

COMMUNITY FUNDS: THOSE WHO SAVE TOGETHER, BUILD TOGETHER

Community funds offer small loans to households but route these through community organizations. One of the more promising developments in shelter financing, community funding encourages savings through establishing and strengthening local savings groups and providing collective finance for shelter improvements.

Community funding provides the benefits of scale. It gives the poor strength in lobbying and in their ability to affect neighborhoods comprehensively rather than just improving single dwellings. The cohesion of the community also helps raise capital funding and to obtain group discounts in the purchasing of building materials.

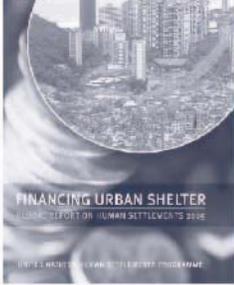
Their most distinguishing characteristic is the way in which funding is perceived – rather than the mechanisms of the financing process. Community funds are embedded in a social development process that seeks to overcome the lack of pro-poor investment in most traditional housing programmes. Through a partnership between non-governmental organizations, local authorities and governments, communities have been empowered to access land and capital for housing and infrastructure.

There has been increasing interest in community funds during the last decade. The growth is supported by a general acknowledgement that small-scale lending has been somewhat successful in tackling the growing urban poverty. The trend towards small loans for shelter improvements has received a considerable boost by the popularity of microfinance. For NGOs and governments seeking to put in place comprehensive and integrated programmes to address urban poverty, experimentation with loan packages that incorporate savings and building collective community capacity have been popular. There are two noteworthy current trends related to the development of such funds: first, the growing interest by local government in these approaches, in part related to the use of such funds to extend essential infrastructure. Second, the expansion of organizations like Shack or Slum Dwellers International (SDI), a community/NGO network whose strategies incorporate savings and lending activities for shelter improvements.

Shack/Slum Dwellers International has emerged from an NGO–community-based organization (CBO) partnership between SPARC, the National Slum Dwellers Federation and *Mahila Milan* in India, and their peer exchanges with similar groups that emerged in South Africa. Over the last 15 years this has evolved into an international movement with affiliates in more than 12 countries. SDI groups have spawned a host of local community-owned and NGO administered funds. In Cambodia, the Philippines, South Africa, Nepal, Sri Lanka, Zimbabwe and Kenya, federation groups have established their own funds, which they lend to savings schemes. State contributions have been obtained in South Africa, Namibia and, more recently, Nepal. Otherwise these urban poor funds are financed by international development assistance and by local fund raising.

Community fund programmes are designed for relatively stable communities who are in need of finance to secure land tenure and upgrade their neighbourhood. In some cases, communities choose to resettle. In other cases, they remain where they are and invest in their existing location. Such investments do not necessarily imply land purchase. Many communities have taken small loans to make improvements that are designed to improve the quality of their immediate lives and the visual appearance of the settlement and, hence, the likelihood of longer-term residency even if legal tenure cannot be secured. With regard to the challenge of inclusion, community funds struggle to include all residents living within the settlement.





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Financing Urban Shelter



THE BUILD TOGETHER PROGRAMME, NAMIBIA

Established in 1991 in order to offer financial support to people in Namibia who use self-help efforts to construct their own housing, the programme lends money to low- and very low-income groups and families in urban and rural areas who are thought to be too risky by the commercial financial institutions. The programme offers loans for land purchase, housing and a range of infrastructure and services. Loans vary between US\$460 and US\$4900, with a graduating interest rate and repayment period of 20 years. The interest rate is 5% for loans of between US\$460-\$3700 and rises to 9% for the maximum loan of US\$4900. The implementation of the programme has now been decentralized to local authorities. Local Build Together committees with multi-stakeholder membership, including representatives of those receiving loans, are established to oversee the implementation of the programme. The role of these groups is to identify communities and families in need of housing or housing improvement in their area. Groups should also consult with individuals on how the community wants to solve their problems, prepare an implementation programme and submit it for funding. The committee checks the credibility of loan applicants and monitors their building. It also plays a key role in monitoring the repayments of the borrowers. There has been a very high degree of participation of women in the programme, with over 45% of the beneficiaries being women-headed households. Since 1992, 11,187 families have been supported to improve their shelter. Local authorities have been assisted to build 323 houses for those in special need and 2830 dwellings have been created from the redevelopment of previous 'single quarters' areas. A further 13, 656 families have benefited from the upgrading of informal settlements. Source: Helao 2004

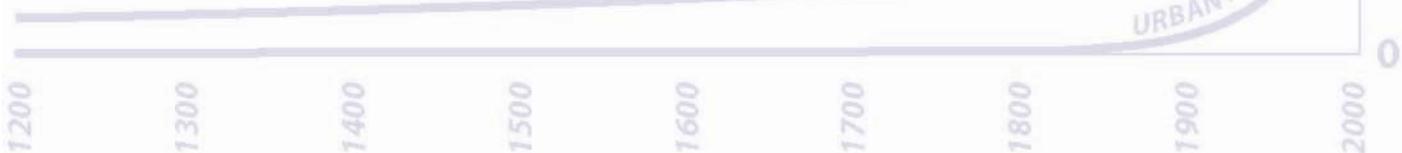
A COMMUNITY FUND FOR ELECTRICITY SERVICES, PERU

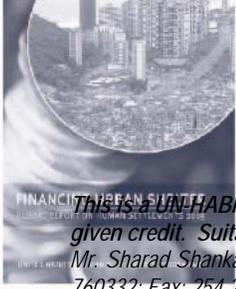
A community fund to assist in the extension of electricity through small hydro installations was started in 1994 in Peru under an agreement between Intermediate Technology Development Group (ITDG) and the Inter-American Development Bank (IADB). The finance model has developed over time and has demonstrated that loan finance to small villages and private farmers can leverage local capital and government funds for locally owned and sustainable rural electrification. To date 26 loans, totaling US\$850,000, have been made for the same number of installations, which has leveraged US\$3.5 millions – a total installed capacity of 1.6 megawatts benefiting 5000 families. The loans range from US\$10,000 to US\$50,000, with a 10 per cent interest rate, reimbursement terms of one to five years and variable periods of grace depending upon the financial situation of the client(s). Guarantees vary slightly depending upon clients' circumstances and whether they belong to the public or private sector. The installations have been ranging from 4 kilowatts to 130 kilowatts; the larger ones in villages, the smaller for private businesses. Villages (the public sector) must show a positive cash flow, including short- and medium-term investment plans, whereas private entrepreneurs must submit actual and collateral guarantees. The project's total capital now stands at US\$700,000, of which US\$400,000 represents the initial capital (under the 1994 agreement) and US\$300,000 the increase approved by the IADB in 2000. Source: Sánchez-Campos, 2004.

FUNDING WATER IMPROVEMENTS, PAKISTAN

Faisalabad is one of Pakistan's largest cities. Two-thirds of Faisalabad's population live in areas with little or no official provision for services, and most new housing and land developments take place without official approval. Less than half the city's population have piped water and less than one third are connected to the sewer system. The *Anjuman Samaji Behbood* (ASB) is a non-governmental organization (NGO) active in the city. The area in which they are working is Dhuddiwala – one among many informal settlements in Faisalabad – with a population of 8080 in 1999.

In 1994, ASB developed a successful microcredit programme for local businesses. The NGO agreed to help the community secure water improvements. Staff used and adapted the model developed by the Karachi-based NGO, Orangi Pilot Project. The model requires that those inhabitants of each lane within a settlement that want improvements have to organize and work out how to pay for the immediate cost of the water supply and sewer infrastructure and the connection charges. The Water Supply Committee felt that before such a process could happen, it needed funds to lay the main pipeline to the water mains. Then, individual lanes' inhabitants could lay their own distribution lines and households would connect to them and pay their share, so the project costs would be recovered. A loan for a revolving fund was received from WaterAid to cover the cost of laying 1100 running feet of main pipeline. The community invested 1,028,367 rupees to complete this work (around US\$18,700) which was only one third of the cost of water authority initial estimates for this project (3.2 million rupees). A self-financing piped water supply and underground sewer system were developed between 1995 and 1999, with 253 houses benefiting from in-house connections to water and 1300 houses with sewers. By 1999, 73,500 rupees had been recovered from the WaterAid loan (300 rupees per household). Within the first three years, slightly more than 30 per cent of households had been connected to the system. The Water Supply Committee was responsible for collecting payments for water connections, keeping accounts, purchasing construction materials and supervising the construction of the main line and the distribution lines in the lanes. Many other communities are now asking ASB for technical assistance in laying sewage lines, and a second phase of the programme is under way, developing a new collector sewer to serve 1000 households. Source: Alimuddin et al, 2004.





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