

DEVELOPMENT INNOVATION

Engaging Slum Dwellers and the Private Sector to Finance a Better Future

David Painter
Vice President

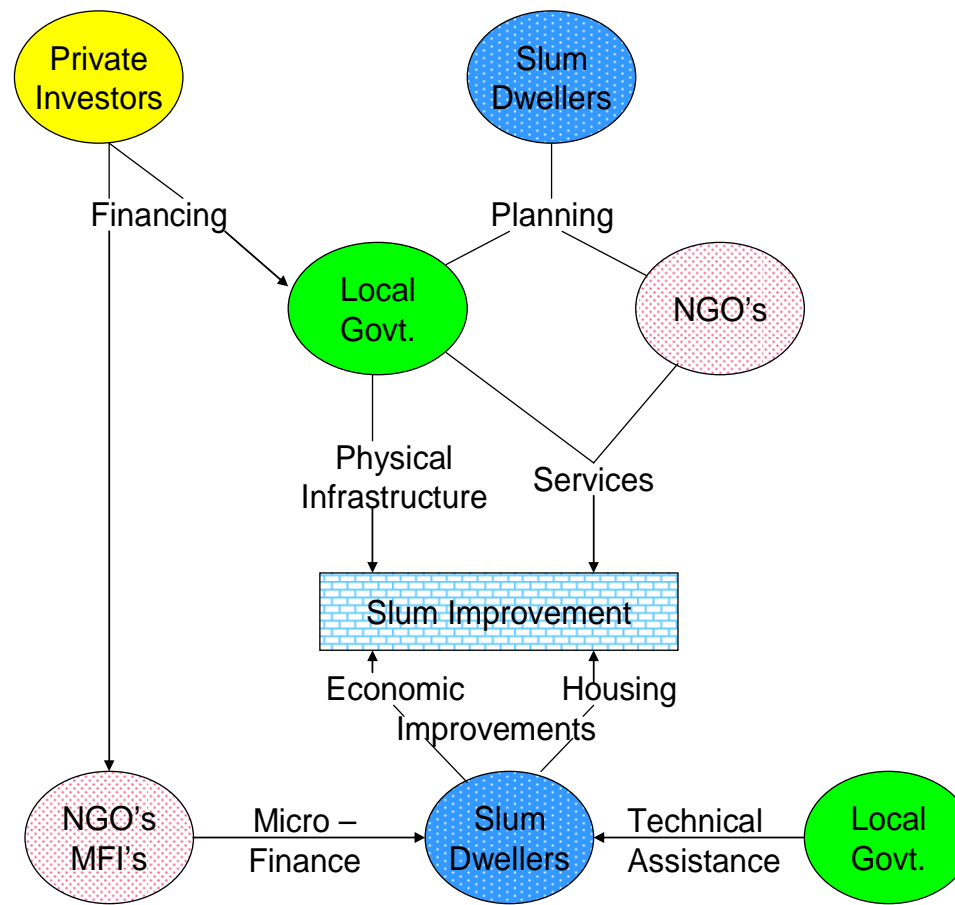
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Innovation through both Micro Finance and Infrastructure Finance

- Diverse models of microfinance for housing enable slum families to incrementally improve their own houses while also helping to augment their incomes through rents or micro-enterprise expansion.
- Cities can mobilize domestic private sector financing to substantially expand basic infrastructure into slum neighborhoods and thereby create an environment where slum families will want to improve their own housing.

The Roles of Key Participants in the Slum Improvement Process





Cost Projections & Need for Private Sector Financing

- The slum population in developing countries has passed 1 billion.
- U.N. estimates per person investment for slum upgrading is \$670.
- Upgrading all existing slum communities over the next 30 years: an average of \$22.3 billion per year.
- Additional \$26.8 billion per year needed to keep up with the expected growth of slum communities.
- \$49.1 billion per year for slum upgrading over the next 30 years is a formidable challenge.
- Investment from developing country governments and development agencies in slum upgrading was (at best) only \$6.6 billion in 2005.
- Engaging governments, international development partners, local capital markets and slum households themselves can mobilize 7 or 8 times the investment to make \$49.1 billion per annum achievable.



Housing microfinance supports slum upgrading

- Housing microfinance is reaching low income households in developing countries, including slum dwellers.
- Incremental housing construction is the norm in most slums around the world, and best served by incremental housing microfinance.
- Housing microfinance relies on alternative forms of collateral, such as co-signers, group savings, home appliances and other non-mortgage forms of guarantee.



To scale up slum dwellers' access to housing micro-finance...

- Reduce the risks perceived by private sector lenders/investors.
- Avoid premature and inappropriate regulations, especially interest rate caps.
- Establish strategic business partnerships to market housing microfinance.
- Engage mainstream financial institutions to leverage the local capital necessary to scale up housing micro finance and make it sustainable.
- The critical aspect for sustainability of housing microfinance is profitability (linked to reaching scale).
- Promote research and best practice dissemination in the field of housing microfinance



Municipal bonds support slum upgrading

- Cities scaling up their slum upgrading program city-wide need financing for municipal infrastructure.
- Municipal bonds have mobilized the necessary private investment to supplement local and central government funding, as well as international development assistance. Examples from India illustrate how this works.
 - In 1998, once it's the city's fiscal management was substantially improved, the City of Ahmedabad issued the first municipal bonds in India without a state government guarantee for Rs. 1 billion (\$25 million) for water infrastructure.
 - Eight towns surrounding Bangalore (a city of 5.7 million) in south central India have participated in a pooled bond issue as part of the financing for the Greater Bangalore Water and Sanitation Project (GBWASP). A core element of the slum upgrading efforts of these cities is the provision of water connections to poor households.



To scale up the use of bonds to finance infrastructure for slums...

- Municipal bond financing for infrastructure can be scaled up if two conditions are met:
 - First, borrowing municipalities must work to become financially sound.
 - Second, the institutional, legal and regulatory environment has to enable investors to feel they can accurately predict the risks of investing in municipal bonds.

This requires...

- Initiative by municipal governments and their associations.
- Liquidity in a country's long term capital market.
- Support from central governments to encourage and facilitate local revenue improvements and promote private sector municipal bond financing.
- Support from international development agencies and Multilateral Development Banks in the form of risk sharing with the private sector to encourage their demand for municipal bonds
- Credit ratings to help local private investors to compare the risk of municipal bonds to alternative investments.



BRINGING THE PIECES TOGETHER – WHAT HAVE WE LEARNED?

- The basic lesson is that through innovations in financing, private sector actors can reach the poor in the slums and change their lives.
- The second lesson is that slum upgrading can be financed, in part, by slum dwellers and cities on market terms.
- A third lesson is that scaling up slum upgrading is facilitated by adopting both microfinance for housing and bond financing for infrastructure to supplement the resources of national governments and their international development partners.



For additional information, you can contact:

David Painter
Vice President
TCG International LLC
10 G Street NE (Suite 480)
Washington, D.C. 20002
(Tel.) 1-202-408-8501 extension 28
(e-mail) painter@tcgillc.com