Locally managed funds: a route to pro-poor urban development

Most aid programmes in informal urban settlements are inefficient and unaccountable to the people they want to help. But there is an effective alternative: locally managed funds run by community savings organisations. Local funds can overcome systemic barriers and link government and community stakeholders, bringing improved living conditions that are scaled up through networks of local groups. As the Millennium Development Goals transition to new Sustainable Development Goals, international agencies can improve their reach and impact in cities by integrating support for local funds into their aid programmes.

Finding a way to make cities pro-poor

Around one in seven people worldwide live in informal settlements in urban areas. City economies would collapse without their labour and the goods and services from informal enterprises — yet city governments often ignore them or see them only as a problem. Urban dwellers in informal settlements often build housing incrementally. Tenure is frequently insecure because residents cannot access land legally. The land they use may be ill-suited to housing, but people have not been allowed to settle on good-quality affordable land. Families struggle with problems such as regular flooding — and there is a high risk of fire due to widespread use of candles, kerosene lamps and stoves in houses constructed very close together using flammable materials. People may face actual or threatened eviction.1 And living in such settlements is itself a further reason for exclusion and stigmatisation.

The complex causes of urban poverty and inequality deter development assistance agencies from effective action; their response tends to be sectoral initiatives that fail because they are too limited in scope. For example, extending the water network to informal settlements with standpipes or water kiosks brings relatively few benefits if a local mafia controls access and/or if prices are unaffordable. Moreover, households need sanitation and drainage as well as water.

People living in inner-city areas face particular difficulties. The emphasis on growth — even if it aspires to be pro-poor — has led to redevelopment of these areas across larger towns and cities. The result is that residents from low-income, often informal neighbourhoods are evicted or displaced.

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Planning urban development at the city level. If those living and working informally are not engaged in re-envisioning the city, then development will continue to be exclusionary and anti-poor. But low-income groups cannot easily challenge political elites. Despite some political support for the urban poor, it is the rich and powerful who profit from current development practices.

There is an alternative, however. A pro-poor urban politics can emerge from savings-based organisations of low-income households that establish locally managed funds.

Problems with current finance models

Improving the living conditions of the urban poor is an explicit priority of both governments and international development agencies. The Millennium Development Goals (MDGs) include a target to improve the lives of at least 100 million slum dwellers. The 2012 UN report on the MDGs claims the target has already been met and exceeded, yet also states that the number of people living in informal and sub-standard urban settlements has grown substantially over the same time period. Officially, there are now 863 million people living in 'slums' and squatter settlements, an increase of more than 200 million since 1990 and 100 million since 2000.3

Hundreds of millions remain without access to adequate sanitation, living at high densities and with considerable health risks. Clearly something about current development models is wrong.

Aid agencies may mean well, but they face a mismatch of scales and structural constraints that make it difficult if not impossible for them to reach low-income urban communities. These agencies are designed to work with national governments and channel funding through them. Often little of this funding gets to the urban poor. Some is spent on politically popular urban development projects that offer greater benefits to the middle class, and other funds are taken up by mismanagement or corruption in large infrastructure contracts.

With these donor- and government-managed funds, the channels of accountability do not run to the intended beneficiaries. The international agencies are accountable to the governments that fund them, and through them to citizens of far-away countries. States that receive and disburse funding should be accountable to their own citizens, including those with the lowest incomes, but this is often not the case in practice, especially when those citizens are unorganised. International development agencies may want to do things differently, but if representative institutions with local accountability are not in place then there are limited possibilities for supporting pro-poor local improvements in informal settlements.1

Learning from two local funds

Two initiatives that IIED has been supporting show how local finance can effectively improve the wellbeing of people living in urban slums.

The Urban Poor Fund International (UPFI) has improved the living conditions of more than 200,000 urban poor people in informal settlements. Created in 2001 and expanded in 2007, UPFI capitalises local funds established by national federations of the landless and homeless; these funds blend residents' collective savings with donor funding and sometimes state capital to secure land tenure and improve infrastructure and basic services. UPFI is...
managed by and for Slum/Shack Dwellers International (SDI), a network of 33 national federations including 16,000 women-led community-based savings groups working in 464 cities. SDI has channelled US$20 million to these groups through its member federations.

The Asian Coalition for Community Action (ACCA), a programme of the Asian Coalition for Housing Rights, takes a broadly similar approach. By January 2012, it had provided US$10 million of funding for community projects in 708 settlements, 153 cities and 19 Asian countries. An important characteristic of both UPFI and ACCA is that the financing is flexible, allowing community networks within a city to negotiate with the government for additional funding and other resources. Because they come to the table with money in hand, these community networks are able to change the power dynamics and build collaborative relationships between themselves and local government. Another key feature is the nested scales of these initiatives, linking small community institutions into city-wide networks, which in turn form national federations, and so on up to powerful regional or international groups that can secure resources from the international community and channel them down to their grassroots membership.

Overcoming systemic barriers
Locally managed funds help low-income communities overcome persistent systemic barriers to progress. For example:

• Neighbourhood funds, capitalised by savings, are under the control of people who are normally marginalised from decisions that affect their lives and are denied the benefits that other citizens receive from the state and society.
• International funds like UPFI and ACCA invest in city development funds that are, in ideal circumstances, jointly managed and financed by communities and the state. These city funds involve downward (rather than upward) accountability, assuring that the funds are spent as agreed and that money is not siphoned off along the way. Community networks hold their representatives on the city fund management committee to account. Savings groups implement their own projects once they are allocated funds, and the networks also provide horizontal accountability between the groups receiving funds and other neighbourhood savings groups.
• Jointly managed city funds facilitate collaboration with city governments and sometimes national governments, whose support is necessary to achieve objectives and to spread such initiatives further afield. When local governments see what jointly managed funds contribute, they are more likely to add their own monies.
• Local funds also attract other forms of co-funding and in-kind support, from both within and outside the communities themselves. Corruption is prevented as local people have a vested interest in getting the most for the

How to integrate local funding into Sustainable Development Goals

Goals should empower local action. The most effective and sustainable solutions are those designed and implemented by their direct beneficiaries. Local funds empower local communities to take action based on their own assessment of priorities and capacities to address them.

Goals and targets should encourage multi-stakeholder collaboration and participatory governance. More can be achieved at less cost by pooling together the resources and skills of beneficiaries, governments and development agencies, and by formalising the collaboration in participatory governance arrangements. The process of developing goals must consider and provide for the financial and other mechanisms necessary to achieve them.

Goals and targets requiring local action need locally accessible finance provided to locally accountable organisations. Local funding mechanisms may not be suited to all global goals and targets, but they are uniquely suited to some, particularly those that rely on local people taking action to improve their own environment. Top-down finance delivery systems may never reach the ground, when that ground is tens of thousands of small, informal communities in towns and cities around the world.

Results-based management is not the same as results on the ground. The greater emphasis on targeted, results-based approaches is to be welcomed if results are judged by local development agencies in collective and public consideration. Sustainable Development Goals should encourage flexible, stakeholder-driven learning approaches to incentivise creativity, leverage additional resources, respond to changing needs and take advantage of emerging opportunities. The reason for the failure of much development assistance, both international and national, is that most of those for whom positive results matter have been peripheral to decision making. Local funds transform possibilities, building grassroots financial management capabilities and associated accountabilities alongside material improvements in an integrated transformative development process.

“To develop our own solutions, we need resources. And when we do get some resources for communities, many of those donors and development agencies feel threatened by this new possibility where people control things. They don’t want to lose their power. They don’t want to be in the equality stage with us. They want to stay at the stage where they are high up there and we are very low down here.”

Ruby Papeleras, Homeless People’s Federation Philippines

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money available — and share their upgrading activities and associated costs in public throughout the city.

- Successful informal settlement upgrading incentivises politicians to respond to citizen demands. By scaling up settlement actions through federations and networks, SDI and ACCA have created powerful mass movements that draw political support to their local initiatives.

- The experience of co-managing city development funds further strengthens neighbourhood savings groups, building knowledge and organisational capacity. This is consolidated in the federations and networks through repeated experiences — and is not ‘lost’, as may happen when only individual communities are supported.

**Principles and directions for future action**

By investing in city development funds and the upstream international funds, development agencies can respond to local priorities and make local governments more accountable to their citizenry, while meeting their own development objectives. An essential principle for these programmes is participatory governance, or joint fund management. Savings groups at the neighbourhood level are empowered to try things out, and they then work together to set up a city fund ideally with their local authorities, creating equitable and inclusive governance practices along the way. This is the key ingredient that makes local funds so much more effective than top-down decision making or pre-determined local grants that offer little flexibility.

Multi-scale institutions like ACCA and UPFI build collaboration from neighbourhood to city to national to regional levels, and provide an opportunity for development assistance agencies to bridge these scales. Large, centralised development agencies cannot easily work directly with urban poor groups and their community organisations, but they can work with the federations and networks that are financing, working with and accountable to those organisations.

Development can readily be scaled up through the multi-level networks. Each level of scaling up offers new possibilities for collaboration, with city and national governments and with international development agencies, NGOs and donors.

Scaling out is also possible. While most experiences with local funds have been in urban neighbourhoods, the approach is equally relevant to other contexts. For example, IIED is currently working with the Government of Kenya to implement a scheme to provide local finance to meet the climate change adaptation priorities of communities in north Kenya.

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**Notes**


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