



Reducing urban poverty: constraints on the effectiveness of aid agencies and development banks and some suggestions for change

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This paper draws primarily on the research undertaken by IIED's Human Settlements Programme on aid and human settlements (which Jorge E Hardoy initiated in 1978) in which the author has been involved and on the research he undertook for his PhD thesis *The Constraints on Aid and Development Assistance Agencies Giving A High Priority to Basic Needs* (London School of Economics, 1998). Special thanks are due to Caroline O N Moser and James Putzel who supervised this thesis and to Richard Mabala, Diana Mitlin and Sheridan Bartlett for comments on an earlier draft of this paper.

The paper is a reflection on what the author has learnt from interviews and discussions with a great range of staff from different international agencies and NGOs and with some central and local government officials from nations which receive development assistance. It quotes some comments made by some of those interviewed but without attribution, either because the author was unable to contact the person to get their permission to quote them or because the

SUMMARY: *This paper discusses the institutional constraints that aid agencies and development banks face in being able to address urban poverty. These include their limited capacity to support local institutions that respond to the needs and priorities of low-income groups and that are accountable to them. It describes the distance between the decision-making processes of most international agencies and the "urban poor" and the very limited possibilities for the urban poor to influence what gets funded and by whom. It also discusses the political constraints that have inhibited more effective donor agencies and suggests how support for locally based funds for community initiatives could help overcome some of these. It ends by describing the low priority given by donor agencies to urban poverty reduction and suggests some changes that would help development assistance to meet its targets for reducing urban poverty.*

I. THE GAP BETWEEN WHAT IS NEEDED AND WHAT IS DONE⁽¹⁾

THERE IS A large gap between what is needed within low- and middle-income countries to reduce urban poverty and what the aid agencies and development banks who are meant to support this can do. At the core of this gap is the limited capacity of most international agencies to support local initiatives and institutions that respond to the needs and priorities of the urban poor, to support the organizations they have formed, and to have some measure of accountability to them

Official aid agencies and development banks do not implement projects; they fund others to do so.⁽²⁾ Their publications give the impression that they are implementing projects; many list all the projects they fund in their annual reports. But very few actually implement projects, since it is not the staff of these agencies who dig ditches to allow water pipes and sewers to be installed or who build and staff health care clinics. Their staff do not work with urban poor groups and their organizations to discuss what support they need. They provide funds to other institutions to do this. They are only as effective as the institutions they fund – i.e. as effective as their local partners. The scope and potential success of any international agency's urban projects are thus dependent on the quality and capacity of their local implementors.

For official aid agencies and development banks, their "local implementor" is generally government ministries or agencies. The whole inter-

national aid/development assistance structure was set up on the assumption that capital made available to the national governments of low- or middle-income nations, accompanied by the "best" technical advice, would deliver "development". Official development assistance agencies were never set up to respond to the needs and priorities of poor communities. They were set up to provide "recipient" governments with large capital sums (as grants or loans) and professional advice. The limitations of this concept of the role of development assistance quickly became apparent as most recipient governments were unable to be effective implementors or had other priorities.⁽³⁾

The limitations in this conventional international agency-national government relationship have long been recognized: the debates about the failure of aid to reach poorer groups and to support social development go back at least to the late 1960s.⁽⁴⁾ The promotion by many international agencies of a higher priority to "basic needs" in the 1970s or the promotion of more attention to "human development" in the 1990s were both attempts to persuade recipient governments and international agencies to give a higher priority to reducing poverty. But it has proved very difficult to change the institutional structure of development assistance agencies in response to this. It is also difficult politically for the official aid agency of a government from a high-income nation to steer aid to other local "implementors" without the approval of the recipient government. This is even more the case for the multilateral agencies; after all, the large multilateral agencies are partly owned by recipient governments (even if they do not have much voting power within the boards of the development banks).⁽⁵⁾

For the development banks and bilateral agencies that provide loans, it is the national government that has to guarantee loan repayments. This conditions virtually all the funding provided by the large multilateral funding agencies such as the World Bank and the regional banks, the Inter-American, African, Asian and Caribbean Development Banks. The same is true for the large loan-providing bilateral agencies such as the Japan Bank for International Cooperation (into which the former Overseas Economic Cooperation Fund was incorporated in 1999) or the German government's KfW (Kreditanstalt für Wiederaufbau).

Most official bilateral agencies have long steered part of their funding through non-governmental or extra-governmental channels – for instance, through international NGOs (who, in turn, often work with local NGOs) or, to a much lesser extent, direct to local NGOs. But most recipient governments seek to limit the extent of such funding. No national government in Africa, Asia or Latin America will sanction increasing funding flows to institutions over which they have little control, or approve of external agencies steering funding to citizen groups or NGOs that do not support them, or even oppose them. Even where external funding is intended for other government bodies – especially city and municipal governments – national governments are inevitably loath to lose control over which cities and which sectors receive funding, or to have international donors fund municipal authorities governed by opposition parties – for nations with democratically elected national and city governments.

There are also obvious questions of sovereignty. However much one would like to see official development assistance agencies fund urban poor groups directly, for nations with democratically elected governments, there are difficult issues around whether this undermines repre-

person concerned made the comment on the understanding that they would not be quoted. The author is particularly grateful to the staff from Sida, UNICEF and the World Bank who agreed to be interviewed as part of his doctoral research, for the insights they provided into the constraints that international agencies face; also to staff from NGOs, government bodies and other international agencies who have talked frankly about what limits their effectiveness.

1. I had not intended to write a paper for this issue of *Environment and Urbanization* (and it might also be considered inappropriate for the journal's Editor to do so). But although we had intended this issue of the journal to include reviews of development assistance from the viewpoint of local groups within "recipient nations", we did not receive many papers on the theme. One likely reason is the difficulties that government and local NGO staff encounter in writing about their dealings with donors, when they depend on or are seeking donor funding. This makes the literature on development assistance very one-sided. This paper seeks to summarize some issues from the point of view of the intended "recipients" (low-income groups and their organizations), drawing on what the staff of local NGOs and local governments have told me about the donor recipient relationship.

2. This paper's primary focus is on "official" development assistance agencies and not on the international non-government aid agencies, many of whom do implement projects and have a higher proportion of their staff based in low- and middle-income nations. The official development assistance agencies include the bilateral agencies of governments (most of them from high-income nations) and the multilateral

development banks (for instance the World Bank, the Inter-American Development Bank and the African and Asian Development Banks).

3. There are also many other factors which have inhibited the effectiveness of most international development assistance agencies, including political and economic objectives which they have been obliged to pursue by those who fund or control them and which have little to do with the needs and priorities of low-income groups.

4. See, for instance, United Nations (1971), "Report of the 1969 meeting of experts on social policy and planning", *International Social Development Review* No 3.

5. For example, in 1999, within the International Development Association, the arm of the World Bank Group that gives concessional loans (i.e. loans with a sufficient grant element for them to qualify as aid), 62 per cent of the votes were held by "Part 1" members who are, in effect, governments of the high-income nations. The US had 15 per cent of the votes, Japan 10.7 per cent, Germany 7 per cent, the UK 5 per cent, France 4.3 per cent, Canada 3.1 per cent and Italy 3.0 per cent (World Bank (1999), *Annual Report 1999*, Washington DC).

6. There is a particularly interesting case study of the complex political struggles between elected city politicians and "participatory budgeting" in Recife; although participatory budgeting was allowing low-income communities a more direct role in setting priorities for municipal expenditures, local elected councillors felt that this was undermining their roles. See Melo, Marcus with Flávio Rezende and Cátia Lubambo (2001), *Urban Governance, Accountability and Poverty: The Politics of Participatory Budgeting in*

sentative government structures. This issue can be particularly problematic within city governments, as local politicians who have been elected can justifiably claim to have the mandate to determine local priorities.⁽⁶⁾ Yet many elected politicians do not support urban poverty reduction programmes, or they only support them in top-down clientelist ways that undermine effective, representative community-based organizations.

Most development assistance agencies cannot choose to work only with the national or local governments that are democratic and relatively effective. The success rate for international development assistance to urban areas over the last 40 years would have been greatly enhanced if this had only been provided to nations with competent, representative urban authorities. But there are not many nations where such conditions exist (although there are certainly many more such cities now in the nations where decentralization and democratization have supported the development of more effective and accountable city authorities). In addition, funding only such governments would have meant denying funding to many of the nations with the weakest economies and highest levels of poverty. Many bilateral agencies choose to focus most of their aid in nations with the lowest per capita incomes, but these include many nations with weak, ineffective and often unrepresentative urban governments.

At their core, the World Bank and the regional development banks are banks. They make capital available to member governments, whether or not the member governments are representative or effective with regard to poverty reduction. These banks also need to lend large sums of money to keep their own institutions going, since this is how they cover most of their own costs. This need to lend money often conflicts with the best developmental course, which is for recipient governments to keep down capital expenditures. A government should seek to minimize the amount of loan capital required to finance needed investments, in order to keep down interest payments and debt burdens. For needed urban infrastructure (for instance, to improve provision for water, sanitation and drainage), any government should be seeking locally developed solutions that minimize the need for external capital. The conflict between the priorities of development banks and local development needs is well illustrated in Arif Hasan's recent book, *Understanding Karachi*,⁽⁷⁾ which describes how a US\$ 70 million loan from the Asian Development Bank for part of the Greater Karachi Sewerage Plan was not actually needed. The Research and Training Institute of the Orangi Pilot Project showed that there was a much cheaper and more effective way of improving the sewer system which could be funded entirely by the money that the local agencies were going to provide as local counterpart funds for the Asian Development Bank loan. The governor of Sindh province (within which Karachi is located) agreed to change the project so it would be built with local resources and draw on local expertise. This meant that the loan was no longer needed (and thus a large debt obligation was avoided), even though considerable pressure was exerted by the federal and provincial bureaucracy to ensure that the loan was taken up.⁽⁸⁾ It is rare for large projects, for which governments negotiate loans from multilateral banks, to be subject to the scrutiny of civil society. It is also rare for cities to have local NGOs, such as Orangi Pilot Project, which have the technical capacity to question the design and proposed budgets for large, complex infrastructure projects.⁽⁹⁾

Virtually all aid agencies and development banks have turned to "capacity-building" to increase the capacity of their local counterpart

institutions to implement the projects that they fund. Funding for urban projects in low-income nations can have important "capacity-building" components, so support is included for increasing the capacity of urban governments. The World Bank's urban programme recognized the need to do this more than 20 years ago and changed its approach so that not only did loans to urban projects include capacity-building but also many loans focused entirely on strengthening urban governments.⁽¹⁰⁾ But it is difficult for any external agency to know how to build local capacity. The structure of most external agencies and the forms in which their funding are made available (including their project cycles) are not well suited to the slow and difficult task of building or strengthening local capacity. Strengthening the capacity of urban governments is often complex, not only institutionally but also politically, since it implies less power for government agencies at state or national level.⁽¹¹⁾ It often requires a lengthy process to increase the number of well-trained, motivated and adequately paid local staff. In addition, increasing the effectiveness of local governments cuts into the power and profits of many powerful vested interests and generally requires an intimate knowledge of local context and constant local support. But most donor agencies have most of their staff in their head offices in Europe or North America and most decisions are made there. They find it easier to use consultants from their own countries, rather than local consultants. While many of the staff of most development assistance agencies recognize the need to enhance local government capacity and accountability, these institutions' structures, financial management systems and systems for contracting out implementation are not well suited to this task.

II. THE DISTANCE BETWEEN THE URBAN POOR AND THE DONORS

SINCE THE PARTNERS of official aid agencies and development banks are national governments, the effectiveness of their grants or loans is largely determined by the quality of the government agencies to whom national governments allocate the external funding. Not surprisingly, much of what is funded brings little or no benefit to urban poor groups. The less accountable and representative the recipient government, the less likelihood there is that it will allow the allocation of resources to benefit poor groups. Any look into the social history of high-income nations is a reminder of the long and conflict ridden process that, over many decades, produced more accountable, democratic, effective local governments. Even in recipient countries with democratic governments, support to urban poor groups is limited by the power of non-poor vested interests, the dominant belief in down-sizing governments (which some donors demand as a precondition for support) and by the limits that all bureaucratic structures face in being able to provide real benefits to the urban poor,⁽¹²⁾ among other factors.

As discussions of "good governance" became a central part of the development discourse over the last decade, many international agencies began to include a commitment to accountability and transparency in their official publications. But the whole structure of international development assistance creates a great distance between the development assistance agencies and the poor. Figure 1 illustrates this for the urban poor. At the bottom of the figure are those who are meant to benefit from devel-

Recife, Brazil, Working Paper 27, Project on Urban Governance, Partnerships and Poverty, University of Birmingham, 201 pages.

7. Hasan, Arif (1999), *Understanding Karachi: Planning and Reform for the Future*, City Press, Karachi, 171 pages. See also Orangi Pilot Project-Research and Training Institute (1998), *Proposal for a Sewage Disposal System for Karachi*, City Press, Karachi, 37 pages (a description of which is included in the Book Notes section).

8. See reference 7.

9. Orangi Pilot Project has helped design and supervise a large sewer construction programme which has reached hundreds of thousands of low-income people with cheap, good quality sewers. For more details on OPP, see Hasan, Arif (1997), *Working with Government: The Story of the Orangi Pilot Project's Collaboration with State Agencies for Replicating its Low-cost Sanitation Programme*, City Press, Karachi, 269 pages; also Orangi Pilot Project (1995), NGO Profile in *Environment and Urbanization* Vol 7, No 2, pages 227-236; and Zaidi, S Akbar (2000), *Transforming Urban Settlements: The Orangi Pilot Project's Low-cost Sanitation Model*, City Press, Karachi, 121 pages.

10. See Cohen, Michael (2001), "Urban assistance and the material world; learning by doing at the World Bank" in this issue of *Environment and Urbanization* (Vol 13, No 1).

11. See reference 10. See also the papers in *Environment and Urbanization* Vol 12 No 1 on "Poverty reduction and urban governance", especially Benjamin, Solomon (2000), "Governance, economic settings and poverty in Bangalore", *Environment and Urbanization*, Vol 12, No 1, pages 35-56.

12. See, for instance, Schaffer, Bernard B (1986), "Access: a theory of corruption and bureaucracy", *Public Administration and Development* Vol 6, No 4, pages 357- 376.

opment. Decisions about what is funded and who receives the funding are made so far from them. The funding passes through many intermediaries and is influenced by many interests before it reaches them. Furthermore, the poor groups at the bottom of the figure have no formal means of influencing the donors. They do not vote for the politicians who oversee the bilateral agencies. Their only influence within multilateral agencies is through the "voting power" of their government – which is very small. *This means that the people whose needs justify the whole development industry are the people with the least power to influence development and to whom there is least accountability in terms of what is funded and who gets funded.*

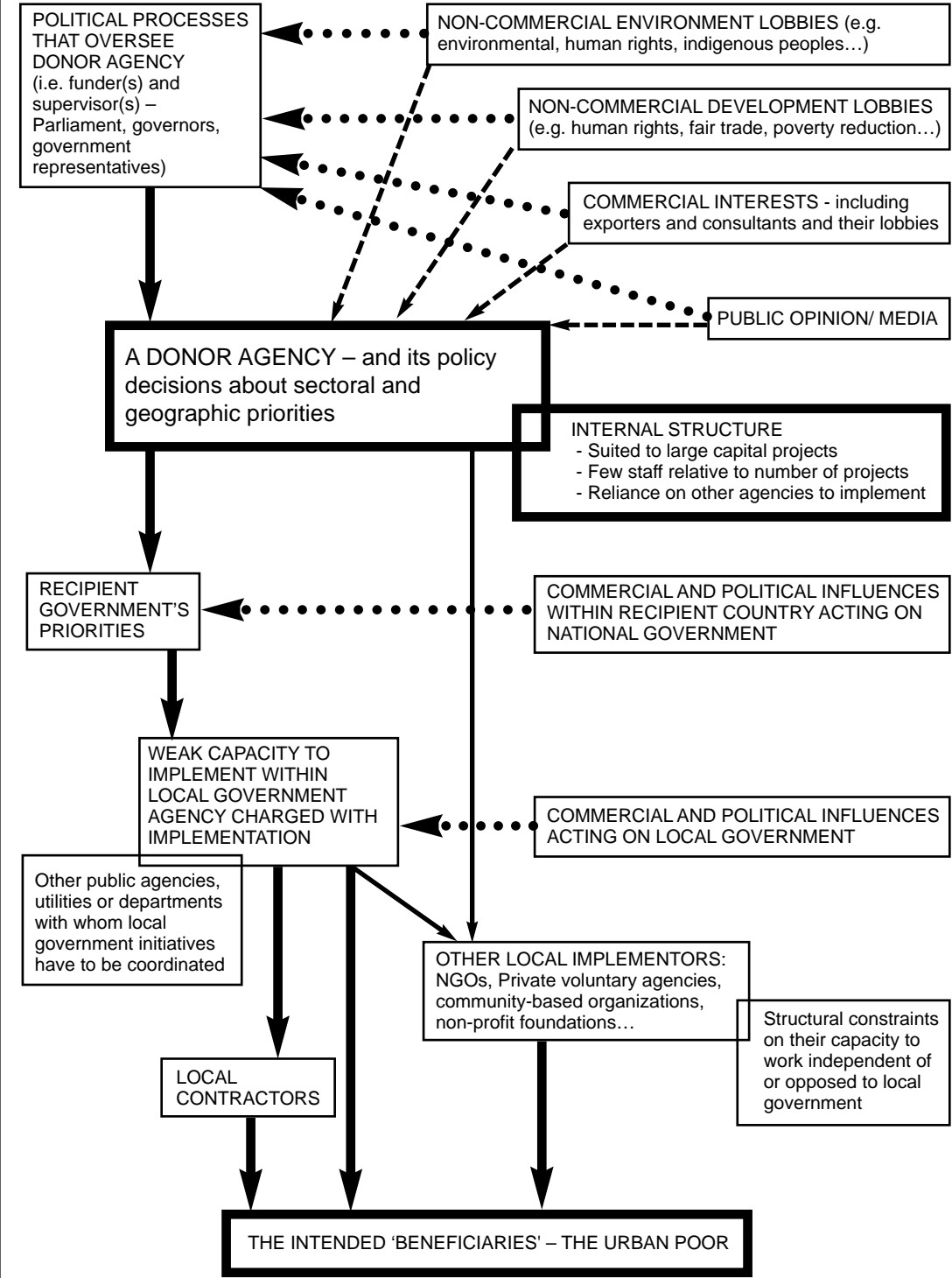
This is a point that requires some emphasis since the reduction of poverty in what are today the high-income nations was much influenced by the capacity of lower-income men and women to organize and eventually to get the right to vote. For instance, in Europe this helped produce political and administrative systems that extended provision for water, sanitation and drainage to virtually all dwellings, expanded education and health care systems to all citizens and produced social security systems that provided minimum incomes and access to housing and basic services for those who were unemployed or unable to work. In other words, it greatly reduced poverty. It is difficult to see how these changes could have taken place without the voting power and political pressures mobilized by those with limited incomes and without access to basic infrastructure and services. When some new social legislation proved ineffective or some project failed, citizens could hold their government to account. But when some project funded by a development bank or a bilateral aid agency fails, the intended beneficiaries cannot hold the bank or the agency to account. They cannot make formal representation to the politicians to whom the international agency is accountable. Even worse, when some development project threatens their homes or livelihoods, it is very difficult for them to make representation to the politicians who oversee the international agencies that are supporting this project. The basic mechanisms of accountability to the poor do not exist for aid agencies and development banks.

The development banks and official bilateral aid agencies are thus seeking to reduce poverty without the formal or informal mechanisms by which those who are suffering poverty can influence their priorities and the means by which they are realized. The international agencies may seek to draw on "the voices of the poor" (as in the *2001 World Development Report*)⁽¹³⁾ but they do not put in place the mechanisms by which the poor's own organizations and institutions have any power or influence within their decision-making processes.

The gap between the urban poor at the bottom of Figure 1 and the donor agencies at the top is also a huge physical distance, bridged by a range of intermediaries. Most development assistance agencies have most of their staff at their head offices in Europe or North America. There are some exceptions – in particular UNICEF, which has most of its staff based in offices within recipient nations (including a considerable proportion of non ex-patriate staff). Some European bilateral agencies have also strengthened their offices within recipient nations and increased the proportion of their funding that these offices can spend. But for agencies like the World Bank, power, decision-making and senior staff are heavily concentrated in Washington DC, even if there have been moves to strengthen the role of its local offices.

13. World Bank (2001), *World Development Report 2000/2001: Attacking Poverty*, Oxford University Press, Oxford and New York, 355 pages.

Figure 1: The different potential influences on a donor agency's sectoral priorities



III. THE PRESSURE TO KEEP DOWN STAFF COSTS

a. Are Low Staff Costs a Measure of Effectiveness?

ALL DEVELOPMENT BANKS and official bilateral agencies are under great pressure from the politicians and bureaucrats that supervise them to keep down their staff costs. The conventional wisdom is that the lower the proportion of development funding spent on staff costs, the better. The ratio of staff costs to total funds spent is often seen as the single most important indicator of a development agency's "efficiency". Yet any agency that actually engages with urban poor groups knows that this takes time, and this means staff time that must be paid for. The same is true for engagement with local governments.

Agencies also know that too much money provided too quickly often damages or distorts local organizations and their capacity to build accountability and transparency into their work. Many agencies also recognize the need to keep down the costs of projects. In fact, all efforts should be made to keep down such costs since the lower the unit cost for any intervention to reduce urban poverty, the more likely it is that the intervention can be sustained and expanded. One therefore encounters the paradox of international agencies with large amounts of money that they have to spend quickly (as grants or as loans) within a "project cycle" and very limited staff who are now trying to support local processes that often need relatively little external funding, relatively slowly and within a long local engagement. Staff from international agencies have been highlighting this paradox for many years.¹⁴ But collectively, these agencies have never publicly sought to address this by demonstrating why the most effective aid is not necessarily the aid provided with the lowest staff costs. Some of the most effective aid agencies (and international NGOs) generally have ratios of staff costs to total funding that are far above the average because they seek to support local processes and keep to a minimum the dependence of such local processes on external funds. Instead of defending the reasons why this is so, they seek to hide their relatively high ratio of staff costs to total funding in their accounts by inventing ambiguous categories within which some of their staff costs can be hidden.

One obvious way around this is to increase the proportion of donor agency staff based within low- and middle-income nations. But if these are expatriate staff, it becomes very expensive because the agency has to support not only staff salaries but also provisions for moving them there, housing them and moving them back. This conflicts with the pressure to keep down staff costs. In addition, it is difficult to build local capacity with expatriate staff, who rarely stay in a country long enough to learn how best to support local processes; most donor agencies do not like their expatriate staff to stay too long in any country. The other possibility is for donor agencies to hire local staff; this has the advantage of hiring-in far greater local knowledge, people who can speak local languages and who stay in the country. Most international NGOs and many bilateral agencies recognized the need to do this many years ago, and now a considerable proportion of their staff are based within recipient countries and are drawn from those countries. (Alternatively they work with local partner organizations.) But for official bilateral agencies, there are obvious political complexities in having local staff in offices in "recipient" countries responsible for spending funds provided by tax-payers in donor coun-

14. This was particularly apparent from interviews with a range of staff from the World Bank, UNICEF and Sida.

tries. There are also the inevitable conflicts between “international” staff paid at international rates and local staff paid at local rates.

b. Out-sourcing Tasks; the Use of External Consultants

The other “solution” widely used by official donor agencies to keep down the proportion of funding spent on staff costs is to use consultants. Consultants can be used for many tasks that would normally be done by agency staff – from helping to develop projects, to overseeing their implementation, to evaluating them. Although funding consultants is, in effect, funding more staff, the payments to consultants do not appear in the agency’s accounts as “staff” – as they are generally paid from country programmes or from project budgets. Large and diverse consultancy industries have developed around the headquarters of most large multi-lateral and bilateral agencies. As a staff member from one of the most effective European bilateral agencies pointed out, this is a ridiculous situation; his aid agency is not allowed to hire the staff it needs to effectively manage its projects and programmes but it is allowed to hire outside consultants to do so, which costs more than expanding internal staff. It may also mean that there is no “learning” within the agency, as projects are developed, overseen and evaluated by people who are not within the agency.⁽¹⁵⁾

The multilateral banks also make heavy use of consultants. But they can pay for the costs of the consultants by including their fees in the loans they provide. In effect, it is the recipient government (and the tax payers from within the recipient country) that pays for the consultants. Most funding for consultants also goes to consultants based in Europe and North America. It is more convenient for agencies and banks to hire consultants where their headquarters are located rather than use consultants within the cities where the projects are located (who are generally much cheaper and have a greater knowledge of local context). It is common for loans from multilateral agencies to come with large consultancy fees within them, to cover the US\$ 1,000 or more per person per day charged by most international consultants. One senior official from a sub-Saharan African country told me that a loan for an urban project in his country had to include the costs of some very expensive US consultants. This official had a doctorate in urban planning from one of the most prestigious US universities. Not only did he have a much greater knowledge of the urban area in which the project was to be implemented than the consultants his government was obliged to use, but he was also better qualified professionally and academically. If we accept that many aspects of reducing urban poverty requires a good knowledge of local context and local institutional structures, then expensive international consultants with little knowledge and experience of the countries in which they operate are hardly an appropriate solution. Many international consultants reproduce similar analyses and proposals regardless of the country they are in, precisely because their knowledge of each location is so limited.

IV. BY-PASSING RATHER THAN BUILDING LOCAL CAPACITY

THE WORK OF IIED’s Human Settlements Programme over the last 25 years has continuously highlighted the importance for urban poverty reduction of effective local institutions that are more accountable to the

15. One possible counter-argument to this is that consultants may provide more continuity over time as particular consultants work over many years with the same international agency while the staff of that agency change constantly. But it is still difficult for donor agencies to internalize learning from developing, implementing and evaluating projects if much of this is done by external consultants.

16. IIED is publishing case studies of innovative local responses to urban poverty over the next year. These include: *Community-driven Water and Sanitation: The Work of the Anjuman Samaji Behood and the Larger Faisalabad Context in Pakistan* by Salim Alimuddin, Arif Hasan and Asiya Sadiq; *El Mezquital – A Community’s Struggle for Development in Guatemala City* by Andrés Cabanas Díaz, Emma Grant, Paula Irene del Cid Vargas and Verónica Sajbin Velásquez (a summary of this was published in *Environment and Urbanization* Vol 12, No 1); *Participation and Sustainability in Social Projects: The Experience of the Local Development Programme (PRODEL) in Nicaragua* by Alfredo Stein (a summary of this is published in this issue of *Environment and Urbanization*); *The Age of Cities and Organizations of the Urban Poor: The Work of the South African Homeless People’s Federation and the People’s Dialogue on Land and Shelter* by Ted Baumann, Joel Bolnick and Diana Mitlin; *Lessons of Experience from Care PROSPECT’s Urban Poverty Reduction Programmes* by Lawrence Mukuka and Gilbert Masiye; *Urban Poverty Reduction Experiences in Cali, Colombia: Lessons from the work of Local Non-profit Organizations* by Julio D Dávila, 2000; *Poverty Reduction in Action: Participatory Planning in San Fernando, Buenos Aires* by Ricardo Schusterman, Florencia Almansí, Ana

Hardoy, Cecilia Monti and Gastón Urquiza; *The Work of SPARC and its Partners Mahila Milan and the National Slum Dwellers Federation in India* by Sheela Patel and Diana Mitlin; and *The Work of Development Workshop in Luanda, Angola* by Mary Daly.

17. The paper by Celina Souza on "Participatory budgeting in Brazilian cities: limits and possibilities in building democratic institutions" in this issue (Vol 13, No 1) is one particular example of two municipal authorities (Porto Alegre and Belo Horizonte) that have consciously sought to make their operations and budgeting more open to the influence of low-income groups.

18. See Sevilla, Manuel (1993), "New approaches for aid agencies: FUPROVI's community-based shelter programme", *Environment and Urbanization* Vol 5, No 1, pages 111-121; also Sida (1997), "Seeking more effective and sustainable support to improving housing and living conditions for low-income households in urban areas: Sida's initiatives in Costa Rica, Chile and Nicaragua", *Environment and Urbanization* Vol 9, No 2, pages 213-231.

19. See the paper by Alfredo Stein on "Participation and sustainability in social projects: the experience of the local development programme (PRODEL) in Nicaragua" in this issue (Vol 13, No 1).

20. This point is developed more in Mitlin, Diana and David Satterthwaite (2001), "Urban poverty: some thoughts about its scale and nature and about responses to it", Chapter 12 in Yusuf, S, W Wu and S Evenett (editors), *The Challenge of Globalization: International and Local Dimensions of Development*, World Bank, Washington DC.

citizens in their locality and that can help address the different dimensions of deprivation (for instance, those listed in Table 1). Many aspects of urban poverty are rooted in local contexts, local power structures and local institutional performance (including what different government agencies do or do not do). This means that effective donor agencies need an intimate knowledge of local context and local possibilities or must support local institutions that have this knowledge. If external agencies have a constant local presence, this implies a greater capacity to adapt to changing local circumstances – for instance, to adapt an existing programme in response to a particular crisis (e.g. a flood or a sudden rise in food prices) or a particular opportunity (a local election which brings a new mayor into office who is more committed to addressing urban poverty). The form of the local institutions that have demonstrated a capacity to meet the needs of low-income or otherwise disadvantaged groups varies considerably with context; they can be community organizations or federations of community organizations, local NGOs, local foundations, municipal authorities or even, on occasion, national government agencies or local offices of international agencies.⁽¹⁶⁾ What these institutions provide, the form in which it is provided (and paid for) and the role of low-income groups in planning and delivery also varies considerably with local context but it always includes a more detailed and context-specific understanding of the needs and priorities of different low-income groups. It often includes a deliberate reshaping of the local institutions so they become more accountable to low-income groups and more transparent in the use of funds.⁽¹⁷⁾ Some international agencies have long recognized this. For instance, when the Swedish International Development Cooperation Agency (Sida) developed programmes to address different aspects of urban poverty reduction in Central America, it set up local institutions to run them – FUPROVI in Costa Rica⁽¹⁸⁾ and the Programme for Local Development (PRODEL) in Nicaragua.⁽¹⁹⁾

Very little official development assistance goes to these kinds of institutions. In part, this is because of the reasons noted earlier – the fact that most official development assistance is channelled through national governments who, in turn, do not direct such funds to these kinds of institutions. In part, it is because many international agencies (and most national governments) still identify and measure poverty through income-based poverty lines and fail to recognize the need for poverty reduction programmes to act on the other aspects of deprivation listed in Table 1. They fail to see the large potential role of local institutions to address the many aspects of deprivation other than inadequate income. They also fail to recognize that addressing these other aspects of deprivation can often contribute to increased income – for instance:

- better quality, more secure housing with better water supplies and electricity enhances income-earning opportunities for home enterprises;
- a new water supply not only improves the quality and quantity of water available to the household but also reduces the daily or weekly bill for water previously purchased from vendors and perhaps frees up time for income generation;
- better infrastructure and services greatly reduces the loss of income which results from sickness, injury or the costs of medicines and treatment.⁽²⁰⁾

An institutional structure for official development assistance that is dominated by the agency-national government relationship also means that it is difficult for the international agencies to engage in what are

Table 1: The different aspects of urban poverty

1. Inadequate income (and thus inadequate consumption of necessities including food and, often, safe and sufficient water; often problems of indebtedness with debt repayments significantly reducing income available for necessities).

2. Inadequate, unstable or risky asset base (non-material and material including educational attainment and housing) for individuals, households or communities.

3. Inadequate shelter (typically poor quality, overcrowded and insecure).

4. Inadequate provision of "public" infrastructure (piped water, sanitation, drainage, roads, footpaths, etc.) which increases health burden and often work burden.

5. Inadequate provision for basic services such as day care/schools/vocational training, health-care, emergency services, public transport, communications, law enforcement.

6. Limited or no safety net to ensure basic consumption can be maintained when income falls; also to ensure access to shelter and health care when these can no longer be paid for.

7. Inadequate protection of poorer groups' rights through the operation of the law including laws and regulations regarding civil and political rights, occupational health and safety, pollution control, environmental health, protection from violence and other crimes, protection from discrimination and exploitation.

8. Poorer groups' voicelessness and powerlessness within political systems and bureaucratic structures, leading to little or no possibility of: receiving entitlements; organizing; making demands; and getting a fair response. No means of ensuring accountability from aid agencies, NGOs, public agencies and private utilities.

NB: This draws on a pyramid in Baulch, B (1996), "The new poverty agenda: a disputed consensus ", *IDS Bulletin* Vol 27, No 1, pages 1-10, which was developed for rural poverty, although descriptive changes have been made to reflect the different dimensions of poverty common in urban areas. It is included only to illustrate different aspects of urban poverty; others could be added, especially related to key qualitative aspects such as lack of low-income groups' right to greater self-determination in the definition of poverty and how it is addressed, and lack of resources to permit them to address their own problems. The table draws on Amis, Philip (1995), "Making sense of urban poverty", *Environment and Urbanization* Vol 7, No 1, April, pages 145-157; also Chambers, Robert (1995), "Poverty and livelihoods: whose reality counts?", *Environment and Urbanization* Vol 7, No 1, April, pages 173-204; Moser, Caroline O N (1996), "Confronting crisis: a summary of household responses to poverty and vulnerability in four poor urban communities", *Environmentally Sustainable Development Studies and Monographs Series No 7*, The World Bank, Washington DC, 19 pages; Moser, Caroline O N, Alicia J Herbert and Rosa E Makonnen (1993), *Urban Poverty in The Context of Structural Adjustment: Recent Evidence and Policy Responses*, TWO Discussion Paper DP #4, Urban Development Division, World Bank, Washington DC, 140 pages; and Wratten, Ellen (1995), "Conceptualizing urban poverty", *Environment and Urbanization* Vol 7, No 1, April, pages 11-36.

perhaps the two most important long-term processes for reducing urban poverty, namely, supporting the development of accountable, effective city and municipal local governments, and supporting the organizations formed by lower-income groups. New means must be found to engage with and support local government staff, where they have potential to become more effective. IIED – in its work in different urban centres around the world – often finds local government officials who are struggling to fulfil their roles and responsibilities within local government structures that have made considerable improvements in terms of accountability and representation, but who are ignored by development agencies and by foreign consultants. It is also common to find cities in which different international agencies (both official agencies and international NGOs) are busy funding “their” projects with no coordination between them and with little attempt to work together to help strengthen the capacity of local institutions. For the official bilateral agencies and development banks, this may be not so much a choice but, rather, due to the lack of local staff who know how and when to support local processes.

Ironically, the kinds of development intervention that official donor agencies so admire in terms of cost-effectiveness and the likelihood that the initiatives will be sustained after donor assistance ceases are the ones they have the greatest difficulty in supporting. The literature published by official donor agencies may emphasize the importance of supporting community initiatives, empowerment and project “sustainability” but they often cannot support these. If a well-organized, representative community organization wanted a loan for US\$ 1,000 – for instance, to allow it to construct a central water tank from which it could develop standpipes which it would manage – it could not send this proposal to the head offices of most official development assistance agencies. Staff at these agencies cannot manage a large number and variety of small projects and cannot accept projects generated by “the urban poor”; they were never set up to do so. It would be even more problematic for the donor agencies if they funded this US\$ 1,000 project and the community organization then raised the funds to pay them back, because of the institutional difficulties the donor agency would face in managing the repayments and “not spending their budgets”. Donor agencies that provide loans do not want to manage cost recovery for the project that the loan funds since this would require a considerable expansion in their staff; they want governments to guarantee loan repayments independent of whether the project actually works or generates sufficient revenue to allow the capital costs to be repaid. If recipient governments only had to repay loans for the loan-funded donor projects that actually worked, their debt repayments would be considerably reduced.

Most official development assistance agencies have long recognized the structural limits in their capacity to support poverty reduction if funding proposals have to be approved by national government. Many have sought to steer funding direct to local governments and local NGOs (and very occasionally direct to community-based organizations). But the proportion of their funding that does not go through national governments or gets national government approval is limited. The funding that goes to local partners often fails to reach the organizations formed by low-income groups. The urban poor themselves – as individuals, households and communities – are the groups least likely to get the resources. Even if they do, these resources have usually been provided through projects

and programmes over whose design and implementation they had little influence.

V. CHANNELLING FUNDS TO COMMUNITY INITIATIVES

ONE POSSIBLE WAY for donors to increase the proportion of funding that directly reaches urban poor groups and that supports a multiplicity of local initiatives to reduce poverty is by channelling support to a local fund. This would allow local decisions in the allocation of funding (and the terms under which it was given), to be influenced by the priorities of urban poor groups. It would allow such decision-making processes to be more transparent and accountable to urban poor groups. It would also allow a more coherent, coordinated programme of support. This fund could support such community requests as the US\$ 1,000 for a water tank noted above; it could also accept (or encourage) repayments.

The critical point is that local funds for community initiatives are needed in each city and, for larger cities, within sub-city areas (for instance, in each municipality with a high concentration of low-income groups, for cities that are organized within different municipalities). Aid agencies wishing to support community-level initiatives could channel their support through these local funds. Many bilateral agencies have recognized the need for such funds and have increased the amount of funding available for local projects through their own embassies. But this implies having many different small grant funds located in different embassies (and presumably with support concentrated in the capital city), with most decisions about what is to be funded being taken by a constantly changing group of expatriate staff. It is not the same as having locally staffed funds in each area where there is a high concentration of low-income groups, and seeking to set new standards of accountability and transparency to these groups.

There are some precedents on which these local funds can draw. For instance, the Thai government's Urban Community Development Office has a long-established programme to provide loans to community organizations and this has supported a wide range of community initiatives.⁽²¹⁾ It also manages a small grants programme with support from DANCED (Danish Cooperation for Environment and Development).⁽²²⁾ Some of the social funds supported by international donors have funded a large and diverse mix of projects that have brought benefits to low-income groups although these rarely have the level of accountability and transparency that local funds for community initiatives can provide; nor do they have offices easily reached and close to each concentration of low-income settlements. (Many social funds have also concentrated their support in rural areas).

The UK government's Department for International Development (DFID) is experimenting with supporting local funds for community initiatives in cities in Zambia (managed by CARE) and Uganda (managed by the Local Government Bureau International) and hopes to extend similar funds to other cities.⁽²³⁾ Locally based funds for community initiatives would work most easily in cities or city-districts where there are already effective, representative community organizations – or even better, in places such as India, South Africa, Thailand and Zimbabwe, where there are also representative federations of community organiza-

21. UCDO (2000), *UCDO (Urban Community Development Office) Update No 2*, Urban Community Development Office, Bangkok, 32 pages (see Book Notes for more details).

22. Boonyabancha, Somsook (1999), "The urban community environmental activities project, Thailand", *Environment and Urbanization* Vol 11, No 1, April, pages 101-115.

23. See the paper on "Hope for the urban poor: DFID city community challenge (C3) fund pilot in Kampala and Jinja, Uganda" by John Kiyaga-Nsubuga, Raphael Magyezi, Sarah O'Brien and Mark Sheldrake in this issue (Vol 13, No 1).

24. See, for instance, the work of Shack Dwellers International which will be featured in the next issue of *Environment and Urbanization* (Vol 13, No 2); see also <http://www.dialogue.org.za/sdi/>

25. See NGO Profile: The Urban Resource Centre, Karachi (1994), *Environment and Urbanization* Vol 6, No 1, April, pages 158-163; also Urban Resource Centre (2001), "Urban poverty and transport: a case study from Karachi", *Environment and Urbanization* in this issue (Vol 13 No 1).

tions and local NGOs that support these community organizations without imposing their professional agendas.⁽²⁴⁾

Local funds for community initiatives could:

- Provide funds under different terms, depending on who was being funded and the purposes for which the funding was intended, including loans (with varying interest rates, depending on what is to be funded and with whom) and grants. These funds could also provide technical support and, where needed, organizational support to assist the less organized and more disadvantaged groups to develop proposals for the fund; otherwise the funding would tend to go primarily to the better organized and more articulate groups. A substantial part of the funding could be made available as loans, with further loans available, in part dependent on performance in loan repayment schedules, and with loan repayments recycled into funding further local initiatives.
- Provide financial support to cover measures to address the complete range of deprivations faced by disadvantaged groups, for instance, supporting income generation, improved infrastructure and services, shelter upgrading, safety nets and improved environmental health.
- Serve as a point of coordination for the different international and local NGOs that work in that city or area of the city.
- Help support a local resource centre that provides community organizations and NGOs with information about the city and the different policies and programmes of government agencies and international agencies – such as the Urban Resource Centre developed in Karachi.⁽²⁵⁾
- Develop the capacity to frame their support for different local initiatives in ways which, wherever possible, would strengthen local government capacity. These funds would draw most of their staff from that locality since, to be effective, they need a good knowledge of the local context.
- Allow decisions about what is funded to be made locally with a minimum gap between the request and its consideration. When community-based groups or local NGOs apply for funding to donors in Europe or North America, it often takes six months before a decision is reached; it can take up to two years. With a locally based fund for community initiatives, this gap should be cut to a small fraction of this, i.e. a question of one or two weeks.
- Keep application procedures and decision-making processes completely transparent so that all groups in a city or municipality know who applies for funds, who receives funds and why. For once, the funding institution would have complete accountability downwards (to low-income citizens and their community organizations) as well as upwards (to the agencies that fund it).
- Allow local knowledge and a constant engagement with the local population to serve as an alternative to long lists of criteria that each project must meet (which so often exclude the less articulate groups). For instance, applications for support should be allowed in local languages rather than "the language of the donor". Very small funding requests could be managed, including requests as small as (say) US\$ 50. In many instances, it is small amounts that are needed – to cover the cost that locally generated funds cannot, or to complement the support being received from the local authority.
- Allow a shared learning process between all the different community initiatives that a fund supports in any city and between funds in different cities.

These funds would also allow community-based organizations to have

a direct engagement with the funding agency (and would not necessarily need intermediaries). They would also allow the priorities to be determined, or strongly influenced by the needs and priorities of low-income groups and their organizations. This includes being able to respond to all members' needs, including the needs and priorities of children and youth. One wonders how many youth groups among the inhabitants of informal settlements have been able to develop their own proposals with some chance of these being supported by external agencies. A local fund for community initiatives should make special provision to encourage youth groups to develop proposals and should be flexible with regard to what is supported – for instance, support for youth centres that are developed, organized and managed by youth themselves or the US\$ 60 that a youth group may need to buy materials to develop a hard-surface for ball games.

One final point regarding application procedures and local counterpart funding: for agencies that are considering supporting local funds, there is often discussion about how to encourage local groups to provide counterpart resources, and this often leads to a suggestion that there be a competitive process, with local groups that are able to offer the most counterpart resources receiving priority. Encouraging the organizations formed by urban poor groups to compete against each other for funding may be the wrong approach. Local funds could do the opposite, encouraging local groups to collaborate with each other and to learn from each other through constant support for community-to-community exchanges.⁽²⁶⁾

Any local fund must also include provision for helping the less organized groups, the poorer groups, the groups who face discrimination to develop their proposals. Then, both the process of developing projects and the projects themselves will contribute to reducing poverty as, perhaps for the first time, those among the urban poor find a funding agency that responds to their needs, listens to their priorities, supports an inclusive, participatory process in developing proposals and supports the realization of the proposals. Just as the funding agency requires complete transparency from the groups they support, including rigorous checks on how money is spent, so the groups can demand the same of the funding agency that supports them. Box 1 gives an outline of how such a fund might operate.

What may be as important as a locally based fund for community initiatives is a fund for municipal initiatives to which urban governments can apply, although the possibilities for the success of such funds will depend much on the nature of local governments (for instance, whether they are representative and accountable to citizens) and on the relationships between local governments and national agencies and political structures. In many nations, there have been major changes towards more accountable, democratic local authorities which increase the possibilities for successful municipal funds. Like the funds for community initiatives, these would seek to set new standards in terms of transparency and accountability downwards to local citizens. They would seek to support the processes by which local governments became more effective institutions for the low-income groups and their community organizations. Hopefully, such funds would encourage also the large bilateral and multi-lateral agencies to coordinate their urban investments. However, it is worth noting the political difficulties that the World Bank faced as it sought to support stronger, more reliable fiscal bases for urban local governments. As Michael Cohen's paper in this issue of the journal describes, the World Bank's programme to help reform inter-fiscal rela-

26. A stress on low-income groups supporting each other and learning from each other is central to the rapidly expanding programme of the South African Homeless People's Federation and of the SPARC-Mahila Milan-National Slum Dwellers Federation in India; these will be described in the October 2001 issue of *Environment and Urbanization*; see also Asian Coalition for Housing Rights (2000), *Face to Face: Notes from the Network on Community Exchange*, ACHR, Bangkok, 32 pages (for more details see Book Notes).

27. See Cohen, Michael (2001), "Urban assistance and the material world; learning by doing at the World Bank" in this issue of *Environment and Urbanization* (Vol 13, No 1).

28. See Muller, Maria S (editor) (1997), *The Collection of Household Excreta: The Operation of Services in Urban Low-income Neighbourhoods*, WASTE and ENSIC, Gouda, 73 pages.

29. See Anand, P B (1999), "Waste management in Madras revisited", *Environment and Urbanization*, Vol 11, No 2, pages 161-176.

tions between central and city governments proved to be a political mine-field.⁽²⁷⁾

VI. OTHER URBAN AGENDAS

LOCALLY BASED FUNDS for community initiatives are obviously only part of the solution. They fill a large gap by supporting the diverse needs and priorities of "civil society" in ways that set new standards in terms of participation, accountability and transparency. This kind of support needs to be combined with long-term support to increase the capacity, effectiveness and accountability of city and municipal authorities, where political circumstances allow this. But there is still a need for international donors to help ensure funding and the capacity to develop the "big infrastructure" that most cities and smaller urban centres need to ensure good provision for water, sanitation and drainage for all city inhabitants (and ensure provision for its management and maintenance). Most community-led schemes in these areas of provision need larger systems into which they can integrate. For instance:

- most community-level water supply systems need supplies from water mains (unless there are cheap locally available ground water alternatives);
- community-level sewer systems generally need trunk sewers into which they can feed; alternatively, if on-site sanitation is more appropriate through pit latrines or latrines linked to septic tanks, there is a need for city-wide provision for cheap, efficient latrine/septic tank emptying services;⁽²⁸⁾
- community-developed drainage networks generally need neighbourhood, district and city-level storm and surface water drain systems into which they can feed;
- community-level garbage collection services need district or city-level depots, collection points, collection services and waste dumps into which they can feed.⁽²⁹⁾

Similarly, systems of support for other community-led services, such as primary health centres, need the support of district hospitals and health centres to which the illnesses and injuries that they cannot cope with can be referred. Ensuring the efficient functioning of these broader systems within which community-based solutions can operate is also one of the greatest challenges for governments and international agencies that see privatization as the solution. Supporting community initiatives and community organizations may be one of the keys to supporting a civil society that is able to get the best out of privatized utilities. Most international agencies allocate only a very small proportion of their funding to these kinds of interventions. Table 2 gives examples of this for three of the largest official agencies.

Most multilateral agencies also allocate only a small proportion of their funding to interventions that directly address urban poverty or that enhance the capacity of urban governments to do so. For instance, only 5 per cent of the total project commitments by the Overseas Economic Cooperation Fund (Japan) between 1987 and 1998 went to projects to directly reduce urban poverty (see Table 2). For the Asian Development Bank, less than 8 per cent of funding commitments between 1981 and 1998 went to such projects. Of the three agencies, the World Bank has an unusually high proportion of funding commitments to urban poverty reduction

Box 1: A City-based Fund for Community Initiatives

If the scale of funding to support community-level initiatives is to increase substantially, new institutional channels are needed. One possibility would be a "Fund for Community Initiatives" set up within each city, accepting funds from external donors but managed by a small board made up of people based in that city or municipality. These board members would have to be acceptable to community groups and would usually include some staff from local NGOs who were already working with low-income groups and community organizations. It could include some locally based staff from external donors.

FUNCTIONING OF THE FUND: Low-income groups could apply for funding for projects and also for support for developing projects. The procedures for applying for funds and the decision-making process would have to be kept simple, with a capacity to respond rapidly. They would also have to be completely transparent, with information publicly available about who applied for funds, for what, who got funded and why. For funding provided as loans, the loan conditions and their repayment implications would have to be made clear and explicit – including repayment period, grace period (if any), interest rate and subsidy element.

KINDS OF PROJECTS THAT COULD BE SUPPORTED: From the outset, the fund would seek to support a wide range of projects including **health** (for example, support for the construction of sanitary latrines or improved water supplies; preventive health measures including mother and child immunization; the setting up or expansion of community-based health centres); **education** (for example, special programmes for children or adolescents who left school early; literacy programmes); **housing** (building material banks, loans to community-based savings and credit schemes through which members could access loans to upgrade their homes or purchase land and build their own homes); **environment** (site drainage, improved water supplies) or **employment** (support for micro-enterprises, local employment exchanges; skill training, etc.)

LINKS TO LOCAL GOVERNMENT: Wherever possible, local funds should seek to work with, and strengthen the capacity of, local government. In the long term, it is difficult to reduce urban poverty without more effective, accountable local governments. But they could also work independent of local governments, in cities or districts where local governments have no capacity or interest to work with urban poor groups.

FUNDING: Most funding would be made available to groups or community organizations formed by low-income individuals. Funds of between US\$ 500-50,000 would be made available mainly as loans. The first loan provided would generally be small, with further loans available if the project (and any planned cost recovery) proceeds according to plan. Some level of counterpart funding would generally be expected (although this could be in the form of labour contribution).

TERMS: Total or close to total cost recovery would be sought where feasible – with allowances made for inflation and for the cost of borrowing funds – with funding recovered shown publicly to be recycled back into supporting other community initiatives. For most projects, a short grace period would be permitted before the loan repayment had to begin (typically three months to a year) so that income generated or expenditure savings would be partially realized before repayments began. The Fund for Community Initiatives would also provide a range of support services – for instance, assistance to community organizations in developing proposals, and technical and managerial support in project implementation. Grants or soft loans could be made available for certain specific interventions where cost recovery is difficult to achieve (either because funding cannot easily be collected or because incomes are too low). Local funds should also include a capacity to give small grants to groups with very modest needs but less capacity to repay, such as youth groups.

SOURCE: This box is drawn from Hardoy, Jorge E, Diana Mitlin and David Satterthwaite (1992), *Environmental Problems in Third World Cities*, Earthscan, London. The idea of setting up internationally funded, locally based funds for community initiatives in urban areas was first elaborated by Jorge E Hardoy in a memo sent to various international agencies in 1989.

30. For more details see Satterthwaite, David (1997), *The Scale and Nature of International Donor Assistance to Housing, Basic Services and Other Human Settlements Related Projects*, WIDER, Helsinki, 38 pages; also Milbert, Isabelle and Vanessa Peat (1999), *What Future for Urban Cooperation? Assessment of Post Habitat II Strategies*, Swiss Agency for Development and Cooperation, Berne, 341 pages. For more details on the low priority given to water, sanitation and housing, see Hardoy, Jorge E, Diana Mitlin and David Satterthwaite (2001), *Environmental Problems in an Urbanizing World: Finding Solutions for Cities in Africa, Asia and Latin America*, Earthscan Publications, London.

31. The analysis for the Inter-American Development Bank was not completed in time to include figures here. Preliminary figures up to 1996 show an unusually high proportion of total funding going to projects to reduce urban poverty, although this would be expected for an agency working in a region with around three-quarters of its population living in urban areas.

32. The scale of the inadequacies in provision for water and sanitation in large cities and smaller urban centres is described in some detail in Hardoy et al. (2001), see reference 30; this includes profiles of the inadequacies in provision in more than 50 cities and towns. It also assembles the evidence which suggests that official statistics on provision for water and sanitation in urban areas greatly overstate the quality and extent of provision and discusses the reasons for this.

33. See reference 30, Satterthwaite (1997) and Milbert and Peat (1999).

– over 11 per cent for the period 1981 to 1998 and over 15 per cent for the period 1993 to 1998. It also gave the highest priority among the agencies to funding projects or programmes to increase the capacity of city or municipal governments.

The limited information available on the priorities of other official development assistance agencies suggests that most give a much lower priority to projects that seek to reduce urban poverty than does the World Bank,⁽³⁰⁾ except for the Inter-American Development Bank.⁽³¹⁾ However, it is more difficult to analyze the priority given by most bilateral agencies to different kinds of projects because they do not publish details of all the projects they support or other funding commitments they make (which then permits an analysis of the proportion that goes to different kinds of urban projects, such as those shown in Table 2).

Perhaps the most telling evidence of the low priority given by most official development assistance agencies to reducing urban poverty is the lack of support for projects which improve housing conditions for low-income groups (including “slum” and squatter upgrading, serviced site schemes, support for housing loans and integrated community development). Table 2 shows the very low priority they received from the World Bank, the Asian Development Bank and the OECF. For the OECF, this formed just 0.3 per cent of its funding commitments between 1987 and 1998. The World Bank supported many innovative projects in this area during the late 1970s and through the 1980s and early 1990s. They helped to establish “upgrading” rather than bulldozing as an officially recognized approach to illegal settlements. They were among the few agencies that gave substantial support to housing finance systems, in the hope that these would increase the possibilities for lower-income groups to buy or build their own homes. However, their support for these kinds of projects dropped off during the 1990s.

The priority given to improving or extending provision for water supply, sanitation and drainage to urban populations who are unserved or inadequately served was not much higher among these three agencies – little more than 3 per cent of the funding commitments for the World Bank and the Asian Development Bank between 1981 and 1998, and 4.2 per cent for the OECF between 1987 and 1998. This is surprising, given the very large inadequacies in provision for water, sanitation and drainage among the urban populations of most of Africa and Asia and much of Latin America.⁽³²⁾ This low priority to water and sanitation may reflect the agencies’ belief that privatization will help address this issue, so funding to governments is not needed.

The (limited) information available on the sectoral priorities of official bilateral agencies or on their urban programmes suggests that most give a very low priority to projects which help improve housing conditions for low-income groups in urban areas or which improve their access to water and sanitation.⁽³³⁾

Part of the reason for a low priority to reducing urban poverty relates to the difficulties they have faced in the past in supporting urban infrastructure and services (or in ensuring their continued functioning after construction). Many development assistance agencies moved away from funding large urban infrastructure projects because the infrastructure they funded quickly deteriorated without the local capacity to maintain it. But this does not remove the need for large infrastructure projects. As noted above, community, neighbourhood or district-based projects to improve water, sanitation, drainage and garbage collection usually need larger

CONSTRAINTS ON AID EFFECTIVENESS

Table 2:	Proportion of total funding going to urban poverty reduction and urban infrastructure, services and management; selected agencies, 1981-98						
Proportion of total funding going to poverty reduction in urban areas							
	1981-83	1984-86	1987-89	1990-92	1993-95	1996-98	all years
World Bank	7.0	8.6	8.4	12.2	15.9	15.4	11.3
Asian Development Bank	7.7	10.9	6.7	3.6	6.1	11.8	7.8
OECF (Japan)*			3.7	3.6	6.7	6.5	5.3
This analysis is based on a review of the descriptions of all project or other loan or credit commitments made by these agencies for the years shown. From this, it was possible to identify all funding commitments that went to urban projects. Six broad project categories were identified which can be said to have the explicit intention of directly reducing one or more of the aspects of urban poverty identified in Table 1: improving housing conditions aimed at lower-income groups (including "slum" and squatter upgrading, serviced sites, core housing and housing finance that is meant to reach lower-income households); improving or extending provision for water, sanitation, drainage and garbage collection; other components of primary health care including health care services and measures to control or prevent diseases; support for primary and basic education, including literacy programmes; integrated community development projects in urban areas which combine two or more of the above; and other projects or programmes specifically aimed at reducing urban poverty, including social funds and socially oriented public works programmes. If a project has both rural and urban components, it is included in this.							
Proportion of total funding going to improving housing conditions in urban areas aimed at lower-income groups							
	1981-83	1984-86	1987-89	1990-92	1993-95	1996-98	all years
World Bank	1.9	2.6	3.2	1.9	1.9	2.2	2.3
Asian Development Bank	1.9	3.6	0.4	0.1	0.8	3.4	1.7
OECF (Japan)*			0.3	0.1	0.4	0.2	0.3
NB: This includes "slum" and squatter upgrading, serviced sites, core housing, support for housing finance that is meant to reach lower-income households and integrated community development projects whose focus is improving housing conditions and related infrastructure and service provision in urban areas.							
Proportion of total funding going to improving or extending provision for water supply, sanitation and drainage in urban areas							
	1981-83	1984-86	1987-89	1990-92	1993-95	1996-98	all years
World Bank	4.1	3.9	3.1	3.0	3.8	2.8	3.4
Asian Development Bank	5.1	5.5	3.5	2.0	4.4	1.7	3.3
OECF (Japan)*			3.4	2.8	6.2	4.1	4.2
In this table, only projects for water supply, sanitation and drainage that seek to extend provision to those inadequately served or unserved or which seek to improve the quality of provision are included; water and sanitation projects whose main focus is not improving or extending provision but, rather, other aspects such as sewage treatment or water reservoir construction (where the increased water supply may be used principally to serve higher-income groups or industrial and commercial concerns) are not included.							
Proportion of total funding going to urban development, including all the above plus urban infrastructure, urban services and urban management							
	1981-83	1984-86	1987-89	1990-92	1993-95	1996-98	all years
World Bank	14.8	17.5	18.7	22.5	27.7	22.1	20.7
Asian Development Bank	21.4	20.3	20.8	22.5	22.6	25.5	22.7
OECF (Japan)*			20.3	24.3	34.5	39.0	30.1
This includes not only all funding to the poverty reduction categories noted above but also funding to urban infrastructure (including ports, airports, markets, industrial estates, sewage treatment, intra-urban roads and bridges), urban services not included in poverty reduction (including higher education institutions, large hospitals, public transport and air and water pollution control), urban tourism projects and projects to support urban management. * In 1999, OECF (the Overseas Economic Cooperation Fund) became part of the Japan Bank for International Cooperation.							

SOURCE: These figures are derived from databases prepared by IIED which include details of all the urban projects that these agencies have funded for the periods shown in the table, and all other lending. These databases drew their information from the official publications of the three agencies, especially their annual reports.

34. The analysis in Table 2 divides urban water projects into two categories. The first category, which is included in "urban poverty reduction", is for projects which make provision to extend provision for water and sanitation to those inadequately served or unserved or which seek to improve the quality of provision. The second category includes water projects whose main focus is not improving or extending provision for city populations but other aspects – such as sewage treatment or water reservoir construction (where the increased water supply may be used principally to serve higher-income groups or industrial and commercial concerns).

35. This trend of reducing priority to "big" infrastructure and increasing priority to improving provision for primary health care and primary and basic education (including support for literacy programmes) is also evident in rural areas; see Satterthwaite, David (1998), *The Constraints on Aid and Development Assistance Agencies Giving A High Priority to Basic Needs*, PhD thesis, London School of Economics.

systems into which they can integrate. But this means that funding for large infrastructure must be provided in ways which also enhance local capacity to build, extend and maintain it, to generate the necessary funds, and to ensure that it addresses the needs and priorities of low-income groups. Funding for large urban infrastructure is still needed but within a "good governance" framework.

Among some agencies, a low priority to urban poverty reduction is not a result of a low priority to urban development. For instance, the OECF has a large urban programme but chooses to give a low priority to urban poverty reduction within this. Between 1987 and 1998, 30 per cent of its funding went to urban projects. But most went to support the construction of ports, airports, water infrastructure,⁽³⁴⁾ public transport, pollution control, intra-city roads and bridges, and improved electricity supplies for cities. The need for such projects is not in doubt but the priority given to these over and above those that directly address the most serious deprivations facing urban poor groups can be questioned. The heavy concentration of support for urban infrastructure projects in the countries which are, or potentially will be, Japan's main trading partners suggests an orientation that does not have poverty reduction as a high priority. For the Asian Development Bank, little more than one-third of its urban lending went to projects which directly address urban poverty, with most urban funding going to higher education institutions, ports, improving provision for electricity within cities, integrated urban development and, in recent years, pollution control. The World Bank gives a significantly higher priority within its urban lending to projects or programmes which bring direct benefits to low-income groups; more than half its urban lending between 1981 and 1998 went to these. The World Bank is often criticized for its over-emphasis on "big infrastructure" but the proportion of its funding going to "big infrastructure" has fallen considerably over the past 30 years; funding for ports, airports, intra-city roads, sewage treatment and improving provision for electricity for urban areas, for instance, has dropped from over 20 per cent of all urban funding in the 1980s to less than 10 per cent between 1990-1998. Part of the reason for this is the considerable increase in the proportion of its funding commitments going to primary and basic education and primary health care.⁽³⁵⁾ There is debate on whether World Bank loans are the most appropriate way of funding these areas, and on the Bank's orientation with regard to how these are provided and funded (and who pays), which is beyond the scope of this paper. But in terms only of the allocation of funding, the World Bank has responded more than most official development assistance agencies to the need to give a higher priority to projects or programmes that directly address the deprivations associated with urban poverty.

Rather than end this paper with a section on conclusions, Box 2 presents some speculations on future "milestones" which might be achieved by international agencies as they seek to become more effective in reducing urban poverty. The milestones are given up to 2015, since this is the year by which many international development targets relating to poverty reduction are meant to be realized.

Box 2:	Speculation on possible milestones in international agencies' approaches to urban poverty reduction between 2002 and 2015
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2002-2003: The World Bank begins a research programme in which staff in each of its country offices assess the validity of its US\$ 1 per person per day poverty line in the city in which each country office is located. Initial findings indicate that large sections of the population in these cities need more than US\$ 1 per person per day to avoid poverty. In some nations, the study expands to review variation in the minimum income needed to avoid poverty in different urban centres; this finds that the income needed to avoid poverty is particularly high for certain low-income groups in major cities, largely because of the high cost of non-food items (including rent, keeping children at school, payments to water vendors and pay-as-you-use toilets, fuel, transport, health care and medicines).

2002: A consortium of bilateral and multilateral agencies and UN agencies agree to set up a consultative group through which they can share knowledge and experience about programmes to reduce urban poverty.

2003: The International Union of Local Authorities sets up an expert committee of current and former mayors who have demonstrated their commitment to good governance, accountability and democratic practices. The brief to the expert committee of mayors is to consider the adequacy and limitations of current mechanisms by which city authorities can access international development funds and recommend improvements.

2003: In response to a suggestion from Shack Dwellers International (an NGO that represents federations of urban poor groups), a consortium of international NGO funding agencies agree to develop ways to allow more influence on their urban programmes by representatives from federations of urban poor groups and local NGOs.

2003: The UK Government's Department for International Development publishes the evaluation of the pilot funds for community initiatives that it supported in Kampala and Jinja in Uganda, and Lusaka and Ndola in Zambia. This acknowledges that local funds located within cities can support a more diverse, effective, community-based programme than conventional funding mechanisms, while documenting the difficulties that these funds encountered and recommending how best to expand these funds. Comparable funds are set up in many cities. The Cities Alliance agrees to start funding a programme for city-based local funds for community initiatives.

2003: The World Bank replaces its US\$ 1 per person per day poverty line with national income-based poverty lines based on more realistic estimates of the real income needed to avoid poverty in each nation and a more realistic allowance for the cost of non-food essentials. The Bank also acknowledges that the "income needed to avoid poverty" varies considerably between different areas within most nations, so its national poverty reduction strategies begin to set different income-based poverty lines for different cities and regions.

2004: A consortium of international NGOs with experience in urban development, including CORDAID, MISEREOR, Homeless International, CARE-UK, WaterAid and Oxfam, agree to work more closely together in addressing urban poverty and to recognize the need to shift from a project focus with an "exit strategy" to a long-term engagement within each city or smaller urban centre, working with and through local NGOs and community-based groups. A code of practice is prepared with regard to the responsibilities of local NGOs to urban poor groups and their organizations.

2005: The consortium of international NGOs publishes a report describing their new code of practice and explaining how this will change their spending patterns. This defends the fact that staff costs may rise, within total expenditures, because many of the best local interventions keep down capital costs (so the gap between what is funded and what can be afforded is minimized) and that these and the long-term development processes that the NGOs support in each city generally imply more staff-intensive support. The tendency for staff costs to rise is partially offset by greater use of local staff.

2005: In response to the report of the IULA Expert Committee of Mayors, the official development assistance agencies' consultative group on urban development issues guidelines to which all its members agree with regard to ensuring coordination and cooperation between all the agencies working in any city and to setting new standards of transparency and accountability to the inhabitants of each city.

2005: The World Bank recognizes that using only income-based criteria for estimating the scale of urban poverty greatly underestimates the extent of deprivation, as a large proportion of the urban population with "above poverty line incomes" still live in poor quality, overcrowded homes with insecure tenure and inadequate

provision for infrastructure and services. An expert meeting is convened with staff from national statistical offices from many low- and middle income nations to begin a work programme to develop more detailed indicators of deprivation that can be useful for local governments. One of its key tasks is to increase the capacity of national statistical offices to rapidly provide local governments with census data disaggregated to local area units, for the new round of censuses being planned for 2009 to 2011.

2005: In recognition of the inaccuracies and inadequacies in available data on the quality and extent of provision for water, sanitation, drainage, garbage collection and health care in urban areas, the World Health Organization and UNICEF launch a new programme to support city and municipal authorities to develop better information systems and act on them. This includes support for community-driven assessments, drawing on the experience of the members of Shack Dwellers International in community-driven censuses.

2005: An assessment of the privatization of water, sanitation and garbage collection in African cities shows that the expected improvements for urban poor groups has rarely been realized. The assessment recommends that more donor support be given to publicly owned, but independently managed, utilities and to allowing non-profit institutions to compete on equal terms with private sector companies in the provision for water and sanitation.

2006: The Istanbul plus-10 conference, reviewing the extent to which governments have implemented the recommendations they agreed to at Habitat II, the second UN Conference on Human Settlements in 1996, documents a great range of innovation by city governments, NGOs and community-based organizations in implementing the Habitat Agenda but also highlights how these remain the exceptions.

2006: A consortium of international NGOs agrees to set new standards of accountability and transparency in their urban development programmes. This includes full disclosure of the funds available and how these are spent within the cities in which they are located, and describes the scope for more locally made decisions.

2007: A new WHO/UNICEF-sponsored assessment of provision for water, sanitation and drainage in urban areas shows that the inadequacies in provision had been underestimated. For instance, tens of millions of households previously categorized as having "access to safe water" are found to receive poor quality, intermittent supplies at standpipes to which access is difficult. Tens of millions of urban dwellers previously categorized as having "access to sanitation" are found to have access only to public toilets that are poorly managed, dirty and difficult to access. The assessment also highlights the fact that donor support for water, sanitation and drainage has diminished and that many donors are still only supporting improvements in water supply with no provision for sanitation and drainage. The assessment recommends that donors give a higher priority to the large investments needed in city-wide water, sanitation and drainage systems but with this targeted at cities with local authorities that are accountable, and capable of supporting the investments and community-based actions that integrate into these wider systems.

2009: The various official bilateral and multilateral agencies involved in the Cities Alliance also agree to a new code of practice, similar to the one developed by the consortium of international NGOs, agree to set new standards of accountability and transparency in their urban development programmes. This includes full disclosure of the funds available and how these are spent within the cities in which they are located.

2011: A new edition of the UN Centre for Human Settlements's Global Report on Human Settlements (following on from the editions published in 1987, 1996 and 2001) documents in some detail the large and rapidly growing contribution of local non-profit institutions and non-profit city authority trusts that have greatly improved provision for water, sanitation, drainage and health care to low-income areas in many urban areas. It notes in particular how many of these have greatly reduced the unit costs of good quality provision, thus reducing the gap between what can be provided and what low-income households are prepared to pay for.

2013: The Cities Alliance, with support from a wide range of bilateral agencies, agrees to support a wide-ranging assessment of whether urban poverty has decreased, which is based both on poverty lines that are adjusted to represent the real income needed to avoid deprivation within each city and on non-income aspects of deprivation. This assessment is to inform the international donors as to whether the international targets they had set in the late 1990s for reducing poverty by 2015 have been fulfilled for urban areas.

2015: Publication of the Cities Alliance "global assessment of the state of the world's urban poor". Hopefully, this shows that the international donors' targets for poverty reduction have been met or exceeded.

NOTES: This box borrows the idea of describing future events as if we knew that they would happen from Jorge Wilhelm, as developed in his book *Faxes from the Future* (Earthscan, 1996) and in his paper in *Environment and Urbanization* Vol 6, No 1.

