Local development from global finance

How to extend and deepen the impact of 2030 development finance

Anna Walnycki

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Policy and planning

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Produced by IIED's Natural Resources, Human Settlements, Sustainable Markets and Climate Change Groups

The aim of the Natural Resources Group is to build partnerships, capacity and wise decision-making for fair and sustainable use of natural resources. Our priority in pursuing this purpose is on local control and management of natural resources and other ecosystems.

The Human Settlements Group works to reduce poverty and improve health and housing conditions in the urban centres of Africa, Asia and Latin America. It seeks to combine this with promoting good governance and more ecologically sustainable patterns of urban development and rural-urban linkages

The Sustainable Markets Group drives IIED's efforts to ensure that markets contribute to positive social, environmental and economic outcomes. The group brings together IIED's work on market governance, environmental economics, small-scale and informal enterprise, and energy and extractive industries.

The Climate Change Group works with partners to help secure fair and equitable solutions to climate change by combining appropriate support for adaptation by the poor in low- and middle-income countries, with ambitious and practical mitigation targets.

The work of the Climate Change Group focuses on achieving the following objectives:

- Supporting public planning processes in delivering climate resilient development outcomes for the poorest.
- Supporting climate change negotiators from poor and vulnerable countries for equitable, balanced and multilateral solutions to climate change.
- Building capacity to act on the implications of changing ecology and economics for equitable and climate resilient development in the drylands.

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Most development finance flows bilaterally between nations or through multilateral banks, with international agencies and national governments shaping development programmes. Although an effective way to fund some interventions, it can be unresponsive to the needs of the lowest-income and most marginalised communities and is not conducive to achieving the SDG ambitions of "getting to zero" and "leaving no one behind". This paper seeks to stimulate debate around how devolved, flexible development finance can help implement the 2030 development agenda. Specifically, we consider the practical and strategic impact that decentralising development finance can have on addressing urban poverty and fostering climate resilience and adaptation in dryland communities.

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Acronyms

ACCA	Asian Coalition for Community Action Programme
ACHR	Asian Coalition for Housing Rights
CCCF	county climate change fund
DFID	Department for International Development (UK)
GCF	Green Climate Fund
MDG	Millennium Development Goals
NDMA	National Drought Monitoring Authority
NGO	non-governmental organisations
SDG	Sustainable Development Goals
SDI	Shack/Slum Dwellers International
UPFI	Urban Poor Fund International

Summary

For the most part, development finance continues to flow bilaterally between nations or through multilateral banks. International development agencies and national governments then shape development programmes. While this may be an effective way to fund some development interventions, such development finance can be unresponsive to the needs of the lowest-income and most marginalised communities. As such, it is not conducive to achieving Sustainable Development Goal ambitions of “getting to zero” and “leaving no one behind”.

In this paper, we aim to stimulate debate and discussion around the role that devolved and flexible development finance can have in implementing the 2030 development agenda. Specifically, we consider the practical and strategic impact that decentralising development finance can have on addressing urban poverty and fostering climate resilience and adaptation in dryland communities. We end by outlining our own next steps in this area and suggest the commitments and actions that we believe donors, central, national and subnational governments and local civil society organisations need to make if decentralised development finance is to work well for those who need it most.

1

The challenge ahead

The Sustainable Development Goals (SDGs) set out a new framework for development underpinned by commitments to eradicate poverty, universalise access to basic services and "leave no one behind" by 2030. While many nations made significant progress through the Millennium Development Goals (MDGs), there is still much to be done. The SDGs reflect the necessity to meet the basic needs and develop the livelihoods of the lowest-income communities – and empower them to engage with local and central government around development processes – in light of their increasing vulnerability to climate change and international commitments to more sustainable forms of development.

Poor access to housing, basic services and resources continues to plague urban and rural communities. One in seven people worldwide live in informal settlements. Meanwhile, there is an increasing urgency to develop the resilience and adaptive capacity of lower-income urban and rural communities who are vulnerable to disasters and climate change. While these conditions clearly have the scope to exacerbate poverty and inequality, the SDG framework provides an opportunity to take stock and reflect on some alternative, innovative development processes that can provide valuable lessons to the 2030 agenda. This paper reflects on a range of development processes, documented and supported by IIED, that are premised on developing decentralised development finance mechanisms for rural climate adaptation and pro-poor urban development.

The SDGs provide an opportunity for stakeholders to consider how development finance and the modalities used to deliver it shape progress towards inclusive development. Sub-national local actors and institutions in development challenges are critical for post-MDG planning (Glennie *et al.* 2013, Satterthwaite and Mitlin 2014, Andrews 2013).

For the most part, development finance continues to flow bilaterally between nations or through multilateral banks. International development agencies and national governments then shape development programmes. While this may be an effective way to fund some development interventions led by national ministries – and essential to modalities such as humanitarian assistance – such development finance can be unresponsive to the needs of the lowest-income and most marginalised communities. As such, it is not conducive to achieving SDG ambitions of "getting to zero" and "leaving no one behind".

This background paper seeks to stimulate debate and discussion around the role that devolved and flexible development finance can have in implementing the 2030 development agenda. Specifically, we consider the practical and strategic impact that decentralising development finance can have on addressing urban poverty and fostering climate resilience and adaptation in drylands communities.

2

What is the problem with the current architecture of aid?

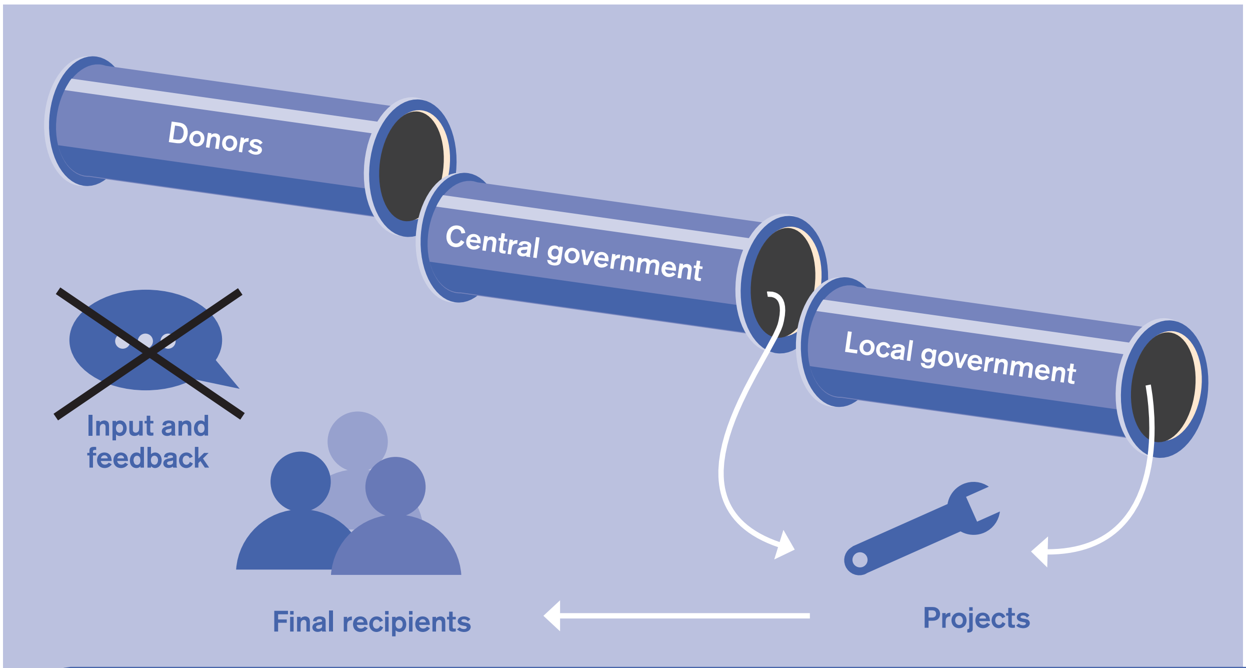
Development finance supports national programmes and projects that may not have the scope or resources to reflect the specific development needs of municipal, provincial and city government. Because recipient countries are accountable to their donors, it is often the objectives of donors – rather than the needs of local people – that shape projects and programmes.

Once the donors' interests and the politics and policies of national governments and implementing agencies – which may include non-governmental organisations (NGOs) – have shaped a development intervention, there is limited scope for the intended beneficiaries to ensure that it reflects local needs or is accountable to them. Indeed, one of the most significant challenges that undermines this approach is that projects are preplanned to set timetables that can pre-empt local engagement and decision making, denying the most marginalised groups a significant role.

As development finance travels from international agencies to projects on the ground, numerous actors are engaged – in the various rungs of government and development consultancies including NGOs and project contractors. As a result, the sum that reaches the intended beneficiaries can be very small, as outlined in Figure 1.

For national governments to support local processes, they must ensure that local government and inclusive governance structures – that include organised civil society groups – are in place to engage with those processes. But local governments, often undermined by insufficient resources and autonomy, tend to have their own development agendas. And organised civil society groups – a basis for effective local governance arrangements – are not always in place in the lowest-income, most marginalised settings.

Figure 1: The current architecture of aid



The status quo: delivering finance through traditional channels can mean that fewer resources reach the local level and that local actors have limited say over how the money is spent.

3

Decentralising development finance to leave no one behind

As donors deliberate how to realise the 2030 "leave no one behind" agenda, they must give serious consideration to how much development finance reaches the lowest-income communities. They should also think about which processes and intermediaries have greater accountability and can help ensure that development processes reflect local needs. The participation of community members, community organisations and local institutions in development processes is not new, but the impact of such an approach is often contested or unclear.

The success of participatory, community-driven processes is highly contextual and depends on local and national processes. The most effective processes are undoubtedly those supported by a responsive state, particularly if they are going to achieve scale. And although community-led infrastructural programmes have shown lower levels of corruption and can provide better quality infrastructure than those with a top-down infrastructure, participation does not always promote cohesion and can re-enforce inequalities (Masuri and Rao 2012). But faced with the 2030 challenge of leaving no one behind, local institutions present an opportunity to channel funds and engage with low-income and informal communities, who are often neglected by development programmes or unable to access development finance.

IIED has documented how decentralising development finance in countries across the global South can extend the reach and influence of such finance and fuel community-driven development schemes. This approach also has the scope to generate cost-effective development interventions that reflect local needs, empower local groups and democratise local governance structures.[1]

The following sections draw on this experience and set out such funds' practical and strategic impacts on urban poverty in cities in Asia, the South Pacific, Africa and Latin America. We also consider how some of the above-mentioned principles are reflected in a programme designed to build climate-resilient communities in dryland Kenya through decentralised governance arrangements. These experiences all demonstrate that empowering local-level institutions to make democratic decisions using realistic resources enhances the scope for poverty reduction and effective climate adaptation planning in communities that are often excluded from the development process.

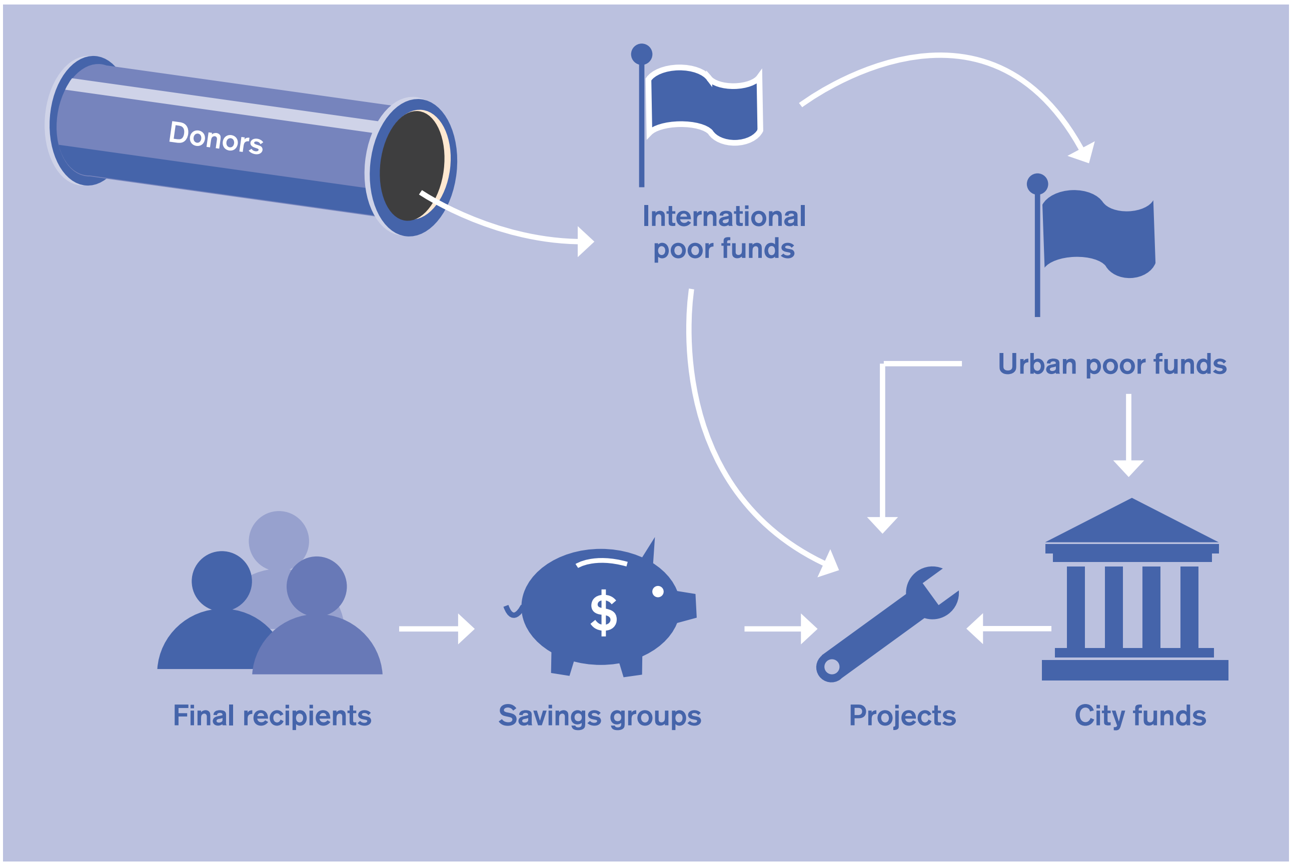
[1] See http://tinyurl.com/hzx3xtg for further reading.

4

Urban poor funds

IIED has supported the development of two major local funds established to address urban poverty, documenting and disseminating evidence about the impact of this approach. Organised urban poor groups have used decentralised development finance to improve access to housing and basic service provision and to leverage funds from city and national governments to scale these community-led poverty reduction processes up to city and national level (see Figure 2).

Figure 2: How local funds work



4.1 The Urban Poor Fund International

In 2001, Shack/Slum Dwellers International (SDI) established an international fund for the urban poor to scale up the work of SDI federations, which endeavour to support the most marginalised groups in community-led programmes using approaches such as community savings for upgrading, mapping and enumeration.

BOX 1: SHACK/SLUM DWELLERS INTERNATIONAL

SDI, a global federation of shack/slum dwellers with federations across 33 countries in Africa, Asia and Latin America, aims to engage with groups that traditional development interventions and programmes tend to overlook. For example, the Indian alliance began its work with disempowered women's' groups, pavement dwellers, marginalised Muslim groups and sex workers. The process has expanded as a result of community-led exchanges and learning more generally.

The international fund initially financed national funds by blending community-level savings with development finance from northern NGOs such as Homeless International and Misereor while also leveraging funds from national governments to improve access to housing and basic services. It received support from the Bill & Melinda Gates Foundation in 2007, after which it was redesigned and launched as the Urban Poor Fund International (UPFI). By the end of its third year of existence in 2010, UPFI had:

- supported a network of 1.1 million savers and 16,000 savings groups
- funded the building of over 4,000 homes
- secured tenure for 30,000 families
- supported local improvements by savings groups in 464 cities
- secured over 100 memorandums of understanding pledging the support of city authorities to work with national and city urban poor federations, and
- achieved pro-poor policy and legislative change around building regulations or land tenure in Kenya, Namibia, the Philippines, Tanzania, Zimbabwe, India, Zambia, South Africa and Malawi – for example, for eco-sanitation, smaller and more affordable plot sizes and community control and management of infrastructure upgrading.

Since 2011, UPFI has continued its work with funding from donors including SIDA, NORAD, the Ford Foundation and Skoll. It has used this funding for country-level projects and to build learning centres that demonstrate how people-led solutions to urban development challenges have been scaled up in seven cities.

4.2 The Asian Coalition for Community Action Programme (ACCA)

ACCA is a fund set up by the Asian Coalition for Housing Rights (ACHR) in 2010 to support community initiatives by the most marginalised urban poor communities. It has supported the community-led upgrading activities of over 1,000 local groups in 215 cities across 19 Asian countries, often in conjunction with local governments. ACCA blends US$10 million of finance from the Bill & Melinda Gates Foundation with savings from local groups and some state funding to provide small scale funds for communities to address urban poverty and encourage pro-poor informal settlement upgrading. It offers loans or grants to communities for housing and infrastructure projects that cannot be sourced elsewhere. While it is not official development assistance, this experience demonstrates how urban poor federations can manage and use large sums of development finance to address urban poverty.

BOX 2: LOCAL FUNDS FOR PRO-POOR UPGRADING

When five fishing communities, consisting of 400 households, faced the threat of eviction in Lautoka, Fiji, they used a city-wide survey to negotiate with their local government to upgrade 200 households and relocate the other 200 to a ten-hectare piece of fully serviced land nearby. ACCA supported this project with US$40,000 for housing loans, while the government provided the land on a long-term lease to the community. It demonstrates how small amounts of decentralised development finance can be used to leverage further resources and encourage local governments to pursue a more pro-poor approach to upgrading which focuses on upgrading or nearby relocation.

Source: ACHR (2012)

By the end of 2014, ACCA had achieved the following:

- citywide upgrading activities in **215 cities**, towns and districts in **19** Asian countries
- **146** big housing projects either finished or well under way
- **2,139** small upgrading projects either completed or in process
- leveraged US$75.7 million in land, infrastructure and cash (2012)
- community savings groups in 206 ACCA cities, with almost 400,000 savers worth nearly US$34 million, and
- city-based community development funds active in 136 cities.

The success of the ACCA programme is that it provides flexible finance for communities who understand their own local development needs, allowing them to experiment with their own solutions. Small, quick loans or grants are useful to catalyse communities into action. They also demonstrate to local governments that communities have the capacity to engage in upgrading programmes, which can ignite practical and strategic partnerships with local governments. ACHR has extended this approach for disaster rehabilitation in cities affected by typhoons, cyclones and floods. A 2014 review of the ACCA programme concluded that, in settings where the urban poor are systematically excluded from basic services, local funds offer a reliable source of funding for housing and basic services, and an incremental process of "transformational and systemic change" (World Bank 2014).

BOX 3: TRANSFORMING URBAN POOR COMMUNITIES IN UGANDA

Jinja's Community Upgrading Fund (CUF) was established as part of the Transforming Settlements of the Urban Poor in Uganda Programme. Capitalised with approximately US$700,000 from Cities Alliance and jointly managed by the urban poor and the local government, the CUF aims to:

- demonstrate the efficiency of community-conceived and community-implemented slum upgrading
- promote rapid and visible progress
- enable slum dwellers and their organisations to access grants to finance initiatives that meet their community needs
- raise the profile of settlement-level urban poor organisations, and
- give organised communities of the urban poor access to the funds that they require to implement projects that will benefit their settlements.

Source: Nyamweru and Dobson (2014)

BOX 4: LOCAL FUNDS FOR STRATEGIC URBAN POOR–LOCAL GOVERNMENT PARTNERSHIPS

The Gungango (gathering) urban poor fund was established in Zimbabwe in 1999 to pool community savings and provide an accessible form of finance for urban poor groups that are excluded from more formal finance. It has played a strategic role in enabling the urban poor to engage with local governments, leverage development finance, increase security of land tenure, reform city planning policies, address eviction practices and catalyse upgrades for housing and basic services.

The Zimbabwe Homeless People's Federation developed the fund independently at first, with support from Misereor and Homeless International. It began by developing detailed enumerations of its communities. In 2002, when the city of Harare was planning to evict backyard shack dwellers in the Mbare settlement, the federation successfully halted the eviction by presenting extensive Gungano savings records alongside detailed community enumerations. The community's willingness to save for housing and the federation's understanding of Mbare convinced the city government to negotiate, grant land and create a platform for engagement with the urban poor to upgrade projects, plan and even reform policy.

This continued engagement has built a partnership in which the federation's enumerations of informal settlements act as a catalyst for action through the Harare Slum Upgrading Programme, which is financed by The Bill & Melinda Gates Foundation and the Rockefeller Foundation. This new partnership between the urban poor and local government has led to a significant shift away from evictions.

Source: Walnycki et al. (2014)

5

Kenya's county climate change funds

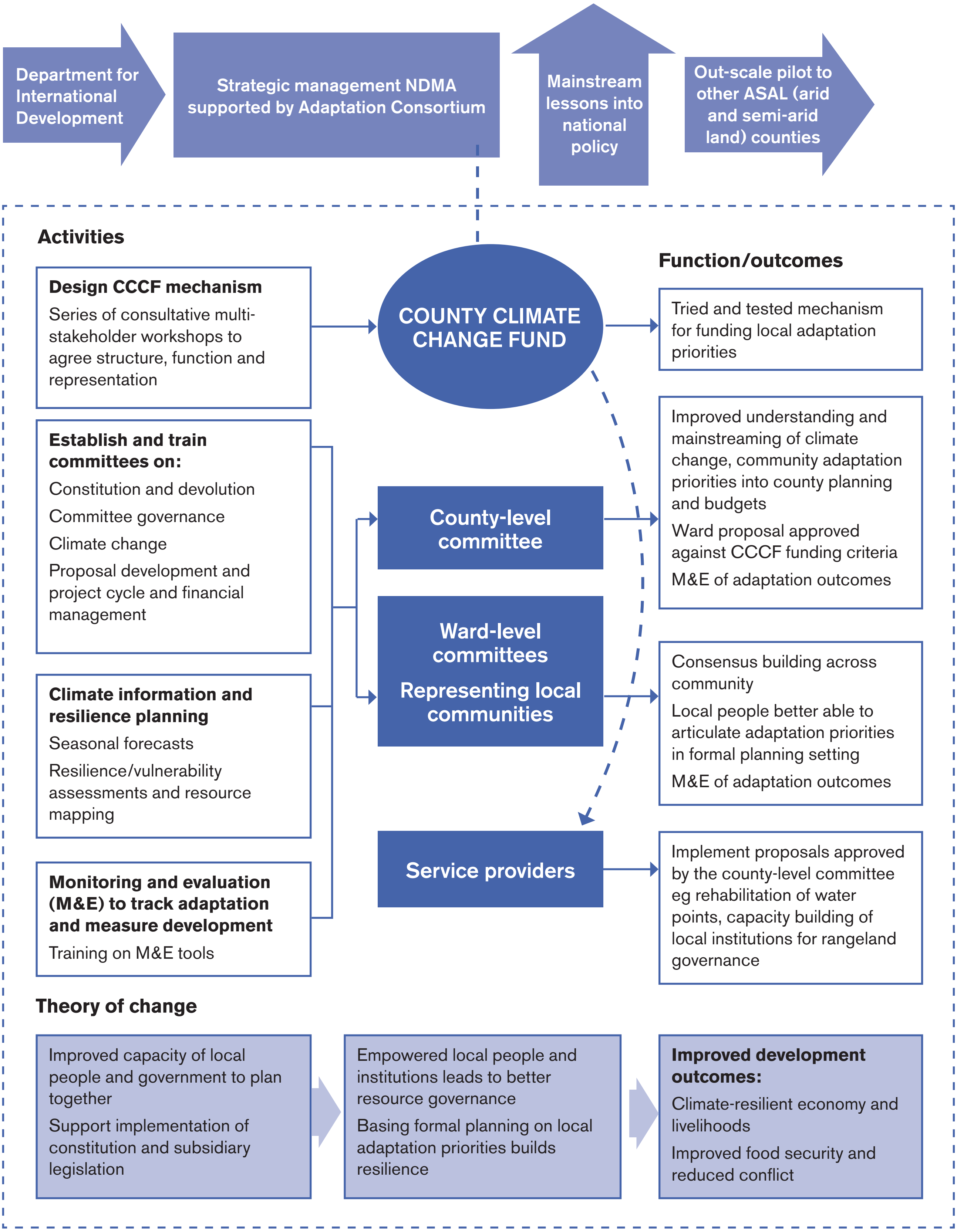
Kenya's county climate change funds (CCCFs) have evolved as a result of devolution reforms linked to the country's new constitution. IIED has been supporting the National Drought Monitoring Authority (NDMA) to develop this approach. The UK's Department for International Development (DFID) initially committed £500,000 to a pilot CCCF in Isiolo County (2011–12) to invest in public goods as follows:

- 70 per cent: prioritised and developed by pastoralist communities through ward adaptation planning committees
- 20 per cent: prioritised by a county-level adaptation committee composed of government technical officers, community representatives and local civil society organisations, and
- 10 per cent: used by the ward and county committees to manage project cycle process and ensure monitoring and learning.

The CCCF approach (see Figure 3 for an overview) is premised on the following:

1. More flexible approaches to planning, which encourage the participation of and communication between diverse local stakeholders, have the scope to build better governance structures that are central to climate change adaptation and climate-resilient growth.
2. Devolved adaptation finance managed by local governments who support locally prioritised adaptation investments can harness local knowledge and combine it with technical expertise and knowledge to strive for climate-resilient development.
3. Established planning and administrative boundaries may not always be the most appropriate for fostering adaptation and climate-resilient development, particularly in arid and semi-arid regions characterised by high variability and local economies that transcend administrative boundaries and even national borders. So there is a need to integrate a strong cross-boundary and cross-border element into government planning structures at different levels.

Figure 3: Overview of the CCCF approach in Kenya



BOX 5: PLANNING 'PUBLIC GOOD' INVESTMENTS THAT SUPPORT CLIMATE-RESILIENT DEVELOPMENT IN ISIOLO

Six ward adaptation planning committees, a county-level committee, government planners and local organisations together conducted livelihood and local economy resilience assessments in Isiolo. Through these assessments, which incorporated community resource mapping, different groups within the wider community identified the things that improved or undermined their ability to manage challenges such as climate variability, changing market conditions, disease and insecurity.

The assessments used methods designed to let local people – differentiated by age, gender and livelihood type – articulate the rationale underpinning their livelihood systems and identify solutions that would strengthen their adaptive strategies and capacities. All groups highlighted the issue of improving resource access and governance. The ward committees used the findings to prioritise investments in public goods that would promote climate-resilient growth and adaptive livelihoods. These included: reforms to customary range management institutions to ensure more equitable access to – and the rational use of – dry and wet season pastures by resident and visiting pastoral communities; better spatial distribution and temporal management of permanent dry season water points; rehabilitating a veterinary laboratory; and tracking and treating livestock diseases.

Investments in public goods offer the most cost-effective and socially cohesive way of building long-term resilience (in tandem with other support such as grants, loans, cash transfers and food aid). The ward committees submit their proposals to a county adaptation planning committee – made up of representatives from the six ward committees, local government and other stakeholders – for approval.

Adapted from: Hesse and Pattison (2013)

This state-led initiative has demonstrated how community structures and institutions are capable of prioritising, developing and executing projects and programmes in the entire project cycle (see NDMA 2014, Sharma *et al.* 2014). Implementing the CCCF approach has led to improved participation of vulnerable communities in local-level adaptation decision making, which in turn has led to fairer resource allocation outcomes (Barrett 2015).

5.1 Financing drylands climate adaptation at scale

In 2013, the Isiolo pilot was extended to four neighbouring dryland counties – Wajir, Garissa, Kitui and Makueni – under a £6.5 million DFID grant (2013–17).[2] The CCCF structure, financial management framework and general approach has drawn on the work undertaken in Isiolo. This scaling up process means that 29 per cent of Kenya is piloting an approach for delivering climate finance to the local level. All five counties are passing legislation to institutionalise the CCCF approach in anticipation of becoming executing entities of the Green Climate Fund (GCF)'s accredited national implementing entities.

To secure further funding for this approach and scale up the work nationwide, the NDMA is seeking nomination for accreditation as a GCF national implementing entity. If successful, the NDMA will have the scope to channel funds directly to all established CCCFs.

[2] The approach is also being piloted in Tanzania under DFID's Aim 4 Resilience programme and in Mali and Senegal under DFID's BRACED programme.

6

Why decentralise development finance?

Decentralising development finance empowers marginalised and excluded groups. Such empowerment brings multiple gains, including practical and more inclusive access to basic services such as water and sanitation. This presents an opportunity to reach particular groups – for example, there is scope to achieve greater gender equity by focusing on savings groups that are led by women.

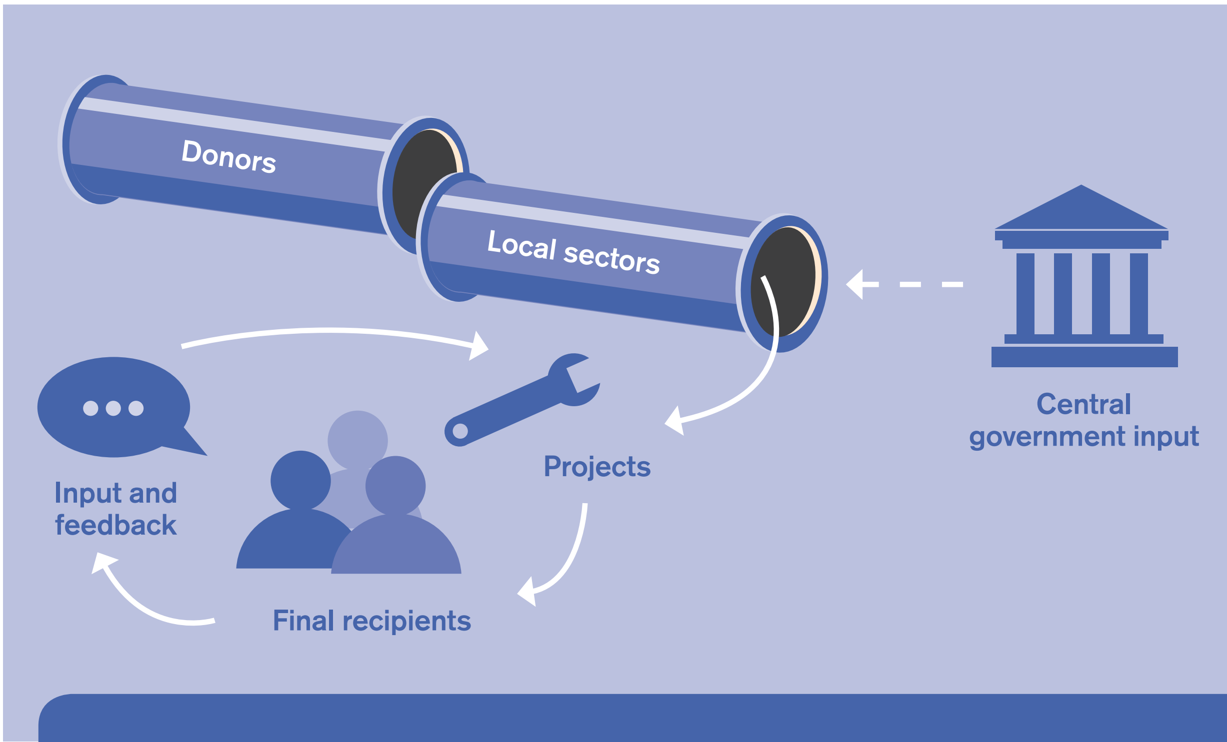
Organised communities can play an essential role in reducing poverty and delivering local adaptation and climate-resilient development. Urban poor groups – often overlooked by the state and international development finance agencies – understand local needs and have the capacities and capabilities to assess and address local development, as demonstrated through the ACCA and UPFI programmes. To be successful, such funds need capacity building support, but collective capabilities grow as the funds become operational. The CCCF, SDI and ACHR (see Sections 4 and 5) are excellent examples of how community networks and exchanges can drive this process.

Decentralising development finance to the community level can lead to more effective spending that is linked to local priorities. There is evidence of a strong imperative to lower the cost of interventions, because people are using their own money, actively engaged in design and contracting and have a strong sense of ownership that takes care of investments and finances.

Accountable local governments with enough capacity and autonomy can underpin the success of decentralised finance and development. Although local governments may have limited capacity to raise revenue, they have the scope to lead on local development issues. This is clear in the case of the CCCF and the many local governments that have worked in partnership with urban poor groups through ACCA and UPFI to improve local infrastructure and basic services.

Decentralising development finance does not require an overhaul of the current official development assistance system. While development finance is often distributed via a few large cheques, it is possible to decentralise similar sums through international conduits such as UPFI or ACCA, who can make smaller sums accessible to local actors. The climate adaptation funds and NDMA are striving to secure the appropriate accreditation to access GCF funds.

Figure 4: How development finance can serve and empower low-income and marginalised groups



A better future: delivering finance to the local level can ensure that a greater share of resources reaches low-income and marginalised groups. Channelling finance through local actors also empowers them to engage with national decision makers and to respond effectively to climate change.

7

Next steps

Local development from global finance is an ambitious cross-institutional workstream with IIED partners to consolidate existing research and undertake further investigations around decentralising development finance and developing more participatory decision making. IIED and partners will use this knowledge base to demonstrate how this approach is essential to achieving the SDGs' aim of leaving no one behind. This will require commitment and action from a wide range of actors.

Donors will need to ensure that their application and approval processes create opportunities for local actors to access resources. The GCF accreditation process offers one model, which varies the fiduciary requirements according to the nature, scope and risks of proposed activities. It is important to note that there is no need to overhaul existing aid architecture to increase the proportion of development assistance and climate finance that reaches the local level. Rather, donors need to create additional channels that subnational governments and local civil society can pursue.

Central governments will need to support meaningful decentralisation. Some development and adaptation challenges are most effectively managed at a local level. Central governments must devolve these responsibilities and transfer the relevant powers and adequate resources to subnational level.

National and subnational governments will need to recognise and work with local civil society organisations. By identifying local priorities, mobilising communities and coproducing services and infrastructure, local civil society groups can ensure that development expenditure is more inclusive and effective. To do this, governments need to create channels for meaningful participation by low-income and other marginalised groups.

Local civil society organisations will need to influence decision making at multiple levels to tackle structural inequalities and adverse power relations. This requires collaboration among civil society organisations, with community-based groups federating at a regional, national and international scale. Advocacy and engagement at these different levels is essential to transform broader political relationships in favour of inclusive development.

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