The role of community-driven finance in bridging formal and informal practices in housing

Insights from Vinh, Vietnam

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Introduction

Informal practices play an important role in providing land, shelter and finance for the urban poor in cities of the global south. Despite this, informality continues to be perceived as an urban policy problem. The planning literature identifies the need to move forward from the current formal/informal dichotomy to a more comprehensive understanding of the role that informal practices play in urban development. This argument is especially relevant in the context of housing finance, where formal practices (e.g. from international, public and private institutions) have the ability to leverage funds to invest in housing at scale, while informal practices (e.g. community saving groups) have the ability to reach the poor. Despite linkages between formal and informal housing finance, most research has tended to concentrate on understanding these practices separately. From the starting point of a theoretical discussion on informality and planning in the urban global south and a six-month placement with the Asian Coalition for Housing Rights in 2013, this chapter discusses the potential of community-driven financial arrangements to bridge formal and informal practices and to provide access to affordable housing to the urban poor. This process is illustrated in the case of the redevelopment of collective housing in Huu Nghi community, Vinh, Vietnam.
Urban informality: a dilemma for planning in the urban global south

In the global south urban informality is generally associated with human settlement and trade or exchange that occurs outside of formal legal structures and processes. However, the meaning of urban informality and what it represents is much broader and varies depending on the context in which it operates. In fact, urban informality is not just associated with informal settlements or street vending, but includes a variety of practices put forward by the various actors that operate in cities. Consequently, urban informality has been associated with ungovernable development practices, with the poor’s autonomy and creativity, and with strategies that the poor use to survive in cities, and used to embody varying degrees of power and exclusion from the state. Thus urban informality is a complex and contested concept that is still subject to much academic debate.

Urban informality has traditionally been associated with poverty. In the debate, however, it is recognised that urban informality is not just the space of the poor but also of the state itself and other influential actors in cities. What this suggests is that, even when there is a direct relationship between poverty and informality, informality itself is much more complex as it is tangled up with complex structural power relationships that define which urban development practices are legitimate and illegitimate in cities. In this light, powerful actors use ‘the state of exception’ to move their development ideals forward and to purposely meet their individual interests, while powerless people and their ‘illegal’ practices are excluded from contributing to the development of the city. Thus planning responses to informality are important not only for successful pro-poor interventions, but also to progress social and spatial justice in cities of the global south.

Urban planning has traditionally viewed informality as a separate sector supporting a dichotomy between ‘formal’ and ‘informal’ sectors. In this light informality is seen as supporting illegal, uncontrolled and inefficient development, and is fundamentally different from the more ordered, regulated and efficient notions of planned land use and settlement. Thus, in the context of urban planning, informality is seen as ‘the other’ and thereby perceived as an urban policy problem. Most urban planning responses to informality have been informed by the formal/informal dichotomy. In relation to housing, many of these responses are characterised by forced evictions of informal settlements, involuntary resettlement or an attempt to control informal settlements using land
use regulations, zoning, building standards and the formalisation of land and property.\textsuperscript{15} Thus, planning’s underlying assumption supporting the formal/informal dichotomy has been problematic and unable to solve the complexity associated with informal development in cities.

In this light, Vanessa Watson argues that the formal/informal dichotomy creates a significant gap between planning (institutions and practice) and the realities of those people that survive under conditions of informality.\textsuperscript{16} This gap is conceptualised by the author as a conflict of ‘rationalities’ between the logic of governing and the logic of survival.\textsuperscript{17} The logic of governing is attributed to the notion of control and development held by most planners, government administrators and the private sector (grounded in the rationality of Western modernity). The notion of survival is referred to as the rationality which informs the strategies and tactics that the urban poor use to survive and make a living in cities. This gap is recognised as a central limitation of planning, and has brought to light an academic debate questioning the adequacy of current planning frameworks operating in cities of the global south.\textsuperscript{18} In this light the literature argues for the need to redefine planning practice in a way that engages with informality as a defining characteristic of rapidly growing cities.\textsuperscript{19} The next section illustrates how the formal/informal divide is manifested in the context of housing finance.

\textbf{The implications of the formal/informal divide in financing affordable housing}

In the urban global south, most approaches for financing housing have been informed by the formal/informal divide. The formal sources of housing finance include private banks, micro-finance institutions, governments and donors. The informal sources include individual (e.g. savings, loans from relatives and informal lenders) and/or collective practices (e.g. saving groups, co-operatives) used by the poor to finance housing.\textsuperscript{20} Despite this diversity most housing policies recognise the formal system as the only one with the capacity to finance affordable housing, and millions are spent in government and private sector social housing programmes.\textsuperscript{21} Despite the unquestionable importance of formal systems, many argue that informal sources of finance also play a role in financing housing, even when these are vulnerable and imperfect.\textsuperscript{22} These systems also reflect how poor people respond by themselves to vital housing needs with small resources, unrecognised status and in contexts where formal support is not available, a scenario which is common in many cities of the global south.\textsuperscript{23}
The lack of engagement with informal financial mechanisms is part of the reason why housing interventions have been unable to appropriately respond to the needs of urban poor groups. For instance, government interventions sustain a highly centralised, hierarchical structure that leaves little room for the inclusion of the urban poor in investment decision making. Thus most public-funded housing has ended up being inappropriately fitted to the needs of the poor by being expensive, located in the peripheries of cities, and lacking appropriate design thus inhibiting it from adapting to the changing needs of families over time. Furthermore, research has demonstrated that in many cases government subsidies have been unable to reach poor groups because of the stringent conditions and rules placed on their access. Similarly, the literature acknowledges that finance from banks is not affordable to urban poor families and demand inflexible conditions such as stable incomes, and the need for land security for collateral which most of these groups lack. Also, most international aid rarely reaches the urban poor directly as funding is allocated to projects or sectoral reforms that are thought to contribute indirectly to housing provision. In addition, research has showed that those sources that manage to reach the poor, such as micro-finance institutions, are likely to create a debt burden as they target individuals who often cannot repay loans on their own.

From the above it can be argued that the formal housing financial system is not as effective as it could be in working for the poor because it operates in disconnection from the way the poor use finance in their daily lives, usually aligned with their dynamic livelihood, survival strategies and social networks. This argues for the need for financial interventions to be tailored towards the particular circumstances of the poor, and develop new approaches in housing finance able to move forward from the formal/informal divide. In support, the planning literature argues for the need to develop new understandings of the interactions between formal and informal systems. Within this discussion, the concept of the ‘interface’ arises as a central concern for planning to understand the various and complex interactions between formal and informal urban development practices. In the context of financial practices for housing examples of community, public- and private-sector led initiatives supporting the interactions between formal and informal practices have appeared over the last decades.

The interface is understood as a zone of encounter and contestation between the conflicting rationalities of the state and the poor, arising at the point where the state’s attempts at modernisation and development (e.g. provision of formal services, housing and tenure
systems) are met (or confronted) by the target populations.\textsuperscript{32} For the less powerful the interface is a zone of resistance, evasion and/or appropriation inherently shaped by power. Existing literature and research into the interface has highlighted the unpredictability of these interactions, having the potential to generate both transformative outcomes and at the same time exclusionary processes in planning practice.\textsuperscript{33} These arguments make research into the formal/informal interface within different contexts and urban development practices important and relevant for informing planning knowledge. The next section describes the characteristics of community-driven finance in South-East Asia as an interface between formal and informal financial and housing development practices, and its potential for generating affordable housing solutions for urban poor groups in cities of the south.

### The role of community-driven finance in bridging formal and informal development practices

Community-driven finance is a development process driven by organised poor communities seeking to secure access to land, housing, infrastructure and social development opportunities by accessing finance on their terms.\textsuperscript{34} This gradual process generally arises from the struggle and initiative of grassroots movements, and consolidates by linking individuals through saving activities, forming community saving groups, and evolving into neighbourhood, city-wide, national and international funds and networks.\textsuperscript{35} Despite this, these processes vary in their consolidation, mixing both bottom-up and top-down elements in different ways according to their specific context. Community-driven financial mechanisms function mainly as revolving funds used to give loans to organised poor communities. The literature has identified different names referring to community-driven finance mechanisms including urban community development funds, urban poor funds, urban poor development funds, community funds, community development funds, city-based community development funds, and city development funds.\textsuperscript{36}

Today, community-driven finance is present in countries across Asia, Africa and Latin America and linked through global and regional networks of grassroots poor communities represented by two main umbrella organisations: Slum Dwellers International (SDI) and the Asian Coalition for Housing Rights (ACHR). In South-East Asia, ACHR and its network of local organisations provide funds, organise
knowledge exchanges across countries, create partnerships with governments and key development agencies, and help consolidate grassroots networks as well as networks of committed professionals that provide technical support to communities on the ground. In this region community-driven funds are found in seven countries including Cambodia (23 funds), Indonesia (4 funds), Myanmar (4 funds), Philippines (15 funds), Vietnam (17 funds), Thailand (7 funds) and Lao PDR (26 funds), with a total capital of US$22,192,646 in 2014, of which US$14,893,989 come from urban poor community savings.

The characteristics of each country’s process are different, and only Thailand, Vietnam and Cambodia have experienced formal links with the government sector. Despite this diversity, there are common characteristics supported by community-driven finance allowing this approach to bridge formal and informal financial practices in housing development.

A defining characteristic of community-driven finance is collective action. This characteristic differentiates this approach to other housing financial interventions, which tend to target the individual family or household. Instead, community-driven funds provide collective loans to organised communities with established and functional saving groups. The saving groups act as communities’ financial and governance systems, allowing collective investment decisions to be made according to the communities’ needs, resources, capacities and conditions. Saving groups are community support systems that extend beyond the development of housing and infrastructure; these provide support for welfare and emergencies as well as the development of social and political capital among the poor. In this light, collective action ensures that when individual families experience difficult times affecting the repayment of loans (e.g. with their jobs or illness) the community system is available for support. Collective action also plays a role in increasing the decision-making power of poor communities by increasing their negotiating capacity and political support for their development plans, as well as opportunities to leverage external funds and resources. This shows that the overall purpose of community-driven finance is to be not only a source of direct capital to the poor, but also a support system aiming to change the vertical governance relationships that are at play in urban and housing development.

Collective action is a learning process. In the community-driven approach collective action among poor individuals is facilitated by experienced community leaders and support professionals through collective mobilisation tools such as community-driven surveys and mapping
and knowledge exchanges. These tools encourage poor communities to define and visualise their common development needs, as well as learn from the successes and challenges experienced by other communities facing similar situations, and envision how by working together they can address their needs in a more effective way. Collective action extends beyond the community level and reaches the institutions that manage housing and infrastructure development in cities. For this, the community-driven approach ensures that learning is also targeted towards key government officials of development agencies able to support and move forward the community-driven agenda within key institutions. In this light, key members of government and international institutions are invited to attend knowledge exchanges with communities as well as their respective institutions, and learn from successful examples where the community-driven approach has been successful. The learning component is essential for communities and institutions to learn from each other, bridge their knowledge and understanding, and work collectively towards addressing the needs of communities as well as cities as a whole.

Furthermore community-driven mechanisms and processes are designed to be flexible. Flexibility is reflected in the rules and conditions used to make finance available to poor communities, usually characterised by supporting loans with long repayment periods and low interest rates. Also, contrary to supporting large amounts of money, community-driven mechanisms support small budgets. These conditions make an effort to align the financial intervention to the livelihood dynamics of the poor, and make finance appropriate to the poor’s management capacities. In addition, many of the housing and infrastructure projects supported by the community-driven finance approach strive for the relaxation of planning standards in order to make housing and infrastructure more affordable to the poor. Consequently, in most cases the development of housing and infrastructure encourage innovation in design and cost-reduction strategies. Flexibility is also reflected in the characteristics of the professionals supporting the community-driven approach. These professionals believe in the capacity of the poor to provide solutions to their own problems, and act as facilitators of community-driven processes rather than direct implementers of housing and infrastructure projects.

Community-driven finance is now recognised by many international organisations and the academic literature as an innovative approach to finance affordable housing for low-income and urban poor communities in the global south. As shown in this section the
conditions supported by the community-driven approach – including collective action, flexibility and the their integral learning component – have the potential to bridge formal and informal sectors together, not only by bridging formal and informal finance but also in terms of bridging knowledge systems and decision-making power. The following section introduces the community-driven finance approach in Vietnam, and describes the case of the redevelopment of old collective housing in Huu Nghi community through a city Community Development Fund (CDF) in the city of Vinh. The following draws from the characteristics of the community-driven approach described in this section, and illustrates how these conditions operate within the interface of formal and informal development practices, and progress the development of affordable housing for urban poor communities.

The redevelopment of collective housing in Huu Nghi Community, Vinh

The community-driven finance movement in Vietnam has been consolidating since 1989 through the support given to collective saving activities used by low-income groups. Key in the implementation of this process have been local organisations such as the National Women’s Union, Enda Vietnam, the Association of Cities of Vietnam (ACVN) and local authorities, as well as international organisations including ACHR, UN-ESCAP, UNDP and Cities Alliance. The first breakthrough in the consolidation of this process was in 2001 with the establishment of city-wide community development funds in five cities (Vie Tri, Hai Duong, Hue, Quy Nhon, Can Tho). The aim of this process was to strengthen and scale up existing community savings groups and link them with formal government institutions in different cities. The CDFs proliferated to a total of 17 cities, forming the National Network of Community Development Fund.

In Vinh, a city on the north central coast of Vietnam with approximately 490,000 residents, the city-wide CDF was set up in 2006. The CDF is a revolving fund managed by a committee of members from the local government, and blends different sources of funding including the ACHR’s former Asian Coalition for Community Action Programme (ACCA), the Latin American, African and Asian Social Housing Service (SELAVIP), UN-HABITAT, World Bank and the local government as shown in Figure 6.1. The National Network of Community Development Fund is the main deciding body on how the funds from the variety of sources are allocated to each individual city.
The funds are used to give loans to communities with organised saving groups to manage infrastructure projects, housing projects and disaster recovery as well as support community exchanges, surveys, mapping and other activities. By December 2012 the CDF had funded a total of 34 small infrastructure projects, five housing projects and three disaster relief projects supporting the conditions seen in Table 6.1.

Vinh is home to 99 old dilapidated collective housing blocks (both one-storey row houses and apartment flats) built for factory workers in the 1970s when the city was planned to become a new industrial centre. In 2007, the People’s Committee of Nghe An province provided the legal basis for the redevelopment of old collective housing in Vinh. The redevelopment of old collective housing happens across Vietnam as part of

![Image of Figure 6.1](image.png)

**Figure 6.1** Operation of Vinh’s community development fund (CDF).

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount of loan (USD)</th>
<th>Repayment period</th>
<th>Annual interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>15,000</td>
<td>25 months</td>
<td>0.8%</td>
</tr>
<tr>
<td>Housing</td>
<td>40,000</td>
<td>42 months</td>
<td>0.65%</td>
</tr>
<tr>
<td>Disaster relief</td>
<td>20,000</td>
<td>25 months</td>
<td>0.65%</td>
</tr>
</tbody>
</table>
the market-driven urbanisation aiming to ‘renovate’ and ‘beautify’ cities characterising South East Asia. In Vinh, this process initially supported the conventional top-down and state-driven practice, and proposed the replacement of existing housing with lower-density social housing occupying plots of double the size of the existing ones. This made the houses very expensive and implied that some families would be relocated to new housing elsewhere. These plans triggered the members of Huu Nghi community to organise and discuss alternatives to upgrade their community. At that time Huu Nghi community comprised 29 households and 103 people living in old and dilapidated row houses, originally built by the Soviet-owned Huu Nghi Shareholding Company during 1974–78, and sold to the individual households in 1990. The community consisted of four single-storey housing rows that were seriously degraded, and had a lack of adequate infrastructure such as access roads, drainage and sewerage system.

In 2009, in the light of the political opportunity for the redevelopment of old collective housing, ACVN, ACHR and Vinh City’s People Committee organised a workshop, ‘Communities Collectively Build Low Cost Housing’, and facilitated exchange visits to other cities in Vietnam and Thailand. These exchange visits aimed to give an opportunity to community members, as well as government officials, to learn from the initiatives of communities and governments facing the same challenges in other cities and countries. These exchange visits helped community members and local authorities to visualise and exchange knowledge and ideas on how they could work together in their own particular context. This sparked the interest and initiative of Huu Nghi community to start their saving group and save the required deposit to borrow the CDF’s US$40,000 housing loan.

With the money in hand and the help of a retired architect, the community developed the design plan for their new houses and infrastructure. This plan proposed the development of two-storey houses within plots of 45 square metres each. This plan made houses more affordable by proposing smaller plots than the provincial government’s minimal social housing standard. Thanks to securing the loan through the CDF, the good organisation of the community, and support from ACVN and ACHR, negotiations with city and provincial authorities were successful in relaxing the housing standards. This is recognised as an important breakthrough in the provision of affordable housing for low-income families in Vietnam’s socialist regime. Community leaders recognise that obtaining this permission was the hardest step in their redevelopment process but it was possible thanks to the good relationship between the community and the Mayor of Vinh.
In addition, the design proposed sharing the houses’ foundations and walls, reducing costs by about 40 per cent. The community reduced additional costs by collectively purchasing materials in bulk, making effective use of new materials, recycling materials from their old houses, and having one contractor for the whole community. In the end, the project cost VND1,248,000 per square metre, a reduction of 43 per cent of the estimated cost of VND2,200,000 per square metre. In 2010, just six months after the project began, the whole development was complete, taking away the one-storey dilapidated houses with leaking roofs and bad-quality infrastructure, and replacing it with two rows of two–three storeys with a five-metre-wide alley, street lighting, complete drainage and available basic services to all households. With the remaining money the community leader bought Vietnamese flags for all households, which are displayed by all households together in the community on special occasions.50

Interviews with community members attribute the success of the project to different key factors. Most important was the collaboration and solidarity between community members, which was achieved by the community working towards a common goal and setting up a saving group and a system to make their collective decisions. In this case community collaboration went further; it also involved sharing land plots of equal size in the new development even when some households had previously had bigger plots of about 90 square metres. Also, two better-off households agreed for a 72-year-old single and poor woman to ‘borrow’ the walls of their houses, meaning she only had to pay for a roof and front and back walls. Solidarity and collaboration were also reflected in the initiative of all community members to volunteer their labour in the construction of the houses and infrastructure, the supervision of construction quality and use of materials, and the constant sharing of information about the use of the money, development plans, obstacles and progress.

Furthermore, good leadership, the support of government and their decision to allow the relaxation of planning standards, and the support from national and international organisations are attributed as important factors for the success of this project. At time of writing the community has been able to pay back the complete loan to the city CDF and continue to enjoy their new houses and life together. Community members feel proud of their houses and community, have received recognition from wealthier sections of society and have secured material assets for themselves and future generations. The case of Huu Nghi community helps to demonstrate how the community-driven approach can
work in Vietnam, and the community’s leaders and members, as well as the local government, have shared their experience across the nation as well as internationally with communities, governments and development agencies, including at the World Urban Forum in Naples in 2012.

**Lessons from a community-driven financial approach to planning theory and practice**

The case of the Huu Nghi community shows the capacity of community-driven finance to move forward from the formal/informal divide and finance affordable housing in cities of the global south. This case provides an example of the ‘conflicting rationalities’ that are at play at the interface between formality and informality in housing development processes, which as the literature suggests is a zone of contestation between different actors operating in cities. The case of the Huu Nghi community shows how the city’s community development fund acted as a bridge between the market-driven ideology of the state, and the rationality of a low-income community seeking to collectively improve their living conditions and community through the development of housing. The community development fund in this case not only bridged formal and informal systems to finance housing, but importantly bridged knowledge systems and decision-making power between poor communities and government institutions. In this case collective action, flexibility and the learning component that gives rise to these conditions were essential in facilitating the bridge between informal and formal development practices.

Collective action was manifested in the collective organisation of the community, including setting up a saving group allowing poor families to access finance provided by government and international development institutions. The saving group allowed the community to create a support system and a collective governance structure. These organisation systems ensured the community’s control over their decisions, collective investments and development process. Working collectively also contributed towards all members’ having access to housing and infrastructure. Collective action also involved actors such as ACVN, ACHR and the Mayor of Vinh, who pushed forward the community-driven development agenda within a complex top-down political culture and a market-driven ideology driving the development of Vietnam. This support and their collective organisation gave bargaining power to the community and helped them negotiate with provincial authorities for the
relaxation of building standards. Learning through national and international examples was a key incentive to collective action within the community and with key development actors. Learning through community exchanges helped to bridge knowledge systems and enhance understanding of how poor communities and local authorities could work together not only for the development of a particular community but for the city overall.

Flexibility in this case provided a necessary space for the organised community to play a key role in their development process. In this case flexibility was manifested in the terms, conditions and small amount of the loan provided by the CDF, allowing finance to be more aligned to the livelihood and dynamics of the poor community. The conditions supported in the loan provided space for the community to plan the housing development according to their needs, resources and capacities. In addition, flexibility allowed the generation of an adequate and affordable housing design with the technical support from a retired architect equipped to facilitate (rather than enforce) a community-driven design process. The design process showed innovation in ensuring that room was made for all 29 households living in the community to continue to live together (in contrast to the standards of public housing set up by government authorities), and using recycling materials for the development of each individual house. Flexibility in this case reflects the belief that poor communities can play an important role in their own development.

The case of the Huu Nghi community shows how informality, in this case reflected in the savings group and the development practices of a poor community, can play an important part in planning and development of affordable housing in the urban global south. The community-driven approach allowed poor communities not only to participate in the process but to appropriate it and play a key role in their own development. In addition, community-driven mechanisms such as the Vinh’s community development fund and the conditions and processes that these systems support help to bridge knowledge systems and decision-making power between communities and local authorities. This process enhances understanding of how governments and communities are able to work together moving forward from the scenario of ‘conflicting rationalities’ which usually characterises their encounter.

Furthermore, the case of Huu Nghi provides important lessons on how housing finance can act as an enabler (rather than a constraint) for the urban poor’s development, and for progressing more inclusive approaches in the development of housing in cities of the urban global south. Despite the important lessons from this case different questions
remain, including: How can this process be replicated on a city-wide scale? How can community members be involved in the management and decision making of the city CDF? How can the mobilisation and networking of urban poor groups in the city be continuously maintained? Research into community-driven mechanisms would benefit not only from in-depth case-studies into these processes but also from contextualising these cases within the political and socio-economic complexities experienced in cities of the global south, as well as more practice-oriented research into how these mechanisms could be scaled up and sustained by linking with private sources of finance.