SUF Finance Facilities: What they are, why they are important & how they work

Contribution by Ruth McLeod to “Improving Slum Conditions through Innovative Financing”

Stockholm 17 June 2008

Facility Functions - “Finance Plus”

Bring together key players involved in city & national slum upgrading strategies to address the challenge of financing slum upgrading

Catalyse the integration of commercial finance into slum upgrading

Provide a means to blend different forms of funding to maximise affordability

Provide a financial mechanism to blend different forms of funding to maximise affordability

Generate data & information for planning & monitoring slum upgrading
# The Facilities

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Ghana</th>
<th>Sri Lanka</th>
<th>Indonesia</th>
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<tbody>
<tr>
<td>CITY</td>
<td>Tema &amp; Ashaiman</td>
<td>Sekondi</td>
<td>National</td>
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<td>Takoradi</td>
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<td>Yogja</td>
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<tr>
<td>SERVICES TO BE OFFERED</td>
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<tr>
<td>Guarantees for wholesale loans</td>
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<tr>
<td>Guarantees for project loans</td>
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<tr>
<td>Technical assistance for project design</td>
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<tr>
<td>Technical assistance for loan negotiations</td>
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<td>✓</td>
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<tr>
<td>Grants for initiating projects</td>
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<tr>
<td>SOURCES OF FUNDS</td>
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<tr>
<td>SUF PMU</td>
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<td>✓</td>
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<tr>
<td>Local Government</td>
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<tr>
<td>National Government</td>
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<tr>
<td>TYPES OF INITIATIVES</td>
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<tr>
<td>Planned home improvement programme</td>
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<td>Planned area improvement project</td>
<td>✓</td>
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</tbody>
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# Stakeholders

- Government
- Traditional Authorities
- Market
- Local Government
- Civil Society
- Local Government
Forms of Assistance

Loan guarantees to facilitate access to commercial bank loans

Technical assistance to ensure the development of bankable projects and programmes

Catalytic grants to provide critical inputs for successful project planning & implementation

Financial Flows

Guarantees are released as loans are repaid
Guarantee Arrangement

Intermediary Bank

Tripartite Guarantee Agreement

Trustee Bank

Guarantor
(Finance facility)

Commercial Lending Bank

Loan agreement

Intermediary
e.g. Womens Bank

Loan agreement

End Borrowers
(saving groups and/or individuals)

Building in Margins for stakeholders

INTEREST RATE STRUCTURING

Lending Bank

X%

Intermediary

X+2%

Community savings & loan group

X+4%

End Borrowers
SUF Finance Facilities & Other Funds

- Urban Poor Funds
  - CLIFF
  - SUF
  - GUARANTCO & other PIDG Facilities
  - SDI International Urban Poor Fund

Lessons Learned - Facilities

- Local Finance Facilities generate commitment and focus on city-wide slum upgrading
- Potential for long-term & more complex slum upgrading initiatives to be channeled through facilities using “Finance Plus” approach
- Local (both national and municipal level) facilities help to stimulate project ideas
- High delay & fall out rate between project concept and actual projects
- Rising interest rates interfering with affordability (a particular issue in Sri Lanka)
- Community savings and loan systems are crucial element
An independent firm associated with Deloitte Touche Tohmatsu

Thank you