, February 2005

SUF Operations Manual, May 2005.

SUF Design Phase Draft Final Report, 31 March 2006

KEY PILOT TEAM REPORTS (EMERGING MARKETS GROUP AND HAPPOLD CONSULTANTS)

Country Project Implementation Plan for Ghana, May 2007.

Country Project Implementation Plan for Indonesia, May 2007.

Country Project Implementation Plan for Sri Lanka, May 2007.

Country Project Implementation Plan for Tanzania, May 2007.

Provision of Slum Upgrading Facility (SUF) -- SUF Pilot Team Final Report, April 2009.

OBSERVATION TEAM REPORTS (GHK INTERNATIONAL & URBAN SOLUTIONS)

Ghana (April 2008): *Homeless But Not Hopeless Findings of the Observation Team for the Pilot Phase of UN-Habitat's Slum Upgrading Facility (SUF) in Ghana.*

Indonesia (October 2008): *SUF Observation Team Report October 2008 Indonesia Mission.*

Sri Lanka (November 2007): *Innovations to House--Findings of the Observation Team for the Pilot Phase of UN-Habitat's Slum Upgrading Facility (SUF) in Sri Lanka.*

Tanzania (April 2009): *SUF Observation Team Final Report [Including the report on the Tanzania Mission].*

Roy Brockman (GHK International): *SUF Mid-term Review, Final Report.* April 2009

OTHER SUF DOCUMENTS

UN-Habitat provided the evaluation team with 3 CDs with SUF related documents. The evaluation team also received from the Local Finance Facilities numerous electronic and paper copies or their internal documents. Thus, other documents that informed the SUF assessment included, but were not limited to:

- Project Development Proposals prepared by the Pilot Team;
- Original and subsequent revisions of the Business Plans for each of the Local Finance Facilities and related budgets and financing plans;
- Operations Manuals for the Local Finance Facilities;
- All annual work programmes and budgets prepared by the Pilot Team and by the Programme Management Unit;
- Progress reports prepared by the Pilot Team and the Programme Management Unit;
- All reports submitted to the Consultative Board and minutes/records from the Board's meetings and other written comments made by Board members and donors;
- The grant agreements signed with the donors;
- The grant agreements signed with the Local Finance Facilities;

- Copies of key correspondence between UN-Habitat and the Local Finance Facilities; and
- Copies of key correspondence between UN-Habitat and donors.

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Merrill, Sally and Nino Mesarina. (2006). *Expanding Microfinance for Housing*. Housing Finance International, December 2006

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Mutero, James. (2010). *Review of the Housing Finance Sector in Tanzania.* Report No. 10 in the 'Access to Housing Finance in Africa: Exploring the Issues' series of studies. Finmark Trust.

programme manager Global Infrastructure Inc. (2006). *Assessment of the UN-Habitat Slum Upgrading Facility.* Final Report Submitted to Swedish International Development Cooperation Agency (Swedish International Development Cooperation Agency) May 24, 2006.

UN-Habitat. (2009). *Operations Manual: For Operational Activities of the United Nations Habitat and Human Settlements Foundation Experimental Reimbursable Seeding Operations Trust Fund (ERSO).* 19 February 2009.

UN-Habitat. (2010). *State of the World's Cities 2010/2011—Bridging the Urban Divide.*

ANNEX III: LIST OF PEOPLE INTERVIEWED

Name	Organisation/Unit	Position/Status
UN-Habitat, SUF and Donors		
Martin Barugahare	UN-Habitat	Chief, Monitoring and Evaluation Unit, Office of the Exec. Director
Daniel Biau	UN-Habitat	Director, Regional & Technical Coop.
Inga Björk-Klevby	UN-Habitat	Deputy Executive Director
Liz Case	UN-Habitat	Consultant, Urban Finance Branch
Bert Diphorn	UN-Habitat	Director, Human Settlements Financing Div
Iain Heggie	SUF	Sr. Banking Consultant (Urban Finance Branch)
Bonnie Hewson	UN-Habitat	Chief, Urban Finance Branch (Urban Finance Branch)
Jacqueline Macha	UN-Habitat	Project Finance Advisor
Angela Mwai	UN-Habitat	Project Finance Advisor, SUF
Asenath Omwega	UN-Habitat	M & E Specialist
Chris Williams	UN-Habitat	Representative, New York
Thomas Melin	UN-Habitat (ex Swedish International Development Cooperation Agency)	Senior Policy Advisor, SUD-Net
Modupe Adebanjo	UN-Habitat	Programme Management Officer
Felista Ondari	UN-Habitat	Programme Support Division
George Polk	Emerging Markets Group	Credit Enhancement
Ruth Macleod	Emerging Markets Group	Senior Consultant
Michael Mutter	SUF	Former Ag. Programme Manager, SUF
Satya	Formerly SUF Design Team & Programme Management Unit	
Bruce Bouchard	Formerly SUF Design Team	
Disa Weerapana		
Pelle Persson	Swedish International Development Cooperation Agency	
Mikael Atterhog	Swedish International Development Cooperation Agency	
Per Fröberg	Swedish International Development Cooperation Agency	
Kevin Milroy	Cities Alliance	
Ghana		
Maj. Dr. Mustapha Ahmed	Ministry for Water Resources, Works and Housing	Deputy Minister
Dr. Alex Tweneboa	TAMFSUF Board	Chairman
Braimah R. Farouk	People's Dialogue	Executive Director
S.S. Agbeve	Ashaiman Municipal Assembly	Municipal Dev. Planning Officer
Abena Ntori	UN-Habitat	Programme Officer
Victoria Abankwa	UN-Habitat	Programme Officer

Theresa Tufuor	Tema/Ashairman Metropolitan Slum Upgrading Fund Board Member	Senior Officer, Ministry of Housing
Emmanuel Asamoah	Tema/Ashairman Metropolitan Slum Upgrading Fund Board Member	Mortgage Banking Expert
Emmanuel Zonyah	Tema/Ashairman Metropolitan Slum Upgrading Fund Board Member	Community Organizing
Victor Mensah	Tema/Ashairman Metropolitan Slum Upgrading Fund Board Member	Engineer, Tema Municipal Assembly
Eugene F. Ofori-Atta	Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund Board	Chairman
Henry K. Owusu	Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund Board Member	Metro Dev. Planning Officer, Takoradi
Jacob Ntiamaoh	STMA Secretariat	Credit Enhancement
Madam Ekua Praba	STMA CSUF Board Member	Chair, Kojokrom Market Women's Association
George Williams	Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund Board Member	Federation of the Urban Poor, Ghana
Abdulai Zakari	Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund Board Member	Sekondi-Takoradi Metro Assemblyman
Nana Ama Yirrah	Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund Board Member	COLANDEF (NGO)
Indonesia		
Kemal Taruc	UN-Habitat	Programme Manager
Marcel Pandin	Independent Consultant	Ex- Indonesia SUF Country Manager
Budi Sulistyo, MSc	Badan Layanan Umum Daerah (Solo, Indonesia) Board of Directors	Chairman
Widdi Sri Hanto, Drs.	Badan Layanan Umum Daerah (Solo, Indonesia) Board Member	Head, Surakarta Div. Of Community Empowerment
FX Sarwono, SH, MM	Badan Layanan Umum Daerah (Solo, Indonesia)	Chief Executive Officer
Sumartono	Badan Layanan Umum Daerah (Solo, Indonesia) Board Member	Business Sector Representative
Bambang Sugiatmade, SE	Badan Layanan Umum Daerah (Solo, Indonesia) Board Member	Former member of Parliament
Wagiman Wongso	Badan Layanan Umum Daerah (Solo, Indonesia) Board Member	Community Leader
Irma Rakhmawati, SE	Badan Layanan Umum Daerah (Solo, Indonesia) Secretariat	Chief Financial Officer
Patricia Gonie, SE	Badan Layanan Umum Daerah (Solo, Indonesia) Secretariat	Chief Technical Officer
Ambar Absari	Badan Layanan Umum Daerah (Solo, Indonesia) Secretariat	Architect and Community Organizer
Ir. Bayudono, MSc	Local Finance Facility in Yogyakarta, Indonesia Board of Directors	Chairman
Dr. Ir. Budi Prayitono, ME	Local Finance Facility in Yogyakarta, Indonesia Supervisory Board	Assoc. Professor, Gadjah Mada Univ.
Hj. Tri Kirana Muslidatun	Local Finance Facility in Yogyakarta, Indonesia Executive Board	Deputy Chairman

Fahmi Akbar Idries, SE	Local Finance Facility in Yogyakarta, Indonesia Executive Board	General Treasurer
Vidi Syukri Akbar, ST	Local Finance Facility in Yogyakarta, Indonesia Secretariat	Credit Enhancement
Ir. Aries Prastiani	Kota KITA Secretariat Member	Head, Urban Design, Surakarta Mun.
Tri Utami Ririn W, SE	pilot team Bank Perkreditan Rakyat	Senior Director
Widiatma Rahmadi	pilot team Bank Perkreditan Rakyat	Director
Wahyu Setyowati	City of Yogyakarta	Section Head, Urban Planning Div.
Pande Made Kutanegara	Gadja Mada University	Professor of Social Anthropology
Mahditia Paramita, ST	Housing Resource Center	Executive Director
Danang Yulisaksono, ST	Yogyakarta City Planning Off.	Planning Officer
Sri Lanka		
Lanka Financial Services for Underserved Settlements Board Members & Staff		
Chandula Abeywickrema	Hatton National Bank	Dy General Manager (Lanka Financial Services for Underserved Settlements Chair)
Romesh Croos Moraes	Finlays	Director (Lanka Financial Services for Underserved Settlements Board)
Padma Ratnayake	South Asia Partnership	Executive Director (Lanka Financial Services for Underserved Settlements Board)
R. M. Indu Rathnayake	Ministry of Defence	Additional Secretary (Lanka Financial Services for Underserved Settlements Board)
Ayanthi Gurusinghe	Lanka Financial Services for Underserved Settlements	Chief Executive Officer
Ruwan Kamalarathne	Lanka Financial Services for Underserved Settlements	Finance Manager
Nuwan Perera	Lanka Financial Services for Underserved Settlements	Project Officer
Lakshan Goonetilleke	HSBC	Sr. Manager Investment Banking
Dilhara Fernando	HSBC	Relationship Manager
A.B. Ariyarathna	Regional Development Bank	Deputy General Manager
Laxman Perera	UN-Habitat	Programme Manager
Tanzania		
Salmon Odunga	Tanzania Financial Services for the Underserved Settlements	Chair, Tanzania Financial Services for the Underserved Settlements
John Ulanga	Foundation for Civil Society	Exec. Director (Tanzania Financial Services for the Underserved Settlements Board)
Kenneth Sinare	Tanzania Financial Services for the Underserved Settlements	Credit Enhancement
Phillemon Mutashubirwa	UN-Habitat	Programme Manager
Charles G. Singili	Azania Bank	Managing Direcctor
Richard Msaki		Municipal Trade Officer
Oswald G.F. Modu	OGM Consultants	Principal
Magreth Mwampondela	Tanzania Women Land Access Trust	Programme Officer

MODE OF CONSULTATION

F2F	Face-to-face interview
Phone	Telephone conversation/
E-mail	Questions/response via e-email

Note that in a number of cases, face-to-face-interviews and telephone conversations were supplemented with emails.

ANNEX IV: CHECKLIST FOR INTERVIEW QUESTIONS

COUNTRY: ....

SUF SUB-PROJECT: ....

TYPE OF OWNERSHIP OR ENTITY? LEGAL REGISTRATION? IF COOPERATIVE, HOW MANY MEMBERS? ARE THERE HOUSING COOPERATIVES OR ACTIVE HOUSING ASSOCIATIONS INVOLVED? WHERE THERE ANY PARTNERSHIPS OR LINKAGES AND IF SO, WITH WHOM? *E1/16

1. Was the SUF sub-project or its framework in any way linked with appropriate government policy, strategy and interventions? *E1/3
2. Who is overall in charge? Any committees? Consultation process? Comment on the management structure, its strength and weaknesses. *E2/2
3. Is the institutional setup replicable and sustainable? *S1
4. How many units have been constructed? If under construction per cent of completion? When did construction start? Time involved in preparation/design
5. Who is the contractor? How was he selected? Who supervised project construction?
6. Was technical assistance provided for the design of the project? Seed money?
7. Comment on quality of design and execution. Is it a sustainable model? *S2
8. Was there any assistance provided by the Local Government?
9. Community/citizen participation involvement? Frequency of community consultations?
10. Mixed use plan principles applied to lower effective cost incorporated in design (e.g. residential units, rentable commercial space, etc.)
11. Financial Aspects of the Project
12. Who prepared cost estimates
13. Who provided funding? How much? Did national or local government participate in funding the project? * E1/14. Any other government support? *E1/14
14. Who prepared cost estimates and were the cost –sharing clearly defined?
15. What legal instrument covered the transfer of funds?
16. Statistics and Profile
17. No. of Households benefitting from the project
18. No. of Beneficiaries (persons)?

19. Economic profile of households
20. Daily income
21. Profession/Source of Livelihood
22. Any land Tenure issues?
23. Land Ownership (See Working Paper # 10)
24. Ease of registration and titling? (Identify no. of steps.. no. of days required to register and obtain title;
25. Interventions that worked/didn't work?;
26. Security of Tenure (Ghana, Indonesia: Working Paper # 10)
27. Lessons Learned on Land Tenure issues: Working Paper # 10)
28. Was the SUF sub-project able to reach the target populations? *R5. Is the sub-project reaching target beneficiaries; what is the type, scale and reach? *E1/17
29. Was the SUF sub-project flexible enough in meeting different user needs and in delivering the products and services? *R4
30. Is the SUF sub-project sustainable? *S2
31. What impact did the SUF sub-project have in improving the lives of slum dwellers? *I1
32. Was there any attempt to integrate youth and gender into the SUF sub-project? *I5

LOCAL FINANCING FACILITY:

33. Broad Relevance Questions (also for UN-Habitat or Evaluation Team Questions).
34. How appropriate is the Local Financing Facility approach? How appropriate were other approaches including those with Tanzania Women Land Access Trust, People's Dialogue, cooperative housing foundation, USDA and other revolving funds? *R2
35. What is the relevance of the Local Finance Facility approach in meeting UN-Habitat objectives for increasing financing for slum upgrading? The Women's Land Access Trust approach? The Urban Poor Fund approach? Other grant agreement pilot approaches with the SUF? *R3
36. Type of local financial institution (Local Finance Facility):
37. National or local? Affiliated with any commercial bank?
38. Review and evaluate the 'Programme document/agreement' (Old and New).
39. Legal Structure and organizational set up?
40. How was Local Finance Facility selected? Marketing Effort? Civil Society involvement?
41. Organizational Profile
42. Wholesale or retail lending of micro-housing lending;

43. Any intermediaries of Local Finance Facility?
44. Ownership and Owners' Profile – is there broad ownership (non-profit non-bank financial institution?)
45. Role of Board of directors/Management;– How often does the Board meet? Can we get copies of the Board Meeting agenda and Minutes of Meeting, if any? What important decisions are decided by the Board?
46. Does the Local Finance Facility have sufficient and appropriate staffing capacity to continue efficient operations and/or to efficiently revolve to do further additional projects? *E2/4
47. Does Local Finance Facility have a fully-functioning Secretariat?
48. Are shareholders/borrowers/beneficiaries part of a savings and loan system?
49. Frequency of Stakeholder consultations?
50. Operational Profile
51. Type of Assistance Provided: Loans/Grants/Guarantees
52. Did the Local Finance Facility follow operational manual? Were commercial principles followed by Local Finance Facility?
53. Did the Local Finance Facility have the capacity to deliver its stated products and services? *E1/4
54. What were the documentation between Local Finance Facility and borrower/beneficiary?
55. Assess Loan/Grant Agreement between Local Finance Facility and UN-Habitat
56. Financial Profile
57. What is the credit enhancement mechanism? Did it adequately address affordability, financial viability, risks and risk mitigation (guideline for assessment of credit enhancement of Local Finance Facility in UN-Habitat paper: Overview Report 1.2 for Donors' Meeting 5-11-09)
58. What is the interest rate and lending policy of the Local Finance Facility;
59. Any risk analysis done?
60. Was there provision of soft loans and grants and commercial lending to blend and reduce cost of funds?;
61. Was there any attempt to determine cost of capital?
62. Assess the repayment record of Local Finance Facility. Was provisioning adequate? Where there unsecured lending working?
63. How were loans/guarantees extended and risk-sharing (Use of Trustee Bank, Guarantee Agreement, Guarantor)?
64. How many beneficiaries were delinquent in repayment of loans? Were there any sanctions for non-payment? Delayed payment?
65. Have guarantees resulted in additionality? *E1/12

66. Were the communities willing and able to repay the housing and infrastructure loans; *E1/8
67. Were there subsidies extended? Cost of funds vs. interest earned from repayments.
68. What debt to income ratio is most appropriate for this target market? * E1/8
69. Comment on the risk-sharing structures under this project. *E1/10
70. How appropriate is a credit enhancement/guarantee approach from a developmental economics viewpoint? *E1/9
71. Has the established revolving fund demonstrated that it will be able to revolve? *E1/6
72. Was the credit enhancement (guarantee?) able to attract private sector financing? If so, what type and amount is most relevant and appropriate?* E1/9
73. What can be said about leverage with regard to the SUF model approach (Local Finance Facility)? *E1/15
74. What particular inputs have been leveraged through the Local Finance Facility? *E1/15
75. Terms and conditions of Local Finance Facility Lending
76. Tenure of payment – length of repayment;
77. Upfront costs and fees
78. Guarantee conditions/drawdown policy?
79. Collateral requirements
80. Assess ‘set-off’ rights between Local Finance Facility and Trustee Banks
81. Discuss ‘Finance Plus’ Concept (Ownership is as broad shareholding as possible) and whether this was applied;
82. Was there any financial/lending relationship with CLIFF (Community-Led Infrastructure Financing Facility) or Homeless International (HI)?
83. Sustainability and Impact of Local Finance Facilities
84. Revolving Fund concept applied?
85. Where would capital replenishments come from?
86. Affordability and repayment Issues?
87. Assess quality of Loan/Guarantee Supervision and Risk Management
88. Is there a mechanism to blend municipal finance (local lending), cross-subsidies, donor grants and beneficiary contributions (repayments)
89. Is the Local Finance Facility sustainable? Are other SUF approaches sustainable? *E1/5
90. Is the preset structure of the Local Finance Facility a practical and sustainable model over the longer term? *S3

91. Has the Local Finance Facility changed how and in what amount banks deliver products and services for housing and slum upgrading for the poor? *E1/11
92. Can we anticipate that any of the SUF models (e.g. Local Finance Facility) will be effective in reaching sale and addressing housing gaps? *E1/13
93. Was Local Finance Facility adequately funded to achieve its intended objective? *E2/3
94. Are the present structures of field testing projects sustainable models over the long term? *S4
95. What are the preliminary direct and indirect impacts of Local Finance Facilities? Impact of Tanzania Women Land Access Trust and the Urban Poor Funds? *I2
96. Has there been a measurable increase in the level of funds mobilized from the private sector for slum upgrading and municipal development? If yes, what is the scale of the increase? *I4
97. Access to finance (Indonesia-Ghana: Working Paper No. 10
98. Good Practices Models (See ppt. presentation to Executive Director on ERSO)
99. Lessons Learned
100. Working Paper # 10 on Land;
101. PowerPoint presentation to Exec. Director on Urban Finance,
102. Overview Report 1.2 for Donors' Meeting 5-11-09

GENERAL COUNTRY (HABITAT PROGRAMME MANAGER):

103. National Framework for Micro-Housing Finance
104. Regulatory Framework
105. National Laws of country
106. Local Ordinances
107. Any notable Incentives for slum upgrading?
108. Government Agencies Involved and Lead Agency for Micro-Housing?
109. Is slum upgrading a national development priority? Is there a clear government strategy for slum upgrading?
110. Is there a clear link between the SUF programme and appropriate government policy, strategy and interventions?

PILOT TEAM (EMERGING MARKETS GROUP)

111. Were the initial goals and expectations of SUF realistic? *R1
112. Did SUF meet its intended and stated programme objectives? To what extent has SUF achieved delivery of the expected outputs, targets and outcomes and what remains to be done? *E1/1

113. Did the selection of pilot programme countries reflect the overall goals of poverty reduction? *E1/2

114. Is the SUF cost-effective? Comment on the relative spending on in-country activities vs. administrative costs *E2/1

115. How appropriate is the Local Financing Facility approach? How appropriate were other approaches including those with Tanzania Women Land Access Trust, People's Dialogue, cooperative housing foundation, USDA and other revolving funds? *R2

116. Is the Local Finance Facility sustainable? Are other SUF approaches sustainable? *E1/5

117. Is the preset structure of the Local Finance Facility a practical and sustainable model over the longer term? *S3

118. Will the Local Finance Facility survive in the future without donor assistance?

119. How was the Pilot Team able to manage Donor expectations (read: more houses, more upgrading projects, etc.);

120. Comment on Pilot Team's relations with UN-Habitat.

121. What were the most critical challenges faced by the Pilot Team in its implementation of the SUF programme?

122. What are the lessons learned from the SUF programme?

UN-HABITAT/SUF EVALUATION TEAM

123. Were the initial goals and expectations of SUF realistic? *R1

124. Did SUF meet its intended and stated programme objectives? To what extent has SUF achieved delivery of the expected outputs, targets and outcomes and what remains to be done? *E1/1

125. Did the selection of pilot programme countries reflect the overall goals of poverty reduction? *E1/2

126. Is the SUF cost-effective? Comment on the relative spending on in-country activities vs. administrative costs *E2/1

127. Which slum upgrading projects are most efficient – progressive upgrading of homes, new construction, multi-story construction, market stall improvements, toilet blocks, water access, septic tank and other access to sanitation projects? *E2/5

128. What are the implications of the SUF pilots for housing finance for the underserved low income population? Can it be anticipated that SUF type activities will influence slum upgrading at scale in the next five years? *I3

129. What is UN Habitat's niche and value added role if any, in the technical assistance provided to SUF? How will this affect the sustainability of the SUF Initiative? *S5

DONORS/GOVERNING BOARD AND OTHERS

130. What is your view of the SUF concept? What are the objectives of your organization in supporting the SUF concept?

131. What were your expectations of the SUF programme? Did you see SUF as a slum upgrading programme or a financial intermediation programme for micro-housing? What did you want to see accomplished in terms of upgrading projects; Local Finance Facility approach and mechanisms? Scale up of projects?

132. Would you have wanted more involvement of local governments in SUF?

133. How would you assess the quality of UN Habitat's stewardship of the SUF programme?

134. What is your assessment and/or expectations of the Pilot Team – were you happy with their performance?

135. Could you comment on the statement that a lot of the SUF funds went into consultants, advisors, travel, administrative expenses, etc. instead of the upgrading projects themselves?

136. In your view, how appropriate is the Local Financing Facility approach of the SUF?

137. Do you want to see a continuation of the SUF programme, albeit within a different framework and orientation, i.e. as a sustainable slum-upgrading financing mechanism with a specific 'exit strategy'?

ANNEX V: SELECTION CRITERIA FOR THE FOUR PILOT COUNTRIES

The four pilot countries were selected based on three criteria: (i) An established local government system with a mandate for slum upgrading, and recognized as such by central government; (ii) Community groups engaged in slum upgrading activities; and (iii) An established local capital market. However, the type and cost of slum upgrading and housing projects that can be implemented in a given situation depend critically on the nature of the slum and housing problem, the extent of poverty and people's ability to pay as well as the financial and human resources available to local governments. These factors have had a major impact on the type of projects undertaken by the Local Finance Facilities (and on the reason why the SUF Pilot Team made little progress initially on the 'financial packaging' of projects). Thus, this section provides key data on the four pilot countries.

With the exception of Tanzania, the pilot countries are highly urbanized with around half the population living in urban areas (Table 1). In a recent report, the World Bank estimated that even in Tanzania, more than 50 per cent of GDP originated in urban areas. In Sri Lanka and Indonesia, the urban share of GDP is more likely to be around two-thirds or possibly somewhat higher.

TABLE 1: Key Urban Indicators for the Pilot Countries

	Ghana	Indonesia	Sri Lanka	Tanzania
Urban Population Urban population Million)	12.1	120.9	10.2	11.4
Urban population (% of total)	50.8	52.6	50.0	26.0
Urban population growth (annual %)	3.5	3.3	n.a.	4.6
Economic Structure				
Agriculture, value added (% of GDP)	31.7	15.8	12.6	28.8
Industry, value added (% of GDP)	18.9	49.1	29.7	24.3
Manufacture, value added (% of GDP)	6.9	27.2	18.1	9.5
Services, etc., value added (% of GDP)	49.5	35.2	57.7	46.9
Employement Structure				
Employment in agriculture (% of total)	n.a.	41.2	31.3	74.6
Employment in industry (% of total)	n.a	18.8	26.6	5.0
Employment in services	n.a	39.9	38.7	20.3

Notes: Employment figures for Tanzania are from 2005, for Indonesia and Sri Lanka from 2007.
Source: World Development Indicators (2011 except urban population for Sri Lanka that is estimated by the authors.

The extent and nature of slums varies enormously, not only between countries and between cities but also within cities. Still, country-wide data on urban infrastructure and housing conditions give some basic ideas about the relative importance of different types of interventions. The prevalence of slums and access to basic urban infrastructure are more serious problems in the two African countries (Ghana and Tanzania) than in the two Asian countries (Table 2).

TABLE 2: Slums and Urban Infrastructure in the Pilot Countries

Country	Ghana	Tanzania	Indonesia	Sri Lanka
Urban Slums				
Portion of Urban Population Living in Slums (2007)	43	65	23	n.a.
Urban Access to Water				
Piped Water (%)	30	23	37	65
Other Improved Water (%)	60	57	52	33
Unimproved Water (%)	10	20	11	2
Urban Access to Sanitation				
Improved Sanitation (%)	18	32	67	88
Shared Sanitation (%)	70	30	9	7
Open Defecation Sanitation (%)	7	2	16	2
Other Unimproved Sanitation (%)	5	36	8	3
Urban Access to Electricity				
Percent of Urban Population with Grid Electricity	85	39	94	86

Sources: Slums: UN-Habitat (2010); Water and Sanitation: WHO-UNICEF (2010); Electricity: IEA (2010)

Not only do the needs vary from place to place, the ability (and willingness) to pay varies from household to household (not all slum dwellers are poor!). On the whole, however, poverty is much more widespread in Tanzania than in Indonesia and Sri Lanka, with Ghana falling somewhere in between (Table 3). An important implication of these figures for SUF is that the ability to service debt is significantly higher in Sri Lanka and Indonesia than in Ghana and, especially, Tanzania.

The data on tax and non-tax resources available to central and, especially, local governments is at best incomplete and often inconsistent. However, it is clear that Indonesia and Sri Lanka can (and do) devote much greater resources to infrastructure investments than the two African countries (Table 4). Indeed, Tanzania is heavily dependent on donor financing of its development programme.

Local governments play only a minor role in the development process in the pilot countries. The exception is Indonesia where a radical decentralization process has been under way for more than a decade and local governments account for more than one-quarter of all public spending. A donor supported decentralization programme is also under way in Tanzania. Two-thirds of the municipal expenditures in Tanzania are for education and health, leaving little for

TABLE 3: Income and Poverty in the Pilot Countries

	Ghana	Tanzania	Indonesia	Sri Lanka
GNI per capita, Atlas method (current USD)	1,190	500	2,050	1,990
GNI per capita, PPP (current international $)	1,530	1,350	3,720	4,720
Poverty headcount ratio at USD1.25 a day (% of population)	30.0	88.5	21.4	14.0
Poverty headcount ratio at USD 2 a day (% of population)	53.6	96.6	53.8	39.7
Annual growth of GDP per capita (1999-2009)	3.1 %	3.6 %	3.8 %	4.1 %

Source: World Development Indicators (2011); income data for 2009; poverty data for various years during 2000s.

TABLE 4: Central and Local Government Expenditures (2009)

	Ghana:	Indonesia:	Sri Lanka:	Tanzania:	Sources
Total Government Expenditures per Capita (USD)	260	480	450	150	(1)
Local Government Expenditures per Capita (USD)	13	134	14	23	(2)
Local Government Expenditures Share of Total (per cent)	5 per cent	28 per cent	3 per cent	15 per cent	(3)

Sources:(1) WDI 2011; (2) Authors' calculation: (3) (3) for Ghana: Farvacque-Vitkovic, Catherine, et al. United Cities and Local Governments (UCLG). 2010. Local Government Finance 2008. Development of the Cities of Ghana- Challenges, Priorities and Tools.

infrastructure. In Ghana and Sri Lanka, local governments are marginal actors. Thus, it is only in Indonesia where municipalities can implement significant infrastructure investments without donor financing or relying on central government agencies for the construction and financing of larger schemes.

In terms of financial sector development, Tanzania lags behind the three other countries (Table 5). Only a little over one-tenth of the population in the country is served by the banking sector or savings and loan associations. The mortgage market can best be described as embryonic. A recent study estimated that only the top 3 per cent of the population in Tanzania has access to mortgage finance.

TABLE 5: Financial Sector Depth in the Pilot Countries

	Year	Ghana	Indonesia	Sri Lanka	Tanzania
Domestic credit provided by banking sector (per cent of GDP)	2008	32.9	36.8	42.8	17.0
Domestic credit to private sector (per cent of GDP)	2008	17.8	26.5	28.9	16.0
Mortgage Loans to GDP per cent	2007-09	3.9	2.6	6.0	0.33333
Listed domestic companies, total	2009	35	398	231	7
Market capitalization of listed companies (per cent of GDP)	2009	16.1	33.0	19.4	6.2

Sources: WDI 2011; Mortgage Loans: various sources collected by the authors.

ANNEX VI: ACHIEVEMENT OF PILOT PHASE OBJECTIVES

INTRODUCTION

The Project Document for the 'Slum Upgrading Facility-Three-Year Pilot,' which was approved by UN-Habitat's management in March 2005, defines the objectives of SUF and, especially, the Pilot Phase in the following terms:

> ***'The central objective of SUF is to assist with the mobilization of local, domestic capital for slum upgrading initiatives… including shelter and related urban infrastructure…***
>
> ***'The SUF Three-Year Pilot is envisioned as a highly experimental exercise in determining what developing countries need to access domestic capital markets to improve the living and working conditions of the urban poor.'***

Thus, it is clear that the main emphasis was on experimenting to find new ways of mobilizing domestic capital for both shelter and urban/municipal infrastructure. Two months after the project document was approved, these objectives were elaborated upon in Section 7.3 ('Performance Indicators') of the Operational Manual. This took the form of a simple log-frame type matrix with column headings: outputs, outcomes and indicators (Table 1.1 in main text). In principle, one would expect that for each output, there would be one or more indicators. Unfortunately, in most cases, there is no clear correspondence between indicators and outcomes.

It appears that during implementation, there was no systematic collection of achievements based on the suggested indicators. Consequently, for most indicators, there are no data available, although in some cases, the Evaluation Team managed to collect such data from the Local Finance Facilities. Consequently, the assessment of achievements during the Pilot Phase has to be based on the Evaluation Team's judgment as informed by available data, review of SUF documents and interviews with SUF stakeholders. In order to document the basis for the overall assessment, the Evaluation Team has provided its observations on each outcome and indicator. These observations are organized as follows: For each 'output' we provide an overall assessment. This is followed by observations on all 'outcomes' corresponding to the output. The last part of each output section contains our observations on each of the related 'indicators.'

1. MEETING OBJECTIVES

Overall Assessment: The pilot projects were not taken up to scale. Sixteen pilot projects were completed and reached financial closure. Total beneficiaries were around 1,600 individuals and 340-350 households. Given the newness of the Local Finance Facility approach, the learning curve was steep and the Local Finance Facility Boards were often very cautious. However, the Local Finance Facility programme is on the verge of a more rapid expansion.

Outcomes

- *Pilot projects that result in taking slum upgrading to scale.* See the overall assessment above.

Indicators

- *Size of projects undertaken in terms of number of people enjoying upgraded housing:* All sub-projects implemented so far are small, benefiting between 1 and 50 families. Thus, slum upgrading has not yet been taken to scale, but Lanka Financial Services for Underserved Settlements is approaching this objective, reaching 3,000 people before the end of 2011.

- Portion of pilot cities with upgraded slums. No city can as yet be described as having 'upgraded slums.' However, pilot operations have been undertaken in 12 cities.

2. RELATIONSHIP BUILDING/ NETWORKING

Overall Assessment: Based on our field interviews we conclude that there was general satisfaction among the clients. Stakeholder consultations were regularly held with community-based organizations, local cooperatives and women's groups, where substantive issues were covered, such as designs, costs, down payment requirements, repayment levels and collection method were discussed. While no data exist on number of events, participants, etc. we believe this process was highly participatory in all four countries. Public-private partnerships were formed with private commercial banks and municipal governments.

Outcomes

- *Building bridges through mediation, participatory planning and conflict management.* Basically achieved: The Boards of the Local Finance Facilities have played useful and constructive roles in this respect. This achievement was not limited to the Local Finance Facilities and the Pilot Team, all organizations that managed the SUF pilot Projects (such as Tanzania Women Land Access Trust, Moratuwa and Ghana Fund for the Urban Poor) appears to have been active and successful in this respect.
- *Private/Public partnerships formed for slum upgrading.* Partly accomplished: the private sector has provided financing, local governments have provided enhanced tenure security (but generally no financing) and facilitated the projects. No public-private partnership was for infrastructure delivery or land development.
- *Strengthen project ownership among local actors/minimize external intervention.* Achieved: While SUF provided extensive technical assistance, local ownership is strong in all pilot projects and is now driving the process.

Indicators

- *Satisfaction of client groups derived from focus group meetings:* The Evaluation Team's meetings with project beneficiaries convincingly showed that they were satisfied with both the process and the end results.
- *Number of consultations undertaken with stakeholders and breadth of issues covered:* No records of stakeholder consultations are available. However, the implementation of all schemes were clearly based on very close consultations (informal as well as informal) with stakeholders undertaken by the Pilot Team's international consultants, the country coordinators, the Local Finance Facility's staff. The projects/programmes undertaken by Tanzania Women Land Access Trust, People's Dialogue (Ghana Fund for the Urban Poor and Amui Djor) and Janarukula (Moratuwa) were also characterized by extensive stakeholder participation.
- *Number of events engaging partners in addressing underlying informal settlements:* Unclear what is meant by 'events engaging partners.' The Local Finance Facility Boards represent the main stakeholders. Some Boards meet as often as once per month. Others have regular meetings every three months but with informal interactions in between. The quarterly reports by the Pilot Team indicate that the team and its country coordinators had quite frequent meetings with partners.

3. CAPACITY BUILDING

Overall Assessment: Judging by the successful negotiations of loans with local commercial banks, most local stakeholders did apply 'learning by doing.' There was insufficient information on the number of capacity building training events organized by SUF Pilot Team, or numbers of people engaged in 'learning by doing'. However, based on interviews with local stakeholders at the Local Finance Facilities, training on financial modeling was not particularly effective as what was needed at their level was simple financial modeling, considering the very limited financial transactions that the Local Finance Facilities had. No municipality sought or obtained any assistance in accessing bank loans or selling bonds.

Outcomes

- *Increased community-based organizations/ slum dwellers participation.* Achieved: Community involvement has been strong in all projects.
- *Increase operational efficiencies*. Is in the process of being achieved. There has been significant 'learning by doing' among the Local Finance Facilities, and concerned NGO's/ community-based organizations. Impact on municipalities is more questionable.
- *Expand the capacity of local stakeholders to raise domestic capital and handle future upgrading activities with minimum external aid.* Achieved in three of the four countries. It is too early to tell about Tanzania Financial Services for the Underserved Settlements in Tanzania.
- *Upgrade the local labor force and strengthen local training institutions.* Not achieved: This was neglected in the Pilot Phase.
- *Improved capacity and capabilities of local NGOs/community-based organizations to package and access local capital.* Partly achieved in three of the four countries, not yet in Tanzania. The Local Finance Facilities and not NGO's/community-based organizations are generally driving the process (especially in Indonesia).

Indicators

- *Number of capacity building training events organized by the SUF Pilot Team:* Capacity building occurred at many different levels and with different groups of stakeholders. The Quarterly Reports prepared by the Pilot Team included a listing of outreach and capacity building activities that it and the Local Finance Facilities were involved in. However, the descriptions are too brief to allow a classification of the activities and to estimate the number of 'capacity building' events. The Boards and staff of the Local Finance Facilities unanimously complained that a training event arranged by the Pilot Team on financial modeling was too complex and complicated for their needs.
- *Numbers of people engaged in 'learning by doing' activities on SUF Pilot Projects:* No data available. Without a definition of 'people engaged' it is impossible to make even a qualitative assessment.
- *Range and number of participants at training events:* No data available.
- *Number of NGO's/community-based organizations emulating slum upgrading work based on the SUF concept:* Little information is available. The impression of the Evaluation Team is that in all cases, except Lanka Financial Services for Underserved Settlements, the application of the SUF concept has been limited to the SUF pilot schemes. In Indonesia, NGO's have largely been absent and the participating community-based organizations are basically creations of the Local Finance Facilities (rather than 'grassroots movements'). In Sri Lanka there are clear signs of emulations. So far, Lanka Financial Services for Underserved Settlements has supported five different microfinance lenders, NGO's/community-based organizations and its firm project pipeline includes credit enhancement applications from five other organizations. Thus, 'emulation' is really taking place at the local level.
- *Success rate of applications from municipalities for credit:* The non-performance in this area is a major failure of the SUF pilot operation. SUF has not worked with any municipality to help it get access to any form of credit, be it from bond markets, local banks, central government or international donors. Although the Pilot

Team, at one time or another, worked on some 30 different projects none seems to have involved municipal credit. The same appears to be the case with Programme Management Unit 's own field activities.

4. FINANCIAL PACKAGING

Overall Assessment: Mostly successful. Sixteen pilot projects were packaged and reached financial closure during the Pilot Phase. Repayment structures were developed based on affordability studies. However, the number of financial instruments applied was essentially limited to commercial bank loans backed by credit enhancements. In one case, the Local Finance Facility provided bridge/construction financing, which was relatively poorly structured but ultimately successful. The Urban Poor Funds supported by SUF (Moratuwa and Ghana) were less successful in meeting SUF's overall objective of mobilizing domestic resources. Local governments did not provide any funding to these funds. The funds seem to revolve only to a limited extent. While no other existing international financing facilities were tapped for the Pilot Phase, domestic commercial bank funding for slum upgrading was tapped for the first time in the pilot countries.

Outcomes

- *Affordable repayment structures developed for servicing debt and repayment of capital.* Achieved in all cases except one (Tanzania Women Land Access Trust); however, apartment buildings have required government subsidies.
- *Revenue streams identified capable of attracting capitalization.* Not achieved: No revenue earning project has been undertaken so far.
- *Increased level of funding mobilized from the private sector for slum upgrading and municipal development.* Achieved for slum upgrading/house improvements: This is the main accomplishment of the Local Finance Facilities. Not achieved for municipal infrastructure development:

Indicators

- *Number of bankable projects, identified, packaged and funded with repayment structures agreed:* 14 projects (13 by Local Finance Facilities plus Moratuwa). The bridge financing provided by UN-Habitat to Tanzania Women Land Access Trust has not yet been rolled over into mortgage loans from Azania Bank.
- *Number of financial instruments designed and successfully applied in pilot project areas:* Three: (i) Guarantees provided by the Local Finance Facilities and Moratuwa Urban Poor Fund (and probably for Tanzania Women Land Access Trust mortgages); (ii) Bridge financing/revolving fund (Tanzania Women Land Access Trust, Amui Djor by Tema/Ashairman Metropolitan Slum Upgrading Fund); (iii) Urban poor funds (Ghana Fund for the Urban Poor, Moratuwa). The low income home improvement finance product developed by cooperative housing foundation and BOAFO appears to have generated little borrower interest. It should be noted, however, that only the guarantees have achieved the basic SUF objective of mobilizing domestic commercial funding.
- *Level of technical/financial support available to SUF projects from existing facilities e.g. GuarantCo, PPIAF etc:* No financial or technical support has been obtained from any existing facility (or any multilateral or bilateral donor).

5. IMPACT ON CAPITAL MARKETS/ HOUSING FINANCE SECTOR

Overall Assessment: We believe that this objective was unrealistic. The SUF pilot schemes were not designed to (or were large enough to) help 'deepened' local capital markets. However, with Local Finance Facility credit enhancements, short to medium term capital was raised in the local capital markets for slum upgrading projects. In short, no new financial instruments were developed under the Pilot Phase of SUF but a new set of quasi financial institutions were created—the Local Finance Facilities.

Outcomes

- *Deepening of the local capital markets.* Has partly been achieved in the sense that commercial banks are now lending for slum upgrading and low income housing. So far, around USD 540,000 in commercial bank funding has been mobilized from nine banks in three countries. Not achieved (nor attempted) if the traditional definition of capital markets (i.e. bond, equity or futures) is used.
- *Mainstreaming of housing finance loans in the loan product portfolio of formal financial institutions.* Not achieved: No formal financial institution has been lending to low-income house owners without credit enhancement from SUF. The low income home improvement finance product offered by GAOFO in Ghana has met little demand.

Indicators

- *Amount of capital raised on local capital markets for slum upgrading:* USD 440,000 by the Local Finance Facilities, around USD 100,000 for Moratuwa.
- *Range of capital market products expanded:* Only one new one: Local Finance Facility guarantees.
- *Regulatory framework established and Institutional capacity enhanced to regulate new products:* None. All SUF operations have operated within existing frameworks and no work has been undertaken to reform the regulatory frameworks.
- *Number of financial institutions having developed new housing loan products:* One. GAOFO (with limited success).
- *Turn around and success rate of applications from municipalities for credit.* None. As noted above, this has not been attempted and represent a failure of the SUF pilot.

6. LEARNING AND KNOWLEDGE SHARING

Overall Assessment: Only partly achieved. A number of workshops were held and presentations made at various fora. A newsletter was produced for a relatively brief period. Ten Working Papers were written. Some of them are easily available on the web and have been distributed quite widely. Community participation has been exemplary in most sub-projects, but it is difficult to judge the extent to which it has broader impact on participation in the pilot countries.

Outcomes

- *Established information systems that bring together stakeholder views.* Not achieved: For a brief period SUF published an electronic newsletter and some seminars/workshops were arranged. None of these ad hoc activities has continued after 2009, no 'information system' was created.
- *A profile of lessons learned.* Only modest achievement. The Pilot Team prepared a number of SUF Working Papers (on guarantees, Local Finance Facilities, land & CODI experience) that have been published. It also prepared a number of other drafts that not yet have been published. However, these were more like 'how to' papers rather than lessons of experience—largely because the implementation process was too drawn out and it is first now that some real lessons start to emerge. However, the Evaluation Team notes that the less 'outreach' has taken place since SUF was merged into the Urban Finance Branch.
- *Increased community mobilization.* Achieved: Exemplary in most of the project areas but difficult to judge if it has occurred more widely in the target countries.

Indicators

- *Number of workshops to share experiences for SUF with partners:* SUF has been presented at various national and international fora (including the World Urban Forum). Given that SUF is still evolving and real lessons have only emerged recently, the level of activity seems appropriate.
- *Demand for UN publications on lessons learnt from SUF.* No statistics on sale or download of SUF publications are available. However, the electronic versions are easily available.
- *Number of referrals made by the SUF Pilot Team followed up on:* The Pilot Team has classified four projects as 'referral.' The records are incomplete on what happened to them. The Co-BILD housing finance facility was referred to the MICRA rating agency to find restructuring options (paid for by the Pilot Team). In the case of the other three, 'referral' seemed to mean that the SUF Pilot Team would not work on them. There is no record of the informal 'referrals' that either the Pilot Team or the Programme Management Unit has made over the years.

ANNEX VII: THE APPROVAL PROCESS FOR LANKA FINANCIAL SERVICES FOR UNDERSERVED SETTLEMENTS CREDIT ENHANCEMENT

The process of finding the proper procedures for approving and disbursing credit enhancement (credit enhancement) funds and for determining the contractual relationships with the local finance facilities was long and cumbersome. The chronology below illustrates that UN-Habitat's own policies and procedures were not conducive to support of financial intermediaries and provision of credit enhancement funds. It also shows that the channelling of Department for International Development of the United Kingdom funds through the Cities Alliance created a multi-layered decision making structure and delayed operational decisions. The operational policies and procedures of Cities Alliance/World Bank and UN-Habitat/UN system were occasionally inconsistent, which caused additional delays and created conflict.

While the involvement of the Cities Alliance created administrative and procedural problems, it also made

MAY 2005

- SUF Operations Manual approved by SUF Consultative Board, establishing the credit enhancement (credit enhancement) methodology.

JANUARY 2006

- Meetings held in UN-Habitat—Programme Management Unit and Programme Support Division—to establish the methodology for credit enhancement approvals and agreements in line with May 2005 SUF Operations Manual.

MID 2006

- Meetings held Programme Support Division and Office of Legal Affairs New York (Office of Legal Affairs, New York) to see if 'the new UN rules' would apply—they could not be used until Operational procedures approved by General Council (Governing Council, UN-Habitat).

APRIL 2007

- UN-Habitat Governing Council approves 'New Rules' operations for ERSO—not necessarily for SUF.

JUNE 2007

Locally recruited UN-Habitat consultant Paper used to establish Lanka Financial Services for Underserved Settlements as a pioneer Local Finance Facility.

OCTOBER 2007

- Lanka Financial Services for Underserved Settlements credit enhancement application received and reviewed by Programme Management Unit ; Programme Management Unit send application to Cities Alliance (Cities Alliance) for fiduciary check;
- SUF Consultative Board meeting held in Sri Lanka. Lanka Financial Services for Underserved Settlements credit enhancement was presented; Cities Alliance 'deferred approval'—application required additional information;
- Cities Alliance requested information on why a new public sector entity is being set up, instead of housing this type of a fund with the NHB or Bank of Ceylon, for example. Cities Alliance also mentioned that micro credit organizations could be possible partners.

NOVEMBER 2007

- Cities Alliance suggested use of the CLIFF format for the credit enhancement agreement; and would need to see Lanka Financial Services for Underserved Settlements's operations manual and fund management agreement.

DECEMBER 2007

- Cities Alliance request fiduciary assessment documentation—audited financial statements for past 3 years, for the proposed recipients of the credit enhancement funds, National Development Bank of Sri Lanka, and Bukopin Bank. When drafted, Cities Alliance would review the agreement between UN-Habitat and the recipients.

JANUARY 2008

- Programme Management Unit to Sri Lanka to attend Board Meeting with outline of draft Agreement Jan 2008.
- Various versions of the agreement and numerous revisions were made between Dec 2007 and April 2008 with inputs from UN-Habitat Legal Officer.

APRIL 2008

- Model Agreement reviewed and agreed by SUF Consultative Board at Accra meeting.
- Cities Alliance responded to the draft of the agreement sent to them.
- Programme Support Division asked ad hoc project review committee (Project Review Committee) to review the agreement.
- Project Review Committee met.
- Amendments made.
- Project Review Committee emailed their confirmation.
- Agreement sent to Cities Alliance for their perusal.
- Cities Alliance replies requesting internal review by its own specialist.
- Programme Management Unit send reminder to Cities Alliance.
- Cities Alliance send email with queries.

MAY 2008

- Programme Management Unit responded.
- Auditor ToR sent.
- Programme Support Division -Legal signed off on the Agreement.
- Presented to Programme Support Division.
- Programme Support Division called meeting with Programme Management Unit.
- Programme Support Division requested ad hoc Project Review Committee to sign memo confirming that their recommendations are incorporated.

JUNE 2008

- Programme Management Unit prepares memo for ad hoc Project Review Committee.
- Programme Management Unit meeting with Programme Support Division with Deputy Executive Director in response to Executive Director (Executive Director, UN-Habitat's) memo of 14/6 to discuss requirements of the format of the Credit Enhancement Agreement.
- Emerging markets group made presentation to ad hoc committee.
- Ad hoc Project Review Committee send confirmation to Programme Support Division.
- Funds from Cities Alliance to cover first tranche for Lanka Financial Services for Underserved Settlements expected.
- Internal Programme Management Unit meeting with to discuss disbursements, implementation plan and pipeline of projects.

JULY 2008

- Amendments to the Agreement 30/6/08 re: new financial disbursement arrangement that UN-Habitat will first release development and administration funds, then release the credit enhancement funds on presentation and approval of projects.
- UN-Habitat will need to approve all projects

for financing (this was against HSFD Director and Programme Management Unit advice).

- Several revisions and final format agreed and sent to Programme Support Division (not agreed by SUF Programme Management Unit).
- Cleared by Programme Support Division Legal to Programme Support Division Director for signature.
- Programme Support Division signed agreement.
- Agreement dispatched to Lanka Financial Services for Underserved Settlements on 21/07, copied as template to other Local Finance Facility's.

AUGUST 2008

- Letter of rejection from Lanka Financial Services for Underserved Settlements (with reasons) on 18/08.
- Meeting with Executive Director, UN-Habitat, BD and Programme Management Unit senior management to discuss and resolve issue (28/08).

SEPTEMBER 2008

- Programme Management Unit makes changes to the Agreement based on discussion (1/9).
- Agreement sent to Office of Internal Oversight Services (Office of Internal Oversight Services)—recommended dividing the agreements to two parts: A for development and administration (development and administration (funds) expenses, and B for credit enhancement (credit enhancement) funds (4/9).
- First draft of agreement incorporating two parts A & B prepared and sent to Legal/Auditor (9/9).

OCTOBER 2008

- Lanka Financial Services for Underserved Settlements agreement finalised on 17/10, including a requirement for the establishment of a Secretariat.
- Lanka Financial Services for Underserved Settlements Agreement signed by Programme Support Division 23/10.
- SUF Consultative Board meetings (28-30/10). Signed agreement given to Lanka Financial Services for Underserved Settlements.

NOVEMBER 2008

- Lanka Financial Services for Underserved Settlements signed the agreement on 23/11 and dispatched to Nairobi.

DECEMBER 2008

- SUF received payment request for development and administration (funds) first instalment (9/12).
- SUF received CV of part time manager and secretariat details.
- SUF Received payment request for credit enhancement funds—sent memo to Programme Support Division.

JANUARY 2009

- Contract for Lanka Financial Services for Underserved Settlements Secretariat signed on 15/1.
- Funds disbursed to Lanka Financial Services for Underserved Settlements (28/1).

Source: Brockman, Roy. *SUF Mid-term Review—Final Report.* GHK International. (April 2009)

ANNEX VIII: SUF AND ERSO

In 2007, UN-Habitat established the E*xperimental Reimbursable Seeding Operations* (ERSO) with funding from Spain, the Rockefeller Foundation and Bahrain. According to its Operations Manual:

> ***'ERSO intends to test whether the mobilization of domestic capital for low-income shelter solutions can be catalyzed by encouraging, inducing and enabling existing domestic financial institutions to expand the range and scope of existing financial services for low-income housing, related infrastructure and human settlements upgrading.'***

ERSO is working with local banks and microfinance institutions and non-governmental organizations. ERSO finances land development planning, affordable and social housing construction and takeout micro mortgage and microfinance housing loans. ERSO is set up as a revolving loan fund intended to reach underserved populations from the 30th down to the 85th income percentiles. Lending operations undertaken to date are summarized in Box 1.

It is noteworthy that the objectives for ERSO closely correspond to those of SUF, although SUF has a more clear poverty focus. One of ERSO's operations is in Tanzania. ERSO provided a 3-year loan in Tanzania shillings to Azania Bank that in turn on-lent the proceeds to the Mwanza Municipality for upgrading activities. The interest rate was 1.5 per cent and the foreign exchange risk was taken by ERSO (the Tanzania shilling (TZS) has been depreciating at an annual rate of around 5 per cent against the dollar). These terms imply a subsidy of 30-40 per cent of the loan amount. Since there is no liquidity shortage in Tanzania's banking system, a better approach, in our opinion, would have been to provide a partial risk guarantee protecting Azania against a default by Mwanza Municipality. (If a subsidy was needed for implementation of the upgrading scheme, the preferred vehicle would have been a capital subsidy, which would not have distorted the municipal financing market in Tanzania.) Thus, we believe that SUF rather than ERSO should have been the proper interlocutor in this operation.

We also note the SUF guarantees would have been suitable instruments for the schemes in Nepal, Nicaragua and Uganda. Given that ERSO quite quickly built up its pipeline, this confirms our earlier point that the Pilot Phase of SUF was unnecessarily limited to four countries and that much valuable experience would have been gained if SUF had operated in all low and lower middle-income countries .

BOX 1: ERSO LENDING OPERATIONS

Uganda: Neighborhood upgrading and livelihood improvement. An ERSO loan of USD 500,000 equivalent in Uganda shillings to DFCU Bank encouraged the bank to commit matching funds to finance construction and long-term micro-mortgage lending to low income community members in Tororo Municipality. This operation was the result of a collaborative effort among UN-Habitat; DFCU Bank, a local municipality; a local residents' association; and the Ministry of Lands, Housing and Urban Development. (ERSO UGS loan: maturity 15 years, interest rate 2.0 per cent)

Tanzania: Peri-urban municipal development loan and housing options for informal dwellers. An ERSO loan to Azania Bank of USD 500,000 equivalent in Tanzania shillings supported a municipal loan made by Azania Bank to the Mwanza City Council to fund site survey, planning and infrastructure installation in a peri-urban area presently occupied by families living informally. Proceeds from the sale of 700 larger plots to middle class families and commercial users will repay the loan to Azania and allow the municipality to provide infrastructure facilities to a total of 2,800 plots, with the balance of 2,100 plots to be offered for sale at modest cost, as secure tenure land, to low income families. (ERSO TZS loan: maturity 3 years, interest rate 1.5 per cent)

Nicaragua: Working capital loan for Micro Housing Lending and Municipal Finance for roads, water and sanitation services. An ERSO USD 500,000 working capital loan was provided to the apex microfinance institution PRODEL. PRODEL will use the funds in two ways in order to help low income communities: approximately 40 per cent of the ERSO loan will be used to finance PRODEL's ongoing lending programme for housing improvement loans across Nicaragua. Approximately 60 per cent of the loan will be used to fund PRODEL's new neighborhood improvement finance initiative, in which community group savings and in-kind contributions, together with municipal borrowings, are combined to support infrastructure improvement. (ERSO USD loan: maturity 10 years, interest rate 6.0 per cent)

Nepal: Working capital loan for housing construction and improvements by community cooperatives. The USD 250,000 loan to Habitat for Humanity International (HfH) Nepal will be supplemented with HfH Nepal own funds of USD 100,000 to on-lend to 15 credit cooperatives and village banks, which in turn will provide loans to "Save & Build" groups for housing construction and improvements. (ERSO NPR loan: maturity 5 years, interest rate 1.0 per cent)

Palestine: Affordable home construction; affordable mortgage and Sharia-law compliant housing finance. In its largest catalytic project, ERSO supported the development of a USD 500 million affordable housing programme in Palestine, by investing USD 1 million in the creation of a new secondary facility for affordable home lending. This catalytic investment was necessary to unlock senior finance from the US Overseas Private Investment Corporation (OPIC), the International Finance Corporation (IFC), the Palestine Investment Fund (PIF), and two local banks in the occupied Palestinian territory (Cairo Amman Bank and Bank of Palestine). (ERSO USD loan: maturity 20 years, interest rate 5-6 per cent)

ANNEX IX: THE TANZANIA WOMEN LAND ACCESS TRUST

INTRODUCTION

In accordance with the terms of reference, this Annex contains an analysis of the Kinondoni apartment building built by the Tanzania Women Land Access Trust. The purpose of the analysis is to examine if this sub-project is a viable and sustainable model for improving the lives of slum dwellers and, thus, it does not cover broader questions like the merits of the Women Land Access Trusts and the functioning of Tanzania Women Land Access Trust as an organization (Box 1).

BOX 1: A CAVEAT ON THE TANZANIA WOMEN LAND ACCESS TRUST

This Annex does not deal with broader questions concerning the Women Land Access Trusts (which is beyond the Evaluation Team's TOR). It is quite obvious to the team that the purpose of the trusts—to give poor women access to land with secure tenure and to adequate housing—is commendable.

One of the Evaluation Team members has visited TAWLAT in both 2006 and 2011. He has met with Board members, staff and members of the TAWLAT cooperatives. At these occasions, he was impressed by the devotion of the Board, the knowledge and professionalism of the staff and the enthusiasm and tenacity of the members. TAWLAT as an organization deserves credit for overcoming innumerable obstacles in completing the Kinondoni building.

The fact that the apartments are likely to be too expensive for the great majority of the cooperative members is largely due to factors beyond TAWLAT's control: problems with the contractor and standards that were unaffordable due to zoning regulations and building codes.

BACKGROUND

The Tanzania Women Land Access Trust is a non-profit organization established in 2004 to assist low-income women gain access to land and affordable and secure home ownership. It is one of several Women Land Access Trusts created in Africa with the support of UN-Habitat's Gender Unit. It functions as an apex organization for housing cooperative societies that have been formed by women with a common interest in home ownership. The Trust provides support to the women's cooperatives in all aspects of their operations, such as:

- Organizing savings schemes;
- Negotiations with banks;
- Providing credit enhancement;
- Finding and purchasing land; and
- Coordinating and managing the design and construction process.

Shortly after it was established, the Trust received a USD 100,000 grant from UN-Habitat's Gender Unit. This grant was deposited with Azania Bank. In accordance with a Memorandum of Understanding signed by the Tanzania Women Land Access Trust and Azania Bank, this will money will function as a 'guarantee' for a future mortgage loan to one of the Tanzania Women Land Access Trust housing cooperatives. According to the MOU, the cooperative would be eligible to borrow up to four times the amount of the deposit.

At present (May 2011), Tanzania Women Land Access Trust has six affiliated women cooperatives as follows:

Cooperative	Number of members
Mikocheni Women Housing Cooperative	50
Makongo Women Housing Cooperative	54
Kwembe Women Housing Cooperative	30
Kisamaja Women Housing Cooperative	40
Manzeta Women Housing Cooperative	48
Kisiru Women Housing Cooperative	32
Total members	**254**

The Tanzania Women Land Access Trust's first 'low income housing pilot project' is located in Kinondoni District (some 6 km from Dar es Salaam city center) where Tanzania Women Land Access Trust bought two adjacent plots with a total area of 757 m^2 for TZS 53 million (around USD 47,000 at the time). In 2005, the Trust engaged a local consulting firm, OGM, as architects and engineers. OGM designed a five-storey apartment building. On the ground floor was commercial space that could be leased for cross-subsidization. On floors one through four were a total of 32 apartment units. Some of the units were quite large and it was assumed that some families would share an apartment. On the fifth floor was a covered terrace which could also be used for commercial functions. OGM's cost estimate prepared in 2005 put the total construction cost at USD 750,000.

By this time, the SUF Design Team had examined the Tanzania Women Land Access Trust/Kinondoni project and decided to include it as one of the eight priority pilot projects. However, as UN-Habitat's Project Management Unit subsequently wrote:

> ***'Facing the difficulties of construction finance, SUF and the Gender Unit decided in 2006 to jointly support the Tanzania Women Land Access Trust pilot by providing a grant to finance the construction of Tanzania Women Land Access Trust Kinondoni Housing Project. USD 500,000 was from SUF Pilot Phase and USD 250,000 was from the Gender Unit. Due to the heavy burden of construction finance through bank loans and considering the ways to reduce overall housing cost, it is decided by SUF and the Gender Unit to provide funding to finance the construction rather than borrowing money from banks to finance the construction.'***

IMPLEMENTATION ARRANGEMENTS

The Ministry of Lands, the Office of the President and the Dar es Salaam City Council provided the required approvals for: the amalgamation of the two plots into one under a single title deed; change of use of land from single dwelling into multiple dwellings; and issuance of building permit. The lease period was also extended from the customary thirty three years to ninety nine years.

Because the project was donor funded, the Ministry of Finance exempted the project from the value added tax, import duties and other related taxes.

OGM consultants were responsible for the detailed designs, estimates and specifications covering all aspects of the construction of the building, including architectural, structural, electrical, mechanical, water supply, sanitation and telecommunications. They also played a key role during implementation. Their duties included:

- Supervising construction works;
- Making valuation of material / work done and Certify payments to the contractor;
- Managing building contract between contractor and client;
- Approving work done by contractor;
- Preparing project progress report and appraisal;
- Assisting in commissioning of completed work and installed fittings/fixtures; and
- Preparing final accounts.

For this work, the consultants negotiated a fee of 8 per cent of the estimated cost of the building. Some USD 45,000 (i.e. 6 per cent of the estimated cost of USD 750,000) was paid by UN-Habitat in 2007 to OGM. The remainder of the fee appears to still be outstanding.

Most peculiar were the arrangements for the construction of the building. Rather than entering into a fixed price contract with a qualified contractor, the Tanzania Women Land Access Trust decided to separate the procurement of materials from the actual construction works. The works was awarded to a group of four small contractors led by Isheka Contractors Co. Ltd—neither of whom had the qualification to undertake construction of this size and complexity. It is our understanding that the firms were managed by women entrepreneurs and, thus, this arrangement was intended to also help develop a group of female headed construction enterprises. This group of women entrepreneurs was to gain skills and experience under the guidance of technical experts from China. The SUF Programme Management Unit described the engagement of the Chinese experts in the following terms:

'China has set an example for innovative housing solutions for many developing countries. It is on this basis that UN-Habitat approached the Government of China to provide technical support to Tanzania Women Land Access Trust pilot housing project which aims not only at providing housing for the poor but also to build the capacity of the Tanzania construction industry. The technical support required from China (Yangzhou city) is expertise in the fields of construction management, structural engineering, electrical engineering and quantity surveying. The objective is to make sure that the project will be completed on time and within budget. Four experts will soon be coming to carry out this technical assistance: the project manager, structural engineer, electrical engineer, and quantity surveyor.

These experts will work as Clerk of Works, on behalf of the developer, to monitor the construction activities. Meanwhile, they will also work with the contractor (who has already been selected) to provide their special expertise and on-job training for local engineers and technicians.

The delegation of Chinese experts visited UN-Habitat on 8 June and held a meeting with the Executive Director of UN-Habitat. The team then went on mission to Dar es salaam, Tanzania from 11th to 13th June 2007. The team visited the site and held meetings with project consultants, Tanzania Women Land Access Trust and finally held a press conference with the Executive Director, UN-Habitat and Tanzania Minister for Housing.'

The contracting process was surprisingly fast. According to SUF Programme Management Unit:

'Invitations of Expression of Interest were sent to short listed contractors on 16th May 2007 and all applications were received by 24th May 2007. OGM consultant completed evaluation of contractors on 26th May, 2007 and submitted his report and recommendation to a consultative meeting that took place on 1st June, 2007.'

The contracting arrangements were unconventional:

'It was recognized that the standard measurement type of contract (under which the contractor is paid for completing, say, x cubic meters of concrete) would not be appropriate since inputs would be provided by the construction brigades and the Chinese Technical Team and most of the materials would be purchased in bulk. Accordingly, it would be difficult to disaggregate the cost elements of the various items of work in a standard Bill of Quantities. Furthermore, in order to minimize costs, it would be necessary to keep payments as close as possible to actual costs and to minimize working capital requirements.

The price for construction will be agreed with the contactor following on-going negotiation between the quantity surveyor and the contractor. Such an arrangement will require a high level of trust between the client, design team and construction team. Within this framework, subcontracts may equally be negotiated.'

The key targets in the construction schedule were:

Start preliminary works on site:	1 October 2007
Complete substructure/foundation works:	26 November 2007
Complete building frame:	4 April 2008
Complete works & hand-over:	18 August 2008

The capacity building apparently was not successful and due to inexperience and lack of skills, the contractors failed to make much progress on the foundation works. While the exact details are beyond the scope of our review, it appears that the slow progress forced a complete restructuring of the construction arrangements with a Chinese contractor (Cities Alliance / TIC International Engineering Ltd) taking over as general contractor. In the 2008 fourth quarter report, the Programme Management Unit provided only a brief discussion:

> ***'However there have been delays due to the restructuring of the contractor's contract, which inevitably has led to increased construction costs as a result of escalating prices of materials.'***

OUTCOME

The building is now essentially completed. The basic layout and exterior design generally conform to the original plans. However, the interior space has been rearranged with larger apartment units. Thus, the building now only has 20 apartments as opposed to the original plan of 32 units (Table 1). The total living area is around 1,380 m^2. The building is built to a high standard. All plumbing fixtures are included but the future tenants/owners will have to provide the kitchen appliances. The 4-bedroom apartments have three bathrooms! On the ground floor, there are five shops with a total area of 93 m^2 as well as an open area that can be rented out (e.g. for parking or market stalls). On the fifth floor, there is a covered terrace area of around 300 m^2, which also can be rented out.

TABLE 1: Apartments in Tanzania Women Land Access Trust's Kinondoni Building

Number	Number of bedrooms	Average Size/ (m^2)
8	2-bedroom flats	50
8	3-bedroom flats	77
4	4-bedroom flats	91
20	Total living area	1382

Source: Information provided by OGM Consultants

Not counting the USD 100,000 on deposit in Azania Bank as security for a forthcoming mortgage loan, UN-Habitat has so far paid out USD 1.26 million (Table 2). However, the contractor has not been paid since September 2010 and, under the contract, he is owed more than a quarter of million dollars for completion of the works. In addition, the formal completion and hand-over of the building have been delayed for reasons beyond the control of the contractor, which will entitle him to compensation (preliminary estimated at USD 50,000). Finally, as will be discussed, TANESCO (Tanzania's electric utility) is demanding USD 30,000 to connect the building to its grid. Thus, in total the building is likely to cost around USD 1.6 million—excluding implicit and explicit subsidies. (Table 3)

These subsidies are of several types. First and foremost, Tanzania Women Land Access Trust was given a waiver of value added tax, Import duties and other related taxes. The value of this waiver is estimated at almost USD 380,000.

As noted earlier, various Chinese experts (a construction management expert, a structural engineer and an electrical engineer) have been providing technical assistance to the project. Total labor input by the Chinese team was 20 man-months equivalent. UN-Habitat paid for their accommodation (USD 15,000) while the Chinese government and Yangzhou municipality paid their allowances and salaries. The imputed value of this support is USD 10,000/month x 20 months or a total of USD 200,000.

TABLE 2: Estimated Construction Cost for Tanzania Women Land Access Trust's Kinondoni Building

Payments	USD	Comments/Recipient
Actual Payments/Date		
15-Sep-07	45,516	OGM, consultant fees
13-Mar-08	230,000	TAWLAT
23-Dec-09	262,000	TAWLAT
24-Dec-09	197,520	TAWLAT
9-Jul-10	263,464	TAWLAT
30-Sep-10	244,853	TAWLAT
n.a.	516	OGM, consultant DSA
n.a.	15,000	Rent for Chinese experts
UN-Habitat payments	**1,258,869**	Until 25 May 2011
Projected Payments		
Balance to complete	254,507	Total contract sum USD1,513,376
Extra cost for delays	50,000	Payable to Contractor (by TAWLAT)
TANESCO charges	30,000	
Projected Additional Cost	334,507	Last payment to contractor Oct 2010
ESTIMATED TOTAL COST	**1,593,376**	

Sources: UN-Habitat Programme Manager, OGM Consultants

Yangzhou Municipality has also donated 10 solar garden lighting fixtures and accessories as well as 34 sets of solar water heaters worth USD 24,348.50 and USD 13,277 c.i.f., respectively.

The Tanzania Women Land Access Trust site is located in a high density low income area and therefore it is too small an area to accommodate the site office when the building is being erected. An alternative site for the site office could not be acquired. The former Executive Director,

TABLE 3: Explicit and Implicit Subsidies

Subsidy Item	Provided by	Amount (USD)
Waiver of VAT, import duties and other taxes	Government of Tanzania	378,344
Chinese staff (Yangzhou Municipality)	Yangzhou Municipality	200,000
Outside Lightning (Yangzhou Municipality)	Yangzhou Municipality	24,348
Solar Heat	Yangzhou Municipality	13,277
Office space	Private citizen	54,000
Interest during construction	UN-Habitat (incl. SUF)	166,459
Total Subsidies	All sources	836,428
Direct Construction Costs		1,593,376
TOTAL COST (including subsidies)		2,429,804

Source: UN-Habitat HPM
Note: Total does not include the cost of UN-Habitat staff, consultants, travel etc.

UN-Habitat managed to get a relative to agree to donate an adjacent plot for the temporary erection of the Tanzania Women Land Access Trust site office free of charge to facilitate the construction of the Tanzania Women Land Access Trust building for 2 years (rather than 4.5 years). The imputed value (foregone rent) of this support is 54 months @ USD 1,000 or USD 54,000.

Last but not least, is the interest free 'construction loan' provided by UN-Habitat. A construction loan of this type—given the obvious risks involved—can very conservatively be assumed to carry an interest rate of at least 8 per cent (on a USD loan). Given the disbursement schedule for UN-Habitat construction financing (as provided in the table above), the implicit subsidy associated with the interest free construction financing provided by UN-Habitat can be estimated at USD 166,000. Thus, the total explicit and implicit subsidies amount to USD 836,000—more than the original estimate of the cost of the building (USD 750,000)!

It should be noted, however, that the estimate of subsidies does not include UN-Habitat staff and consultants, travel etc. Unfortunately, relevant budget figures are not available. However, we are confident that, over the past seven years, UN-Habitat has spent hundreds of thousands of dollars just 'nurturing' the Tanzania Women Land Access Trust initiative

Thus, in the absence of further delays in the occupancy of the building, the total cost so far is estimated at USD 2,430,000. In simple terms, this is more than USD 120,000 per apartment in the building.

CONSTRUCTION DELAYS

As noted earlier, the initial date of completion was 18 August 2008. We have noted the delays due to the lack of experience of the original group of contractors. After Cities Alliance / TIC International Engineering Ltd. took over the construction of the building, the completion date was revised to 17 May 2010. As far as we understand, the building was essentially complete by that date. However, as of this writing (30 May 2011) the building is still unoccupied. The reason given is 'infrastructure delays'.

The Chinese electrical expert and the country technical advisor Mr. Robert Goodwin (hired by UN-Habitat) concluded that the building requires a dedicated transformer with sufficient capacity for the building. An application for permanent power connection to the site for the building was lodged with TANESCO on 14th July, 2010. Unfortunately, such a transformer was not included in TANESCO's approved investment programme and, thus, it insisted that Tanzania Women Land Access Trust pay about USD 30,000 for the transformer and transmission line. To date, the problem is yet to be solved.

There is no trunk sanitation infrastructure in the area. In September 2009, Tanzania Women Land Access Trust approached the Water and Sanitation Utility, DAWASA to provide a trunk sewer to the site. DAWASA responded and extended the sewer line but hit a snag as the Tanzania Roads Authority, TANROADS, to date has not given a go ahead for the new sewer line to cross the nearby highway. Apparently there are no service ducts for such infrastructure and a major tarmac road needs to be broken for the sewer to cross. At the time of writing it is not clear when this problem will be resolved but Tanzania Women Land Access Trust is pushing very hard.

THE COST OF COMPLETION DELAYS

We can calculate the cost of delays in two ways: the first is to estimate the implicit cost of extending construction financing by one year. As seen above, UN-Habitat's construction financing will amount to about USD 1.6 million. Assuming an interest rate of 8 per cent for dollar based construction financing, a one year delay would add around USD 128,000 to the cost to completion.

The second approach is to estimate the revenues foregone. As will be discussed below, the potential annual rental revenues of all the apartments and the commercial space are around USD 98,000.

These revenues (or the equivalent housing benefits to the cooperative members) are, thus, considerable.

AFFORDABILITY AND POVERTY IMPACT

UN-Habitat's construction financing is supposed to form the foundation for a 'revolving fund.' As the building is completed, the construction financing would be 'taken out' through a mortgage loan to the members of the cooperative. The released funds would then be used to provide construction financing for another group of women.

BOX 1: COST ALLOCATION APPROACH

There are a number of methods of allocating common costs to different uses, such as the how much of the foundation costs should be allocated to shops and to apartments in a building. The most common approach used for multi-purpose projects (for example a dam that is used for both irrigation and power generation) is the so called "benefit method." In simple terms it means that if a certain component accounts for 30 per cent of the total benefits, it will be allocated 30 per cent of the costs.

We do not have access to detailed cost breakdowns for TAWLAT's Kinondoni apartment building. However, we have estimates of how much rent different types of apartments, shops etc would yield on the market. Thus, we use the expected revenues as a basis for estimating the cost of each unit. Shops, parking, multipurpose space account for 12.2 per cent of potential rental income. Thus, we have allocated 87.8 per cent of the cost to the apartments. In allocating the construction cost for different apartment sizes, we have used the same approach.

Thus, ideally, the bank loans and eventual down payments by the residents should allow Tanzania Women Land Access Trust to recover the construction costs (that have been paid for by UN-Habitat). As discussed above, the actual cost of the building (excluding subsidies) is estimated at USD 1,593,000. Using the so called 'benefit method,' we have estimated that the cost of the typical 2 bedroom, 3 bedroom and 4 bedroom apartments would be USD 55,000, USD 71,000 and USD 97,000, respectively.

The Memorandum of Understanding between Tanzania Women Land Access Trust and Azania Bank provides for 10-year loans at 17 per cent interest to qualifying cooperative members. The interest rate is slightly lower than the one offered by Azania Bank on its normal mortgage loans (18 per cent).

Assuming a down payment of 20 per cent, we get the required down and annual mortgage payments for various sizes of apartments. The results are presented in Table 4.

According to the documentation reviewed, Tanzania Women Land Access Trust's target group is '*low-income women*.' The first question then is: 'will these apartments be affordable to 'low-income women'?' As far as we know, neither Tanzania Women Land Access Trust nor UN-Habitat has defined who can be classified as

TABLE 4: Estimated Mortgage Payments for Tanzania Women Land Access Trust Kinondoni Apartments

Apartment Type	Allocated Cost		Down Payment	Loan size	Loan Payment	
					Monthly	Annual
	(USD)	(TZS)	(TZS)	(TZS)	(TZS)	(TZS)
2-bedroom flats	55,000	82,500,000	16,500,000	66,000,000	1,147,080	13,764,960
3-bedroom flats	71,000	106,500,000	21,300,000	85,200,000	1,480,776	17,769,312
4-bedroom flats	97,000	145,500,000	29,100,000	116,400,000	2,023,032	24,276,384
Average apartment	70,000	105,000,000	21,000,000	84,000,000	1,459,920	17,519,040

Source: Authors' calculation

'low-income.' Thus, we will use four different income and poverty measures (each adjusted to 2011 level):

- GNI per capita;
- The international poverty line of 'USD 2per day;'
- The 'basic needs poverty line' for Dar-es-Salaam as defined by the government; and
- Average income for households in Dar es Salaam;

The calculation of these poverty criteria and income levels is discussed in detail in the End Note in this Annex. The results are summarized in the Table 5. Obviously, a family cannot afford to spend all of its income on housing. A common international rule of thumb is that mortgage payments should not exceed 30 per cent of the income. Using this figure, we can estimate how large mortgage payments a household can afford to pay.

TABLE 5: Household Incomes and Affordable Mortgage Payments

Income/Poverty Criteria	Household Income	Affordable mortgage payment
	(TZS million per year)	
Average household income in Dar es Salaam	5.3	1.59
GNI per capita	4.0	1.20
The international poverty line of "USD 2 per day	2.2	0.66
The "basic needs poverty line" for Dar es Salaam	1.1	0.33

Source: Authors' calculations

A quick comparison of Tables 4 and 5 clearly shows that if the members of the housing cooperative have to pay the full cost of the apartment they occupy, a household with the average income in Dar es Salaam would never be able to afford living in Tanzania Women Land Access Trust's Kinondoni building. Indeed, only households with an income that is 8-9 times higher than the average can afford a small 2-bedroom unit! Given that the income distribution in Tanzania and Dar es Salaam is such that 75-80 per cent of the households have incomes below the mean, it is likely that only people with incomes in the upper 5 per cent of the income distribution would be able to afford even the cheapest apartment in

TABLE 6: Mortgage Payments for Tanzania Women Land Access Trust Kinondoni Apartments at Original Cost (USD 750,000)

Apartment Type	Allocated Cost		Down Payment	Loan Size	Loan Payment	
					Monthly	Annual
	(USD)	(TZS)	(TZS)	(TZS)	(TZS)	(TZS)
2-bedroom flats	26,000	39,000,000	7,800,000	31,200,000	542,256	6,507,072
3-bedroom flats	33,000	49,500,000	9,900,000	39,600,000	688,248	8,258,976
4-bedroom flats	46,000	69,000,000	13,800,000	55,200,000	959,376	11,512,512
Averaqe apartment	33,000	49,500,000	9,900,000	39,600,000	688,248	8,258,976

Source: Authors' calculation

the building.

As we have seen earlier, the construction experienced serious cost over-runs. This means that it is worth looking at what would the situation be if the building came in on the original budget of USD 750,000? This is shown in Table 7.

Clearly, affordability would have been better if the original budget had been met. Still, even in this case, four households with the average Dar es Salaam income would have to share a 2-bedroom apartment in order to afford paying the mortgage!

It is clear that the building is far too expensive for Tanzania Women Land Access Trust to achieve its objective of assisting low-income women gain access to land and affordable and secure home ownership. Swedbank in its final report wrote:

> ***'…and Tanzania Women Land Access Trust, Tanzania which in our opinion are insults to the UN-Habitat global mission of poverty alleviation.'***

We would not use the same words, but we note that a simple back-of-the-envelope calculation along the following lines would have demonstrated the potential affordability problem:

- Average per capita GNI is around USD 400, average family size in Tanzania is around 5, giving a family income of around USD 2,000.
- Such a family can pay around 30 per cent of the income on a mortgage or about USD 600 per year.
- The MOU negotiated with Azania Bank provides for 10-year mortgages at 17 per cent, which means that the annual debt service is around 20 per cent of the principal loan amount. A USD 3,000 loan would give a mortgage payment of around USD 600.
- Assume 20 per cent down, which gives us a building cost (land plus construction) of around USD 3,750 per family.
- Assume further that we 'pack them in'—50 families in a building with a living area of around 1,400 m^2. 28 m^2 per family or 6-7 m^2 per person might be a little overcrowded, but certainly not worse than in the slums of Dar es Salaam.
- 50 families and USD 3,750 per family give a building cost of around USD 187,500. Make some allowance for cross-subsidies from shops, etc. and it might be feasible with a building cost of around USD 250,000.
- The land cost was TZS 53 million in 2004 or around USD 50,000 at the time. Thus, to keep the building affordable, the construction cost should have been kept to around USD 200,000.

Such a calculation would have caused the warning bells ringing and led to a deeper analysis of affordability and started a search for more viable alternatives. We understand that some of the SUF Design Team members indeed had undertaken such an analysis and were concerned about the financial viability of the project. However, support for Tanzania Women Land Access Trust appeared to have been an institutional priority at the time. One member of the design team expressed it in the following terms: *'…there were too many conflicting/competing interests; some of which were really outside the mandate of SUF and distracted from the business SUF was supposed to be doing; but, these interests had to be 'satisfied' or catered to.'*

AFFORDABILITY TO TANZANIA WOMEN LAND ACCESS TRUST COOPERATIVE MEMBERS

We do not have access to any socio-economic survey of the members of the six cooperatives. However, one of the authors has met with a group of Tanzania Women Land Access Trust's cooperative members at two occasions (in 2006 and 2011). These meetings were organized by the Tanzania Women Land Access Trust Secretariat. The impression was that the women were well educated, articulate and belonging to the middle or upper middle class. They could hardly be described as 'typical slum dwellers' or as 'urban poor.' Most of persons we interviewed for the SUF assessment shared similar impressions. At

TABLE 7: Some of Tanzania Women Land Access Trust's Members

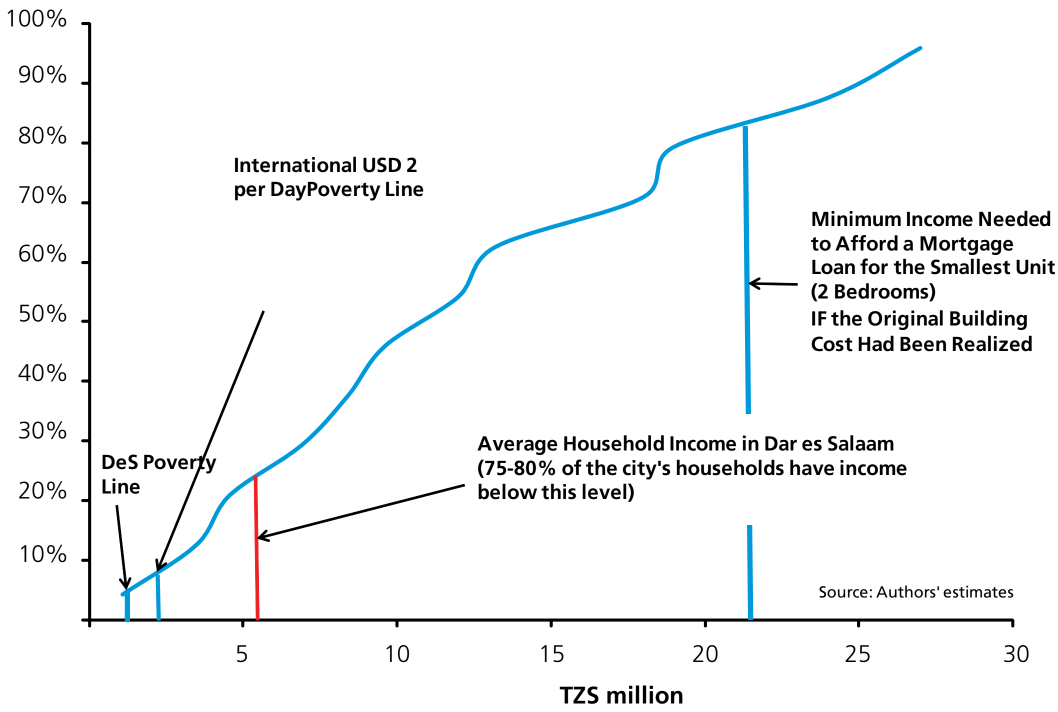
Occupation	Monthly Income (TZS thousands)
Small restaurant, catering	2,250
Two different businesses	2,000
Teacher with small business	1,580
Chicken rearing	1,500
Clothing sales	1,100
Accountant, part time consulting	1,000
Food shop	800
3-Wheeler owner	700
School teacher	574
Teacher, small business	380
Hospital attendant + chicken	290
Small business (expect help from sons)	90

Source: Informal Interview with TAWLAT cooperate members

the 2011 meeting, the women were asked about their employment and incomes. The responses by the 11 women in the group are presented in Table 7.

This sample of Tanzania Women Land Access Trust cooperative members was very small and completely unscientific. However, it is still useful to compare the incomes of this non-random group with the various income and poverty benchmarks presented in the previous section. Keeping in

FIGURE 1: Incomes of Tanzania Women Land Access Trust Women versus Various Income and Poverty Benchmarks



mind that in Dar es Salaam as a whole, only 20-25 per cent of the population has incomes that exceed the average household income for the city. In the group of Tanzania Women Land Access Trust women that the author met, more than three-quarters of the women had incomes that exceeded this benchmark (Figure 1).

Still, out of this group of eleven women, only two had incomes high enough to be able to afford the smallest units in the Kinondoni apartment building—assuming that the original construction cost estimate had been correct. *None of the women would be able to afford even the smallest 2-bedroom unit if the actual construction cost would be recovered.*

SUSTAINABILITY OF THE TANZANIA WOMEN LAND ACCESS TRUST APPROACH

The Trust plays multiple roles: (i) Advising, assisting and acting on behalf of its member cooperatives in organizing savings schemes, finding and acquiring land and constructing dwellings; (ii) Providing credit enhancements/guarantees to enable the cooperatives get access to long-term mortgage finance; and (iii) Providing construction/bridge financing. UN-Habitat has so far supported this through a grant of USD 100,000 to serve as security for mortgage loans and almost USD 1.3 million in grants to finance the construction (likely to become USD 1.6 million). As noted earlier, UN-Habitat's construction financing is supposed to form the foundation for a 'revolving fund.' As the building is completed, the construction financing would be 'taken out' through a mortgage loan to the members of the cooperative. The released funds would then be used to provide construction financing for another group of women. The grant for credit enhancement would similarly be 're-used' for other schemes. Consequently, sustainability of the Tanzania Women Land Access Trust operation depends critically on its ability to recover the cost spent on construction of the Kinondoni building.

Originally, it was planned that one cooperative at a time would be awarded an entire building. The first one built at Kinondoni would be awarded to the Kisamaja Cooperative. However, due to the long delays and in the name of fairness, the cooperative members decided that the six cooperatives should all benefit from the Kinondoni apartment building. Thus, each of the six cooperatives would be allocated one shop (or other commercial space) and two apartments. Tanzania Women Land Access Trust would keep eight apartments that would be rented out to help service the mortgage. The individual cooperatives could use their shops and apartments while paying market rents to the special housing cooperative that would own the building.

Consequently, the Kinondoni housing cooperative would receive market rents for all the units. The

TABLE 8: Expected Rental Revenues from the Kinondoni Building

Number	Number of bedrooms	Annual Rental	Total Rental	Annual Income
		(TZS)	(TZS)	(USD)
5	Shops	2,400,000	12,000,000	8,000
LS	Open lettable area (parking)	1,200,000 r	1,200,000	800
8	2-bedroom flats	5,100,000	40,800,000	27,200
8	3-bedroom flats	6,600,000	52,800,000	35,200
4	4-bedroom flats	9,000,000	36,000,000	24,000
4	Covered multi purpose areas	1,200,000	4,800,000	3,200
	Total Rental Income		147,600,000	98,400

Source: Information provided by Phillemon Mutashubirwa (HPM, Tanzania) after consultation with OGM expected rental incomes are provided in Table 9.8. It can be assumed that the bank providing the mortgage would not accept a mortgage with a size so large that the monthly payments exceeded the monthly rental income.

The MOU with Azania Bank calls for 10-year mortgages at 17 per cent interest. A normal amortizing mortgage loan for TZS 100 million would give a monthly payment of TZS 1,738,000 or TZS 20,856.000 on an annual basis. A mortgage amount of TZS 708 million would give annual payments on TZS 147.6 million. Consequently, the maximum amount of cash that Tanzania Women Land Access Trust could recoup and use for future projects would be TZS 708 million or USD 472,000. However, Tanzania Women Land Access Trust and UN-Habitat have together put in TZS 53 million (USD 47,000) for land and USD 1,593,000 for building construction or a total of USD 1.64 million. In short, only 29 per cent of the money put into the building can be recovered and used for future schemes. For financial sustainability, the full amount of the cost of the building would have to be recovered. The Kinondoni building falls far short of this.

Consequently, *the Tanzania Women Land Access Trust approach is not sustainable.*

End Note: Calculation of Various Income and Poverty Measures

GNI per capita. According to the World Development Indicators (2011), GNI per capita for Tanzania was USD 500 in 2009. We have adjusted this figure by 12 per cent to USD 560 in order to reflect economic growth and inflation. The 2007 Household Budget Survey for Tanzania indicated that the average household size in Tanzania is 4.8 persons. Thus, a household income of TZS 4.0 million per year is equivalent to USD 560 per capita.

The international poverty line of 'USD 2.00 per day.' This figure is actually expressed in purchasing power parity (PPP) terms. This means that when we translate USD to TZS, we must use the PPP conversion factor for private consumption rather than the market exchange rate of TZS 1,500 per USD. Furthermore, the poverty line is expressed in 2005 terms. We add 20 per cent to adjust for international inflation between 2005 and 2011. The PPP conversion factor was 623 in 2009. Adjusting this for price development since then, we estimate that the 2011 conversion factor is around 650. Thus, USD 2.00 per day in 2005 PPP terms is equivalent to an income of TSZ 1,560 per day. A further complication is that the international poverty line is for an adult. Consequently, we need to translate an average household size of 4.8 persons into 'adult equivalents.' Given the age distribution in Tanzania, we estimate that a gross household size of 4.8 is equivalent to 3.8 adults. Consequently, a household income of TZS 2.2 million in 2011 is roughly equivalent to the international poverty line of 'USD 2.00 per day.'

The national 'basic needs poverty line.' 2007 Household Budget Survey (2007 HBS) for Tanzania uses two different poverty lines that it describes in the following terms:

'The **food poverty line** was calculated as the cost of meeting the minimum adult calorific requirement with a food consumption pattern typical of the poorest 50 percent of the population. A higher **'basic needs' poverty line** allows for the fact that individuals need more than just food to live. It inflates the value of the food poverty

Factors for Calculating "Adult Equivalent" Consumption

Age Group	Male	Female
0-2	0.40	0.40
3-4	0.40	0.40
5-6	0.56	0.56
7-8	0.64	0.64
9-10	0.76	0.76
11-12	0.80	0.88
13-14	1.00	1.00
15-18	1.20	1.00
19-59	1.00	0.88
60+	0.80	0.72

Source: 2007 HBS

TABLE 9: Poverty Lines and Poverty Incidence for Tanzania (2007)

	Dar-es-Salaam	Other Urban Areas	Rural Areas	Mainland Tanzania
	Poverty Lines per Adult Equivalent for 28 days (TZ Shillings)			
Food Poverty Line	13,098	10,875	9,574	10,219
Basic Needs Poverty Line	17,941	14,896	13,114	13,998
	Incidence of Poverty (Percent of Relevant Population Group)			
Food Poverty Line	7.4	12.9	18.4	16.6
Basic Needs Poverty Line	16.4	24.1	37.6	33.6

Source: 2007 Household Budget Survey

line based on the non-food share of expenditure of the poorest 25 percent of the population.' [Emphasis added}

The results of the 2007 survey are summarized in the table above.

The poverty lines need to be adjusted to 2011 currency values. We have done this through a simple extrapolation of the trend between the 2000/1 and 2007 Household Budget Surveys. (Depending on the poverty measure and the region, these adjustments ranged between 47 per cent and 51 per cent. The next calculation simply involved translating these poverty lines into their annual values (i.e. dividing by 28 and multiplying by 365).

However, the poverty lines are expressed in 'adult equivalents.' Thus, to translate the 'adult equivalent' poverty lines into corresponding household incomes, we must estimate how many 'adult equivalents' an average household comprises. The 2007 HBS provides details on the factors it used to translate household consumption into 'adult equivalents (Table 9). We have used these factors and the sex and age distributions for the different regions that were provided in the 2007 HBS report to calculate how many 'adult equivalents' the average household comprises. Thus, the average household size of 4.8 for mainland Tanzania and 3.7 for Dar es Salaam translate into 3.8 and 3.1 'adult equivalents,' respectively. The resulting estimates of 'basic needs poverty' lines for the various regions are provided in the Table 10 above.

TABLE 10: Estimated Basic Needs Poverty Lines for 2011

Region	Household Income
Dar es Salaam	1.10 million
Other Urban Areas	1.04 million
Rural Areas	1.03 million
Mainland Tanzania	1.05 million

Source: Authors' calculation

Average household income in Dar es Salaam. The 2007 HBS report provides details on the sources and amounts of income for households in different regions. The results are presented in terms of 'mean per capita household monthly income.' In order to get the average annual household income, we simply adjust for household size and length of the time period. Finally, we assume that inflation and real income growth over the 2007-11 period have increased the average incomes by 50 per cent. The estimated household incomes are presented above.

It is worth noting that the income distribution in Dar es Salaam is such that 75-80 per cent of the households have incomes below the average for the city (Table 11).

TABLE 11: Calculation of Average Household Income 2011

	Dar es Salaam	Other Urban Areas	Rural Areas	Mainland Tanzania
Mean Per Capita Household Monthly Income 2007 (TZS)	80,144	64,231	28,418	39,362
Mean Per Capita Household Yearly Income 2007 (TZS)	961,728	770,772	341,016	472,344
Household Size	3.7	4.4	5.1	4.8
Average Annual Household Income 2007 (TZS)	3,558,394	3,391,397	1,739,182	2,267,251
Adjustment to 2011 Income Level	1.50	1.50	1.50	1.50
Estimated Average Household Income in 2011 (TZS)	5,337,590	5,087,095	2,608,772	3,400,877
Average Household Income (Rounded, TZS million)	5.3	5.1	2.6	3.4

Source: 2007 HBS and authors' calculations

ANNEX X: PILOT TEAM PRIORITY PROJECTS/PRODUCTS

The SUF Design Team identified eight priority operations for implementation during the Pilot Phase. Three of these projects never materialized or provided any tangible benefits (low income housing finance product in Ghana, a cooperative housing project and the Co-BILD housing finance facility in Indonesia). Two others—involving the construction of apartment buildings—were managed by the Programme Management Unit (the Moratuwa upgrading in Sri Lanka and Tanzania Women Land Access Trust in Tanzania). These schemes turned out to be non-sustainable due to high costs. Three of the remaining projects were handled by the SUF Design Team. One of these has built up a solid track-record (Lanka Financial Services for Underserved Settlements in Sri Lanka). One has struggled with the implementation and financing of an apartment building but has emerged as a viable entity (Tema/ Ashairman Metropolitan Slum Upgrading Fund in Ghana). The last one (Tanzania Financial Services for the Underserved Settlements in Tanzania) is still building up a pipeline. Each of these projects is presented below.

Original Concept in country project implementation plan 2007	**Outcome/Results in May 2011**
Ghana: Pilot Slum Upgrading Projects in Shama Ahanta East Metropolitan Area (Shama Ahanta East Metropolitan Area)	
Objective: To support the development and implementation of a city-wide settlement upgrading strategy in Shama Ahanta-East Metropolitan Authority (Shama Ahanta East Metropolitan Area) Area by establishing a local settlement development fund with the ability to leverage commercial bank finance for settlement upgrading purposes. **Description:** Creating an innovative and sustainable finance facility blending local government tax revenues and commercial bank finance in order to provide the necessary loan finance for major settlement upgrading initiatives in the city. **Envisaged Outcome:** Access to capital financing for communities in Shama Ahanta East Metropolitan Area wishing to upgrade their settlements	The Sekondi-Takorad Metropolitan Assembly Citywide Slum Upgrading Fund (Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund) was established in December 2007 to undertake and facilitate the mobilization of resources for upgrading low-income and informal settlements in the metropolitan area. (The Shama Ahanta East Metropolitan Area district has been renamed.) The Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund Board brings together relevant stakeholders from central and local government, NGOs and community-based organizations as well as the private sector. Its first project, Kojokrom Market upgrading, involves the construction of 15 market stalls at a cost of USD 51,000. Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund provided a 100 per cent guarantee for a bank loan from Merchant Bank. The project reached financial closure in December 2009.

	The initial repayment record of the members of the Kojokrom Women's Market Association was initially poor but after intervention by Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund it has improved significantly and is now satisfactory. Reportedly, the incomes of the stall owners has more than doubled after their move into the stalls. The initial intention was that the municipal government would contribute to the f Sekondi-Takoradi Metropolitan Assembly Citywide Slum Upgrading Fund. However, it appears that this contribution never materialized.
Ghana: Low Income Home Improvement Finance Product	
BOAFO Microfinance Services Limited (BOAFO) is a joint venture between cooperative housing foundation International (a US based NGO concerned with cooperatives and community housing finance) and HFC Bank Ltd a Ghanaian financial institution. cooperative housing foundation and HFC Bank approached the design team with a request for support to develop a home improvement loan product for low to moderate income household. Because cooperative housing foundation International had a significant experience in the field, it was assumed that the SUF Pilot Team would add little value and, thus, the project was handled directly by the Programme Management Unit .	SUF Programme Management Unit committed USD 125,000 to BOAFA to develop the low income home improvement finance product. It is our understanding that the study was poorly designed and that BOAF0 has not provided any home improvement loans.
Indonesia: Cooperative Housing Project in Yogyakarta	
Objective: A slum prevention scheme in a peri-urban area in Seyegan, Sleman, Yogyakarta province. **Description:** The Luhur Setia Mandiri (LSM) cooperative has 134 active members. It was established in 1997 in response to the country-wide community-based housing project opportunity. They are hoping to build 100 30m^2 units in plots of 100 m^2, an additional plot will be prepared for future development by individual landlords. **Envisaged Outcome:** Innovative model to scale up cooperative green site housing developments.	This project had been initiated in 1996 with UN-Habitat support. The LSM Cooperative acquired land and applied for a construction loan to Bank Tabungan Negara (BTN), which was denied because the area was not connected to the electricity grid. Thus, when the Pilot Team first arrived, the project had essentially been dormant for a decade. This project was never included in the pilot phase. The Pilot Team felt that it did not conform to SUF's slum upgrading mandate.

Indonesia: Scaling up of Co-BILD Initiative	
Objective: To revitalize the Co-BILD lending programme for co-operative housing in Yogyakarta province. **Description:** Well-forming Co-BILD loans will be transferred in return for in return for additional financing being made available. The project will support Co-BILD as an 'incubator' of local community-based organizations wanting to implement housing programmes. **Envisaged Outcome:** Increased access to housing finance for local community-based organizations and NGOs in the Yogyakarta area, which included 60 member community-based organizations covering 2,358 households in December 2006	A recent UN-Habitat study (Zhang, 2008) reported: 'Co-BILD, a UN-Habitat supported credit programme, …was part of a housing project that emphasized affordable building technologies, community-based endeavors in house construction and improvement, and access to credit. The project provided subsidized credit through civic groups. It turned out to be difficult to enforce repayment of loans under the project. Moreover, the scheme was not based on commercially viable principles that guaranteed its sustainability; e.g. it did not charge interest rates that allowed cost-recovery; underwriting of loans was based on community membership rather than on repayment history. Like other such housing credit programmes before it, it was closed when donor support ended.' In the months following the Indonesia country project implementation plan, when the SUF Pilot Team took a closer look at Co-BILD, it concluded that it needed a complete financial restructuring—a task that was not part of the pilot team's mandate. After having unsuccessfully sought a restructuring partner for Co-BILD, this scheme was dropped from the SUF Pilot Programme.
Sri Lanka: Pilot Slum Upgrading Projects in Moratuwa	
Objective: The Moratuwa initiative is the result of a broad based community led effort supported by Slum Dwellers International (Slum Dwellers International) and is intended to upgrade infrastructure and housing in the settlements of Usavi Watta, Alawi Watta and Dhandeniya Watta **Description:** Usavi Watta (land sharing) 50 houses, Alawi Watta (relocation to Usavi Watta) 49 houses and Dhandeniya Watta (redevelopment and relocation) 213 houses . The upgrading of Usavi Watta and Alawi Watta will be taken up on priority. The local NGO, Janarukula has been supported by the SUF DT and appointed an Architect to prepare community-led development. The housing units are of temporary nature and lack access to basic services such as toilets, drinking water and electricity. The households in Alawi Watta and Usavi Watta do not have title to the land or houses presently occupied by them. In Dhandeniya Watta, part of the households has ownerships rights. The others are mostly settlers without any ownership rights. All these settlements are within the Moratuwa Municipal council.	The programme encountered serious land tenure and affordability problems. So far a four storey apartment building with 8 units has been completed and another building with 12 units is under construction at Usavi Watta. The Pilot Team handed over management of the projects to the Programme Management Unit because it was seen as not conforming to SUF's mandate. The reduced project was implemented with support from the Programme Management Unit that provided: 1.USD 40,000 being seed capital for construction; 2.USD 60,000 for the capitalization of the Moratuwa Urban Poor Fund (Moratuwa Urban Poor Fund); 3.USD 42,000 for Moratuwa Urban Poor Fund's capacity building of the community.

Envisaged Outcome: These three components of the Moratuwa project offer the opportunity to produce 99 units of new housing and rehabilitate a settlement of 213 homes. However the larger benefits of this initiative is to demonstrate the leadership capacity of slum communities, build partnerships between community groups and the private sector, and stimulate the institutional framework that will allow replication of this initiative both within Moratuwa and in communities across Sri Lanka.

The Moratuwa Urban Poor Fund also received a contribution from Slum Dwellers International but not from the municipality. The Moratuwa Urban Poor Fund was used as collateral for 20-year, subsidized mortgage loans to the 20 beneficiaries. (Average loan size USD 4,500)

In addition to the guarantee provided by the Moratuwa Urban Poor Fund, the beneficiaries received about USD 900 in subsidy from the government and about USD 2,000 from SUF. These funds will not revolve.

The scheme is not financially sustainable.

Sri Lanka: Low Income Housing Finance Product

Objectives: (i) to undertake/facilitate mobilization of resources for country wide slum upgrading activities; (ii) to implement a country wide housing finance programme for the low income segments; and (iii) to provide credit enhancements/guarantees on behalf of beneficiaries/intermediaries/Micro Finance Institutions/community-based organizations to access financing for housing finance or for slump upgrading activities.

Description: The entity will capture and translate the global SUF vision and objectives to the Sri Lankan environment and will be the vehicle that will conceptualize appropriate strategies for the country and implement plans and programmes derived from such strategies with the view of achieving both the global and country specific objectives.

The entity is a nonprofit company under section 21 of the company's act. The entity will be managed by an independent but professional board appointed for the purpose. The articles will provide for appointments to the board through ex officio positions in professional bodies or institutions. Representations also will include main stakeholders such as beneficiary bodies and intermediary institutions and Banking/financial institutions and Government.

Envisaged Outcome: The SUF DT estimated that approximately Rs 150 million (USD 1.5 million) of loans to low-income housing would be possible during the first year of launch of the product. During next three years, the total loans may reach Rs 1.5 billion mark (USD 15 million).

The Lanka Financial Services for Underserved Settlement (Lanka Financial Services for Underserved Settlements) was quickly established and started building up a project pipeline. However, due to administrative problems in UN-Habitat, release of funding was delayed. It also turned out that the SUF Design Team was wildly overoptimistic.

Although there still is scope for Lanka Financial Services for Underserved Settlements to strengthen its financial risk assessment and management, it can in many respects be regarded as a model for other Local Finance Facilities. It has achieved greater leverage in its credit enhancement than any of the other Local Finance Facilities. It has also mobilized more commercial bank financing and benefited a larger number of families than all the other Local Finance Facilities together.

It has successfully established links a number of commercial banks and a large and growing number of microfinance institutions, NGO's and community-based organizations. It makes sure that the individual loans to programme beneficiaries are carefully tailored to their ability to pay. Incentives for prompt repayment are built into its guarantee products.

It should also be noted that it uses its influence with local governments to improve tenure security for slum dwellers.

By all indications, Lanka Financial Services for Underserved Settlements is financially sustainable and will over time have a significant impact on the lives of low income families.

Tanzania: Housing Project with Tanzania Women Land Access Trust Cooperatives	
The country project implementation plan prepared by the Pilot Team stated: 'Tanzania Women Land Access Trust was initially identified as a potential project for the SUF pilot team however due the considerable progress made on the project during the design phase the decision was made to assign this project directly to the SUF Programme Management Unit for implementation assistance.'	The Tanzania Women Land Access Trust (Tanzania Women Land Access Trust) is a non-profit organization established in 2004 to assist low-income women gain access to land and affordable and secure home ownership. It is one of several Women Land Access Trusts created in Africa with the support of UN-Habitat's Gender Unit. Tanzania Women Land Access Trust functions as an apex organization for housing cooperative societies that have been formed by women with a common interest in home ownership. Tanzania Women Land Access Trust's first 'low income housing pilot project' is located in Kinondoni District (some 6 km from Dar es Salaam city center). The project was implemented by the Programme Management Unit (in cooperation with UN-Habitat's gender unit). It involved the construction of a cooperative apartment building with 20 residential units, 5 shops and some other commercial space. In May 2011, the building was virtually completed but sewerage and electricity connections to the building were lagging behind. The cost of land, construction, including direct and indirect subsidies is likely to reach USD 2.4 million once it is ready to be occupied. The apartments in the building are unaffordable to most of Tanzania Women Land Access Trust's 254 cooperative members (the majority of whom must be classified as middle and upper middle class). The Tanzania Women Land Access Trust concept—as applied in Kinondoni—is not sustainable and has no impact on the urban poor.
Tanzania: Additional Housing Loan Guarantee Facility	
Objective: The Tanzania Liquidity Facility for Slum Upgrading will be designed to provide a credit enhancement to facilitate access to liquid funds in the banking sector. **Description:** The Tanzania Liquidity Facility for Slum Upgrading will be designed to provide a credit guarantee mechanism to facilitate access liquid funds in the banking sector. Credit enhancements may be in the form of guaranteeing maximum loan loss of a certain percentage, close to the NPL level. The credit enhancement programme would be managed by the special purpose vehicle and the funds would be held by a trustee bank.	Essentially, the Liquidity Facility was envisaged to operate in a manner similar to Lanka Financial Services for Underserved Settlements in Sri Lanka. However, the initial efforts of the pilot team were spent on developing a relationship with the Financial Sector Deepening Trust (Tanzania Financial Sector Deepening Trust) The Tanzania Financial Sector Deepening Trust is a USD 20 million facility supported by five bilateral donors. It has established a network with savings and credit cooperative societies and microfinance institutions for its operations. Unlike the other three pilot countries where new Local Finance Facilities were proposed, the possibility of using Tanzania Financial Sector Deepening Trust as a conduit to channel credit enhancement funds was explored.

Envisaged Outcome: (i) A mechanism to consistently deliver liquidity to Micro Finance Institution and community based lender for housing; (ii) Efficient transfer of available liquidity currently in the banking sector to the Micro Finance Institution and community lender segment of the market; (iii) New financing products tailored to the specific needs of slum upgrading and low-income people; (iv) Expanded capacity of Micro Finance Institution and community based lenders to provide an expanded array of financial services; (v) Improvements to slum area of Tanzania municipalities.	It appears that the interest from the Tanzania Financial Sector Deepening Trust, the central government and the central bank was polite but lukewarm. The development of a portfolio of slum upgrading project in Dar es Salaam encountered various problems, probably because of a lack of strong and active NGOs and community-based organizations working with the urban poor. Without a specific project (or projects) to focus attention on, no strong stakeholder group emerged for the facility—either as part of Tanzania Financial Sector Deepening Trust or a freestanding Local Finance Facility. With increasing pressure from SUF Programme Management Unit , a free standing facility—the Tanzania Financial Services for Underserved Settlements (Tanzania Financial Services for the Underserved Settlements)—was finally established in the beginning of 2009. However, it did not become operational until June 2009. A lack of funding retarded its development (the first release of development and administration (funds) funds was released first in April 2010). Tanzania Financial Services for the Underserved Settlements is still understaffed and building a project pipeline is both time consuming and labor intensive. Tanzania has the lowest incomes among the four pilot countries and poverty is both widespread and deep. Thus, affordability is a key concern. The present pipeline focuses on small revenue earning infrastructure projects.

ANNEX XI: EXCHANGE RATES

Exchange rates fluctuate significantly over time. However, the following rates can be used for simple comparisons. These rates are broadly representative of the average rates prevailing in 2010 and 2011.

1 USD = 1,500 Tanzanian Shilling (TZS)

1 USD = 8,800 Indonesian Rupiah (IDR)

1 USD = 1.50 Ghanaian Cedi (GHS)

1 USD = 110 Sri Lanka Rupee (LKR)