



## **Overview of existing International Financing Facilities for Slum Upgrading and Infrastructure Provision in Developing Countries**

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# BILATERAL FACILITIES

## SIDA GUARANTEES

Sida's guarantees can be used to facilitate foreign financing or financing from local capital markets. Sida works with four types of guarantees. Each guarantee is tailor-made for a specific project and guarantees can also be combined with each other. The four kinds are:

- **Credit enhancement guarantees** used to raise the creditworthiness of borrowers to enable them to borrow money, for example through bonds or notes issued in local currency.
- **Performance guarantees**
- **Guarantees for credit risks**
- **Investment guarantees** that cover political risks for companies from industrial countries that wish to invest in share capital or similar in connection with their participation in a development project.

Further information [www.sida.se](http://www.sida.se)

## USAID'S DEVELOPMENT CREDIT AUTHORITY

The Development Credit Authority (DCA) is a broad financing authority, which is designed to increase access to local capital by the issuance of partial loan guarantees. DCA guarantees cover up to 50% of a lender's risk in providing financing and this is often coupled with training and technical assistance designed to strengthen local financial institution's long-term interest in local credit markets, beyond DCA's support. DCA partial guarantees have been used to back loans for water and sanitation provision. [www.usaid.gov/our\\_work/economic\\_growth\\_and\\_trade/development\\_credit/](http://www.usaid.gov/our_work/economic_growth_and_trade/development_credit/)

## ASIA - ASIAN DEVELOPMENT BANK (ADB): SWISS TRUST FUNDS

To finance the short-term mandates of consultants directly involved in the bank's operational activities as well as for independent studies; financing in particular of studies including preparatory studies, feasibility studies, environmental impact studies, evaluations, project follow-up studies, technical support for projects in the process of being restructured, and post-evaluations. The financial activities are concentrated in the following four areas:

- private infrastructure projects,
- private investment projects,
- projects designed to promote clean technology transfer,
- projects to adapt the financial sector.

The fund in principle has unrestricted freedom of action, with the single proviso that each list of service providers must contain at least one Swiss company.

For additional information, contact Susanne Grossman, SOFI Regional Head, Asia:  
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# MULTILATERAL FACILITIES

## **CITIES ALLIANCE**

Cities Alliance is a global alliance of cities and their development partners committed to improve the living conditions of the urban poor through action in two key areas:

- City development strategies (CDS) which link the process by which local stakeholders define their vision for their city, analyse its economic prospects and establish clear priorities for actions and investments, and
- City-wide and nation-wide slum upgrading to improve the living conditions of at least 100 million slum dwellers by 2020 in accordance with the Cities Without Slums action plan.

Launched by the World Bank and United Nations Centre for Human Settlements (UN-Habitat) in 1999, Cities Alliance members include all the G-7 governments plus Brazil, Netherlands, Norway and Sweden, the Asian Development Bank, UN-Habitat, the United Nations Environment Programme, the World Bank, and local authorities, represented by United Cities and Local Governments (UCLG) and Metropolis.  
[www.citiesalliance.org](http://www.citiesalliance.org)

## **THE CITIES WITHOUT SLUMS FACILITY FOR AFRICA**

The Cities Without Slums Facility was created specifically for Sub-Saharan Africa to help address the underlying conditions for scaling up the attack on urban poverty in the region. The Facility supports cities that wish to develop city-wide approaches to slum upgrading and strategic development plans for poverty reduction, working with organizations of the urban poor, civil society, and the private sector. The Facility can also assist Cities Alliance members to support the efforts of SSA partners (national and local authorities, civil society) to design and implement programs of action, in accordance with the Cities Without Slums Action Plan. Funds may go to Local Governments and/or Associations of Local Government, Community-Based Organizations (CBOs) that represent slum dwellers, local governments, private businesses, and/or local and international Non-Governmental Organizations (NGOs). All applications must be co-sponsored by at least one member of the Alliance and meet threshold eligibility criteria.  
<http://www.citiesalliance.org/activities-output/topics/slum-upgrading/action-plan.html>

## **COMMUNITY-LED INFRASTRUCTURE FINANCE FACILITY (CLIFF)**

Launched in 2000, CLIFF is a facility providing loans, guarantees, bridge finance and technical assistance to encourage and support private sector investment in community-led urban regeneration projects. CLIFF is being implemented under the programme of the Cities Alliance, by Homeless International, initially as a development and demonstration pilot project in India ([www.citiesalliance.org](http://www.citiesalliance.org)). DFID has contributed £6.8 million for the pilot programme. SIDA has provided in-country support, and USAID has made available their International Guarantees Programme.  
See [www.homeless-international.org/cliff](http://www.homeless-international.org/cliff)

## **SLUM UPGRADING FACILITY (SUF)**

Urban poverty in developing countries is increasing at an alarming rate. Municipalities, particularly in small and medium towns, are ill equipped to meet growing infrastructure service and housing needs and badly need both private sector and donor grant support for this. The SUF, which is managed by UN-Habitat ([www.un-habitat.org](http://www.un-habitat.org)), is conceived as a facility to help municipalities put together financially infrastructure service and housing projects and then access support for these from both the public and private sectors. DFID and SIDA have jointly agreed to partner UN-Habitat in developing the facility by providing US\$0.9m each for the design phase and both have agreed in principle to provide US\$10m each, through the Cities Alliance, towards developing and

piloting the approach, with a view to the establishment of a more substantial longer-term facility.

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DFID Task Manager: z-hensby@dfid.gov.uk

#### **THE WORLD BANK-UNDP WATER AND SANITATION PROGRAM**

The Water and Sanitation Program (WSP) is an international partnership of the world's leading development agencies concerned with improving sector policies, practices and capacities to serve poor people. The WSP goal is to alleviate poverty by helping the poor gain sustained access to water and sanitation services. WSP provides targeted support to national and local governments, local communities, and their support organizations.

[www.wsp.org](http://www.wsp.org)

#### **WATER FOR AFRICAN CITIES PROGRAMME**

The goal of UN-Habitat's Water and Sanitation Programme is to contribute to the achievement of the water and sanitation related MDGs/WSSD targets in urban areas, with a particular focus on Africa, by supporting the creation of an enabling environment for pro-poor investment. Phase I Countries include Ethiopia, Ghana, Ivory Coast, Kenya, Tanzania, Senegal, South Africa and Zambia. New Incoming Countries include: Burkina Faso, Cameroon, Mali, Mozambique, Niger, Nigeria, Rwanda, and Uganda. Selected cities in these countries are participating in demonstration projects.

[www.un-urbanwater.net/](http://www.un-urbanwater.net/)

E-mail: [wacmail@unhabitat.org](mailto:wacmail@unhabitat.org)

A parallel programme – **Water for Asian Cities** has also been launched.

[www.unwac.org](http://www.unwac.org)

#### **THE CONSULTATIVE GROUP TO ASSIST THE POOR (CGAP)**

CGAP is “a resource center for the micro-finance industry, where it incubates and supports new ideas, innovative products, cutting-edge technology, novel mechanisms for delivering financial services, and concrete solutions to the challenges of expanding micro-finance”.

CGAP serves four groups of clients: development agencies, financial institutions including micro-finance institutions (MFIs), government policymakers and regulators, and other service providers, such as auditors and rating agencies. CGAP provides specialized services: advisory services, training, research and development, consensus building on standards, and information dissemination.

[www.cgap.org](http://www.cgap.org)

#### **THE MUNICIPAL FUND**

The Municipal Fund is a combined initiative of the World Bank and the International Finance Corporation. The Fund provides needed capital investment to municipalities and other local public entities in the developing world without central government guarantees. The objective is to strengthen their ability to deliver key infrastructure services such as water, wastewater management, transportation, electricity, and power, and to improve efficiency, and accountability.

[www.ifc.org/municipalfund](http://www.ifc.org/municipalfund)

#### **THE COMMUNITY WATER AND SANITATION FACILITY (CWSF)**

The Community Water and Sanitation Facility is operated through Cities Alliance. The purpose of CWSF is to increase slum residents' access to water and sanitation and to enhance donor impact by partnering the ideas, efforts and resources of the public sector with those of the private sector and non-governmental organizations (NGOs). The CWSF is a facility designed to support community-endorsed construction of improved water and sanitation services in slum communities and to encourage risk sharing and

innovative financing of these services. CWSF grants may go to local and international NGOs, local governments, private businesses, Community-Based Organisations (CBOs) that represent slum dwellers and that are working in partnership with their local water/sanitation authorities. All applications must be co-sponsored by at least two members of the Alliance and meet threshold eligibility criteria.  
[www.citiesalliance.org](http://www.citiesalliance.org)

#### **THE FINANCIAL SECTOR REFORM AND STRENGTHENING (FIRST) INITIATIVE**

FIRST is a US\$53 million multi-donor program, supporting capacity building and policy development projects in the financial sectors of developing countries.

FIRST provides technical assistance grants for short-term and medium-term projects in the areas of financial sector regulation, supervision and development.  
[www.firstinitiative.org](http://www.firstinitiative.org)

#### **PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY FACILITY (PPIAF)**

PPIAF is a multi-donor facility that works with developing country Governments at central and municipal levels to improve the enabling environment for private sector involvement in infrastructure services. PPIAF currently has 14 contributing donors and undertakes a broad range of activities, including the development of legislation and regulatory systems, sector reform strategies, the training of regulators and assistance with facilitating transactions. See [www.ppiaf.org/](http://www.ppiaf.org/)

#### **PUBLIC-PRIVATE PARTNERSHIP FOR THE URBAN ENVIRONMENT (PPPUE)**

The Public-Private Partnership for the Urban Environment was initiated in 1994 by the United Nations Development Programme (UNDP). The facility provides technical assistance and advisory support for the establishment of partnerships between government, business and civil society organisations at the municipal level for the delivery of basic infrastructure services to the urban poor. See <http://pppue.undp.org/>

#### **GLOBAL PARTNERSHIP OF OUTPUT-BASED AID (GPOBA)**

If the poor are to receive infrastructure services, and service providers are to receive economic rates for the service provided, it will often be appropriate for services to be subsidised, at least in the early years. Such subsidies should be open and accountable. There are many advantages in providing such subsidies at the point of delivery, rather than as a subsidy at the supply end. To address these issues the World Bank is implementing a programme to develop, demonstrate and disseminate output-based approaches to supporting the sustainable delivery of basic infrastructure services. In order to facilitate the scaling-up of the approaches developed, the GPOBA has recently been expanded to include a "Challenge Fund" which is open for applications (on a competitive basis) for the funding of specific subsidy programmes to enable the provision, by private sector suppliers, of infrastructure services to the poor. See [www.gpoba.org](http://www.gpoba.org)

#### **THE EUROPEAN UNION (EU) WATER FACILITY**

The European Union (EU) has launched its € 500 million Water Facility for African, Caribbean and Pacific (ACP) countries - the single biggest EU allocation ever for water and sanitation projects. The facility aims to be:

- Open - actively soliciting proposals from national and local governments, municipalities and civil society organisations;
- Demand-driven - supporting communities in greatest need;
- Innovative - providing grants for blending with loans, public-private partnerships and other sources;
- Long-term - fostering improved and integrated management of water resources.

See: [http://europa.eu.int/comm/europeaid/projects/water/index\\_en.htm](http://europa.eu.int/comm/europeaid/projects/water/index_en.htm)

## REGIONAL DEVELOPMENT BANKS

### **AFRICA DEVELOPMENT BANK**

See [www.afdb.org](http://www.afdb.org)

### **ASIA DEVELOPMENT BANK**

See [www.adb.org](http://www.adb.org)

### **INTER-AMERICAN DEVELOPMENT BANK**

See [www.iadb.org](http://www.iadb.org)

## PIDG INITIATIVES

### **PRIVATE INFRASTRUCTURE DEVELOPMENT GROUP (PIDG)**

DFID, SECO (Switzerland), SIDA (Sweden) and DGIS (The Netherlands) have collaborated in establishing the Private Infrastructure Development Group (PIDG). The aim of the group is to facilitate and support the mobilisation of private sector investment and engagement in the provision of infrastructure and basic services that support growth and the elimination of poverty. The first project funded through the PIDG Trust, Emerging Africa Infrastructure Fund (EAIF) was launched in January 2002. GuarantCo, DevCo, InfraCo and TAF (see below) have since been launched. Other facilities including AsPIFF, MIAP and a Local Currency Hedging facility are currently under consideration. DFID has committed £0.388m towards the operation of the PIDG for 2003 to 2006, in addition to support committed to individual programmes funded through the PIDG.

See [www.pidg.org](http://www.pidg.org)

PIDG Secretariat [diane.harris@crownagents.co.uk](mailto:diane.harris@crownagents.co.uk)

### **EMERGING AFRICA INFRASTRUCTURE FUND (EAIF)**

The US\$305m EAIF was launched as the first PIDG initiative in 2002. EAIF provides long-term debt to pro-poor private sector funded infrastructure service projects in sub-Saharan Africa in the energy, telecommunications, transportation and water sectors. DFID, SIDA, DGIS and SECO have jointly committed US\$100m, through the PIDG Trust, to the Fund as equity. The balance of the Fund's capital comprises US\$85m of subordinated debt from development finance institutions (FMO of the Netherlands, Development Bank of Southern Africa and DEG of Germany) and USD 120m of senior debt from commercial banks (Barclays Bank plc and the Standard Bank Group).

See <http://www.emergingafriafund.com/>

### **PROJECT DEVELOPMENT FACILITY (DEVCO)**

High up-front transaction costs, risk and poor information, are important factors in deterring the private sector from investing in working up prospective infrastructure projects in developing countries in the manner undertaken by commercial companies in OECD countries. As a result, there is a paucity of infrastructure projects structured in a way attractive to private sector involvement. To address this, in 2003 the PIDG augmented an existing project development facility operated by the IFC to give greater emphasis to the development of projects for private sector investment in the poorer developing countries. The resulting facility has been given the name of DevCo. DFID committed £6.8 million over four years to launch the facility, the IFC are providing a contribution of US\$0.25 million per year, and DGIS have recently allocated US\$1.0 million for 2004/05.

See <http://www.ifc.org/ifcext/psa.nsf/Content/DevCo>

Programme Manager: [ddonaldson@worldbank.org](mailto:ddonaldson@worldbank.org)

### **INFRASTRUCTURE DEVELOPMENT COMPANY (INFRACO)**

Although DevCo (see above) can help governments structure infrastructure services to be more conducive to private sector investment and assist in attracting investors, it cannot replace the private sector developer, who takes on the entrepreneurial risk of developing a project and then selling this on the market to an implementation company. Such private sector developers have, however, all but disappeared from developing country markets in recent years. In order to give a lead to reintroducing this entrepreneurial approach to encouraging increased investment in infrastructure, in late 2004 the PIDG launched a new Infrastructure Development Company with a mandate to initially pilot project development in two countries in Africa and two countries in Asia. In order to help establish this company, DFID has allocated US\$10 m through PIDG as an equity contribution.

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### **GUARANTCO LOCAL CURRENCY GUARANTEE FACILITY**

Lack of long-term debt finance is a major constraint to infrastructure development. The EAIF addresses this need for large, primarily hard currency funded, infrastructure projects. However, many infrastructure projects, particularly at the sub-sovereign level, derive most of their revenues in local currency, making hard currency debt funding inappropriate. In 2004 the PIDG launched GuarantCo, which is designed to mitigate risks for local currency financing of infrastructure. DFID and SIDA have each given an in-principle commitment of US\$25m to GuarantCo, and other members of the PIDG are expected to provide co-funding. We are in discussion with a number of Development Finance Institutions, who are also exploring the provision of local currency guarantees, with a view to coordinating and possibly merging approaches.

Managing Director: [sjansson@guarantco.com](mailto:sjansson@guarantco.com)

### **LOCAL CAPACITY TECHNICAL ASSISTANCE FACILITY (TAF)**

In 2003 the PIDG, with funding support from the World Bank, established the TAF to assist in the building of local capacity and capability associated with private sector investment in infrastructure. Technical assistance is provided to both the public and private sectors in support of the planning and implementation of projects and programmes of any of the facilities or funds undertaken under the PIDG umbrella on a "challenge fund" basis.

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### **ASIA PRIVATE INFRASTRUCTURE FINANCING FACILITY (ASPIFF)**

Although many of the middle-income countries in Asia have had significant successes in attracting private investment in infrastructure, the poorer countries have been much less successful. In 2004, the PIDG, in partnership with the Asian Development Bank, embarked on a detailed examination on how it might help alleviate constraints to private sector development in these poorer Asian countries by establishing a facility which both brings together other existing PIDG facilities under an Asian focus and builds upon these as necessary to meet other identified constraints. The feasibility and, if this is positive, the design work will be conducted during 2004 - 2006.

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### **LOCAL CURRENCY HEDGING**

Infrastructure projects are subject to a range of risks which impact on their attractiveness to private operators and financiers. These include a number of generally uninsurable country risks such as expropriation, currency devaluation and the risk that governments will change the regulatory framework. The PIDG is undertaking an initial study into the need and scope for donor support to help mitigate currently uninsurable currency devaluation risks in developing countries through the establishment of a local currency hedging facility.

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