

# The Community Led Infrastructure Financing Facility (CLIFF)

## 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 growth<sup>1</sup>. At least 900 million people live in slums<sup>2</sup>, and the UN estimates that as many as 55% of the world's poor currently live in urban areas<sup>3</sup>. Effective urban development strategies can contribute to reducing the global incidence of poverty and to achieving the Millennium Development Goals – indeed Jeffrey Sachs' recent report *Investing in development – a practical plan to achieve the Millennium Development Goals*<sup>4</sup> 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 developed capacity in tackling the complex issues of housing and infrastructure in slums. There are other community-based organisations across the world that have formed along similar lines, such as those that make up the Slum/Shack Dwellers International (SDI) network, in which the Indian Alliance is also actively involved. The Indian Alliance has been working together for around 20 years, although NSDF was established almost 30 years ago. The membership of NSDF and Mahila Milan has grown to well over 750,000 households nationwide, spanning several states in India, and continues to grow.

Over the 20 years that the Alliance has been working together, their capacity, activity, impact and credibility has also grown. Towards the end of the 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 has 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

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

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

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

<sup>4</sup> UN Millennium Project (op.cit), p66

lending to projects, but this had become insufficient given both the growing number and size of projects. Banks were often positive about the prospect of lending for such projects in the initial stages of engagement, but proved unreliable when it came to delivery. Without sufficient finance the Alliance had to drip-feed the projects in their portfolio with finance from their own bridge funds, which prolonged implementation and hampered the further development of the Alliance in terms of capacity, activity, impact and credibility.

Homeless International acted upon this and, with the support of DFID, carried out a 4-year research project entitled 'Bridging the finance gap in housing and infrastructure' that essentially examined how easy or difficult it was for communities to carry out their own habitat developments in a number of countries in Africa, Asia and Latin America. Homeless International and international partners used the research to examine regulatory frameworks which affected slum upgrading, and analysed examples where communities had achieved this. This research is what 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) right 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.



Slum areas like Dharavi (reputedly India's largest slum) are characterised by high density, poor housing and inadequate infrastructure

Homeless International manages the global facility, which is currently operational with the Alliance in India and with a similar Alliance in Kenya.

### 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 rather than a microcredit institution – in other words it supports flagship community-led slum development projects rather than providing credit to individual households. CLIFF therefore 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 kick start community-led flagship initiatives while further negotiations with formal finance institutions and public officials to unlock local financial resources take place. Providing schemes at least break-even, CLIFF finance gets fully repaid to Nirman from income streams, which can then be 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, 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 also envisaged in Kenya.



CLIFF loan finance was provided to this housing project in Dharavi, Mumbai, whilst negotiations with banks and government authorities took place. Later, the National Housing Bank provided loan finance which took over the majority of the CLIFF loan finance that had been approved for the project, freeing up CLIFF loan finance for helping kick-start other new schemes

### 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 has also generated £0.6 million to date 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. Mahila Milan and NSDF work with Nirman and SPARC to analyse projects' viability and cashflow options. Larger-scale projects are then considered for CLIFF support, based on certain criteria. To obtain CLIFF financing, projects must:

- Have the potential to be implemented as a flagship that will provide a precedent for future scaling up, replicability and pro-poor policy change.
- 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.
- Actively include and benefit the poorest and most marginalised members of the community in the area where the project is to be implemented.
- Be properly costed; be financially viable; and offer options for negotiating loan finance from commercial banking institutions and municipal/state subsidies where necessary.
- 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.
- Incorporate a management strategy that identifies how project responsibilities will be allocated and undertaken.
- Include long term planning for sustainability and maintenance of the assets developed as a result of the investment.
- Incorporate a learning and knowledge-sharing agenda to ensure that other communities and actors in urban development can benefit from the experience.



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 in practice. There are estimated to be over 20,000 families living on the pavements in Mumbai

Homeless International manages the global CLIFF facility. In practice this includes activities such as 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's roles and functions will continue to evolve. Cities Alliance administers CLIFF on behalf of the donors, and the CLIFF Advisory Group, which is made up of the implementing agencies of CLIFF and other stakeholders, meets twice a year to discuss and decide strategic issues relating to CLIFF.

#### Achievements so far

CLIFF had, by December 2004, supported 9 community-led housing projects benefiting more than 2,700 families and a further two sanitation programmes benefiting over 215,000 families. Several other projects are under appraisal for CLIFF support, whilst Mahila Milan and the National Slum Dwellers Federation continue to conceive and develop numerous new projects which may demand CLIFF financing in future.

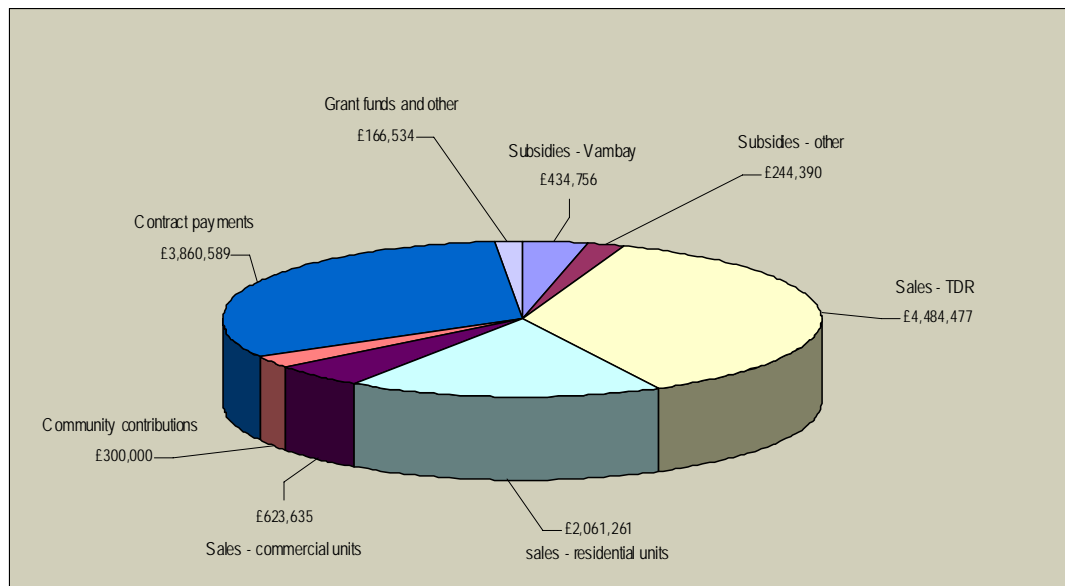
CLIFF has been successful in helping leverage and blend financial and other resources from a whole range of actors including municipalities and the private sector (e.g. banks and land owners) to catalyse scaling-up and replication of community-led slum upgrading schemes.

By December 2004, more than £4 million had been obtained from contracted government payments, government subsidies, residential/commercial unit sales, sales of Transferable Development Rights<sup>5</sup>, grants and community contributions. Around a further £8 million is projected by the time the current portfolio of CLIFF projects is completed. The projects supported by CLIFF loan financing (totalling £4.2 million) are therefore projected to leverage a current total of £11.9 million in revenue streams – see figures 1 and 2.

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<sup>5</sup> For an explanation of the Slum Rehabilitation Act, associated 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>

Figure 1: Anticipated income leveraged by CLIFF-supported projects



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 in this light. By December 2004, the Alliance had secured more than 100,000m<sup>2</sup> of land for housing developments and sites for 231 toilet blocks through projects supported by CLIFF in four cities across India.



The Sunnuduguddu scheme enabled the Indian Alliance to take up an offer of land made for the first time by city authorities in Bangalore. The Alliance began the scheme with loan finance from SPARC, but construction was slow due to a shortage of loan finance. CLIFF loan financing enabled the pace of construction to increase to a more natural level

Many project revenues cannot be realised until projects are completed, or are only receivable after certain construction phases have been completed and approved. For scaling-up and replication to occur, sources of

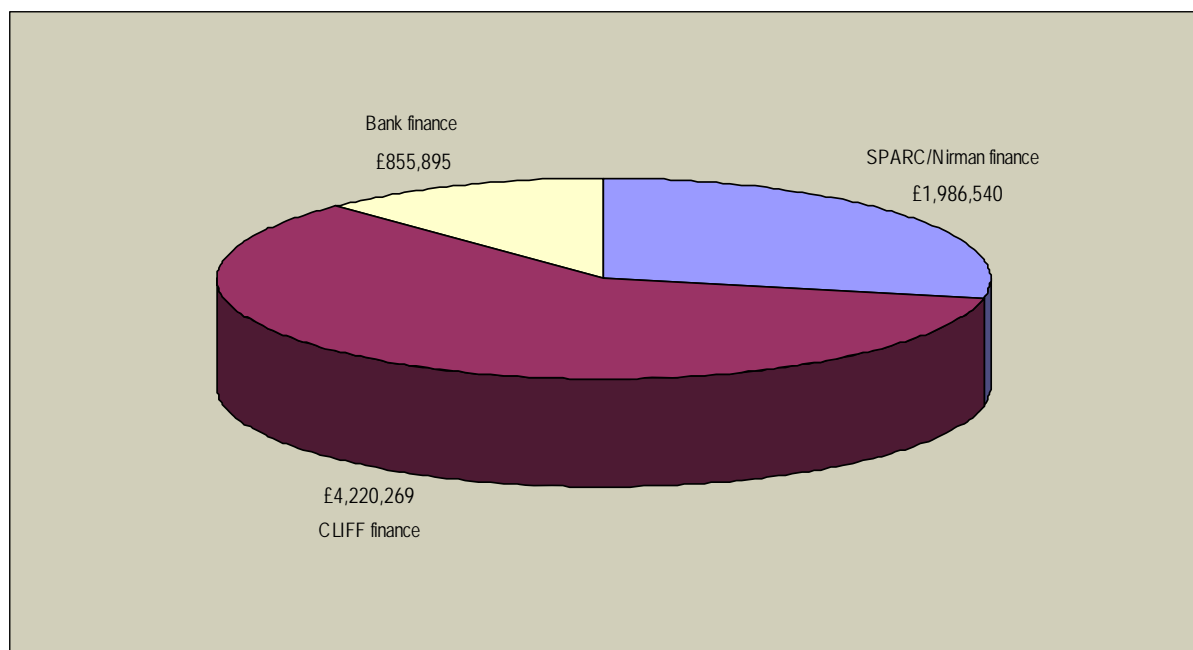
finance other than locally owned funds and CLIFF are required. Banks in India, although generally positive about the business opportunities of lending for slum upgrading schemes, have few precedents with which to compare assumptions about timings and volumes of revenue streams in politically and physically complex slum upgrading schemes. CLIFF has played several important roles in helping to draw in bank financing, by:

- o Providing up-front loan financing to test cashflow/viability assumptions in practice
- o Provide up-front loan financing to share the financial risks for a particular scheme.
- o Exposing bankers and associated professionals to communities' experiences and capacities in successfully developing and implementing projects – experience has shown that bankers require an illusive 'comfort factor' that is not always related purely to the financial picture for projects.
- o Deepening capacity within the Indian Alliance to 'package' or articulate complex community-managed projects in a manner that formal institutions can deal with.
- o Providing guarantees which underwrite loan financing to community-led projects.

So far, Homeless International and the Indian Alliance have convinced two banks (Citibank and National Housing Bank) to provide loan financing for housing schemes totalling up to almost £1 million (projected requirement approx. £0.85m), using Homeless International's Guarantee Fund – see figure 2. The Alliance has also persuaded a third bank (UTI) to provide £0.75 million as loan finance and performance bond, using a local guarantee provided by Nirman, which enabled the Alliance to secure a municipal contract for a large-scale sanitation programme in Mumbai. The Alliance is currently in negotiations with several banks with respect to both the provision of finance for new projects, and the mainstreaming of lending for slum development projects within banks and the banking sector in India.

Finally, the Alliance has started to negotiate pre-finance from commercial construction contractors involved in CLIFF-supported schemes, which have constituted around 30% of total project costs. This reduces both the amount of financing that is required and duration that finance is required for, thereby reducing the costs of finance and improving the viability of the schemes developed by the Alliance.

Figure 2 - Anticipated financing leveraged by CLIFF-supported projects



A second CLIFF is beginning in Kenya, to support *Muongano Wa Wanafijiji* (a network of community-based savings groups), the Pamoja Trust (a Kenyan NGO) and the Akiba Mashinani Trust (AMT – the financial arm of the Pamoja Trust). CLIFF in Kenya is currently in a development and testing phase, supporting three smaller-scale projects (one housing, one land-banking and one sanitation). CLIFF loan financing of £60,000 are projected to leverage £100,000 in revenues from these projects, all from community contributions. The reasons why all revenues are in the form of community contributions as compared to in India with the Alliance, are because of the differences in political and economic context, and the relatively early stage the Kenyan Alliance is at in terms of its development – e.g. negotiating for subsidies or special permission to construct for-sale units to cross-subsidise construction costs of units for families from the government. *Muongano*, Pamoja Trust and AMT are developing further projects, and exploring options for diversified revenue streams and the involvement of banks. Further donor funds will be required if the test phase proves successful and loan financing for scaling-up is required.

Homeless International also carried out Feasibility studies for the application of Community-Led Infrastructure Finance Facility (CLIFF) operations in Ghana, Ethiopia, Zambia and Uganda for UN-Habitat's Urban Management Programme (UMP). These studies outlined opportunities and possible next steps in supporting community-led slum upgrading in those countries.



### Community capacity is vital

CLIFF is particularly innovative in that it responds to local demand and local capacity. It does not seek to plan, manage and 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. On the financial side, 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 therefore be parachuted into a context where no such capacity exists within networks of poor communities. In contexts where communities' technical and financial management capacities are weaker, a CLIFF-like programme would need to include a significant grant component and longer timeframe to build up such capacities, and scale up loan financing gradually.

Experiences in planning and developing CLIFF so far 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 flagship projects, so Finance Facility mechanisms which provide loan finance directly to them, like CLIFF, 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, which also promotes replication and learning.



Prince Charles meets members of Mahila Milan and the National Slum Dwellers Federation to learn how they plan, implement and manage complex slum upgrading projects

More information?

Visit:

- [www.homeless-international.org](http://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](http://www.sparcindia.org) and [www.nirman.org](http://www.nirman.org) - for more information about the Alliance of Nirman, SPARC, NSDF and Mahila Milan in India
- [www.sdinet.org](http://www.sdinet.org) - for more information about SDI