A Review of

# The Asian Coalition for Community Action Approach to Slum Upgrading

East Asia and Pacific Sustainable Infrastructure Unit
The World Bank

**August 2013**

THE WORLD BANK

Australian Aid

## Executive Summary

This paper is a review of the Asian Coalition for Community Action (ACCA) Program operated by the Asian Coalition for Housing Rights (ACHR). The objective is to present a general assessment of the main characteristics of the program and a preliminary examination of what ACCA has accomplished in three years of operation. The analysis compares ACCA's approach to the provision of housing and infrastructure in low-income areas, to more common ways of managing slum upgrading and housing finance.

The analysis shows that, in the countries where the macroeconomic and institutional context exclude the urban poor from financial solutions and access to services, the community finance mechanisms implemented through ACCA and the creation of community development funds offer a reliable alternative in the provision of housing and infrastructure for low-income communities. This alternative does not aim to replace already existing institutional and financial structures, but through its incremental process, promotes deep transformational and systemic changes.

The program achieves this through relatively simple steps, but is conceptually elaborate in that it addresses a composite nexus of market and government failures, which affect the urban poor and diminish the dynamism and livability of the cities where they live. The program carries out four functions: it subsidizes small scale infrastructure, provides finance, gets involved in land market development by securing land rights for slum dwellers, and often provides them architectural and planning assistance.

When compared with other approaches to upgrading low income areas, such as public housing or sites and services programs, ACCA appears to perform well through its carefully-designed and targeted subsidy, its capacity to detect "signals of seriousness" on the part of the community (thereby targeting assistance to those who value it the most), and its capacity to slow down the process of real estate development in ways that reduce some of the speculative waves that often characterize urban redevelopment. Furthermore, the demand-side orientation, augmented where necessary by technical assistance, promises to provide a more efficient way to channel resources so that poor people become more engaged in addressing their circumstances. Not only does the community's involvement as decision-makers have a strong role to play on the cost effectiveness of the investments undertaken, it also creates communities which have successfully interacted with local government in ways that are likely to lead to deeper and more constructive engagement with their local officials.

This preliminary assessment of the assistance provided by ACCA suggests that it has a transformational, systemic effect. The ACCA program achieves this through a small subsidy that can elicit major and seemingly on-going actions. While ACCA has only been in operation for 3 years and its longer-term impacts have not yet been fully evaluated, this particular form of demand-responsive action has been previously implemented successfully on a national level, through the Community Organization Development Institute (CODI) in Thailand. ACCA has successfully pushed this approach on a broader regional scale to a number of poor, institutionally weak countries.

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**List of Acronyms**

ACCA Asian Coalition for Community Action

ACHR Asian Coalition for Housing Rights

CDF City/Community

CODI Community Organization Development Institute

EAP East Asia and the Pacific

NGO Non-government Organization

TDRI Thailand Research Development Institute

**Acknowledgments**

This paper was written by Robert Buckley and Achilles Kallergis, with Chandan Deuskar, under the leadership of Rumana Huque (Senior Urban Specialist). Valuable guidance was provided by John Roome (Sector Director, East Asia and the Pacific - Sustainable Development), Vijay Jagannathan (Former Manager, East Asia and the Pacific - Sustainable Infrastructure Unit), Victor Vergara (Lead Urban

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# 1. Introduction

This paper is a review of the experience of the Asian Coalition for Community Action (ACCA) Program operated by the Asian Coalition for Housing Rights (ACHR). The objective is to examine what ACCA has accomplished in three years of operation (2009-2012) under a Gates Foundation grant. The review is based on field visits to three of the countries served by ACCA – Thailand, Cambodia, and Vietnam—and discussions with community leaders from three other countries – Nepal, the Philippines, and Sri Lanka. Numerous discussions were held with the ACHR leadership, staff from the Community Organization Development Institute (CODI) of Thailand, and the Thailand Development Research Institute (TDRI).[1] In addition, a review was conducted of the literature prepared by and about ACHR, as well as a filtering and synthesis of the status of the cities and countries that made use of ACCA in terms of their broader economic conditions and local governance capabilities. Given that ACCA operates in more than 150 cities in 19 countries, this review is by no means an audited account of its activities.

## *1.1. The Asian Coalition for Housing Rights*[2]

The Asian Coalition for Housing Rights (ACHR) was founded in 1988 as a forum for urban social activists, non-government organizations (NGOs), professionals and grassroots or community groups working in Asian cities. Its initial emphasis was on housing rights and the problems of evictions of the poor in Asian cities. This was supplemented by activities for ACHR partners including cross country learning, exchange visits, regional workshops, training, new country action programs and research.

In the 2000s, the organization introduced community savings and credit activities, and supported the development of many Community Development Funds in Lao PDR, Cambodia, Vietnam, Nepal, Mongolia, Sri Lanka, Thailand, Philippines and India. It also helped respond to the 2004 tsunami through community-driven relief and rehabilitation. The organization engages in policy advocacy, working with local and national governments. Some ACHR approaches have been integrated into government policies, while others have been successfully up-scaled without government support. ACHR is the Asian branch of the Habitat International Coalition and an Executive Committee member of CITYNET. It also works closely with Slum/Shack Dwellers International (SDI) and collaborates with various United Nations organizations and the World Bank.

ACHR has been implementing the Asian Coalition for Community Action Program, the subject of this paper, since 2009.

## *1.2. The Asian Coalition for Community Action Program – Overview*

Operationally, the Asian Coalition for Community Action (ACCA) Program involves a series of coordinated, holistic activities, initiated by a community. The program carries out four functions: it

[1] Field work and interviews were carried out by Robert Buckley. For a complete list of individuals contacted, see annexes. Literature reviews and support for analysis and writing were provided by Achilles Kallergis and Chandan Deuskar.

[2] Adapted from "About ACHR": http://www.achr.net/about_achr.htm (accessed August 2013)

provides a small grant to the community for small scale infrastructure; it then provides a loan to the community for a larger housing project; it helps the community design its housing and infrastructure by providing architectural and planning assistance; and it helps the community acquire formal land title, by negotiating land purchase, a land grant or a long-term lease from the owners.

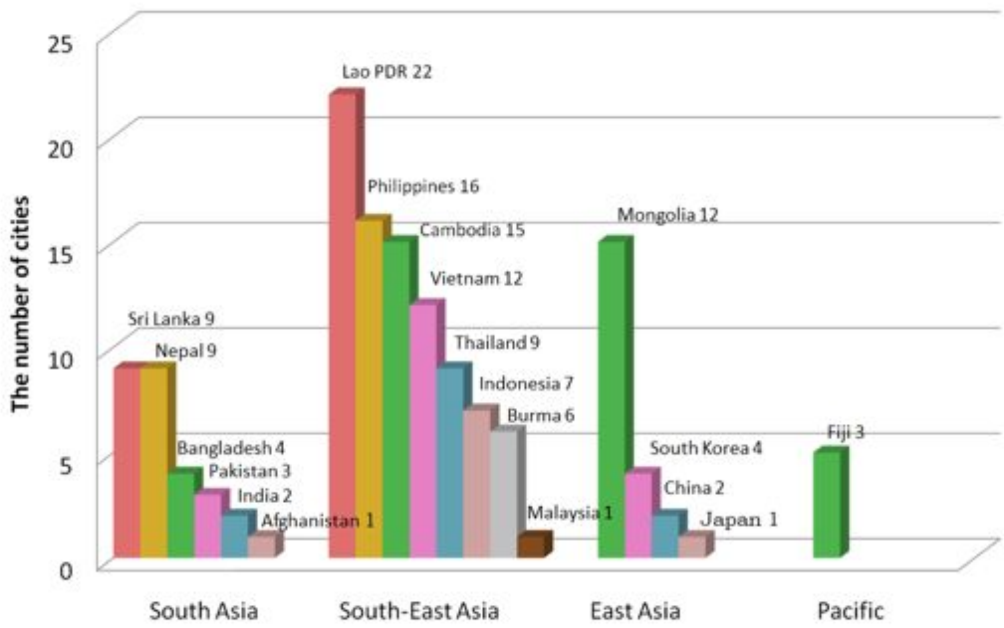
A major element of the ACCA program is community savings. ACCA often takes a city-wide approach, surveying communities in an entire city at a time, helping them learn from one another's experiences, and linking their savings into a larger City Development Fund. It also leverages funds from government and other sources for inclusion in the City Development Fund.

These seemingly simple steps address a composite nexus of market and government failures. The program aims to bring about social cohesion and empowerment through the development of community groups who work together as part of the project and make decisions about their own development. The demand-responsive, people-driven nature of the approach is its key principle.

### *1.3. Summary of ACCA Activities 2009-2012*

The initial target of the ACCA program was to support a process of citywide slum upgrading in 150 Asian cities. By the end of its third year, in 2012, the program had supported activities in 165 cities, in 19 countries (see Figure 1). In all these 165 cities, citywide community surveys are being conducted, and are being used to identify, prioritize and plan settlement upgrading projects. These projects are then carried out by the communities, in partnership with their city governments. Housing projects being implemented with ACCA support have so far helped 42,760 urban poor families, and have also facilitated the creation of City Development Funds, which are now operating as new joint financial mechanisms in 98 of these cities. Small upgrading projects (like walkways, drains, toilets, water supply, community centers and solid waste systems) have been implemented in 963 poor communities and have benefited 146,000 families. The amount of ACCA's financial support is usually small, only $58,000 per city. (ACHR, 2012)

**Figure 1: Number of cities in the ACCA program by region and country (Source: ACHR, 2011)**




**Box 1: ACCA Activities as of January 2013**

- ACCA-supported citywide upgrading activities in **165 cities** / towns / districts, in **19** Asian countries
- **111** big housing projects either finished or well underway (total big project budget approved: US$ 3.9 million - which includes eight projects from the ACCA regional revolving loan fund)
- **1,185** small upgrading projects either completed or in process (total small project budget approved US$ 2.05 million)
- US$ 75.7 million worth of land, infrastructure and cash has been leveraged from governments in these big housing projects and small upgrading projects, with the ACCA budget accounting for only **6%** of the total project values.
- Community savings groups in 167 ACCA cities, with 274,000 savers and a total of US$ 22.5 million in collective savings.
- City-based community development funds (CDFs) active in **98** cities, with a total capital of US$ 5.8 million, of which less than half came from ACCA, and the rest was mobilised from communities, local governments and other sources.
- **30** Community-driven disaster rehabilitation projects in **10** countries
- National surveys in 7 countries, finished or in process

*Source: ACHR Impacts Update - http://www.achr.net/ACCA/ACCA%20home.html*

The following section describes the components of the ACCA program, starting with its institutional and financial structure, followed by its activities: surveying and mapping, small grant-financed infrastructure projects, larger loan-financed housing projects, community finance, negotiating land tenure, disaster relief, and design support.

Section 3 then compares ACCA's approach to alternative ways of carrying out its main activities: that is, providing subsidies, finance, and a framework for urban real estate development. The strengths and weaknesses of each component of the ACCA program are compared to alternative rationales in terms of the market or government failures addressed. A final section explores potential avenues for support by the donor community to the program, and areas for future research.

## 2. The ACCA Program

*The information in this section is adapted mainly from ACHR's publication* "165 Cities in Asia: Third Yearly Report of the Asian Coalition for Community Action Programme" *released in November 2012. Additional information is taken from ACHR's website.*

### *2.1. ACCA Institutional Structure* [3]

ACHR sees the basic working unit of the ACCA program as the city, as opposed to the project or the individual community. The ACCA program is implemented by groups already working in the project cities on issues of urban poverty and housing, with established links with community groups and local governments. Most of these organizations are already part of the ACHR network. The ACCA program creates a city-wide mechanism for implementing projects it supports. The program also supports the setting up of national mechanisms to facilitate the same coordination, learning and mutual support at the country-wide level. Some sub-regional groupings have also emerged, in which groups in neighboring countries assist each other (e.g. South Asia).

The first step of the program in a city is city-wide surveys and mapping of settlements. This is followed by bringing these groups together through forums, meetings and workshops. Through these means, the poor in these communities form networks, which include existing community organizations. They decide on a common citywide development agenda for the program in that city. These networks also allow communities to learn from each other, conduct the city-wide surveys and mapping exercises, create joint savings, and negotiate collectively for land or other resources.

Project plans are prepared by community groups, following the program's guidelines, and proposed in batches every two or three months to the Regional ACCA Committee, which reviews the proposed projects. The Regional ACCA Committee has 15 members: 9 representatives from countries currently active in the program, 3 community representatives, 2 'senior' representatives, and 1 representative of the ACHR Secretariat. Besides reviewing project proposals, the Committee's responsibilities include supporting the cities involved in the program, and knowledge sharing through exchange visits, forums of communities and community architects, and linking with international organizations. In addition to the Regional Committee, many countries also have national committees, and most cities have city development committees.

[3] Adapted from "About ACHR": http://www.achr.net/about_achr.htm (accessed August 2013), and ACHR, 2012

**Communities in the Philippines building local infrastructure**
*(Source: The Philippine Alliance, 2011)*

The ACHR Secretariat coordinates the ACCA program by facilitating the ACCA process in the countries, producing documents and reports, and linking the program to global donors and development agencies. ACCA links its project cities with other, non-ACCA cities into what it describes as a larger, country-wide learning process, which "nudges" various development initiatives already underway towards a more community-driven model. These national networks are in turn linked to regional knowledge-sharing platforms, through meetings and site visits in various countries in Asia.

Local governments also become involved in the ACCA program, with partnerships between communities and the government having been formed in 102 out of the 111 'big' projects. This takes several forms. Joint city development committees have been set up in 145 cities so far. The government has provided land in 64 cities. In many cities, local governments have provided infrastructure (such as paved access roads, drains, sewers, electric and water connections), and in some cases, technical help, building materials and the loan of heavy construction equipment. Such partnerships facilitate future joint activities. In some cases, governments have responded to ACCA efforts by adjusting existing planning standards to better suit the needs of the poor. As described in later sections, local governments also provide budget support to City Development Funds and projects.

### *2.2. ACCA Program Finances*

As of November 2012, at the end of the program's third year, the program's total budget was US$ 11 million. This money, from a Gates Foundation grant, is administered by the International Institute for Environment and Development (IIED). However, the ACCA money constitutes the least of the total budget required for community activities—the greater share is provided by government (local and central, much of it in the form of land), and by the communities themselves (see Table 1). Most of this budget is used by the communities themselves for building large housing projects and small upgrading projects. The maximum ACCA spends per city is just US$ 58,000. The large projects are financed through loans to the communities. The repayments of these loans are used to seed (or expand existing) City Development Funds. While most of the small upgrading projects are funded by ACCA grants, some community groups in Vietnam, Cambodia, Philippines and Indonesia have used these grants as loans also, repaying the amount to a revolving fund in a similar manner to support future rounds of upgrading projects.

**Table 1: Contributions to ACCA projects by source**

| CONTRIBUTIONS TO SMALL & BIG ACCA PROJECTS : *(third year figures, as of November 2012)* | | | BUDGET CONTRIBUTIONS TO THE PROJECTS *(all figures US$)* | | | | |
|---|---|---|---|---|---|---|---|
| | *Number of projects actually implemented* | *Number of households directly benefitting* | *From ACCA* | *From community* | *From government* | *From others* | *Total Budget* |
| **SMALL Projects** | 963 projects (in 158 cities, in 18 countries) | 145,990 | 2,046,426 (33% of the total budget) | 1,253,744 (20% of the total budget) | 2,620,083 (42% of the total budget) | 395,145 (5% of the total budget) | 6,284,949 (100% of total budet) |
| **BIG Projects** | 111 projects (in 104 cities, in 16 countries) | 42,760 | 3,900,256 (4% of the total budget) | 11,750,344 (13% of the total budget) | 73,094,280 (80% of the total budget) | 2,617,914 (3% of the total budget) | 91,382,674 (100% of total budget) |
| **TOTAL** | 1,074 projects | 188,750 households | $5,946,682 (6% of the total budget) | $13,004,088 (13% of the total budget) | $75,714,363 (78% of the total budget) | $3,013,059 (3% of the total budget) | $97,667,623 (100% of total budget) |

While the grant and loan amounts are fixed, communities are given flexibility in how to utilize the funds. The grants are intended to mobilize community action and also to leverage funds from other sources and catalyze partnerships within the city. Of the US$ 58,000 per city, the program sets aside just US$ 3,000 for city-level activities such as surveys and meetings. In most countries, US$ 10,000 is used for national-level activities, such as events and advocacy. According to ACCA, the modest, fixed budget ceilings for its activities (see Box 2) induces clarity and transparency, and takes the emphasis off budget-related aspects, instead encouraging communities to use the limited allocations in strategic and creative ways.

**Box 2: ACCA's $58,000 budget per city**

**$15,000** for at least five small upgrading projects, in at least five different communities in each city.

**$40,000** for one big housing project with a maximum of seven or eight big housing projects per country (not all ACCA cities have implemented big housing projects).

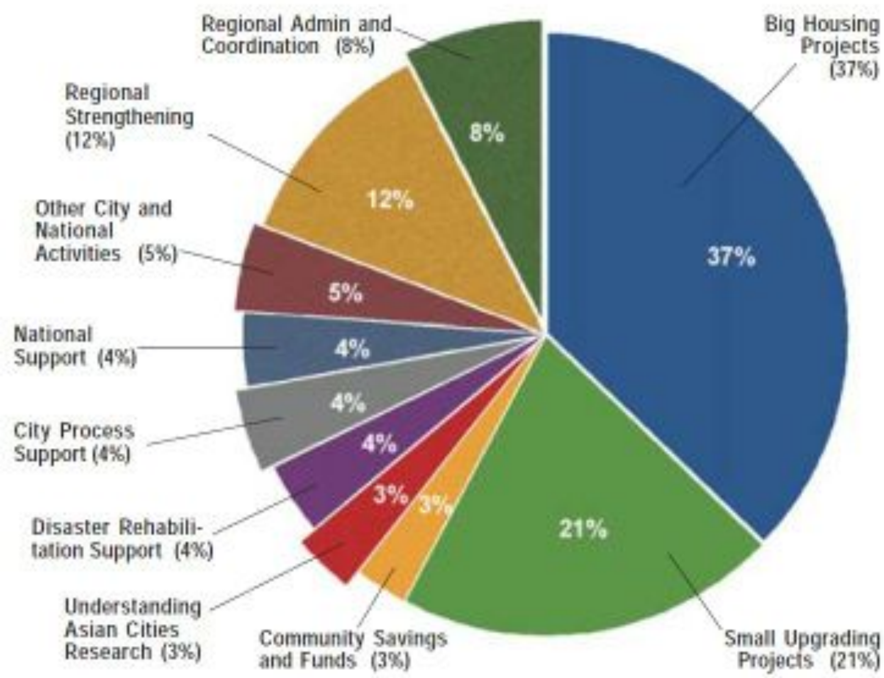
**$3,000** for city process support, to cover a variety of joint development processes within the city, such as surveying and mapping, network-building, support for savings activities, local meetings and exchanges.

In addition, $10,000 per *country* per year for national coordination, including meetings, exchange visits, advocacy.

*Source: ACHR. 2012*

Figure 2 provides a breakdown of ACCA's expenditures, and shows that over 70% of the budget is passed on to the poor, another 21% of the budget goes to capacity-building activities, and only 8% goes to administration and coordination (ACHR and IIED).

**Figure 2: ACCA budget breakdown, 2008-2012**




### *2.3. Surveying and Mapping*

In almost all ACCA cities, some form of city-wide information gathering about poor communities has taken place. These activities may include comprehensive socio-economic surveys and mapping, including mapping of vacant land in the city and planned development projects affecting communities. Other information gathering activities may be restricted to the settlements and communities involved in the program.

National surveys have been carried out in 10 countries. These include two national surveys of communities with insecure land in 27 cities in Cambodia by teams of national community leaders and City Development Fund staff; a 20-city survey of slum communities in Nepal by the two community federations with support from an NGO; a national survey and mapping of urban poor communities in 33 cities in high-risk and disaster-prone areas by the Homeless People's Federation in the Philippines; and urban poor community surveys and community mapping in six new cities each in Lao PDR and Vietnam, and in eight cities in Indonesia. The ACHR Secretariat is working on developing a database of ACCA activities that can be used by communities.

**The community and the city jointly perform a community survey in Cambodia**
*(Source: ACHR, 2011)*

### *2.4. Small Projects*

'Small' projects under ACCA must be physical upgrading projects for shared infrastructure, e.g. they may not be equipment for income generation for households. The rationale is that physical upgrading is visible, and the visibility of this collective draws the attention of local authorities and challenges existing power relations. They are also intended to pull together the community, and to strengthen their negotiating power with authorities. While the funding for these small projects is usually given to communities as grants, some local community groups may give them to communities as revolving loans.

**Box 3: Small ACCA Projects: What have people built?** *(Source: ACHR, 2012)*

227 road-building projects
174 water supply projects
141 drainage projects
136 toilet building projects
89 community centers
66 community mapping projects
52 electricity & street lights
38 agriculture projects
37 playgrounds and parks
29 house repair projects
27 livelihood projects

| | | |
|---|---|---|
| 20 solid waste and composting | 6 community enterprises | 2 biogas production projects |
| | 5 irrigation projects | 2 community boats |
| | 3 landfilling projects | 2 block-making enterprises |
| 19 clinics and health centers | 3 community builders centers | 1 shop facade-painting project |
| 17 bridge-building projects | | 1 bus stop shelter |
| 17 one-room schools | | 1 biomass fuel-cell production |
| 14 retaining wall projects | | 1 community rock'n'roll band |
| 12 children's library projects | 2 fire protection projects | |
| 12 animal raising projects | 2 community museums | |
| 11 rice bank projects | 2 community markets | |
| 10 tree planting projects | 2 mosque and temple repairs | |

**Box 4: Small ACCA Projects** *(as of November, 2012)*

Total number of projects approved in three years: **949** projects

Total number of projects actually implemented: **1,185 projects** in 963 communities, in 158 cities, in 18 countries

Total small project budget approved: **US$ 2,189,300**

Budget contributions to the 963 small projects *(actuals, in US$):*

ACCA: $2,046,426 (33%)

Communities: $1,253,744 (20%)

Government: $2,620,083 (42%)

Other: $395,145 (5%)

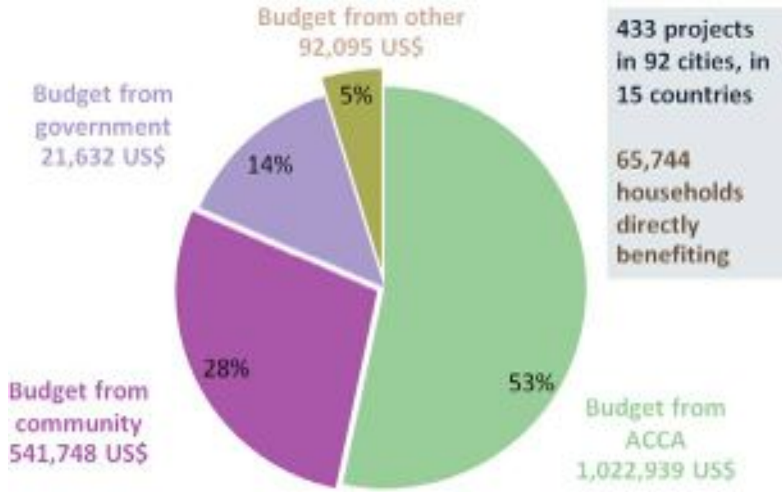
**Total: $6,284,949 (100%)**

Number of households who directly benefit from these small projects: **145,990 households**

*Source: ACHR, 2012*

Figure 3 shows the sources of funds for these 'small' projects. The grant from ACCA is meant to provide an incentive for communities to mobilize other sources of funds. As the figure shows, communities have successfully leveraged an equal amount from government, from community contributions and others.

**Figure 3: Sources of funds for projects classified by ACCA as small projects (Source: ACHR, 2011)**




### *2.4.1. Examples of small ACCA projects in EAP*

INDONESIA

Ledok Gajah is a river-side settlement of 45 families, located between a river and a drainage canal in central Yogyakarta. Their road-paving project came out of an organizing process that started with ACCA, with support from a group of local architects. After mapping and surveying their settlement, setting up a women's savings group and linking with other riverside slums, they planned and built this 135m paved road, with side drains, which links all the houses. A US$500 grant from ACCA was topped up by another US$600 from community members, who did all the work themselves, working together one day a week.

VIETNAM

Before and after shots of the paved alley-way which links 150 poor households in Block 3, Ward 5 in the city of Ben Tre. Like all Vietnamese ACCA cities, the communities in Ben Tre use ACCA small project funds as loans (at 4-6% annual interest) through their CDF, rather than as grants, so the money can revolve and help more communities. And like most other small projects in Vietnam, this community used the ACCA loan (US$3,369) to leverage a much bigger amount from community members ($3,190) and from their Ward Office (US$5,199) to replace a muddy and perpetually flooded walkway with a paved road they built themselves.

MONGOLIA

41 out of 74 of the small ACCA projects implemented by savings groups in Mongolia so far have been playgrounds and parks. But this savings group in Ulaanbaatar's Khan-Uul District used their small ACCA grant of US$3,000 to set up a cement paving-block manufacturing operation. They used the paving blocks to lay sidewalks along the muddy, unpaved and often-flooded roads in their ger area.


FIJI

A fifth of the population of Lautoka, Fiji's second largest city, lives in 34 informal settlements. The People's Community Network is using the small projects to organize these communities around activities which directly improve their living conditions and strengthen their negotiations for secure land. The Natabua community (left) used a US$3,000 ACCA grant (matched by another US$1,000 from the community and US$3,000 from the local government) to improve their drains and roads. The Navoata community (right) used their ACCA grant to build a stone sea-wall along their fast-eroding coastline.

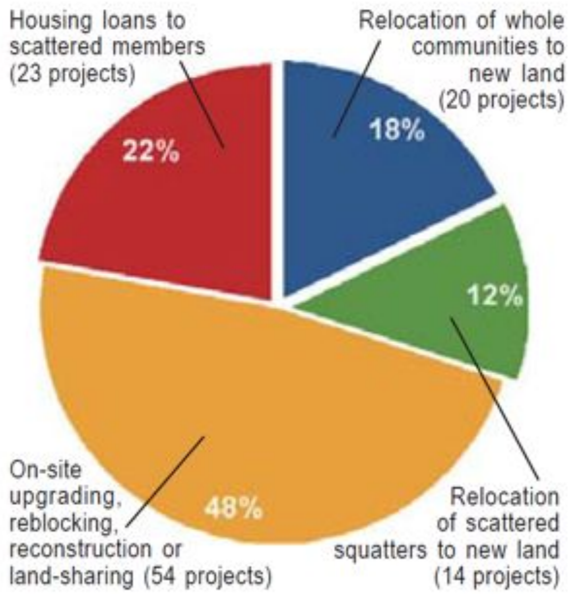

LAO PDR

In Muang Kong District in southern Lao PDR, people live along shores of the Mekong River and on tiny islands in the river. Most of the water is too polluted to drink, so the five ACCA small projects have involved developing underground drinking water supply systems. So far, they have built 141 artesian wells and electric pumps (like this one at Baan Beungngam, which cost just US$175) which serve several houses. All the ACCA small project funds in Lao are managed as no-interest loans (repayable in 6 months) to the women's savings groups, through their district-level community funds.

### 2.5. Big Projects

ACCA's 'big' projects focus on housing provision and aim to provide "new, comprehensive and people-driven housing alternatives" (ACHR, 2012). As of November 2012, 47 housing projects were completed, with 54 underway. Ten projects were unable to begin due to difficulties related to land. Only 18% of the big projects (20 projects) involved the relocation of whole communities, while more than 49% (54 projects) had been able to upgrade or reconstruct in place. Twenty-one percent of the projects (23 projects) provided loans for housing improvements to households in scattered locations, and 12% (14 projects) created new communities of previously scattered squatters on new land. Figure 4 shows a breakdown of the kinds of projects included.

**Figure 4: Types of 'big' ACCA projects**




As with the small projects, the ACCA funds are expected to leverage additional funds. Table 2 shows that 80% of the total budget for the 'big' activities comes from the government, while ACCA's grant constitutes a mere 4%. The balance is contributed by the communities themselves and others.

**Table 2: ACCA Big Projects Underway: Breakdown of Financial Contributions**

| 111 BIG PROJECTS NOW UNDERWAY : | | | | (no big housing projects yet in Korea, Japan, Malaysia or Afghanistan) | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | BUDGET CONTRIBUTIONS TO THE PROJECTS (All figures in US$) | | | | |
| | Number of projects | Number of households directly benefitting | Number of households got secure land tenure | Budget from ACCA | Budget from community | Budget from government | Budget from others | Total Budget |
| 1. CAMBODIA | 12 projects | 630 | 1,953 | 393,500 | 707,500 | 7,933,465 | 459,145 | 9,493,810 |
| 2. INDONESIA | 7 projects | 735 | 2,877 | 245,000 | 137,159 | 3,941,117 | 10,000 | 4,333,276 |
| 3. NEPAL | 11 projects | 509 | 861 | 359,800 | 409,904 | 4,599,763 | 203,727 | 5,573,194 |
| 4. BURMA | 7 projects | 927 | 100 | 271,200 | 44,500 | 0 | 0 | 315,700 |
| 5. PHILIPPINES | 18 projects | 2,271 | 7,396 | 679,989 | 1,776,088 | 27,905,912 | 998,907 | 31,360,896 |
| 6. VIETNAM | 11 projects | 368 | 607 | 365,000 | 1,457,406 | 4,950,641 | 100,000 | 6,873,047 |
| 7. SRI LANKA | 11 projects | 496 | 673 | 450,000 | 61,410 | 0 | 165,000 | 676,410 |
| 8. MONGOLIA | 5 projects | 149 | 36 | 150,767 | 38,905 | 207,780 | 7,900 | 425,232 |
| 9. FIJI | 5 projects | 170 | 2,794 | 200,000 | 20,000 | 5,885,000 | 0 | 6,105,000 |
| 10. THAILAND | 8 projects | 1,148 | 3,572 | 180,000 | 3,742,362 | 984,665 | 0 | 4,907,027 |
| 11. INDIA | 2 projects | 58 | 721 | 80,000 | 42,010 | 8,920,307 | 0 | 9,042,317 |
| 12. LAO PDR | 9 projects | 656 | 1,210 | 333,000 | 232,600 | 7,259,755 | 61,000 | 7,886,355 |
| 13. PAKISTAN | 3 projects | 414 | 1,9702 | 110,000 | 3,020,500 | 0 | 465,435 | 3,595,935 |
| 14. CHINA | 1 project | 10 | 10 | 39,000 | 30,000 | 0 | 24,000 | 93,000 |
| 15. BANGLADESH | 1 project | 70 | 270 | 43,000 | 30,000 | 436,875 | 122,800 | 632,675 |
| TOTAL (land provided by government in 64 of these projects, either free, on long-term lease or for sale in installments) | 111 projects | 8,611 households directly benefitted | 42,760 households (in 78 projects) got secure land tenure | $3,900,256 (4% of the total project budget) | $11,750,344 (13% of the total project budget) | $73,094,280 (80% of the total project budget) | $2,617,914 (3% of the total project budget) | $91,382,674 (100% of the total project budget) |

*Source*: Third Yearly Report of the Asian Coalition for Community Action (ACCA) Program, (2012).

### 2.5.1. *Examples of ACCA big projects in EAP*

PEAM RO DISTRICT, CAMBODIA

Pro Lay Toek was a small community of 33 extremely poor evicted households in Peam Ro District, living in thatched huts on a long strip of flood-prone land along a canal. They used support from ACCA to plan and upgrade their settlement in-situ, with land filling, infrastructure and new 2-story row houses. They used their planning as a bargaining chip to persuade the Commune Council authorities to give them the land for free, on a collective land title. The people used a US$ 4,500 loan from the Urban Poor Development Fund to buy an extra 1.5m strip of land to slightly widen the individual house plots and make room for an access road.

YOGYAKARTA, INDONESIA

Ledok Gajah Wong is a river-side settlement of 45 families in central Yogyakarta. With support from a group of young architects, they mapped and surveyed their settlement, set up a women's savings group, linked with other river-side slums and built a 135m paved walkway, with a small project grant from ACCA. Now they have used the US$ 40,000 big project funds from ACCA to set up a citywide revolving loan fund for house improvements, with the first loans going to Ledok Gajah Wong. Since then, they have been able to negotiate long term leases in this and another riverside settlement from the government.

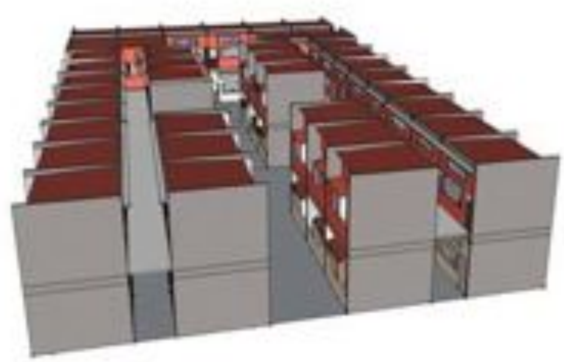
 

YANGON, MYANMAR

The country's first-ever community-planned, community-built and collectively-owned urban poor housing relocation project has been completed by 50 landless squatters in Hlaing Tar Yar Township, on the outskirts of Yangon. After years trying to buy government land for relocating, they formed a savings group, collectively bought a small piece of agricultural land nearby and made a housing project on it. The US$ 40,000 ACCA big project funds were used as loans (US$ 800 per family for both land and house), which the women will repay in 5 years, in monthly installments, to the new citywide community development fund.

CALOOCAN, PHILIPPINES

In a context where relocating poor communities to remote resettlement sites is still the norm, the housing project being built by the Binina Homeowners Association is an important example of “in-barangay” relocation. These 76 squatter families collectively bought a small piece of private land (1,260m2) in the same barangay for US$ 71,820, partly with their savings and partly with loans from the Community Mortgage Programme. The US$ 40,000 from ACCA is being used to seed the new citywide revolving loan fund, with the first batch of housing loans going to the families at Binina to construct double unit row-houses, with one loft-unit up and one down.

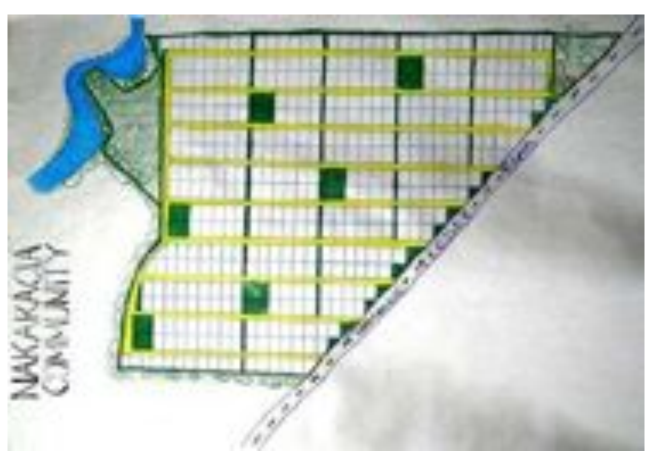


VINH, VIETNAM

When the city announced plans to evict and redevelop all of the old collective workers housing in Vinh, 29 families in one of those communities, in Cua Nam Ward, decided to propose to redevelop their housing themselves. The plans they developed, with help from the community architects, included widening the lanes, laying drains and rebuilding their small houses in an efficient layout of 2-story row-houses on 45m2 plots. They used this redevelopment plan, and the availability of housing loans from ACCA, to negotiate with the authorities, which finally agreed to the people's proposal. The project is now completed.

LAUTOKA, FIJI

When the government in Lautoka announced plans to evict about 400 households in 5 fishing communities along the coast, to expand an industrial zone, the community network used its citywide survey as a tool to negotiate a compromise, where some families who depend on fishing would stay in one consolidated area, and 200 families would relocate to a big 10-hectare piece of fully-serviced nearby land being provided by the government, on long-term community lease. The community architects helped the people plan the new layout, and the US$ 40,000 from ACCA is being used to give housing loans to the first 20 families.



RANGSIT, THAILAND

When the community network in Rangsit surveyed the city, they found 87 communities with insecure land. In the citywide planning process that followed, they divided these communities into those that can negotiate to stay and upgrade in situ and those that need to relocate - many to several big tracts of government land they have negotiated to get, on long-term lease. Most of these projects are being financed by CODI, but for poor families who cannot get loans or for various finance gaps (like this relocation of riverside squatters at Sang San), they give loans from their citywide network fund, which was set up with seed capital from ACCA.

MUANG NGOY, LAO PDR

Riverside villagers in Lao PDR are being evicted by the thousands to make way for big dams being built in the government's push to export hydroelectricity. The housing project at Buam Nalay, in the remote Muang Ngoy District in northern Lao, is an attempt to show a more humane, more collaborative and more people-driven alternative to these impoverishing evictions. 92 poor farming families, from 3 villages scheduled to be submerged by a dam, have been resettled to 16 hectares of free government land nearby. The ACCA funds are being used to develop basic services and housing improvements.

### *2.6. Community Finance*

The funds for big projects serve two purposes: to finance the project as well as to seed (or add to) a city-based community development fund. The project loans are channeled through this fund, and repayments are made back to it. ACHR sees the creation of the fund as the more important long-term achievement than the funding of the initial project. The sequence of development of these funds has varied between countries – in some countries, it started with national funds (Cambodia and Sri Lanka); in some, with started with city-based funds (Nepal, Myanmar and Vietnam); and in some, from strong savings groups on the ground (Mongolia and Lao PDR).

Ninety-eight City Development Funds have been created, with over 274,000 active savers. Some funds stay in the city, while others revolve back into a national fund and are used in various cities at different times, as in Cambodia, Sri Lanka, Philippines and Mongolia. Of these 98 city funds, local governments have contributed to 55 in 8 countries. While this amounts to only 11% of the total amount in these funds (see Table 3), ACHR interprets these contributions as an important signal of government support. ACCA funds also help leverage funds from other sources. As Table 2 in the previous section shows, ACCA's funds account for only 4% of the total budget of the big projects.

**Table 3 Community Savings and Funds under ACCA**

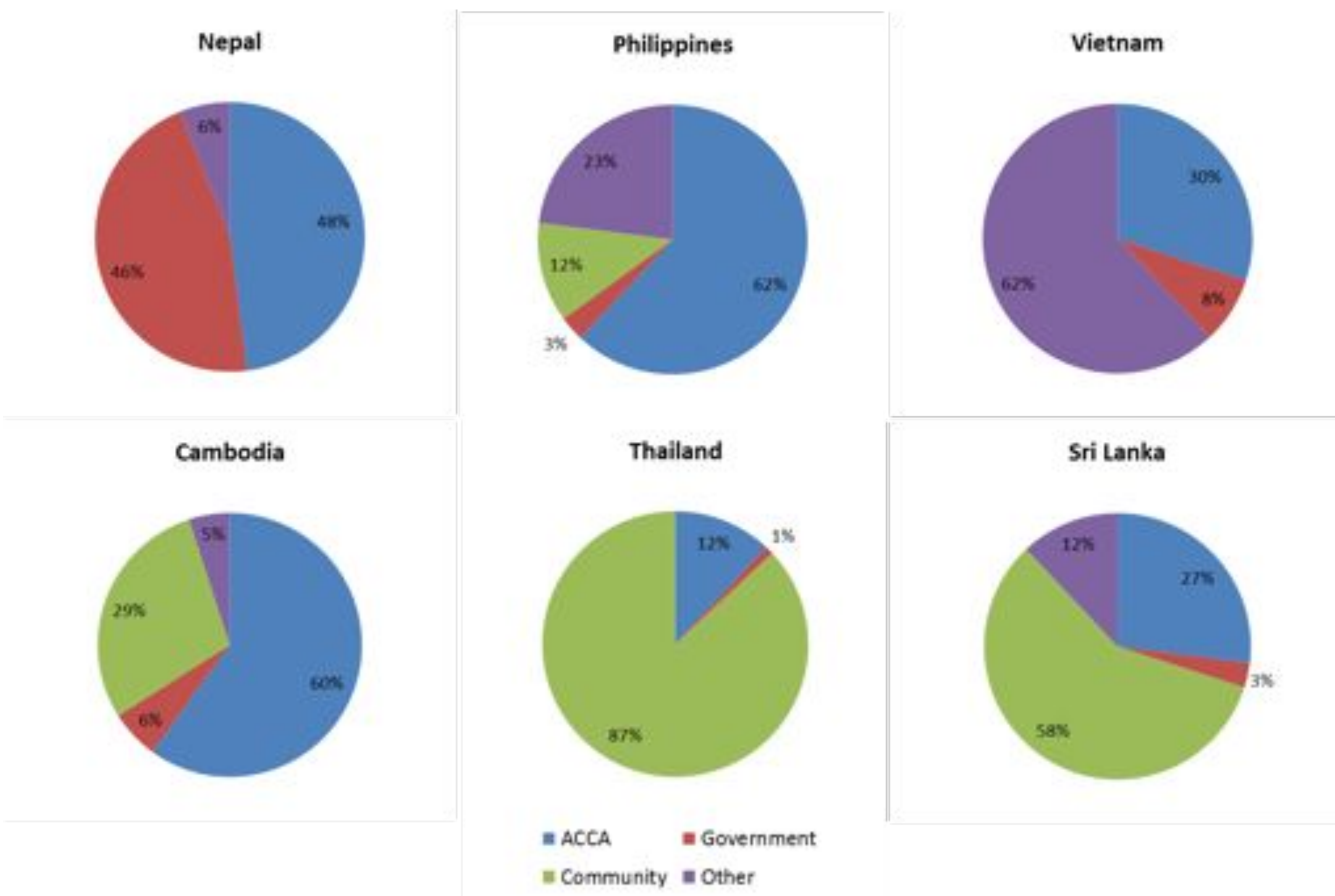
**COMMUNITY FINANCE (August 2012)** Summary of community savings and community funds in ACCA cities *(all figures in US$)*

| | | SAVINGS | | | CITY-BASED COMMUNITY FUNDS | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *# ACCA cities* | *# savings groups* | *# savings members* | *Total savings* | *# city funds* | *Funds from ACCA* | *Funds from communities* | *Funds from government* | *Funds from other sources* | *Total capital in funds* |
| 1. CAMBODIA | 20 | 283 | 9,738 | 297,580 | 15 funds | 410,000 | 120,291 | 25,100 | 11,200 | 566,591 |
| 2. INDONESIA | 10 | 141 | 2,610 | 20,460 | 1 fund | 3,100 | 4,500 | 0 | 0 | 7,600 |
| 3. NEPAL | 11 | 300 | 6,804 | 638,767 | 4 funds | 160,000 | 0 | 102,001 | 13,572 | 275,573 |
| 4. BURMA | 7 | 72 | 1,919 | 56,730 | 4 funds | 177,400 | 17,336 | 0 | 10,700 | 205,436 |
| 5. KOREA | 4 | 7 | 212 | 51,600 | 0 funds | 0 | 0 | 0 | 0 | 0 |
| 6. PHILIPPINES | 20 | 1,270 | 23,741 | 414,464 | 11 funds | 441,385 | 302,578 | 250 | 65,249 | 809,462 |
| 7. VIETNAM | 16 | 1,823 | 29,265 | 1,465,616 | 14 funds | 586,390 | 0 | 234,500 | 284,076 | 1,104,966 |
| 8. SRI LANKA | 9 | 747 | 7,848 | 1,330,048 | 0 funds | 0 | 0 | 0 | 0 | 0 |
| 9. MONGOLIA | 17 | 189 | 3,333 | 53,824 | 12 funds | 18,717 | 4,713 | 5,576 | 7,210 | 36,215 |
| 10. FIJI | 7 | 985 | 9,840 | 97,760 | 5 funds | 254,000 | 0 | 107,000 | 10,000 | 371,000 |
| 11. THAILAND | 8 | 86 | 14,773 | 1,687,120 | 7 funds | 160,000 | 1,333,552 | 120,332 | 0 | 1,613,884 |
| 12. INDIA | 2 | 51 | 800 | 4,913 | 1 fund | 40,000 | 840 | 0 | 1,600 | 42,440 |
| 13. LAO PDR | 24 | 546 | 151,459 | 16,237,568 | 22 funds | 482,000 | 37,504 | 500 | 169,757 | 689,761 |
| 14. PAKISTAN | 5 | 23 | 743 | 21,000 | 1 fund | 20,000 | 0 | 0 | 10,000 | 30,000 |
| 15. CHINA | 1 | 0 | 0 | 0 | 0 funds | 0 | 0 | 0 | 0 | 0 |
| 16. JAPAN | 1 | 0 | 0 | 0 | 0 funds | 0 | 0 | 0 | 0 | 0 |
| 17. BANGLADESH | 2 | 321 | 10,154 | 116,295 | 1 fund | 43,000 | 3,528 | 0 | 0 | 46,528 |
| 18. MALAYSIA | 1 | 1 | 6 | 98 | 0 funds | 0 | 0 | 0 | 0 | 0 |
| 19. AFGHANISTAN | 2 | 27 | 989 | 2,257 | 0 funds | 0 | 0 | 0 | 0 | 0 |
| **TOTAL** | 167 cities | 6,872 groups | 274,228 members | $22,496,100 total savings | 98 funds | $2,795,992 *(48%)* | $1,824,842 *(31%)* | $595,259 *(11%)* | $583,364 *(10%)* | $5,799,457 *(100%)* |

Source: Third Yearly Report of the Asian Coalition for Community Action (ACCA) Program, (2012).

In 2010, the ACCA Regional Loan Fund was launched as an additional, experimental fund. This new fund draws from the ACCA big housing project budget (up to US$ 400,000), and would give loans of up to US$ 50,000 to country groups at 4% annual interest, to be repaid in half-yearly repayments over a four or five year term. One of the innovations of this experimental fund has been that the loans are given in US dollars, but the repayments are calculated in the local currency, according to the exchange rate at the time the loan was given. This makes repayment easier, since any fluctuations in exchange rates are absorbed by the fund and not by the local groups. Since the funds come from ACCA's big project budget, loans from the new fund should be used to buy land or construct houses - or as a guarantee fund to access other sources of finance within the countries. So far, the fund has given eight loans to groups in the region, and all but one have followed the repayment schedules, with most repayments being made in cash (ACHR, 2012).

**Figure 5: Contributions to City Development Funds in 6 ACCA countries (Source: ACHR, 2011)**



## *2.7. Land Tenure*

As of late 2012, almost 43,000 households, in 78 projects, had received secure land tenure. In a little under half of the big projects, the communities already owned the land, or were able to purchase it. However, just as frequently, the governments and municipal agencies have contributed land. Out of a total of 111 'big' projects underway in Asia, 55 have been able to leverage 511 hectares of land from the government (both in-situ and through relocation), worth US$ 62 million. Most of the land was either given for free or as a long-term lease. In Cambodia, for example, the networks have been able to leverage free government land in most of the big project cities, and then use the ACCA program to fund a first batch of 30 or 40 housing loans, with a clear longer term plan and eventually a second batch of housing loans coming from the national Urban Poor Development Fund (UPDF). By the end of three years of the program's operations, 64 of the 111 'big' projects were on government land. Table 4 shows a breakdown of these projects by type of tenure.

**Figure 6: Sources of land for projects classified as 'big' projects by ACCA (Source: ACHR, 2012)**

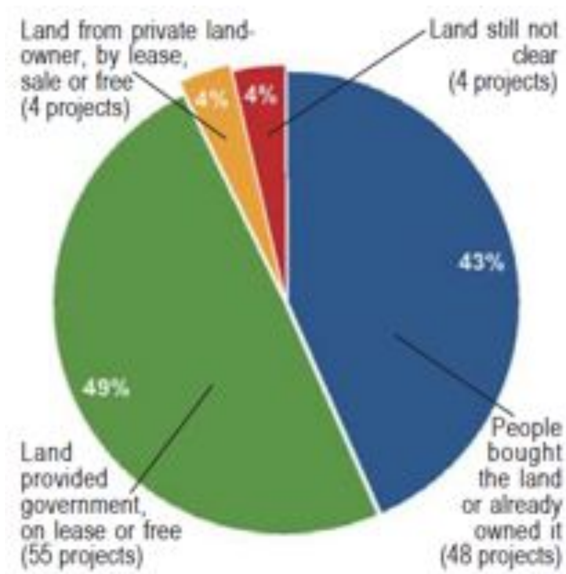


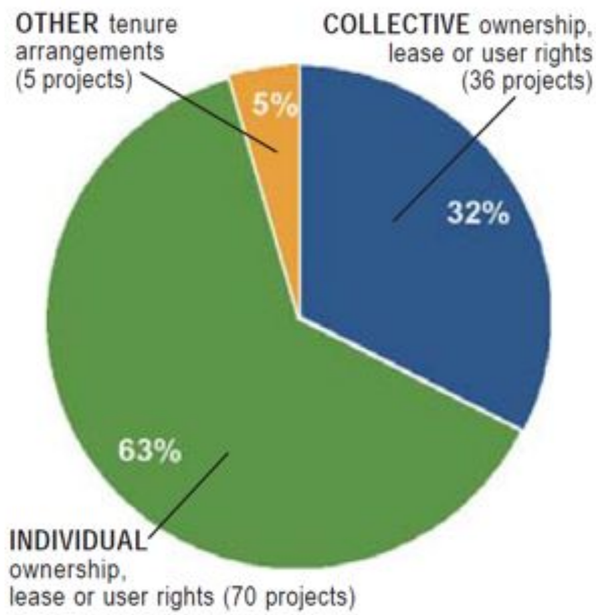
**Table 4: Big ACCA Projects on Government Land**

| Tenure terms | Countries | No. of projects | No. of households receiving secure land through project | Total area of project land | Total value of project land (US$) |
|---|---|---|---|---|---|
| **Free land with title (collective)** | Cambodia, Indonesia, Nepal, Philippines, Vietnam, Mongolia | 15 | 3,307 | 1,903,386 $m^2$ | 4,226,936 |
| **Free land with title (individual)** | Cambodia, Nepal, Mongolia, Lao PDR | 12 | 1,613 | 623,030 $m^2$ | 6,111,512 |
| **Free land with title (still negotiating)** | Indonesia, Sri Lanka, India | 4 | 2,853 | 389,741 $m^2$ | 19,049,039 |
| **Free land with long-term user rights (individual)** | Nepal, Philippines, Mongolia | 6 | 609 | 120,644 $m^2$ | 4,558,588 |
| **Long-term nominal lease (collective)** | Fiji, Thailand, Bangladesh | 9 | 6,438 | 1,952,178 $m^2$ | 9,237,795 |
| **Long-term nominal lease (individual)** | Sri Lanka, Thailand, Lao PDR | 5 | 687 | 45,100 $m^2$ | 9,759,000 |
| **Land purchased at subsidized, below-market rates, on installments** | Philippines, Vietnam | 13 | 1,109 | 72,359 $m^2$ | 9,329,816 |
| **Total** | | **64** | **16,616** | **5,106,438 $m^2$** | **62,272,686** |

*Source*: Third Yearly Report of the Asian Coalition for Community Action (ACCA) Program, (2012).

Thirty-six projects (32%) involve some form of collective tenure (leasehold or ownership), while 68% involve individual tenure. While less common, collective tenure is in fact the arrangement preferred by ACHR, as, according to them, it helps create “a real community” (ACHR, 2012).

**Figure 7: Type of land tenure in ‘big’ projects (Source: ACHR, 2012)**




### *2.8. Communities and Disasters*

Community networks in several countries are using ACCA support for disaster relief and rehabilitation. By the end of November 2012, a total of 30 community-driven disaster rehabilitation projects had been approved, in 10 countries: Cambodia (1 project), Nepal (1 project), Myanmar (3 projects), Philippines (7 projects), Vietnam (3 projects), Sri Lanka (1 project), Thailand (1 project), Pakistan (1 project) and Japan (1 project).

Some examples of disaster relief projects include those in response to Cyclone Nargis in Myanmar, in which ACHR estimates that communities built 750 personalized houses for a cost at which international donors were only able to build 100. After Typhoon Mirinae in Quinhon, Vietnam, ACCA provided a US$ 25,000 grant to women’s groups who engaged in house repairs, livelihood revival, by distributing both loans and grants to community members. These groups later helped communities in other Vietnamese cities after they were hit by subsequent typhoons. ACCA funds have also been used to provide relief after a typhoon and a fire in Manila, Philippines, as well as an earthquake in Yushu in Tibet, China.

### 2.9. The Role of Community Architects

With support from a Rockefeller Foundation grant as well as ACCA, the Community Architects Network (CAN), a network of young professional designers has been working with communities on their upgrading projects, both under ACCA and otherwise. Of the 15 countries involved in the ACCA program so far, 12 have active groups of community architects. The organization helps bring together groups of local architects in each country to work with communities, through design workshops tied to actual projects, training seminars and lectures, regional knowledge-sharing events, and publications. A small amount, US$ 5,000 per country, has been spent in 9 countries to support these activities.

Before and after a community-led bridge building project in the Philippines
(Source: Community Architect Network, 2011)

### *2.10. Policy Changes*

ACHR notes that during the three years of the ACCA program, several countries have begun to revise policies to accommodate a "people-driven model" of development. Some of these changes in EAP include:

CAMBODIA: A new national housing policy based on the citywide, community-driven and partnership-based community upgrading strategies has been implemented. The government has also started providing free land for housing the poor.

INDONESIA: The government is providing political support for people-driven housing in 4 cities. In Makassar, Surabaya, Yogyakarta and Kendari, the urban poor networks have negotiated big breakthroughs in free land for housing, government support for infrastructure upgrading and permission to upgrade riverside settlements in-situ.

KOREA: "Vinyl house" squatter communities have won the right to house registration (which is necessary to access various government entitlements like schools, health-care and services).

PHILIPPINES: In Mandaue, for the first time ever in the Philippines, public land is being given free to the communities who had been squatting on that land. Several other cases of free land for housing have followed. The first housing board has been set up in Quezon City, in which the citywide urban poor coalition is represented on the board which oversees city budgeting, urban development and land use planning. A City Shelter Code has been enacted in Iligan City, which provides a legal framework for the urban poor to take part in city government decisions on issues of housing and land tenure, and creates a provision for housing and resettlement allocation in the local government budget. The poor also helped write the City Shelter Plan for Kidapawan, where the Homeless People's Federation has also persuaded the city to allocate a portion of its annual budget to support self-help land acquisition, site development and housing projects of the urban poor - especially families living in high-risk areas.

FIJI: ACHR has signed an MOU with the Ministry of Local Government and Housing and the People's Community Network to jointly do citywide upgrading in 15 cities in Fiji. This partnership has already yielded 290 hectares of public land for housing 2,794 poor families in six of the seven ACCA cities.

THAILAND: The ACCA projects which helped to pilot new city-based development funds in a few cities have helped to ignite a city-fund movement in the country, where previously there were no city funds, except the national CODI fund. City-based funds are now being operated by community networks in over 200 cities.

LAO PDR: In a country with no history of community housing projects, the ACCA housing projects have set a new alternative, in which on-site upgrading is carried out by the communities themselves and the government provides the secure land. These projects are the first cases of squatter communities being given long-term leases to the public land they already occupy.

VIETNAM: Collective housing redevelopment standards have been changed. As a direct result of the ACCA project in Vinh, the local government has changed its policy on redeveloping the city's run-down collective housing. Previously, the existing residents were mostly evicted and redevelopment was done by contractors, to a set of standards which were unaffordable to even those who remained. Under the new standards, the communities can rebuild their own housing and infrastructure themselves and get land title.

# 3. An Assessment of Key Features of the Program

## 3.1. Subsidies, and the Grant Element

The program's subsidy is very small—US$ 4,000 to 5,000 for an average of 40 to 50 families—and spatially targets run-down areas which are occupied largely by poor people. It is intended to induce related investments, leveraging large amounts of resources from the community and some from local governments.[4] ACHR believes that the program's transparency and the minimal grant size assure that there is little room for corruption or leakage of resources to other tasks. Finally, it is designed to build the social capital of the community in ways that while difficult to measure, have a transformative impact.

The subsidy is generally provided to initiate the undertaking of a small local public good – often a concrete footpath of a kilometer or so through what had previously been a muddy, fetid passageway. The key point about the grant is that it consists of an investment selected by the community. Upon receiving the grant, community members engage in construction, and come together, often for the first time, as a community group. Local officials see the neighborhood enthusiasm and more often than not engage with it by bringing additional resources to bear. Community action almost always induces local and sometimes central government support.[5]

The subsidies provided by the program are considerably lower, by at least an order of magnitude, than those provided under typical housing programs operating in the region. The grants provided by the program represent an extremely small per capita transfer—slightly more than US$ 100 per family—but, according to ACHR, still remain surprisingly catalytic. The data in Table 2: 'ACCA Big Projects Underway: Breakdown of Financial Contributions' suggests that these transfers are in fact able to leverage large amounts of additional resources and social capital from the communities involved. They are also able to catalyze both imitators, and what were often previously indifferent local officials.

The program also operates in such a way that it can detect "signals of seriousness" on the part of a community, thereby avoiding the adverse selection problems which eliminate donors' ability to target assistance to those who value it the most (poor targeting, in turn, significantly increases the costs of providing assistance to the most needy).[6] The result is that the subsidized infrastructure investments are much more likely to be maintained, thereby avoiding one of the most serious problems with making

[4] The exact amount of ACCA funds leveraged is difficult to pinpoint precisely at this point but it is many multiples of the amounts granted and lent.

[5] Myanmar is an example of both inducing central government support and the weakness of public institutions. Following ACCA's successful efforts there, the central government agreed to support 100 such communities per year. At the same time, it continued demolition of slums.

[6] Adverse selection is a problem in markets with asymmetric information – in this case, the beneficiary knows better than the donor whether or not it values the specific kind of transfer being made. The beneficiary will of course accept the "free" or heavily subsidized good whether or not any value is attached to the specific activity being subsidized.

effective infrastructure investments.[7] One example of how ACCA uses such measures of seriousness to discriminate between beneficiaries who value the assistance more is provided by the eligibility requirements to be able to receive a loan from the City/Community Development Funds (CDF) set up by the program. Before such loans can be accessed, the communities must first show that the grants were used effectively to improve the neighborhood. Thus, through sequencing its assistance the program gets a stronger sense of the way in which the community is likely to use the funds.

In effect, the program follows the dictum raised by John Turner (1972), that housing is what poor people provide for themselves, and that giving them a little assistance in doing this is far less costly and much more effective than attempting to build housing units for those who need them. Unfortunately, in most countries this practice is not followed, with the result that much fewer units can be constructed. The lion's share of the subsidies are captured by the middle class and/or the builders through capitalized subsidies, particularly in countries where there is little or no mortgage finance to serve those who can afford to borrow (Buckley and Kalarickal, 2006). [8] The evidence is now unambiguous that demand-side subsidies are, in almost all instances, much more efficient than are supply-side programs such as publicly-produced housing.[9] Therefore, the ACCA program represents a creative way of channeling resources to such demanders of funds, with low transaction and supervision costs.

However, ACCA expenditures may still represent only a drop in the ocean relative to the urban housing and infrastructure needs in the region. Unless they are systematically mainstreamed, such projects remain, in many respects, much like distributing lottery payoffs to a fortunate few.

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[7] The recently completed World Bank study of infrastructure in Africa details the serious problems posed by lack of maintenance in infrastructure provision (Banerjee et al, 2008).

[8] On the order of one-third or more of the housing produced in China, Indonesia, Korea, Malaysia, Singapore and Thailand is produced by the public sector. The Singapore "model" is the best known of these and often discussed as a highly successful program in which more than 80 percent of the population now lives in what was public housing. The problem with this conclusion is that the program relies on the use of provident funds to support the production of housing that subsequently became quite valuable as a result of Singapore being such a successful port – the world's busiest -- in a part of the world that underwent a 30 year economic boom. It also is able to charge very high taxes on wages for contributions to these funds – which because they paid off in the value of the underlying land makes the tax less onerous. It is also a city-state with relatively modest rates of controlled urbanization. Without these favorable circumstances it is very likely that the value of the investments funded with provident funds would not have been realized.

[9] Perhaps the clearest example of this evidence is the shift by virtually all European nations to housing voucher programs which provide subsidies to demanders of assistance from housing production programs which were previously heavily relied upon.

### *3.2. Providing Finance to Address Market Failures*

#### *3.2.1. Community Development Funds*

An overview of the ACCA program reveals that CDFs have become an important mechanism fostering holistic interventions in the amelioration of the living conditions of the urban poor. Their increased involvement suggests that community groups offer a new perspective based on a demand-oriented paradigm in the provision of housing and infrastructure for low-income communities.

Given that low-income community groups are often the major contributors in the CDFs created through ACCA, the challenge has been to use the small amount of funds effectively. The budget ceiling is established at US$ 58,000 per city: US$ 40,000 for large upgrading projects, US$ 15,000 for smaller ones, US$ 10,000 for administrative purposes (such as coordination, meetings and exchanges) and US$ 3,000 to cover a variety of joint development processes within the city, like surveying, network-building, support for savings activities, local exchanges and meetings (ACCA, 2012). As seen in Table 2, governments and municipalities support the initiatives of the urban poor through financial contributions. These varying government contributions remain low (11 percent, equivalent to under US$ 600,000 in total). This can be explained both by the poor institutional framework of the majority of countries that ACCA operates, but also by the fact that the program is fairly new, and that most CDFs are initiated through ACCA-ACHR and the established federated savings groups. The fact that government contributions in the first two years amounted to only 5 percent (ACCA, 2011) before rising to 11 percent in the third year suggests that governments are gradually stepping up their involvement as the program progresses and displays results.

#### *3.2.2. Comparing Community Finance with Other Forms of Finance*

The loans ACCA provides can be described as a new form of finance: community finance. This new type of finance helps provide long-term assets to the poor in a more affordable way. However, it is also distinct in other ways from related forms of finance which also provide such services, such as municipal, microenterprise, and housing finance. In comparison to the related forms mentioned above, community finance has been less studied and has been largely overlooked in the broader discussions of financial development.[10]

The interest rate charged through community finance – on the order of 7 to 8 percent – does provide a subsidy, relative to the higher rates that would be charged on mortgage finance, if such finance existed: the neighborhoods which borrow are often considered relatively higher risk from traditional mortgage loans. However, based on evidence provided through the strong repayment record of ACCA-disbursed loans, community finance, when carefully done, can carry relatively low risks.

[10] Oxfam International does support community finance along the principles discussed here. However, it is mostly for rural based lending. Community finance has elements that are similar to microfinance, Roscas, and other forms of informal finance, but it also has some distinct features of denomination, and credit risk allocation. In particular, the interest rates are such that the funding could be provided on a cost-recovery basis by a wholesale borrower, such as the government. If, instead, like microfinance, funding had to be raised locally, the administrative costs would require much higher interest rates.

Moreover, as detailed in the annex and with a few exceptions, in the countries where ACCA operates, mortgage finance itself is not available. Importantly, with the exception of Vietnam, where inflation rates are higher, the finance provided by ACCA responds to these sorts of market failure in a way that is consistent with the lack of supply of finance. That is, the finance provided by ACCA is provided at a cost which exceeds the cost of government borrowing.

#### 3.2.2.1. A Comparison to Housing Finance

Perhaps the closest analogue to the community finance provided by ACCA's CDFs is housing finance. It also bears similarities to microfinance and even stronger similarities to shelter microfinance as described in Table 5.

As the table suggests, community finance loans tend to be of shorter term than housing finance or shelter microfinance, and generally require some subsidy for land development and/or infrastructure to catalyze the process. Still, the central difference between community finance and housing finance relies on collateral concerns. This difference arises from the realization that families who do not have clear titles to the places where they live, quite reasonably, invest less in improving them. Often these families spend their free time, or in many cases valuable hours from work and other income generating activities, guarding the premises rather than improving them.[11] The threat of the structure being demolished without compensation is omnipresent in many low-income settlements. As Hernando de Soto's *Mystery of Capital* (2000) argues, if property rights can be clarified, it is reasonable to expect an outpouring of energy and investment to enhance and make better use of the wealth involved.[12]

Improving access to housing finance has many of the same objectives: to stretch payments out over time to make housing more affordable, particularly for the poor. The most fundamental difference between ACCA finance and housing finance is that under the ACCA approach it is community members who borrow – as a community, not as individuals – to undertake investments.

This way of defining who is responsible to repay the debt can create problems because lenders prefer recourse against individual borrowers, or better yet, they prefer what is known as joint and several recourse against many borrowers, in case of default, as was done for many years with Danish mortgage bonds.[13] Lenders prefer this individual recourse because the house financed provides strong collateral in the event that the borrower does not repay. The community finance aspect of the program, with its joint responsibility for repayment, not only obviates the strength of individual housing units as collateral, it can turn business risk into political risk. Rather than being able to seize the asset of an individual to remedy a default, with community responsibility, lenders must move against an entire

[11] Erica Fields (2004) details how the lack of such rights caused families to reduce their work effort so that they could protect their home belongings.

[12] Erica Fields (2005) shows that providing property rights in Peru significantly increased investment in slum communities.

[13] See Buckley, Chapter 1, for a discussion of the Danish experience and some historical background on mortgage market development in Chiquier and Lee (2011).

community. It is, as a result, not surprising that lenders are reluctant to get involved with such lending and would only do so by charging a higher risk premium.

So since lenders bear greater risks when lending to a community rather than to an individual, why rely on a community finance mechanism? One answer is that in many instances this approach helps build and maintain community engagement, as it is the community, rather than individual households, which is responsible for repayment. For instance, if the grant finances a concrete pathway, the community takes actions to keep the drainage and pathway clear. So, community finance, contributes to asset maintenance as well as social cohesion.

In addition, by becoming part of a community savings scheme, individuals are able to rely upon their neighbors for financial assistance when there is a sudden emergency rather than on money lenders. As the recent study *The Portfolios of the Poor* (Collins et al, 2010) makes clear, this ability of very low-income families to smooth consumption – particularly when living near subsistence levels – is extremely valuable. Hence, a community finance based financial structure contributes to the ability of the neighborhood to become demanders of local public services.

How these sorts of benefits compare to the higher credit risks implied by the weaker collateral involved is a difficult empirical question. But two indirect forms of evidence suggest that the benefits can often outweigh the risks involved by a considerable margin. First is the evidence of how much the poor pay to money lenders in urban communities in order to be able to cope with sudden emergencies. Banerjee and Duflo (2009) document that rates in excess of 50 percent are not uncommon. That level of cost implies that poor households would be willing to pay a considerable amount to avoid such risks. Second, the Soros Foundation, successfully funded exactly such an insurance program during the early years of South Africa's anti-apartheid reforms. Because of the concern that mortgage loans made in black townships would go into default through political action, bankers were reluctant to provide loans to such locations. The foundation provided deductible insurance against this risk so that lenders were subject to the usual business risks of mortgage lending but the foundation would take the catastrophic risk associated with political risks. In the event, like the ACCA experience, the risks were taken without losses. [14]

#### 3.2.2.2. A Comparison to Microfinance

While community finance borrowing patterns require mutual indemnification, like microfinance and shelter microfinance, it is for longer tenures and at much lower interest rates. While microfinance could in principle ultimately satisfy the credit demands of these community groups, it would almost certainly eliminate most of the advantage realized by the infrastructure grant in catalyzing community and local government investment. Real interest rates in excess of 15 to 20 percent would necessarily slow, if not completely impede, most of the neighborhood-wide investment incentives catalyzed by the infrastructure subsidy. Community finance also provides a credit risk record that private lenders may

[14] Based on literature on the ACCA program and interviews with community leaders.

be able to use to determine the relative risks of lending on a community rather than for individually-collateralized loans. In this respect, community finance represents once more a distinct form of finance.

#### 3.2.2.3. A Comparison to Municipal Finance

An important distinction between community finance and traditional municipal financing is that borrowing is usually on a much smaller scale and more neighborhood-focused than is municipal finance – again, assuming that municipal finance is available in the countries involved, which is not the case, except perhaps for Thailand and the Philippines. If this finance can be provided at rates exceeding the government's cost of funds, then a logical question would be why such type of finance is not provided by municipalities. The answer is that even though such financial terms are sustainable, the size of the community and related household investments undertaken are too small for municipal finance to undertake—large individual ACCA projects are for US$ 45,000, a fraction of the typical municipal finance loan—if indeed municipal finance is available at all.

Additionally, the neighborhood accountability mechanisms – a basic prerequisite of ACCA's operation, are not in place at the municipal level. A standard tenet of fiscal federalism is that local public goods are most effectively financed over the area to which they provide services. In that case, the fee paid is similar to a market price rather than a tax. Hence, the administrative costs and credit risks of attempting to finance these investments through municipal finance would be considerably higher.

In conclusion, the finance provided by ACCA overcomes a market failure in the provision of finance to high return investments. This failure arises for at least two reasons: due to the general lack of financial sector development or, in cases where there is a functioning financial sector, the high costs of information—about the likely repayments of communal borrowers and/or the costs of title search to the properties—which prevent more of this kind finance from being provided.

**Table 5: Financial Options for the Urban Poor**

| | Mortgage finance | Microenterprise finance | Shelter microfinance | Community funds |
|---|---|---|---|---|
| **Objective** | Provide long-term housing finance | Provide investment finance for enterprise development and enable income growth | Provide housing improvement and improve well-being | Enable the poor to secure shelter assets, particularly land and infrastructure |
| **Borrowers** | Upper- and middle-income households | Micro- and small entrepreneurs | Those with land who need to improve the dwelling | Those without secure tenure, basic services and adequate housing |
| **Use of loan funds** | Acquisition of property | Development of business | Housing improvement | Land, infrastructure and occasionally housing improvement |
| **Role of savings** | Deposit required, savings process not important | May be required | Savings may be required; deposit may be required | Savings generally essential; deposit may be required |
| **Additional support** | Irrelevant | Generally not | Possible | Nearly always considered necessary because of complexities of land development |
| **Attitude to the very poor** | Avoid | Generally avoid; some specialist programmes | Depends upon orientation, but requirement for land likely to exclude the poorest | Generally seeks to help the very poor if they are residentially stable |
| **Purpose of the collective (community organization)** | None | May be used as guarantor | May be used as guarantor; sometimes additional community support is a part of the process | Lending is collective and the role of the group is seen as essential to address the exclusion of the poor |
| **Amount** | Generally over US$10,000 | Generally under US$500 | Generally between US$100–$5000 | Generally under US$1000 |
| **Interest rate** | Inflation plus a margin of 8–15% | Inflation plus a margin of 15–45% | Inflation plus a margin to cover costs of 10–20% | Inflation plus administration |
| **Term** | 15–30 years | Less than 1 year | 1–8 years | 3–20 years (generally shorter) |
| **Collateral** | Mortgage | Personal guarantees, goods, co-signers | Personal guarantees, goods, co-signers, mortgage | Can be title deeds but emphasis placed on collective loan management |
| **Financial sustainability** | Generally considered essential, but may be state subsidies | Desired – support for product development | Desired – support for product development; occasionally integrated with subsidies for land development | Seek state support to offer subsidies for land development and services in order to include lower income families |
| **Linking role** | None | To other financial institutions | To other financial institutions; may involve the municipality in slum upgrading programme | To state and municipality |

Source: adapted from ACHR, 2003, p6, and Ferguson, 2004b, p5.

### *3.3. A Comparison to Standard Slum Upgrading Projects*

In addition to its differences from housing finance, the ACCA approach also differs significantly from the approach of other slum upgrading projects, in a few key ways.

| | Traditional Slum Upgrading Project | ACCA Project |
|---|---|---|
| **1.** | Beneficiaries and projects are selected by governments or donors, with some community feedback. | There is a self-selection process, with community groups applying for funding for projects of their own choosing. |
| **2.** | It is difficult to differentiate the appetite for planned investments between various potential beneficiary communities. | The self-selection process, followed by the utilization of the small initial grant, acts as a "signal of seriousness" of the communities. Larger loans are dependent on how the grants are used. |
| **3.** | Community involvement follows government action. | Communities initiate the process, with politicians and other officials becoming attracted to the work after seeing its initial success and wanting to share in it. This empowerment of the poor inverts the traditional power dynamic. |
| **4.** | There is usually a one-time investment. | There is incremental investment, with the initial grant encouraging the community to first organize and prepare for the larger loan. |
| **5.** | Investment per community are large | The ACCA budget for an entire city is $58,000. |
| **6.** | While some slum upgrading projects may have loan components, it is usually a small portion, and the overall project is still seen as a government responsibility. | Loans make up the majority of funding, requiring communities to take full ownership of the project. |
| **7.** | The focus is on specific slums. | ACCA takes a city-wide approach, by conducting city-wide surveys and mapping, drafting a city-wide strategy, and linking communities to a City Development Fund. |
| **8.** | Land tenure issues are often ignored. Where titles are granted, they are usually to individual households, which encourages them to sell to meet immediate needs, and reduces their bargaining power. | ACCA helps communities negotiate for land titles, and has been very successful in this regard, particularly in getting free land from governments. The preferred form of tenure is community-held title, which helps strengthen and consolidate the community, and provides collective bargaining power. |

### *3.4. Urban Real Estate Market Development in Emerging and Transition Economies*

Of the countries visited, five are ranked in the bottom fifth of countries on a per capita income basis.[15] Their ranking based on governance indicators is even lower, and, in many cases, deteriorating over time. As the Global Integrity Index suggests, they also have a "very weak" governance structure.[16] In conjunction with poor economic and governance performance, the countries are rapidly urbanizing in an idiosyncratic context where decentralization of governance to lower levels of government is still embryonic. If we further consider their overall politico-economic past we see that the majority of countries—Laos, Myanmar, Vietnam, Cambodia, Mongolia, and Sri Lanka—have operated for many years as authoritarian, insulated, non-market economies. Their general financial sector development, with the exception of Thailand and Vietnam, is similarly deeply under-developed. As a result, the general economic environment in which the program operates is one that is littered with market and government failures: extremely weak institutions, little to no decentralization of government, nascent financial systems, usually no housing or municipal finance, high levels of corruption, and urban populations which are growing rapidly but which have very limited transportation opportunities.

Cities throughout most of East Asia—with the exception of China and Korea—have significant slum populations, 35 percent of the population or more.[17] Often these communities are located on central city properties—along canals, railroad tracks, or other public property—and have been occupied by the same households for a number of generations. In most places, the conventional wisdom, that these slum communities are temporary "way stations" on the path of migration from rural to urban living, is no longer accurate. Cities grow around these slum pockets and large numbers of the population are effectively excluded from many of the basic aspects of inclusive economic development. Moreover,

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[15] In an annex we provide a comprehensive background by looking at seven country-cases (Cambodia, Lao PDR, Myanmar, Nepal, the Philippines, Thailand and Vietnam) in order to assess the current macro-economic and institutional context through which low-income communities operate. More specifically, we look at the urbanization levels, the recent economic performance, the institutional and governance quality, the depth of institutional decentralization, the financial and housing finance sector development and the infrastructure shortages faced by the urban poor. This shows that in the majority of cases, the possibilities for the urban poor become extremely narrow due to the poor economic and institutional environment.

[16] As detailed in the annex, all of the countries served by ACCA except Thailand have "very weak" governance structures except Thailand which is rated simply as "weak." Perhaps even more discouragingly, if one ranks the countries served by ACCA, including middle income Thailand, each of them has a lower relative rank on the quality of institutions compared to their rankings in terms of per capita income. In other words, if one suspects that the quality of institutions is broadly highly correlated with the level of income – higher income countries can either pay for better institutions or, alternatively, better institutions create the conditions to generate higher incomes, for the countries served by ACCA, performance on institutional quality is lower than would be expected and corruption is higher. As far as decentralization goes, Cambodia, according to one recent Bank study, is the second least decentralized country of more than forty countries examined. Vietnam remains a centralized country as detailed in the *Vietnam Urbanization Review.*

[17] As detailed in the annex, these estimates are from UN Habitat. The Bank's *Vietnam Urbanization Review* indicates that the share of slums there was over-estimated. And, while there have been problems with such estimates and the incentives to exaggerate the scale of the problem, it is, nevertheless, clear that in most cities in the region the share of slum populations is significant and often growing.

this situation is likely to get far worse in the coming years, as urbanization trends throughout the region imply enormous urban population increases, while institutional quality measures imply that local governments have little authority and even less capacity to address the issue.

Cumulatively, this situation implies considerable, sometimes overt, conflict over the use of rapidly appreciating inner city land. The conflict is between those who would exploit emerging market economies and the poor who have often lived for many years on the now valuable land. The rapid rates of economic growth and transformation of many of these poor economies create extraordinary pressure on urban land prices, particularly in the central city locations that—due to the weak transportation options and non-market structures of the economies—were home to many poor communities. These price increases have led to real estate market bubbles even in more sophisticated market economies and were important contributors to Thailand's and Indonesia's roles in the Asian financial crisis, as noted by Quigley (2001) among others. Additionally, in many urban centers there is a crowding-out phenomenon, whereby people of higher-income brackets are living in housing which could be utilized by people from lower-income brackets.[18] Under these conditions, for low-income groups working in the informal sector and usually residing in informal settlements, the alternatives are seriously restricted.

Urban poverty is also manifested in infrastructure shortages and the lack of access to basic services. Even though most urban residents in the sub-region have access to improved water sources, ranging from household connections to public standpipes, in many cases, water is supplied intermittently and contamination, due to waste entering the pipes or unsanitary storage conditions, is common. In several cases, widespread environmental degradation has devastating health effects for the low-income groups. Piped sewer systems reach only a small percentage of the urban population of the Philippines; 15 per cent of the population of Manila has a sewer connection. 192,000 tons of domestic waste enters the drains and groundwater yearly with minor treatment in un-maintained septic tanks.[19] Rivers in Vietnam's major cities are seriously polluted by untreated industrial wastewater. Lakes, streams and canals serve as sinks for domestic sewage and municipal and industrial wastes.[20] In the Lao PDR, pollutants from roads, commercial and industrial areas and private properties wash into drains and watercourses, which act as secondary sewers carrying industrial discharges, septic tank seepage and overflows in wet weather.[21]

### *3.5. Placing the ACCA Program in the General Context*

In this context, ACCA attempts to operate as a bridging mechanism between those who live often on low-lying, previously undesirable, inner city land, and those who would now put this land to

[18] In Indonesia, the government estimates that there is a current backlog of 1.7 million houses with a need for approximately 800,000 additional units on an annual basis.

[19] World Bank, 2007: 19.

[20] World Bank, 2003: 22-23.

[21] World Bank, 2005: 33-34.

different uses. The intent is to give the poor an opportunity to become part of the development process, instead of being pushed aside, without stopping development altogether.

Slowing the process by which land can be redeveloped does not mean that the land is permanently placed in a use that is significantly below that of its highest and best use. The CODI program, for instance, provides assisted communities with long-term leases for 30 years that allows them to eventually realize some of the gains that can be made on their properties. These leasehold agreements, which warrant further study, appear to be an effective way of providing poor community members with a basis for discussions with private developers. This mechanism seems particularly useful in areas where the land being considered for development is public land, as in Thailand, and in opposition to privately-owned but encroached upon land, as in the Philippines. In the former case, a transfer to a lease-hold allows the current residents to achieve an ownership status that offers the opportunity to engage developers in discussions of how and when the area they occupy can be developed. The potential for shifting the locus of discussion from the public sector, which does not operate transparently, to those most directly affected has enormous potential benefits in terms of more equitable and less speculative real estate development. Therefore, these agreements produce a slower development process, but one that is less prone to booms and busts and additionally, a process that does not overlook the implied if not ownership then long-term resident rights of the poor.

The efforts of physical improvements through isolated community-driven upgrading programs have been documented in the literature, but less attention has been given to the financial mechanisms that enable the urban poor to access funds for the improvement of their living environment. Frequently though, the narrow outreach of institutional finance in developing countries represents a major impediment, obliging the majority of low-income citizens to rely solely on household savings and untrustworthy informal moneylenders. In contrast, institutions like the CDFs offer new alternatives and enhance the access of urban poor to finance by filling in the fissures left from the embryonic and exclusionary private financial institutions. In this, CDFs overcome an important market failure in the provision of finance to high return investments.

This alternative does not aim to replace already existing institutional and financial structures but, through the incremental process gains it produces, it focuses on promoting systemic change by influencing policy orientations and the overall institutional architecture of each country.

### *3.6. The Key Program Feature – Demand-Responsive Action*

The demand-side orientation of the ACCA program, augmented where necessary by technical assistance, appears to provide a more efficient way to channel resources so that poor people become more engaged in addressing their circumstances. Not only does the community's involvement as decision-makers have a strong role to play on the cost effectiveness of the investments undertaken, it also creates communities which have successfully interacted with local government in ways that are likely to lead to deeper and more constructive engagement with their local officials.

The assistance appears to have the sort of transformational systemic effect alluded to earlier. The ACCA program suggests that very a small subsidy can elicit larger and seemingly on-going actions. This particular form of demand-responsive action has been tested on both a national level, through CODI, and now on a regional level in a number of very poor, institutionally weak countries. [22]

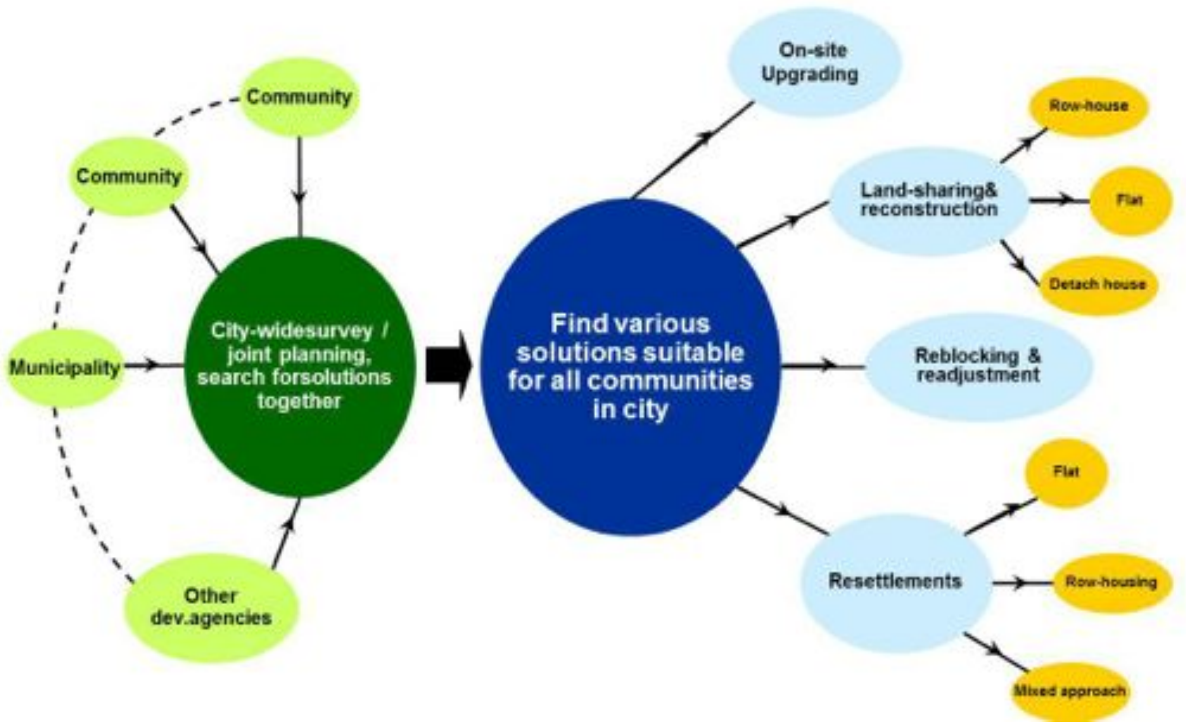
A community meeting in Bangladesh (Source: Community Architect Network, 2011)

### *3.7. The Community Organization Development Institute's Experience*

It is important to note that ACCA's rationale, while new to many of the countries involved, has been tested, with apparent success, at a national level in the specific context of Thailand. The rationale of the program is clearly based on the Thai example, a precursor in the field as well as in institutional architecture, which is being replicated in other ACCA operating countries such as Cambodia.

[22] With the exception of Thailand and the Philippines these countries are all IDA-eligible.

**Figure 8: The approach to housing taken by CODI, on which ACCA is modeled (Source: ACHR, 2011)**




The US$ 100 million Thai government program was designed by the director of ACHR, and borrowed from the structure used in the Community Mortgage Program in the Philippines. She was also the first director of CODI, so, unsurprisingly, the CODI structure is quite similar. In other words, ACCA's structure and operation is built very carefully on the Thai experience, which grew out of an NGO movement and now provides about US$ 20 million per year of similarly structured assistance to communities throughout Thailand. Like CODI, ACCA focuses on community engagement as the key stratagem in allocating resources and assuring that those resources are used effectively and maintained. Thus, while ACCA is indeed a new program, its conceptual component is based on the same organizational traits and developed by the same people who conceived and implemented the CODI program.

Indirect evidence as to the likely success of an expanded ACCA program can be garnered by examining the evidence on the effectiveness of the CODI program, which was recently subjected to a rigorous statistical evaluation. This evaluation is a quasi-experimental empirical analysis by the Thai Development Research Institute (TDRI), a well-regarded Bangkok-based think tank. Discussions with the authors indicate that communities assisted by the program have had significantly improved conditions relative to those in similar communities which did not receive assistance. House values increased by significantly more than the subsidy amount, implying that the market value of the subsidy was higher than the government expenditure. In addition, families in assisted communities increased their educational expenditures for their children, and had much improved business prospects than those in similar, but unassisted communities. The subsidy expenditures per unit under this program are much lower than those realized by the parallel housing program operated by the Thai government and by the sorts of housing programs generally adopted by governments. One of the findings of the study was that with much larger amounts of funds over a long period of time, a public sector agency that engages with local communities can expand its reach enormously, and improve basic living conditions of many more households than equivalent traditional public sector supply-side programs. In many ways, the CODI program represents what might be viewed as the best practice frontier for public sector engagement in slum upgrading.

Consequently, in many ways, the ACCA program can be viewed as the regional implementation of a Thai national program. However, instead of being run by a government—particularly in countries with very low public institutional strength—it is managed by a long-serving effective NGO which has been instrumental in creating a government program where such a program can operate. Importantly, , in the ACCA program, as in the CODI program, decision-making has been decentralized to a network of like-minded local organizations, and these organizations, in most instances, appear to have shown that they too are able to work credibly and effectively with poor community groups.

## 4. Conclusions and Recommendations

The ACCA program provides well-designed subsidies, a new form of finance, and a stronger negotiating platform for the poor in the urban land development process. Such a platform can simultaneously help moderate the sorts of extreme real estate price movements that have been experienced in the region, while it builds greater social cohesion, unlocking what appears to be the considerable energy and resources of the poor. It also induces local officials to become more engaged in the process of making their inner cities more livable and healthy.

The ACCA mechanism appears to be a cost-effective means to address what is inevitably going to be a major problem in the region, and to build the kind of inclusiveness that plays such an important role in countries' growth trajectories. The region has the advantage of not having the severe income inequality that characterizes many other countries, and particularly those with large slum populations. However, it is unquestionably the region of the world where higher economic growth is having the most profound effect on urban land markets in ways that are likely to continue and intensify. Against this kind of background, it is clear that there is no single best answer to address the issue of how to avoid the expansion of slums and exclusion in the region's growing cities. But what also seems clear is that unless attention is focused on some of the more cost-effective approaches, such as those embodied in the ACCA mechanism, the region will experience increasing problems with slums.

Given the limited scope of this study, which could only examine a very limited number of the many assisted locations, it is difficult to draw firm empirical inferences about the ACCA program's effectiveness. As mentioned above, econometric evidence is beginning to be produced about the beneficial effects that community projects have had in the improvement of the living situation of the urban poor, as in the TDRI study of the CODI project.

Success is also defined by more conceptual but perhaps even more important notions like those of gender and community empowerment. Discussions with many of the women-driven savings groups involved in the projects of ACCA reveal important information in this regard: for the most part, illiterate women who know and understand their communities demonstrate a deep confidence in and understanding of the process. They are able to articulate not just their communities' work but also their motivations for involvement in the community groups. This suggests that small amounts of funding involved in the ACCA program generate significant response from community members. Future analysis should capture this kind of transformation of long established societal relationships between the often-excluded urban poor and the rest of the city.

In sum, while this study is by no means an audited account of what the ACCA program has accomplished over its short history and its geographically diffuse spread of activities, it suggests that the concept is strong. The empirical evidence on the soundness of the approach is clear for Thailand. Moreover, the central differences between the places where ACCA operates and the successful CODI program—weak institutions, corruption, lack of finance and almost no decentralized government—are such that NGO provision is much more likely to be successful in such locations than is public provision of these services. Hence, the choice of an NGO as the implementing instrument for these countries appears to be sound and, in the limited number of sites visited, is demonstrably effective.

### 4.1. Directions for Future Research

The ACCA approach may not be adequate in all circumstances. A range of preconditions – such as house price conditions relative to income levels, whether the land is publicly or privately-owned, whether the local government is accountable and responsive, and basic environmental concerns – may make the ACCA approach very relevant in some countries in the region, but possibly less effective in others.[23] Further research would be required to understand better the replicability and scalabity of this approach: Under what set of country and local circumstances is this kind of instrument likely to provide an effective way for governments and donors to transform the agenda so that more inclusive cities are developed? Once these conditions are identified, can either new or existing ways of doing business be used or modified to help use this mechanism to expand the reach of assistance and finance to the urban poor?

While this study touched on land grants and long-term land leases by governments, the issue of land tenure needs to be further explored. How does the ACCA approach adapt to varying property regimes? Which approaches have worked better than others? How does a community's perception of its tenure security influence the kinds of investments made?

In order to fully understand the impact of this program on communities, a detailed study over a period of time is required, ideally with a non-participating community as a control group. It would also entail an analysis of the interactions of the participating government and non-government organizations, how they interact with the community, and how the community group itself is organized and run.

### 4.2. Recommendations for Donors

Perhaps the most important step for donors is to recognize that the problem to be addressed is not one that can be resolved simply by producing more housing – as has been emphasized by almost all government programs – or lowering the standards of the housing and related services provided by the public sector. The number of families who now live in slums in Asian cities, and the hundreds of millions who will soon to be added to them, requires a fundamental rethinking of two factors: the per unit costs of assistance that can be accommodated on the scale required, and the institutional structure through which the assistance can be provided.

[23] See Figure 3.1 in *Vietnam Urbanization Review* (2011) for a discussion of how income and housing standards affect affordability across the income distribution.

At the per unit subsidy costs implied by the ACCA program, more than 20,000 families could be reached by a program similar in size to a recent World Bank loan to Vietnam for US$ 40 million. Moreover, most of that funding would be sustained in a revolving fund that could continue to grow and assist more families. Indeed, such a program would be sufficient to generate US$ 10 million in annual loan disbursements, about half the size of the current Thai program.

The ACCA/CODI program has shown that it is able to engage local communities at very low per unit cost in projects that induce very high rates of leverage of local resources and energy. Indeed, given the small size of the initial grant it is remarkable that the grants have as much attractiveness as seems to be the case. Such effective targeting has much to recommend as far as costs are concerned. The fact that ACCA exploits a highly decentralized approach to community decision-making also appears to play a significant role in containing costs and keeping expectations realistic. The decentralized transparency that characterizes the ACCA program is likely to play a key role in being able to increase the scale of this program, as most of the administrative costs are in effect borne by community members who engage and organize community activities.

One measure that is likely to result in efficiency gains is to work on separating the grant and loan programs, so that ACCA focuses on grants while loans are provided by other related mechanisms. A potential longer-term weakness of the ACCA program is how well the finance will be sustained over the longer term by institutions, Urban Poor Funds, which are not professional intermediaries. While these organizations are not professional financers, neither are most microenterprise finance institutions, at least in the early years. Nevertheless, if ACCA were to focus on the grant element of the program, with the finance undertaken by more experienced financial organizations, it may make the program more sustainable and accountable.

One way that ACCA could be structured to accommodate aid from other donors would be to channel the resources through CODI, or a similar institution which could serve as a regional implementer of programs with which it has a great deal of national experience. At the same time, it is important not to move the policy discussion to the central government level, away from the local level where decisions about inclusion and space for engagement between communities and government take place. For instance, the Vietnamese discussions, which are more government based, appear to be less effective than the Cambodian discussions which are much more localized.

The experience of ACCA and CODI suggest that it is possible to scale up to a much larger program. Exactly how large a program could be developed, whether it should be a governmental organization like CODI or continued to be based on NGOs, and who should fund it should be the subject of careful analysis.

# 5. Annexes

## *5.1. List of Interviewees*

**From PHILIPPINES:**

- Ms. Ruby Papeleras, national community leader, Homeless People's Federation Philippines (HPFP)
- Ms. Celia Tuason, national leader (HPFP)
- Father Norberto Carcellar (PACSII NGO)

**From NEPAL:**

- Ms. Smita Chettri, community leader from the Women's Cooperative in Kathmandu
- Mr. Mahendra Shakya (Lumanti NGO)

**From VIETNAM:**

- Mme. Vu Thi Vinh (ACVN)
- Mr. Nguyen Huu Dong, community leader from the CDF-Network in Ca Mao City)

**From CAMBODIA:**

- Ms. Sdoeng Vannviniyouth (Community Savings Network of Cambodia - CSNC)
- Mr. Phok Sok Heng (Community leader)
- Mr. Somsak Phonpakdee (UPDF / CDF)

**From SRI LANKA:**

- Mr. K. A. Jayaratne (Sevanatha NGO, Claf-Net Fund)

**From THAILAND:**

- Ms. Chan Kaupijit (Community leader from Klong Lumnoon, in Bangkok)
- Ms. Sanong Ruaisungnoen (Community Leader from Baan Rom Yen Community, in Chum Phae CIty, Khon Kaen Province)

**From the ACHR Secretariat**

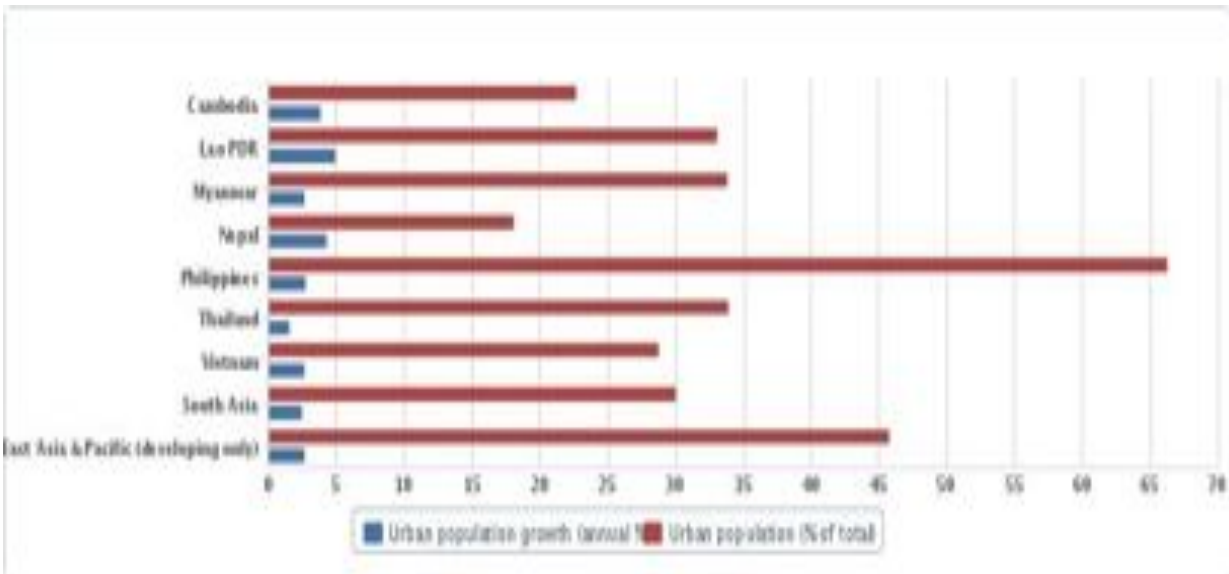
- Ms. Somsook Boonyabancha

- Mr. Maurice Leonhardt
- Mr. Thomas Kerr
- Mr. Pakorn Chalitanon
- Ms. Natvipa Chalitanon

### *5.2. Data on Regional Economies*

This annex brings together data on the characteristics of selected countries served by ACCA to provide some perspective on the likely demand for such services and the ability of the government to respond to these demands. We begin with showing that the countries in the program are urbanizing at a rapid rate. Only Thailand is urbanizing less rapidly than the regional average.

**Figure A.1 Urban Population % and Growth in Selected Southeast Asian Countries**

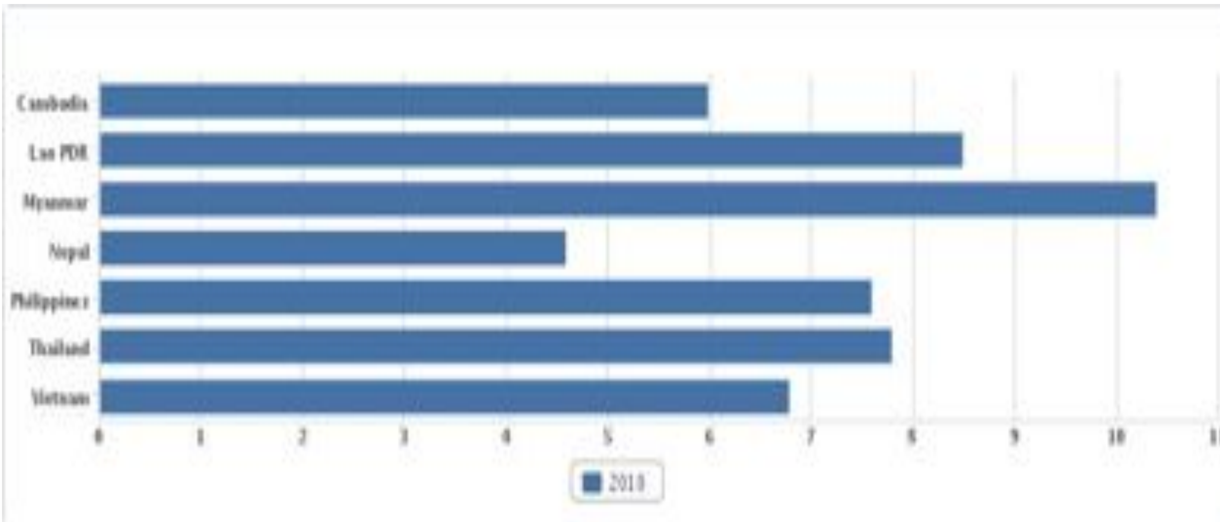



*Source:* World Development Indicators, World Bank.

**Urbanization in Southeast Asia** Southeast Asia is steadily urbanizing. In 1950, 15.5 percent of its population lived in urban areas. In 2010, it was 41.8 percent and the number is expected to increase to 50 percent by 2025. In general, the urban population growth rate in Southeast Asia is higher than the average population growth rate. All of the selected countries below -- besides Thailand -- have an urban population growth rate higher than the average of the region. An important characteristic of the urbanization process is the development of secondary cities. Although, the major cities of the region such as will continue to grow rapidly, the most important increase in the urban population is indeed predicted to occur in smaller cities and towns.

**Economic Growth and Urban Poverty.** Southeast Asia has emerged strongly from the global financial crisis. The average economic growth rate of six countries in the region (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) is projected to reach 7.3 percent in 2010, more than twice the world average growth rate. Figure A.2, depicts the important increases in the growth rate of GDP for most of the seven countries studied.

**Figure A.2 GDP Growth in Selected Southeast Asian Countries (2010)**




*Source:* World Development Indicators, World Bank.

Still, beyond the rapid economic growth and the resilience to the global financial crisis, most Southeast Asian countries face acute urban poverty, with close to half the urban population in many countries residing in informal areas, according to UN Habitat estimates. To be very conservative, halving these estimates would still result in enormous numbers of slum dwellers.

**Table A.1 Slum Populations in Southeast Asia**

| Country | Slum population ('000) (2005) | Urban population ('000) (2005) | Slum population as % of urban population |
|---|---|---|---|
| Cambodia | 2,309 | 2,926 | 78.9 |
| Indonesia | 28,159 | 107,068 | 26.3 |
| Lao PDR | 969 | 1,222 | 79.3 |
| Myanmar | 7,062 | 15,487 | 45.6 |
| Philippines | 22,768 | 52,101 | 43.7 |
| Thailand | 2,061 | 7,927 | 26.0 |
| Viet Nam | 9,192 | 22,257 | 41.3 |
| Southeast Asia* | 72,520 | 208,988* | 34.7 |
| * excluding Brunei, Malaysia, Singapore and Timor-Leste | | | |
| Source: UN-HABITAT, 2010. | | | |

**Institutions, Governance and Decentralization** A great variety of historical experience has influenced the evolution of institutions, governance and local government structures in the Southeast Asian region, ranging from the intermarriage of longstanding local traditions of self-governance to organizational forms imported through the colonial experience and Marxist-Leninism. Traditions of community or grassroots self-governance have long existed in the region, though not necessarily in the more sophisticated organizational forms of local government that exist today. Further on, compared to the rest of the world, the extent of decentralization in the majority of countries examined remains low, with a decentralization index extending from .004 for Cambodia to .066 for Philippines. (Figure 3).

**Figure A.3 Decentralization Index World Map**

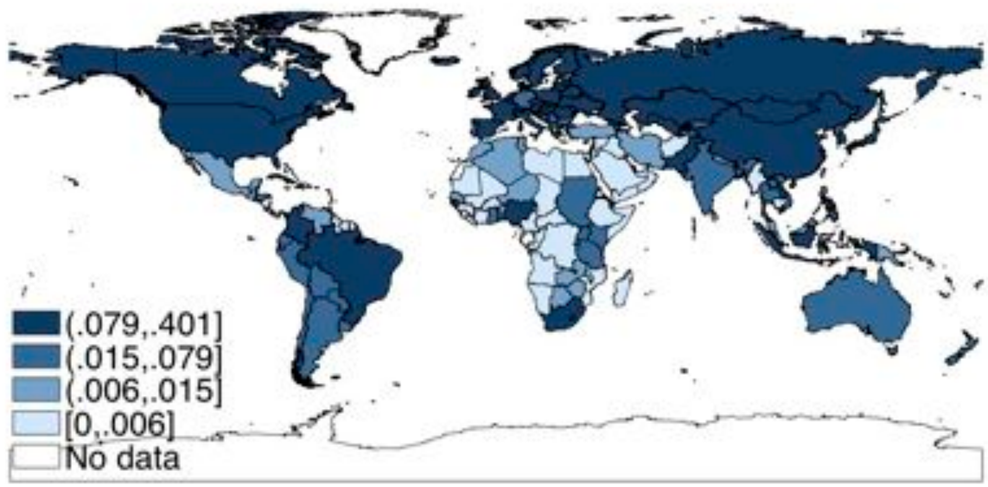



Figure 2: Index of decentralization 2005 - World Map

*Note* Source: Ivanyna and Shah (2010). Each country is colored according to its index of decentralization, given by the formula (3). The lighter is the color the less decentralized the country is.

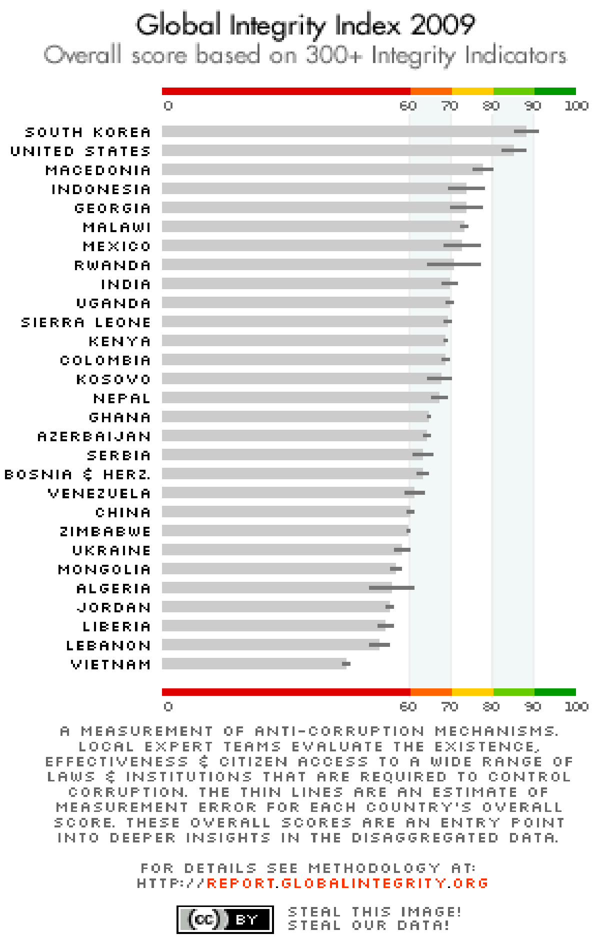
Based on the Governance Indicators Database maintained by the World Bank, the institutional quality varies largely with Thailand and the Philippines performing far better than the other countries (Table A.2). What seems alarming is the fact that with the exception of Philippines and Vietnam, the institutional quality over a period of ten years has deteriorated from what are already very low levels. Myanmar, for instance, is now one of the world's worst governed countries. And even Thailand, which has a relatively high ranking on institutional quality has a lower ranking on this score than it does on per capita income on which it ranks at the 47$^{th}$ percentile.

**Table A.2 Institutional Quality Percentile Rank in Selected Southeast Asian Countries.**

| Years | Cambodia | Lao PDR | Myanmar | Nepal | Philippines | Thailand | Vietnam |
|---|---|---|---|---|---|---|---|
| **1998** | 16.86 | 27.14 | 6.72 | 37.34 | 50 | 60.98 | 34.58 |
| **2009** | 19.7 | 18.26 | 3 | 19.44 | 53.76 | 42.12 | 36.68 |
| Source: World Bank, Worldwide Governance Indicators and own calculations. | | | | | | | |

Additionally, the 2009 Global Integrity Report places Vietnam and Cambodia in the Grand Corruption Watchlist, among a restricted group of 16 countries where key anti-corruption safeguards are so weak that the risk of large-scale theft of public resources was greater than in most countries (Figure A.4).

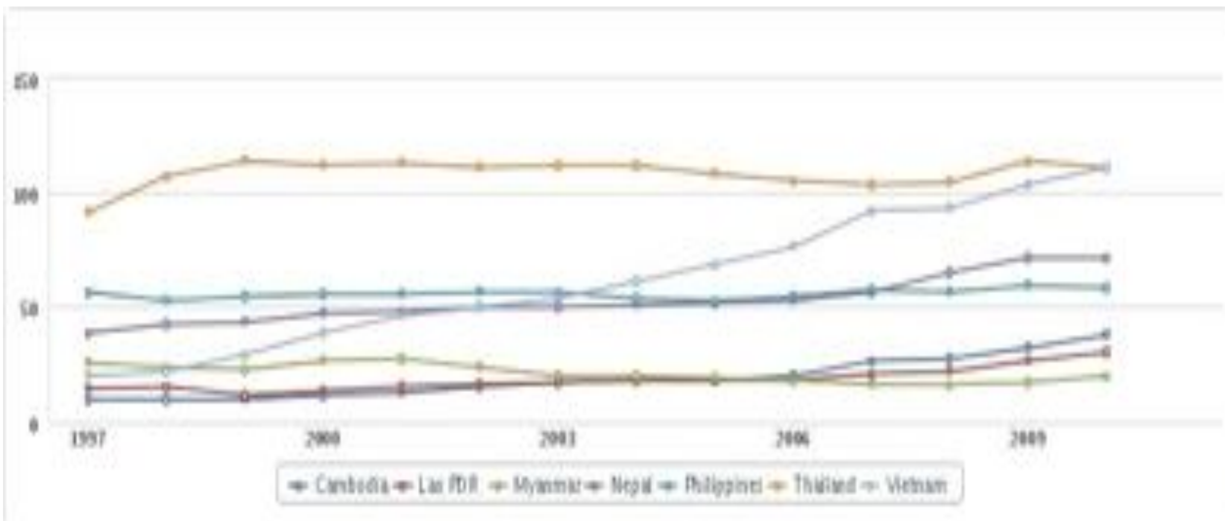
**Figure A.4 Measure of Anti-Corruption Mechanisms is Selected Countries.**




*Source:* Global Integrity Index, 2009.

**Financial Sector Development.** Over the past decades, the emerging economies of Southeast Asia have seen substantial growth and deepening in their financial systems. For the majority of the countries in this study, however, financial development has been very slow. With the exception of Thailand, which its financial system stands out as the most developed the rest of the countries M2/GDP is relatively low. The Philippines follow Thailand while Vietnam has had by far the most impressive growth. The rest of the countries remain rather underdeveloped in terms of depth of their financial sector (Figure A.3).

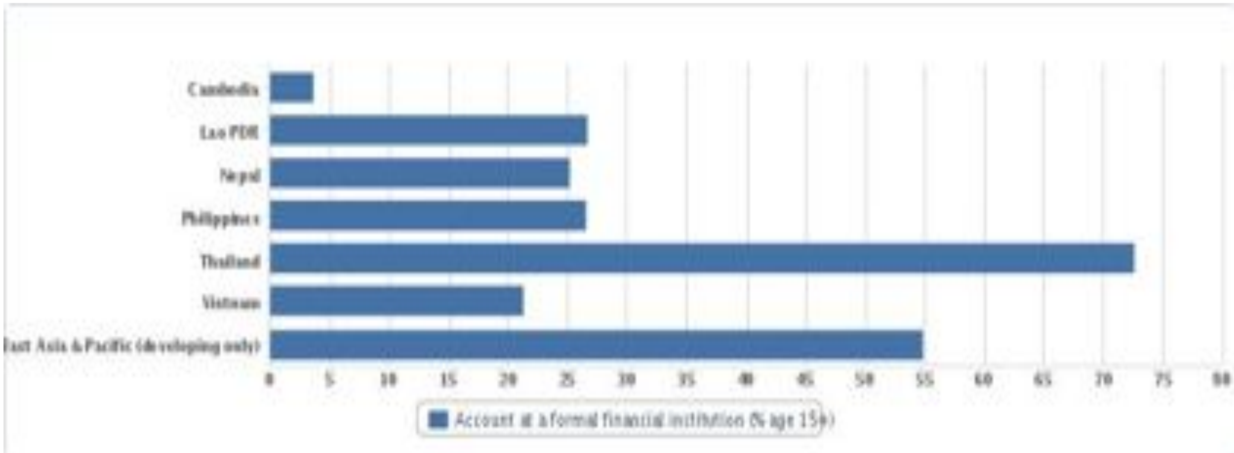
**Figure A.5 Money and Quasi Money (M2) as a% of GDP.**




*Source:* World Development Indicators, World Bank.

This result is accentuated by recent data from the financial inclusion database (FINDEX). In a recent study that measures financial inclusion worldwide, Kunt and Klapper (2012), suggest that financial depth and financial inclusion are distinct dimensions of financial development—and that financial systems can become deep without delivering access for all. Therefore, large amounts of credit in a financial system—both commercial and consumer— do not always correspond to broad use of financial services, because the credit can be concentrated among the largest firms and wealthiest individuals. Indeed, the use of formal accounts is imperfectly correlated with a common measure of financial depth—domestic credit to the private sector as a percentage of GDP— particularly in the bottom half of the distribution of economies. Country examples bear this out. In our case, Vietnam has domestic credit to the private sector amounting to 125 percent of GDP, but only 21 percent of adults in the country report having a formal account. Comparing the 6 countries of our study to East Asia and the Pacific average (developing countries only), we clearly see that in most cases inclusion– besides in Thailand – is far lower than the regional average (Figure A.6).

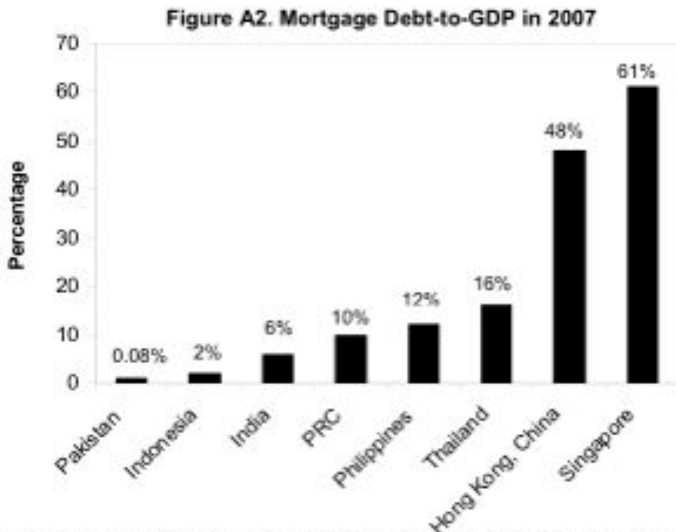
**Figure A.6 Adults with an Account at a Formal Financial Institution (2011).**




*Source:* Global Findex (Global Financial Inclusion Database), World Bank.

**Depth of Housing Finance and Low-Income Housing .** Over the last 20 years, market-based mortgage finance systems have flourished across Southeast Asian countries. This expansion, especially to lower middle-income countries, has had significant results. However, in their majority, the emerging Southeast Asian housing markets remain quite underdeveloped. The mortgage debt-to-gross domestic product (GDP) ratio, a measure of the depth of a country's housing market, is well below 15 percent in a number of countries (ADB, 2009). This statistic is particularly striking when compared with other emerging market regions. For example, the average mortgage debt-to-GDP ratio in South Asia is 2.9 percent, and in East Asia and the Pacific it is only 1.5 percent. This compares with a mortgage debt-to-GDP ratio of 7 percent in Latin America and the Caribbean, and 11 percent in sub-Saharan Africa (ADB, 2009).

**Figure A.7 Mortgage Dept-to-GDP 2007.**




GDP = gross domestic product, PRC = People's Republic of China.
Source: F. Wamock and V. Wamock. 2007. Markets and Housing Finance. *National Bureau of Economics Research.* October.

Furthermore, the lack of longer-term funding sources coupled with a limited understanding of housing finance causes financial institutions to restrict mortgage lending in terms of volumes and market segments. This results in a lack of understanding of a particular market's needs, as well as untapped opportunities. Because of lenders' conservative practices, and due to the difficulties in obtaining standard credit information, financial institutions often do not have the capacity and tools to assess creditworthiness of individuals, particularly those who are self-employed, which serves to reinforce higher-income lending practices that are currently notable in many markets throughout Asia. Given a large informal labor market in Southeast Asian region, mortgages remain inaccessible to the majority of the population. This reality is evident through the serious shortages of adequate housing throughout the region.

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