

How International Cooperation can make a change:

The Swedish Response to Urban Poverty¹

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1. Introduction

Based on its newly adopted policy “Perspectives on Poverty” (2002), and in line with its longstanding experience of supporting urban slum upgrading and low-income housing in Latin America, Africa and Asia, the Swedish International Development Cooperation Agency (Sida) has been intensively developing an international urban agenda.

The point of departure is the acknowledgment that poverty is multi-dimensional and includes the full spectrum of vulnerability, ranging from lack of influence, power, employment and resources to the absence of rights, security, choice and dignity. This is true to both the rural and the urban poor. It is also understood that the urbanisation process and the growth of urban centres have the potential to contribute to a country’s economic development thereby also influencing the prosperity of the countryside, while at the same time generate conditions for new social relations that can promote empowerment of the poor and strengthen democracy

Sida aims to strengthen capacities for partner countries to exercise ownership, i.e., own the efforts and have the resources, capacity and opportunity to pursue its developmental objectives of reducing poverty. Yet, the task rests not only with partner countries and the development cooperation funds and agencies; it also requires consistent, harmonized and coherent pro-poor policies at the international level. Thus, Sida’s role as a bilateral agency also consists in helping to create optimal international conditions that seeks that the reduction of urban poverty becomes a constitutive part of poverty reduction strategies and other partner countries development plans.

The present paper points out some of the main lines of action that Sida has been reinforcing in recent years to facilitate addressing the challenges of the Millennium Development Goals especially the ones related to

¹ This paper is dedicated to the memory of Hartmut Schmetzer, a Sida colleague who during the last 35 years was involved in promoting and putting into practice, the ideas of a better world for the urban poor.

² The document also draws from a recent study prepared by the author together with Luis Castillo called “Innovative financing for low income housing improvement: lessons learned from Central America” (in print), Building Issues 13:1, HDM Lund University.

improving the lives of slum dwellers. It exemplifies from the lessons learned from Sida's supported programs in Central America and the type of policies and programs that have proven to be effective and efficient tools for achieving these goals. Finally, the paper identifies some of the challenges that donors have to face to help improve the living environments of the urban poor in developing countries.

2. The Swedish response

For the past twenty years, Sida has been actively supporting diverse initiatives in local development and low-income housing in developing countries in Asia, Africa and Latin America. These initiatives are aimed at improving the living conditions of the urban poor, especially those living in slums and unplanned areas.

These programmes have been executed through a variety of actors including central and local governments, NGOs, private financial institutions and community based organisations. A range of instruments has been developed. These include the strengthening of management capacities at national and local levels in:

- the provision of secure land tenure, including women's access to land;
- the introduction, expansion, management and maintenance of basic services and infrastructure;
- the development of innovative finance schemes, including micro-lending for house improvements and income-generating activities, and most recently;
- the rehabilitation of historic urban districts and the establishment of a base for heritage preservation as a vehicle for economic growth, poverty alleviation and social and democratic development.

A common characteristic of these initiatives is the strong involvement of the beneficiaries in the design and execution of the programmes, as well as in the cost recovery and sustainability of the projects. The programmes have been tailored to local needs, demands and conditions. Aspects such as relationships to on-going programs, opportunities, practical and operational considerations, interest and capacity on the recipient side and the involvement of other donor agencies have also been considered in their planning and implementation.

2.1 Sida's supported programs in Central America

Central America has one of the highest urbanization growth rates in the world. In 2001, it had a population of about 37 million, of which 52% lived in urban areas, and about 42% of this urban population lived in slums. The region's income distribution is also one of the most unequal in the entire world (UN-HABITAT 2003). These differences generated the conditions for the social unrest that characterised the region during the 1980s and 1990s.

The region has also been affected by natural disasters, which have contributed to rural to urban migrations and loss of economic activity. More recently, spread urban violence has created a sense of citizen insecurity. The result of these factors has been raising urban poverty levels and social disintegration, with growing demand for land, housing and services, as well as migration of hundreds of thousands of people to other countries, especially the USA and Canada, but also to neighbouring countries such as Costa Rica³.

As in other parts of the world, formal private and public response to these problems is not enough. Commercial private financial and banking institutions in the region, usually have avoided involvement in housing finance for the poor because the lack of solid collateral and stable income and low profit margins. Public sector finance also has also failed to reach the poor. The low-income households, most working in the informal economy, have with few exceptions been excluded from accessing capital from formal private or public financial institutions. (Center for Urban Development Studies 2001).

In recent years however, there is an increased number of non-traditional financial institutions that service these sectors with innovative financial schemes. These experiences show that the housing needs of the poor can be financed in a way that is economically viable and affordable by the poor. Some of these institutions and schemes have been supported by international donor agencies, including Sida.

It is in this increasing urban poverty context and weak institutional setting that Sida has financed housing and local development programs in Central America since 1988, with total resources in the order of US\$ 50 million. By the mid of 2004, the programs had benefited around ninety thousand low-income families of the main urban areas of the region, or about 450,000 people in the improvement of their habitat conditions. Sida resources have mobilised another US\$ 50 million of national and local contributions.

The resources from Sida have been channelled through different institutions and programs:

- the Housing Promotion Foundation (FUPROVI) in Costa Rica,
- the Local Development Program (PRODEL) in Nicaragua (see Box No. 1),
- the Salvadoran Integral Assistance Foundation (FUSAI) in El Salvador,
- the Urban and Rural Social Housing Development Foundation (FUNDEVI) in Honduras and;
- the Local Development Trust Fund (FDLG) in Guatemala.

In spite of the differences between the countries, the model of work promoted by Sida in the region has been relatively simple. The programs are based in lending credits to low-income families to improve or to

³ From 2000 to 2001, remittances to Mexico and Central America grew by 28 percent. In 2002 the money transfers reached \$14.2 billion or more, a flow of \$39 million a day. By 2005 the sum, which does not capture all remittances to Latin America, will go beyond \$18 billion, according to projections by the Pew Hispanic Center. In 2003, remittances to El Salvador were about \$1.5 billion and to Honduras about \$1 billion.

expand their existing house or to build a new house. Credits are given directly by the institution or through organisations that have specialised as financial intermediary institutions that give long term and short-term loans. The credits are sometimes combined with subsidies coming from governmental sources and complemented with savings, self-help and labour input efforts by the beneficiary families. In some of the programs, lines of credits or matching funds are given to municipalities for the provision of basic services in existing and new low-income settlements.

The financial assistance given by these intermediary institutions is complemented with technical, social and legal assistance that helps the participant families to gain access to secure land tenure, the introduction and expansion of basic services and infrastructure, and the possible and appropriate designs for the improvement and expansion of their houses.

All the programs use the concept of incremental and gradual housing solution that is compatible with the capacities of savings, repayment of loans and in-kind, monetary and labour contributions of the participant families⁴.

In new formal settlements the institutions are involved in the planning of the new settlement, providing infrastructure and basic services, assisting in land titling, lending to the families, giving technical assistance for the construction of the houses through self-help methods and resettlement of the families and occupancy of the new houses. In existing 'informal' settlements, the steps can be reversed: lending can take place before the building or improving the house, and before the provision of infrastructure and basic services. In some cases only basic services are introduced with little possibilities of lending given the income level of the target population. Thus, different approaches have been developed to work both with formal and informal settlements (see Table No. 1).

Credits are usually given at positive but not necessarily market interest rates. In the majority of the programs these rates reflect but do not necessarily match the market interest rates that exist for mortgage loans in the formal sector. The programs accept a wide variety of collateral and securities by the households (especially mortgage, the use of pawns and co-signer loans). The flexibility in the use of collateral has allowed the incorporation of low-income sectors to the programs even if they have not fully resolved the legality of their land tenure.

Once the credits are recovered, the resources are reinvested by the programs as new loans to families of the same income strata. This ongoing operation has allowed the creation of various revolving and

⁴ As Mittlin (2000) points out, the construction process by which low-income households organize the building of their housing, is, by necessity, incremental and over a long period, as they do not have the resources and cannot afford to build complete houses immediately or to cover the costs of homeownership. Recent studies suggest that low-income households use their savings, labour and other resources to build their houses over a period of between five and fifteen years (Ferguson 1999).

rotating funds. The basic principle that guides these funds is trying to maintain during a relatively long period of time, the value of the original seed capital given by Sida or other resources so that it can be reinvested in the same target population. Thus, the recovery of the funds and the maintenance of its value become an important tool for urban poverty alleviation.

Sida's policy through the region has been that housing subsidies is primarily a responsibility of national governments that act as counterparts of the international co-operation in this type of programs. That is the reason why the majority of the funds allocated by Sida have been channelled to finance three main components of these programs:

- loans (including micro-loans for housing improvement and new housing);
- technical assistance (both to executing agencies and the target population) and;
- institutional development, especially of those institutions that serve as intermediary of Sida's funds.

More recently, especially in the case of FUNDEVI in Honduras, Sida has coordinated its efforts very closely with KfW of Germany and the Inter American Development Bank (IADB).

This partnership and harmonisation process has been one of the first experiences among donor agencies in this country and has allowed the following achievements:

- A broader social impact in the provision of low-income housing programmes (currently more than 5,000 new housing units and housing improvements are produced annually through self-help methods and the technical and financial assistance given by FUNDEVI);
- The institutional transformation of a public programme into a public foundation that will allow the sustainability of the low-income housing programmes in the future (FUNDEVI has a revolving fund of more than US\$ 40 million);
- An increase leverage capacity of both FUNDEVI and the donor agencies with public and sector authorities to influence decision making process for a more pro-poor housing policy;
- A search for a unified process of project planning cycles, budgeting financial management systems, and monitoring development assistance that have produced lower transaction costs and improve effectiveness on the ground given the capacity of the partner institution⁵.

⁵ This is in line with the Rome Declaration on Harmonization adopted in Rome Italy in February 2003 (World Bank 2003).

Box No. 1: The Local Development Programme (PRODEL) in Nicaragua

A good example of the multi-dimensional approach to address urban poverty issues is PRODEL. Since 1994, PRODEL has assisted the low income urban population in eight cities and towns in an integrated approach to local development by providing funds for co-financing small infrastructure and community projects, loans and technical assistance for housing improvement and loans for micro-entrepreneurs. PRODEL supplies funds to local institutions and builds capacity within these institutions. Special emphasis has been given to municipal authorities to work with low-income communities and to financial intermediaries, including a formal bank.

In ten years, 484 projects (with an average cost of US\$ 22,000) in more than 230 neighbourhoods were completed. Just over half this funding was provided by Sida with the rest mobilized locally, by the families and the municipal authorities. The services installed and repaired include sewage and drainage systems, paved roads, footpaths, street lighting, schools, playgrounds, sporting facilities, and sites for the collection, disposal and treatment of waste. Some 60,000 families benefited from the US\$ 10.5 million programme – 48 per cent of the total population of the eight towns. In the same period, 12,500 low-income families have enlarged and improved their homes. About half of these loans have been for less than US\$ 500 which complement the household's own savings to fund incremental upgrading such as plumbing, improved kitchens and repair or replacement of roofs and floors. The other 55% of the housing loans of between US\$ 501-1,500 have financed the construction of additional rooms. More than 20,000 micro-enterprise loans of between US\$ 100-5,000 have been disbursed to more than 3,500 enterprises (most of which had more than one loan). The target group of the loan programmes are the poor with capacity to pay; 70 per cent of the households receiving housing improvement loans have monthly incomes of US\$ 200 or less. Cost recovery and low default rates have been sustained over time despite the persistent economic difficulties faced by the country. 67% of borrowers are women.

2.2 Other initiatives

The local development and low-income housing experiences in Central America also helped Sida to sharpen a clearer notion of the type of programmes and institutions to support in Africa and Asia. In South Africa, Sida supported low-income housing schemes in Port Elizabeth and Kimberley. The Hull Integrated Housing Project in Kimberley is a good example of a program that tries to create a balance between natural and physical environments, viable economic systems and greater integration, equity and responsibility. In India, Sweden is supporting SPARC and homelessness federations, trying to learn how credit and saving schemes can target the poorest among the urban poor.

More recently, Sida has started supporting cultural heritage programmes in the cities of Zanzibar, Bagamoyo, Hebron and Bethlehem. These processes are not limited to the restoration of historic monuments but also include preservation of the urban environment of ordinary town-dwellers. The focus is on the social history and development of urban settlements and cities.

Sida is also assisting research and promotion of public policies on urban issues such as urban planning and urban design, urban livelihoods, urban environment, gender, housing and housing finance and air quality and air pollution in cities. This is done through regional programs such as PROMESHA in Latin America and research institutions like University of Lund.

3. The challenges

From these experiences it is possible to learn the following lessons:

A stronger commitment to a pro-poor approach is required: Given the scale of the problem, Sida considers that bilateral donors and multilateral agencies need to have a stronger commitment and a holistic perspective to deal with urban poverty. The role of development co-operation is to create conditions and to support policies and processes that lead to poverty reduction in the cities of partner countries throughout the world. In order to be effective, policies must be pro-poor, with a clear focus on the need to strengthen capacities and increase the opportunities of the poor. It is therefore necessary to push for an agenda that enables the transformation of government policies on issues like land, infrastructure and shelter for the urban poor. External funds can serve as a leverage to design adequate and affordable financial schemes, but cannot be a substitute for the local resources required for a long-term commitment to solving the problems of the poor.

Poverty reduction strategies that do not exclude urban poverty: Recently, a number of countries in the world have adapted poverty reduction strategies. Ensuring that development assistance is delivered in accordance with partner country priorities, including these poverty reduction strategies and similar approaches, requires strong harmonization efforts that should be adapted to the country context. Sida will try to push an agenda within these poverty reduction strategies that does not try to blur the importance of working with the urban poor.

Empowerment and accountability as a norm not an exception: Poverty deprives people of the freedom to decide over and shape their own lives. The essence of poverty is not only lack of material resources but also lack of power and choice. A litmus test if an intervention decreases poverty could thus be if the effect is that poor people have increased scope to decide over their lives in areas of relevance to them. Because lack of power and choice often makes it difficult for the poor to obtain adequate material resources, the democratic or human rights

aspect of poverty interacts with the material dimension. Development of effective poverty-reduction strategies and interventions requires a good understanding of existing power structures, including gender-based ones. It involves identification of the primary stakeholders (the poor) and ways to support their empowerment and active participation. This is the democratic and human-rights aspect of poverty reduction. Alternative type of working relationships must be promoted and developed between national and local authorities and poor communities.

The participation of beneficiaries and communities in the design and implementation of projects must be ensured. In this way the social investments will reach the urban poor, thus using public resources more efficiently. Participation also serves to improve accountability and transparency of local governments.

Alternative models of financing the poor require more funding by donors: Sida's supported initiatives show that one dollar of external assistance can mobilise more than one dollar of local resources. The key in this process is the technical assistance that these programmes have provided to families and communities in order to handle the loans, subsidies and their own monetary resources better, as well as the technical and constructive aspects of their shelter improvements and new housing solutions. It is important to conceive participation as a means to mobilize resources, increase community capacities and empower families. The creation of enabling environments, processes and institutions that improve the capacity of the poor to access viable social, technical and financial solutions and resources is a key factor that has made the Sida supported programmes successful. However, it is not the micro-finance lending per se, but the way the programmes create social inclusion, social justice and empowerment that complements the good results of the lending programmes.

Increase donor harmonisation and coordination is required: Finally, donors need to learn from each other experiences and to support in a collaborative way what it works and learn together from what does not work. Donors, especially multilateral agencies that have more resources need to look carefully on what bilateral agencies are financing. There is a win-win situation on this collaboration. Extremely interesting donor coordination process in Honduras has led to the establishment of a follow up group that is aiming to harmonise policies, projects and programs with government, civil society and communities not only to support low-income housing but also water and sanitation initiatives, education that are so important for health and preventive health. Harmonisation requires also the recognition of which are leading agencies in a sector and how to complement and coordinate efforts at local levels. Sector wide approaches can be important tools for poverty reduction if they are also able to identify methods and programs that work at local levels.

Table No. 1: Basic characteristics of the low-income housing credit programmes financed by Sida in Central America

Characteristics	Sites and Services	New Housing Construction	Infrastructure and basic services	Micro-credit for housing improvement
Description	Developed land with minimum basic services and land tenure legalization	Developed land, land tenure legalization, basic housing units with or without basic services	Introduction, improvement or expansion of basic services and infrastructure to existing neighbourhoods.	Improvement or expansion of walls, rooms, roofs, floors and basic services
Main aspects and financial conditions	Revolving fund. Medium and long- term finance (4 to 10 years), Maximum amount per loan US\$4,000. Positive and market rate interests over the outstanding loan. Cost recovery of operational and inflation costs. Mortgage loans. Complementary subsidy from the state, especially for infrastructure and basic services.	Revolving fund. Medium and long- term finance (5 to 10 years), Maximum amount per loan US\$4,000. Positive and market rate interests over the outstanding loan. Cost recovery of operational and inflation costs. Mortgage loans. Complementary subsidy from the state, especially for infrastructure and basic services.	Revolving fund. Long-term finance to families (5 to 10 years). Positive interest and market rates over the outstanding loan. Cost recovery of operational costs and inflation. Collective collateral and mortgage loans. Complementary subsidies from the state or from local governments.	Revolving fund. Short and medium term finance (2 to 5 years loans). Loans between US\$200 and US\$1,500. Positive and market rate interests over the outstanding loan. Different type of collateral: mortgage, pawn, and co-signers. No need for state subsidies.
Role of families	Self-help and repayment of the loan	Participation in design and self-help construction of house and repayment of loan	Design, administration, supervision, construction and payment of loan	Self-help, design, management of the cash flow of the loan, repayment of loan
Role of community based organizations	Organizing the demand and administration of resources	Organizing the demand and administration of the funds	Organizing the demand and administration of the funds	Organizing the demand
Role of local governments	Identification of sites + potential demand. In cases, developers of	Identification of the potential demand	Identification of the communities and administrators of resources	Technical assistance to individual families, construction

Characteristics	Sites and Services	New Housing Construction	Infrastructure and basic services	Micro-credit for housing improvement
	sites and services and resource administration.			permissions
Role of central government	Provision of long term finance through subsidies schemes	Provision of long term finance through subsidies schemes	Provision of long term finance through subsidies schemes	Supervision and monitoring
Role of the external funding agency	Provision of technical assistance to the responsible organizations, monitoring and supervision Harmonisation with other donors to increase policy dialogue and secure urban poverty is part of development agenda	Provision of technical assistance to the responsible organizations, monitoring and supervision Harmonisation with other donors to increase policy dialogue and secure urban poverty is part of development agenda	Provision of technical assistance to the responsible organizations, monitoring and supervision Harmonisation with other donors to increase policy dialogue and secure urban poverty is part of development agenda	Provision of technical assistance to the responsible organizations, monitoring and supervision Harmonisation with other donors to increase policy dialogue and secure urban poverty is part of development agenda
Role of the financial intermediary	Intermediaries of funds including cost recovery and technical assistance	Intermediaries of funds including cost recovery and technical assistance	Intermediaries of funds and technical assistance	Intermediaries of funds including cost recovery and technical assistance
Target Population	Poor families with monthly income between 0.5 and 4 minimum wages and payment capacity	Poor families with monthly income between 2 and 6 minimum wages and payment capacity	Extreme poor families with monthly income between 0 and 5 minimum wages and payment capacity	Poor families with monthly income between 1 and 5 minimum wages and payment capacity

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