

IADF BULLETIN



FINANCING LOCAL GOVERNMENT

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IADF Website: An Information Center

The IADF is seeking to expand its website to better serve as an information resource about the various municipal development funds and specialized financial institutions currently available to local governments.

We would like to encourage our newsletter readers to continue to send information for the IADF fund database. The database already includes comprehensive information on the operations of a number of specialized municipal lending institutions. But contributions about additional institutions are always welcomed. Please send IADF an email (kshandling@developmentfunds.org) about specific specialized municipal lending institutions and/or specialized funds that you would like to see added to the database or fill out one of the information request forms available on the website.

We would also like to encourage our readers to submit articles and publications of interest that can be posted on the website. New to the website this month is a lengthier featured editorial piece discussing the Community Led Infrastructure Finance Facility (CLIFF).

Additionally, any announcements about recently implemented initiatives/programs that focus on local municipal infrastructure development or new municipal-targeted financial tools/models would also be appreciated. We will be pleased to post all relevant announcements of new program initiatives on the website.

Finally, IADF welcome any other comments and suggestions about the website and how it can more effectively serve as a useful information resource.

Kathy Shandling
Acting Executive Director
International Association of Development Funds

Further information on the IADF can be obtained from our newly redesigned website:
www.developmentfunds.org.

Submissions and comments can be sent to
info@developmentfunds.org.

NEWS DESK

Compiled by: Kristyn Oldendorf

\$200 Million World Bank loan to Nigeria
28 June 2005
www.worldbank.org

The World Bank approved a \$200 million loan for the Second National Urban Water Sector Reform Project for Nigeria, planned for the states of Lagos and Cross River. The Project will improve the water treatment works' ability to produce a reliable water supply in Lagos and will increase access to piped water networks in Cross River.

Goals include adding household and standpipe connections, rehabilitating water systems, and increasing treatment capacity. Several components are included in the project. The Rehabilitation and Network Expansion component targets the water authorities' customers while the Service Sustainability component is to help utilities improve their efficiency and self-sustainability.

This project is acting on the observation of the effectiveness of private sector involvement in restoring financial sustainability. The Maturity term of the loan is forty years, and the grace period is ten years.

For project documents, please visit
<http://web.worldbank.org/external/projects/main?pagePK=104231&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P071391>

Cambodia's Progress With the ADB's Water Policy Implementation
24 June 2005
www.adb.org

From June 23-24, a workshop took place in Phnom Penh, Cambodia to discuss the Asian Development Bank's (ADB) water policy implementation and Cambodia's progress in implementing the policy. The 50 attendees included members from Asian Development Bank projects, the Cambodian government, NGOs, academe, the private sector, and international organizations. Participants discussed strategies for increasing water access, improving management of water resources, and improving the regulatory framework in the country.

The ADB pledged its continued support of instituting reforms, and government representatives proposed three water sector initiatives: the Northwest Irrigation Sector Project, the Tonle Sap Strategy, and the Phnom Penh Water Supply and Drainage Project.

Participants completed two surveys to provide feedback on the success and performance of the ADB's water policy, investments, and partnerships. The workshop is part of the ADB's larger project of creating a Review of ADB's Water Policy Implementation.

For more information, please visit
<http://www.adb.org/Documents/News/CARM/2005/carm2005005.asp>

World Bank Approves \$325 Million Loan in India

23 June, 2005
www.worldbank.org

The Maharashtra Water Sector Improvement Project received a \$325 million World Bank loan to help achieve its objectives of improving planning, development, and management of water resources and of improving irrigation delivery in the state of Maharashtra, India. Through its four components, the project aims to make sustainable improvements in the region.

The first component, Water Sector Institutional Restructuring and Capacity Building, will support the Maharashtra Water Resources Regulatory Authority (MWRRA), will restructure the existing Maharashtra Krishna Valley Development Corporation (MKVDC), the Water Resources Department (WRD), and the Water and Land Management Institute (WALMI), and will finance the establishment of an integrated computerized information system.

Improving Irrigation Service Delivery and Management, the second component, will support rehabilitation of irrigation in the Culturable Command Area by strengthening the safety of dams, implementing improved water management practices, and improving agriculture support services. It will also support the creation and sustainability of Water User's Associations in selected irrigation schemes.

In its third component, the project will support Innovative Pilots for innovative irrigated agriculture, such as aquifer level groundwater management.

Support for the Project Preparation and Management at the state level comprises the fourth unit. This includes monitoring and evaluation of the project, and a joint information, education, communication campaign to create awareness of the project's actions.

The government of India is the borrower while the Government of Maharashtra, Irrigation Department is the implementing agency. The project has a maturity term of twenty years and a grace period of five years.

For project documents, please visit
<http://web.worldbank.org/external/projects/main?pagePK=104231&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P084790>

World Bank Approves \$275 Million Loan to Turkey

23 June 2005
www.worldbank.org

The World Bank approved a \$275 million loan for a Municipal Services Project in Turkey. The project, which has three components, will supplement municipal level efforts at environmental improvement. The first component will be the Municipal Development component, for financing projects in the water, wastewater, and solid waste sectors. Iller Bank will bear responsibility for appraising and supervising these Sub-projects.

The Municipal Technical Assistance component will support planning, feasibility studies, document preparation, and construction supervision, and will be financed by a Sub-loan from Iller Bank. The third component, Iller Bank Institutional Strengthening, is responsible for providing Iller Bank with technical assistance for project implementation, and will finance auditing and operating costs. Financed by Iller Bank resources and loan proceeds, this component will improve the financial and banking capacity of the Bank.

The loan has a maturity term of seventeen years and a grace period of five years. For project documents, please visit
<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,cont entMDK:20554445~menuPK:51062075~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

World Bank Approves \$64 Million Loan for Philippines

21 June 2005
www.worldbank.org

The World Bank approved a \$64 million loan to finance the Manila Third Sewerage Project (MTSP) in the Philippines, which will work to improve the sewerage service delivery in metro Manila. The project will implement an integrated method of sewage management, septage management, institutional strengthening, and increased public awareness of water pollution and solutions to it.

Improvements made through the project will contribute to meeting the standards set in the 2004 Clean Water Act, which calls for decreasing water pollution. It also seeks to determine the financial and technical viability of new approaches to sewer management in Manila.

As a result of the project, sewerage coverage in the East Zone will increase from about eight percent in 2004 to thirty percent by 2010, and sanitation services will increase to covering one hundred percent in the East Zone. A population of about 3.3 million is expected to benefit from these improvements, which will be implemented in a five year period, 2005-2010.

The total cost of the project is estimated at \$78.2 million. The maturity term of the loan is seventeen years, and the grace period is five years.

For project documents, please visit
http://www.wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000090341_20050524101034

Water Quality Protection Project in Bosnia and Herzegovina

7 June 2005
www.worldbank.org

The World Bank approved a Water Quality Protection Project for Bosnia and Herzegovina to support government efforts in reducing pollution from municipal sources into the Bosna and Neretva Rivers. The Global Environment Facility (GEF) is providing a grant of \$8.9 million, and an additional \$11.37 million in contributions from the borrower and others is expected.

This project has several components, including the development of a Wastewater Improvement Plan and the foundation of a network of private and public institutions for wastewater treatment. It will also work to improve coordination between institutions in Croatia and Serbia and Montenegro in information sharing on monitoring and evaluation of water quality.

The project, which will be implemented between 2005-2010, will work to reduce river pollution, will finance the first stages of construction and rehabilitation of various sewer treatment plants, and will finance a study on the feasibility of the natural

treatment of wastewater, training for project utilization, and financial management training.

EBRD Approves 190 Million Euro Loan in Bulgaria

26 May 2005
www.ebrd.com

The European Bank for Reconstruction and Development approved a 190 million euro loan to Sofiyska Voda AD (SV), a joint stock corporation in Bulgaria, which is responsible for water and waste water systems in the City of Sofia, Bulgaria. The loan will co-finance SV's five year capital expenditure program to finance the upgrade and rehabilitation of Sofia's water supply systems and wastewater treatment plants. This loan will demonstrate how EU-ISPA grants can be effectively safeguarded for the public sector when the infrastructure is operated by a private company.

INTERVIEW:

Marie-Alice Lallemand Flucher

Senior Vice President, Head of
Communication

Dexia Crédit Local

Conducted by: Sophie Guiny

IADF: What is your responsibility at Dexia?

Marie-Alice Lallemand Flucher: For the past six months, I have combined the responsibilities of head of communication and head of public relations at Dexia Crédit Local, the subsidiary of Dexia dealing with financing of public infrastructure and public sector financing. My mission is to manage the internal and external communication of Dexia Crédit Local, both in France and internationally. I coordinate our different domestic and international institutional partnerships.

I joined Dexia in 1988 to create and head its engineering branch, Crédit Local International Conseil (CLIC). For almost ten years I conducted consulting missions, working with actors of the local sector in Central and Eastern Europe, Africa, and Latin America. Following the growth and restructuring of Dexia, I then became head of research of Dexia Project and Public Finance International Bank, then director of institutional relations and international partnerships of Dexia Crédit Local.

IADF: What are the main activities of Dexia?

MALF: Dexia is, mostly through Dexia Crédit Local, the global leader on the local government financing market, and is renowned for its expertise in this field. Its range of activities encompasses:

- financing local public authorities and other public sector entities through direct loans, guarantees and buying equity issued by our customers
- offering high-value added complementary services such as insurance, financial consulting, asset management, debt management, operational leasing, car fleet management
- project financing, especially public-private partnerships
- credit enhancement of municipal bonds and equity
- management of bond issues

Dexia's clients are:

- the local public sector, both local authorities and other public local actors such as public hospitals, inter-municipal institutions, social institutions, social housing institutions, etc.
- some semi-public or private clients, especially companies which are contractors for the public sector
- certain non-profits
- equity promoters (banks, credit institutions, etc.)

IADF: What are the development perspectives for the local financing sector?

MALF: International development is a major driver of the growth of our local government financing activities. Our international network for financial services to public entities already covers fifteen countries (Austria, Australia, Belgium, Czech Republic, France, Germany, Great Britain, Israel, Italy, Poland, Portugal, Slovakia, Spain, Sweden and United States). It will soon be expanded by new subsidiaries in Canada, Mexico, Central and Eastern Europe, and later probably Japan. Those new subsidiaries show Dexia's will to maintain its number position on the market.

IADF: Dexia has recently expanded its activities in Central and Eastern Europe. What are the perspectives for this region?

Dexia Crédit Local has established the necessary organization and tools to answer the specific needs created by the deep transition process experienced by Central and Eastern Europe. Early 2005 Dexia formed an alliance with its Austrian partner Kommunalkredit Austria to create Dexia Kommunalkredit Bank, which is our new financial arm for local sector financing in Central and Eastern Europe. Dexia Kommunalkredit Bank is meant to operate in all the countries in the region; it currently has three operating branches in Slovakia, Poland and the Czech Republic.

The region shows a high potential; the strong trend towards decentralization and the dynamism of the people are very promising.

SPOTLIGHT:

Australia- Queensland Treasury Corporation (QTC)

[http://www.qtc.qld.gov.au/internet/pub.nsf/content/LaunchPage_Public]

By: Sophie Guiny and Kristyn Oldendorf

Name	Queensland Treasury Corporation (QTC)
Location	Brisbane, Australia
Year founded	1988
Legal status	Corporation solely constituted by the Under Treasurer
Main sectors of lending	Government departments, local authorities, government-owned enterprises and other Queensland public sector bodies
Credit rating	AAA
Name of the CEO	Sir Leo Hielscher, Chairman of the Board
Staff	135

Background

Queensland Treasury Corporation (QTC) was established on 1 July 1988 under the Queensland Treasury Corporation Act 1988. It took over responsibility from the Queensland Government Development Authority as the State Government's central financing and liability management authority. QTC is a corporation constituted by the Under Treasurer in accordance with Section 7 of the Act.

Initially, QTC operated as a division of Queensland Treasury. However, following restructuring on 1 July 1991, QTC became a separate, autonomous, and accountable central financing authority. The restructuring also involved the establishment of the QTC Capital Markets Board with increased representation from independent board members. The Board is ultimately responsible to Parliament through the

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Under Treasurer. QTC's Board is composed of seven members, appointed by the Governor of Queensland on the recommendation of the Treasurer. Board members are appointed for their experience in finance. The Board has been chaired since 1988 by Sir Leo Hielscher.

QTC works as a treasury for Queensland's government departments, local authorities, government-owned enterprises, and other public sector bodies. QTC provides loans to its customers as well as advisory services. QTC offers advice on procurement and tendering, project evaluation, financial modeling, and cost of capital and full cost pricing. QTC provides financial risk management services to the public sector, and advice on public-private partnerships. As part of its advisory services, QTC provides tailor-made training programs to its customers

QTC is the public sector financing and financial risk management authority of Queensland, and it advances loans based on Treasury terms. QTC is also in charge of investing the State of Queensland's short to medium-term cash surpluses in a way that minimizes risk and maximizes returns for the Queensland's government. Also, it supports services for Public Private Partnership initiatives, assets procurement, and financial risk assessment of agency activities.

Participation in QTC activities is voluntary for local authorities, statutory bodies and government-owned enterprises and compulsory for government departments.

Financial structure

QTC borrows funds in the Australian and international capital markets through benchmark bond issues in Euros, US dollars and Australian dollars. In 2004, QTC issued \$745 million of new domestic bonds, and \$750 million of new international bonds.

QTC has an AAA rating because its securities are guaranteed by the State of Queensland. This rating, together with economies of scale due to the fact that QTC processes 99% of Queensland's public debt, results in a low cost of debt for the public sector in Queensland.

As of December 2004, QTC had funded cumulative total borrowings of nearly \$19 billion. In 2004, the corporation achieved a surplus of \$18.6 million, on the \$3.26 billion it raised in funding and refinancing. QTC also held \$3.74 billion of funds invested for its customers.

Terms of lending

For government agencies and statutory bodies

The borrowing approval phase comprises three stages:

- Substantive Approval: the agency or statutory body must demonstrate it has the ability to service the loan from its existing resources, or it needs to approval from the Cabinet Budget Review Committee for supplementation to service the loan
- State Borrowing Program Approval: all agencies loans must be approved in the annual State Borrowing Program (SBP), which operates on a specific project basis year to year. If the submission is not already approved under SBP, the Treasury will consider it a variation to the Program.
- Statutory Approval: the Treasurer of Queensland is required by law to approve all borrowings. Treasury requires details on the terms and conditions of the loan, and its purpose before giving its approval.

When considering an application, the Treasury refers to the Government's fiscal policy principles, the State Borrowing Program, and CBRC requirements.

Once Treasury has approved the loan, the government agency / department / statutory body signs a loan agreement with QTC, which then makes the funds available and calculates the debt service payments.

Department Loans

Departments of the government may borrow from the QTC for the state, with the approval of the Treasurer. The only source of loans for departments is the Government Debt Pool, a centralized debt portfolio, which aims for the lowest possible cost of funds. Departments benefit from borrowing through this pool because all of its funding is managed centrally, the loans are fixed rate, and there is a greater budget certainty for departments.

Commercialized business units (CBUs), on the other hand, are excluded from the Government Debt Pool, and must borrow through Generic Debt Pool loans or Fixed Rate Loans. A Generic Debt Pool creates groups with similar borrowing needs to more efficiently raise and manage debt, taking advantage of economies of scale. Their loans have very high flexibility and maintain some interest rate protection. In a Fixed Rate Loan, the interest rate and loan repayment structure are fixed at the beginning of the loan for the duration of the loan.

Before a department can establish a QTC loan, the Treasury and QTC must decide that the department is able to meet its obligations. The department must provide the Treasury with borrowing details, such as the proposed terms, conditions, and purposes for borrowing. After the Treasury reviews the request, it submits it to the Treasurer for approval. By June 30, the SBP is approved for the following financial year.

After the Treasury approves the loan, the department must liaise with QTC to arrange the draw-down. A member of the Departments and Agencies Team at QTC will issue a Letter of Offer to the department, which states the terms and conditions of the agreement.

Statutory Body Loans-

The process for Statutory bodies to borrow is somewhat different. Statutory bodies have access to Fixed Rate Loans and Generic Debt Pool Loans. A Statutory body must liaise with the administering department, and both the Treasury and the administering department must decide on the ability of the statutory body to meet its obligations, including an assessment of the body by the administering department with a written confirmation that the body is capable of repaying the loan.

Treasury approval is required, but currently, a Treasurer's general approval stands in place for statutory bodies borrowing through QTC, as long as the body provides the QTC with evidence that the body's administering department approved the borrowing, and the borrowing complies with the State Borrowing Program, where necessary. If the body does not qualify for general approval, it must seek statutory approval under section 61 A of the SBFA Act.

After acquiring Treasury approval, the body must arrange draw-down with QTC, which will issue a Letter of Offer with the terms and conditions of the loan.

Loan Aspects

Terms for draw-down are the same for government departments, CBUs, and statutory bodies. Before settling the draw-down, the agency must submit to QTC a confirmation of the Treasurer's approval, either with direct approval, or approval by the administering department in a general approval case. The agency must also submit a duplicated copy of the loan agreement and an executed direct debit authority, both in the Letter of Offer.

The QTC officer accountable for the loan, usually the Director General or Chief Executive, prepares the Letter of Offer, which is only needed before the first draw-down, rather than before each subsequent draw-down. The QTC needs a direct debit authority to ensure timely payment of the loans, and this authorization is included with the Letter of Offer.

Funds are available after the Loan Agreement is signed and returned to the QTC, and can be deposited electronically by the

QTC into the agency's bank account, which can then be withdrawn the next business day.

When the loan is made, the QTC calculates a debt service payment schedule, which is usually a quarterly payment, as well as the interest rate of the loan. The QTC sends statements regularly to the borrowing agency, showing debt service payments, transactions, and loan details. Late payments are subject to any costs the QTC may reasonably demand to account for costs incurred by the QTC as a result of the late payment, including interest charges incurred by the QTC and administrative costs relating to the late payment.

Onlendings

As of December, 2004, borrowers owed the QTC \$A 18,448,403 in total debt outstanding.

Bodies within the public account had a total of \$A 2,843,041 debt outstanding, and included:

- Department of Education and the Arts, which owed \$A 119,086
- Department of Emergency Services, which owed \$A 6,785
- Department of Main Roads, which owed \$A 948,015
- Department of Tourism, Fair Trading and Wine Industry Development, which owed \$A 350
- Queensland Fire and Rescue Authority, which owed \$A 7,497

Government Owned Corporations had a total of \$A 10,907,082 in debt outstanding, and included:

- CS Energy Ltd, which owed \$A 337,901
- Queensland Rail, which owed \$A 4,018,162
- Sun Water, which owed \$A 8,195
- Townsville Port Authority, which owed \$A 16,875

Other Services

The QTC assists Queensland's Public Private Partnership (PPP) by developing and assessing proposals for PPP's, both financially and commercially. A PPP is a partnership between the public and private sectors, in which both share the risk of providing public infrastructure and related non-core services. The Queensland Treasury's Strategic Asset Management branch and the Queensland Department of State Development's Infrastructure Partnerships Taskforce both work with the QTC to improve PPP proposals in their early stages. The QTC also deals with the financial risk issues of the PPP's by working directly with portfolio agencies.

The QTC has recently focused on developing training programs for its customers, which benefits both the QTC and its customers, as the customers can better meet the demands of their businesses and the QTC learns more about their customers' businesses and issues. In-house training programs for individual clients and tailored programs focus on specific topics pertinent to the customers. The QTC also has held two sessions in Financial Analysis and Risk Management for local government. QTC determines its course charges on a cost-recovery basis.

SPOTLIGHT:

Jordan Cities and Villages Development Bank (CVDB)

[<http://www.nis.gov.jo/cvdb/>]

By: Sophie Guiny

Location	Amman, Jordan
Year founded	1979
Legal Status	Agency depending from the Ministry of Municipal Affairs
Director general	Dr. Ibrahim Al-Nsour
Main sectors of lending	Municipalities
Staff	324

Background

The Cities and Villages Development Bank (CVDB) was established in 1979 to replace the Municipalities Credit Fund founded in 1955 to provide loans to municipalities. The CVDB also provides technical assistance and training to Jordanian municipalities.

Jordan remains a very centralized state. Municipalities have to send their budget to the Ministry of Municipal Affairs for approval, and still largely depend on tax transfers from the central government, although the situation has improved. In 2004, 51.33% of the revenues of the municipalities came from transfers from the central government, 40.58% from self-generated revenues and 8.09% from CVDB loans. Jordanian municipalities are often highly indebted. They also have difficulties to generate their own revenue because of poor tax collection management. As a result they cannot meet the needs of their rapidly growing population. Municipalities have a limited role in the provision of public services: most public services such as water or electricity are provided by the central government in Jordan.

The Jordanian government has launched a program to improve decentralization and strengthen municipalities' capacities. Several municipalities have been merged, reducing their total number from 327 to 99. Municipalities have also been restructured to improve their efficiency.

The CVDB plays an important role in this process. It provides low interest loans to municipalities to finance their infrastructure projects, and "productive loans" to develop new businesses which would generate revenue for the municipalities. However these loans have delivered rather disappointing results. The CVDB also helps the municipalities strengthen their capacities through technical and administrative assistance.

The CVDB is an independent entity of the Jordanian government. Its Board of Directors is chaired by the Minister of Municipal Affairs. Eight other members compose the Board. The Vice-Chairman is the Director of CVDB. Four Board members represent different ministries: the Ministry of Municipal Affairs, the Ministry of Planning, the Ministry of Public Works and Housing and the Ministry of Finance. The Central Bank of Jordan also has a representative. Municipalities have two representatives, which rotate every two years. The total staff of CVDB is 324 employees.

Financial structure

CVDB has a total capital of JOD 79 million (\$111 million). CVDB's funds are self-generated, coming from loan repayments and interests. In the past CVDB used to receive funds from the Jordanian Central Bank, but it is no longer the case. World Bank and EBRD loans that helped start the CVDB have also been

repaid. CVDB does not issue bonds to cover its lending to municipalities. Its main source of funding is the central government

Since its creation in 1979 CVDB has lent a total of JOD 201 million (\$283.7 million) from which JOD 173.4 million (\$244.7 million) were given to infrastructure and services projects, and JOD 27.6 million (\$38.9) to productive projects.

Terms of lending

CVDB grants loan to municipalities based on their need. The Bank sends a technical team to the municipality requesting the loan to assess the project. CVDB also takes into account the financial situation of the municipality to determine whether it can afford a loan. CVDB's loans are mostly used to finance infrastructure projects such as roads and sidewalks, public parks, sport centers, electricity and lightning, civil works equipment, solid waste equipment, land acquisition, cemeteries, municipality buildings, libraries, etc. Municipalities can also apply for productive loans to develop local business facilities such as commercial markets, slaughterhouses and cold stores, industrial and handicraft areas, office buildings or parking lots.

CVDB loans have a duration of twelve years, with a two years grace period. The interest rate is 5% for infrastructure projects and 6% for productive projects.

The bank also follows up on the implementation of the project.

The Community Led Infrastructure Financing Facility (CLIFF)

www.homeless-international.org

By the staff of Homeless International

The Challenge

Poverty is becoming increasingly 'urbanised' – between 2000 and 2030, the urban areas of the less developed regions will absorb 95 per cent of the world's population growth¹. At least 900 million people live in slums², and the UN estimates that as many as 55% of the world's poor currently live in urban areas³. Effective urban development strategies can contribute to reducing the global incidence of poverty and to achieving the Millennium Development Goals – indeed the UN Millennium Project Report⁴ specifically identifies "funding to finance community-based slum upgrading" as a 'Quick-win' solution. Yet current strategies tend to rely on traditional arrangements in which municipalities are expected to finance slum development projects designed and delivered by conventional private contractors. Poor communities have limited say or involvement in slum 'solutions', and mobilisation of local financial resources is often limited. But community involvement is vital if slum development is to be locally appropriate, effective and sustainable, in addition to the human rights argument for doing so.

Background

The Indian Alliance of SPARC (an Indian NGO), Nirman (a not-for-profit company which acts as the financial and construction arm of SPARC) and two community-based networks (Mahila Milan and the National Slum Dwellers Federation) is a leading example of how communities have organised themselves and

¹ UN-Habitat (2003), *Slums of the World: the face of urban poverty in the new millennium?*, Nairobi: UN-Habitat.

² UN Millennium Project (2005), *Investing in Development: A practical plan to achieve the millennium development goals*, [The Sachs Report], New York: UNDP

³ Tibaijuka, Anna (2002), *Opening statement at workshop on urban policy implications of enhancing food security in African cities*, Nairobi, Kenya, May 2002.

⁴ UN Millennium Project (op.cit), p66

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developed capacity in tackling the complex issues of housing and infrastructure in slums. The Indian Alliance has been working together for 20 years. The membership of NSDF and Mahila Milan is more than 750,000 households nationwide, spanning more than eight states, and continues to grow.

Over the last 20 years, the Alliance's capacity, activity, impact and credibility has also grown. By the late 1990s, the Alliance had developed a portfolio of housing and infrastructure projects that would either set, test or challenge existing slum development policies and practice. The Alliance had to overcome numerous obstacles to reach this stage, but access to finance to complete these large-scale projects emerged as a major blockage. SPARC and Nirman had built up their own 'bridge finance' fund for lending to projects, but this had become insufficient given both the growing number and size of projects. Banks were often initially positive about the prospect of lending for such projects, but proved unreliable when in terms of delivery. Without sufficient finance the Alliance's projects shared its limited bridge funds, prolonging construction and hampering further development of the Alliance in terms of capacity, activity, impact and credibility.

Homeless International, with the support of DFID, carried out a 4-year research project entitled 'Bridging the finance gap in housing and infrastructure' that examined the prospects for community-led developments in a variety of countries in Africa, Asia and Latin America. Homeless International and its international partners used the research to examine regulatory frameworks for slum upgrading, and analysed examples of community-led housing and infrastructure projects. This research led to the development of CLIFF.

What CLIFF does

The Community Led Infrastructure Finance Facility (CLIFF) is distinctly different from municipal Development Fund mechanisms. It provides venture capital and other financial products directly to organisations of the urban poor, rather than to government, to support community-led slum upgrading schemes conceived in partnership with city authorities. CLIFF can only therefore work where poor communities have built the capacity to manage slum-upgrading initiatives. CLIFF uses finance as a tool to bring poor communities (and the organisations which support them) into the heart of urban development planning and action by:

- o Allowing communities to demonstrate strategies, processes and initiatives in practice that will either set, test or challenge existing slum development policies.
- o Acting as a forum for engagement between the poor and other stakeholders.
- o Helping communities consider city-wide development issues through prioritising flagship projects.
- o Supporting organisations of the urban poor in taking, managing and mitigating risks to achieve slum improvements at scale.



CLIFF provided loan finance to this housing project in Dharavi, whilst negotiations with banks and government authorities took place. Later, the National Housing Bank provided a loan, which freed up most of the CLIFF loan finance approved for the project.

CLIFF financial products

Meeting the challenge of slums, particularly in large cities, generally requires collective housing and infrastructure solutions, as opposed to separate individual/household solutions.

Consequently, CLIFF has been designed as a venture capital facility not a microcredit institution: it supports community-led slum development projects rather than providing credit to individual households. CLIFF offers the following forms of financial support:

- o Technical assistance grants – so that professional help can be bought in to help communities to “package” projects in a way that banks and state authorities can deal with.
- o Loan financing to projects – to start community-led initiatives while negotiations with formal finance institutions and public officials for local financial resources continue. Providing schemes break-even, CLIFF finance is repaid to Nirman from revenues and then recycled to pre-finance further projects.
- o Knowledge grants – for exchanges, visits and workshops so that as many people as possible are able to learn from the projects as they are developed and implemented.
- o Grants for core operational and administration costs – for the agencies managing CLIFF.
- o Guarantees – Homeless International’s Guarantee Fund can also be used to compliment CLIFF capital, by providing financial guarantees to underwrite some of the risk taken by banks when lending to projects.

Loan financing will be recycled as projects are completed and revenues received, thereby establishing Nirman as a sustainable, long-term financing facility in India. A similar facility is being established in Kenya.

Sources of funding

The facility is financed through Cities Alliance with funds from DFID (approximately £6.8 million) and Sida (approximately £1.5 million). Homeless International also has made £0.6 million available in its Guarantee Fund. CLIFF began implementation in 2002, and was designed as a pilot with an initial timeframe of 6 years.

How CLIFF operates

Mahila Milan and the National Slum Dwellers Federation (NSDF) generate numerous project opportunities through their ongoing negotiations with city authorities across India. They then work with Nirman and SPARC to analyse projects’ viability and cash flow options after which larger-scale projects are then considered for CLIFF support. To obtain CLIFF financing, projects must meet the following criteria:

- o Have the potential to be implemented as a flagship that will provide a precedent for future scaling up, replicability and pro-poor policy change.
- o Build on established local organisation by communities of the urban poor and their existing relationships with local authority and municipal officials, and have the potential to strengthen such city-community relationships.
- o Actively include and benefit the poorest and most marginalised members of the community in the area where the project is to be implemented.
- o Be properly costed; be financially viable; and offer options for negotiating loan finance from commercial banking institutions and municipal/state subsidies where necessary.
- o Include an analysis of the major project risks, identifying what form these risks will take, who will bear the burden of these risks, and how CLIFF will assist in the management and mitigation of these risks.
- o Incorporate a management strategy that identifies how project responsibilities will be allocated and undertaken.
- o Include long term planning for sustainability and maintenance of the assets developed as a result of the investment.
- o Incorporate a learning and knowledge-sharing agenda to ensure that other communities and actors in urban development can benefit from the experience.

Homeless International manages the global CLIFF facility. In practice this includes: supporting local partners with the implementation of CLIFF where relevant (e.g. provision of financial guarantees to banks, assistance with the development of certain aspects of organisational development and management, such as policies, systems and procedures); monitoring; documentation and dissemination of experiences; liaising with other governing bodies within CLIFF; and research into demand and supply (i.e. country contexts and sources of funding support). However, as local CLIFF facilities become established and local organisations take on a greater number of activities, Homeless International role will continue to evolve. Cities Alliance administers CLIFF on behalf of the donors, and the CLIFF Advisory Group, which is made up of CLIFF’s implementing agencies, donors and other stakeholders, meets twice a year to discuss and decide strategic issues.



The Milan Nagar scheme in Mumbai received CLIFF support because it was the first community-led development to test how Mumbai’s slum upgrading policies could provide affordable housing solutions for pavement dwellers. More than 20,000 families live on the pavements in

Achievements so far

By December 2004, CLIFF had supported 9 community-led housing projects benefiting more than 2,700 families, two sanitation programmes benefiting over 215,000 families and several other projects were under appraisal. More than £4 million had been obtained from contracted government payments, government subsidies, residential/commercial unit sales, sales of Transferable Development Rights⁵, grants and community contributions. An additional £8 million of leverage was projected from the existing portfolio of CLIFF projects in India. CLIFF has been successful in helping leverage and blend financial and other resources from a whole range of actors including municipalities and the private sector (e.g. banks and land owners) to catalyse scaling-up and replication of community-led slum upgrading schemes. Figure 1 shows the make up of the projected £11.9 million of income, which will be leveraged by £4.2 million CLIFF loan financing.

Land is one of the most valuable, and therefore hotly contested, assets in cities – particularly in commercially vibrant cities like Mumbai and Bangalore. The success of the Alliance, supported by CLIFF, in securing land and tenure for the urban poor is impressive. By December 2004, the Alliance had secured more than 100,000m² of land for housing developments and sites for 231 toilet blocks in four cities through CLIFF-supported projects.

Many project revenues can only be realised after certain construction phases have been completed and approved, or until projects are complete. For scaling-up and replication to occur, sources of finance other than locally owned funds and CLIFF are required. Banks in India, although generally positive about the business opportunities of lending for slum upgrading schemes, have few precedents with which to compare assumptions about timings and volumes of revenue streams in politically and physically complex slum upgrading schemes. CLIFF been important in helping to draw in bank financing, through:

⁵ For an explanation of the Slum Rehabilitation Act, policies and the systems relating to the sale of Transferable Development Rights (TDR) see report by Sundar Burra (2003) downloadable from <http://www.sparcindia.org/documents/Changing%20the%20Rules%20Regulatory%20Guidelines%20and%20the%20Urban%20Poor.htm>

- o Providing up-front loan financing to test cashflow/viability assumptions in practice.
- o Providing loan financing to share the financial risks for a particular scheme.
- o Exposing bankers and associated professionals to successful community-led projects – experience has shown that bankers require an illusive ‘comfort factor’ that is not simply related to a project’s financial picture.
- o Deepening capacity within the Indian Alliance to ‘package’ complex community-managed projects in a manner that makes sense to formal institutions.
- o Providing guarantees that underwrite loan financing to community-led projects.

So far, Homeless International and the Indian Alliance have convinced Citibank and National Housing Bank to provide loan financing for housing schemes totalling up to almost £1 million, using Homeless International’s Guarantee Fund. The Alliance has also persuaded UTI bank to provide £0.75 million as loan finance and performance bond, using a local guarantee provided by Nirman, to enable the Alliance to secure a municipal contract for a large-scale sanitation programme in Mumbai. The Alliance is currently in negotiations with several banks regarding both the provision of finance for new projects, and mainstreaming lending for slum development projects within the Indian banking sector.

Finally, the Alliance has negotiated pre-finance from commercial construction contractors involved in some CLIFF-supported schemes, amounting to around 30% of total project costs. This pre-financing reduces both the amount and duration of financing needed, thereby reducing the costs of finance and improving the financial viability of schemes.

In Kenya, CLIFF will support Muungano Wa Wanavijiji (a network of community-based savings groups), the Pamoja Trust (a Kenyan NGO) and the Akiba Mashinani Trust (AMT – set up by Pamoja Trust and Muungano to manage loan finance). Here CLIFF is being developed and tested through supporting three smaller-scale projects (one housing, one land-banking and one sanitation). £60,000 of CLIFF loan financing is projected to leverage £100,000 in revenues (solely community contributions) from these projects. In contrast to India, all revenues are from community contributions because of the different political and economic context, and the relatively early stage of development of the Kenyan Alliance. Muungano, Pamoja Trust and AMT are developing further projects, and exploring options for diversified revenue streams and the involvement of banks. Additional donor funds will be required if the test phase proves successful.

Community capacity is vital

CLIFF is innovative in that it responds to local demand and capacity. It does not seek to implement slum development projects conceived by professionals, rather to catalyse support for large-scale solutions developed by poor communities and the organisations with whom they work. Poor communities and their networks must have the capacity to manage money, usually built up through experiences of community-based savings and credit schemes. A Finance Facility to support community-led development cannot be introduced in a context where no such community capacity exists. In contexts where communities’ technical and financial management capacities are weaker, a CLIFF-like programme would need to include a significant grant component and a longer timeframe to both build capacities and gradually scale up loan financing.

The experiences of planning and developing CLIFF offer some lessons for developing Finance Facility mechanisms in other contexts:

- o Community involvement is vital if slum development is to be locally appropriate, effective and sustainable.
- o Poor communities cannot easily access venture capital for large-scale projects, so Finance Facility mechanisms which provide loan finance directly to them are required if communities’ solutions are to be demonstrated, scaled-up and replicated.
- o Community capacity building must take place alongside the development of such Loan Finance mechanisms.

More information?

- www.homeless-international.org/cliff - for a longer version of this article and more photographs
- www.homeless-international.org - for more information about CLIFF and Homeless International, including the most recent *CLIFF Annual Report* and *CLIFF Monitoring Report*, copies of papers produced following Homeless International’s *Bridging the finance gap research* and *Feasibility studies for the application of Community-Led Infrastructure Finance Facility (CLIFF) operations in Ghana, Ethiopia, Zambia and Uganda*
- www.sparcindia.org and www.nirman.org - for more information about the Alliance of Nirman, SPARC, NSDF and Mahila Milan in India
- www.sdinet.org - for more information about Slum/Shack Dwellers International (SDI) I, the international network of community-based organisations in which the Indian Alliance is actively involved.

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