



Brazil ATN/JF-11115-BR  
 Component 2 of Project Design Support for Brazilian Municipalities

## Proven Methodologies for Successful Income Generating Projects in Neighbourhood Upgrading Programs

# OPERATIONAL GUIDELINES

DRAFT VERSION

commissioned by:  
 Inter-American Development Bank - Washington, D.C.

05 January 2010



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## List of Abbreviations

BDS	Business Development Services
CDS	City Development Strategy
DCED	Donor Committee for Enterprise Development
IADB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
LED	Local Economic Development
LET	Local Economic Trading Scheme
OECD-DAC	Organisation for Economic Co-operation and Development - Development Assistance Committee
NUP	Neighborhood Upgrading Project
SME	Small and Medium-Sized Enterprises
SWOT	Strengths - Weaknesses - Opportunities - Threats

## 0. Introduction

The central purpose of these Operational Guidelines is to provide guidance to officers of the Inter-American Development Bank in incorporating local economic development (LED) and more generally income generating measures into the design of neighborhood upgrading projects (NUPs). This has been produced as the final output of a research project which assessed the successes and failures of attempts in the past to incorporate income generation initiatives in a number of major upgrading projects in Asia, Africa and Latin America.

The Guidelines are set out in such a way as to indicate what actions need to be taken by officers responsible for designing and managing neighborhood upgrading projects at each stage of the project cycle. This starts by outlining the information that will be needed in the early stages of project design to assess whether and if so, in general, in what way LED and other income generating initiatives should be adopted. There are many kinds of initiatives that can be taken and each of these needs to be assessed with regard to its relevance to the particular context and NUP to be undertaken.

Once the outline of the project has been clarified, it is necessary to determine the overall objectives of the LED and income generating components and to estimate, as far as possible quantitatively, of the likelihood of success and ultimate outcomes of this component. This should indicate how much emphasis and how much of the project resources should be directed to this component. It must be emphasized already that LED and income generating initiatives rely very heavily on the 'software' side of project development and implementation. The timing of interventions in the overall phasing of the project is crucial as is the development of the institutional framework for administering these initiatives.

In the past, monitoring and evaluation of the economic development and income generating components of NUP was very poor, making it difficult in the first part of this project to make any very clear assessment of the relative success of these initiatives. It is thus important for the design of future projects to ensure that adequate attention is paid and that effective indicators are adopted to ensure a clear picture emerges concerning the results of the initiatives. By the end of the project it will then be clear as to the sustainability and replicability of the various components that have been implemented in the course of the project.

# 1 Project Identification

NUP project identification will usually focus in the first instance on the "traditional" urban upgrading measures that need to be undertaken to improve the living conditions and environment of those living in settlements that have been overwhelmingly created informally, outside the city planning framework *ad hoc* and incrementally and/or through the efforts of informal developers. This will determine the level to which improvements are to be made. These may range from ameliorative infrastructure improvements *in situ* and whether or not to include a program of tenure regularization to more concerted re-blocking and reconstruction of settlements including rehousing and resettlement on new sites of the population displaced by such actions, as well as loans for house improvement and/or extension. Moreover, in most cases physical upgrading measures will be complemented by appropriate community development components.

While there are consolidated approaches and routines for identifying and assessing the above components of a new NUP, it will be a challenge to realistically assess the options of including components to promote local economic development and income generation in a NUP, and to identify their possible scope as part of an integrated urban upgrading approach.

For this purpose, it will be important to consider that while integrating LED and other income generating components into urban upgrading programs will generally be a valuable and desirable option, it may not be essential or appropriate in all cases:

- "Stand-alone" physical upgrading measures can have significant economic impacts in their own right, in particular when they are implemented on a broader scale, in the context of a city-wide upgrading programs, and when they aim at social inclusion of the poor and integration of slum areas into the wider urban fabric, turning slums into regular urban neighborhoods.

This holds particularly true for centrally located slums and informal settlements where improvement of access – possibly with substantial re-blocking – improved quality of social service provision including schools, health and cultural facilities, and tenure security are included in the project. These generally lead to significant economic consolidation and development. However, they also entail an increased risk of gentrification and displacement of original residents so that measures will have to be taken to minimize this risk.

- LED and income generation components may significantly complicate the implementation of NUPs as they generally require different speeds and time horizons than physical and social upgrading components. Moreover, they require considerable effort to develop and establish appropriate organizational and institutional structures and capacities.

Choices for including LED approaches in NUPs will therefore have to be strategically assessed with regard to prevailing framework conditions (both conducive conditions and possibly limiting factors), and with regard to capacities and experience that can be tapped for developing and rolling-out LED components or interventions.

This should also include assessing options for linking urban upgrading interventions to existing economic and social development programs of national and/or local governments rather than developing project- or program-specific economic development components as an add-on.



It will also have to be taken into consideration that some types of interventions are more conducive to be implemented at neighborhood level, while other possible interventions may require a broader - more sectoral than locational - approach going beyond the boundaries of individual neighborhoods. *(This is clarified in section 2 below where the full range of possible LED and income generating mechanism are discussed).*

Against this background, the initial appraisal of the viability and feasibility of including LED and income generation in a NUP at the stage of project identification should comprise the following main steps of assessment:

- development conditions and support needs distinguishing between
  - overall economic development conditions at city level, and scale and dimensions of poverty and the informal sector in the city;
  - economic activities, employment and livelihood at neighborhood level, and linkages to the overall urban economy (sources of productivity, employment and value creation at neighborhood level and interfaces with the urban economy);
- options for promoting local economic development and income generation in a complementary approach to other urban upgrading components;
- an initial identification and screening of potential key stakeholders to be involved in LED and income generation components, and of existing economic and social development programs of national and/or local governments;
- possible scale and scope of NUPs that shall include LED and income generation components.

## **1.1 Development Conditions and Support Needs**

This first step of assessment shall describe and summarize overall economic framework conditions at city level as far as these are relevant for defining the context of urban upgrading interventions at neighborhood level. It shall also include an initial appraisal of poverty, income and employment, and economic activity at neighborhood level in form of a rough socio-economic profile, which shall point out support needs that may have to be addressed by possible project components on LED and income generation.

### **1.1.1 Economic Development Conditions at City Level**

In order to better understand the scale of the urban area in which a project is intended to operate, the following information will be needed (part of which will already be compiled in the context of the initial appraisal of other NUP components):

- population of the city and/or metropolitan region, and the share of population living in informal settlements and slums;
- poverty incidence and concentrations (share of the urban population living in absolute and relative poverty, spatial distribution or concentration of poverty, gender aspects of poverty);
- employment rate: formal employment (in the public and private sector), informal employment, unemployment (with or without welfare benefits or social assistance);
- main sectors / branches /clusters of the urban economy (e.g. industrial production/manufacturing, high-tech industry, garment industry, construc-

tion, trade and commerce, financial services, ICT / telecommunications, other services, etc.), development trends, and demands for labor and skills;

- main driving forces for economic development in the city / metropolitan area (e.g. macro-economic policies, foreign and/or national investment, local business initiatives, real estate development, etc.);
- internal/ endogenous factors influencing the urban economy in a positive and/or negative way (e.g. physical infrastructure, traffic and transportation, communications, natural resources, local regulatory framework, local government capacity, etc.)
- external/exogenous factors influencing the urban economy in a positive and/or negative way (e.g. globalization, financial crises, political conflicts, violence and crime, rural-urban migration, national regulatory framework, etc.);
- impacts of overall economic development conditions on the urban poor and urban poor settlements (e.g. access to labor and employment, security of tenure, resettlement/relocation, social inclusion or segregation).

### **1.1.2 Economic Development Conditions at Neighborhood Level**

As the bulk of economic activity and employment in informal settlements is informal in nature, there is usually no official record of any but a minority of economic activities being undertaken in such settlements. Furthermore, the majority of 'employment' in the informal economy is being provided by small, often single-person, unregistered micro-enterprises or less-structured activities, much of which occupy people full time but a significant amount of which is part time, where the employed people (particularly women) intermix household work with income-earning activity. Many working in the informal economy have more than one source of income and their work is sporadic rather than definable as 'a job'.

Nevertheless, it is clear that much economic activity is going on in informal settlements and that people are therefore working and earning an income. Some also 'go to work' outside the settlement, a few being engaged in the formal economy and many more undertaking informal activity – such as in transport, vending and personal services – in the streets of the 'formal' city.

In the formal economy, the case of need for employment is clearly expressed by the numbers of unemployed. Whilst there may be some information on unemployment for the settlement(s) to be upgraded, in reality in the informal economy, un- and underemployment are gray areas, as few residents will register themselves as being unemployed if there are no prospects for formal employment and no benefits to be had from registration.

In so far as there is an essential link between economic activity, employment and poverty, the main aspects to be assessed at this stage in the form of a profile of local economy and its linkages to the overall urban economy can be outlined as follows:

- general situation with regard to income and poverty of households/families (that will usually be part of the standard appraisal of a NUP):
  - income levels: subsistence/ extreme poverty, relative poverty, medium, high;
  - sources of income: wages, self-employment, remittances, other support from family members, social transfers;
  - access to basic services (water and sanitation, health care and education)



- vulnerability and exposure to external shocks.
- employment undertaken by residents of the neighborhood – normally defined in terms of ‘occupational classification’:
  - employment rate: share of formal employment (in the private and public sector), informal employment, and unemployment (with or without welfare benefits or social assistance);
  - type of employment (regular employment, day labor, seasonal labor, and self-employed) and skill levels (skilled and unskilled employment);
  - location of employment: inside and outside the neighborhood;
  - unregistered unemployment in the sense of potentially economically active population without any work;
  - underemployment in the sense of economically active population working part time and/or in sporadic wage labor wishing for regular, adequately remunerated full-time work;
  - skill and experience profile of the un- and underemployed.
- economic activity within the settlement – normally defined in terms of ‘industrial classification’:
  - main branches and sectors of the local economy, such as manufacturing, handicraft, repair workshops, recycling, retail and trade, building contractors, etc.;
  - types and sizes of enterprises: formal and informal, small and medium-sized enterprises, micro-enterprises, cooperatives, etc.);
  - main market(s) for goods and services of local enterprises (internal at community level, neighboring parts of the city, city or metropolitan level), and their possible integration into value chains (e.g. with regard to access to raw materials, production of semi-finished goods, distribution channels and marketing, etc.);
  - main problems and obstacles for carrying out their activities or for expanding business (e.g. access, lack of basic services, insecure tenure, lack of space, environmental or natural hazards, crime and violence, regulatory framework, access to credit, lack of basic business skills, etc.).

Useful ancillary information for establishing a profile of the local economy and income generating activity includes the following:

- Total population by age group and, where available, information on past growth and change. This information will anyway be basic to the design of the physical components of the NUP.
- Education level achieved by the population including numbers of years of schooling, literacy and numeracy (numbers of adults without even basic education) and skills training and experience achieved.
- Any assessment that can be made of activities which are illegal (e.g. drug trafficking, trade in stolen goods, protection rackets, etc.) or undesirable (child labor, prostitution, etc.). Clearly this cannot be obtained by any conventional means but in informal settlements in many countries/cities, these activities contribute significantly to the local economy and so are important in any attempt to gain a complete overview of the local economy.

All above aspects will have to be assessed in a gender-sensitive way.

## 1.2 Options for Local Economic Development and Income Generation

In a second step of assessment, the above information shall provide the background for identifying the options and kinds of mechanisms that can be put in place to encourage new business activity, enhance existing business activity and create other kinds of income generating activity in the settlement or elsewhere in the city that can benefit the residents of the settlement.

For this purpose, it will be useful to distinguish between two main target groups that may require different types of interventions and support, i.e.:

- all **economically active residents**, in general, who will be the target group of measures aiming at improving general employment and livelihood opportunities;
- (local) **businesses and enterprises**, both formal and informal, that will be a more specific target group of measures aiming at strengthening and developing the local economy.

Moreover, it will be helpful to distinguish between activities and measures that can be developed and implemented at neighborhood level, and others that may be more appropriate to be undertaken at the city level and might be located elsewhere in the city.

### 1.2.1 Employment and Income Generation

Measures that aim at improving general employment and income opportunities will basically address the whole economically active population of urban poor neighborhoods, i.e. a potentially broad and diverse target group.

Possible support activities can be broken down into three main categories:

- **General upgrading interventions at neighborhood level** that are typically part of NUPs (like the improvement of basic services and technical infrastructure, insertion of educational and/or cultural facilities, house improvements, provision of secure tenure, etc.) and usually have positive direct and indirect impacts on livelihood and income opportunities of slum residents such as:
  - improved access to places of work and livelihood;
  - more time for productive/economic activities through improved water supply and sanitation;
  - reduced risks of losses of economic assets due to improved safety/security and disaster mitigation;
  - creating improved conditions for the gradual asset accumulation over time (e.g. through secure tenure, home improvement and extension loans, etc.).
- **Specific interventions at neighborhood level** that aim at employment and income generation:
  - Labor-intensive works;
  - Adult education, life training and social counseling;
  - Vocational training;
  - Job placement services;
  - Savings schemes.

While labor-intensive construction works are clearly linked to physical improvements at neighborhood level, all other forms of interventions that aim

at improving general employability, access to jobs and accumulation of capital for productive investments have a less "site-specific" focus. They do therefore not necessarily have to be developed and implemented at neighborhood level.

As they also require special expertise and qualifications that may not always be available in the context of NUPs, it should again be carefully assessed whether such measures and activities should really be developed and implemented in the context of an integrated upgrading approach, or whether they would not be more viable as complementary lines of activities in the context of other programs or projects at city and/or national level (e.g. general vocational training programs).

- **Specific interventions beyond neighborhood level** such as
  - Policy and program formulation at municipal, (regional) and/or national level, e.g. for social assistance and livelihood, employment conditions and their regulation; vocational education and training; micro-finance and saving,
  - Overall urban and economic development planning, e.g. in the context of City Development Strategies (CDS) or similar forms of strategic planning,

are usually outside the scope of individual NUPs (i.e. projects that are implemented in only one or few neighborhoods).

However, in broader city- or country-wide programs, the integration of such policy and strategy formulation components may be a viable option that can improve both coherence and coverage of employment and income generation activities.

### 1.2.2 Local Economic Development • Business Support

In contrast to the above rather diverse target group of basically all economically active residents, the target group of measures to strengthen the local economy will be local, in their majority informal **businesses**, i.e. a more specific and enterprising group of people who have already taken initiatives to establish and develop a business on their own. To a lesser extent, these measures may also target businesses from outside the project area that are possibly interested in investing there.

Possible support activities for this particular target group can be broken down into three main categories:

- **General upgrading interventions** (that are typically part of NUPs):
  - Improvement of internal and external access for customers/clients through roads and/or public transport;
  - Improvement of basic services and technical infrastructure;
  - Introduction / insertion of cultural and educational facilities (culture and community centers, schools, etc.);
  - Reduction of hazards from disasters and adversities (flooding, landslides, fires, etc.);
  - Secure tenure / right to stay without the risk of eviction/or relocation;
  - Improved security and safety through reduction of crime and violence (may also need significant complementary activities beyond settlement level).

All above measures have important direct and indirect impacts on the local business environment and can significantly strengthen local economies at neighborhood level and their integration into the overall urban economy.

- **LED-specific interventions at neighborhood level:** Possible measures that can be conceived and implemented at neighborhood level comprise:
  - Provision of business space and commercial / industrial sites:
  - Business advice and support services (technical assistance, business incubation, coaching, training, etc.);
  - Micro-finance and credit-saving schemes.

Such measures aim more directly at promoting economic development and will therefore have to be designed more specifically and explicitly to match the needs and demands of their target audiences.

The development and provision of business space and commercial/ industrial sites has rather strong "physical" and site-specific aspects that fall into the "traditional" realm and core competencies of NUPs. Such measures will therefore usually be conceptualized and implemented as integral part of NUPs.

In contrast, other forms of interventions are less site-specific and require different qualifications and expertise that are not always available in NUPs implementing agencies/structures.

Rather than trying to build-up such capacities by a NUP itself, it should therefore be carefully assessed whether such measures cannot be better implemented in a complementary way by more specialized agencies and stakeholders in the context of broader SME or general business promotion programs at city or national level.

- **LED-specific interventions beyond neighborhood level** such as
  - attracting external investment in neighborhoods to be upgraded;
  - overall urban and economic development planning, e.g. in the context of City Development Strategies (CDS) or similar forms of strategic planning;
  - overall policy and strategy formulation for urban upgrading (including financing mechanisms and funding lines);
  - improvement of the regulatory framework for economic activities.

can be potentially useful to complement interventions at neighborhood level, but would generally only be possibly in the context of broader city- or country-wide upgrading programs.

### 1.3 Key Stakeholders and Links to Existing Programs

In a third step, the viability of developing and implementing the support mechanisms identified before will have to be appraised in general terms. Potential service providers and other relevant stakeholders to be involved in LED and income generation initiatives will have to be identified, and their capacities and experience be (roughly) assessed. Moreover, options for linking the envisaged LED and income generating activities to possibly already existing economic and social development programs at local or national government level should be considered and analyzed. To this end, the following procedure is recommended:

- preparation of a list of all relevant stakeholders and actors who may qualify as implementors, service providers and/or multipliers for LED and income generation at neighborhood and city level, and of their functions and re-

sponsibilities, such as (*this list is indicative only, and may need to be adjusted to the specific local conditions, as necessary*):

- national and/or regional<sup>1</sup> government institutions that are regulating, supervising, financing and/or managing programs for promoting local economic and/or social development (e.g. Ministry or Departments of Economic Affairs, Labor, Social Affairs, Education, etc.),
- municipal and/or metropolitan government, in particular departments of urban development, economic development, labor, social affairs, etc.,
- municipal and/or metropolitan agencies for the promotion of economic development, in particular promotion of SMEs,
- public and private vocational training institutions, both at neighborhood and city level,
- local chambers of industry and commerce, and other citywide private sector business associations,
- trade unions,
- NGOs and consulting firms specialized in LED and SME promotion, micro-finance, training and technical assistance,
- academic institutions,
- associations and organizations at neighborhood / community level (e.g. small traders, waste workers, cooperatives, etc.),
- other community-based organizations (women's associations, savings groups, youth clubs, etc.);
- performance of an initial SWOT-analysis of the stakeholders and actors identified that should focus on their potential role and contribution in the context of the envisaged LED and income generation initiatives;
- a compilation of existing economic and social development programs at local and/or national/regional government level (including possibly existing donor funded programs) to which the envisaged activities could possibly be linked up, in particular with regard to:
  - business advice and support services, in particular for SMEs in the informal sector (training, technical assistance, coaching, business incubation, etc.),
  - micro-finance and credit,
  - vocational training, and other skills training (adult education, life skills, social counseling, etc.),
  - job placement services.

## 1.4 Scope of Neighborhood Upgrading Projects

A final step of assessment at the stage of project identification will have to clarify the envisaged scope of the envisaged neighborhood upgrading project, and of its potential LED and income generation components. Due to the specific nature of measures to promote LED and income generation, but also with regard to economies of scale, it will generally be more favorable to develop such interventions in the context of broader city-wide upgrading programs than at individual neighborhood level. This holds particularly true for measures that often require approaches beyond the boundaries of spatially con-

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<sup>1</sup> The term "regional" is used is for government and administrative levels between the national and municipal level, i.e. for federal state, department or province level.

financed neighborhoods such as vocational training, job placement and referral, or SME-promotion and credit programs.

In most cases, however, the scope of intervention will already be (pre-) defined by the support request from the local project partner that can either be a city government, or a national or regional government institution. Depending on the applicant and the specific local context, a request can refer to:

- an upgrading project for only one, usually larger neighborhood that in most cases will be requested by a municipal or metropolitan government;
- a broader approach to neighborhood upgrading in the context of a city-wide slum upgrading strategy, usually also requested by individual city governments;
- a country-wide or regional urban upgrading program as part of an overall urban development strategy or policy that will generally be requested by a national or regional government institution.

It will therefore have to be assessed whether the requested scope and scale of a NUP will be conducive to developing and implementing specific components on LED and income generation, both at neighborhood and beyond neighborhood level, that have been identified and envisaged in the previous steps of assessment (as outlined by sections 1.2.1 and 1.2.2). For this purpose, the following guiding questions may be useful:

- Has the planned NUP been identified based on a city-wide slum upgrading strategy, a City Development Strategy (CDS) or similar overall urban development plan or strategy that also defines economic development objectives and strategies?
- If no, is there a need for complementary policy and program formulation, or overall urban and economic development planning that can only (would better) be addressed in the context of a broader program intervention, i.e. a city-wide upgrading program or a national/regional urban upgrading policy?
- Can the envisaged LED and income generation components (e.g. SME promotion, vocational training, etc.) be implemented at neighborhood level? Or would these require a broader approach beyond the boundaries of an individual neighborhood (e.g. in terms of size and needs of specific target groups, availability of support, capacities of service providers, etc.)?
- Can measures at neighborhood level be linked to already existing city-wide and/or national/regional programs (such as vocational training, job placement services, SME promotion, etc. ) within the scope of an individual "stand-alone" project? Or would this require a more comprehensive city-wide approach, or an approach even at national/regional level?
- Can the envisaged components be developed and implemented within the existing regulatory and institutional framework, both at local and national level? Or would reforms/improvements of regulations and institutional arrangements be needed?
- Do the main stakeholders and actors (as assessed in section 1.3) have sufficient capacities, resources and experience to develop and implement the envisaged components? Or would they require technical assistance or other support to develop these capacities?
- Would respective capacity development and technical assistance make sense and be efficient in the context of an individual "stand-alone" NUP, or would it be better to integrate this in a broader approach?

In general, individual "stand-alone" projects in only one neighborhood should be avoided in favor of broader approaches aiming at a scaling-up of urban upgrading. They may, however be justified / an option in a situation where there is not yet sufficient experience with urban upgrading in general, and LED and income generation in particular. In that case, they can be a valuable learning ground and laboratory for developing and testing specific forms of interventions and conceptual approaches. However, such "pilot" projects should be conceptualized in a way that they include a perspective for subsequent scaling-up and anchoring the developed approach in an appropriate policy framework such as a city- or country-wide slum upgrading strategy.

It will be a particular challenge to define the scope and scale of LED and income generation components in the context of broader national or regional upgrading programs that shall be implemented in a number of cities with possibly rather diverse and diverging characteristics. On the other hand, such programs will usually have been conceived on the basis of previous experience in one or more (pilot) projects. Where such previous projects have already included LED and income generation components, these should provide sufficient reference and orientation for identifying an appropriate scope and scale. If such experience does not exist, it will be useful to initially limit such interventions to a few selected core components that should be tested in a number of projects in different cities before they are rolled out at a broader scale.

## **1.5 Sources of Information and Appraisal Methods**

As far as possible, all above assessments should be done based on readily available and accessible information, e.g. from official statistics, possibly existing City Development Strategies (CDS), urban development plans, local economic development strategies or plans, or similar. Where these do not exist, qualitative assessments should be made that will have to be verified in the further process of project planning and design.

Generally information should be available for any formal businesses located in the neighborhood and for residents who are employed by the public sector or in formal enterprises, etc. However, few countries and even fewer cities collect information on the informal economy and employment. Information of this kind will therefore remain 'fuzzy' as a consequence of 'businesses' being ill-defined as such and residents undertaking multiple and sometimes very part time activity.

On the other hand, in most urban settlements there are some representatives of local governments, NGOs and community organizations who can be interviewed to obtain first qualitative assessments on the above aspects that may be sufficient for this early stage of project identification. Another option are 'focus groups' of economically active people from various businesses and activities where discussion will aim at gaining improved insight into how the informal economy operates and the problems faced by those active or wishing to be active in the economy or upgrade to more formal economic activity.

On the basis of what is already available and the results of initial interviews, a list can then be made of what further information is essential and what additional information would be advisable to obtain prior to more detailed project design. Collecting these data may require surveys, such as minimum on-the-ground surveys of economic activity and/or a sample household survey concerned to document the income generating activities of all household members.



Most of the information on potential stakeholder and existing programs should be available from the applicant local partner organization(s) for the envisaged NUP, in particular with regard to the roles and functions of governmental agencies and public sector institutions, and already existing programs. It may have to be complemented, however, by investigations on other possibly relevant stakeholders, in particular at neighborhood level, in the context of initial field visits / pre-feasibility studies.

The initial SWOT-analysis shall mainly point out important issues and aspects that will have to be assessed in more detail in the subsequent stage of project design. It is therefore expected that it can be done based on a number of interviews with selected representatives of the key stakeholders identified.

Based on a project request from a local partner institution, information collection for the above assessments proposed at will usually take place in the context of one or more initial fact-finding or pre-appraisal missions. In order to adequately address and assess the economic issues outlined above, and to identify appropriate options for more detailed project appraisal and design, it may be useful to already mobilize corresponding specialized expertise to participate in fact finding and/or pre-appraisal missions.

## 2 Project Design

The process of project identification should have provided enough information to take broad decisions as to whether LED and income generating initiatives will be included in the project design, and what the envisaged scope and content of respective project component will be. Moreover, it should have (tentatively) identified key stakeholders and actors to be involved in developing and implementing such components.

The stage of project design will take the process into more depth. In a second round of assessment, the LED and income generation components to be developed will have to be defined in more detail, and decisions will have to be taken what measures and activities will be financed as part of the total NUP package. In this context, the following general points need to be taken into account.

- Criteria need to be defined for assessing and selecting appropriate options, scales and "packages" for promoting LED, and employment and income generation in the context of the intended project/program, both at neighborhood and city/metropolitan level.
- In defining key stakeholders and actors to be involved in LED and income generation initiatives, and their roles and contributions, potential multipliers at neighborhood and city level should be analyzed and taken into consideration in detailing the design of the project.
- Stress should be laid on the identification and design of appropriate administrative and institutional arrangements for implementation (selection of implementing agencies, coordination structures and procedures, cooperation agreements, etc).
- Of particular concern is to assess and define the sequencing of interventions and investments that will be applied, with particular attention to the relationship between interventions oriented at economic development (e.g. support for the development of small enterprises, promotion of savings and/or microcredit institutions etc.) and the physical infrastructure investments.
- Assessment should be made of the expected economic results and effects of an intervention over time, as well as determination of important external factors that will need to be taken into account. This should include a risk analysis for each potential intervention.

### 2.1 Criteria for Designing Income Generation and LED Components at Neighborhood Level

In a first step of assessment, the income generation and LED measures made out at the previous stage of project identification will have to be defined in more detail. For this purpose, a number of aspects and criteria need to be considered that are outlined in this section.

Again, for purposes of clarity, it is recommended that a distinction be made between the two different target groups and sub-components outlined in section 1.2, i.e. between measures aiming at **improving income and employment** for the broad and diverse target group of basically all economically active residents, and measures that aim at **strengthening local businesses and enterprises** as a more specific target group.

Although the difference between these two types of measures and target groups may be subtle, the improvement of employment and employability, and of general survival and livelihood skills of residents will require different skills

and experience than the promotion of entrepreneurial activity and the strengthening of a neighborhood as a business location. This will generally also be reflected in the type of stakeholders and actors, and in particular, of implementors and service providers to be involved in developing and implementing such activities.

### **2.1.1 Income and Employment Generation**

Measures and activities under this potential sub-component that can be developed and implemented at neighborhood level, but will have to be assessed in this regard in more detail, comprise the following:

- **Labor-intensive Public Works:** The physical works to be carried out by the project/program in upgrading the neighborhood(s), including physical infrastructure, house improvements and public buildings (health centers, schools, etc.) provide the opportunity to generate employment for residents through 'community contracting'. Whilst this might be seen as temporary employment in the sense that when the works are finished, the workforce may become unemployed, in practice this also can be used to develop local skills in construction trades and to encourage the formation of small construction enterprises that can subsequently seek to carry out further work on house improvements in the neighborhood and construction work generally in the wider city.

The use of local, small-scale contractors and local labor is an approach relevant to any scale of NUP and should therefore be incorporated into the design of a project as a requirement of the implementing agents or agency, whenever possible.

#### **Issues to be taken into consideration**

- A basic assessment of employment opportunities and perspectives in the local construction sector will be needed, in particular with regard to the labor needs of contractors in envisaged urban upgrading works.
- There are essentially two considerations here. The first is simply to provide local residents with employment and skills development rather than bringing in labor from outside the area. The second is to substitute technology intensive methods with methods that employ more labor while, at the same time, ensuring at least the same quality of work is achieved.
- This will require some research on the part of the contracting agency or authority to obtain knowledge of experience elsewhere in this approach to the construction of infrastructure and buildings. This may be left to the implementation stage rather than be a task undertaken in the context of project/program design.
- In most countries, procurement rules require open tendering for public works contracts that, together with rules concerning contract conditions, do not allow for discrimination either concerning who may bid for the contract or the methods they use to carry out the works. Means will need to be found to modify these rules if an effective locally contracted and labor-intensive approach is to be adopted. (At the time of writing, the approach adopted by the South African Government and manuals produced by the South African Construction Industry Development Board provide an excellent model.)
- Use of local labor will clearly not be possible unless there are adequately trained workers capable of carrying out work in all the relevant trades. Where this is absent, then special training programs will need to be implemented (*see section on education and training below*).

- Similarly, if there is an inadequate supply of small contractors in the neighborhood then efforts will need to be applied to train individuals with the inclination to form, register and administer small contracting firms with the incentive that these will be contracted to carry out the intended upgrading work.
- It may be found that the contracting procedure for carrying out the intended works becomes too cumbersome/costly if this is done entirely through small contractors whose work is likely to need close supervision. An alternative is therefore to let the contracts to larger enterprises with a stipulation that these subcontract the work to local small contractors and carry out the necessary supervision.
- As the works are completed, mechanisms should be sought to provide continuity of work for the small contractors brought to life through the project. This should include promotion of private house and other building improvements within the neighborhood or beyond and also for the municipality to give recognition to the application of both to the labor-intensive methodology and to favoring the employment of small scale local contractors in the wider municipal context.
- **Adult Education, Social Counseling and Non-Formal Education in Life Skills:** Many citizens living in informal settlements who would like to find employment and relevant income earning opportunities are excluded from this by the lack of even the most basic skills of literacy and numeracy. Furthermore some, particularly those migrating from the countryside, lack basic knowledge concerning how to live in and make effective use of the cities they have come to reside in.

This may be organized in and by schools but should be articulated by social project components and ideally by the social services department of the municipality as a municipal-wide service but focusing particularly on the populations in informal settlements (ergo areas covered by upgrading projects and programs) where live the great concentrations of the socially and economically excluded.

#### **Issues to be taken into consideration**

- In some cases municipalities already provide opportunities for those who did not achieve even basic education to re-enter school. In other cases non-formal education programs have been established to address problems of illiteracy and the lack of basic numerate skills as a municipal-wide program.
- Where such programs do not exist and where it is discovered that there is a significant problem in the neighborhood(s) to be upgraded, then the project/program should support such education initiatives either at project level or work with the municipality to introduce these.
- Services to address this challenge need to be structured via a social screening exercise that proactively finds its clientele and assists in the first instance and possibly across the training process with social counseling.
- Such initiatives should have three functions: firstly to integrate people better into their local environment and community, giving them orientation and confidence, then to assist them in how to make a living in the informal economy (livelihood skills) and finally be realistically oriented at access criteria for subsequent more formal training and employment opportunities.
- Where trainers are recruited specifically by the project, there should be an assurance that these are qualified in terms of relevant skills and ex-

perience to undertake the training and the initiatives should be effectively monitored.

- Such training should be well-targeted for different groups. Special attention should be paid to training for adult women and both male and female youths.
- It should be emphasized that it is preferably where possible that such training be embedded into existing programs at city or national level, rather than developing such activities at project level.
- **Vocational Training:** Vocational training has long been deemed to be an essential dimension of national economic development and in most countries there are national programs that have established vocational training schools/colleges, usually supplemented by private institutions, often with particular foci.

Whilst it is clearly not the task of any NUP to take on this activity, it is nevertheless important, where the decision has been taken to incorporate an income and employment generating component, for such projects/programs to be aware of what is already available and to take steps to ensure that, on the one hand the offer of existing institutions is relevant to the needs of the residents of the neighborhood(s) in question and that these services are accessible to the community.

#### **Issues to be taken into consideration**

- In general project-specific vocational training should be avoided as not a genuine task of NUPs and instead be embedded in existing vocational training programs, i.e. promotion of vocational training in a project context should be linked to existing training programs and courses of specialized institutions at municipal, federal or national level.
- However, the project/program should ensure the availability, quality and relevance of offer of vocational training services accessible to residents of the neighborhood(s) to be upgraded and, where this is lacking, encourage the relevant authorities to extend their offer accordingly. There may, for instance, be cases for particular training in the context of the project/program, such as training of workers from the neighborhood in construction trades, but where such circumstances arise efforts should be made to build these into the curriculum of existing vocational training schools/colleges.
- This should include ensuring links between the life skills training discussed above and the entry criteria for formal vocational training – that completion of life training courses be deemed to be an entry level criterion for vocational training.
- Vocational training should always provide both basic skills needed for formal employment and be sensitive to current and emerging labor market needs. The Project/program should ensure that this sensitivity has a dimension that focuses on the needs specifically within the neighborhood(s) to be upgraded.
- Whilst vocational training generally focuses on skills required by formal enterprises, there should be a stream that can assist those in the informal economy make incremental improvements in their activities (the International Labour Office that has been instrumental in helping to establish vocational training systems in many countries also advises on training for participation in the informal economy).
- Financing of vocational training for individuals within given target groups of NUPs by the project/program may be considered an option.

- Vocational training supported by a NUP, if other than within an existing vocational training institute should be certified according to official standards and regulations.
- **Job Placement Services:** In many countries, Labor Ministries provide a service at the municipal level to assist companies to find qualified employees and for job-seekers to find work. Whilst this is often a relatively passive activity of information exchange, increasingly municipalities participating in proving or wholly taking over this service, combine it both actively with seeking inward investment of formal enterprises and organizing such events as 'jobs fairs' where job-seekers can come face-to-face with potential employers and may, by this means more easily find employment than through the more bureaucratic process of the labor exchange.

#### **Issues to be taken into consideration**

- The development and establishment of job placement services at project/neighborhood level should generally be avoided and rather be linked to existing placement services at municipal level.
- However, it may be useful to establish links to such services at project/neighborhood level, e.g. by supporting the opening of a local branch office of the job placement service.
- Options for respective arrangements should be assessed and agreed upon in the course of project design.
- In many countries/cities where business development services are being established, these are being combined in terms of premises and with synergies between activities in conjunction with job placement services. This makes eminent sense and if this is not yet the case in the city where the NUP is to be implemented then the project/program should encourage it.
- **Promotion of Cooperatives and Social/Community Enterprises:** In principle, promotion of cooperatives and social or community enterprise might be seen as just another service offered by BDS providers. However, the ethos and basis of organization is not the same, being concerned more with social cohesion than with the competitive outlook of conventional enterprise. Mention has already been made of the success in recent years of the establishment of cooperatives amongst waste recyclers in Latin America. Although, *prima facie*, the informal economy is made up overwhelmingly of individual actors and family-based activity, there is considerable scope for development of what in Brazil is being termed the 'solidarity economy' (a Secretariat for this has been established within the Ministry of Employment) aimed at promoting cooperatives and solidarity networks relevant to improving social capital, with a distinct economic dimension, amongst actors in the informal economy.

#### **Issues to be taken into consideration**

- In designing the NUP, investigations should be made into whether there already exist institutions within the city (such as a secretariat for the solidarity economy or simply a cooperatives promotion unit) and if so consideration should be given as to its orientation and activities with regard to the population of the neighborhood(s) to be upgraded.
- Where neither existing support structures nor collective initiatives in economic activity exist in the city, the NUP should consider how awareness building and motivation in participatory processes may be stimulated in the framework of the project/program.

- Options to promote cooperatives and other forms of collective enterprises and their feasibility in the context of the NUP should be carefully assessed, noting particularly that cooperatives and other collective enterprises in urban poor settlements often entail the risk of being „hijacked“ by political leaders or local Mafiosi.
- They will generally be more feasible in a neighborhood or contexts where there is already a culture of collective action and some initiatives that could be built-on rather than starting in a situation lacking such experience.
- If collective enterprises are to be promoted, their business model and plan with regard to markets and clients should be carefully assessed, and functions and responsibilities of members need to be clearly defined.
- In general, longer-term time horizons for coaching and follow-up may be necessary. Moreover, this will require special skills and experience of support providers.
- It is unlikely to be worthwhile for the NUP to provide such services in the context of particular projects but may be relevant in either the case where some experience is there that can be built on or where the local government has an interest in developing the service, in which case the NUP might provide some support where it is clear that the municipality will then spend resources in the longer term within the upgraded neighborhood(s).

## **2.1.2 Local Economic Development • Business Support**

Under this possible sub-component the following types of measures and activities may have to be assessed and designed in more detail:

- **Provision of Commercial and Industrial Sites and Space and Buildings for Local Economic Activities:** Provision of commercial/industrial sites, and space and/or buildings to accommodate local economic activity, are generally well-proven forms of intervention that can contribute to strengthen both the local economy within the neighborhood and the interfaces with the overall urban economy. It is important to note that this does not only require physical measures, but also concepts and mechanisms for development, marketing and operation of the facilities provided.

### **Issues to be taken into consideration**

- Demands for land and business space need to be assessed realistically, distinguishing between different types and sizes of local businesses (e.g. for retail or trade, workshops and other productive activities).
- Selection of appropriate locations and sites, if possible in line with the overall concept for the development of business locations at city level (e.g. CDS, municipal economic development program, city-wide slum upgrading strategy, etc.).
- Responsibilities for site development/construction and marketing of business premises and sites (e.g. project implementation unit, municipality, specialized development agency).
- Affordable/attractive and sustainable financial arrangements and conditions should be met (rents, leases, land prices, service and utility fees, etc.).
- Feasible and practical arrangements for the management and operations/maintenance of business premises will need to be developed.



- This may require complementary assistance and support, in particular for small informal businesses to be transferred to a more formal environment .
- Special solutions and approaches are needed for business start-ups, including basic accommodation for informal businesses and business incubators.
- The possibility of implementing "lighthouse" projects promoting a more positive image of the neighborhood (e.g. neighborhood markets, business centers combined with other uses (e.g. administrative functions) should be considered.
- Administration and marketing of the sites may be given over to the municipality, if this already has the necessary structure for this, or the lessees – particularly in the case of accommodation for informal business activities - can administer the site in the form of a cooperative with supervision by the municipality.
- Adequate space should also be provided along streets and in sub-neighborhoods for small stores and space also for informal traders.
- Consideration should be given for the fact that many businesses are carried out from home and allowance should be given in any rules established for house upgrading for these to be used and space provided for home businesses as long as these are not wholly turned over to business operations.
- In the latter case, careful attention will have to be given during project implementation to the specific needs of the economically active population through participatory planning processes.
- **Support for Starting and Improving Small and Micro Enterprises:** Considerable effort has been put in recent years by international and bilateral agencies and international financial institutions to assist governments in Transition countries and countries of the South to nurture a culture of enterprise and then to provide business development services (BDS) focusing especially on the development of new small enterprises and assisting these to grow. Key to this has been the Donor Committee for Small Enterprise Development (DCED).

#### **Issues to be taken into consideration**

- Effort should be put in designing the NUP to find the status of initiatives to assist in the formation and improvement of the activity of small enterprises in the city. Where these already exist, contact should be established to determine how these might address the specific needs of the neighborhood(s) where the NUP will be implemented .
- Where these services are not yet provided in the city then there may be justification for incorporating them in the design of the NUP, where this is to be a city-wide program, with the proviso that it will be necessary to ensure that the institutional and financial basis continues after the program ends.
- This service, training and advising candidates on how to run a business efficiently and effectively, should be tailored according to the specific demands and interests of different types or lines of businesses, as well as to realistic and feasible market opportunities.
- Participants in the program may link their learning of entrepreneurial skills with vocational training such that they have skills in the area of business which they will pursue.

- It is necessary to select carefully potential service providers. In particular, NGOs and municipal/public agencies should be critically assessed with regard to their capacity to provide/deliver such services and if necessary these should be provided with training by the program/project if the existing offer is inadequate.
- Whilst in the past these services have been overwhelmingly financed by international agencies and national governments – with a relatively high cost per enterprise established - the opinion of the DCED is that these should become self-financing in the long run, with clients paying for the services.
- Nevertheless, local government support will need to be forthcoming both to provide premises and general administration and ensuring that there is means-tested subsidy for clients where it is clear that they will continue to operate in the informal economy and hence not be able to afford professional services of this kind, albeit with improved efficiency and hence income.
- Complementary capacity building and organizational development for service providers on the part of the program may be useful and/or necessary.
- It is unlikely to be justifiable to establish such services for single projects and in this case effort should go into stimulating the local government – perhaps with international or national government support – to establish the service at city level.

### 2.1.3 Micro-Finance

A particular kind of measures that may be relevant for both above sub-components are micro-finance schemes. They are one of the most popular economic development mechanisms introduced as components of urban upgrading projects. On the whole, however, these have not been very successful, partly because they were on a very small scale, related to the specific project area, and partly because they often came to end with the end of the project before their usefulness had become more well-known to the beneficiaries.

Three main points can be made about the broad area of finance for local economic development, prior to discussing the details of what might be relevant in the context of an NUP, namely:

- The pre-existence of traditional savings and loan circles and what these can achieve has often been ignored or underestimated;
- Micro-finance institutions, relevant and widely used both to finance consumption (house improvements and social obligations) and small enterprise development, once small one-off initiatives, are now widespread and to be found as well-established institutions at the city and even the national level;
- The negative impact which the present global economic recession is having on the availability of small-scale finance should be taken into consideration and where possible creative mechanisms encouraged that will continue the flow of funding that will be needed for the success of NUPs.

Against this background, two main types of micro-finance schemes can potentially be included in the design of a NUP:

- **Community Saving and Loan Schemes:** According to international experience (mainly in Asia and to a lesser extent in Africa), the promotion of (group) savings schemes can be a powerful tool to improve the economic situation and reduce the vulnerability of poor target groups.

They usually aim at building up financial assets over time that can be used for various purposes such as investments in home improvement, education, hedging against emergencies as well as for financing small-scale informal economic and livelihood activity.

#### **Issues to be taken into consideration**

- Where a local culture of traditional community savings and loan mechanisms already exists, these should be promoted or introduced as a means to promote asset accumulation of the poor.
- Where no pre-existing traditions and experience exist, there may be too much risk in attempting to initiate these without there being sufficient local understanding and interest in the community.
- Savings and loans schemes have generally been more successful with women as a target group and, insofar as they are recognized and promoted or newly established, may therefore require a gender-specific approach.
- Promotion or initiation of such mechanisms requires special expertise and experience, with particular attention paid to their transparency and accountability, and their long-term sustainability. For this reason, it will usually be more conducive to promote community savings and loans at a broader scale rather than at the level of individual neighborhoods.
- **Micro-Finance and Credit for Local Businesses:** Experience in the past in poor urban communities is that preference is given to using own or family savings or borrowing from a limited circle of personal friends within the local community. However, with the deeper institutionalization of this mechanism, attention should be paid to its promotion as a tool for improving the efficiency and effectiveness of income-generating activities in the informal economy.

#### **Issues to be taken into consideration**

- A neighborhood, even a large one area is not generally an adequate territory for micro-finance operations as taking out a loan and investing in business expansion may only appeal to more active and motivated businesses which may only exist in limited numbers at neighborhood level.
- In designing an NUP, investigation should be made as to the existing offer at municipal or national level and its potential for use in the framework of the LED and income generation component of the NUP.
- Demands and interests in micro-finance loans within the NUP area(s) should be carefully assessed, or alternatively defined, and on this basis a further assessment made as to the appropriateness of the existing offer to satisfy this.
- Arrangements made – for instance with the local office or ‘demand circle’ linked to existing micro-finance institutions to provide advice and support to those in the NUP area interested or who otherwise could benefit from loans to improve their economic and other income-generating activity.
- An appropriate level of regulation and supervision of resulting micro-finance operations should be ensured.
- There should be an assurance that whatever mechanism is established within the framework of the NUP to promote micro-finance operations will continue to operate after the end of the project/program.

Moreover, in designing a NUP, investigations should be made of any other appropriate financial mechanisms – such as credit unions, local economic trading schemes (LETS), etc. – are operating in the city that might be pro-

moted within the NUP area(s). These should be assessed for their effectiveness and promoted if found to be appropriate.

## 2.2 Complementary Measures beyond Neighborhood Level

On parallel lines to defining the scope and content of the above measures at neighborhood level, **complementary measures and activities beyond neighborhood level** that have been identified at the stage of project identification may need to be further developed and conceptualized.

This will be particularly relevant in the case of broader city-wide upgrading programs in individual cities, or in national or regional upgrading programs involving a larger number of cities.

As outlined in section 1.4, these may refer to:

- overall urban and economic development planning, e.g. in the context of City Development Strategies (CDS) or similar forms of strategic planning;
- overall policy and strategy formulation for urban upgrading (including financing mechanisms and funding lines);
- improvement of the regulatory framework for economic and commercial activities (e.g. business licensing and fees, procurement procedures and regulations, etc.);
- policy and program formulation at municipal, (regional) and/or national level, e.g. for social assistance and livelihood, employment conditions and their regulation; vocational education and training; micro-finance and saving.

At the stage of project design, the scope, content and objectives of the complementary interventions beyond neighborhood level will have to be defined in more detail, as well as the resources and responsibilities for implementing and coordinating these activities.

## 2.3 Stakeholder Analysis

On parallel lines to defining the content and scope of income generation and LED components, a more detailed stakeholder analysis will need to take place and decisions be taken as to how different stakeholders should be incorporated into the project, in what capacity and structures and when these should be brought in.

This analysis shall build on the initial assessment outlined in section 1.3, and shall comprise the following main steps of identifying:

- **A lead agency** for overall management and coordination of the planned income generation and LED (sub-) components: This can either be the implementing body for the overall upgrading project or program, or a separate unit responsible especially for the income generation and LED components. However, in that case, clear interfaces and coordination mechanisms with the body responsible for overall project management will need to be identified and established.

In most cases, the **local government** (either at city/municipal or metropolitan level) will be the main stakeholder and most appropriate implementing agency for overall urban upgrading interventions that should generally also take on the lead role for **managing, coordinating, supervising and monitoring** income generation and LED components. Functions and responsibilities may, however, need to be shared between different departments, e.g. departments for urban development, economic development

and/or social affairs, and sub-municipal administrations (e.g. at municipal district or neighborhood level). It will therefore be important to well-define the functions of the lead department as well as the interfaces and coordination procedures between all other relevant departments and other administrative subdivisions.

Another common option is to assign overall project management and implementation to a specialized **urban development agency** that may already be existing (either established under the auspices of the local government or by other government levels) or to a **project implementation unit** to be established for the particular purposes of a project or program. In both cases, it should be carefully assessed whether this special body or agency could also assume management and coordination functions for the planned income generation and LED components. Moreover, in case overall project management will be assigned to a usually temporary project implementation unit, it will be important clarify the options of institutionally anchoring functions and tasks that may need a longer-term perspective (see 2.4. below).

A special case will a **broader urban upgrading program launched by national or regional government** for a number of cities that may require different levels/layers of management:

- overall management, coordination and supervision **at program level** (either national or regional government level): This will also have to include an appropriate set-up for managing, supervising and monitoring income generation and LED components of such programs. For this purpose, it will have to be clarified which national or regional ministries and institutions (such as Ministries of Economy, Labor, Social Affairs, Education, etc.) may need to be involved and/or consulted in such programs that will generally be implemented by ministries or government agencies responsible for urban development and/or housing, or for local government supervision.
- management and coordination of project implementation **at local level** that in most cases will be a function of the municipality/ local government, but may also have to include local sectoral agencies and other local stakeholders as outlined in section 1.3.

A particular challenge for such country-wide or regional programs will be to avoid too complex and complicated organizational arrangements. For this purpose, it should be considered to focus on only few selected priority interventions in the field of income generation and LED, thus limiting the number of components and actors to be involved.

- **Other implementing agencies or stakeholders** to be involved in developing and rolling-out the envisaged components: Depending on the scope and type of planned income generation and LED activities it will be necessary to further define and detail the roles and contributions of other stakeholders and actors that have already been identified at the previous stage of project identification such as vocational training institutes or schools, other educational institutions, agencies for SME promotion, micro-finance institutions, etc.
- **Needs and procedures for target group participation** in developing and implementing the planned measures and activities: In order to ensure adequate participation and involvement of the target groups, it will be important to engage with associations and any forms of organization in which entrepreneurs, workers and other target group representatives come together to express and pursue their joint interest (e.g. community organiza-

tions, local business associations, women associations, youth clubs, etc.). Contacting and consulting existing or incipient/nascent organizations of specific groups will be essential for identifying who will be the clientele of the planned measures, and for obtaining a first impression of the likelihood of success of each of the initiatives.

- **Other required resources and services:** Finally, the stakeholder analysis should also include an assessment and definition of potential service providers (e.g. NGOs, private consulting firms, academic institutions, etc.) that may need to be contracted for developing and implementing the planned activities, or for providing capacity building, training and technical assistance to the different institutional stakeholders and/or community organizations.

Applying approaches of standard institutional and organizational analysis, the identification of the different above stakeholders shall generally include a more detailed appraisal of:

- general institutional capacities and personal resources (organizational structure, management, internal working procedures, staffing, budget/financial situation, etc.);
- envisaged functions, roles and contributions in the context of the project;
- specific experience, capacities and resources with regard to the envisaged functions, roles and contributions;
- needs for capacity development and technical assistance (if relevant);
- modalities and procedures required for collaboration and interaction.

Furthermore, although at the design stage it will not be possible to constitute a steering group or bring together those interests who will need to participate in aspects of project/program implementation, there should nevertheless be enough information on hand to make preliminary proposals. Each type of initiative will, however, need to be made precise in terms of how it will be administered in practice. In some cases the municipality will take the lead but in other cases local groups with an interest in the actions to be taken should be formed and as far as possible institutionalized to take effective action either for the duration of the program or with prospects of continuation after the end of the project/program.

## 2.4 Sequencing of Measures and Activities

There is no clear sequence of activities related to "traditional" upgrading measures and LED and income generating interventions that could generally be applied. An appropriate sequencing will rather have to be defined and decided in line with the type and mix of interventions in a specific context. Nevertheless, some criteria to be considered in planning and designing the sequencing of activities can be pointed out:

- When the promotion of **labor-intensive construction works** shall be part of a project concept, preconditions for this will need to be established at an early stage of implementation, i.e. early enough before the envisaged start of construction works. In more particular, contractual conditions and procedures will need to be clarified and possibly required **vocational and skills training programs** be implemented as early as possible.
- If **adult education and social counseling** are essential for mobilizing support and participation of residents in the upgrading process, and in particular, in subsequent employment and income generation activities, they will have to be launched at an early stage of project implementation.

- If **capacity development**, technical assistance and training of stakeholders is needed to enable them to take on important implementing or service functions in the context of income generation and LED components, this should be planned for realistically. This shall assure that stakeholders will have adequate capacity, when they are expected to become operational.
- As some income generation and LED components (such as the **establishment of job placement services, SME support and advice, micro-finance for local businesses**) may need substantial capacity development of both implementors and service providers, as well as a clarification of institutional arrangements and responsibilities, actual implementation of such components may have to be planned for at a later stage of a project.
- Moreover, early considerations shall be made how income generation and LED components that may initially be developed only at neighborhood level can be adequately anchored institutionally. This holds particularly true for **components and activities that may require a longer-term perspective** beyond the time horizon of a project intervention.

## 2.5 Allocation of Funding and Other Resources

Another important step at the stage of project design will be to decide on the allocation of financial and other resources for the planned income generation and LED components. Again, there are no clear criteria with regard to appropriate financial allocations for the different types of possible measures and activities. However, a general lesson learnt from past projects is that the scope of the interventions and financial provisions have often been too small and insignificant to really make an impact. Moreover, overhead and transaction costs of some type of interventions (e.g. for managing micro-finance schemes, rolling out training, or business support services) have often been rather high compared to their benefits and impacts, which are also scarcely documented and evaluated in systematic way.

Against this background, the following rough orientation may be helpful in deciding on overall financial resources allocation, and the resources needed for specific lines of activities:

- Financial allocations of less than 10% of total project costs may generally be too insignificant for developing and rolling-out income generation and LED activities at a sensible scale to achieve a tangible impact. However, this roughly indicative percentage may have to be put into perspective in relation to the total investment volume, i.e. in a project with a large investment volume an allocation of 10% to specific income generation and LED measures may be more justified than a higher share in a project with a much total smaller investment volume.
- Some orientation may be provided by the envisaged total number of beneficiaries of income generation and LED components as compared to the number of beneficiaries of physical upgrading measures for which investment costs per capita will usually be much higher than for more "software" oriented economic components.
- Financial allocations required for the different types of interventions should be based on rough estimates per type of activity (e.g. training costs/trainee, development costs of commercial or industrial lots/sqm or ha, average micro-credit/borrower or enterprise, etc.) and the expected total number of units or beneficiaries. Where possible, such estimates of unit costs should be based on experience from possibly already existing similar forms of interventions in a city or country.



- Overhead and transaction costs should be kept in proportion to planned outputs and expected outcomes. They will generally be higher at the stage of development and initial testing, and should decrease with a broader roll-out.
- Wherever possible and appropriate, it should be tried to establish rough orientations/estimates for overhead and transaction costs per type of activity (e.g. costs of curricula development and administration/training unit or trainee, share of administration costs/micro-credit, administration and management cost / business unit or sqm of commercial /industrial sites, etc.).

If the above cost estimates and actual costs are documented and evaluated systematically for a number of projects over time, this will generate a better basis for defining appropriate financial allocations for income generation and LED. This should, however, be complemented by a similar systematic evaluation of benefits and longer-term impacts (see also section 5 on monitoring and evaluation).

## 2.6 Sources of Information and Appraisal Methods

Most of the data and information needed for the above assessments in the context of project design will have to be compiled in the context of one or more appraisal missions that may have to be complemented by pre-feasibility or feasibility studies on special components or sub-components.

The actual needs and requirements for project appraisal will largely depend on the scope and complexity of the planned intervention, both in terms of spatial coverage (i.e. only one or a small number neighborhood, city-wide slum-upgrading, or a country-wide program) and the number and type of components to be included.

It will be important, however, to assure appropriate expertise within project appraisal missions, both with regard to the assessment of envisaged economic components and interventions, and the adequate consideration of social development aspects. In addition to urban development experts, housing experts and infrastructure engineers, project appraisal teams should therefore include:

- an urban economist (for assessing overall economic development conditions),
- a specialist in income generation and LED measures,
- and a social development expert with experience in community participation and mobilization, and in adult education and social counseling.

Moreover, project appraisal should be conceived as a consultative and interactive process that shall involve all relevant stakeholders and actors, and communicate and coordinate intermediate findings and recommendations.

Depending on the scope and complexity of the envisaged project, the methods to be applied for design and appraisal can include:

- short sample surveys or "X-rays" of target groups and local stakeholders,
- focus group discussions, rapid appraisals, and individual interviews;
- planning and coordination workshops;
- standard institutional and organizational analysis;
- pre-feasibility or feasibility studies of specific components or sub-components.

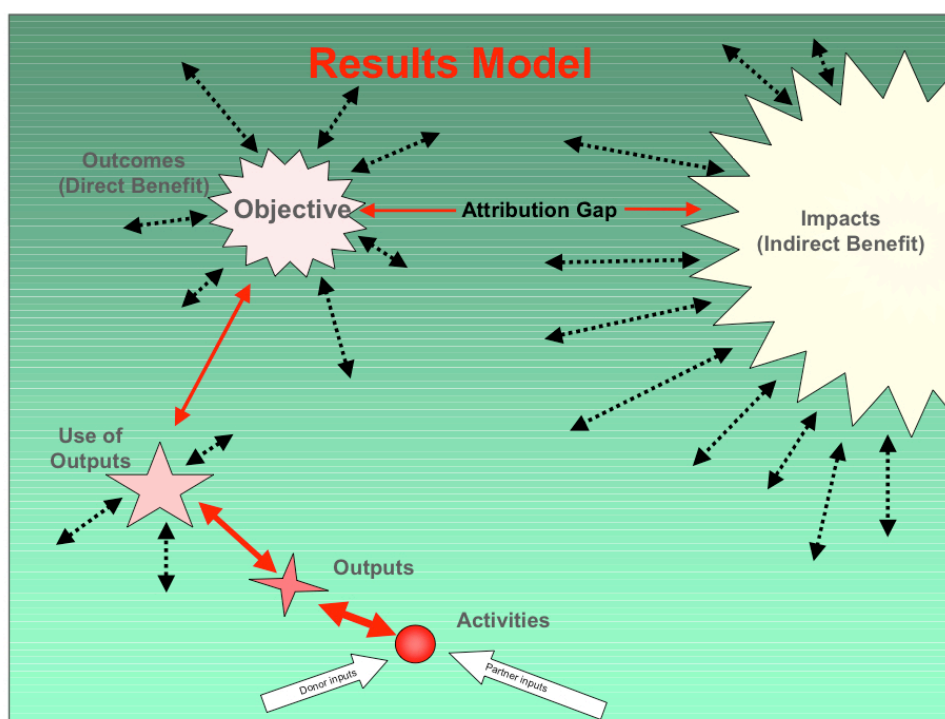
### 3. Project Objectives

Elaborating on the type and scope of initiatives that might be taken in improving incomes and developing the local economy in the context of a NUP as outlined in section 2, it will be a key task of stage of project design to define an articulate objectives, select indicators and set targets for the planned interventions, as well as to communicate and coordinate these with all relevant stakeholders.

For this purpose, it is proposed that the results-based management model recommended by OECD-DAC be used that largely corresponds to the Bank's Logical Framework and distinguishes between 3 different main levels of results<sup>2</sup>:

- **outputs** that occur as a result of a project intervention, i.e. its inputs and activities in form of finance, goods and services;
- **outcomes** that occur as direct results of the **use of outputs** by beneficiaries and intermediaries of project interventions, generally within a relatively short time horizon (also **direct benefit** or **purpose** of a project);
- **impacts** that occur as more indirect results of project interventions, i.e. as objectives to which a project contributes, but which may also be affected by other external factors, generally with a longer-term time horizon (also project **goal**).

It may further be useful to apply the concept of results chains as illustrated by the chart below to clarify the sequence and links between the different results levels, as well as possible external factors to be considered.



Note: The dotted arrows symbolise the increasing number of external factors

<sup>2</sup> A more detailed description of the different result levels and logical framework approach can be found in the following Bank Paper: Shlomo Angel, Michael Jacobs: Getting Results in Housing - A Framework for Monitoring Results in Housing Projects Using Measurable Indicators, May 2006

## 3.1 Result Chains

The following overview of possible results to be expected by the different types of interventions shall serve as an orientation for formulating objectives and appropriate indicators related to income generation and LED. Moreover, two practical examples of results chains are included in the tools sections.

### 3.1.1 General Upgrading Interventions at Neighborhood Level

The main physical components of a NUP will also have a significant or even major impact (depending on the level of upgrading intended) on economic activity in the upgraded neighborhood(s) that should be considered and articulated.

- **Improvement of internal and external access** for customers/clients through roads and/or public transport will certainly increase economic activity and provide chances for the residents to improve their situation if they take advantage of the possibilities opened up. The degree of intervention – ranging from ad hoc improvement in basic infrastructure through to re-blocking and creation of a new street network together with the full set of physical and social infrastructure – will produce substantially different economic outcomes for the resident population.
- **Improvement of basic services and technical infrastructure** can also have economic impacts, albeit these are likely to be more marginal. Improvements in health and morale can be expected and these will contribute to more proactive and effective economic activity on the part of the residents.
- Introduction/insertion of **community facilities** including schools, community centers, health clinics, cultural facilities etc. can also lead to economic gains even independent of the project/program initiatives in education and training, through raised morale and by residents availing themselves of the facilities learn new skills and activities that can earn them a living.

The social infrastructure will also require staffing and although it is likely that professionals (teachers, health care staff, etc.) will commute from elsewhere, janitors, kitchen staff, etc. might be expected to be locally recruited.

- In so far as the project/program reduces **hazards from disasters and adversities** (flooding, landslides, fires, etc.) this can also raise morale leading to an economically more active population and also avoid damage that would affect the local economy negatively.
- There is much optimism that **secure tenure/right to stay** without the risk of eviction/or relocation is a key to triggering local development (see de Soto). Whilst the explicit mechanism of tenure might have been exaggerated by some it is clear that reduction in the fear of eviction by whatever means is an effective way to encourage private upgrading of houses and then further investment in residents own economic activity.
- Improved **security and safety** through reduction of crime and violence – which may also need significant complementary activities beyond settlement level – is a further clear means of improving confidence to undertake more effective economic initiatives, where residents do not have to be concerned that their efforts will be undermined by extortion, theft, etc.

However, in most NUPs these impacts are difficult to assess and measure, as they are usually not specifically designed to strengthen the local economy but rather aim at an improvement of overall living conditions of all residents.

To better catch and understand the economic impacts of these largely physical interventions, it will therefore be important to define:

- more specific objectives how such measures shall contribute to strengthening the local economy;
- which specific economic target groups shall be addressed and reached, and how their situation shall be improved; and
- appropriate baseline information that can be used to monitor and evaluate the direct and indirect effects of such interventions.

### 3.1.2 Income and Employment Generation

With a view to income and employment generation interventions that generally address the whole economically active population in a neighborhood as a whole, the following possible impacts can be outlined:

- Income will accrue to residents who find employment in **labor-intensive construction works** of physical and social infrastructure resulting from targeted training and recruitment, and multiplier effects can be expected from local purchasing by contracting businesses and their employees. In itself this is a one-time increase in employment. However, the infrastructure will need maintenance into the future and local employees will now be qualified to carry out this work.

The skills and experienced gained from this will be available for employment in construction work both in ongoing housing improvements in the neighborhood – in principle now of a better quality due to skills of the workforce – and in the wider city both as individual craftsmen and hired by contractors.

- Improved literacy and numeracy through **adult education and social counseling** should assist those who complete courses to be able to engage generally better in the wider society. This has personal and social benefits beyond the purely economic. However, this training should also be directed to helping participants to become more employable or to start their own – possibly informal – income earning activity;
- **Vocational training** is explicitly oriented to providing skills that will help trainees to find work or to start a business where the learned skills will nurture success and improve the output of the business. An assessment should be made of the potential increase in local income accruing to the neighborhood residents graduating in vocational skills and thence finding employment;
- Improvement in the offer of **job placements** should increase the numbers of residents finding work in formal employment inside or beyond the boundaries of the neighborhood(s).
- The **formation of cooperatives** and other associative modes of working both continuing in the informal economy or as formal enterprises should improve incomes and increase local economic activity.

The development of social enterprise, whilst in part aiming to improve social cohesion and the offer of social services in the neighborhood, should also lead to opportunities for some to improve their earnings and improve economic activity more generally in the neighborhood(s).

### 3.1.3 Local Economic Development • Business Support

With a view to income and employment generation interventions that address the economically active population in a neighborhood as a whole, the following possible impacts can be outlined:

- The **provision of sites** for formal business is intended to attract activities that will employ people from the neighborhood. Furthermore, multiplier effects may be expected where these enterprises and their employees will purchase local services in the neighborhood.
- Sites for and accommodation for small traders and other informal businesses should improve the level of activity (even attract custom from outside the neighborhood(s)) and hence local incomes.
- Facilitation of work space in homes including small shops (shop-houses) and space for small-scale home-based manufacture such as clothing, plastic goods, etc., should also facilitate an increase in local economic activity and hence incomes.
- Improvement in the entrepreneurial skills through **business support services and training** of those residents already economically active and inclined to formalize their businesses or otherwise simply improve the efficiency and effectiveness of their activity should lead to increased incomes and an overall improvement in the local economy.
- Increase in the offer and facilitation of **capital lending for local business or other income earning activity**, whether via new savings and loan circles, micro-finance institutions or other financing mechanisms should lead to more income accruing to residents and thus increases in the overall economic performance of the neighborhood(s).

### 3.1.4 Interventions beyond the Neighborhood Level

Policy-formulation, together with various resulting programs at national, regional and/or municipal level can be expected to enhance the framework within which the economic development initiatives are made within the neighborhood(s) to be upgraded including the following.

- Overall **urban and economic development planning**, e.g. in the context of City Development Strategies (CDS) or similar forms of strategic planning with particular attention to the needs of the poorer inhabitants who can be expected to be living in neighborhoods requiring upgrading.
- Overall **policy and strategy formulation** for urban upgrading of the local or national government, in addition to – or consolidating – IADB initiatives.
- Improvement of the **regulatory framework for economic activities** which could be expected to be useful to complement interventions at neighborhood level, but would generally only be possible in the context of broader city- or country-wide initiatives.
- National and local government **social assistance and livelihood programs** having an impact at the community level – especially if these are well-targeted towards the poor.
- National **employment programs** including public works, vocational training, etc. can and should complement and enhance the impacts of these measures in the framework of specific NUPs.
- Improvements through government and private sector initiative in the availability of **finance for small scale and micro-enterprises** would also be expected to boost small-scale investments at the level of the poor neighborhood.

## 3.2 Outcomes

The outcomes of "traditional" NUPs focusing on physical upgrading, often combined with complementary components on community development or empowerment, institutional development and policy formulation, usually refer to an overall **improvement of housing and living conditions** such as:

- better physical quality of housing and more substantial investment in housing, and increase in house and land values;
- more secure tenure;
- improved quality of and access to basic technical infrastructure (mainly water supply and sanitation);
- improved protection from hazards like landslides or flooding;
- improved quality of and access to community facilities (mainly education and basic health care).

Depending on the scope and combination of interventions that are more specifically oriented at income generation and LED (as outlined in the previous sections), the following outcomes or more direct results (direct benefits) can be defined:

### **General Income and Employment Generation:**

- improved employment levels of residents (reduction of unemployment, higher share residents with formal employment);
- improved incomes of residents, if necessary broken down by specific target groups (such as women, youth, skilled or unskilled workers);

### **Local Economic Development • Business Support:**

- improved revenue and profit of local businesses;
- improved/higher investment in business equipment and other productive assets;
- creation of new jobs in local businesses;
- strengthening of the neighborhood as a business location;

### **Regulatory and Policy Framework** (beyond neighborhood level):

- improved coverage and targeting of urban poor neighborhoods by municipal and/or national social assistance and livelihood programs;
- inclusion of specific promotion measures for urban poor neighborhoods in municipal and/or national employment generation and LED programs (such as SME-promotion, vocational training, micro-finance, etc.).

## 3.3 Impacts

With regard to defining the more indirect results and longer-term impacts of the planned interventions it is recommended to distinguish between two main types of impacts:

- impacts on asset accumulation and poverty reduction at neighborhood level, and
- impacts on the wider urban economy.

For both types and levels of impacts a number of aspects should be taken into consideration that are outlined in more detail in what follows.

### 3.3.1 Asset Accumulation and Poverty Reduction

Poverty reduction and asset accumulation of poor target groups are usually an overall goal of most NUPs. The impacts that can be achieved will largely depend on the specific types of interventions comprised in a NUP, i.e. the mixture/combination of traditional physical and social upgrading components with components aiming at economic development and income generation.

Oriented at the multiple dimensions of poverty as defined by OECD-DAC such broader impacts that can be defined as objectives of NUPs comprise:

#### Human Dimension

- reduced illness caused by water-borne diseases and/or other environmental conditions;
- improved nutrition, in particular of children;
- improved education levels;

#### Economic Dimension

- improved levels of savings and other economic assets;
- improved consumption capacity (e.g. food consumption and diet, ownership of household appliances, etc.);
- improved access to formal credit;

#### Socio-Cultural, Political and Protective Dimensions

- improved public safety and security; reduction of crime and violence;
- improved gender equality and chances of life (women and girls, male youths, etc.);
- improved levels of decent employment;
- improved ability of residents to withstand economic and external shocks.

However, the achievement of such impacts will also depend on the development of overall economic framework conditions that cannot be influenced by project interventions and may change (unexpectedly) over time, both during project implementation and after project completion.

It will therefore be important to adequately define and assess these external factors in form assumption or positive conditions that will have to be met for a project to be successful, as well as to monitor these carefully (see also section 5 on monitoring).

**Note:** A possible tool for assessing the expected impacts on poverty reduction and asset accumulation is the approach for "[Ex-Ante Poverty Impact Assessment](#)" developed by OECD-DAC.

### 3.3.2 Impacts on the Overall Urban Economy

For defining the expected impacts of income generation and LED interventions in the context of a NUP on the overall urban economy the following aspects will be relevant:

- Individual projects at neighborhood level - even in large slum areas with large populations of 100,000 inhabitants or more - will usually have only limited impacts on the overall urban economy, particularly if they are located in large urban agglomerations with millions of inhabitants. The smaller the percentage of a city's residents who are reached by a NUP, the more limited will generally be its measurable economic impact at city level. Moreover, the economies of informal settlements are generally 'poor



economies', making few demands on the wider urban economy and producing little that circulates outside the settlement boundaries. NUP investment (both in absolute terms and per capita or household) is often significantly lower than for other forms of public infrastructure projects, and private sector real estate development is minimal in a situation where housing is largely self-built and with little turn-over by way of a housing market.

- In contrast, broader city-wide upgrading programs that are designed to reach a larger number of slums and urban poor will generally have more tangible impacts provided that they aim to achieve a long-term consolidation and integration of informal areas into the urban fabric rather than as temporary or otherwise minimal, low-cost, infrastructure improvement.
- Another crucial factor determining potential overall economic impacts is the scale of project components on economic development and income generation. In the past, investment in the economic development and income generating components of upgrading projects/programs has in almost all cases been well below 10% of overall project costs and it should be clear that only limited impacts could be expected. A greater impact could be made with more comprehensive approaches to LED in conjunction with NUPs.
- Broader impacts will depend on the scope and mixture of economic development measures, and on the potential synergies between these measures and other project components.
- However, higher budgetary allocations and/or a larger number of economic development measures will not directly or automatically translate into broader, more tangible impacts. These will largely depend on the quality of targeting of such measures, i.e. to what extent they meet a real demand and/or tap specific local development potentials, the cost-benefit ratio between required inputs and outputs and on the possible synergies between the different types of measures.
- In general, it will be difficult to assess and evaluate the broader impacts of NUPs on the overall urban economy in terms of determining their "economic footprint", as there is usually a large number of external factors that render it difficult to establish clear cut cause-effect relationships between project interventions and changes or development trends observed in the overall urban economy.

The expected impacts of NUPs on the overall urban economy should therefore be carefully and modestly defined and, in particular, the large "attribution gap" between project interventions and their possible broader and longer-term effects or impacts be appropriately taken into consideration.

### 3.4 Indicators

All expected results at the different levels outlined above will have to be further specified by appropriate indicators that should ideally fulfill the following criteria:

- **Valid:** An indicator should directly represent the result it is intended to measure.
- **Objective:** The definition shall be precise and unambiguous about what is to be measured.
- **Reliable:** The data and information needed should be consistent or comparable over time.

- **Practical:** It should be possible to collect the needed data easily, on a timely basis and at reasonable cost.
- **Useful:** The data shall have utility for decision-making and learning.
- **Owned:** Project partners and other relevant stakeholders should agree that indicators make sense to use.

In more particular, estimates will have to be made of the numbers of beneficiaries (residents, households, businesses, etc., possibly broken down by sub-groups or categories) envisaged to benefit from each of the interventions, and targets be set with regard to the expected improvement or positive changes induced by these interventions (e.g. on employment and income, overall increase in economic product, etc.).

Moreover, in each case this should be assessed against the cost of undertaking the initiative and, added to the social benefits, with the perspective to be later used as a basis for cost-benefit analysis of each of the components.

In many cases, these estimates will be tentative at the stage of project design, will therefore have to be further detailed and possibly revised in the course of the early stages of project implementation.

Tabular overviews of possible indicators to be used for the different forms of interventions and result levels are included in the tools section.

## 4 Project Implementation

Due to the complexity of integrated urban upgrading interventions, but often also because of the sheer size or numbers of the settlements to be upgraded, most NUPs are implemented in more than one implementation phase. Even when only one phase has originally been planned, this has often to be extended or followed-up by a new phase.

For the purpose of these guidelines, however, recommendations are only developed for the first implementation phase of a new project, as possible follow-up phases will usually be articulated with new terms of reference or project concepts based on the evaluation of the results and experience of earlier phases.

Against this background, the issues and challenges to be addressed during project implementation can roughly be broken down into three main parts (phases):

- an initial phase, or **inception phase**, in which the project concept developed during the previous stages of project identification and design will have to be further operationalized and adapted to the actual situation on the ground;
- a **main implementation phase** where the measures set out in the project concept are developed and implemented;
- a **final phase** in which the main effort is put into ensuring the completion of work intended and the continuity of benefits resulting from the project/program into the future.

A particular challenge throughout implementation will be to ensure **adequate collaboration and functioning working procedures for the interaction of all relevant stakeholders**, with particular view to adequate representation and participation of the beneficiaries of the different economic interventions and other economic stakeholders (e.g. local formal and informal business associations, chambers of business and commerce, etc.).

Moreover, special attention will have to be paid to an appropriate **sequencing of interventions**, and consideration of the links and interfaces between physical and economic interventions.

### 4.1 Phases of Implementation and Sequencing of Activities

#### 4.1.1 Inception Phase

At the beginning of actual project implementation, the NUP will usually have been concretized to an extent that:

- the nature and scope of the different project components, and the related costs have been identified and agreed upon;
- the expected results of the different project components will have been defined, and targets with (tentative) indicators set;
- the lead agency for overall managing and coordination of the project has been identified, and the necessary contributions and efforts of all relevant stakeholders and actors have been agreed upon;
- financial means and other resources for the implementation of the measures have been made available.

It will now be important to put functional management structures in place and make institutional arrangements for the collaboration and interaction of all relevant stakeholders. Moreover, the project concept will need to be further detailed, and an overall work plan with a definition of important milestones be produced.

A suitable approach to this can be a formal or informal inception phase, in which important conceptual groundwork for the subsequent main implementation phase will be done. For the economic development and income generating component of a NUP, the following activities should be undertaken in the course of the inception phase:

- It will be imperative that the management of the implementation of the economic measures is carried out by staff who have appropriate qualifications and experience in economic development and income generation, in respective technical assistance, advice and training. If a large project or city-wide program is involved and several different measures are to be implemented in a situation where the local authority has taken few steps towards local economic development then more full-time staff may be appropriate. They should be able to call upon a roster of short-term experts who will advise and help establish the different sub-components.
- The extent of existing initiatives being undertaken in the field of local economic development should be looked into again in more detail and assessed for their relevance to the NUP. It is likely that this will involve more than one initiative – many southern cities have by now established a whole range of centers, institutions, committees and so on concerned with local economic development and employment generation and these will all need to be assessed. In some cases there are also private sector initiatives that provide relevant services on a fee-paying basis, perhaps with subsidies provided by the government that should be contacted. Good working relations must be established with these institutions and initiatives from the outset.
- Community organizations and other interest groups contacted during project design will need to be revisited. Collaboration will have to be established also for the staff responsible for the infrastructure and social components of the project/program and all sections should be well-coordinated, particularly where the contacts are relevant to more than one component.
- More intensive outreach should also be made to formal economic actors including the private business sector – chambers of commerce, industry and any other associations representing the private sector – trades unions and other associations representing workers in the formal and informal sectors that had been identified in project design. Where adequate, more formal arrangements incorporating these into the decision structures relating to the economic development and income generation components of the NUP should be made.
- Other international donor agencies may be active in the city in areas related to the project/program. Whilst the design report should have identified these, matters can change in the period between project design and the start of implementation. Here also, it is advisable to establish a basis for regular exchange of information on project/program progress and where relevant negotiate mutual synergy or cooperation.
- From these contacts and initial discussions, steps should be taken to bring together different sets of interests to participate in the different parts of the detailed design and execution of all components of the project/program.

These should be participatory planning fora, relevant to each of the project components and properly constituted, with terms of reference or constitutions, appropriate internal structures, transparent means of determining membership if these are to be restricted and an outline schedule for activities for which they will be responsible.

- The economic development component of the project/program will involve several different kinds of training initiative and a training needs assessment across all of these should be produced during the inception phase.

By the end of the inception phase that could take 6-9 months (depending on the scope of the project) there should be clarity as to what is the current offer of the municipality or other agents in the city that can serve the needs of the project/program and what the project/program will have itself to develop.

This information should be used to define the sequence and timing of the implementation of each of the economic development initiatives that will be financed by the project/program and how these will be delivered.

The staff responsible for managing the implementation of the economic development initiatives will make the relevant contribution to the inception report.

#### **4.1.2 Main Implementation Phase**

In Section 2.1, the possible initiatives that can be taken to promote income generation and local economic development were described. Any one of these – and possibly other kinds of initiative – may already be in operation in the city and in these cases the task of the project/program will be to ensure that these are appropriate and accessible to the population of the neighborhood(s) to be upgraded and/or what measures have to be taken to strengthen the accessibility if this is inadequate.

In other cases the project/program managers may take the decision to implement independent initiatives if these are foreseen by the project concept or the need becomes apparent during the inception phase and resources can be directed towards implementing these. In the following paragraphs, it is indicated for each of these kinds of initiative what should be looked for in terms of an existing provision that might be deemed to be adequate and otherwise what the project/program will need to undertake by way of independent implementation.

**Labour-Intensive Public Works:** Action on this should take place immediately following the inception phase, or even begin in the inception phase, and the economic development staff will need to work closely with the staff responsible for planning and design of the infrastructure improvements.

- Investigation should be undertaken into the procurement rules and rules for contract conditions prevailing in the city/country to ascertain any restrictions these contain upon requiring small, local contractors to carry out the work, employing local labor. Where such restrictions are in force, negotiations should take place with the relevant authorities (typically the Ministry of Public Works or, in some countries, an institution directly responsible for supervising public procurement) to waive these restrictions and substitute relevant clauses.
- A suitable approach to contracting the works (may be different for different elements of infrastructure or other construction works) should be designed and adopted by the project/program (e.g. direct community contracting or contracting larger firms who will subcontract to smaller local contractors and provide supervision of their work).

- Where it is found that there is a lack of local small contractors capable of tendering for the works in a labor-intensive manner and/or inadequate supply of potential workers in the trades that will be required, then steps should be taken to find suitable training programs (perhaps already offered by a local vocational training institution) or if necessary arrangements should be made to provide such training directly by the project/program.
- The staff responsible for the economic development component should continue to advise the engineering staff on aspects of labor-intensive approaches to the works as the project progresses.
- Efforts should be made if the resources are available to train the municipal staff in the form of contracting used by the project/program with a view to this becoming standard practice on municipal infrastructure projects/programs more generally.

### **Adult Education, Social Counseling and Non-Formal Education in Life Skills**

- Should the municipality already possess a program of non-formal education in literacy, numeracy and life skills, in the context of local social development, then the NUP should ensure that this is available and proactive in satisfying the need for this in the neighborhood(s) to be upgraded.
- If such a program is not in existence then the project/program should carry out a survey to assess the potential need for a training and counseling activities and organize the necessary courses, as far as possible convincing the municipality that this should be carried out by the local school authority or other existing local institution, independent of the NUP, and provide advice on the structure, content and procedure for such courses.
- In general the project/program should be proactive in seeking out those in need of such education, ensuring that social counseling is available for this section of the population and that they can be encouraged to undertake and complete relevant courses.

### **Vocational Training**

- The existing offer of vocational training in the city should be assessed both in terms of course content and its relevance for the residents of the project/program neighborhood(s) and in terms of accessibility, physically and with respect to entry requirements. The project/program staff should ensure that the level achieved through the non-formal training component is sufficient to meet the entry requirements of the vocational training programs.
- Where the offer and/or accessibility of the vocational training are deemed to be inadequate, the project/program staff should assist the municipality and/or the institution responsible for vocational training in the city to improve the relevance of the curriculum and accessibility to neighborhood residents.
- If this cannot be achieved within the existing framework and budget of the responsible institution(s) then the project/program should determine what is essential by way of improvement and whether/how the project/program can contribute to bringing these to life.

**Job Placement:** It is to be expected that the local government and/or the Ministry of Labor already provide a job placement service that informs formal enterprises of the availability of the skills available in across the city and informs job-seekers of vacancies. This service should be available to residents of the neighborhood(s) to be upgraded.

- The project/program staff should appraise themselves of the availability at city level of job placement services. These should be accessible to residents of the neighborhood(s) to be upgraded and may need additional resources as a minimum to ensure that the availability of the service is well known throughout the neighborhood(s).
- It may be appropriate to establish a branch office within the neighborhood(s), ideally combined with a training centre for small-enterprise development and expansion if this is deemed to be viable.

**Development of Cooperatives and Social/Community Enterprise:** The level of organization and capacity of those working in the informal economy who generally dominate the economies of informal settlements does not lend itself easily to formal, competitive forms of entrepreneurialism. Two alternative options open to those working in the informal economy on the principle of solidarity economics are to collaborate more closely with others working in the same sub-sector or to link activities more closely to social needs within the community.

- The project/program staff should investigate what, if any, facilities are available within the municipality to assist in the formation of cooperatives and/or social and community businesses. This may already be a local government function or there may be NGOs playing this role.
- An assessment should be made of the actual or latent demand for means to organize those un- or underemployed in the neighborhood(s) in ways other than via the establishment of formal small enterprises.
- If deemed to be viable, the project/program staff should assist in making such a service available in the neighborhood(s) to be upgraded either in collaboration with the existing initiatives or, if these are not yet extant, securing expert assistance to bring them into being.
- This may lead to organization of economic and other income generating activities linked to existing community associations/organizations and initiatives in the formation of cooperatives etc. should build on these, rather than attempt an entirely new approach.
- At the same time, such initiatives should be protected against take-over by exploitative interests through the establishment of internal rules for such organizations.
- In so far as these explorations show signs of success, project/program staff should assist in institutionalizing this service, in collaboration with the local government

#### **Provision of Commercial and Industrial Sites, and of Space and Buildings for Economic Activities**

- Here also the staff responsible for the economic development component will have to work closely with the planners responsible for designing the physical works and then with the engineers responsible for managing the works.
- The Terms of Reference should already contain pointers, based in the project design, as to what kinds and mix of sites and buildings will be appropriate to be provided in the context of the level of upgrading proposed and the availability of suitable land.
- It will nevertheless be necessary to carry out a more detailed demand study to reach a certain level of confidence that enough and not much space is to be made available in the course of project/program implementation. This

should also be referred to a participatory planning forum of local residents such that concept ownership is secured from the outset.

- Decisions with regard to the geographical distribution of the sites and buildings and the level of investment to be made should be agreed with the planning staff and passed on to the engineering staff responsible for managing construction works.
- It is important that appropriate management arrangements are planned and executed to ensure that each kind of site or building is fully utilized and maintained and where rents are to be taken that the financial arrangements are appropriate to the function which the facilities are to fulfill. For facilities to be let or sold to the private sector, the use of the rent should benefit the neighborhood and for facilities to be used by residents, these should be involved in their management and steps should be taken to prevent these from being used by outsiders unless, in the event, these are clearly being underused.

### **Entrepreneurialism and Small Enterprise Development**

- The project/program staff should investigate whether and what kind and level of offer is available within the city for education and training in entrepreneurialism generally (through school and university curricula) and specifically assistance to individuals wishing to start or expand a small business.
- Steps should be taken to extend the offer to the residents of the neighborhood(s) to be upgraded if this is not already available and otherwise for the program/project to establish relevant initiatives. This might therefore be a branch of a municipal entrepreneurial training centre or a free-standing initiative.
- Whichever case is implemented, there must be a high level of confidence before implementation that this will be a permanent arrangement and not one that is only operating for the duration of the project/program.
- The facility should be adequately staffed with qualified trainers and advisors in all aspects of business development and administration. Advice should be available concerning lines of business more likely to find viable markets, including any lines that are being assisted by the local administration as part of any local economic plan or strategy.
- The orientation of the initiative should not be one of assuming that all efforts will lead to the establishment of formal businesses with a long life ahead of them but acknowledge that the main effort should be towards assisting actors in the informal economy to improve their efficiency and effectiveness that may lead in some cases to sustainable formal businesses that are ambitious and capable to grow.

**Financing Local Economic and Income Generating Activity:** Particular attention to the means of financing initiatives in economic development and income generation within the neighborhood(s) where they are active. This should include support for or development of community-based savings and loan circles and micro-finance but seek also other relevant potential sources of finance or financial mechanism.

- The project/program staff should investigate the means currently used by actors in the local economy to finance their economic activities. Where there is experience of savings and loan circles, these should be further promoted.
- Investigation should be made into the presence in the city of micro-finance institutions or banks that are prepared to make loans for the upgrading of



micro-enterprises and other local economic activities. Their availability should be advertised to residents of the community who might be interested in taking out loans. It is not, however, advisable to start new institutions within the neighborhood(s) to be upgraded unless there is evidence that these may be institutionalized and survive beyond the life of the project/program.

## 4.2 Institutional Arrangements

As pointed out above, the establishment of functional and transparent institutional arrangements will be an important condition for successful project implementation that will need to be addressed in the inception phase. Depending on the scope of the project and the number and type of stakeholders involved the following types of arrangements can be envisaged:

- **Setting-up an Overall Steering Mechanism:** This will be particularly relevant in projects with a large number of stakeholders with diverse interests and roles in project implementation. This could be done in the form of a smaller steering committee composed of representatives of the main stakeholders as a mainly coordinating body, or as a larger stakeholder forum with additional consultative functions. For both options, it will be important to ensure adequate representation and participation of beneficiaries and target groups, and to establish transparent and accountable working procedures.
- **Inter-institutional Agreements:** Complementing the above steering mechanism it will usually be necessary to prepare and conclude formal inter-institutional agreements that define the roles, functions and responsibilities of all institutions involved in project implementation, as well as the modalities and procedures for collaboration, coordination and reporting.
- **Contractual Agreements and Commissions:** These may be necessary for the management of individual components or sub-components, or the rendering of specific services (such as training or technical assistance), and would normally comprise general and specific contracting conditions (defining service fees or other forms of remuneration) and specific terms of reference.
- **Consultative Bodies of Beneficiaries / Target Group Representatives:** For specific lines of activities it may further be useful to set-up working groups, committees or similar bodies composed of representatives of beneficiaries and target groups and of the stakeholders involved in the specific activities as a feed-back and consultative mechanism. Again, it will be essential to establish clear terms of reference, as well as transparent and accountable working procedures.

The actual forms of arrangements needed should be defined and agreed upon during the inception phase.

## 5 Monitoring and Evaluation

For designing and establishing a functional approach to monitoring and evaluation it will be useful to distinguish between two basic types of performance monitoring:

- **Implementation monitoring** that involves the frequent, on-going recording and assessment of data on project operations. It involves keeping good financial accounts and field activity records for tracking funds and other inputs, and regular checks to assess compliance with work plans and budgets in terms of outputs and deliverables. Moreover, it also shall allow to identify possible deviations from the project concept, and point out possibly needed conceptual adjustments based on experience obtained in the implementation process.
- **Results monitoring** that involves the periodic collection and evaluation of data and information on a project's achievement of results – e.g. its short-term outputs, medium-term outcomes, and long-term impacts. This type of monitoring demonstrates whether a project is moving towards its objectives as formulated by the project's logical framework and results chains.

### 5.1 Implementation Monitoring

Implementation monitoring is a standard tool of project management for which there are a number of well-established routines and procedures, in particular with regard to financial management, and the monitoring of inputs, activities and project outputs. For the purposes of these guidelines, it is therefore deemed sufficient to highlight only a few issues that may be relevant for the potentially complex set-up and implementation modalities of NUPs with income generation and LED components.

These refer mainly to the need to observe and monitor the following aspects that may be relevant for adjusting the overall project concept and/or individual project components or sub-components based on actual implementation experience:

- the **interaction of stakeholders and institutions** involved in the different project components, and their capacity to cooperate and collaborate: Given the potentially large variety of stakeholders and actors involved in the various project components it will be important to follow-up and monitor the modalities of cooperation and possible bottlenecks or obstacles that may occur with regard to this.

The main tools that should be applied by the overall project management for this purpose comprise regular:

- follow-up of compliance with the contractual arrangements or other agreements with regard to cooperation modalities, functions and contributions of the different stakeholders,
  - follow-up of compliance with agreed upon work plans and/or budgets for components, sub-components or particular services, and corresponding progress reports,
  - feed-back meetings of the project management with key stakeholders and service providers on experience.
- the scope of **target group participation and involvement**, particularly of women and marginalized groups, in the implementation of project components and sub-components: On parallel lines, the level of participation in and acceptance of the different project activities and measures by their in-

tended beneficiaries will need to be observed and monitored in order to be able to detect possible problems and take possibly needed corrective measures.

Possible tools for this purpose are:

- built-in feed-back mechanisms for activities like training courses, counseling and advice (e.g. evaluation or assessment sheets, feed-back sessions, etc.),
  - focus group discussions with beneficiaries of specific activities,
  - consultation of representative of beneficiaries / target groups.
- the **sequencing of interventions**: Another crucial implementation aspect to be monitored will be the sequencing of interventions and activities of different components that build on each other (e.g. creation of the conditions for employment of residents in labor-intensive construction works) as delays or obstacles in individual components may significantly delay the whole project or even negatively affect overall project success.

Tools that should be applied for this purpose are:

- the definition and follow-up of jointly agreed upon milestones for core outputs and deliverables in the implementation of components that build on each other,
- regular management meetings of all stakeholders involved in activities and components that build on each other.

All above monitoring functions should therefore be included in the TOR for overall project management, as well as in the TOR for the management of individual components or sub-components.

## 5.2 Results Monitoring

In the past, results monitoring even of major neighborhood upgrading programs was very poor, resulting in an inadequate record of what has worked and what has not worked in practice. Today, much more attention is being paid to the monitoring of outcomes and impacts of projects that then makes use of this monitoring information to determine much better what approaches and initiatives work well and which less well, enabling adjustments to be made as the project/program evolves and to provide a basis for better design of future projects.

Unfortunately there are still many gaps – for instance, whilst efforts to support the formation of small enterprises is widely supported through BDS initiatives, very few countries are monitoring the survival rate of these enterprises – and indeed, many of the proposed interventions outlined in section 2.1 above have a relatively poor record of evaluation of past such interventions.

This is to say that it is extremely important that an adequate system of monitoring and evaluation be put in place prior to the implementation of any NUPs that emerge under these Guidelines.

There is a wide selection of guidelines now available to assist in designing monitoring systems and a wide range of methodologies are in use today – a manual available from IFAD, for instance, documents 34 different methodological tools. Here it is not intended to describe these or to provide a detailed single methodology but rather outline the main issues relevant for monitoring NUPs and then provide a preliminary list of methods that might be appropriate as a basis for project/program monitoring of NUP projects/programs.

Results monitoring shall be done on the basis of the different result levels and corresponding indicators of the logical framework that usually will have been established during the stage of project design. As far as needed, the indicators may have to be further detailed during the inception phase, in particular with regard to quantitative targets.

While implementation monitoring will mainly deal with the inputs, activities and outputs of a project, results monitoring shall **focus on** the higher level of results, i.e. the **outcomes and impacts**. As many outcomes and most impacts will only occur some time after the interventions as results of a project's outputs, it may further be worthwhile to also include an intermediate level, the **use of outputs** by a project's beneficiaries and intermediaries, in the monitoring approach. This will have the advantage that the gradual process of moving towards the project's objectives can be observed and monitored.

Given the complexity of NUPs with different sectoral components, it will be a challenge to develop a well-balanced and practical approach that responds to both the needs for performance information at various levels, and the interests of different stakeholders and management levels involved in the project while keeping the system as simple as possible in order to avoid overburdening capacities and drawing resources away from other necessary functions. For these purposes, the following aspects should be considered.

- It will generally be useful to **link monitoring tasks and functions to specific components** or lines of activities, and to assign these as a standard reporting functions to the institutions/stakeholders responsible for the corresponding outputs or services. This would be **particularly valid for monitoring the use of outputs**, e.g. a vocational training institution should monitor and report on how many participants of its courses find a employment within a given time, and how many of these jobs are permanent, or a micro-finance institution should report on the repayment rate of its loans, and possibly also the longer-term development of the credit rating and solvency of its clients (which might also be important performance or quality benchmarks for the service provider). Similar approaches could be applied for the use of outputs of job placement services, adult education, etc.
- Information and data on **outcomes** that cannot be generated as integral part of project activities will generally have to be collected periodically (e.g. annually) through low-cost rapid appraisal methods, mini-surveys or consultations with project beneficiaries and intermediaries, preferably based on a monitoring plan. Again, it is recommended that these tasks be assigned, whenever possible, as standard functions of key stakeholders involved in the project, e.g. to a Municipality as the project implementing agency.
- In contrast, **impact** data will have to be collected with less frequency, usually at a project's beginning and end (or ex post) or, for projects with various phases, every few years. Again, instead of trying to develop a project or program-specific approach for this, it may be worthwhile to promote the **use or development of broader diagnostic frameworks for urban development** at city or national level, such as urban observatories or the new tool of "Urbanization Reviews" that is being promoted by the World Bank in the context of its new "Urban and Local Government Strategy".

In a summary, it is recommended that results monitoring be understood as an integral part of overall project management, and a **internal function and regular routine** to be jointly assumed by all relevant stakeholders involved in project implementation. This would also be important with regard to the

longer-term sustainability and replicability of project interventions, and the **institutional anchoring** of urban upgrading, including income generation and LED, as a regular task and function of local governments (see also section 6).

## 5.3 Methodologies for External Monitoring and Evaluation

### 5.3.1 Instruments and Phases

Against the above background and oriented at the Bank's approach for "Collecting Data for Measuring Performance Indicators - Methods and Indicative Costs" in the housing sector<sup>3</sup>, the following instruments and phases can be outlined for capturing and monitoring the results of income generation and LED components in the context of a NUP for the purposes of the Bank, i.e. a more external monitoring of project successes and lessons-learned:

- **Baseline Studies:** In order to establish a sound basis for monitoring it will generally be necessary to establish adequate baseline information on the ex-ante situation before the planned project intervention. This should usually be done at the stage of project design, when baseline studies would also be needed to provide information and inputs for the design of project components (see section 1.1.1 and 1.1.2 with an overview of the information needed to assess economic development conditions at city and neighborhood level), or latest during the inception phase.
  - **Baseline information on ex-ante conditions at city level** that will be needed, if the impacts of major upgrading interventions on the overall urban economy are to be captured and assessed, should mainly be compiled based on available statistics, planning documents, etc. A viable alternative that can be built into a project concept, in particular for city-wide upgrading programs, would be an **initial assessment of the urban economy** in the context of preparing or reviewing/refining a city-wide slum upgrading strategy or plan (see also 5.2 above on impact data).
  - In contrast, the establishment of **baseline information on ex-ante conditions at neighborhood level** will generally require some surveys to obtain reliable quantitative and qualitative data that should be integrated into the standard baseline surveys for housing/urban upgrading projects as applied by the Bank.
- **Mid-Course and Completion Evaluations:** On parallel lines, the Terms of Reference for mid-term and completion evaluations would have to be enriched and amended by monitoring tasks related to the income generation and LED components of a project or program.
- **Ex-Post Evaluation:** As impacts on income and economic conditions, and in particular on asset accumulation and poverty reduction, will only occur over time, and may become more visible and tangible only some time after project completion, it may be useful to also foresee an ex-post evaluation that would look in more depth at the longer-term results of previous project interventions and further developments of each of the initiatives. This evaluation should take place not less than two years and no more than five years after the end of the project.

As far as possible, all above evaluation phases should draw on inputs and information from internal monitoring as outlined in section 5.2 above.

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<sup>3</sup> Shlomo Angel, Michael Jacobs: Getting Results in Housing - A Framework for Monitoring Results in Housing Projects Using Measurable Indicators, May 2006

### 5.3.2 Methods

Much of the information and data required for monitoring the results of income generation and LED components or measures can be built in and provided by some of the 10 different modular **survey instruments** as being applied in Bank supported housing projects, namely:

- the **Survey of Targeted and Control Group Households**: Information on living and housing conditions, poverty and livelihood of the target population would largely be covered by this survey, and it could possibly be amended by collecting additional information on employment, skills and education levels (as outlined in section 1.1.2);
- the **Informal Settlement Inventory** should be amended by information on business activities and locations within the settlement (including home based business activities), main branches and sectors of the local economy (again as outlined in section 1.1.2);
- the **Intermediaries Survey and Report** would have to be extended to all relevant stakeholders and actors to be involved in a project's income generation and LED components (as outlined in section 1.3);
- On parallel lines, income generation and LED-specific monitoring aspects would have to be included in the Terms of References for the instruments of **Short-Term Expert Visits, Participant Observation and Structured Interviews with Stakeholders**.
- Finally, such aspects should also be included in approaches to **Appending a Special Section to National Household Survey** (see also 5.2 above on impact data).

An **additional survey** relevant for LED components and measures would be a sample survey of **Targeted and Control Group Businesses** with a similar purpose as the household survey above. This would also need to be taken through the different evaluation phases (baseline, mid-term, completion and ex-post), but could comprise a smaller sample of only 150-250 local businesses. If the economic impacts of the upgrading interventions on neighboring area shall be assessed, this survey would have to be extended to businesses in such areas.

It may further be useful to include a **cost-benefit-analysis** at design or inception stage of each of the initiatives making up the economic development and income generating component of the project/program. This would be more appropriate than simple cost-income analysis on assumptions of increased employment, being able also to include 'softer' social benefits that accrue to most of the initiatives and are hence valuable in terms of the overall desired project/program objectives.

## 6 Sustainability and Replicability

Urban upgrading, and in particular the promotion of income generation and local economic development are generally tasks that require longer-term time horizons than those of individual projects. In fact, given the large numbers of the poor living in slums and informal areas, the high levels of unemployment or underemployment among the poor and the size of the informal economy in most cities, they should be understood as permanent challenges both for local and national governments. In most past upgrading projects, however, in so far as these have implemented income generation or LED components, the consideration of sustainability and replicability of such initiatives has been inadequate and sometimes given no consideration at all, closing down once the project or program comes to an end.

### 6.1 Sustainability

Against this background, LED and other income generating initiatives should generally not be started in the context of NUPs without there being a realistic chance that these will continue once the project/program ends. From the start efforts should go into ensuring long-term institutionalization and integration of such efforts into broader program approaches.

It has been shown in past such projects that the key to sustainability is to involve the local government from the start and where possible either link initiatives into ongoing – perhaps upgraded – effort or help the municipality to start such initiatives on the understanding that these will become part of their regular responsibilities. There may be initiatives where NGOs, CBOs and/or the private sector takes on a portion of the responsibility. This may be the case, for instance, where sites for informal enterprise activity are managed via a co-operative or, as recommended by the Donor Committee for Small Enterprise Development, that business development services be managed by private service providers. However, in all cases there needs to be political commitment at the municipal level to support even these initiatives to ensure that they continue.

On the other hand, if particular initiatives are found to be unsuccessful in the sense of costing too much relative to the gains in income generation (but also wider social gains) then an evaluation should be made as to why the failure is occurring and whether success might be achieved through adjustments in management, etc., or whether the approach should be abandoned. It will further be important to ensure that political decisions will not lead to the continuation of inviable initiatives or, on the other hand, close down initiatives that are or could be successful.

Furthermore, adjustments may be made in response to national policies and programs and/or economic conditions at the city and national level. In all cases the project/program staff should work closely with the municipality and other relevant stakeholders up to the end of the project/program to identify positive conditions for scaling-up and rolling-out successful local approaches and concepts.

The project evaluation to take place at the close of the project should pay particular attention to the robustness of the commitment and mechanisms whereby the local authority and other responsible agents have taken ownership of the economic development and income generating initiatives started in the context of the project. This should lead to recommendations how such ini-



tiatives can be continued and followed-up, and indicate pitfalls and lessons-learned as well as necessary actions that can enhance their effectiveness.

## 6.2 Replicability

On parallel lines, with a view to scaling up integrated urban upgrading interventions that include income generation and LED components, projects should be designed and implemented in a way that they can be replicated and disseminated. This will particularly hold true for individual NUPs in only one city that cover only one or a small number of neighborhoods. As pointed out in section 1.4, it is recommended that such projects be generally only conceived when they include a perspective for subsequent scaling-up and anchoring in an appropriate policy framework. However, the challenge of developing replicable approaches that can be disseminated at a broader scale will also exist for broader city- or country-wide programs that may be implemented in various stages and phases.

In order to adequately address these challenges the following aspects will need to be considered:

- A systematic documentation and evaluation of implementation experience, and of the lessons-learned (what has worked? What has not worked?) will be an important precondition for developing replicable approaches. This will be especially relevant for types of interventions for which no previous local experience exists and that may therefore have to be developed and implemented as "pilots" on an experimental basis.
- As stated above, the cost-effectiveness of specific interventions (such as job placement services, business advice, etc.) will be another important factor for the viability of replicating and rolling-out such interventions at a larger scale that will need to be carefully monitored and assessed.
- Replication and dissemination can be significantly facilitated when project interventions at neighborhood level are complemented by overall policy and strategy formulation for urban upgrading, local economic development, and/or social assistance at municipal and possibly also at national level.
- Finally, with a longer-term perspective, building on above policy and strategy formulation and moving away from "project" funding, it may be worthwhile to explore options to anchor financing for specific types of support activities and services in the regular budgets of relevant stakeholders, e.g. in municipal budgets or sector agency budgets.



## **Annex: Tools**

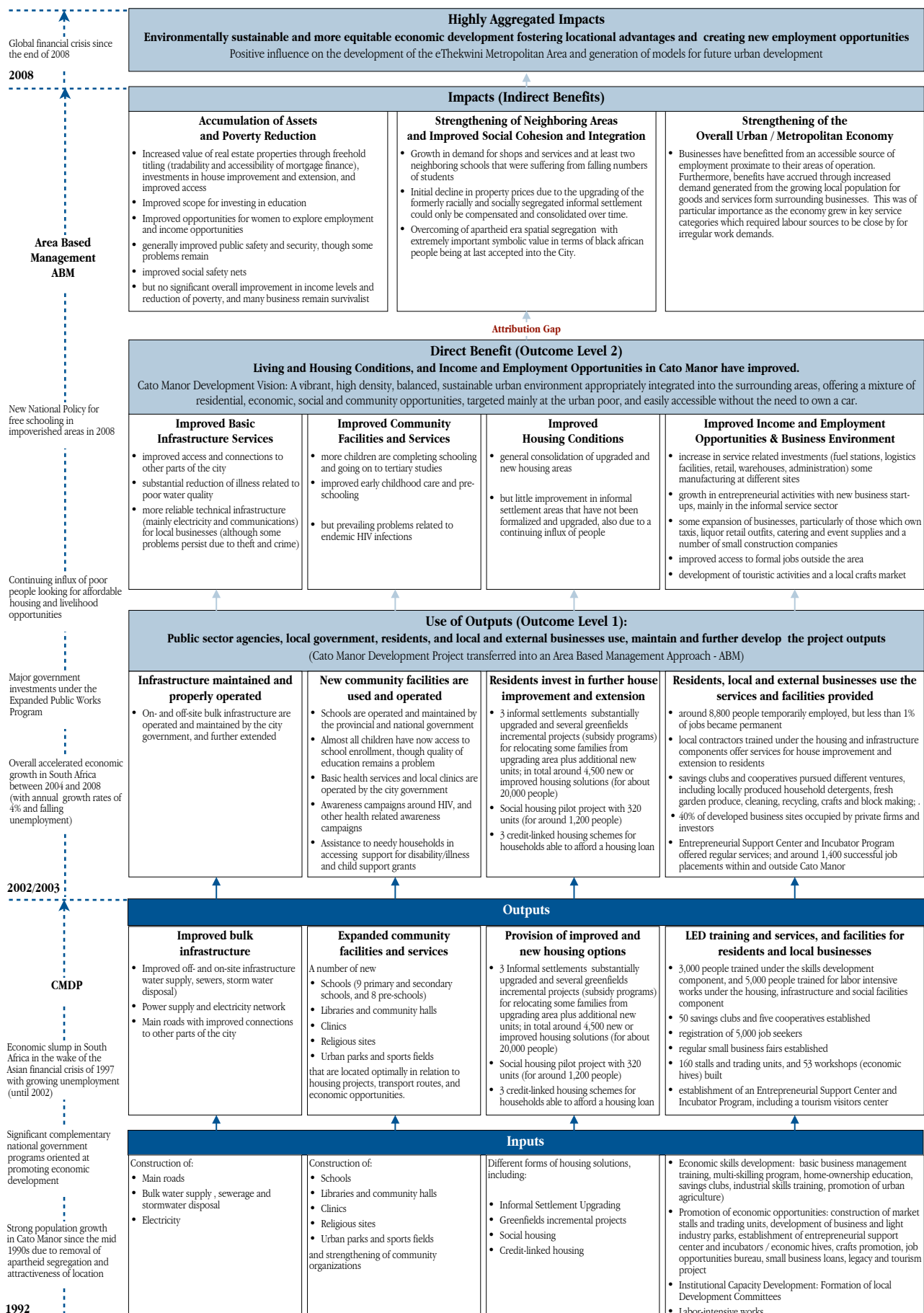
- 1. Criteria for Describing Economic Development Conditions**
- 2. Examples of Result Chains**
- 3. Logical Framework**
- 4. Tabular Overview (Matrix) of Results and Indicators**
- 5. List of Guiding Questions for Impact Monitoring**

## 1. Criteria for Describing Economic Development Conditions

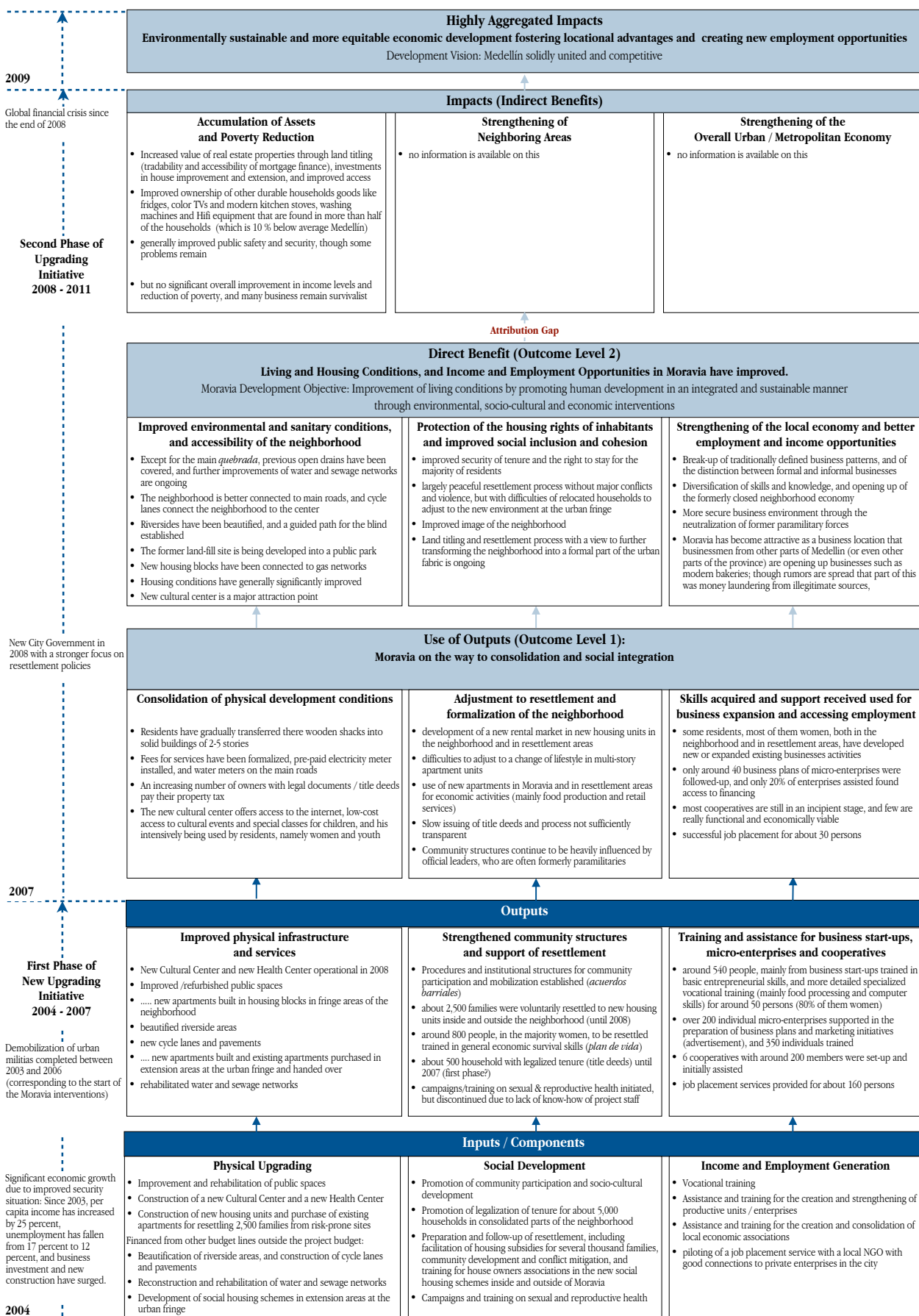
Economic Structure	Markets and Market Integration	Employment	Income and Expenditure
Main sectors / branches	Markets	Employment Rate	Sources of Income
<ul style="list-style-type: none"> <li>• high-tech industry (e.g. electronics)</li> <li>• garment industry</li> <li>• other industrial production / manufacturing</li> <li>• trade and commerce</li> <li>• ICT (telecommunications, etc.)</li> <li>• handicraft / workshops</li> <li>• other services</li> </ul>	<ul style="list-style-type: none"> <li>• neighborhood / community</li> <li>• local (city level)</li> <li>• metropolitan region</li> <li>• country (national level)</li> <li>• regional</li> <li>• global</li> </ul>	<ul style="list-style-type: none"> <li>• formal employment (in the public and private sector)</li> <li>• informal employment</li> <li>• unemployment (with or without welfare benefits or social assistance)</li> </ul>	<ul style="list-style-type: none"> <li>• wages</li> <li>• self-employment</li> <li>• remittances</li> <li>• other support from family members</li> <li>• social transfers</li> </ul>
Size of enterprises (employees)	Investment	Type of Employment	Income Levels
<ul style="list-style-type: none"> <li>• multinational / global enterprises</li> <li>• large-scale national enterprises</li> <li>• small and medium-size enterprises</li> <li>• micro-enterprises</li> </ul>	<ul style="list-style-type: none"> <li>• local investment (at community level)</li> <li>• local investment (from city or metropolitan region)</li> <li>• national direct investment</li> <li>• foreign direct investment</li> <li>• public investment in infrastructure development</li> </ul>	<ul style="list-style-type: none"> <li>• regular employment (public / private sector)</li> <li>• day labour</li> <li>• seasonal labour</li> </ul>	by categories: <ul style="list-style-type: none"> <li>• subsistence</li> <li>• low</li> <li>• medium</li> <li>• high</li> </ul>
Turn-over	Links to and integration into value chains	Employment by Sectors	Expenditure
by categories: <ul style="list-style-type: none"> <li>• low</li> <li>• medium</li> <li>• high</li> </ul>	<ul style="list-style-type: none"> <li>• access to raw materials and other needed inputs</li> <li>• product development and research</li> <li>• product processing and refining/improvement</li> <li>• marketing</li> <li>• distribution channels and transport</li> </ul>	<ul style="list-style-type: none"> <li>• formal sector</li> <li>• informal sector</li> </ul>	<ul style="list-style-type: none"> <li>• food consumption</li> <li>• housing (rent, mortgage and/or maintenance)</li> <li>• utilities (water, electricity, etc.)</li> <li>• transport / education</li> <li>• health</li> <li>• clothing</li> <li>• furniture / appliances</li> </ul>
		Location of Employment	Financial Assets
		<ul style="list-style-type: none"> <li>• inside the settlement / community</li> <li>• in the city</li> <li>• in metropolitan region</li> </ul>	<ul style="list-style-type: none"> <li>• savings / debts</li> <li>• house and/or landownership</li> <li>• capital equipment</li> </ul>

## 2. Examples of Result Chains

### Cato Manor



# Medellín



### 3. Tabular Overview of Results and Indicators

Table 1: Income and Employment Generation for Residents				
Inputs	Outputs	Use of Outputs	Outcomes	Impacts
<b>Labor-Intensive Public Works</b>				
<ul style="list-style-type: none"><li>Financing of works in total and by type and category (infrastructure, housing, etc)</li><li>Training of residents and emerging small contractors</li></ul>	<ul style="list-style-type: none"><li>Numbers of workers recruited &amp; numbers trained</li><li>Numbers of small contractors trained</li></ul>	<ul style="list-style-type: none"><li>No. of workers who have found a permanent job after project completion / completion of construction works</li><li>No. of small-scale contractors active within the neighborhood / contracted for works outside the neighborhood</li></ul>	<ul style="list-style-type: none"><li>No. and volume of contracts for small-scale contractors (after project completion)</li><li>Level of revenue and income of small scale contractors</li><li>Increase and improved reliability/regularity of household incomes</li><li>Improved access of residents to formal and informal jobs and livelihood opportunities outside the neighborhood</li><li>Improved levels of cost recovery of infrastructure and housing investments through improved capacity to pay</li></ul>	<ul style="list-style-type: none"><li>Improved accumulation of material and financial assets of households</li><li>Improved educational levels of family members</li><li>Improved health levels of families and households</li><li>Reduced vulnerability to external shocks</li><li>Improved revenue from municipal fees for infrastructure services and other forms of taxations</li></ul>
	<b>Adult Education, Social Counseling and Non-Formal Education in Life Skills</b>			
<ul style="list-style-type: none"><li>Screening and identifying relevant population to participate in non-formal education by category (men, women, age groups)</li><li>Financing and implementation of training courses</li></ul>	<ul style="list-style-type: none"><li>No. of residents completing non-formal education courses by category</li><li>Achievement of beneficiaries by pre-selected measures (literacy, numeracy, etc.)</li></ul>			
<b>Vocational Training</b>				
<ul style="list-style-type: none"><li>Identification of applicants to take vocational training courses by trade/discipline</li><li>Financing and implementation of training courses</li></ul>	<ul style="list-style-type: none"><li>Numbers of applications accepted, and of participants completing by trade/discipline</li></ul>	<ul style="list-style-type: none"><li>No. finding jobs within a given time after course completion by trade/discipline</li><li>No still in employment within a given time after course completion by trade/discipline</li></ul>		
<b>Job Placement Services</b>				
<ul style="list-style-type: none"><li>Financing and implementation of job placement services, preferably by making use / establishing links to existing job placement services</li></ul>	<ul style="list-style-type: none"><li>Numbers of job seeking residents registered by skills</li><li>Numbers of job seekers counseled or participating in job fairs or similar</li></ul>	<ul style="list-style-type: none"><li>Numbers of residents securing jobs by skill</li><li>Numbers of those finding jobs still employed after six months and one year</li></ul>		
<b>Promotion of Cooperatives and Social/Community Enterprises</b>				
<ul style="list-style-type: none"><li>Financing of assistance, coaching and training for cooperatives (cost per enterprise established and jobs created)</li><li>Enquiries and courses to establish enterprises</li></ul>	<ul style="list-style-type: none"><li>Numbers of cooperatives and enterprises established</li><li>Numbers of participants in enterprises</li></ul>	<ul style="list-style-type: none"><li>Survival of enterprises within given time after project completion (e.g. after six months or one year)</li><li>Economic viability of social enterprises supported (profitability)</li></ul>		

Table 2: Local Economic Development • Business Support • Micro-Finance				
Inputs	Outputs	Use of Outputs	Outcomes	Impacts
Provision of Commercial and Industrial Sites & of Space and Buildings for Local Economic Activities				
<ul style="list-style-type: none"><li>• Amount of sites and land made available for formal enterprise location</li><li>• Amount of sites and land and buildings made available for informal enterprise &amp; for home enterprises including shops</li><li>• Establishment of management structures in place to administer sites and buildings for enterprises</li></ul>	<ul style="list-style-type: none"><li>• No. of formal enterprises benefiting</li><li>• No. of informal enterprises occupying land and buildings made available &amp; no. of people using these sites</li></ul>	<ul style="list-style-type: none"><li>• No. and percentage of employees of formal enterprises located on sites who are residents of the neighborhood(s)</li><li>• Rent income from formal enterprises and how disbursed</li></ul>	<ul style="list-style-type: none"><li>• Increase of investment of formal businesses in the neighborhood</li><li>• Increase in the no. of clients/customers from outside the neighborhood</li><li>• Improved turnover and revenue of formal and informal businesses in the neighborhood</li><li>• Increase of employment in formal and informal businesses within the neighborhood</li><li>• Improved equity of local businesses and improved access to formal financial markets</li></ul>	<ul style="list-style-type: none"><li>• Improved integration of the neighborhood into the overall urban economy</li><li>• Improved accumulation of material and financial assets of households</li><li>• Improved educational levels of family members</li><li>• Improved health levels of families and households</li><li>• Reduced vulnerability to external shocks</li><li>• Improved revenue from municipal fees for infrastructure services and other forms of taxation</li></ul>
Support for Starting and Improving Small and Micro-Enterprises				
<ul style="list-style-type: none"><li>• Financing of advisory services, coaching and training for small-scale businesses (cost per enterprise and jobs secured)</li><li>• Establishment of links to existing programs and services (at city or national level)</li></ul>	<ul style="list-style-type: none"><li>• No. of small businesses taking courses and advice on starting or improving their enterprise</li><li>• Numbers of applicants to start or improve small or micro-enterprises</li></ul>	<ul style="list-style-type: none"><li>• Numbers of new enterprises established</li><li>• No. of people employed in new enterprises &amp; no. employed in improved enterprises</li><li>• Status of enterprises assisted after six months or twelve months</li></ul>		
Micro-Finance and Credit for Local Businesses				
<ul style="list-style-type: none"><li>• Provision of finance for small-scale business loans (cost per enterprise established and jobs created)</li><li>• Advisory assistance for establishing micro-finance services (preferably by linking up to existing services and programs)</li></ul>	<ul style="list-style-type: none"><li>• No. of savings and loan circles established and no. of beneficiaries participating in savings and loan circles</li><li>• No. of businesses and households seeking and obtaining micro-credits / no. of loans disbursed</li></ul>	<ul style="list-style-type: none"><li>• Percentage of repayments made on time</li><li>• Numbers and amount of defaults</li><li>• functioning re-investment of repaid loans</li></ul>		

## 4. Generic Sample Logical Framework (without Activity Level)

Objective	Indicators (only for Employment Generation and LED)
<b>Goal</b>	
Improved social inclusion and integration of informal settlements into the overall urban economy	<ol style="list-style-type: none"> <li>1. Improved accumulation of material and financial assets of households</li> <li>2. Improved educational levels and health of family members</li> <li>3. Reduced vulnerability to external shocks</li> <li>4. Improved revenue from municipal fees for infrastructure services and other forms of taxations</li> <li>5. Increase in the no. of clients/customers from outside the neighborhood</li> </ol>
<b>Purpose</b>	
Improvement of housing, living and <b>economic conditions</b> of residents of neighborhood ..... in .... (city)	<ol style="list-style-type: none"> <li>1. No. and volume of contracts for small-scale contractors (after project completion) &amp; level of revenue and income of small scale contractors (result 6)</li> <li>2. Increase and improved reliability/ regularity of household incomes (result 6, 7,8,9)</li> <li>3. Improved access of residents to formal and informal jobs and livelihood opportunities outside the neighborhood (result 7,8.)</li> <li>4. Increase of investment of formal businesses in the neighborhood (result 10)</li> <li>5. Improved turnover and revenue of formal and informal businesses in the neighborhood (results 11,12)</li> <li>6. Increase of employment in formal and informal businesses within the neighborhood (results 6,7,8, 10,11,12)</li> <li>7. Improved equity of local businesses and improved access to formal financial markets (results 11, 12)</li> </ol>
<b>Results</b>	
<p><b>"Traditional" Physical Upgrading</b></p> <ol style="list-style-type: none"> <li>1. Improved basic infrastructure (water, sanitation)</li> <li>2. House improvements and extensions</li> <li>3. Guaranteed right to stay / secure tenure</li> <li>4. Improved community facilities and services</li> </ol> <p><b>Social Component</b></p> <ol style="list-style-type: none"> <li>5. Community organizations strengthened and empowered</li> </ol> <p><b>Employment and Income Generation</b></p> <ol style="list-style-type: none"> <li>6. Employment of residents in labor-intensive construction works</li> <li>7. Provision of vocational training, adult education and life-skills counseling</li> <li>8. Job placement services introduced</li> <li>9. Productive cooperatives strengthened and promoted</li> </ol> <p><b>Local Economic Development &amp; Business Support</b></p> <ol style="list-style-type: none"> <li>10. Sites for commercial and industrial uses provided/developed</li> <li>11. Buildings/space for commercial/small-scale business provided (market halls, stalls, etc.)</li> <li>12. Business Support Services (BSD) provided</li> <li>13. Micro-Finance Loan for SME and households provided.</li> </ol>	<p><b>Employment Generation</b></p> <ul style="list-style-type: none"> <li>• No. of workers recruited &amp; trained &amp; no.. of small contractors trained (6)</li> <li>• No. of residents completing non-formal education courses by category &amp; achievement of beneficiaries by pre-selected measures (literacy, numeracy, etc.) (7)</li> <li>• Numbers of applications accepted, and of participants completing by trade/discipline (7)</li> <li>• No. of job seeking residents registered by skills &amp; no. of job seekers counseled or participating in job fairs or similar (8)</li> <li>• No. of cooperatives and enterprises established &amp; no. of participants in enterprises (9)</li> </ul> <p><b>Local Economic Development • Business Support</b></p> <ul style="list-style-type: none"> <li>• No. of formal enterprises benefiting (10)</li> <li>• No. of informal enterprises occupying land and buildings made available &amp; no. of people using these sites (10,11)</li> <li>• No. of small businesses taking courses and advice on starting or improving their enterprise (12)</li> <li>• Numbers of applicants to start or improve small or micro-enterprises (7, 12)</li> <li>• No. of savings and loan circles established and no. of beneficiaries participating in savings and loan circles (13)</li> <li>• No. of businesses and households seeking and obtaining micro-credits / no. of loans disbursed (13)</li> </ul>

Means of Verification	Assumption
<ul style="list-style-type: none"> <li>ex-post evaluation with sample surveys and focus group discussions (1,2,3,5)</li> <li>possibly statistics of social service offices (if introduced/promoted by project, 2,3)</li> <li>Municipal fee and tax records (4)</li> </ul>	<ul style="list-style-type: none"> <li>longer-term maintained economic and political stability</li> <li>maintained commitment of local government to social inclusion and promoting local economic development</li> <li>opening of the formal finance sector to poor target groups</li> </ul>
<ul style="list-style-type: none"> <li>intermediate and ex-post evaluations with sample surveys and focus group discussions (1,2,3,4,5,6,7)</li> <li>statistics of job placement service / labor office or other service providers, if promoted by project (3,6)</li> <li>statistics and follow-up of Business Support Services, if promoted by project (5,7)</li> <li>statistics and follow-up of micro-finance institutions, if promoted by project (7)</li> </ul>	<ul style="list-style-type: none"> <li>relative stability of local economy without major external shocks</li> <li>improved and maintained public security and safety &amp; increasingly positive perception of the neighborhood</li> <li>commitment of local government to social inclusion and promoting local economic development</li> <li>avoidance of gentrification (replacement of original beneficiaries by wealthier population groups)</li> </ul>
<p><b>Employment Generation</b></p> <ul style="list-style-type: none"> <li>project monitoring system / reports &amp; records of larger scale contractors (labor-intensive employment)</li> <li>records and monitoring of service providers (adult education, vocational training, job placement)</li> <li>reporting and monitoring of service providers (promotion of cooperatives)</li> </ul> <p><b>Local Economic Development • Business Support</b></p> <ul style="list-style-type: none"> <li>project monitoring system / reports &amp; records of management of premises/sites</li> <li>statistics and monitoring of Business Support Services</li> <li>statistics and monitoring of micro-finance providers</li> </ul>	<p><b>Employment Generation</b></p> <ul style="list-style-type: none"> <li>existing demand for labor with basic skills in the local construction sector / market</li> <li>existing demand for labor with basic vocational skills in other sectors (requiring appropriate analysis)</li> <li>sufficient local demand within the neighborhood for goods and services offered by residents</li> <li>employers interested in using job placement services &amp; and in contracting people from the neighborhood</li> <li>sufficient social cohesion and motivation for cooperative enterprises / no hijacking of initiatives by local bullies</li> </ul> <p><b>Local Economic Development • Business Support</b></p> <ul style="list-style-type: none"> <li>external business interested in investing in the neighborhood</li> <li>sufficient security for private investment and entrepreneurial initiative</li> <li>local SMEs / households interested in more formal micro-finance loans (overcoming preferences for family savings or informal lenders)</li> </ul>



## 5. List of Guiding Questions for Impact Monitoring

**Note:** The below list of questions is intended to provide some guidance for intermediate and ex-post evaluations of project results and impacts.

### 1. Economic Development Conditions

At city / metropolitan level:

1. How has the overall economy of the city / metropolitan area developed since the time of project planning in terms of economic structure, markets and market integration, employment and income levels?
2. What were the main driving forces for economic development in the city / metropolitan area (e.g. macro-economic policies, foreign and/or national investment, local business initiatives, remittances of migrant workers, etc.)?
3. Which external factors have influenced the urban economy in a positive and/or negative way (e.g. globalization, financial crises, political conflicts, violence and crime, rural-urban migration, etc.)? What were the impacts of such external factors?
4. How has income distribution and social inclusion or segregation developed over time, if relevant in different parts of the city?
5. How has overall economic development affected the urban poor and urban poor settlements (e.g. income opportunities, access to labor and employment, security of tenure, resettlement / relocation)?
6. Have poor settlements in different parts of the city developed in the same direction / homogeneously towards the better / or the worse?

At neighborhood / project level:

7. Which were typical economic activities and types of business before project interventions?
8. How has the neighborhood / project area developed in terms of population (no. of inhabitants, density), in and out migration, social status and image (inclusion), crime and violence?
9. How has the local economy in the project area developed since the time of project planning in terms of economic structure, markets and market integration, employment and income levels? Which positive and/or negative changes have occurred?
10. How was the economic situation of the population before the project intervention in terms of income and employment, share of formal and informal business activities, integration of local businesses into the overall urban economy?
11. Apart from the project interventions, what were the main driving forces of such changes (e.g. growing remittances of family members, investment pressure from real estate development, possible follow-up projects, etc.)?

### 2. Impacts on Asset Accumulation and Poverty Reduction at Neighborhood Level

Guiding questions with regard to the multiple dimensions of poverty as defined by OECD-DAC should be used:

#### **Economic Development Aspects**

12. How has ownership and access to physical assets developed over time: housing and housing land (security of tenure), land or buildings for productive use, productive equipment, furniture / appliances? Are there any significant differences between different population groups?
13. How has the general financial situation of households and families developed over time with regard to income, savings, investments, access to credit and mortgage financing, insurance? Are there any significant differences between different population groups (e.g. ethnic groups, women-headed households, day laborers, etc.)?

#### **Human Development Aspects**

14. How has access to basic services like education, health care, water and sanitation developed over time? Are there any significant changes in educational levels or health and nutritional conditions of the population? Are there any significant differences between different population groups?

### **Socio-Cultural, Political and Protective Development Aspects**

15. How has the social status and situation of residents with regard to recognition of citizen rights, empowerment, participation, safety and security, gender equality, vulnerability to economic and external shocks, access to decent employment developed over time? Are there any significant differences between different population groups?
16. On which basis are these assessments made? Has there been any systematic evaluation of the above impacts or are these based on personal opinion and observations?
17. Which of the above impacts could be directly attributed to project interventions? Which were these (e.g. land titling, improvement of sanitation and hygienic conditions)?
18. Which impacts are more indirect effects of project interventions that have occurred only over time?
19. Which impacts can neither directly or indirectly be attributed to project interventions? Which other factors may have been relevant for such impacts?

### **3. Impacts on Business Environment, Employment and Income at Neighborhood Level**

20. Have local business activities consolidated and/or expanded over time?
21. Have local businesses been able to invest in buildings and productive equipment? Which are typical investments that have been made by local businesses?
22. Has access to formal and informal credit for local businesses improved over time? Are there any (follow-up) micro-credit programs that are accessible to local businesses?
23. How has the situation of informal businesses developed (e.g. with regard to harassment, coercion and corruption)?
24. Have (some of) local businesses/SMEs formalized their conditions and, if yes, was it worth the effort?
25. Are there any local business associations lobbying for their interests? If yes, are they linked and/or have contacts to similar associations at city level?
26. How have general employment (e.g. formal and informal employment) and income developed over time?
27. Which major public investments have occurred in the project area after the end of original project interventions (e.g. major infrastructure works, educational and cultural facilities, markets or similar)?
28. Have any major private investments occurred in the project area after the end of original project interventions (e.g. workshops and productive facilities, services, etc.)? If yes, where did such investors come from (e.g. from the community, city, country or foreign)?
29. How has the local demand and market for goods and services developed in the neighborhood? Have local markets at neighborhood level expanded?
30. Has the neighborhood / project area been generally strengthened as a business location?
31. To what extent have business locations at neighborhood level been integrated into the overall urban economy (access to utilities and services, supply chains of raw materials, and unfinished goods, integration into value chains, transport and distribution, marketing, etc.)?
32. On which basis are the above assessments made? Has there been any systematic evaluation of the above impacts or are these based on personal opinion and observations?
33. Which of the above impacts can be directly attributed to project interventions? Which were these, distinguishing between "traditional" urban upgrading interventions (e.g. land titling, improvement of infrastructure and services, etc.) and interventions specifically aiming at employment and income generation (like small business loans, coaching, vocational training, etc.)?
34. Which impacts are more indirect effects of project interventions that have occurred only over time?

35. Which impacts can neither directly or indirectly be attributed to project interventions? Which other factors have been relevant for such impacts?

**4. Impacts on Business Environment, Employment and Income at City and Metropolitan Level**

36. What impulse have construction works and capital investments in the project area given to the local economy, if any? How sustainable was this?
37. Which sectors/branches have benefitted most from the project investments (e.g. large contractors, SMEs, service providers, utilities, etc.)? This will probably only be relevant for major construction contracts e.g. for new housing, major infrastructure works or large community facilities.
38. What significance and relevance have major urban upgrading for the "transformation" and the overall image of the city as a business location, if any?

**5. Lessons Learned**

39. What are the key lessons learned from the project intervention in terms of economic consolidation and development? What has worked and what has not worked?
40. Which aspects or dimensions that are indispensable for making an economic impacts had possibly been neglected or forgotten?
41. Which economic actors and stakeholders are important and should be involved in such interventions?
42. Which of the lessons learned have been or will be used for follow-up projects or programs? Which are these projects and programs?

