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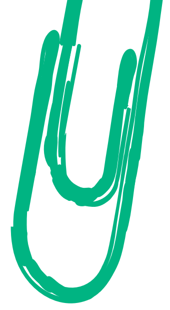

Local-level finance: improving the accountability and effectiveness of urban development programmes

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Working Paper
January 2017

Urban

Keywords:
Financing for development, Social movements, Innovative finance, Social capital, Informal settlements (slums)

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Produced by IIED's Human Settlements Group

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.

Published by IIED, January 2017

Shand, W (2017) Local-level finance: improving the accountability and effectiveness of urban development programmes. IIED, London. http://pubs.iied.org/10176IIED

ISBN 978-1-78431-429-3

Printed on recycled paper with vegetable-based inks.

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The scale and ambition of the Sustainable Development Goals (SDGs) create a challenge to transform the way in which urban development is funded, managed and delivered. Estimates suggest that low- and lower-middle-income countries may need to increase public and private expenditure by over US$1 trillion per year to achieve the SDGs. While much international debate is focused on reforms to the development finance system to respond to the SDGs, this paper explores the potential contribution of local-level finance to delivering inclusive change at the grassroots. Drawing from a broad base of literature, the paper examines the opportunities and the challenges of including local-level finance, and the capacity offered by organised low-income communities, alongside mainstream public and development funding and delivery.

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Summary

The scale and ambition of the Sustainable Development Goals (SDGs) create a significant challenge to how development is funded and delivered. Estimates indicate that achievement of the SDGs may require low- and lower-middle-income countries to increase public and private expenditure by some US$1.4 trillion per year to realise targets by 2030 (Schmidt-Traub, 2015). This goes beyond a requirement for more money: it reflects a need to redesign financial architecture to improve the governance and effectiveness of existing approaches to development delivery (see Parnell, 2016; UN, 2016). While there is an active debate at international level on changes to development finance systems,[1] there is limited consideration of the role and potential contribution of grassroots finance models to realising the SDGs.

This working paper draws from a range of evidence to explore the differing forms and approaches to local-level finance. Defined as funds that are generated by, targeted at or devolved to communities – including community-based savings, Urban Poor Funds, microfinance institutions (MFIs), City Development Funds and delegated state funding – local-level finance is examined to identify contributions to sustainable development. By positioning organised low-income communities as key actors in meeting the SDG challenges, this working paper argues for more locally centred approaches to planning and delivering development, and critically reviews the challenges and opportunities of aligning local-level finance with mainstream finance.

The paper is structured as follows.

▪ **Positioning local-level finance**: Section 2 discusses local-level finance in relation to other mainstream sources of development funding. Typically, savings-based and community-led resources are given little consideration in planning for development delivery, with emphasis placed on large-scale programming. Involving communities as decision makers, as well as beneficiaries, can positively impact on the sustainability of investments and contribute to the creation of assets that stabilise household income. The involvement of communities can also release financial and human capacity that may improve the efficiency and effectiveness of programmes.

▪ **Types of local-level finance**: Section 3 reviews existing literature from a range of academic and policy sources to define and illustrate differing approaches to local-level finance. Building on examples from across the global South, the operation and impact of local-level finance is discussed in relation to delivery of development targets.

▪ **Critique of local-level finance**: providing a counterpoint to the positive case of including local-level finance, Section 4 offers a critique and identifies the challenges of incorporating community-led funds in development. The section highlights the potential difficulties of moving from individual savings to collective investment, the challenges of maintaining inclusion of the poorest, shifting scales of operation and achieving cost-benefits of community-based approaches.

▪ **Integrating local-level finance**: the critical analysis is extended in Section 5 by looking at the operational challenges of integration of local-level finance, focusing on key development goals of land, housing and basic services and climate change adaptation.

▪ **Local-level finance and delivery of the SDGs**: the final section specifically considers the SDGs and the applications of local-level finance. In order to build the evidence and case for inclusion of local-level finance, organised communities need to demonstrate the specific contributions to change: both the discursive positioning of local-level finance and practical delivery arrangements.

1. Key resources can be found here: www.un.org/esa/ffd/index.html

1 Introduction

In setting a new agenda for international development policy, the Sustainable Development Goals (SDGs) recognise the significant challenges of urbanisation and the need for major investment in cities of the global South. For the first time, an international target has been set for urban development (SDG 11) to 'make cities and human settlements inclusive, safe, resilient and sustainable'. The achievement of this goal will be measured through 10 targets that range from the provision of safe and adequate housing to reduced mortality from disasters and the effectiveness of urban planning.[2] The urban targets are reinforced by other SDGs concerned with reduction of poverty in all forms (SDG 1); support for community involvement in improving water and sanitation management (SDG 6); and strengthening resilience to climate change (SDG 13).

There is a significant benefit in the publication of specific urban targets, which reflect, at a broad level, the linked environmental and economic challenges affecting cities and human settlements in the global South. However, defining how these targets are realised and reshaping political, financial, institutional and social processes at city, national and international levels remains an important and outstanding task (Parnell, 2016). The SDGs and associated targets create an opportunity to move away from 'business as usual', to re-engineer development governance in ways that create space for communities to be partners in leading urban change. To achieve such inclusive approaches requires forging an understanding of how capacity is created to deliver development at multiple levels: meeting an additional demand for some US$1.4 trillion annually in low- and lower-middle-income countries (Schmidt-Traub, 2015); and overcoming embedded and ineffective institutionalised practices and governance arrangements that limit participation and innovation. New approaches need to establish financing mechanisms that address the substantial shortfall in fiscal capacity of global South states to deliver the SDGs (Greenhill *et al.*, 2015) by maximising and bringing together state, donor and local-level finance geared towards the achievement of SDG urban targets.

The creation of urban targets in the SDGs provides a space to look beyond national policy to explore decentralised approaches to defining development need and design responses that operate at a conurbation and neighbourhood level. For the state, working at this scale provides an opportunity to include communities organised at a city level and to exploit detailed local knowledge to shape the processes of development delivery and utilise resources and capacity of citizen groups. For communities, co-productive approaches with the state create spaces of negotiation and help to transform relations to reposition communities as agents of change (Bovaird, 2007). To achieve devolved and collaborative delivery requires both a formal recognition of communities as legitimate contributors to urban development and a reconfiguration of 'the interface between urban-finance, participation and planning' (Parnell, 2016: 533 citing Revi *et al.*, 2014).

This paper reviews a selection of academic literature and published policy documents to consider the potential contribution and challenges of including local-level finance to the delivery of urban development – with particular focus on SDG 11 targets. The term 'local-level finance' is used here to describe collective savings generated by low-income communities; devolved state budgets for settlement and citywide urban development initiatives; and donor funding allocated and managed at a community level to support housing, basic service infrastructure improvements and climate change adaptation. These financial resources are used directly to fund the costs of housing upgrading and environmental improvements and to leverage larger programmes of activity that bring together capital from multiple sources. They also have a high degree of local control, with organised low-income communities managing and determining the use of savings schemes and development funds.

2. See Appendix 1 for a full list of targets under SDG Goal 11.

2

Positioning local-level finance

There is a vast academic, policy and practitioner literature discussing savings, credit, community finance, participatory and devolved budgets, and infrastructure investment published in the last 20 years. This extensive body of information generates different definitions of local-level finance that are related to specific activities and interpreted from disciplinary perspectives – an economic analysis of local savings gives weight to different characteristics than sociological or anthropological insights. In order to explore the potential contributions of local-level finance to development, this section aims to position local-level funds within complex systems of development finance and then examine some of the key ideas that will underpin the later discussion of local-level finance.

2.1 Development finance systems

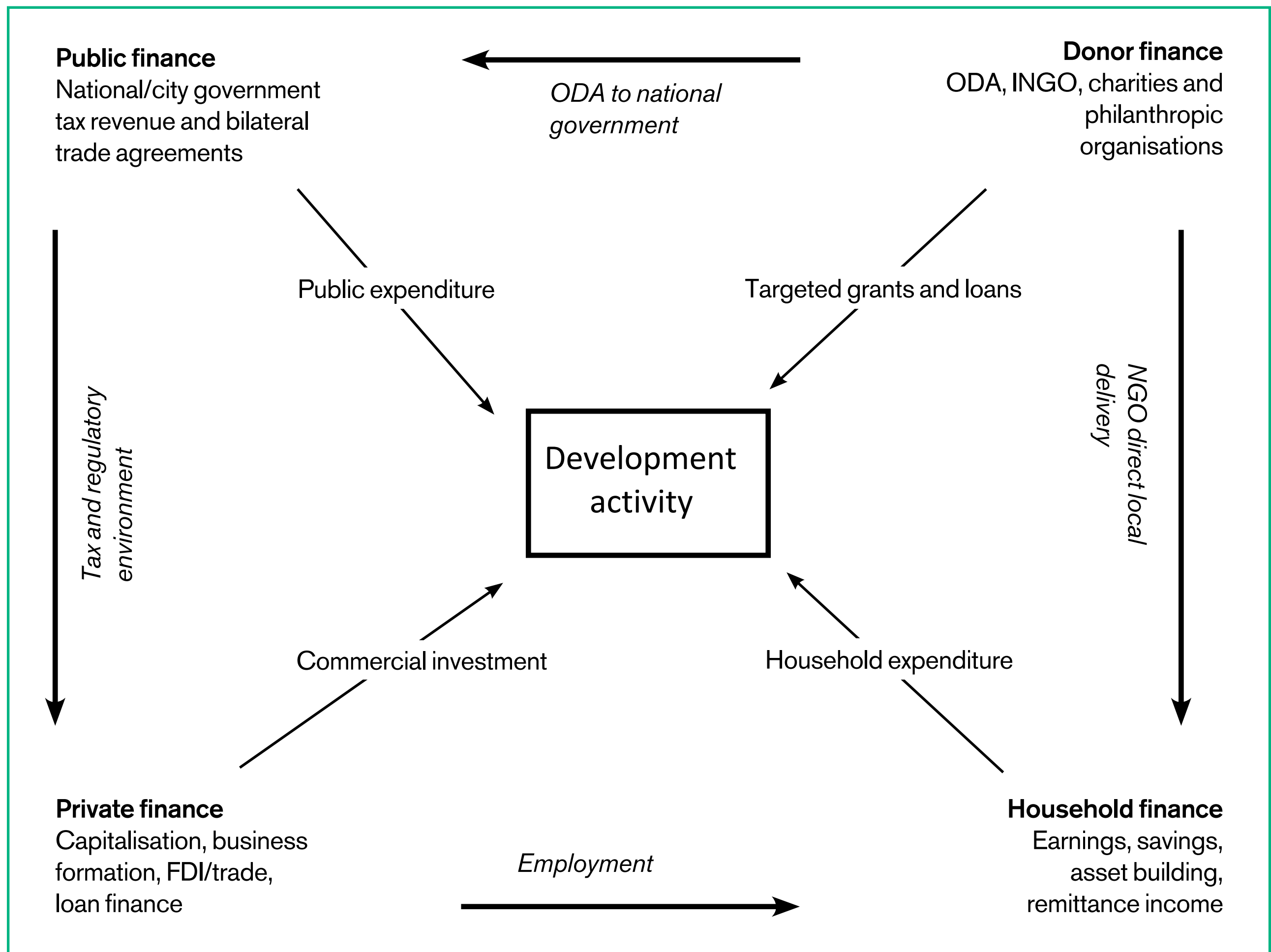
There are a number of complexities in defining different forms of financial inputs and identifying what is (or should be) included as 'development finance'. For example, increasing participation in education is a key SDG (Goal 4). But which parts of implementing this goal can be categorised as development? Capital funding to construct a school building? Public revenue funding to pay for teachers, materials and energy bills? The fees and costs of school uniforms paid for by parents? Or financial support given to families to enable children to attend school rather than work? Are all of these costs a legitimate use for 'development finance' or just some? Arguably, to enable low-income families to send children to school and for pupils to benefit from education, each of these aspects is equally important. But depending on the source of funds and the objectives and criteria of the funding body, the eligibility of these elements for development expenditure may vary. To understand the value of local-level contributions to development finance, this section discusses the positioning of 'bottom-up' financing, turning first to a simplified outline of the development finance system.

Typically, development finance is routed through national government structures that manage and devolve resources sub-nationally through service delivery chains, to local governments or via contract arrangements. With objectives set at a national or international level, there may be few opportunities for the 'beneficiaries' of schemes to inform or influence the targeting and delivery of official development finance (Mitlin, 2013). There are key definitional issues that serve to categorise types of development activity, supported by established systems of programme management, which distinguish different forms of intervention. In considering how to reposition local-level finance, it is worth briefly considering the development finance system.

Figure 1 presents a highly simplified model of development finance, indicating the primary sources of funds that contribute to (broadly defined) development activity. At a country level, these sources of funds are strongly connected within the national economic system, with additional funding being drawn in through donor resources, international trade/investment and through remittance payments to households.

- **Public finance**: expenditure through national and city governments on the provision of services and investment in infrastructure and environmental management. The primary source of these funds will be through tax revenue, with additional grants and loans sourced from international development agencies and through government borrowing. Of increasing importance, particularly in Africa, is infrastructure investment in power, roads and railways in exchange for, or guaranteed by,

Figure 1. Simplified sources of development finance



natural resources. This model of securing investment in public goods has been extensively used by China as part of bilateral deals.[3] Public expenditure and development initiatives are determined politically, which can result in unequal allocation of public resources.

- **Donor finance**: expenditure from official development assistance (ODA) and investment by international non-governmental organisations (INGOs), charities and philanthropic bodies. Donor funding operates broadly at two scales: directly with national governments (ODA, bilateral agreements and some INGOs) and at city and local levels where there is direct or contracted delivery by NGOs or philanthropic organisations.
- **Private finance**: commercial investment that includes the activity of business located in country, foreign direct investment (FDI), and financing from private-sector infrastructure facilities. There is increasing emphasis post-2015 on the role and contribution of the private sector to development finance that includes the creation of new management vehicles that 'blend' state, donor and private-sector funding to increase the scale and impact of development interventions in line with SDG targets.
- **Household finance**: earnings-based expenditure as micro-level development such as using savings to pay for education fees, housing improvements and access to water and sanitation networks. Earnings are used to build individual assets and contribute to projects of collective action. The form of investment will vary considerably and can have multiple impacts on the financial and physical security of households coping with poverty as well as collective contributions to the production of public goods – including infrastructure and housing schemes.

A key feature of this complex system is all aspects contribute the sustainability and impact of development interventions, but are rarely considered as a whole. Funds are typically directed towards programmes and projects that may have a strong sectoral or geographical focus, but are not integrated to leverage related sources of funds. This is particularly the case for household finance, which is largely 'invisible' with regard to development programming, but may be vitally important in the extent to which large-scale investment is translated into poverty-reducing outcomes.

3. See World Bank analysis by Foster *et al.* (2009).

Linked to discussions on implementing the SDGs, international policy has recognised that the finance system for development needs improvement, with the World Bank stating: '[f]inancing a transformative development agenda will require that available resources be used more effectively and strategically to catalyse additional financing from official and private sectors' (2013: ix). Typically, 'innovation' is discussed as improvements to tax regimes, incentives to increase private-sector investment, using bilateral trade agreements to capitalise infrastructure programmes and hypothecated borrowing. There has been very little discussion on the potential contribution of communities and local-level savings to development finance outside of making procurement processes more participative and the need to increase coverage of financial service providers to low-income households.

2.2 Sustainable development and local-level finance

The term 'sustainable development' was introduced as a pillar of international development policy by the United Nations World Commission on Environment and Development (WCED) report *Our common future* (the Brundtland Report) in 1987. The report defines sustainable development as 'development that meets the needs of the present, without compromising the ability of future generations to meet their own needs'. The Brundtland Commission reported on issues of urban development, noting rapid population growth, the lack of resources and capacity to deliver needed capital investment in urban service infrastructure, and the complex interrelationships between environmental, social and economic factors affecting the current and future development of cities.

The meaning and operation of the Brundtland Commission definition of sustainable development has been refined multiple times since 1987 through the published commitments of global summits, the Millennium Development Goals and the practices of an 'industry' (Bass, 2007) that has emerged to operationalise sustainability targets. There are a number of factors within the broad idea of sustainable development that are directly relevant to issues of local-level finance for urban development.

- **Resource priorities**: meeting large-scale demand for land, housing and basic services in many cities of the global South creates an unsustainable burden on public agencies. The initial investment costs of extending basic infrastructure (water, reticulated sewage systems and road access) to peripheral and informal settlements and operating and maintaining these services often outstrips the budgets available to city government (Nixon *et al*., 2015; UN Habitat, 2015). To address current challenges and avoid creating future burdens, new (mixed finance) approaches to financing housing development and service provision are needed.
- **Assets**: it has been well established (particularly in the work of Moser, 1997; 2009 and also Perlman, 2010) that creating assets is a key component of stabilising household finances and breaking patterns of intergenerational poverty. Support for people in poverty to create material assets, such as secure housing tenure (where the letting space provides a source of income); financial assets (including accessible savings and credit facilities); and social assets (through active community associations) can all contribute to the management and reduction of risk. Also significantly, having assets and gaining the stability to cope with economic and environmental shocks affects behaviours and the willingness of poor households to contribute to the development of their local community.
- **Targeting**: where investment is made it is vital to ensure the most effective targeting and efficient use of finance. Satterthwaite and Mitlin (2014) have shown that the involvement of communities in the planning and implementation of urban development activity improves the impact and sustainability of investments. Communities bring knowledge that is helpful to ensure that facilities, such as toilet blocks (McFarlane, 2008a) are located in the right positions and involvement encourages local ownership and ongoing care of investment by communities. Watson (1995) for example highlights how co-productive approaches to water supply in Recife, Brazil, brought long-term benefits because households contributed to the maintenance of services.

These factors are important in positioning local-level finance because they recognise that a 'mixed-economy' of resources is significant in addressing large-scale and diverse development objectives. They also position people as actors, able to contribute to urban development. While development discourse, in many respects, has shifted from the top-down approach reflected in the Brundtland Report towards more integrated and participative forms of planning and delivery, there remains a continuing need to reinforce and evidence how communities can contribute to development.

2.3 Low-income and disadvantaged communities

A second key term used in this paper is 'people in poverty', focusing on residents in low-income urban communities. Poverty is formally measured as income – the SDG (Target 1.1) uses income of US$1.25/day as a threshold to define extreme poverty. There are significant arguments from both technical and human development perspectives that demonstrate the inadequacy of income as a sole measure of poverty. The International Institute for Environment and Development (IIED) highlights,

through a range of empirical studies (see for example Bapat, 2009; Chandrasekhar and Montgomery, 2010; Chibuye, 2011; Hardoy with Almansi, 2011), the disparity between income measures of poverty and the actual costs of being poor and living in cities.

Mitlin and Satterthwaite (2013) engage with this issue, arguing that urban poverty is significantly underestimated in published statistics and reports and in the actions of national governments and international agencies working in the global South. They suggest that when the high cost of living in urban areas is taken into account, 'it is common for 40 to 70 per cent of a nation's urban population or a major city's population to have incomes too low to allow them to meet their needs' (ibid: 20). People with low and unstable incomes, who rely on work through informal urban economies, face multiple difficulties of meeting basic requirements such as shelter, food and transport while also dealing with periods of no earnings and shocks including healthcare, loss of property through theft or fire, death of a family member or eviction from an informal settlement.

Poverty is typically accompanied by residence in low-quality housing without tenure and in peripheral or unsuitable areas, which contributes to the vulnerability of populations to environmental health hazards. These conditions are also expensive relative to income, where small incidents can easily exhaust the limited means of most households. Despite, or perhaps because of, the highly strained conditions of living in poverty, people with low incomes have to become effective money managers (Collins *et al*., 2009). As discussed in Section 3, people with low incomes use a range of financial tools and work to accumulate savings for life events such as festivals, weddings and burials, to make small-scale investment to improve housing conditions, to invest in the future through payment of education fees for children, and to recover from shocks and sudden expenses.

While the meaning and measurement of poverty is not further examined here, for reasons of space, it is important to consider the relationship between what we understand as poverty in relation to local-level finance. Poverty is taken as the gap between what money households have as income and what they need to meet the cost of their basic needs. The implications of being 'poor' have a much wider range of impacts on social relations and well-being, in addition to monetary conditions. Finance at a household and local (community) level is about money, but has a temporal aspect relating to the ways in which household earnings are managed and used to meet everyday needs, to create savings for the future or to obtain loans to meet immediate priorities.

At a household level, savings form part of the pattern of coping for people in poverty (Mahajan, 2007), but they are also an important resource when used collectively, to contribute to environmental improvements and development activity within urban low-income communities. The issue of savings was relatively ignored in early development interventions despite its significance for low-income households. The shift in focus from microcredit schemes to microfinance programmes shows recognition, in policy, of how money is managed by low-income households in practice; some MFI customers never take loans, using just the savings facilities of finance initiatives. The minor investments and adaptations that households make can form part of an aggregate contribution to urban development targets – as explored in Section 3 of this paper. When considered over the medium and long term, attention shifts from a static picture of income to how household finances are managed within adverse economic contexts over time.

2.4 Creating resource capacity

A third aspect of exploring local-level finance as a 'bottom-up' contribution to sustainable urban development extends beyond the use of money to consider other forms of resource creation. Local-level finance creates both cash contribution to development, but is also a catalyst for other resources and capabilities. Specifically, this includes locally sourced labour, skills, knowledge and the capacity to coordinate action. While these may not strictly be finance, the input of labour and skills as part of collective development actions does have a substitutive cash value, both within low-income communities and as part of co-productive agreements with state and donor organisations. Using an example of incremental housing construction, the effort of self-build alongside reciprocal contributions of labour and skills from within organised communities can make the difference between housing being affordable and unaffordable. Similarly, when scaled up as inputs into neighbourhood climate change adaptations, the value of voluntary contributions to sustainable development is significant.

The creation of communal resources when generated through mobilisation activities, savings schemes and the delivery of environmental improvement projects can generate clear mutual benefits among participants and impact on local-level finance in a number of ways:

- Using existing labour and skills within communities for development activity reduces costs by limiting the need for external contractors.
- Communities working together on common environmental improvements or on housing construction can reduce costs through group procurement of building materials.
- Collective involvement in development projects enhances 'buy-in' that can have significant long-term cost benefits as users take care of infrastructure and contribute to ongoing maintenance.

- At a household level, the use of savings schemes to accelerate the staged completion of incremental housing, for example the completion of a one-room house, enables families to move onto site and stop paying rent while the construction progresses.

The value of cash-value inputs can also be significant when costed as part of co-productive community development schemes. Elinor Ostrom's (1996) seminal paper on the co-production of condominial sanitation in Recife, Brazil illustrates how resident inputs in the planning, construction and maintenance of essential infrastructure made the development scheme affordable and effective. As a model for development, this scheme highlights how working collaboratively across community and public sectors delivered significant benefits for both city government and individual households.

A final issue worth considering is the relationship between finance, power and decision-making affecting low-income communities. The combined impact of fragmented livelihoods, lack of tenure and weak ability to secure legal protections places people in poverty in an invidious positon of compensating for a lack of public investment in housing, basic service infrastructure and protections against climate change (Olivier de Sardan, 2011; Booth and Cammack, 2013). In light of the SDGs, it is important to balance discussions about the fairness of creating burdens on low-income communities and the objective of democratising development. While people in poverty create, by necessity, coping strategies to address housing and service issues, establishing inclusive forms of development needs to be carefully structured to recognise both the limitations (scale and capacity) of communities to deliver development and the responsibilities of the state to fulfil its duties of public protection.

3

Types of local-level finance

Local-level finance takes a number of forms, when defined as monetary-value resources that are created and managed with the involvement of communities. Three types of local-level finance are suggested, reflecting differing scales of operation, which range from individualised household savings to citywide development funds. The following section identifies the key characteristics of each type and how they are used to support housing, basic service infrastructure and environmental improvements. Local-level finance is categorised, broadly, into three types:

- **Individual/household finance and savings schemes**: where input and benefit is individually accrued,
- **Group savings and credit schemes**: where individuals make contributions as members of a group and benefit is obtained collectively, and
- **Aligned and devolved finance**: which includes urban development funds that bring together savings schemes from multiple community groups within a city and devolved funding, where resources are allocated by the state and donor to community-led groups working at a city scale.

These categories are suggested broadly as types, recognising that in practice they are co-constituting and overlapping in their operation and individuals may engage in all three simultaneously. Table 5 in Section 3.8 provides a summary of key categories of local-level finance initiatives used in this paper. Reflecting the importance of equity, the analysis in this paper is particularly concerned with approaches to local-level finance initiatives where there is strong local and democratic decision-making on how savings, loans and investment capital are managed and deployed.

While comprehensive data on savings behaviour among low-income groups is unavailable, World Bank research indicates a correlation between income inequality and access to formal savings accounts – recent policy attention has taken an interest in the so called 'unbanked'.[4] Demirguc-Kunt and Klapper (2012: 13) show that among adults living on less than US$2 per day, worldwide some 77 per cent of adults included in the Global Findex survey report not having an account at a formal financial institution. There is significant regional variation showing the penetration of financial services, with this figure falling to 73 per cent in South and East Asia, but rising significantly to 94 per cent in the Middle East and North Africa (ibid). The report indicates that take-up of services among low-income groups varies considerably with factors of gender, education level, age and rural or urban residence. It is also affected by a lack of sufficient money to open and maintain an account or to afford associated charges.

Given the lack of access to or perceived unsuitability of formal financial services, people with low and unstable incomes develop a mixed strategy of savings and borrowing to cope with variations in income and the comparatively high cost of urban informality. Mahajan (2007) shows, in an Indian context, how seasonal variation in household income determines the use of savings and credit to smooth periods of low earnings over the course of a year. Similarly, Boonyabancha and Mitlin (2012), highlight how lack of access to formal financial services raises the reliance on community-based reciprocal arrangements. Matin *et al.* (2002) and Paxton and Young (2011) discuss the implications of access to financial services on the ability of households to manage shocks. These papers suggest that low-income households obtain a positive impact from the use of financial services, but the benefit reduces where

4. See for example World Bank (2012).

BOX 1. MOBILE MONEY IN TANZANIA

Mobile technology is increasingly used in Tanzania to make purchases, manage money and send remittances. Among households with an income of less than US$2 per day, around half have access to a mobile phone and own a SIM card. A third have registered for mobile money services, which are being used to accumulate short-term savings, with 53 per cent of registered users leaving money in their account for more than five days. Credit is allowed to accumulate both as a means to save for specific purchases and as part of household financial-management strategies to smooth consumption demand. Research also indicates that having a mobile money account enables households to receive remittances and financial support from extended family members in response to economic shocks.

Source: Intermedia (2013)

households have to cope with more substantial costs due to a family emergency or eviction. In these circumstances, access to small amounts of savings and credit are insufficient to meet needs.

Recent developments in financial services have focused on the use of mobile technology as a means of managing and spending money (for example, see Box 1). Notable is the M-Pesa service in Kenya, established in 2007 by the telecoms company Safaricom. M-Pesa ('*pesa*' means money in Swahili) uses an SMS money-transfer system that allows individuals to deposit, send and withdraw money using their mobile phone. Jack and Suri (2011) report that M-Pesa had reached 65 per cent of Kenyan households by the end of 2009. While there are limitations to the use of mobile technology, it is seen as a way to overcome access issues by utilising existing telecoms infrastructure. Gupta (2013) reports that in Bangladesh, 57 per cent of its 150 million inhabitants have a mobile phone, but only 13 per cent have a bank account. Mobile payments services are viewed as a growing market response to financial inclusion applicable to low-income communities across the global South (see also Godoy *et al*., 2012 for sub-Saharan Africa).

3.1 Household savings

Savings from earnings held within households is a basic form of monetary accumulation. Retaining a portion of earned income as savings for the future purchase of household goods; to meet the costs of healthcare and education; to provide a way to reduce the impact of future emergencies; and to meet basic needs during periods of irregular income or unemployment is common in low-income households (Benda, 2012; Mitlin *et al*., 2011). While the most direct method of accumulating money is keeping cash in the household, this comes with risks. These include theft, loss through destruction (for example fire or flood) or through conflict in the household. Collins *et al.* (2009) highlight a practice of depositing savings with 'money guards' (typically trusted neighbours) as a means of keeping savings just beyond reach, to reduce risk and temptation to spend money.

D'Cruz and Mudimu (2013) highlight the importance for women, as the primary caregivers, of stabilising household income and preparing for emergencies. Women may experience conflict with men in the household over the use of savings. The prospect of such conflict acts as a disincentive to hold onto cash in the home – making external savings schemes or 'money guards' attractive as a way to protect accumulated savings. Kiko Kimuyu's (1999) study of East Africa suggests that women-headed households are more likely than male-led households to join community savings schemes, as women need to find a way to counter patrilineal practices that limit inheritance and ownership rights.

Household savings, in the form of cash held within the household, have the benefit of immediate liquidity, but because of this, savings may also be quickly used up when needed. Self-reliance may contribute to a sense of isolation for households and does not expand experience or knowledge of effective money management (Matin *et al*., 2002). Mitlin *et al*. (2011) point out that among the most disadvantaged, low-income levels mean that there is limited possibility of accumulating household savings, with households relying on money lenders at points of crisis. While there is no comprehensive information on the size of individual savings, due to a paucity of reliable household data (Paxton and Young, 2011), evidence does suggest that low-income households have strong intentions to save, but may not have the capacity to do so (Rutherford, 2000). Across income groups Collins *et al*. (2009) highlight the diversity of strategies and financial tools used by households to maximise limited income through savings and credit. Mahajan (2007) illustrates the variability of income and expenditure in one Indian community – set out in Table 1.

Household savings are typically reported to be used primarily to smooth consumption and provide funds for emergencies. The low values of individual household savings and competing demands for use in contexts of poverty mean that these savings can only have limited impact on development outcomes. Broader factors affecting poverty such as lack of tenure are a disincentive for low-income households to make investments in housing or other productive assets that may help to stabilise income levels.

3.2 Rotating savings schemes

Beyond the household level, individuals may choose to contribute to rotating savings and credit associations (RoSCAs), which are also known as *susu* in West Africa,

Table 1. Savings according to income, Jharkhand, India 2003

COMMUNITY	AMOUNT IN RUPEES*		SAVING OR DEFICIT AS % OF INCOME
	AVERAGE ANNUAL INCOME	AVERAGE ANNUAL EXPENDITURE	
Bhuiya	10,758	14,496	-35
Chamar	14,414	16,754	-16
Khairwar	22,099	18,728	15
Oraon	25,582	23,506	8
Koiri	34,978	29,755	15
Upper castes	53,270	50,422	5

Source: Mahajan (2007: 201) * rate = 45 rupees to US$1

arisan in Indonesia, and *pandero* in Peru (Demirguc-Kunt and Klapper, 2012).

RoSCAs according to Besley *et al.* (1993), Bouman (1995) and Ambec and Treich (2007) are common in urban and rural areas in the global South. RoSCAs are small savings groups, of around 10 members, who agree to make regular contributions to a fund, which is pooled on a weekly or monthly basis and paid out as a lump sum to each contributing member in turn. RoSCAs operate with each member committing to contribute a set amount of money on a regular basis over a fixed period of (typically) up to one year. At each meeting, contributions are made and a lump sum of the total contributions for that period is allocated to a member of the association. Each member continues to contribute until all members have benefited and the term of the RoSCA ends (see also Box 2).

While a very simple financial model, RoSCAs are an effective way to deposit funds for regular savers and are used frequently as an alternative to formal financial service providers. World Bank data indicates that RoSCAs are most commonly used in sub-Saharan Africa, with some 44 per cent of adults (69 per cent of savers) using RoSCAs to save money (Demirguc-Kunt and Klapper, 2012). For those who receive their payout toward the beginning of the RoSCA cycle, it is a loan secured by a commitment to continue to pay into the scheme until the end of the agreed term.

RoSCAs operate with members making a fixed contribution to the fund over an agreed period of time, which results in limited socio-economic diversity within the savings group. The need to maintain continuity of payments into the RoSCA is a disadvantage for people on very low incomes, who may lack the stability of earnings to make regular contributions to a fund. Membership of a RoSCA is determined by shared characteristics such as occupation, for example women working as market traders (Chamlee-Wright, 2002), living in the same community (Kiko Kimuyu, 1999) or as part of existing associational groups such as churches or burial societies (Bouman, 1995). An important feature of RoSCAs is the order in which members receive their payout, decided either within the group or as a lottery among contributors to the fund. A key issue for members can be when a payout does not correspond to a point of need. This particular characteristic makes RoSCAs inappropriate as a means for managing risk (Besley *et al.*, 1993; Ambec and Treich, 2007), as members have limited control over when they are able to access their turn to receive the funding pot.

The individual payouts from RoSCAs limit the use of this form of local-level finance to contribute to development

BOX 2. ROTATING SAVINGS AND CREDIT ASSOCIATIONS, JAMAICA

In Jamaica, as elsewhere in the global South, RoSCAs are used by individuals earning relatively low incomes who may be excluded from formal financial services. A detailed study of membership, use and operation of RoSCAs in Jamaica showed the average age of members as 35 years; 75 per cent were female; 97 per cent had not progressed beyond secondary education; 59 per cent worked in crafts or low-skilled occupations; and 87 per cent used RoSCAs for personal expenses rather than for business investment. Among those using funds for personal expenses, 71 per cent used their RoSCA pay out to fund household purchases such as furniture and appliances or to pay for education fees for themself or a relative.

Source: Handa and Kirton (1999)

activity. The timed release of funds to individual members ensures that each contributor receives a payout, but this pattern of dispersal does not allow for collective efficiency gains to be generated. While the availability of lump-sum amounts could be used to provide resources for a one-off housing improvement, RoSCAs do not provide the organising structures to support collective approaches to development.

3.3 Accumulating savings and credit associations

A related form of local-level finance is the accumulating savings and credit association (ASCrA), which can be distinguished from RoSCA in they are not time limited and do not make fixed payouts to members, allowing savings contributions to build over time (Bouman, 1995). Individual savings are typically made over the medium term to pay for consumption items such as school fees, social ceremonies such as marriages and festivals, and used as an emergency fund. ASCrA are used both to securely save money, but also to access loan facilities. Groups may determine their own rules and priorities to govern the lending of money that may include criteria about the ability to repay loans and the degree of urgency for which money is needed. The capital fund of the ASCrA is maintained through contributions to saving accounts by members, regular repayments of loans, and interest on borrowing. This system requires more formalised management of money than RoSCAs to ensure liquidity of the scheme, but remains in the control of its members who take on specific roles to collect savings contributions, record transactions and determine the allocation of individual loans.

The scope of ASCrAs is broader than RoSCAs, extending the accessibility of the savings scheme, as contributions to the ASCrA fund can vary both in value and frequency. Membership can be more diverse across socio-economic classes. ASCrAs can be larger and achieve city or national scale, adopting more formal management and decision-making procedures. The availability of a capital asset within the savings scheme allows for funds to be quickly withdrawn or for emergency loans to be issued to members. The associational character of these savings schemes emphasises inclusivity that can underpin other forms of social engagement and mutual support, but are generally used for individual savings and credit rather than as a collective resource.

3.4 Community savings

Community savings operate as a collective asset, contributing to a process of mobilisation within low-income communities. Differing from the individualised activity of savers as described above, community savings groups are established with the objective of creating a collective financial resource, managed by and benefiting its contributors, where saving per se is a catalyst for community development (D'Cruz *et al*., 2014). Mitlin (2004) points out that while a lack of money may be the foundation of being poor, poverty is the exclusion from social, economic and political processes. Community savings groups offer both a material benefit for members, providing secure access to savings and loans, and address exclusion by building connections within communities and between communities and the state.

While not restricted to people living in poverty, community savings groups are commonly established by people resident in urban informal housing and low-income settlements who lack access to formal financial services (Kiko Kimuyu, 1999). Reflecting the irregular income patterns of people living in poverty, small-scale deposits into savings schemes are made on a daily or weekly basis, when money is available (Appadurai, 2001; McFarlane, 2008b; Robins, 2008). Funds accrue through individual contributions, recorded in a savings book, with the money regarded as a collectively managed asset to be used for loans or to meet emergency needs of the scheme's members. A key feature of community savings groups are regular meetings to make decisions, to build relationships between members and plan for the future. In Harare for example, a savings scheme operated by the Zimbabwe Homeless People's Federation provides both a financial service to residents of low-income communities and an organising structure and opportunity to air the 'everyday talkings of poverty' (Shand, 2014: 137; see also D'Cruz and Satterthwaite, 2005).

These groups have particular importance for women, who make up the majority of savings group members in low-income communities (D'Cruz *et al*., 2014). D'Cruz and Mudimu (2013) draw from examples of Shack/Slum Dwellers International (SDI) federations to underline the importance of female leadership within settlements. Mitlin *et al*. (2011) show how the process of establishing community savings schemes provides women with opportunities to develop skills and drive change in gender relations within households and communities. Leadership within the community, with representatives of city and national government, and links to savings groups based in other countries help to broaden the experience of members and build the confidence of women to champion change within settlements.

As illustrated in Box 3, members take an active role at all levels in the operation of the community savings group. Member ownership is an essential component of building strong mutuality, beyond the management of money, to extend action to local development interventions. The creation of a community-managed resource provides a platform for collective development activity, relevant to SDG targets. Savings group members share problems and their plans for the future, creating spaces for discussion of common housing, service and environmental challenges. D'Cruz *et al.* (2014: 9), discussing the SDI federation model, say that 'community savings mechanisms become a tool for mobilising and creating a voice and an identity for

BOX 3. COMMUNITY SAVINGS, NATIONAL SLUM DWELLERS FEDERATION OF UGANDA

'For each savings group located within a community there is a collector and a treasurer. The collector is responsible for the door-to-door collection of the daily savings of members. There is no minimum or maximum amount to be saved daily. The monies collected are recorded both in the collector's book and in the individual's savings book. The collector is then responsible for giving these funds to the treasurer. The treasurer records all transactions in the treasurer's book. The treasurer is also responsible for banking the savings, which is typically also done on a daily basis. The treasurer must keep all bank receipts and present these to the group at weekly meetings. In each savings group, there is also an auditing committee that is responsible for auditing on a weekly basis to reconcile the collection and withdrawal records of the collector and treasurer. All financial transactions and loan approvals are noted in the group's meeting minutes, recorded by the group secretary. When it comes to the loaning of savings, there is also a loans committee. This committee is responsible for evaluating the loan approvals made by the savings group and monitoring loan repayments. It is the members of the group who determine the interest rate and repayment period. Members record loans taken and repayments made in their savings book. Members are free to withdraw their savings as needed by presenting their book to the treasurer or collector. Each savings group account has three signatories to ensure overseeing of any withdrawals. The loan programme in the groups became more efficient after members of the Uganda federation visited the Kenya federation in Toi Market. In Kenya, the Ugandans learnt to streamline the community loaning process. Bamu savings group in Jinja and Zibula-aTudde savings group in Kampala have been instrumental in sharing and training others in the most effective ways of loaning.'

Extract taken from D'Cruz and Mudimu (2013: 38)

the urban poor to engage around shelter and livelihoods within their cities'.

Specifically, creating the capacity for mutual support motivates group action and provides an organising structure for communities to engage in housing, service and environment development initiatives. The availability of community-controlled finance and the support structures to assist households to engage in collective projects of development, helps to overcome lack of access to formal financial services (such as mortgages) for residents of low-income communities (Ferguson and Smets, 2010) and builds the efficacy of communities working together. A further advantage is that funds build the collective capacity of groups to manage money and spread risk, thereby enabling them to engage with government and/or donor development interventions from a position of strength. Their financial capabilities enable them to challenge professional control over finance and demonstrate the ways in which community involvement can improve effectiveness and efficiency.

The collective ethos adopted by community savings creates the basis to federate small locally organised groups at a city and national level to substantially increase the capital available to engage in development (see Section 3.6). Examples of SDI members in Africa and Asia show how community savings have been scaled up to fund basic service infrastructure improvements and have provided loan funds for housing construction. At a city or national level, aggregated savings provide a source of loan capital to low-income communities unable to access more traditional finance for investment in incremental housing construction. Two underlying principles are important for this type of collective funding. First is the continuity of access to savings funds. Loans are made with an understanding of the economic conditions of poverty and the expectation that repayments will be made over an extended period of time. Maintaining membership and engagement in group activity is of primary importance for community savings. Second, loans are made to groups rather than individuals, where the discipline of repayment is set through social bonds of members. Loans are secured against the social relationships (Chitekwe-Biti, 2009) rather than other material assets.

3.5 Microfinance institutions

Microfinance institutions (MFIs) as structures for small-scale community savings and credit have become the dominant model for international development policy and action, to address a lack of access to financial services for people on very low incomes (Amin *et al*., 2003; Mills, 2007). While focused on investment for enterprise, MFIs have common origins with the community savings schemes discussed earlier, in providing basic financial services with a strong social development orientation. However, the growing popularity of MFIs as a development vehicle during the 1990s has led to the commercialisation of MFI operations, resulting in a move away from developmental goals towards models that emphasise profit-making to underpin 'organisational sustainability'. This shift, while in part filling a gap in financial service provision for low-income communities, has faced serious criticism as many MFIs appear indistinguishable from commercial banks and money-lenders (Bateman, 2010).

Credit for the development of MFI initiatives is generally given to Muhammad Yunus and the establishment of the Grameen Bank in Bangladesh in 1983. There are, however, earlier examples of cooperative finance initiatives established in Pakistan (the Comilla Model) in the 1950s

by Akhtar Hameed Khan (Bateman 2010: 7). At inception, the Grameen Bank combined low interest rates for loans and high repayment rates managed through the creation of 'solidarity circles' (or '*kendras*') where groups of savers, usually women, would make a repayment should an individual member be unable to do so. Similar to the operation of community savings schemes, the *kendras* provided a source of (social) collateral for loans and enforced discipline among members to ensure repayment of credit.

MFIs are formally established and registered as NGOs or commercial organisations, with the associated governance arrangements. Studies of MFIs suggest that non-profit status increases the effectiveness of developmental outreach activity, when compared to more commercial operations (Mersland and Strøm, 2009). While maintaining a focus on underserved low-income markets for savings and credit, many MFIs have focused on commercial sustainability over extending outreach of services into the lowest-income communities. Recent research by Hermes *et al*. (2011) suggests that there is a trade-off between the commercial efficiency (profit making) of MFIs and efforts to broaden delivery into remote and low-income communities. This has important implications for policy and for the future development of the MFI sector, to reconcile social and commercial prerogatives.

For development policy and programming, the central justification for MFIs is the use of microloans to establish or maintain cash flow for small enterprises. Initiating a capital investment is thought to bring long-term and sustainable livelihood benefits for people in poverty. A number of studies (including Collins *et al*., 2009 and Hulme and Arun, 2011; Fenton *et al*., 2017) show that microfinance loans are more frequently used, as in the case of 'less formal' local finance, to smooth consumption and deal with short-term cash emergencies rather than capital investment. In response to the diverse uses of microfinance, specific schemes have been established to fund housing – addressing substantial gaps in the coverage of mortgage lending (Box 4). Housing microfinance extends the model of individualised borrowing to fund housing construction and improvement. Schemes typically do not advance claims for improved tenure nor promote collective approaches to housing development.

As a source of ready cash and in the absence of other formal or informal financial service providers MFIs are understandably popular in small communities, as evidenced by the growth to a current estimate of 130 million MFI customers worldwide (IFC, 2017). Critics of commercial MFIs point to uncontrolled competition among providers who place pressure on low-income customers to take out multiple loans (creating a debt trap), which worsens the conditions for people in poverty (Bateman, 2010). These practices are reported to have had dire consequences for some MFI customers in India who committed suicide, unable to cope with loan repayment demands (Biswas, 2010; Burke, 2011; Mader, 2013).

BOX 4. HOUSING MICROFINANCE, LATIN AMERICA

The provision of housing microfinance has grown significantly in Latin America, providing small-scale funding for housing construction and improvement as an adjunct to enterprise investment initiatives. Typically available to existing MFI clients, housing microfinance supports incremental housing development with loans of between US$500–2,000 with a term of two to five years. Targeting low-income households, loans can be used for purchasing construction and finishing materials and associated investments that include lot purchase, title regularisation and expanding house size to add rental units. Housing microfinance is seen as a major area for MFI development, addressing an unmet need in circumstances where an estimated 20 per cent of microenterprise loans are already being used for housing investments.

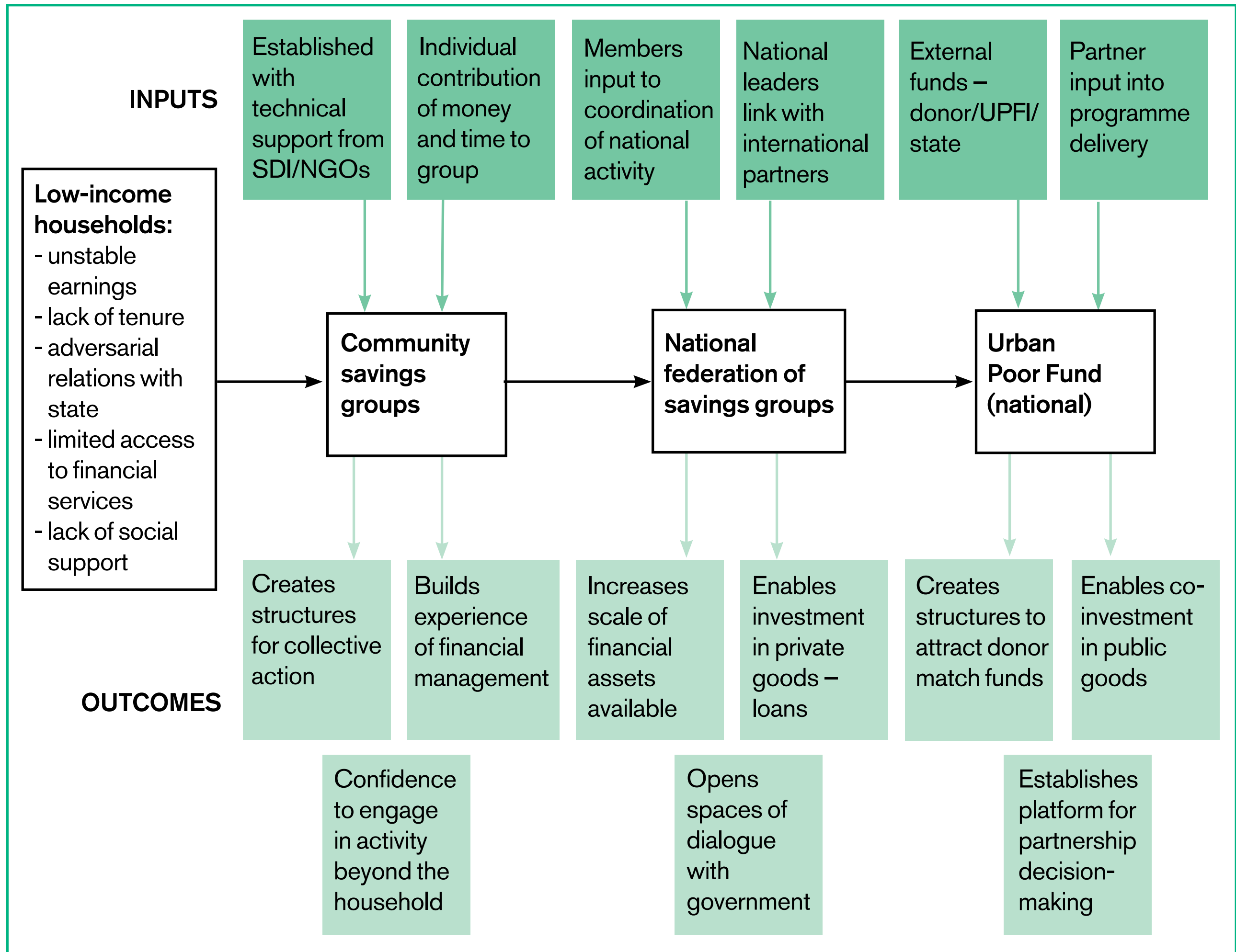
Source: Ferguson and Smets (2010: 290–293)

With regard to developmental outcomes from MFIs, there are mixed conclusions in the literature relating to the ability of MFIs to engage and assist the lowest-income communities (see Amin *et al*., 2003; Shaw, 2004; Imai *et al*., 2010). Studies such as Copestake (2002) provide evidence that the practices of MFIs may increase rather than reduce income inequality. Brook *et al*. (2008) draws a distinction between more formalised (commercial) MFIs that have a clear focus on loan-making and those that are linked to NGO partners, which adopt a more flexible and less bureaucratic approach to MFI operation. MFI links to NGOs, where they have established local savings groups, have been found to have positive impacts on the diversity of livelihood strategies in India (Brook *et al*., 2008); and sustainable housing development in Latin America (Mills, 2007; also see Box 4).

3.6 Urban Poor Funds

Urban Poor Funds (UPF) are collective resources of low-income community savers, aggregated at city or national level, to support strategic investments in land tenure, housing and service infrastructure. Mitlin (2008) describes UPFs as 'war chests', used in the struggle to secure land rights and lever state investment into low-income settlements. UPFs are most closely associated with SDI as a means to extend community-led financial infrastructure beyond individual savings schemes (see Figure 2). UPFs are established with a core of community savings contributions (see Box 5 for a description), but are also open to contributions from state and donor organisations (SDI, 2014), where these add value and do not conflict with principles of community leadership.

Figure 2. Evolution of savings-based groups: SDI model



UPF are intended to harness the collective resources of the urban poor and establish a financial basis from which to promote local-level leadership in the upgrading of low-income settlements. Beyond the generation of a local finance fund, UPFs are intended to be a catalyst for new thinking and new relationships between organised communities and city/national government. For example, the South African SDI Alliance established the Community Upgrading Finance Facility (CUFF) to provide grants for improvements to informal settlements, and as a means to engage city government in Cape Town in collaborative upgrading and livelihoods projects. The aim was not to replace public finances, but to create opportunities for co-productive working and build a culture of shared responsibility for the improvement of low-income communities. CUFF used grants rather than loans, which are more typical in other SDI federation activities, to link to the national housing subsidy programme. As an example, CUFF provided grants to support a water-management project in Masilunge in the Cape Flats, where the water table is high resulting in floods during rains. The community constructed a drainage and stormwater-management system and negotiated with local government to connect it to the city's trunk sewer network (South African SDI Alliance, 2013).

Table 2 provides a snapshot of the capital held by national UPFs across 16 countries where SDI is most active, showing a total fund value of over US$50 million in 2009. Mitlin (2008: 28) in discussing UPFs shows while community savings constitute a small proportion of the total funding (some 2.2 per cent or US$991,133 in 2008) by creating a UPF, communities achieve significant leverage on local-level resource generation. The balance of funding illustrates the potential for savers to generate a useful scale of resource, but more importantly, raise the effectiveness of low-income communities in gaining access to substantial external funding. The UPF creates a formal basis to approach international donor organisations and a conduit for government to obtain complementary funds and capacity for state subsidy programmes. D'Cruz and Mudimu (2013) suggest that UPF structures can provide a cost-effective means for international donor organisations to target localised activity, avoiding the high administration costs of working through the layers of national NGOs or government organisations. They show a range of philanthropic and governmental organisations, including Bill and Melinda Gates Foundation, Rockefeller Foundation, Ford Foundation and the governments of Norway and Sweden, which have invested resources in Urban Poor Funds.

Table 2. National Urban Poor Funds and other state contributions to federation activities, 2009

COUNTRY	FUND ESTABLISHED	TOTAL CAPITAL IN NATIONAL FUND (US$)	FORMAL SECURED TENURE FOR HOUSEHOLDS
Brazil	2005	30,000	150
Cambodia	1998	1,920,000	5,000
Colombia	2001	6,000	60
Ghana	2004	200,000	120
India	*	23,100,000	35,000
Kenya	2003	500,000	4,320
Malawi	2005	1,000,000	3,159
Namibia	1999	1,810,000	4,062
Nepal	2004	313,847	44
Philippines	2000	5,600,000	26,166
South Africa	1995	12,220,000	20,000
Sri Lanka	2004	909,000	120
Tanzania	2005	34,135	500
Uganda	2004	1,000,000	300
Zambia	2006	210,000	1,048
Zimbabwe	1998	1,320,000	4,035

* There is no single fund in India: capital monies are held for designated activities.
Source: IIED (2010)

BOX 5. URBAN POOR FUND, ZIMBABWE: GUNGANO FUND

The Zimbabwe Homeless People's Federation Urban Poor Fund, called the Gungano Fund ('*gungano*' is translated from Shona as 'coming together'), was established in 1999 as a community loan fund for housing and infrastructure construction, in the absence of state and commercial mortgage funding. The Gungano Fund combines regular savings from federation members and donor funding from international NGOs including Misereor and Homeless International. It was valued at over US$1 million in 2014. Members make a contribution of US$1 per month into the fund and are able to secure loans for housing construction. Loans of up to US$1,000 are made to households, applying a monthly interest rate of 1 per cent, and paid out via savings groups to provide social collateral. Loans are available for a restricted range of construction-related purchases – bricks, hardcore, pit sand, roofing materials and timber. Applicants are expected to demonstrate their commitment to incremental house building by accumulating the other construction materials needed through their own earnings. To obtain a loan members also have to demonstrate an active involvement in their savings group and a track record of repaying loans to the fund.

Sources: Chitekwe-Biti (2009; 2014); Shand (2014)

While UPFs operate at a larger scale compared to community savings, they maintain core principles of community management and leadership, typically with the support of a registered NGO partner. Decisions are made by members who live in low-income communities and who have contributed to the development of the UPF. In some circumstances, decision-making is shared with state and donor organisations where these organisations have contributed capital to the UPF. NGOs provide a legal base for the establishment of a fund and professional support in managing the recording and dispersal of monies. The NGO partner role is important, but must be carefully balanced to satisfy the financial and charitable rules that apply in the respective country, but avoid dominating community-based decision-making.

Maintaining community control over decisions is important both for the credibility of the UPF among poor members and to build the skills and experience of community leaders. UPFs operate in different ways, depending on context and the objectives of members, but they provide a vehicle for community leaders to build relations with state and financial organisations within and outside of their country, to expand their knowledge of how development 'works' and to strengthen their ability to advocate and negotiate on behalf of low-income communities. The processes

BOX 6. URBAN POOR DEVELOPMENT FUND, CAMBODIA

In Cambodia, the Urban Poor Development Fund has been operating for ten years and is supporting the work of 225 savings groups in Phnom Penh and 42 outside the capital city. More than US$2 million has been provided in loans to members, including for enterprise activities, income generation and in relation to shelter. Some of these loans have helped the development of communities resettled on land with secure tenure following central city evictions.

Source: Satterthwaite *et al.* (2011: 18)

of engaging with state organisations as fund-holding development actors, and maintaining control of UPFs, generates problems that need to be resolved. However, UPFs have had significant impact on the construction of affordable housing in low-income communities, as illustrated by the secured tenure households shown in Table 2.

3.7 Community Development Funds

Community Development Funds (CDF)[5] provide a city-level mechanism to connect community, state and donor organisations to deliver programmes of small-scale and people-led environmental and housing-upgrading initiatives. CDFs bring together funding from diverse sources, but moreover create the organisational and decision-making processes to support local delivery and position low-income communities as vital actors in sustainable urban development. As shown in Figure 3, the CDF has a linking function to release and coordinate finance at a number of levels, with community capacity to catalyse citywide upgrading (Satterthwaite and Mitlin, 2014).

CDFs utilise community savings and capacity, but are established with capitalisation from an external source such as the Asian Coalition for Housing Rights (ACHR) or Cities Alliance (see Box 7). These funds help to create and mobilise capacity and provide a positive incentive for partnership working, for both community savers and state/donor funders, on issues of urban development. The CDF becomes an instrument to connect with and strengthen existing community savings groups at a city level to engage in collective development activity; to open or extend dialogue with state agencies and reorient political relationships towards partnership approaches; and to create bridges between local savings and formal finance systems that enable small-scale activity to be scaled at a city level (Archer, 2012). Collective working involving community and state actors helps to build mutual understanding of conditions and generate new accountabilities that impact on decision-making. When the state actors have a detailed and personal understanding of the needs of low-income communities, they are more likely to make sensitive decisions on the provision of land, housing and basic services (Shand, 2014).

An important example is the Asian Coalition for Community Action (ACCA) launched by ACHR in 2008, which has provided money to capitalise CDFs and support the formation of citywide networks of organised communities and city government. Since 2009, ACCA has approved over US$11.04 million in project budgets across 19 countries and 215 cities, supporting some 1,820 initiatives – 78 per cent of these are small[6] urban development projects (ACCA, 2014). Examples of ACCA-funded projects include:

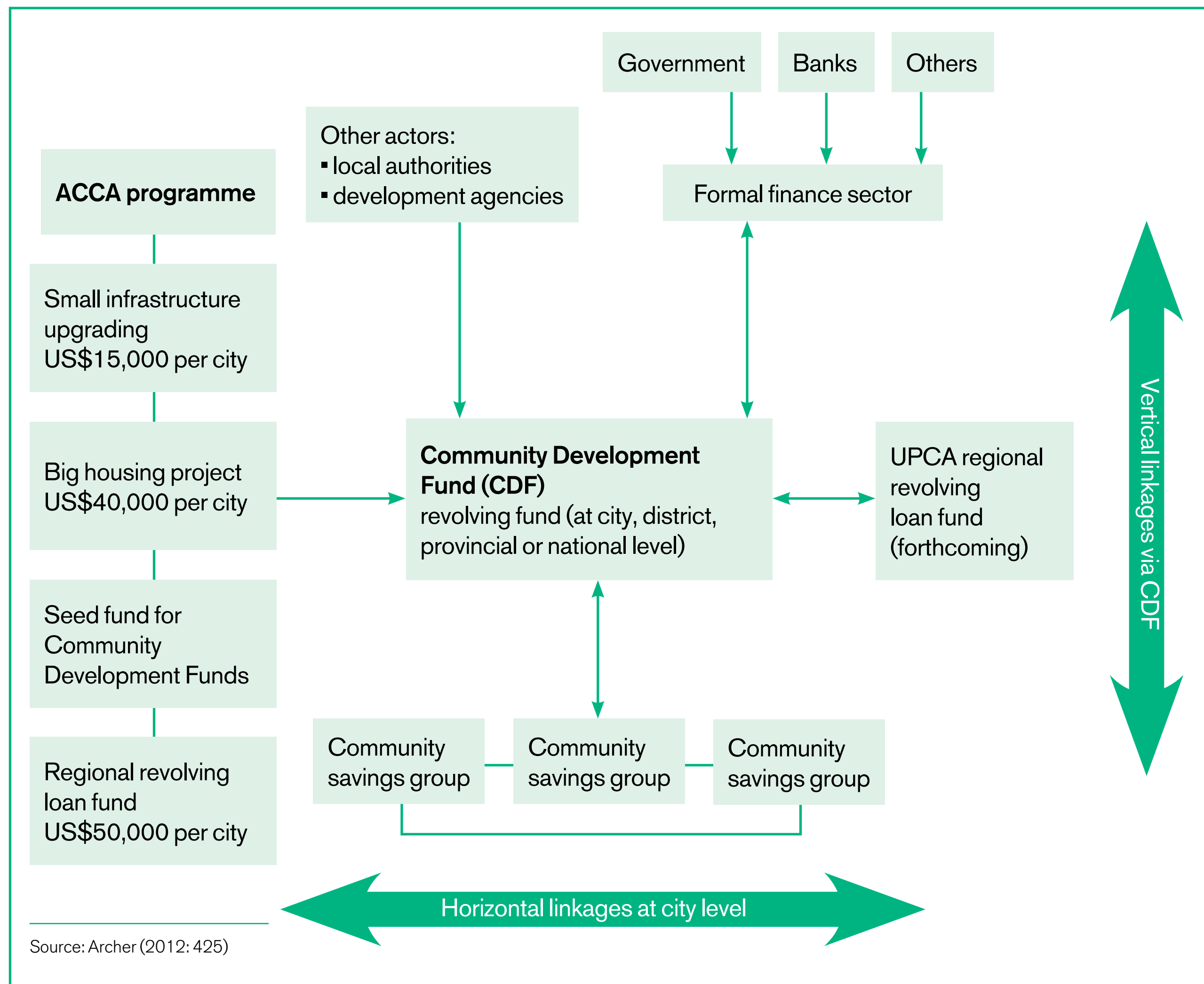
- Community enumeration, repairs to public toilets and paving public walkways in Dhaka, Bangladesh, using a grant of US$4,050 matched by a community savings contribution of US$500.
- Paving a community courtyard in Thankot, Nepal, using a grant of US$1,529 matched by US$588 from the community and US$1,176 from local government.
- Residents of Quy Nhon in Vietnam planted and cared for mangroves, which provide natural protection from typhoon waves and wind. By using a grant from ACCA of US$5,000 and US$3,300 of community savings, they have expanded mangrove reforestation by 6 hectares.

ACCA provides a framework and the tools to deploy local-level finance in ways that build on existing community activity and also mark a change in how development is delivered. At the centre of ACCA activity is the principle that people are the source of sustainable development and that direct involvement in delivering environmental, housing and service infrastructure brings major benefits for the efficiency of investments and the efficacy of low-income communities. This co-productive approach has generated significant impact through small-scale initiatives and settlement-level housing programmes, but has also affected the behaviours of government towards the urban poor. City and national governments have responded to CDFs by engaging in dialogue, allocating land and most substantially by providing matching funds. Analysis of larger citywide projects shows a budget share of 4 per cent investment from ACCA, 13 per cent from communities, 3 per cent from other sources (such as northern NGOs) and the remaining 80 per cent provided by national and local government (Satterthwaite and Mitlin, 2014: 178).

5. Sometimes referred to as City Development Funds.

6. Currently small projects have a total maximum contribution of US$52,000 per city from ACCA for a number of locally determined activities.

Figure 3. Community Development Fund links: Asian Coalition for Community Action (ACCA)



Source: Archer (2012: 425)

BOX 7. COMMUNITY UPGRADING FUND, JINJA, UGANDA

Strengthening relationships between the National Slum Dwellers Federation of Uganda in the city of Jinja and city government has led to the creation of a Community Upgrading Fund (CUF), jointly managed by community members and the Jinja municipal council. The CUF was capitalised by Cities Alliance with circa US$700,000 to support community-led initiatives to improve settlements. Against a set of priorities identified by the community, project proposals were invited and judged by the joint management committee for CUF. Projects selected for low-income settlements included electricity extensions, stone pitch drainage, public toilets and street lighting. These initiatives were funded through CUF, with delivery supported by the municipal council, which identified suitably qualified contractors to undertake the works.

Source: Nyamweru and Dobson (2014: 15)

Through both small-scale and larger citywide initiatives, CDFs demonstrate the potential of influencing and leveraging existing public budgets to support local development activity. Finance being orchestrated at a local level provides a space for innovation in resourcing and delivering sustainable development. Beyond localised impact, the co-productive approaches to financing and managing delivery enabled by CDFs can inform institutional practices governing the use of land and urban development. Satterthwaite and Mitlin (2014: 181) highlight Vinh in Vietnam 'where planning standards for redeveloping old social housing have been changed from an expensive, contractor-driven model to a people-driven model as a result of the ACCA project at Cua Nam Ward'.

3.8 Devolved state funding

As demonstrated by Urban Poor Funds, focused activity at a city level can create spaces to re-engineer finance flows and deliver locally determined environment and housing improvements. In the examples of city-scale CDFs and UPFs, community and external resources were used to attract government engagement and build new links to

Table 3. Baan Mankong: key impact statistics, January 2011

PERFORMANCE	RESULTS
Projects approved	858 projects (some cover several communities)
Cities engaged	277 cities in 73 provinces
Communities assisted	1,546 communities
Households assisted	90,813 households
Grants for upgrading	THB 2,888 million (US$80.75 million)
Loans for housing	THB 4,149 million (US$116.01 million)

Source: CODI (2011)

public resources. There are, however, important examples of where state agencies have allocated public budgets to local funds, such as the Thai government's Community Organizations Development Institute (CODI).

CODI was established by the Thai government in 2002 to extend the existing work of the state national Urban Community Development Office, which had been established a decade earlier to address urban poverty through targeted community investment in housing and livelihoods. CODI was created with its own legal identity as an independent public organisation with a fund of some US$91 million and the ability to apply to central government for funding (Boonyabancha, 2005; Satterthwaite and Mitlin, 2014). The governance arrangements for CODI reflected an objective to balance power relations and decision-making, with a board consisting of four representations from government, three representatives from community organisations and three independent professionals (CODI, undated).

CODI was directed by government to run a national housing-upgrading and tenure programme called Baan Mankong ('secure housing') in January 2003. Baan Mankong was established to address the poor housing conditions of some 8.25 million inhabitants in 300 cities across Thailand. Through CODI, the programme channelled government funds in the form of infrastructure subsidies and housing loans directly to low-income communities who undertake local improvement works. The delivery relies on city-level networks and collective action by communities to determine and carry out upgrading activity. Devolved decision-making and deployment of funds enables resources to be used to augment existing improvements and minimise the additional costs to low-income communities (Satterthwaite and Mitlin, 2014).

The CODI programme, and the Baan Mankong initiative in particular, has had a substantial impact on poor urban communities – see Table 3. CODI has demonstrated how major resources can be routed from the state to local communities for the successful delivery of housing upgrading. It has also underlined the capability of organised community groups to be development actors. As Satterthwaite and Mitlin (2014: 157) comment: 'the emphasis on city-wide approaches that seek alliances between middle-class and lower-income residents demonstrate how to pre-empt some of the more exclusionary urban politics that have been seen in other cities'. While CODI relied on state funding, working through community organisations has stimulated the establishment of local savings and loan funds, which has increased the sustainability of community action and helped to offset the risk of loss of political support for Baan Mankong.

While CODI has been effective in establishing architecture for collaborative action, the creation of a special-purpose vehicle creates some risk for the community organisations that participate. Simone and Rao (2012) discuss effects of partnership-based approaches on a CODI-supported neighbourhood in Bangkok to consider the implications for mobilised groups after key goals (land, housing and service improvements) have been achieved. They highlight the difficulty for grassroots organisations to refocus objectives and activity in light of changing contexts, in order to balance new aspirations of members with the core aims of the collective.

State action to devolve finance and decision-making to local levels has also taken place in India, following a 1993 constitutional amendment which mandated state governments to devolve resources to democratically elected *gram panchayats* or village councils (Mansuri and Rao, 2013). Funding was decentralised by the State of Kerala, whereby 40 per cent of the state's development budget was devolved to village councils supported by a programme of training to energise and encourage people to participate in the *panchayat* system. Emphasis is placed on local decision-making through village committees to determine priorities and the allocation of development resources. According to Isaac and Heller (2003) devolution is in keeping with Kerala's tradition of direct and mobilised democracy and an overt attempt to empower local government and communities to resolve development challenges. The combination of devolved resources and decision-making alongside community capacity building is intended to create grassroots drivers of development.

A further key example of decentralised decision-making

Table 4. Homes financed by UPFI 2008–10: completed and ongoing projects*

LOCATION	HOMES	SERVICES PROVIDED
Ghana, Tema, Amui Dzor	40	Water, electricity to dwellings, two-storey buildings.
India, Bhubaneswar	73 to date 554 planned	Inner-city rehabilitation, single-storey and two-storey buildings. Construction began in April 2010.
Kenya, Nairobi, Mukuru Sinai	2,000	Complete houses with on-site water and sanitation and roads. Designs currently being finalised.
Malawi, Lilongwe	20	First community-led central-city low-income housing development.
Malawi, Blantyre and Mzuzu	100	Houses in Blantyre and Mzuzu on new peri-urban areas with land provided by the state.
Malawi Home Improvements	80	Homeowners currently finalising their plans.
Namibia, Gobabis	54	Housing on greenfield development with land purchased from the state. Communal facilities.
Philippines, Mandaue	90	Upgrading in high-density inner-city squatter area. 9.2-hectare site with federation group on part of the land.
Philippines, Guinobatan	177	Construction of houses in greenfield areas following disaster and need for relocation.
South Africa, Standerton, Kwandebele, Delmas, Joe Slovo, Lethabong, Duduza, Doornkop, Orange Farm	977	Construction of permanent houses on sites where members have title deeds. Bridge finance to support work until government assistance provided.
Sri Lanka, Moratuwa	50	Construction of permanent houses, provision of infrastructure. Land sharing on existing site.
Tanzania, Dar es Salaam, Chimazi	100	New housing following relocation after eviction for port expansion. Boreholes for water.
Zambia, Kitwe	50	Single-storey new units on greenfield sites. Communal services.
Zambia, Choma	53	Greenfield housing development on well-located land. Communal toilet blocks and tap.
Zimbabwe, five towns	352	Water provision including boreholes in Epworth and Chinhoyi. Water reticulation for 71 households in Gweru.

*In addition to these major capital investments supported by the fund, smaller grants are given to SDI federations to support their work.
Source: IIED (2010)

is participatory budgeting. Undertaken first in Porto Alegre, Brazil in 1989 the goal of participatory budgeting was to 'hand over decisions about the distribution of municipal funds for basic capital improvements – paved streets, drainage and sewer investments and school construction to neighbourhood-based forums' (Abers, 1998). Participatory budgeting extends the boundaries of decision-making beyond closed administrative processes to include people on low incomes, who may be unable to create voice through existing political structures (Devas, 2004). Under participatory budgeting, a defined element of public budgeting is opened up to local residents who deliberate on priorities for environmental and service investment and then use these priorities to negotiate with the state. Participatory budgeting differs from the CODI model, and from the examples in Kerala, because there

Table 5. Local-level finance models: key characteristics

TYPE	SOURCE OF FUNDING	SCALE	MANAGEMENT	LENDING
Household savings	Saved earnings accumulated over time within household	Micro, limited to the household members and family	Managed within the household	Informal to friends and neighbours
Rotating savings and credit associations	Set contributions by members over a fixed period of time	Small, with circa 10–15 members	Informal, but with strong bonds of mutual trust	Not available – members wait until their turn for payout
Accumulating savings and credit associations	Variable contributions by individual members	Small savings groups of circa 30 that may be federated to settlement or city level	Formal management arrangements, with strong democratic ethic	Small loans and emergency credit available to members
Community savings	Saved earnings accumulated over time by community members	Small groups within defined neighbourhoods with membership of circa 30	Led by community members who undertake all operational and management roles	Loans made to savings groups
Microfinance institution	Commercial/major donor capitalisation of revolving loan funds	Vary in scale from very small single operators to major chains	Either commercial management structures or run as not for profit/ NGO	Provision of credit provides the core of operations
Urban Poor Fund	Aggregate of community savings with input from state and external donor funds	Large, working at city and national scale	Led by community members with professional support from NGO partners	Provides both grants and revolving loans for urban development projects
Community/ City Development Funds	International donor and government funds allocated for city development and savings	Large, operating at city scale and as part of a national network	Joint management of community groups and city/national government	Primarily grants for urban development projects with significant loan element
Devolved state funding	Public funds from city and national government	Large-scale public resources	Joint management of community groups and city/national government	State funding offered as grants plus revolving loans for housing development
Urban Poor Fund International	International donor and governmental funding	International scale with resources to national federations of the poor	Managed by community leaders (from SDI federations) with professional support	Grants to national federations who incorporate into revolving loan funds. Some loans to affiliates

is no investment in underlying associational community structures. This can limit the capacity of communities to play a full role in development activity, beyond the basic distributional effects of localised decision-making (Avritzer, 2006; Mitlin, 2008; Baiocchi *et al.*, 2011).

Cabannes (2014) has reviewed the use of participatory budgeting across 20 cities in different global regions, to assess the impact on basic service delivery and management. He finds that while there is wide variation in how participatory budgeting has been adopted and significant differences in the value of resources ringfenced by municipal governments, devolved decision-making leads to a range of development and political benefits. Participatory budgeting stimulates interest and involvement in the administration of public budgets and has been a catalyst for forging new relations between communities and city authorities. It has led to additional financial resources from national government and through linking community funds which have been attracted to match local environmental works. It has also provided a mechanism to target investment in the basic services which local people have identified as most important.

Seekings (2013) provides an important caution to recognise the limitations of participatory budgeting, as well as its benefits. Participatory budgeting is not feasible everywhere in the context of local politics. Where it does work, processes of engagement and devolved decision-making have been tailored to fit institutional conditions. Effective processes of engagement can lead to new ideas on how development is delivered while also strengthening democratic structures (Grindle, 2007). But more critically, 'invited spaces of participation' (Cornwall, 2004) can be limited to decision-making on specific budgeting areas and have minimal effect on wider (and politicised) processes of urban governance. Involving citizen groups in making decisions about public budgets can be important, but when these are disconnected from other forms of developmental finance and action it may limit the impact that could be achieved by more integrated approaches that also build the capacity and efficacy of communities.

3.9 Urban Poor Fund International

Complementing the efforts of national Urban Poor Funds (as described in Section 3.6), SDI provided small capital funds to federation members to support local development initiatives between 2001 and 2007. In 2007, SDI received an injection of funds from the Bill and Melinda Gates Foundation, which enabled the expansion of efforts to support local projects and develop learning centres demonstrating the impact of people-led solutions to urban development challenges. The Urban Poor Fund International (UPFI)[7] has channelled some £4.5 million to community-led projects to develop responses and solutions to long-term issues of tenure, housing and basic services (IIED, 2010). While the funding operates at an international level, routed through the SDI secretariat and national federation groups, the actions are grounded at a local level through community savings groups.

As demonstrated in Table 4, UPFI has generated significant local impact by adding value to the local activities of national federation groups. UPFI has operated in over 16 countries with over 100 grassroots initiatives – benefitting 170,000 people, securing tenure for 30,000 families, and financing over 4,000 homes.

The central benefit of UPFI, in relation to local-level finance, has been to demonstrate the scalable character of community-based savings activity. This is a two-way relationship, with local communities gaining access to national and international funding because of the capacity they have created at a local level. It also demonstrates how international funding can be more effectively targeted, shaped and delivered in partnership with community-based groups. As a model for international development funding, the UPFI releases capacity for local groups to make cross-sector links with national and city governments around specific issues of concern (Schermbrucker *et al.*, 2015). The funding alongside international connections creates a justification for dialogue and negotiation, helping to overcome administrative and attitudinal barriers to communities being agents in urban development.

7. Details from http://upfi.info/about/

4 Critique of local-level finance

As highlighted in Section 3, the creation of savings groups and mechanisms to manage various types of local-level savings can make positive contributions to addressing the needs people living in situations where many aspects of life are characterised by instability. A lack of housing tenure, reliance on casual employment and unstable social relations undermine the ability of households to build assets and create lives they value. However, creating and sustaining community structures is not without difficulty: it relies on the broad-based commitment of people to champion the creation of new initiatives and to contribute time and energy to forging the necessary social and operational architecture needed to form community-based savings groups.

While there is a substantial body of literature discussing the success and contributions of community-based savings and finance schemes (particularly through SDI, ACHR and IIED publications), there is comparatively little that provides systematic critique, looking at the difficulties of creating and using local-level finance for development. While understandable with donors, NGOs and grassroots organisations wishing to promote the positive aspects of community leadership, it creates a gap in our understanding of how local initiatives work, the conditions for success, and in turn, the ability to present a complete and compelling narrative on the potential of 'bottom-up' contributions to the SDGs. The remainder of this section aims to provide a critical review of local-level finance and savings. The analysis begins with a discussion of fit and the challenges of positioning savings as a form of development funding. The section goes on then to discuss questions of inclusion, scale and cost effectiveness in respect of local-level finance for development.

4.1 An (un)easy fit?

As discussed previously, local-level savings take various forms that range from cash and asset accumulation within the household through to rotating savings and credit associations (RoSCAs) and saving-based mobilisation used by SDI federations and ACHR as part of wider city programmes. While household savings provide the basis for group-based activity, they have limited developmental potential because they are restricted in scale and typically are used to provide a cash reserve to smooth consumption and to cover the costs for particular expenses – such as school fees, healthcare or the purchase of household items. In contexts where households have volatile income patterns, savings are an essential survival tool and at an individual level can help contribute to livelihoods, education and housing. However, the focus here is on savings where they form a foundation for a wider set of social relations and collective investment decisions. While these offer a clear theoretical connection to development outcomes, as described earlier, they also have challenges and contradictions in how money is collected and used.

Community savings schemes are typically formed and geared to meet the needs of low-income women, enabling savings on a regular (daily or weekly) basis to smooth income patterns and assist in making access to housing and basic services affordable (see also Box 9). While the idea of collective action is integral to the formation of savings groups within the SDI model, using group savings for wider purposes can bring challenges.

First, clarity of intent: individual members' ideas of what funding should or could be used for. The alignment or

incorporation of grassroots funding and savings-based finance into development programming may not be straightforward, if these are not consistent with original intentions and the understanding of savings group members. There is potentially a conflict between savings that are intended for future consumption or to help offset unexpected costs with using savings for investment. Even where there is a strong collective ethic established at the formation of community savings schemes, there may be limits as to how far this ethic can be extended where there is no direct individual payoff. Issues arising from the literature point to some challenges in balancing the need to maintain liquidity of savings schemes and a desire to invest in loan making and fund projects of collective action.

- Hulme and Arun (2011) draw upon evidence from the microfinance sector which indicates that many users create accounts but do not take loans: the funds are used for savings to meet the costs of unexpected events or meet the cost of family commitments.
- According to Boonyabancha and Mitlin (2012) reciprocity is central to the functioning of social relations that underpin savings schemes – when the funds are tied up and individuals have to wait longer for access to funds than they consider fair, this may create tension and undermine the bonds of trust in the group.
- Collins *et al*. (2009) highlight that people on low incomes develop a mixed strategy of savings, loans and commitments. Diversity helps to manage risk of loss and also, through participating, extends the range of social connections available to savers – thereby limiting the potential total value of group savings.
- Bouman (1995), Chamlee-Wright (2002) and Kiko Kimuyu (1999) discuss the functioning of RoSCAs where members have an expected payoff. The use of the payoff may have a developmental impact at a household level – such as paying for improvements to dwellings or education investment – but will not generate wider benefits.

There is a tension between individual accumulation and collective savings that SDIs attempt to manage through group deliberation and collective effort. The SDI model provides flexibility at a local level for members to create a number of separate savings 'accounts' that might include daily savings as well as savings for health, urban poor funds, burial costs and contributions to the administration of savings. Together, these can provide a mechanism to defuse tensions and ensure that there are clear and shared expectations on the use of savings.

Second, administrative fit: connecting the way that communities work together, with the standardised practices of development programming. While NGO partnerships with grassroots organisations have been effective in helping communities to understand the language and management processes of state and donor organisations (Mitlin, 2013) there can be a wide gulf in approaches to decision-making, keeping and reporting management information and the timescales within which projects are delivered. Critically, management arrangements are employed instrumentally to preserve authority and legitimise the control over development processes. But in practice, differences of behaviour and expectation can be a point of friction in new relationships and contribute to the failure of collaborative efforts (Mitlin, 2008).

- SDI (2014) highlights the experience of the Malawi Homeless People's Federation Mchenga Urban Poor Fund. The federation combined savings with donor funds to invest in infrastructure investment, seeking partnership with Lilongwe city council to jointly manage the delivery of the fund. Despite money being available, it was difficult to overcome ingrained imbalances of power between state and community actors.
- UN Habitat (2008) illustrates how land titling in Peru, which was meant to provide collateral for low-income households and increase productive borrowing, failed because the project funder misunderstood cultural issues associated with titling and the requirements of banks for loan security.
- Mitlin (2013) discusses potential tensions between conventional approaches to development management and people-centred approaches. For example, on savings and loans, the expectation of professionals is that community members can be trained to undertake specific roles. More grounded analysis shows skills are best developed incrementally, where accountability and capability is constructed with support from other experienced communities.

BOX 8. EXTENDING HORIZONS AND BUILDING EFFICACY

A key effect of community savings is extending the boundaries of what members think is possible in relation to obtaining land, engaging with public agencies and building a home. A product of coming together, sharing problems and obtaining support impacts both on the practical challenges of life, but also changes outlook, as demonstrated by a federation member in Zimbabwe:

> *When I started attending the savings meetings myself, I began to understand that I had the power to improve my life. I did not want to live the same life of poverty my mother lived. I joined a savings group in my neighbourhood and started saving with others […] I am now a very confident woman, and by sharing ideas with other savers and visiting different communities I learn from and teach them how, by coming together and saving, we can improve our lives.*

Source: D'Cruz and Mudimu (2013: 32)

Third, changing roles: horizons beyond individualised savings to collective action and engaging the state. Evident from reports on community-based savings groups is the process of maturation. Groups begin as a means of addressing daily necessities, but expand their scope with the growing aspirations of the members (see Box 8). As a form of collective initiative, the efficacy of low-income communities is reinforced as individuals see a way to tackle common problems such as housing eviction, lack of services and exclusion from politicised processes of urban governance. Alongside a growing sense of what can be achieved through the group structure, there is a shift in the form of development possible – from one that is atomised at individual level, focused on household consumption, to a form that is more encompassing and includes the use of collective effort and finance to contribute to public goods. In the case of SDI groups, maturation is facilitated through shared learning, study visits and engagement in advocacy activities – federations comparing strategies and problem-solving techniques across differing national contexts.

Based on the reported experience of various SDI groups, there are a number of conditional factors that are important in enabling savings groups to mature and engage in broader-based development activities. These include the following.

- **Active local leadership:** in a dispersed form, with each member expected to contribute to activity and reinforce the principles of mobilisation. Decisions are taken at the lowest level by individual savings groups. There are examples of conflict generated by individuals wanting to assume leadership roles that have resulted in the collapse of grassroots groups.
- **Critical mass:** the viability of savings schemes relies on a broad base of participation, with legitimacy being generated in part by the numbers of people taking part in community-based activity, both in driving the delivery of local action and demonstrating legitimacy to state organisations. Without the ability to sustain participation, savings groups can wither.
- **Common cause:** through sharing stories and experience, members of savings groups contribute to a collective understanding of conditions that underpins the development of core objectives. Creating a common platform for collective action is vital to counteract tendencies towards free riding.
- **Joint activity:** members' contributions to project-based tasks are a source of practical benefit for members and help to strengthen bonds of trust among members of savings groups. Without regular forms of contact, people stop seeing the benefits of group activity and lessen their contribution to collective action.
- **Adverse external environment:** groups are formed in response to difficult external environments that include an inability to secure support from state and within political systems. Difficult contexts provide an incentive for people to band together and develop structures of mutual support. Where situations improve, there is lower motivation to maintain support arrangements within communities.

While there are clear benefits to considering local-level savings schemes as contributors to systems of development finance, making different and potentially conflicting cultures and decision-making systems work together is not easy. There are a range of important preconditions to establishing strong local structures and maintaining social bonds that are necessary for local savings to be effectively connected to formal development programming. It should be recognised that in some cases, community-based savings schemes fulfil an important local function for members and cannot be engineered into other forms that are more directly recognisable as development initiatives. Determining which groups can contribute to development must be a supported decision made at the local level.

Local determination and leadership is also important to address potentially exploitative relations – clientelism and co-optation – with the state. Collective working enhances the capacity of people to resist short-term deals and the marginalisation of their interests that may emerge from involvement in (party) politics. SDI adopts an overtly non-partisan approach in engaging with state/political agents as a strategy to avoid the pitfalls of being too closely aligned with powerful interest groups. It is possible that positioning organised communities as financial contributors to development may strengthen the ability of groups to manage difficult political relationships, although this requires case-study evidence.

4.2 Inclusion

Inclusion is a key issue for grassroots local savings groups as they target low-income households that experience multiple forms of exclusion associated with poverty, lack of tenure and weak political traction. A key challenge for these groups, as noted by SDI affiliate organisations, is to create structures that enable members to strengthen and stabilise their financial position, rather than create a further layer of exclusion and debt. The structures of social support and reciprocity highlighted above as being integral to community savings are designed to address the volatility of household finances and avoid the imposition of punitive actions to recover loans or enforce promises of participation. However, these structures may also create problems that limit the universality of grassroots activity.

A key requirement of savings-based organising is that individual members are actively involved in the life and work of the group. While this has benefits of deepening bonds of reciprocity, it can also become an exclusionary practice – those unable or unwilling to engage fully in the group are denied access to financial products or benefits. A condition employed by the Shack Dwellers Federation of Namibia (SDFN) is that to 'qualify for a loan [members]

need to be active in regular savings, regularly participate in meetings and all activities of SDFN' (Mbanga *et al.*, 2014: 21). This is a common criterion across SDI groups to reinforce commitment to collective action and create 'social collateral' for loans. Distinct from commercial financial service providers, savings groups create specific expectations of members that may in practice exclude individual participation or create conflict within the group, where individuals are judged as making insufficient contributions. Mitlin (2008) notes variation in commitment of savings group members, with some investing more heavily in their own shelter than others. Differences in contribution to savings schemes, or to other forms of collective activity, can create tension and division that undermine group integrity.

Reliance on the commitment of members can create problems for the stability of the group where individuals find that their lives and needs are rapidly changing. The effects of marriage, short-term shifts in income and circulatory migration patterns contribute to people leaving and re-joining savings schemes as their situation alters. Savings group members need to consider the effects of fragmented membership on the sustainability of collective activity and impact on long-term members who may perceive they are being disadvantaged by people with fluctuating commitments. Under the SDI model, the effectiveness of the group is heavily determined by the strength of reciprocity among participants.

The social basis of the SDI model is a strength but also a weakness for the creation of sustainable financial service. The partial nature of all decisions provides a framework for responding to the complex conditions of lives lived in poverty; however, close-knit social relations may also affect the degree of objectivity of members. This can impact on both the effectiveness of internal functioning of savings groups and also the perceived robustness of the group to external agencies. To avoid potential conflicts of strangers coming together, SDI-affiliate organisations encourage the formation of savings groups among people already known to each other, to capitalise on existing social relations. While this may not entirely remove tensions, groups are formed with a strong potential for close collaborative action.

Even where individuals are known to each other, D'Cruz *et al.* (2014) underline the difficulty, in some cases, of getting women to join together because of previous bad experiences of schemes where they have lost money. Central to building and maintaining trust, particularly amongst vulnerable individuals who are targeted to be included in community savings schemes, is establishing transparent methods of savings collection and management. The SDI model emphasises participation as a central means of embedding accountability for the accurate recording of savings and security of funds. However, these structures sometime fail. Hunga *et al.* (2014) describe how the Malawi federation overcame problems of misappropriation of savings funds by improving leadership and administrative processes governing decision-making and reporting of transfers into and out of the savings scheme.

BOX 9. WOMEN-LED SAVINGS GROUPS

Typically, women make up the majority of SDI-affiliate savings groups and they are the driving force in extending membership and leading the day-to-day management of groups. Women usually have primary responsibility for care of the home and family and are able to build strong social networks. In Malawi, men were critical of the leadership of women, seeing savings groups as a threat to their authority and a risk to the money deposited. Men wanted greater involvement in the management of savings groups, but this was resisted with women insisting that men have their own groups. Two men-only groups were established which failed due to competitiveness among the men and their demands for immediate benefit. The Malawian federation organised gender training to explain the importance of the economic empowerment of women. This helped to demystify the operation of savings groups and encouraged greater participation of men in the work of the federation.

Source: Hunga *et al.* (2014: 27)

Weaknesses can also exist in the leadership structures that affect participation and the inclusiveness of grassroots savings groups. Robins' (2008) discussion of the South African SDI federation highlights how power dynamics within communities can undermine unified action. Recognising the heterogeneity of interests among low-income households (alongside ever-present and powerful drivers of self-interest), maintaining coherent and inclusive approaches to activity is challenging. Appadurai (2001) notes that among the Indian federation, conflict and misconduct is managed informally among families whose lives are lived in the open, by implementing collective regulation of behaviour. However, as Robins (2008) illustrates the domineering behaviour by some individuals may fatally undermine group coherence.

The principles of inclusion may also be challenged where savings-group resources are used as the basis for participation in development schemes resulting in the production of public goods (such as sanitation and water infrastructure). With this comes a challenge of dealing with free-riding (among non-contributing members and non-members of federated savings groups). Shand (2014) discusses a case study of the Zimbabwe Homeless People's Federation who, having won permission for members to settle on government land, found that some 150 families were already occupying the site. Faced with a paradoxical problem of whether to evict these illegal settlers, the federation decided that they

could not be part of a process to remove these families and argued with government to extend the land allocation so that these additional (non-member) households could be incorporated into the scheme.

With increased scale of activity, there will be decisions on how best to deploy resources and associated implications for who gains from development funding and who does not. Such decisions may be particularly telling in cases where relations with state and donor organisations require the selection of specific locations or 'types' of participants to benefit from programme funding. In such situations, grassroots organisations may find their principles of inclusion strained as they attempt to maintain an open and fair approach to activity. This may also open up established decision-making processes to influence by political actors, who may find advantages in the selection of particular sites for investment.

A further issue for inclusion is the function of debt within community savings schemes. At an organisational level, debt among members contributes to binding people together, creating shared interest through individualised responsibilities for repayments. Within the SDI model, members are encouraged to take loans in order to maximise the impact of collective savings. However, community initiatives (such as the Kuyasa Fund in South Africa – see also Box 13) have found that those with the lowest income are more reluctant to take loans that they fear they cannot repay – debt can increase the vulnerability of low-income households. The functional use of borrowing can therefore have an unintended but exclusionary impact on participation.

4.3 Scale

As described in Section 2, there is a fixed idea of what development interventions can or should be, ingrained in the language and the programme management arrangements of development finance. State and donor-led funding is typically used to generate beneficiaries rather than directly involve people in delivery of programme activity. There are exceptions where national and city governments and international donor organisations devolve resources and decision-making to metropolitan level, such as Community Development Funds (see Sections 3.7 and 3.8). However, these types of devolved and integrated approaches are not the norm.

A key challenge for integrating local finance arrangements into the wider programming of development is one of scale: shifting the representation of local-level finance beyond the limits of households and community-level projects to demonstrate significance of impact – volumes of outputs and geographical scope. As discussed above, addressing this issue can be seen as being about shifting discourse and preconceptions as much as about demonstrating access to larger sums of money. This section discusses the issue of scale in relation to local-level finance.

First, the aggregate value of local-level savings is significant in relation to the earnings of low-income households, but small in relation to the budgeting of state and donor agencies. SDI (2014) figures show that in 2013 across 16,860 savings groups in 444 cities there was a total of US$17.29 million held as savings, outstanding loans and repayments. Additionally, SDI-networked groups collectively held a total of some US$18.5 million in Urban Poor Funds, with the majority of this (some US$12 million or 65 per cent) issued as loans. When compared to mainstream development budgets and when broken down in line with national or city funding, the cash value is very small – as should be expected. Where local-level finance has been incorporated within UPFs, the overall financial contribution of savings is just some 2 per cent (Mitlin, 2008). For SDI groups, monetary input into development programming creates influence and involvement in decision-making as well as generating operational benefits by connecting local-level delivery capacity.

An alternative to pushing local-level finance 'up' to be included in a larger programme budget can be seen in the Asian Coalition for Community Action (ACCA) where state and donor funding have made cash contributions to community-generated finance for development. According to Archer (2012) in her case study of ACCA in Thailand, funding managed at city and national level is explicitly used to galvanise and support development in low-income neighbourhoods through injecting grants and loans to capitalise revolving funds, provide finance to establish network structures and resource small-scale (locally prioritised) projects. The effect of the ACCA funding is to stimulate a diverse range of development interventions – since 2009 some US$11.04 million has been allocated in project budgets across 19 countries and 215 cities, supporting some 1,820 initiatives (ACCA, 2014) – contributing to environmental and economic development in low-income communities.

The 'direction' of funding is perhaps significant to valuing the potential contribution and the opportunities to scale community-based development activity. In respect of maximising impact, is it more effective to radically expand the number of small local-level improvements, with external funding adding to the capacity of community-led initiatives? Or does incorporating local-level finance in wider development programmes create sufficient influence from the grassroots to shape how and where major urban initiatives are focused? In practice, perhaps the answer is either and depends on context. However, designing a means to identify which approach is strategically most effective appears important.

Second, the value of networked activity is a key benefit of savings-based organising, but also can generate a number of challenges for the sustainability and operation of grassroots groups. A clearly demonstrated advantage of involving community-based groups in development is their capacity to build extensive horizontal networks of low-income groups within cities, nationally and

internationally. The work of SDI federations in particular has shown the importance of networks in generating and sharing knowledge, supporting advocacy, accessing donor funding and creating a constituency of people with common housing, environmental and livelihoods challenges. The ability to build capacity and engagement is a major asset in realising inclusive forms of development. Not least is co-ordinating savings to fund collective development projects, such as through UPFs.

Increasing scale, however, may create challenges for the operation and integrity of grassroots groups arising from a shift in organisational priority and a need to re-engineer management arrangements. Chege and Waniru (2014) highlight the challenge for the SDI federation group in Kenya of managing horizontal growth of local network groups, while also creating a vertical system of accountability, to bind some 400 savings schemes together. In this case, growth required the implementation of new administrative procedures for the national network, but also included forming and sustaining new relationships with city and national government. The demand of simultaneous growth of membership and a vertical scaling of operations was seen to negatively affect grassroots operation as leadership attention was drawn away to national arrangements and activity.

Dobson and Muhammed (2014) similarly report in Uganda the purposeful transition of the SDI affiliate from a collection of savings groups to a national federation. The process relied on identifying and supporting the development of local leadership to maintain a strong sense of subsidiarity in decision-making, but moreover that members need to feel that they are a key part of a larger project of change. As the scale shifts, so there are implications throughout the organisational structure to maintain the intensity of participation in the governance and operation of federated savings groups. Uganda addressed this challenge partly through establishing spaces of participation and effective communication and also highlighting how new activities contribute direct and indirect benefits for low-income communities.

Additionally, there are a number of other issues that may arise as the scale of operations for savings-based groups expands.

- Mitlin *et al.* (2011) identify that as grassroots groups become more visible as development agents operating at city and national levels, they become more attractive to politicians aiming to institute clientelist practices.
- Increased scale of operations heightens the risks to collective savings. Chikekwe-Biti (2014) notes that during Zimbabwe's hyper-inflationary period the value of cash savings were wiped out. The scheme survived because members repaid loans with construction materials (sand, bricks, timber etc) that could be circulated to other 'borrowers' engaged in house building – a system of 'dombo for dombo' or 'stone for stone' was instituted to temporarily replace cash repayments (Shand, 2014).

BOX 10. COMMUNITY-LED INFRASTRUCTURE FINANCE FACILITY (CLIFF)

Evaluation of the CLIFF programme in India and Kenya identified a key challenge as balancing the creation of formal management systems required by professional agencies and funders with the informal approaches that community organising and networking are based on. In areas such as financial management, procurement and communication the logic of professionals can be alienating for community members and at the same time it is difficult for professional agencies to understand and accept the complex community systems that have enabled CLIFF to function successfully at a grassroots level. To manage this challenge, partner NGOs act in a mediating role, navigating a bridge between formal and informal processes.

Source: Morris (2006: 133)

- Mitlin (2008) identifies the challenges of maintaining independence when grassroots groups aim to strengthen relations with donor and state agents. This may become difficult when external funds are used to meet management costs and leaders have greater involvement in politicised processes. SDI manages such tensions through adopting an explicitly apolitical stance in relation to parties, elected local and national politicians and with state organisations.

Scaling up can have significant benefits for state and donor organisations that gain access to an established network of participants and the structures to release savings. However, broadly based horizontal networks may also be viewed as a risk from a development programming perspective. Each link in the network creates the potential of non-compliance with programme management procedures. Grassroots organisations may be required to demonstrate how they maintain consistency of quality control and capacity at each level of engagement in order to meet programming requirements of state and donor bodies. In practice, this heightens the importance of professional support to grassroots groups to enable them to meet external requirements for partnership (Mitlin, 2013; see also Box 10).

Third, scale can also be understood as deepening of development activity to address complex causes of poverty and exclusion. Underlying issues of politics, environment, institutions and social relations can affect the impact and sustainability of development programming. However, these situated conditions are also the most challenging to understand and to respond to for state and development organisations coming from outside of specific contexts. Devarajan and Khemani (2016) argue for an approach that moves beyond development conducted as an investment project, to build the capacity of social actors to contribute

to development and hold governments to account. They propose development finance as conditioned not by the delivery of specific outputs, but where accountability processes strengthen the participation of citizens in governance.

A deepening of participation recognises the knowledge and capacity of communities to be informed actors in development working in partnership with the state, as well as strengthening structures of public accountability (Grindle, 2007). It also addresses a practical issue of supporting effective delivery in contexts where there are multiple factors – financial, institutional and practical – that may inhibit the impact of development assistance when driven either by communities or state organisations alone. Examples such as the location and management of public toilets (McFarlane, 2012); the relocation of rail-side shack dwellers (Patel and Bartlett, 2009); and construction of low-cost housing (Muller and Mitlin, 2007) demonstrate the effectiveness of state and community working co-productively to deliver impactful development interventions.

The benefits of scaling development interventions through collaboration can be illustrated through considering adaptations to climate change. There is increasing recognition of the need to both invest in infrastructure that reduces the impact and risks associated with changing climate conditions, but also the need to promote household-level investment and behaviour change. Given the size and complexity of the challenge, collaborative approaches that maximise public infrastructure investment and integrate household-level adaptations into area strategies provide a basis to increase the pace and scale of response.

Fourth, a model of community 'metafinance' has been suggested (see Walker and Daphnis, undated) that occupies space between existing MFIs operating at the individual level and the collective efforts of community savings and CDF initiatives. Metafinance provides collective loans to groups for investment in communal facilities, such as basic service infrastructure. This addresses a gap in formal financial services and provides a shift for MFIs to engage in collective lending and investment. Walker and Daphnis note that the idea builds from established initiatives such as the Housing Finance bank in Kenya, Mibanco in Peru and Génesis Empresarial in Guatamala that offer metafinance credit. The model can also link into UPF and CDF models to provide additional capitalisation needed to fund the delivery of community-led development projects. Combining state, community and commercial metafinance creates a mixed and scalable financial model to deliver urban development.

4.4 Cost effectiveness

An important but difficult consideration is the impact of including grassroots finance initiatives on the cost of delivering development. There is some evidence to demonstrate that integrating community-level finance, as a constituent part of housing and infrastructure schemes, can reduce the cash requirements on state and donor agencies and contribute to lower total costs of schemes. Increased cost effectiveness is partly a result of substitution – where materials and labour costs are met by households through savings, loans and reciprocal support within communities. But it is also achieved through the delayering of delivery and management – where 'beneficiaries' have a more direct role in delivery, reducing procurement costs, overheads and having 'eyes' on the ground that ensure construction is at the lowest possible budget.

Wakely and Riley (2011) draw together a number of examples where local savings and volunteer labour initiatives have contributed to the delivery of housing and infrastructure schemes (see also Box 11). These in turn have reduced the total cost of (as well as potentially accelerated) the installation of sanitation systems to low-income communities. Cost benefit has been achieved by linking into pre-existing community networks and releasing the resources of settlement residents. While there are some risks to quality and delivery of incorporating local labour into construction schemes, these risks can be controlled through technical supervision and training by municipal surveyors and engineers, where there is civic engagement in project management and delivery.

Incremental housing construction provides a further means of managing up-front expenditure and reducing total cost through careful procurement and use of community labour. Shand (2014) reports that the costs of a co-production housing construction project in Harare was substantially lower than a neighbouring commercially costed scheme.

BOX 11. COMMUNITY-BASED ADAPTATION TO CLIMATE CHANGE AND DISASTER

The Homeless People's Federation Philippines Incorporated (HPFPI) supports low-income communities to work together to address risks and consequences of climate change. Part of the SDI network, HPFPI uses local savings as a means to mobilise residents to engage in environmental adaption activity. Dodman *et al.* (2010: 13) note 'savings have helped to address the consequences of disasters, strengthening agency and giving "victims" [of environmental disasters] an ability to define and realise their own preferred development responses.' Local funds are used for 'precedent investments': demonstration projects that show local government the potential contribution of communities to adaptations. These are used to encourage the state to involve organised communities and scale up interventions using public resources.

Source: Dodman *et al.* (2010)

For comparable sites in Harare, construction costs were estimated to be some US$446/m^2 for a commercial housing development but US$146/m^2 on a community-led development. Arif Hasan (2008) also notes significant cost reductions achieved in Orangi where communities led the construction of sanitation systems. Hasan (2008: 112) identifies that the cost of the neighbourhood sanitation system was 'around one-sixth of what it would have cost if local government had undertaken the same work'. The cost differentials are achieved by reduced labour costs and bulk purchasing of construction materials and a substantial reduction in overheads associated with management and delivery by large organisations.

Total cost reductions alongside improved effectiveness of delivery are also suggested in examples of community-based adaptation of environments for climate change (Dodman *et al.*, 2010; Carcellar *et al.*, 2011). In these cases, the effectiveness of large-scale infrastructure investment by the state is enhanced by complementary small-scale investments and repairs at household level. Savings funds can be used to reinstate damaged property to include adaptations (such as raised floor heights and water-resistant building materials) that complement settlement-level improvements (including improved drainage, routing of water courses and sea defences) which combined offer greater protection to settlements. Such integration offers better use of public and private funding to respond to climate change.

More broadly, community-led finance facilities can also be seen as a means to reduce the administrative costs of issuing small-scale grants and loans for upgrading initiatives. For example, UN Habitat's (2011) evaluation of its Slum Upgrading Facility Pilot Programme found that the transaction costs of managing large numbers of small improvement programmes was disproportionately high for national and international finance bodies. Working through local finance arrangements allowed for dispersed patterns of delivery and more direct management of funding to beneficiaries. The evaluation found, however, a need for technical assistance and capacity development to support the implementation and operation of management procedures.

Minimising operational costs of delivery is also an identified issue for microfinance institutions (MFIs), with the Consultative Group to Assist the Poor (CGAP) identifying that efficiency is driven by the number of lenders, the size of the loan and repeat business (Kneiding, 2009). These factors mitigate against the poorest benefiting from MFI services who are more 'administratively costly', demanding more time to engage and service and being perceived as higher risk than customers that are poor but with stable income patterns (UN Habitat, 2008). The social character of community savings addresses this problem by being embedded within the poorest neighbourhoods, with members of savings schemes contributing to the management of savings and lending schemes operating collectively.

5

Integrating local-level finance

As described in Section 3, there are a number of forms of local-level finance that are, in different ways, making a contribution to the sustainable development of cities and the well-being of poor communities. While there is evidence that locally (through national federations and international support structures) people in poverty are working collectively to realise development goals, this effort is infrequently recognised, with policy and delivery often bypassing organised communities (Satterthwaite *et al*., 2011). The following section discusses issues of the management and organisation of local-level finance in relation to the power structures that govern development activity. Drawing from case studies of local-level finance initiatives, the following highlights the key challenges of repositioning communities as actors in sustainable urban development.

5.1 Management characteristics of local-level finance

It is important to start by underlining that the management arrangements of local-level finance are not homogeneous. The structures, procedures and processes of operating among local-level finance initiatives vary depending on the political context and relationships; the capacity and resources available to community groups; and the objectives identified by collective actors. The diversity is characteristic of development from the grassroots, but is also functionally significant. The effectiveness of community-based actors arises from the fact that they are grounded in local political realities and have forged objectives using local knowledge of development needs. While groups such as those federated members of SDI draw in good practice and use technical support from a variety of global sources, these are translated to fit with local conditions and requirements.

Given the heterogeneity of local-level finance, there are a number of common operating factors that distinguish local development activity from that delivered primarily through state, commercial or NGO provider routes. These centre on the democratic control and decision-making processes of community savings-based initiatives. Essentially, authority resides with members who exercise control through decentralised and discursive decision-making – ensuring a close fit both to the issues most important to communities and ownership by the majority of members. Management arrangements are frequently (using the SDI model) shared with a professional NGO partner who is able to offer legal status, lead applications for government and international funding, and offer the administrative capacity unavailable to grassroots organisations (Mitlin, 2013).

Mitlin (2013) discusses the separation of organisational identities, which underpins successful NGO and grassroots activity among SDI federation members. Grassroots organisations occupy an autonomous space to mobilise community members and negotiate with local and national politicians. The NGO partner operates within a technical sphere, supporting the effective administration and delivery of community-determined priorities. This separation of functional roles can be problematic and has been the cause of power struggles between NGO and community partners (see Robins, 2008 on South Africa) and the early failed attempts of the National Slum Dwellers Federation (NSDF) in India to work with NGOs in the 1970s (see Bolnick, 2008). An NGO leader in Zimbabwe underlined that making the partnership work and achieving a balance of power, where there is a need for strong functional connections between partners, was a matter of

leaving as little a 'footprint' as possible, because 'we are very conscious about wanting to change the dynamics of power and who is visible'. While disagreements between community leaders and the NGO partner were aired in private, in public the NGO stands behind community decisions, even where they consider them incorrect: 'the capacity to listen to the community has to start with us – listening to the community and understanding the community voice' (Shand, 2014: 139).

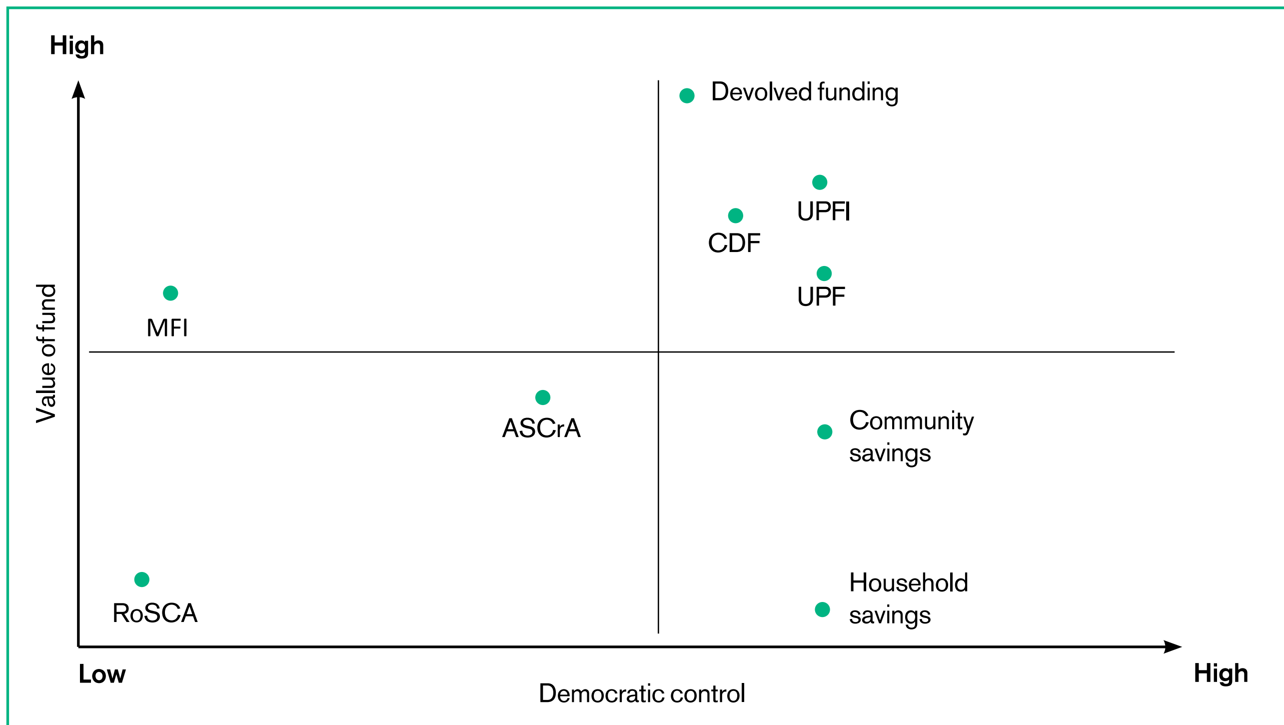
5.2 Inclusive approaches to development finance

A key issue for local-level finance is the degree to which it enables inclusiveness – direct participation of low-income community members in the use and democratic control of resources and assets, such as land. Access to funds and authority on how finances are managed vary by type of local initiative. There appear, however, to be significant benefits for sustainability and efficient use of funds when development 'beneficiaries' are directly involved in decision-making. This extends both to the long-term utility of development investment and also growing the capacity of low-income communities to be effective actors in designing and delivering development interventions.

There are two overlapping issues within inclusive approaches to development that are significant for a discussion of local-level finance. First is the ability of organised communities to gain access to state-and donor-allocated development resources, including both money and assets such as land. As illustrated earlier (Section 3.7) the creation of CDFs provides a mechanism to coordinate multiple sources of funding within a strategic decision-making process. Whether budgets are aligned or where authority over resources is kept separate but decisions are made in support of common development goals or pooled within a single management process, the CDF model enables a sharing of ownership over the deployment of resources. Sharing control of funding, as discussed in Section 3.8 on participatory budgeting, raises the efficacy of communities as development actors.

The second issue is the ability of low-income communities to gain access to development investments. Considering examples of devolved finance (Section 3.8) and land redistribution, as with Baan Mankong, Boonyabancha (2005) indicates collective land ownership has allowed communities to make long-term commitments to upgrading and formalising housing developments in Thailand. It can also be seen to have influenced changed roles of the state, as described by Stein and Vance (2008) in Central America: from direct provider of housing to a facilitating role in the housing market. The provision of housing subsidies aimed to address the lack of available finance for low-income communities and stimulate housing construction. By improving access to land and housing tenure, subsidies have contributed to reducing urban poverty and helped to stabilise the livelihoods of people in poverty, with positive effects on the sustainable development of low-income communities.

Figure 4. Democratic control of finance: illustrative comparison of local-level initiatives



Central to the idea of inclusiveness is the level of direct control people have over local-level finance. Figure 4 provides a comparative indication of the democratic control over the local-level finance types described in Section 3. This compares indicatively the value of total monies controlled by the local finance initiative (including both directly generated funds in the form of savings and leveraged funds, such as donor contributions or devolved state resources) with the intensity of community control over decision-making. While purely illustrative – given the diversity of management arrangements – it does show differences between commercial approaches to local finance – as with MFI and 'social' approaches to local-level finance management developed at community, city and international level through application of the SDI model. The significance for inclusive forms of development is extending the boundaries of decision-making, while also building organisational capacity and resilience. Swilling (undated), writing about the South African context, suggests that securing ownership over the direction of change does not affect 'power relations per se, but rather the way solutions are defined, contested, negotiated and implemented'.

5.3 Realities of politics and public governance

Overcoming the ingrained practices of public administration in order to include low-income communities as development actors is a significant challenge – even where such groups bring substantial resources and delivery capacity to the table. The expectations and experience of city government is to maintain a formal separation between the practices of local government and the demands of service users. The 'proper' route for citizen involvement is expected to be through local councillors, or service providers related to specific issues or problems, or when invited to participate in policy consultation activities. Engagement beyond these 'normal' routes creates friction with established methods of public management, which can lead to conflict when the state chooses to assert its authority.

SDI provides an example of this issue (SDI, 2014: 30) from Lilongwe, Malawi. The Malawian Homeless People's Federation established the Mchenga urban poor housing fund to support community-led infrastructure investment, which combined savings from members and donor finance to create a citywide fund for slum upgrading. The fund was envisaged as a joint enterprise with the city authority to collectively plan and deliver infrastructure improvements. Despite significant resources being available, the city council was difficult to engage and refused to include the federation in decision-making processes. The donor organisation applied pressure on the local authority, which enabled communities to be more involved in determining the use of funding, but failed to resolve issues created by the imbalance of power.

While there may be seemingly clear objective financial and functional justifications for incorporating community funding into development schemes, public management decisions take place within political environments. Both central and local governments experience multiple pressures to preserve structures of authority and deliver policy priorities determined by politicians, which may be inconsistent with opening up funding and governance arrangements to the community. Smoke (2015) highlights the complex political economy of central and local government in relation to devolution of taxation. Similarly, politics and the preservation of power also operate in relations between community and city government. Here, patterns of entrenched interests including clientelism (Mitlin, 2014) and institutional inertia (Levy, 2014) may prevent the re-engineering of management and delivery arrangements needed to incorporate community funding into urban development schemes.

These studies underline the difficulty of adapting existing institutionalised arrangements, while also emphasising the complex contextual and relational aspects of political realities. Paradoxically, the dense and overlapping relationships found in urban areas (which may appear to be largely impenetrable to external donor agencies promoting public management reform) may be accessible to NGOs and community-based organisations that share historical experience and understanding of urban politics. While local-level groups may lack status, they have the advantage that they are within the same context and may have opportunities to work with city government. Grassroots groups may also be able to identify individuals within public organisations to act as champions, driving forward new approaches to community co-funding of development schemes.[8]

As a means of exploiting local knowledge and capacity, the strategic use of resources and the ability of organised communities to make a financial contribution to basic service investments can have an impact on managing political complexity. The experience of Indian SDI affiliates (Mahila Milan and the National Slum Dwellers Federation) was on reframing engagement with the state to demonstrate the potential of community contributions to improving infrastructure and services (see Mitlin *et al.*, 2011). Also, in Zimbabwe, the approach of the Homeless People's Federation with their partner Dialogue on Shelter for the Homeless in Zimbabwe Trust, focused on demonstrating to the state the benefits of working with organised communities to leverage Urban Poor Funds as a means to access international donors and contribute to housing and basic service infrastructure (see Shand, 2015).

8. See discussions of 'islands of effectiveness' in Leonard (2008), Levy (2011) and Crook (2010).

5.4 Impacting on development outcomes

Utilising the full potential of local-level finance to improve the responsiveness of development policy and public investment for low-income communities is a key challenge for SDG delivery. In addition to the examples and cases identified previously, IIED reports and other literature does provide a number of useful examples of local-level finance in action, and the affects these have had on institutions and development outcomes. The following sections highlight the impact on land, housing, basic services and climate change adaptation. However, it is important to also underline the broader implications for raising the capability of the development 'system'. As has been described above, organised communities, local and national governments and international donor organisations contribute, often separately, towards development outcomes. The benefits of coordinated approaches are achieved through improved knowledge; joint planning and management of development; increased effectiveness of targeted delivery; more efficient use of finance from multiple sources; and co-productive working.

5.4.1 Access to land

Mitlin *et al.* (2011: 20) report the activity of a women-led savings group in Kasungu Town, Malawi that successfully negotiated the allocation of land by the town assembly to a low-income community. Bolstered by the success of federation groups in the larger Malawian cities of Blantyre, Lilongwe and Mzuzu, the women of Kasungu approached their local assembly with a plan to address housing shortages for people on low incomes. Over time, a growing relationship resulted in the assembly allocating a large tract of land that, in the first phase, provides space for the construction of 100 houses and will, in the long term, accommodate further development including middle-income housing as a means to cross-subsidise lower-cost units. The organisational capacity and negotiating skills of the women in Kasungu enabled a positive response by the town assembly resulting in land for housing development.

An alternative to community-initiated co-production is where the state, recognising its own lack of capacity to meet the demand for housing, engages with local savings groups to be partners in development projects. Mitlin and Muller (2004) provide an example of a housing initiative in Windhoek, Namibia. The approach taken by the state reflects both a strong political commitment, grounded in the principles of the national liberation movement (as a shared cultural identity), and a pragmatic strategy to manage the cost of urbanisation. This illustrates how co-production, as Mitlin (2008: 349) points out, creates 'openings for citizen involvement in areas that have been reserved for the state'. Without the benefit of state-initiated action, building argument and evidence for allocation of land is changing and relies on effective local organisation and detailed information on the need for low-cost housing and supply of urban land (for example, see Box 12).

BOX 12. LAND STRATEGIES OF THE THAI NATIONAL UNION OF LOW-INCOME COMMUNITY ORGANIZATIONS (NULICO)

The experience of the Thai National Union of Low-Income Community Organizations (NULICO) has been a slow building of evidence and steady negotiation to demonstrate the need for land. The Thai federation has undertaken this task using the following steps. First, communities with land problems start saving, form community savings groups and organise themselves internally. Second, each community has to survey all its families, to obtain accurate information about the community, living conditions and land. Third, they must then assess the land status of all slums in the city, to build an accurate information base on who owns land (and where), the status of the land occupied by each community, and which communities are on land under the same ownership with potential for joint negotiation. Fourth, communities establish a network and set up a mixed city committee, including community leaders, municipal officials, academics, NGOs and other stakeholders, to begin studying citywide housing and land problems and to develop a common understanding of the information gathered by communities. The networks and the city committee can then propose which communities ask for lease contracts on the public land they occupy; usually a group of communities makes the request.

Sources: Mitlin *et al.* (2011); ACHR (2008)

5.4.2 Investment in housing and basic service infrastructure

Local-level finance is perhaps most effective when it is used to match or fill gaps in existing state and donor-funded development programmes. Using community-managed savings or microcredit facilities to provide support unavailable from commercial operators can provide an effective means of increasing the development impact of existing, if unconnected, development resources. An example of this is the Kuyasa Fund in South Africa (see Box 13 for operational details). This initiative complements the South African National Housing Policy and Subsidy programmes for low-income communities, by providing 'top-up' loans to fund family-sized housing construction. The Kuyasa Fund reports that the average size of constructed houses rises from 36m^2 under the national subsidy scheme to 60m^2 when loans are applied. The increased size generates development impacts, both in the quality of life for families, but also raises the potential for income generation from housing. By supporting economically active but low-income

BOX 13. MATCH FUNDING, SOUTH AFRICA: KUYASA FUND

Founded in 1999, the Kuyasa Fund provides loans for housing construction and improvement for communities in the Western and Eastern Cape. The fund targets low-income households who have regular income from employment or social security grants; some 79 per cent of people taking loans earn less than R3,500 per year. It offers loans of between R1,000 and R10,000, charging annual interest of 32 per cent, with the loans to be repaid over a 30-month period. The majority of loans are provided to women (72 per cent), three-quarters of whom are aged between 40 and 60. Since inception, the fund has issued a total value of R127 million in loans. Applicants to the loan fund have to be members of a savings group and commit to the savings ethos of Kuyasa. In addition to access to finance, members also benefit from education and training in budgeting and money management, are able to make links with construction trades and benefit from the advocacy support of the fund.

Sources: HiFi News (2003); Mills (2007); Kuyasa Fund (2011)

households, the fund augments the effectiveness of state programmes to deliver quality housing. Evaluating the Kuyasa Fund, Houston (2010) highlights how loans release the capacity of low-income households, working collectively through savings groups, to deliver housing to a good standard.

The Orangi Pilot Project (OPP) in Karachi, Pakistan provides an important example of how local leadership and the collective use of local-level finance can both address immediate development issues and create the basis for improved institutional relations with city government. In 1982, lane communities were organised to contribute funding and labour to the construction of a gravity-driven sewer system to address appalling public health conditions. This low-cost improvement could be financed easily by the monies that households were able to collect together over a short period of time. The work was initially undertaken independently of state and donor input, with communities and the OPP organising the delivery of construction works. With the success of the initiative, Karachi city council agreed to connect the local sewer network to the city trunk infrastructure and promote the model in other low-income settlements (Hasan, 2001; Zaidi, 2001; Mitlin, 2008).

The activity of the Mahila Milan savings groups in Mumbai and Pune, India, have demonstrated the effectiveness of community-based organisations developing new toilet blocks. When compared to investments by municipal authorities in informal settlements, which have often been poorly constructed and managed, the community-led developments are completed at a comparative or lower cost. With management of these facilities embedded as part of local community savings groups, toilet blocks are maintained by on-site caretakers, with the cost of this met through a small revenue generated by user fees. As a model, this demonstrates the effective and sustainable use of resources to meet a key development need (Burra *et al*., 2003; Mitlin *et al*., 2011)

An important form of achieving improvements in housing and basic services is through processes of incremental development: building and upgrading communities over a prolonged period as finances become available. While the slow incremental development of housing and communities is, to some extent, at odds with the standards-based approaches underpinning urban management institutions, it has been used effectively to utilise local-level resources for investment and co-production in the global South. Caroline Moser's (2009) longitudinal study of an informal settlement in Guayaquil, Ecuador demonstrates the development impact of persistent and long-term improvements over a 20-year period. Community investment in upgrading housing and pressure on local government to support locally led environmental improvements to roads and sanitation along with pressure to provide access to education, electricity and healthcare has led to the transformation of the Indio Guayas community.

5.4.3 Climate change adaptation

Community resources can be used to contribute to the cost, delivery and coordination of localised climate change mitigation and adaptation in settlements located in the global South. With Intergovernmental Panel on Climate Change (IPCC) forecasts of climate change indicating increasing severity of weather patterns worldwide (IPCC, 2007), cities – and in particular residents of informal settlements within conurbations – face increased risks of weather-related disasters (Pelling, 2003; Seto *et al*., 2014 in Edenhofer *et al*., 2014). The impact of climate change will be through large-scale events, such as floods, storms and landslides, and through more mundane effects of making the already precarious lives of the urban poor more difficult and dangerous.

A number of scholars including Wamsler (2007), Allen *et al*. (2010), Dodman and Mitlin (2011) and Wamsler and Brink (2014) highlight the potential of integrating everyday coping strategies, used by low-income communities to adapt to and mitigate changing climate conditions, into city-level programmes. While mindful of the implications of highly unequal power relationships between communities and state actors and the inability of even the most resourceful communities to address deficits in infrastructure investment, there are advantages to incorporating small-scale adaptations into larger programmes. Centrally, this approach aims to maximise the impact of household-level adaptations and community environmental management initiatives by connecting a myriad of small-scale schemes

into city infrastructure programmes. By linking with community-based initiatives, city authorities can access dispersed delivery capacity, are able to focus strategic resource investment, and can obtain detailed local knowledge important for targeting adaptation measures.

Local savings and loans are used by householders to fund adaptations to shelter to reduce the impact of seasonal flooding. As in the Korail settlement in Dhaka (see Jabeen *et al*., 2010), adaptations to housing include barriers across doors, increased height of furniture, higher storage facilities and the use of water-resistant building materials to limit impact and speed recover from water incursion into homes. Incremental adaptations to dwellings are made using regular earnings and accumulated savings for more expensive measures. The availability of community resources in the form of both savings and organised human capacity can provide an important input into larger-scale adaptations to climate change. Wamsler and Brink (2014) highlight communal efforts to purchase building materials to construct floodwalls and retaining walls in marginal communities in Rio de Janeiro and San Salvador. Community savings schemes were also used to purchase land and reconstruct housing for flood victims in the Bicol region of the Philippines (Carcellar *et al*., 2011). The Homeless People's Federation Philippines Inc. introduced a savings scheme as a framework to mobilise flood victims to work collectively to reduce future vulnerability to climate events and invest in housing (Box 14).

BOX 14. COMMUNITY SAVINGS AND LOANS: RECONSTRUCTING DAMAGED HOUSING IN THE PHILIPPINES

Low-income households affected by Typhoon Ketsana in 2009 were aided to return home and repair their houses through a community loan fund established by the Homeless People's FederationPhilippines Inc. This included small loans of up to Php7,000 (about US$155) which were provided to fund the purchase of building materials to repair housing units. Loans were repayable within one year, with responsibility for allocation, collection and repayment of loans given to local community groups. In addition to cash sums, the federation organised loan assistance workshops that supported a collective approach to housing repairs, used group procurement of building materials to reduce costs, and established the operation of local savings groups.

Source: Carcellar *et al.* (2011: 370)

6

Local-level finance and delivery of the SDGs

The cost of delivering the SDGs can appear overwhelming when viewed at a macro level, but addressing aggregate need is not the only way to understand and plan for implementation of development targets. The examples of various forms of local-level finance described in Section 3 highlight two important points. First, resources (cash and capacity) are available within communities to contribute to development, and in many respects public investments become more sustainable when local people are supported to meet a commensurate portion of the cost of physical developments and adaptations. Second, the challenge for international development is perhaps not just about generating more money to meet ever-inflating costs, but how resources are used more effectively to control the level of investment demand, to utilise multiple sources of funding, and to deliver programmes that involve and share responsibility for delivery among a range of stakeholders.

Examples from the global South highlighted in this paper demonstrate the potential importance of bringing together the untapped resources and capacity of communities, as part of a structured investment programme, alongside devolved funding of state agencies. When viewed as components within a re-engineered system for development delivery, local-level finance can help to contribute to SDG targets, while also securing participative and inclusive approaches to urban development.

It is interesting to note that the Sustainable Development Solutions Network (SDSN) (Schmidt-Traub and Sachs, 2015), in its submission to the Addis Ababa conference on financing for development in July 2015, states that there is a limited role for households and remittances towards the delivery of the SDGs, beyond stabilising income levels as a means of addressing chronic poverty. While in respect to large investments in physical infrastructure and service delivery, the state and international donors are essential funders to delivery at scale (Satterthwaite and Mitlin, 2014), the SDSN report appears to understate the potential of communities working together and the collective value of their contribution to sustainable development. The SDSN report articulates a dominant narrative that development is primarily the responsibility of governments and the market, with supporting direction from international donor organisations. Local-level finance, of the type described in this paper, is treated as peripheral and as being concerned with household consumption, rather than more strategic development goals. This narrative is reproduced in action, through policy and programming, to position communities as beneficiaries of development rather than as actors in realising development goals. To challenge this narrative, can we identify, specifically, where and how local-level finance can make a contribution to the urban Sustainable Development Goals?

To explore this question, the following sections attempt to identify the specific contributions of local-level finance to the urban development targets of SDG Goal 11, with examples where these are available. The remainder of this section then highlights some of the practical and policy challenges of mobilising local-level finance.

6.1 Repositioning local-level finance

To move beyond small-scale and isolated initiatives, local-level finance must be positioned to demonstrate its

potential contribution to the strategic targets included in the SDGs. This can be achieved by defining the discrete and unique contributions of local-level finance to sustainable development; the efficiency gains possible for national finance schemes through inclusive approaches; and the specific areas of impact against SDG targets.

Figure 5 below provides an illustration of the potential synergies of incorporating local-level finance within systems of development finance, to generate the following opportunities.

- **Match and aligned funding**: by inclusive programming of development funds (such as UPFs and CDFs) existing resources are augmented, creating the potential for scaling up. While the specific financial impact of community savings contributions are typically small, at around 2 per cent in the case of UPFs, the benefits of creating a connecting infrastructure (as in Figure 3) is high. The examples used in this paper highlight that there are multiple advantages to national and donor funders in enabling the inclusion of community-based savings both in the efficiency of targeting budgets and the sustainability of delivery.
- **Dispersed delivery arrangements**: the involvement of communities as co-funders of development delivery improves impact. As shown in the examples above, directly involving organised communities creates capacity for action, utilises local knowledge, grounds investments where they are needed, and motivates substantive involvement of communities in ensuring the lasting benefit of interventions.
- **Expanded delivery options**: as illustrated in CDFs and devolved state funding, national governments can innovate and improve the impact of investments by working with and through local-level finance. The case studies identified in this paper underline the benefits of community leadership and local-level finance flowing from increased efficiency of public expenditure and equity gains by adapting existing institutional barriers to involve organised communities in decision-making.

The challenge of making this argument relies on showing how more inclusive arrangements add value to rather than undermine the functioning of public administration. Within a narrative – as evident in the SDG targets – that emphasises efficiency and effectiveness (narrowly measured), the challenge of inclusive urban development is positioning local-level finance as a net contributor to delivery capacity. Beyond abstract arguments, the evidence of existing practice can be linked specifically to the achievement of SDG targets. Table 6 identifies examples of local-level finance using the themes discussed in Section 4.4 to suggest where and how local-level finance contributes to SDG targets.

The changed perception of diaspora resources and remittances in international policy offers useful lessons for creating a strong narrative for local-level savings as a form of development finance. Despite the individualised and social character of remittances, which are most typically used to meet housing and everyday expenses of low-income households (Mercer *et al.*, 2008), diaspora resources have come to be considered, in aggregate, as a key potential source of development finance. The World Bank tracks the global flow of (officially recorded) remittances to developing countries and estimated in 2015 that transfers had a value of some US$432 billion (World Bank, 2016). The World Bank (2013: 36) stated

Figure 5. Including local-level finance

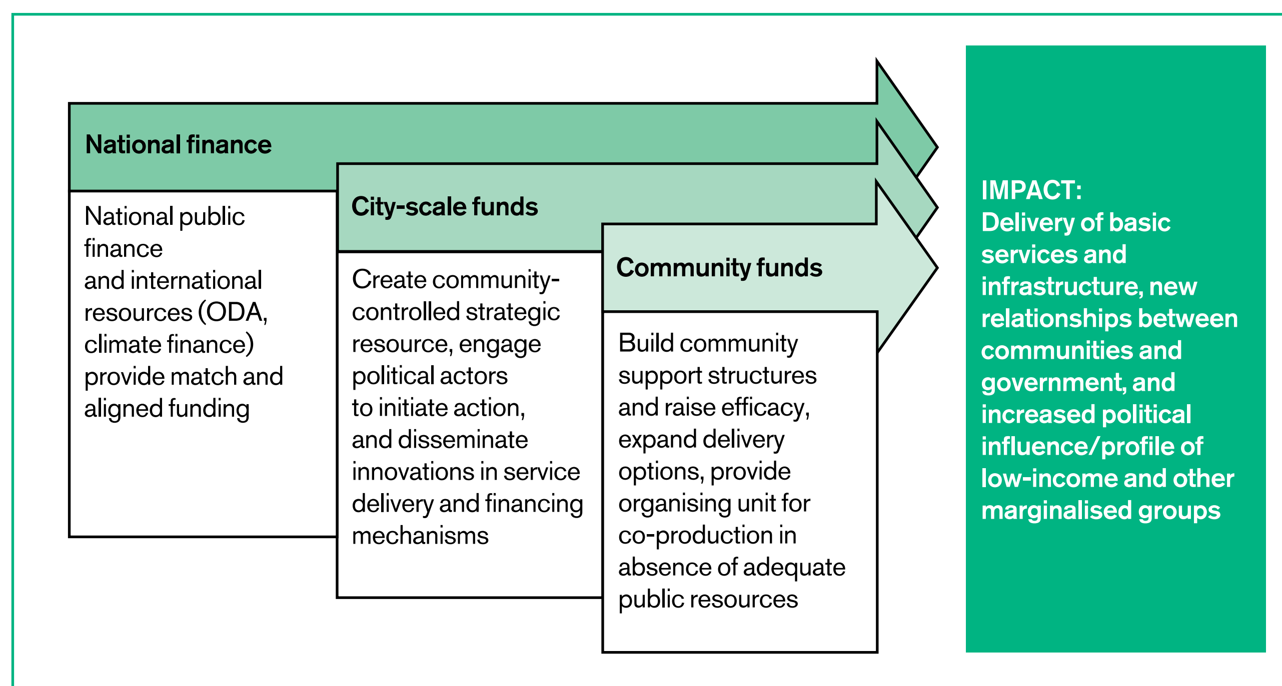


Table 6. Local-level finance and SDG targets

THEME	LOCAL-LEVEL FINANCE DEVELOPMENT OUTCOMES	LOCAL-LEVEL FINANCE SUPPORTS CITY/NATIONAL STRATEGIES	IMPACTS ON SDG TARGETS
Improving access to finance services	▪ **Community savings** – offers a framework for community-led savings and loans and improves financial literacy and management of household finances ▪ **MFI** – where socially oriented can provide start-up and investment capital for enterprise	▪ Creates aggregate financial resource to contribute to development activity – Box 4 ▪ Contributes to formal/informal enterprise activity thereby contributing to stability of household finances – Box 5 ▪ Women's savings groups – eg Zimbabwe	▪ Eradicate extreme poverty (SDG 1.1) ▪ Promote economic inclusion (SDG 10.2) ▪ Accountable institutions (SDG 16) ▪ Gender equality (SDG 5)
Strengthening collective working	▪ **Community savings** – builds skills and capabilities to organise and manage collective decision-making ▪ **CDF and UPF** – scales up engagement on and contribution to strategic issues of urban development	▪ Helps to create active and informed communities – partners in development – Box 2 ▪ Provides the basis for co-production of development outcomes – eg OPP	▪ Improves social links between social groups (partial SDG 11a) ▪ Mobilisation of resources for development (SDG 1a)
Access to land	▪ **CDF and UPF** – works at city and settlement level to support the poor to secure land ownership/ tenure ▪ **Devolved state funding** – targets integrated housing and community development	▪ Creates local organisational structures to coordinate the development of land – eg Windhoek ▪ Fund the purchase of land to relocate communities to areas at lower risk of environmental impact – eg Bicol, Philippines	▪ Access to safe and affordable housing (SDG 11.1) ▪ Enhance inclusive and sustainable urbanisation (SDG 11.3)
Housing and service infrastructure	▪ **CDF** – match-funding grants for local improvements – toilets, paving and housing repairs ▪ **MFI** for housing investment supports incremental upgrading	▪ UFP/CDS and UPFI provide substantial direct resources and a platform for donor contributions to upgrading – Box 6 ▪ Creates knowledgeable 'client' for devolved state housing-development budget – eg ACCA	▪ Access to safe and affordable housing (SDG 11.1) ▪ Reduce water and soil pollution (SDG 3.9)
Climate change adaptation	▪ **Community savings** – provide small loans for adaptation to housing ▪ **CDF** – urban investment programmes for housing and environmental adaptations	▪ Addresses impact of environmental disasters in low-income communities – Box 9	▪ Reduce loss from disasters (SDG 11.5) ▪ Strengthen resilience to climate change (SDG 13.1)

that diaspora resources 'represent a hitherto untapped potential source of financing for development efforts'.

Through policy, efforts are being made to reduce the transfer costs of remittances to developing countries (also an SDG target: 10c) and capture and incorporate remittances into finance systems for development. Proposals include the creation of development bonds made available to diasporic communities as financial instruments to contribute to specified development projects (Ketkar and Ratha, 2007 discuss the use of bonds by Indian and Israeli governments). The World Bank (2013) suggests that to maximise the development potential of bonds, they could be geared to improvements to public infrastructure including schools, hospitals and housing.

While there are limitations to elaborating a diasporic finance model (not least the estimated aggregate value compared to the total value of organised savings), the positioning of remittances provides some lessons for how the narrative for community-based savings could be constructed.

- **Discussions of remittances for development focus on the aggregate value of resources**: the values used are attractive to governmental and mainstream development agencies and, in some respects, are consistent with the level of budgets for major programmes.
- **Engagement of state and private-sector partners**: the positioning of discussions operates at a number of levels, being a topic of interest at international/regional levels (for example, to the World Bank and Africa Union/ African Institute for Remittances (AIR) project) as well as through commercial networks and at local/city levels where development interventions are implemented. The cross-cutting character helps reinforce and validate the importance of remittances as a source of development funding.
- **Formalising funding as financial instruments** (such as denominational bonds) recreates socially sourced funding in a way that is recognised by organisations within the financial system.

7 Conclusion

While there is a strong argument to be made, in principle, for the benefits of recognising local-level funds as a key source of development finance, there are a range of attitudinal and evidential gaps in building an effective and alternative narrative. A primary challenge is shifting the perception of local-level finance as being limited both in significance (value) and scope (application) to household issues. Evidence from SDI and ACHR programmes demonstrates clearly that the creative use of small-scale funding, distributed amongst a large number of beneficiaries, can have an important developmental impact. Investments in land, housing, livelihoods and environments have stabilising effects that assist households to cope with the many challenges of urban poverty.

A further challenge is reconsidering the function of local-level resources within a wider system of development finance. The scale of resources available clearly does not match those of state or donor organisations, but nonetheless can play an important role in facilitating inclusion. The SDGs provide an opportunity to push the multiple functions of local-level finance to improve access to 'hard-to-reach' communities, to enable meaningful participation in development activity, to enhance local-level accountability structures and access latent resources (money, labour and organisational capacity) within communities. Local-level finance, rather than providing an alternative to state resources, can be adopted as an enabling function, helping to make public programming more effective in terms of cost and impact.

There are clearly some challenges in translating savings – the prime intention of which is to smooth household consumption and risk – into a driver of development. It should be accepted that in some cases this transition will not be possible or desirable. However, finding ways to 'count in' small-scale initiatives and to systematically document the impact of these activities at household, settlement and city levels can only enhance the ability of community leaders to negotiate improved relationships with state agencies. A key issue for building an alternative narrative is how these issues are championed with different audiences and the critical points of attack needed to garner support.

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Appendix 1. SDG Goal 11 targets

Goal: Make cities and human settlements inclusive, safe, resilient and sustainable

11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.

11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.

11.4 Strengthen efforts to protect and safeguard the world's cultural and natural heritage.

11.5 By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations.

11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.

11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities.

11.a Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning.

11.b By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters, and develop and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015–2030, holistic disaster risk management at all levels.

11.c Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials.

Source: Sustainable Development Knowledge Platform (undated)

Acronyms

ACCA	Asian Coalition for Community Action
ACHR	Asian Coalition for Housing Rights
ASCrA	Accumulating savings and credit associations
CDF	Community Development Funds
CGAP	Consultative Group to Assist the Poor
CLIFF	Community-Led Infrastructure Finance Facility
CODI	Community Organizations Development Institute
CUF	Community Upgrading Fund
CUFF	Community Upgrading Finance Facility
FDI	Foreign direct investment
HPFPI	Homeless People's Federation Philippines Incorporated
IIED	International Institute for Environment and Development
INGOs	International non-governmental organisations
MFI	Microfinance institution
NGO	Non-governmental organisation
ODA	Official development assistance
OPP	Orangi Pilot Project
RoSCA	Rotating savings and credit association
SDFN	Shack Dwellers Federation of Namibia
SDGs	Sustainable Development Goals
SDI	Shack/Slum Dwellers International
SDSN	Sustainable Development Solutions Network
UPCA	Urban Poor Coalition Asia
UPF	Urban Poor Fund
UPFI	Urban Poor Fund International

Related reading

D'Cruz, C, Amakali, E, Chege, P, Kandundu, V, Mbanga, E, Muller, A, Namwandi, S, Niingungo, N, Price, S, Shenyange, A, Shuunyuni, H and Waniru, S (2014) Community savings: a basic building block in the work of urban poor federations. IIED, London. http://pubs.iied.org/10711IIED

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The scale and ambition of the Sustainable Development Goals (SDGs) create a challenge to transform the way in which urban development is funded, managed and delivered. Estimates suggest that low- and lower-middle-income countries may need to increase public and private expenditure by over US$1 trillion per year to achieve the SDGs. While much international debate is focused on reforms to the development finance system to respond to the SDGs, this paper explores the potential contribution of local-level finance to delivering inclusive change at the grassroots. Drawing from a broad base of literature, the paper examines the opportunities and the challenges of including local-level finance, and the capacity offered by organised low-income communities, alongside mainstream public and development funding and delivery.

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Funded by:

This research was funded by UK aid from the UK Government. The views expressed do not necessarily reflect the views of the UK Government.