UN-HABITAT EVALUATION **BRIEF**

End-of-Programme Evaluation of the Slum Upgrading Facility (SUF) Pilot Programme

Evaluation Report 4/2011

1. INTRODUCTION AND BACKGROUND

The Slum Upgrading Facility (SUF) was established in 2004 by UN-Habitat, with the purpose of developing innovative approaches to help mobilize financing for the urban poor. This was in accordance with UN-Habitat resolution 19/11 of 2003, which requested UN-Habitat to field test approaches through pilot projects to increase the supply of affordable credit for slum upgrading and other pro-poor human settlements development. After a two year design phase, a three year SUF pilot phase was launched in 2006. The pilot was experimental project aimed at facilitating easier access to domestic capital markets in developing countries to improve the living and working conditions of the urban poor.

The main functions of SUF included:

- Advisory services in relation to financing aspects of slum upgrading and housing;
- Acting as a referral agent in helping connect its partners with local, regional and international institutions in order to attract technical expertise, build international networks and build the capacity of the local partner institutions;
- Helping local partners in respect of the financial packaging and structuring of their projects in order to attract capital investment;
- Developing financial products most practical for the purpose of slum upgrading and reflective of the conditions of local capital markets (including but not limited to credit guarantees).

The SUF Pilot Programme was funded by the Department for International Development (DFID) of the United Kingdom (through Cities Alliance), the Swedish International Development Cooperation Agency (Sida), which provided USD 0.9 million each, for the design phase. For the pilot, UN-Habitat mobilized some USD 18.75 million from donors with 51per cent from DFID, 23 per cent from Sida, and 26 per cent from the Government of Norway.

The evaluation was requested by donors of the SUF Pilot Programme to assess the achievements, experiences and lessons learned. The evaluation was also in line with Governing Council resolution 20/11, which indicated that an independent evaluation of the SUF Pilot Phase would help inform how to proceed with the programme. 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 the pilot countries (Ghana, Indonesia, Sri Lanka and Tanzania) were met. The assessment was based on evaluation criteria of: relevance, effectiveness, efficiency, sustainability and impact of the intended beneficiaries. The evaluation was conducted between March and July 2011 by two independent consultants, Mr. Per Ljung and Mr. Carlos Gavino.

2. EVALUATION PROCESS AND METHODOLOGY

Different methods of data collection were used, and included a review of the documentation produced during the project design and pilot phase, interviews with 80 SUF stakeholders, visits to all four SUF pilot countries, and discussions with stakeholders of the six Local Finance Facilities. However, no socio-scientific surveys were undertaken and thus it was difficult to assess the impact of the Pilot Programme.

Simple surveys were administered by the evaluation team to assess the ability of the local finance facility sub-projects to repay loans which also allowed the evaluation team to assess the extent to which the SUP programme had benefited the urban poor. Since the Local Finance Facilities have been in existence for a relatively short period of time it was difficult for the evaluation to assess their performance in the medium and long terms.

3. MAIN FINDINGS

Implementation Arrangements

The main implementation part of SUF programme was contracted out to the emerging Markets Group, rather than being implemented in-house. The SUF Project Manager was supported by a small Programme Management Unit. The operations of SUF were guided by the Consultative Board that met twice a year. The consultative board's main role was to advise UN-Habitat on aspects of the programme monitoring, progress, reviewing work papers, etc.

The Local Finance Facilities

During the pilot phase, six local finance facilities were established and endorsed by SUF consultative board. Two of them had a national wide mandates: (i) Lanka Financial Services for underserved settlements in Sri Lanka, and (ii) Tanzania Financial Services for the underserved settlements in Tanzania. The other four facilities, in Ghana and Indonesia, two in each country, served single city/ metropolitan areas.

Relevance

- The SUF Pilot Programme was a relevant initiative, setting out to facilitate the mobilisation of commercial capital for slum upgrading and housing for the urban poor—a focus area which has been largely ignored by traditional donor programmes.

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TABLE 1.0: The 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

- The programme tested different approaches such as urban poor funding and other fund mechanisms. The Local Finance Facilities have demonstrated that they can support small scale neighbourhood infrastructure projects and housing improvements.

Effectiveness

- Six Local Finance Facilities were established in Ghana, Indonesia, Sri Lanka and Tanzania, which served as the key instrument in mobilizing local financing from commercial banks for slum upgrading projects, in particular through credit enhancements in the form of credit guarantees for the local implementing partners such as NGOs, microfinance institutions and co-operatives.
- The SUF pilot programme demonstrated that it is possible to mobilize commercial banks funding for improvement of housing and small scale infrastructure, a market that the commercial bank sector traditionally has resisted because of its inherent risks. As of May 2011, the Local Finance Facilities had helped mobilize some USD 440,000 from seven different commercial banks in four countries.
- Due to its broader objectives SUF was only moderately successful in achieving the expected outcomes from the Pilot Phase. The challenges were in up-scaling, inclusion of infra-structure components in projects and mobilization of financing for infrastructure development from local financial markets. The facilities do not have the requisite expertise or financial resources to mobilise capital. Instead, institutions such as municipal development banks, municipal guarantee facilities and international finance institutions should be supported in catalysing funding for larger infrastructure projects.

Efficiency

- The SUF Pilot Programme was a highly experimental undertaking and characterised by a ‘learning by doing’ approach. It started out with a project focus but shifted its emphasis gradually to the establishment and nurturing of new financial institutions.
- At the organisational level, UN-Habitat lacked the policies and procedures to support a programme of this nature and lacked sufficient staff with the requisite skills, in particular staff with a practical finance background.
- The operations of the SUF Programme were guided by a consultative board chaired by the Executive Director of UN-Habitat that comprised donor representatives, the Cities Alliance, developing country recipients, the United Cities and Local Governments, the international NGO community and the International Finance Corporation. The board was too large and represented too many different interests, which prevented it from becoming an efficient decision making and oversight body.
- The SUF pilot programme reconfirmed that in-situ upgrading is preferable to relocation and new constructions, especially if these involve building of apartments.
- The input of the Local Finance Facilities allowed associated micro-lending institutions to access long term debt funding, which in turn allowed them to engage in low-cost housing finance. Local Finance Facility credit enhancements have in all cases, but one, taken the form of partial credit guarantees. The guarantees have covered 50-100 per cent of the outstanding loans.

Sustainability

- The main sustainability focus of the pilot programme was financial capacity building of the Local Finance Facilities. During the pilot phase the facilities were able to develop sound risk mitigation strategies for home improvement loans. Nonetheless, facilities will require continued technical assistance over a period of several years in order to fine tune their policies and procedures and ensure their staff is well trained.

Impact

- The Pilot Programme had a direct impact on 340-350 predominantly poor urban households or a total of around 1,600 individuals. Its indirect impact was far greater but no exact quantification was available at the time of the evaluation. For the direct beneficiaries, mainly slum dwellers, this was the first time they were able to access commercial credit for home improvement and development.
- There are indications that the SUF Pilot Programme began to have an impact on government policy. In Indonesia, the recent National Law on Housing, the decentralization of housing to the local governments fully embraces the SUF model and has made provisions for the establishment of a national (or local) finance facility.

4. LESSONS LEARNED

- Given the diversity of slums and local and national settings, a 'cookie-cutter' approach to slum upgrading does not work. Instead adaptation to local conditions is required combined with rigorous affordability assessments in each case—and such experimental pilot programmes must work hand in hand with local and central government and be part of the national housing policy to be ultimately successful. Sustainable success comes from applying traditional affordability assessments and financial structuring tools.
- Building new institutions takes time and stakeholders' expectations have to be managed accordingly. 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.
- Sustainability guarantee and similar financial operations require proper sharing of risks to avoid moral hazard problems.
- Cross-subsidies from the sale or lease of shops and "high end" apartments rarely produce enough revenue to provide affordable housing for the urban poor.
- Major new initiatives need to be preceded by careful analysis of UN-Habitat's policies and procedures which may hamper the programme's implementation. This holds particularly true with regard to established rules, regulations and procedures in the areas of finance, contracting and procurement.
- These may need to acquire flexibility if they are to provide support to innovative pilot schemes like the SUF, especially with regard to financial operations.

5. KEY RECOMMENDATIONS

- The Local Finance Facility is an important innovation that has the potential to positively impact the lives of the urban poor in the developing world. The SUF programme should be scaled up and new facilities established. However, UN-Habitat lacks the organisational infrastructure, human and financial resources to implement a SUF programme at scale.
- In finding SUF a new 'home' UN-Habitat should work together with the International Finance Corporation, the World Bank, the Cities Alliance as well as other regional finance institutions, NGOs, foundations and donors. SUF requires the support of an organisation that has a track record in market-based financial transactions which in turn could draw on UN-Habitat's expertise.
- Any successor programme to SUF should be preceded by a rigorous analysis of the experiences of SUF and other similar programmes involved in slum upgrading as well as lessons that can be drawn from the evolution of the micro-finance industry over the past 20 years.
- UN-Habitat and donors should continue to provide technical assistance and financial support to the six Local Finance Facilities until they are successfully integrated into a successor programme.
- The Local Finance Facilities, which have performed well, should continue building their financial expertise and should pursue additional funding from municipalities, governments, the private sector and other social investors, but should avoid becoming government facilities. They should adopt sound institutional practices by separating their advisory/financial packaging work and the approval of credit enhancements in order to ensure sound credit risk analysis.