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## **Improving Donor Support for Urban Poverty Reduction**

A focus on South Asia

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### **Abstract**

The growing urbanization of poverty poses a significant challenge to governments and donors alike, particularly in Asia, which houses 60 per cent of the world's slum dwellers. Donors have been slow to respond to the urban challenge, however, both in their funding patterns and their priorities. There remains, therefore, significant scope for tangible benefits for the urban poor through greater formal and informal recognition, and in the process, through improved access to services and infrastructure, and improved health outcomes. Key to meeting these goals, however, is overcoming the social and political exclusion of the urban poor, which has so far been a key obstacle to donor involvement in the urban sector. Where national governments in developing countries remain reluctant to recognize the urban poor, donors must seek new ..... /

Keywords: urban poverty, foreign aid, Bangladesh, South Asia  
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... funding mechanisms for urban poverty reduction, as discussed here. Where there have been successes in improved service delivery for the urban poor, it has been generated by collective mobilization of low-income households themselves, as active agents, allowing them to press their demands for greater legitimacy and recognition in rules and regulations, entitlements, and service provision. New forms of partnership will be required. For greater progress in urban poverty reduction to be made, however, the ability to support new forms of decentralized aid must be accompanied by a greater commitment from donors to urban poverty within their priorities and funding patterns.

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## 1 Introduction

The year 2008 represented a major milestone in the world's history, marking the first time more than half the world's population lived in cities and towns. The early twenty-first century will see unprecedented urban growth in the developing world, especially in Asia and Africa where the urban population will double between 2000 and 2030 (UNFPA 2007). Asia already has half the world's urban population and 60 per cent of the world's slum dwellers (DFID 2010).<sup>1</sup> These statistics must be viewed from the right perspective. Commonly discussed as 'explosive', 'unprecedented' or 'out of control', these perspectives view the speed of urban growth as problematic, thereby hiding the benefits of growth (Satterthwaite 2002). Censuses in the early twenty-first century showed the world as less urbanized and less dominated by large cities than expected (*ibid.*), with many urban residents living in small towns—even large 'villages'—rather than big cities. These shifting urban dynamics bring both opportunities and challenges.

Urbanization is a major contributor to economic growth, as well as to the structural transformation that allows low-income rural societies to modernize and join the ranks of middle-income countries: as cities grow larger, faster gains in urban productivity begin to dominate (Clarke Annez and Buckley 2009). In general, the more urbanized a country, the stronger and more productive its economy is (Satterthwaite 2002). Helping cities, therefore, also supports national development (Stren 2008). Although economic growth is the driving force that underlies poverty reduction in developing countries (Gunther et al. 2005; Stern et al. 2005; Besley and Cord 2007; Rodrik 2007), in many countries, by fostering economic growth, urbanization has helped to reduce national poverty, but has done little for urban poverty reduction (Ravallion et al. 2007). Despite increases in urban growth and productivity, therefore, growing urban poverty characterizes most developing countries (Cohen 2001a).

The distribution of the benefits of urban growth is determined largely by political considerations: government spending in large part decides who benefits or who loses from the benefits of economic growth. Political commitment, therefore, is critical to a fair distribution of the benefits of growth (Klasen 2003; Lindahl 2005), including poverty reduction efforts across rural and urban areas. Underlying the inability or unwillingness of some developing countries to embrace the process of urbanization is a number of traditional beliefs, or 'myths' about urbanization (Satterthwaite 2002; Clarke Annez and Buckley 2009; Banks et al. 2011), including that investment in cities fuels 'unproductive and unmanageable' rural-to-urban migration, and that urban growth is driven by a pro-urban bias. This extends to an inability or unwillingness for some governments in South Asia to incorporate urban poverty reduction into national policies (Banks et al. 2011).

Urbanization, therefore, is accompanied by conflicting paradigms: while it acts as a catalyst for poverty reduction at the national level, it is accompanied by increasing levels of urban poverty. Foreign aid has been slow to respond to these changing population dynamics (Satterthwaite 2001a, 2001b; Mitlin and Satterthwaite 2007; Stren 2008). In part, this is because the development and implementation of policies for

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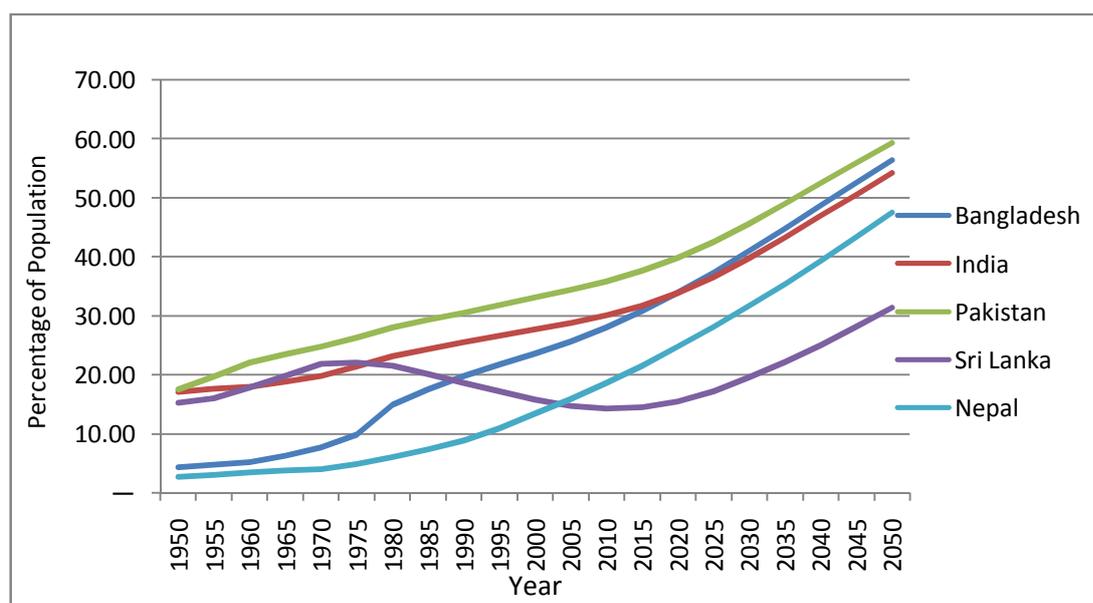
<sup>1</sup> Appendix 1 illustrates the proportion of the world's population living in urban areas, and highlights the prevalence of large and 'mega' cities in the Asian region.

poverty reduction in urban areas face enormous challenges in scale and complexity (Pugh 1995). This is due to some of the distinct characteristics of urban poverty and the political economy of poverty reduction in urban areas, as the following section discusses. Section 3 then traces the history of foreign aid investment in urban areas, before Section 4 discusses opportunities for future investment in urban poverty reduction given key lessons learnt through past experience. Section 5 concludes that although the last decade has brought new funding mechanisms through which donor funds can be channelled to effective urban poverty reduction initiatives, a more concerted effort for urban poverty reduction will be in part dependent on greater recognition of urban poverty by donors themselves: there is a strong need for urban poverty to be incorporated into the central agendas and priorities of donor funding.

## 2 Urban poverty and the politics of urban poverty reduction

In the immediate future, 93 per cent of global population growth is expected to be in urban areas of developing countries (UN-Habitat 2011). Consequently, some 80 per cent of the world's population will be living in towns and cities by 2030 (UNFPA 2007). Figure 1 illustrates this demographic shift in South Asia from 1950 to 2050.

Figure 1: Percentage of population residing in urban areas (1950 to 2050)



Source: Calculations from UN Population Division 2009.

These shifting population dynamics mean that poverty is rapidly becoming an urban phenomenon (Buckley and Kalarickal 2005). In 2002, for example, for the first time the poverty rates in India's larger states became higher in urban than rural areas (ibid. 2005). The donor community must meet this change in poverty dynamics with increased recognition of the unique vulnerabilities and challenges associated with urban poverty, and the need for investment in more urban poverty-appropriate channels of funding.

Although cities offer opportunities that ensure urban populations are, in general, better off, a large number of households suffer vast inequalities in access to housing, nutrition, services, healthcare and education. These deprivations are compounded by the nature of urban poverty—high population densities, pollution, vulnerable environments, crime and insecurity—to ensure significant vulnerabilities for the urban poor, particularly in terms of health (Banks 2010). These problems will be exacerbated by climate change, which will result in increased in-migration of rural migrants, increasingly fragile environments in which the urban poor live, and the overstretching of their limited access to basic services (DFID 2010; Banks et al. 2011).

Less is known about the distinct dimensions and vulnerabilities of urban poverty, however, let alone about urban poverty reduction. For decades, ‘poverty reduction’ was synonymous with rural poverty reduction, and while decades of focus on rural poverty in programme, policy and research mean that international aid architecture, NGOs and civil society are well versed in designing and implementing programmes and policies for rural poverty reduction, this is not the case for urban areas (Banks et al. 2011).

If aid is to deal more effectively with the challenges of urbanization and urban poverty then it is essential to understand the driving forces of urban poverty, and what determines successful exits from urban poverty. The following sections highlight some of the key characteristics and drivers of urban poverty in developing countries, from which two issues stand out. The first is the need to address the high financial and health costs that slum dwellers face in accessing infrastructure and services, with a potential role for aid in funding improved service and infrastructure and cheaper access to them. The second, perhaps most important issue, relates to changing the relationship between local governments and the urban poor: this, in many cases, also implies changing the relationship between national and urban local governments.

## **2.1 Limitations of income-based definitions of urban poverty**

Where definitions of urban poverty are rooted in income-based measures, they fail to recognize or address the broader vulnerabilities associated with urban poverty. Given a focus on income-based measures of poverty by donors and the international community, the magnitude of poverty is likely underestimated in urban areas of developing countries, because national poverty lines are unlikely to meet the costs of living in urban areas (Satterthwaite 1997).<sup>2</sup> The monetization of the urban economy means that the urban poor face high costs that include monthly food, rent and transportation costs, the high costs of illegal water and electricity, as well as fees for health and education. Monthly rental costs greatly increase the urban costs of living. In a study of four slums in Dhaka, Bangladesh, for example, Banks (2010) finds that monthly rental payments constituted between 17 and 22 per cent of mean monthly income across four low-income communities. Likewise, the costs of rental housing in India are around one-quarter of the official poverty line (Chandrasekhar and Montgomery 2010).

Consequently, urban poverty lines greatly underestimate the prevalence of urban poverty. While only two per cent of households are designated ‘poor’ by the official poverty line in the Indian city of Pune, for example, 40 per cent of households live ‘in

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<sup>2</sup> One cross country-study, for example, reveals that urban poverty lines are, on average 30 per cent higher than rural poverty lines (Ravallion et al. 2007).

poor conditions' (Bapat 2009). Given this limited understanding of the realities of urban poverty, one potential role for donors is to help governments develop a better and localized understanding of urban poverty and its dynamics by investing in research.

## **2.2 Land and housing**

Issues of land in urban areas act as a major obstacle to urban poverty reduction. Where informal settlements lack legal ownership of land, the ever-present threat of eviction prevents NGOs and service providers from investing in them (Banks et al. 2011). Although some developing countries have formulated and implemented comprehensive land and urban policies, the general characteristic is one of gaps and inadequacies (Pugh 1995). Urban land reform, given its intensely political nature,<sup>3</sup> is one of the major barriers to addressing urban poverty (Cohen 2001b). The reality is that it takes at least a decade to make significant progress in land issues—including resourcing and management of infrastructure, the development of housing finance capital and land management and land policy reform—and until then, low-income urban households continue to live in informal settlements with various levels of legality, servicing and acceptance by political authorities (Pugh 1995).

Across the developing world, housing is believed to be the most important asset to low-income urban households, both as an economic and productive asset and for its role in household security (Moser 1998). Shelter options for the urban poor, however, are characterized by high-density, poor-quality housing in low-income informal settlements that lack service provision, charge high rents, and offer insecure tenure vulnerable to eviction. A lack of durable housing and sufficient living space are characteristic of urban residents living in informal settlements across the developing world (UN-Habitat 2006). Housing is not solely a physical and/or productive asset, it should also be connected to social processes (Cohen 2001b). It is a critical part of household welfare and also of the spirit of communities: these social and institutional multipliers should be viewed as importantly as economic multipliers (Cohen 2001b). Urban poverty has received more interest and programmes in Central America, where SIDA pioneered and developed integrated models for urban poverty reduction focused around housing.<sup>4</sup> These models did not, however, transfer successfully to South Asia—facing greater political obstacles as discussed in the following sections, amongst other reasons—and were dismantled by the administration in Sweden in the mid-2000s. Key lessons learned in these programmes were that recognizing the different needs and resources available within low-income groups—a key pre-condition for successful urban poverty reduction programmes—could not happen without participation from low-income communities (Stein 2001), and that building standards, rules and regulations should be adapted to meet the needs of the urban poor (Stein and Castillo 2005).

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<sup>3</sup> Land reform is a political issue for several reasons. Slum improvement projects are a direct threat to private landowners, who often do not receive adequate compensation from the state for their loss of land. In addition, projects in slum areas are viewed as legitimating the rights of the poor to security and a place in the city (Cohen 2001b).

<sup>4</sup> See Stein (2001) for the experiences of the Sida-funded Local Development Programme (PRODEL) in Nicaragua, for example. See also Stein and Castillo (2005) for a review of Sida-funded integrated housing programmes in five countries of Central America.

Political difficulties should not deter donors from finding ways to invest in housing initiatives for the urban poor, capitalizing on the lessons that have been learned from earlier housing initiatives. Buckley and Kalarickal (2005) document the positive shift from technical support to community participation in housing and slum improvements. Early sites and services projects in the 1970s and 1980s viewed beneficiaries as little other than direct beneficiaries. In contrast, many countries and projects now adopt a community-based approach, working with NGOs and community-based organizations to help communities identify the solutions to the provision of water, sanitation and other services, and to help with shelter design and targeting. Such an approach can support the ways in which urban poor households themselves are currently investing in housing infrastructure. Section 4 will illustrate one successful movement for the urban poor—Shack/Slum Dwellers International—that has resulted in improved building regulations that take into account the land and financial constraints the urban poor face, and in some cases have meant urban poor communities have been able to negotiate the right to purchase land. Successful initiatives such as these provide important lessons for donors interested in funding urban poverty initiatives.

### **2.3 Limited access to services**

Poor access to services is a common characteristic of low-income settlements, with service providers hindered from providing legal services due to insecure tenure. This means that the urban poor are largely reliant on illegal supplies of services such as water and electricity. Low-income urban communities usually receive services illegally, through systems of political patronage. Local leaders or ‘businessmen’ are able to tap into water or electricity supplies whilst being protected from punishment due to their political connections (see, for example, Banks 2008a). While this may ensure that the urban poor are able to access a basic level of services, this comes at both a financial and non-financial cost: supplies are of low quality and irregular, as well as expensive. In Bangladesh, for example, one study found that slum dwellers paid up to three times more for electricity than those that accessed it legally (Rashid and Hossain 2005).

These limitations suggest that donors need to put greater resources into urban infrastructure and service provision. It is unlikely, however, that the benefits of investments would accrue mostly to low-income households without a wider change in policy to overcome the underlying difficulties surrounding legality. While this is not an area that donors can traditionally intervene in, as Section 4 discusses further, funding initiatives that renegotiate the relationship between citizens and the state can be one route through which donors can influence this politically sensitive issue, and through which access to improved services can reach the urban poor.

### **2.4 Poor health outcomes**

The *2006/07 State of the World's Cities Report* (UN-Habitat 2006) discussed the ‘urban penalty’ paid by the urban poor: city residents living in slums across the developing world are as badly off, if not worse off, than their rural counterparts. High population densities, vulnerable environments, a lack of infrastructure and social exclusion have meant that urban poverty is as severe and dehumanizing as rural poverty (UN-Habitat 2006). Given these living environments, urban health inequalities usually begin at birth, are reproduced over a lifetime, and are exacerbated by a double burden of

communicable and non-communicable diseases and the impact of climate change (Sverdlik 2011).

This is most evident in health indicators, with poor urban residents experiencing comparable rates of malnourishment and hunger, higher prevalence of diarrhoea and HIV/AIDS, and a greater likelihood that children will die of pneumonia, diarrhoea, malaria or measles (UN-Habitat 2006). This is largely due to living conditions in informal settlements, with poor infrastructure and services, a lack of sanitation facilities and garbage disposal, over-crowded households and communities, and poor ventilation resulting in a high prevalence of illness and disease. These facilitators are exacerbated by low immunization rates and limited access to affordable medical care in low-income urban communities. One recent study investigates urban health inequalities in India, the country with the second largest urban population. It reveals large disparities amongst the urban population: those living in slum areas have poorer indicators in child and maternal health, and poorer housing conditions and provision of health care (Agarwal 2011). While urban health inequalities are widespread, it is important to highlight that densely-populated urban areas offer great potential in improving health services for the poor given their proximity to health facilities, economies of scale and a higher capacity to pay (Satterthwaite 2002; Sverdlik 2011). These indicators highlight a potential role for donors in improving access to health services for the urban poor. In Bangladesh, for example, the ADB-designed Urban Primary Healthcare project is now in its second phase. Funded by DFID, SIDA and UNFPA, this aims to increase access to affordable healthcare services for the urban poor—particularly focusing on women. With the second phase, coverage has been increased to 46 per cent of the *total* urban population, meaning that a significant proportion of low-income urban households are still outside its coverage, however. (LCG 2010).

Given that access to health services does not improve the underlying drivers of poor health outcomes, however, this emphasizes further the importance of improving access to services such as water and electricity for the urban poor to improve their living environments. This has been a difficult challenge for donors, however, as it requires challenging the existing social and political exclusion of the urban poor, as the next section discusses.

## **2.5 Social and political exclusion**

Social characteristics are frequently excluded in analyses of urban poverty, yet impinge greatly on low-income settlements (Moffat and Finnis 2005). As Section 3 discusses in further detail, infrastructure improvement, on its own, has limited impact in addressing the underlying vulnerabilities of the urban poor, which are in large part a result of their social and political exclusion. Urban poverty is not just about economic scarcity, environmental vulnerability, and the health problems associated with these. Some of the hardest vulnerabilities they face are due to a hostile political economy of poverty in urban areas. While opportunities for education, employment and services are more plentiful in urban areas, low-income urban residents are unable to access these opportunities to improve their livelihoods. Many of the obstacles facing the urban poor are political in nature: policies and practices of national and municipal governments have created inequalities in education, health status, income levels, and political power, which prevent the urban poor from accessing the opportunities afforded by urban growth (DFID 2001).

These aspects of urban poverty are rooted in local contexts, local power structures and local institutional performance (Satterthwaite 2001b). As DFID (2010) recognizes, ‘often the urban poor are persistently excluded, resulting in poverty being pervasive and entrenched, and receiving inadequate attention in policy from central or local governments’. While policies and intervention in land, infrastructure, housing, health, education and skills training can reduce poverty in urban areas, in practice, the major barrier to urban poverty reduction occurs at national and city level from political resistance, unwieldy institutions, and cultural conditions (Pugh 1995). There is, therefore, a strong connection between urban poverty reduction and the reduction of political exclusion of the poor in urban areas at both municipal and national levels (Satterthwaite 2001a; Souza 2001). This provides a challenge to donors interested in urban poverty reduction, for whom technical support, rather than political intervention, is the norm.

The low political priority given by national governments to the urban poor in developing countries is now widely recognized (DFID 2001, 2010; Mitlin and Satterthwaite 2007; Banks et al. 2011).<sup>5</sup> The urban poor are commonly viewed as a constraint on city development, and there are obstacles to improving the urban poverty agenda at the national and local levels (Mitlin and Satterthwaite 2007; Banks 2008a). Governments at the national level are unwilling to address inequalities faced by the urban poor, and municipal governments—although best placed to address issues facing the urban poor—tend to lack the finance, competence, and accountability necessary to address the growing poverty in their cities (Mitlin and Satterthwaite 2007). Interviews with government officials in Bangladesh, for example, revealed that given the limited funds of urban authorities and the scale of urban poverty, urban poverty reduction was viewed as ‘the impossible’ (Banks 2008b). Even where governments have been more interested in issues of urban poverty, this does not guarantee success. If states work on their own assumptions of the needs of low-income urban households they often create processes that are counter-intuitive to urban poverty reduction (Sekai and Muvindi 2010).

Strengthening local and municipal governments to be more accountable and responsive to their low-income residents is therefore a crucial component of urban poverty reduction, as Section 4 will discuss in more detail. In many developing countries, however, strengthening urban governments is particularly complex politically, because it implies less power for government agencies and the state at the national level (Satterthwaite 2001b; Stren 2008). Across Africa in recent years, there have been several countries in which municipal elections have given victory to opposition parties (see Cohen 2001b; Stren 2008; Resnick 2011). In Bangladesh, the winning of Dhaka’s mayoral position by the opposition party in 1994 has been named one of the major contributors to decline the BNP, who lost power in the following election (Banks

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<sup>5</sup> In the context of Bangladesh, Banks et al. (2011) give a detailed overview of why the urban poor are neglected in policy, research and action in comparison to the rural poor. In part, this is dependent on issues of national image and identity: the country has made the transition from an agrarian country to one that is highly urbanized without any shift in recognition of what this means for policy and action on poverty reduction. A number of political economic factors make the pursuit of narratives about urban poverty less attractive for those with social and economic power, including that national government is reluctant to decentralize power and resources to a municipal government that may be captured by the opposition party. In addition, large urban electorates cause problems for political representation of the urban poor. The political economy of urban areas, therefore, means that it is hard to challenge the structure of interests necessary to ‘deliver’ urban poverty reduction to the urban poor.

2008a). National governments, therefore, are reluctant to decentralize power and resources to positions that can be ‘captured’ by the opposition party. It is critical for donors to understand these relationships between national and local governments—and between the state and the urban poor—to ensure that they utilize appropriate funding modalities that do not exacerbate this exclusion of the urban poor. In the case of Zambia, for example, Resnick (2011), highlights the implications of providing donor assistance through budget support on the low-income urban communities. While the trend towards democratization and decentralization was based upon the belief that local governments would be more effective agents of service delivery and poverty reduction, the decentralization of roles and responsibilities to local governments has not been matched by the decentralization of financial resources. This is especially the case in large cities where the opposition party have been elected to power. While mayors have to rely upon central governments for transfers to meet service delivery needs, central governments have little incentive to allocate resources to opposition municipal governments, for fear that the opposition will garner further support if the conditions of low-income residents are seen to improve.<sup>6</sup> These experiences suggest direct budget support to be an inappropriate form of aid for improving urban welfare and poverty reduction. This is especially the case in countries where the central government is the sole recipient of funds, since donors have little or no influence on how funds are spent once they are transferred (Resnick 2011). Greater oversight than traditional forms of budget support allow is therefore necessary for funding efforts for urban poverty reduction to reach their intended beneficiaries (Resnick 2011).

The obstacles created by relationships between national and municipal governments tell only one side of the story, however. The problem also lies in the large gulf between government institutions and the urban poor. While the high concentration of low-income urban households provides a major strength in terms of urban poverty reduction—offering greater scope for joint action, community mobilization and negotiation with government bodies for access to infrastructure and services within democratic structures—so far donors have been slow to respond to this knowledge (Satterthwaite 2002).<sup>7</sup> As recognized by Mitlin and Satterthwaite (2007), however, ‘It is difficult to envisage any great possibilities for poverty reduction in urban areas without changes in the relationships between local governments and the poor’.

As this section has highlighted, one of the major difficulties of implementing urban poverty reduction programmes—in comparison with rural poverty reduction programmes—is political resistance. By their nature, urban poverty reduction programmes require challenging the state to change political relationships in order to recognize and legalize the urban poor, and in doing so include them as a legitimate part

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<sup>6</sup> It is important to note, however, that these political difficulties tend to be limited to capital and/or primate cities, and any funding efforts must recognize that urban poverty and its causes are different in small and large cities, and therefore require different—or at least modified—approaches. Thanks to Diana Mitlin for highlighting this point.

<sup>7</sup> This is, however, a double-edged sword. While the proximity of low-income urban residents to local governance structures and large number of low-income poor households means there is a greater potential impact of ‘good’ local governance, there is also a greater potential impact of ‘bad’ governance in terms of limiting access to land, jobs and basic services through discriminatory rules and regulations (Satterthwaite 2002).

of the city.<sup>8</sup> Participatory approaches which encourage new forms of communication and accountability between local governments and urban poor communities have proven to be key to successful urban poverty reduction programmes, as Section 4 reveals in further detail. Before Section 4 analyses lessons learned on urban poverty reduction and assess how foreign aid can further contribute to these successes, the following section provides an overview of the somewhat limited role of foreign aid policies and funding for urban poverty reduction until now.

### **3 Foreign aid policies and programmes for the urban poor**

Urbanization has long been recognized as an enormous challenge to global development. An early speech by John Caines the UK Permanent Secretary of ODA recognized the growing spectre of urbanization and urban poverty, and the distinct challenges that this would pose for aid and poverty reduction, bringing attention to the need for a ‘fresh and more effective approach’ to urban poverty reduction (Caines 1988).<sup>9</sup> The proportion of foreign assistance going to urban projects, however, has always been, and remains, small in comparison with total aid (Cohen 2001b). This section reviews trends in urban assistance from foreign aid since the 1970s.

While a focus on effective urban policy within developing countries has become increasingly significant within overall economic and social development policies, until the 1970s urban policy was largely neglected (Pugh 1995). It was not until the late 1980s that urbanization was embraced: this signified a switch away from ‘urban bias’ theories<sup>10</sup> and towards a recognition of the contributions to economic development that urbanization offers. The urban bias theory, however, is still supported by many Northern development agencies, despite its obsolescence, and this has been a major contributor to a lack of, and to a decline in, foreign assistance for urban development and poverty reduction (Stren 2008; Jones and Corbridge 2010). Given that we are now observing higher levels of urban poverty relative to rural poverty in some countries, this calls for the theory to be re-evaluated (Jones and Corbridge 2010). As well as funding levels, a relative ‘neglect’ of urban poverty is visible in staffing and donor documents. Key donor documents give little scope to urban issues, and the urban departments of most donor agencies are small (Jones and Corbridge 2010).

The World Bank was one of the first multilateral or bilateral agencies to incorporate an urban agenda in its lending activities in the early 1970s, and has remained the largest

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<sup>8</sup> Interview, international adviser, GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit; formerly GTZ).

<sup>9</sup> Prior to 1997, the UK delivered its development assistance through the Overseas Development Administration (ODA). The Labour Party’s win in 1997 resulted in a change in UK policy: ODA became the Department for International Development (DFID) and was upgraded to ministerial status with a more explicit focus on poverty (Amis 2001).

<sup>10</sup> The urban bias theory was first discussed by Michael Lipton in his 1977 book, *Why Poor People Stay Poor: A Study of Urban Bias in World Development*. His thesis argued that urban populations have too great a political influence and that government spending in developing countries is systematically distorted in favour of urban areas, therefore keeping the majority of rural populations in poverty (Lipton 1977). Investments, however, were investments in urban *areas*, not in urban poverty, resulting in critiques that spending was still inattentive to urban poverty. See Jones and Corbridge 2010 for a more recent analysis of the contemporary debate on urban bias theory.

development assistance agency to address urban poverty, focusing primarily on housing and infrastructure (Cohen 2001b). While taking a lead role in urban assistance, its contributions remain small in comparison to the rest of its assistance portfolio, and this can be seen in fund and staff allocations, as well as in research. The Bank's annual *World Development Report*, which is key to the Bank's thematic and sectoral support, has not yet focused entirely on issues of urban poverty (Stren 2008).

The standards set by the World Bank as the 'leader' amongst aid agencies play a strong role in influencing the agendas of other bilateral and multilateral agencies (Zanetta 2001; Stren 2008). Many of the funding patterns of bilateral agencies have mirrored that of the World Bank, although on a smaller scale.<sup>11</sup> In the 1960s and 1970s, approaches to urban development focused primarily on the provision of shelter and services.<sup>12</sup> Urban lending at this time, however, was not instigated out of recognition of the importance of cities to national development, but because they were recognized as receptors of an unprecedented flow of migrants (Zanetta 2001). Initial projects for urban poverty reduction, therefore, were reactive rather than proactive, and were structured around poverty alleviation objectives through housing, service provision, and advocating against the widespread evictions occurring across the developing world at that time (ibid.).

Early urban development projects funded by foreign aid focused on single sector investments, such as water or sanitation, which are more easily managed and understood than the complexity of multi-sector approaches to urban poverty reduction and development (Amis 2001; Cohen 2001b).<sup>13</sup> Single sector approaches, however, prove to have limited impact, because they did not take into account the multi-sectoral characteristics of cities, nor the multiple vulnerabilities facing the urban poor (Cohen 2001b). In DFID-funded urban slum improvement projects in India, for example, while infrastructure provision was found to significantly address the 'quality of life' of slum dwellers, these improvements did not improve the dimensions of poverty that slum dwellers themselves used to define poverty and livelihoods, namely incomes, assets, exclusion, and shocks (Amis 2001). Consequently, while infrastructure provision was an improvement that could be delivered by municipalities using DFID funds, its potential for wider poverty reduction was limited (ibid.). Furthermore, project benefits were limited to project sites, a challenge also met by other donor-funded projects. The World Bank too found that their slum upgrading projects failed the 'challenge of

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<sup>11</sup> It is not easy to track foreign aid expenditure on urban issues, because most bilateral agencies do not publish details of all the projects they support or the funding commitments they make (Satterthwaite 2001b).

<sup>12</sup> John Turner's seminal work revealed that 'slum dwellers' were meeting their needs for shelter much more effectively than governments and public agencies (see, for example, Turner 1978). Turner argued that instead of being involved in the supply of housing, governments should see their role as *supporting* local self-production of housing through guaranteeing equal access to services and local infrastructures. This led to an emphasis on self-help housing and sites and services, with housing projects a more community-driven perspective rather than the technocratic approach of earlier housing projects (see Cohen 2001b; Buckley and Kalarickal 2005; and Stren 2008 for further detail).

<sup>13</sup> Amis (2001), for example, reviews DFID's experiences in urban programmes in India. Initial feedback from projects revealed that the projects were trying to tackle too many sectors, limiting the capacity of municipalities to implement them all. Consequently, DFID commissioned an impact evaluation to identify which sectors were having the *greatest* impact on urban poverty reduction, so that these could provide a focal point for future efforts.

replicability’ because they were unable to meet a large share in demand or to be expanded outside project areas (Cohen 2001b). Scaling up initiatives is crucial if there is to be any significant impact on urban poverty, and this requires supporting processes which generate the capacity to produce *more* results in housing, infrastructure or services for the urban poor (ibid.).

Such findings led to a shift in focus away from narrow approaches of urban assistance based on physical infrastructure or service provision. It was increasingly recognized that urban development was not a question of providing physical packages of aid and infrastructure, but that it required building the capacity of local institutions to manage increasingly complicated urban problems (Cohen 2001b; Satterthwaite 2001b).<sup>14</sup> Given the weak institutional capacity of most national urban institutions, it was recognized that reaching more systematic solutions for urban poverty would require their strengthening (Zanetta 2001). Thus, the emphasis of urban assistance changed from the 1980s to the 1990s. Aid agencies advocated that donor assistance should focus on the development of national policies, which in turn would be applied at the local level depending on context: this approach signified the re-emergence of ‘the local’ in urban development (Stren 2008).

From the late 1980s onwards, therefore, urban programmes have focused increasingly on policy reform and institutional change at the national level (DFID 2001). Cities were recognized as resource-distributing mechanisms with underlying causal conditions such as social structure, power, and the potential role of the state in addressing poverty and inequality (Pugh 1995). Urban poverty reduction was recognized as contingent upon institutional change that ensured the urban poor were viewed as a legitimate group worthy of assistance (Caines 1988). It became increasingly recognized that if the urban poor are to meet their shelter and service needs *at scale*, this requires a level of engagement with the state to reform practices (and standards) that prevent investment in housing and services by service providers and low-income communities themselves (Mitlin 2008). This requires not only interacting with government policies and institutions, but also *changing* them (Appadurai 2001; Banks 2010).

In early 2000, there was renewed attention on urban poverty from the World Bank, Asian Development Bank (ADB) and the EU as it became increasingly evident that in the face of the growing magnitude of urban poverty, international development targets would be dependent on urban outcomes (DFID 2001). This was evident in the activities of several aid agencies, including the World Bank and DFID. It was in the early twenty-first century, for example, that the World Bank reformulated its urban agenda to recognize the power of cities in national growth and development. In addition to spending comparatively higher portions of its budgets on urban issues, the Bank also gave a relatively high priority within its urban lending programmes to programmes that brought direct benefits to low-income groups (Satterthwaite 2001b). After the introduction of poverty reduction support credits (PRSCs) to assist low-income countries in developing their poverty reduction strategies, urban development became a

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<sup>14</sup> Consequently, throughout the 1980s, World Bank urban assistance prioritized strengthening municipal and local governance in large and small cities. Although the primary rationale for this approach was to create the capacity to reduce poverty—since this capacity was necessary if cities were to provide the policy, finance, management and provision of infrastructure and services for growing numbers of the urban poor—the Bank received some criticisms during this time that they had shifted focus away from poverty (see Cohen 2001b for more detail).

stronger focus: 24 per cent of all PSRCs made some contribution to urban development (Factora 2006). While this is by far the smallest percentage amongst the eleven thematic areas covered by PSRCs, this is higher than other development policy lending within the World Bank, only eight per cent of which impacted on urban development (Factora 2006).

Likewise, in 2001, the UK's Department for International Development (DFID) developed its first urban strategy to agree on clear international targets to reduce urban poverty (DFID 2001). This was followed in 2010 by a report on its urban activities that examined the policy priorities of poverty reduction, economic growth and climate change in urban areas (DFID 2010). Although DFID continues to fund programmes for urban poverty reduction,<sup>15</sup> renewed attention to urban poverty, has not been sufficient to bring it into DFID's development priorities. While urban poverty was, at one point, included in the agency's central agenda, it was subsequently removed. Substantive choices about focal areas and their theory of need have meant that urban poverty has not become higher on the agency's agenda.<sup>16</sup>

It is also notable that where DFID has experienced success in funding projects for urban poverty reduction—particularly in its 20 years of experience in India—it has been due to commitment from national governments to the urban poverty agenda. The history of aid in India from ODA (and later, DFID) for urban poverty was a result of an unwritten agreement the UK had with the Government of India in the 1980s, which committed 20 per cent of UK funds to poverty reduction: given the apparent and/or perceived coverage and success of rural programmes in India, it was decided that ODA should focus on the urban sphere (Amis 2001). In other cases, donor funding for programmes in urban poverty reduction may face challenges to acceptance and implementation, particularly in capital cities. In Bangladesh, for example, it has been noted that Dhaka faces challenges to project implementation that are not present on the same scale in other small towns and cities, including a high political profile at local and national levels, and a high value of land, resulting in pressure for eviction (UNDP 2006b). The difficulties of working in a capital or primate city are not limited to Bangladesh—one international adviser of GIZ working in urban issues explained the unwritten rule of urban programming that caused obstacles to implementing more comprehensive urban poverty reduction programmes, that of 'anything bigger than two million people, leave it'.<sup>17</sup>

Although there has been increased attention paid to urban poverty throughout the past decade in foreign aid circles, this has not paid off in terms of tangible action on the ground. DFID (2001, 2010) recognizes that a lack of concerted action has meant limited returns in the scale and nature of engagement and financial investment in urban issues, in identification of priorities for action, and in different donor governments' and international agencies' commitments to collaboration for pro-poor urban development. This has meant that UN-Habitat—the United Nations agency for human settlements

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<sup>15</sup> Between 1983 and 2001 ODA/DFID funded seven urban projects in India (Amis 2001). Two more large-scale programmes (Madyah Pradesh 2006-11; Jawaharal Nehru National Urban Renewal Mission 2009-14) were more recently funded, and a third in Bihar is awaiting final approval (DFID 2010).

<sup>16</sup> Interview, Diana Mitlin.

<sup>17</sup> Interview, international adviser, GIZ.

mandated to promote socially and environmentally sustainable towns and cities with shelter for all—has remained relatively weak in comparison to other international bodies (DFID 2001). Given the increasing importance of the urban agenda, however, in 2011, UN-Habitat was one of the few UN agencies that received increased contributions (UN-Habitat 2011).

These lessons—that making an impact on urban poverty at scale requires multi-sectoral investments and changing the relationship between state and civil society—have revealed that foreign aid can have a greater impact when funds are pooled and channelled through more flexible funding mechanisms, as the next section discusses in more detail. The challenge will be to see whether the urgency with which urban poverty is now viewed by multilateral and bilateral agencies is matched by increased commitments to urban issues in foreign aid expenditure. While there have been some positive signs as discussed here, there have also been some negative ones. Stren (2008) details the general pattern of a decline in urban development assistance by many bilateral and multilateral agencies, including the World Bank, who remains the lead actor in urban development assistance.<sup>18</sup>

Although foreign aid for urban poverty reduction has been limited in relation to total aid spending, this does not mean that there is limited awareness for what works for urban poverty reduction. Indeed, progress has been made in recent years centring on improved municipal governance and grassroots mobilization of the urban poor, as the next section details.

#### **4 What works for urban poverty reduction, and how can this be supported by foreign aid?**

As the previous sections have highlighted, there remains significant scope for greater action of donors in urban areas. In countries experiencing economic growth, in areas of low poverty rates but high poverty density—as describes large urban areas—policies aimed at fostering growth have a good chance of reaching low-income households and translating into poverty reduction (Perry et al. 2006). Two key lessons have been learned for urban poverty reduction. The first is the importance of improved municipal or local governance. The second is that this needs to be accompanied by the mobilization of low-income urban communities in order to close the gap between local governance and the urban poor and to ensure that they can participate in and benefit from urban development. In addition, past experiences reinforce the need for policy and programmes for urban poverty reduction to be based on a greater understanding of the context-specific institutional arrangements at the city level. Sufficient attention has not yet been paid to understanding the economic, social, political and cultural nature of cities and how they function (Cohen 2001b; Stren 2008).

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<sup>18</sup> Stren reports that the main reason for this decline in foreign assistance for urban development has been too much competition from more popular development themes. Urban development did not generate enough interest amongst donor agencies in comparison with HIV/AIDs, conflict and post-conflict reconstruction, support for growing numbers of refugees, the tsunami and other natural disasters, the plight of Africa, and the problems of women and children in poverty (amongst others) (Stren 2008).

As Section 2 discussed, public investment is limited in informal settlements. Investment in collective public assets such as infrastructure and service delivery, however, is important in reducing the health and financial costs of living in informal settlements and improving the investment climate for business.<sup>19</sup> As the previous section explored, however, where aid has focused on single sector investments such as spending on housing or infrastructure, the benefits have been limited in terms of urban poverty reduction, especially in terms of scale. There is little opportunity for replication of these efforts and it does not tackle the root causes of initial under-provision in these areas. From these findings, and through experience, has emerged the consensus that progress in urban poverty reduction requires transforming the relationship between the state and the urban poor, through grassroots mobilization of urban poor communities.

Structural inequalities reinforce unequal relations in roles, opportunities and access to services and infrastructure. Understanding and transforming power relations, therefore, is essential to poverty reduction (Dani and de Haan 2008). This has been especially emphasized in urban areas, where social and political inequalities are a key vulnerability to the urban poor. Empowering low-income communities with collective assets and capabilities to improve their well-being and livelihoods requires their ability to exercise their agency as a social group, and to transform their relationships with other groups and public institutions. Lacking the resources to express their voices in political and social institutions, low-income households face weak ‘terms of recognition’ within which to negotiate the norms and institutions that frame their social lives (Appadurai 2004).

Low-income households are recognized in a way that ensures a minimum change in redistribution of wealth and power (Appadurai 2004). Experience has shown that until low-income urban households are viewed legitimately by the government, these initial inequalities will remain regardless of stand-alone investments in infrastructure and service provision for the urban poor. Challenging these relationships, therefore, is central to development and poverty reduction. While this requires using existing structures of urban governance, it also requires changing them: enhancing collective assets and capabilities must be a bottom-up procedure generated by low-income communities themselves (Appadurai 2004; Rao and Walton 2004; Rao 2006). For the urban poor to benefit from wider processes of urban governance is dependent on a system where their votes count, a city government has some capacity to deliver, and a dynamic civil society which can press the case for the urban poor (Devas 2001). Where there have been successes in improved service delivery for the urban poor in developing countries, it has been generated by collective mobilization of low-income households themselves, as active agents (see for example, Appadurai 2001; Banks 2008a).<sup>20</sup>

While households and communities draw upon intra-household and intra-community networks for sharing resources and promoting their interests, communities also need to draw upon ties outside the community to facilitate collective action or to secure additional resources. Development occurs as communities become increasingly linked to external actors or agencies through extending their social networks outside the

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<sup>19</sup> Health and financial costs are lowered by improving the living environment within informal settlements and by reducing the high differentials paid for water and electricity.

<sup>20</sup> In other cases (particularly in developed countries), electoral systems have worked slightly better, with governments responding to electorate choices without the need for mobilization. Thanks to Diana Mitlin for pointing this out.

community (Woolcock 1998).<sup>21</sup> In an urban context, this is dependent on the capacity of local governments, service providers, and other actors to deliver to low-income communities. Perhaps most importantly, however, successes in urban poverty reduction have revealed that this requires the ability of urban poor groups and communities to hold governments to account and to pressurize for greater recognition in the provision of services and infrastructure provision, as well as to incorporate the requirements of the urban poor into the rules and regulations of the state.

Without wider community mobilization of the urban poor for these purposes, relationships of patronage between authorities and local leaders in low-income urban communities mean that resources provided do not necessarily reach the majority of the urban poor. Officials in urban governments have limited incentives to be accountable and representative to their poor urban constituents (Banks et al. 2011). In Dhaka, Bangladesh, Banks (2008a) outlines the role of *mastaans*, or local leaders, in negotiating with government officials and service providers to secure benefits to the community. Similarly, informal leaders in Delhi, India, were found to play the central role in intermediating between formal government and their low-income communities (Jha et al. 2007). Given the size of urban low-income urban populations, municipal governments and service providers form mutually beneficial relationships: local leaders provide authorities with political support in return for illegal service provision and protection. While these networks help low-income communities secure resources and improved service provision, they tend to benefit wealthier residents disproportionately: by their nature, local leaders tend to be the ‘better-off’ residents of low-income urban communities, and their presence is no guarantee that resources secured will be distributed equally.<sup>22</sup>

It is now increasingly recognized that the most effective urban poverty reduction efforts—in terms of scale and sustainability—are those which focus on changing institutional structures so that they better meet the needs of urban poor groups (Satterthwaite 2001a). Community groups of the urban poor can make significant progress in opening dialogue with local governments, who in turn must become more accountable to their poor electorates (DFID 2010). Finding alternative linkages between informal settlements and state institutions have helped to overcome these ‘traditional’ forms of governance within informal urban settlements that have so far prevented the benefits of resource allocations from reaching the majority of the urban poor. The recognition that furthering our understanding of urban poverty requires more attention to the governance processes through which different groups compete for public

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<sup>21</sup> The importance of social networks in an urban environment has been confirmed by comparative research and rich ethnographic work in low-income urban communities (see, for example, Moser 2009; Perlman 2010). While low-income urban households draw upon close interaction with friends and family from similar background, these networks provide limited benefits. One study of nine African and Latin American cities, for example, concluded that existing narrow networks utilized by low-income households impose a constraint on their ability to access better future opportunities (Beall 2001).

<sup>22</sup> Leadership does not always have the collective interests of the community in mind. Community-based targeting—although bringing in additional resources to a community—may create or exacerbate conflict or division in the community rather than increase the resources available to the poor, and may also be subverted to meet the interests of the elite (Conning and Kevane 2002). Although social capital can be harnessed for constructive purposes—to facilitate collective action or access to services for example—it can also be used destructively by reinforcing inequalities between groups within the communities.

investments has resulted in an increasing focus being placed on the concept of community mobilization as a means of facilitating external linkages for low-income urban communities through which they can secure access to resources (Benjamin 2006). This has transferred focus away from the role of governments, aid agencies and NGOs and towards the role and capacity of low-income urban communities themselves (Mitlin and Satterthwaite 2007). Appendix 2 provides further detail on the benefits of urban-poor led initiatives. This has been exemplified by progresses made in a number of community-based organizations and networks of organizations, which in Asia include SDI, SPARC, and SEWA.<sup>23</sup> Box 1 provides an overview of the operations of Shack/Slum dwellers International (SDI) in improving the livelihoods and rights of the urban poor through their negotiations with the state.

### **Box 1: The experiences of Shack/Slum Dwellers International (SDI)**

Donors can learn from existing successful urban poor-led initiatives, such as the experiences of SDI. Since low-income residents are best placed to identify their needs, community-based initiatives such as this have proven successful in overcoming one major obstacle facing the urban poor, enabling them to negotiate the transition from informal and illegal residents to being legally-recognized. This paves the way for future improvements at a greater scale across cities and even across countries, given national and cross-country lesson-sharing between urban poor communities. SDI works with low-income urban communities to build partnerships with local governments that produce, control, or regulate the commodities they need for their development and livelihoods, such as land, water, sanitation, electricity or housing finance.

Launched in 1996, SDI is an alliance of country-level organizations (or 'federations') of the urban poor from 33 countries in Africa, Asia and Latin America. Its mission is to link poor urban communities and cities in the South to transfer and to adapt the successful mobilization, advocacy and problem solving strategies that they develop through their negotiations with the state to other communities, cities, and countries.

Key to the success of SDI affiliates and federations is their ability to link with and learn from communities in other cities and countries. 'Our organization cannot survive on its own', explained one National Co-ordinator of the Zimbabwe Homeless People's Federation: links at both the national and international level allow low-income urban communities to share ideas, best practices and lessons to overcome the regulatory obstacles that they have faced in promoting their interests and securing resources. Shared ideas and practices include models for low-cost and efficient housing, toilets, and infrastructure, but also about how to advocate with government officials. In some cases, the ability to bring in supportive government officials from other cities and countries have enabled groups to achieve success by highlighting the plausibility of practices and provisions to otherwise sceptical officials.

The urban context is highly regulated, and given their financial constraints, this forces low-income urban communities to step outside official building standards, regulations and service provision to set precedents that allow them to access houses, services, and development. The importance of negotiating with the state lies in ensuring that these efforts can move from illegal to legally recognized activities, thus removing the potential threat of eviction. Affiliates have learned the importance of engaging with the state from the *start* of any project, as this allows activities to become a joint venture between government agencies and urban poor communities. This requires making sure the authorities know their challenges and circumstances *before* starting negotiations. Urban poor groups have also learned the challenges of engaging with officials at both the local and national level. In their negotiations, for example, the Zimbabwe

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<sup>23</sup> Further overview and analysis of the operations of SDI, SEWA and SPARC can be found in Environment and Urbanization (1990); Dutta (2000); Appadurai (2001); Patel (2001); Burra et al. (2003); Arputham (2008), amongst others.

Homeless People's Federation first try to engage with local government and planning officials: they are the priority since planning is in the hands of these stakeholders. In addition, however, they have learnt the need to also engage with central politicians and housing ministers, who are the most important stakeholders in terms of adapting or making concessions in national land

and housing regulations necessary for meeting the needs of the urban poor. In contrast, local-level officials can only implement existing regulations, not change them. This has illustrated to them the need to build relationships with politicians *and* officials: while politicians may be voted out (requiring urban poor groups to start over), officials are permanent, so a secure relationship with them means some form of support even if other political positions change.

This approach means that grassroots organizations of the poor have also been able to move away from confrontational demands towards addressing their demands amicably through negotiation. This is apparent both in their interactions with the state, but also in their ethos: all federations within the SDI network are collectives of slum dwellers whose central activity is the operation of savings schemes. Activities are based around community participation, and the recognition that if 'We don't do it for ourselves, there is no one else to do it for us'. While negotiations take time and experimentation—and not all are successful—federations choose specifically to *negotiate* solutions. While it has taken time to draw in the State as a 'partner' in development, experience has proven that this partnership is much more supportive when the State is kept aware of processes and agendas of the activities of urban poor groups.

One of the critical 'weapons' in the ammunition of SDI affiliates has been information. Community groups have organized themselves around the resources they do have: information. Governments have been surprised at the numbers of people living within informal settlements: informal living means the urban poor are often hidden from authorities. Again, this emphasizes the impact that funding research can have on creating between knowledge on the extent of urban poverty, which can be used to influence political priorities at the national level.

While affiliates recognize that there is a long way to go before they can take on political motivations, they regardless keep on raising their voices to find ways of engaging with different Ministers, politicians, councils, municipal officials and service providers who may be sympathetic to their cause. During a period of mass eviction in Zimbabwe, for example, the federation even wrote to the President when they recognized that Ministers were not being helpful.

Of course, all of these activities require funding. The Urban Poor Fund International (UPFI) has been set up to provide an ongoing and expanding financial facility that provides capital to SDI-member, national urban poor funds, who in turn provide capital to savings federations undertaking urban improvement and housing projects. Until 2007, this had been operating on a smaller scale through donations from private foundations. This funding amounted to in excess of US\$5,000,000 over a five-year period. In 2007, the fund received a grant of US\$10,000,000 from IIED which was financed by the Bill & Melinda Gates Foundation to support the projects of affiliates, finance exchange programmes and strengthen the Secretariat. This grant was renewed directly with SDI in 2010 to take forward investments in seven cities spread across the network.

Sources: SDI website; Sekai and Muvindi 2010; Cities Alliance website.

Such experiences have shown that low-income urban households and communities must play a central role in identifying problems and solutions at the local level, and in negotiating for them with the state to overcome obstacles to their implementation at the local and national level. The scope for accelerating and sustaining urban poverty reduction through such initiatives is, to some extent, recognized, but rarely spelt out, by agencies. DFID, for example, highlights that, 'The challenge [for urban poverty reduction] is to secure stable livelihoods for the urban poor *as part of effective social and political transformation and resourcing of urban expansion*' (DFID 2010, emphasis added). Key to these successes is the relationship between low-income urban

communities and the state. Mitlin (2008) discusses the importance of co-production in securing political influence and access to resources and services for low-income urban communities.<sup>24</sup> Such engagements with the state are not only for defensive purposes (such as struggles against evictions), but are also proactive, seeking strategies that enable them to advance their interests in the face of ongoing struggles in access to services or against discriminatory regulations (such as those which render informal housing or business as illegal, and subject to harassment and/or eviction) (Mitlin 2008).

The political nature of interventions in urban poverty has been long recognized as limiting the ability of donor funding to invest in urban areas (Caines 1988). Given the reluctance of national governments to seriously tackle urban poverty, the inability of foreign aid to be targeted to low-income urban communities and to institutions working with the urban poor at the local-level has been one of the key problems aid agencies have had in making significant contributions to urban poverty reduction. The slow pace with which the urban poor have been recognized by national governments in developing countries has partly explained the weakness in support from foreign aid for urban development (Stren 2008). In the case of Bangladesh, for example, the international adviser from GIZ explained that an unwillingness to recognize the urban poor at the national level was a major bottle-neck to progress in urban poverty reduction. While the urban poverty agenda has been embraced by some departments and agencies, the real barrier is a lack of government commitment to decentralizing the power and resources to the local level where they can make an impact on urban poverty. Given the limitations of donor ability to work outside national governments, this is not easily bridged.<sup>25</sup> It does not mean, however, that donor funds should be diverted away from urban poverty until national commitment is secured. Ongoing advocacy work with different levels of government is necessary for changing perceptions and securing a better understanding of the possibilities for and importance of urban poverty reduction. While the urban poverty agenda in Bangladesh is in part ‘frozen’ by a lack of political commitment at the national level, ongoing exposure, advocacy work,<sup>26</sup> and programmes with lower levels of government have meant that those officials who were in support of urban poverty reduction have got more concrete in their approaches, thus laying the foundations for more effective action if and when national commitment is secured.<sup>27</sup> Keeping the urban poverty conversation alive as situations change, knowledge grows,

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<sup>24</sup> ‘Co-production’ refers to the joint production of public services between citizen and state, with any one or more elements of the production process being shared. While it has been primarily considered as a route through which to access better service provision, the experiences of many grassroots organizations has shown that it is also being used as a means through which to strengthen the political position of grassroots organizations of the urban poor. See Mitlin (2008) for further details.

<sup>25</sup> In some cases where national governments have been willing and able to commit to urban poverty reduction, donor agencies *have* been able to work with national governments on issues of urban poverty. As discussed briefly in Sections 2 and 3, this has included DFID in India (see Amis 2001) and Sida in Central America (see Stein 2001; Stein and Castillo 2005).

<sup>26</sup> This has included the revitalization of the Local Consultative Group ‘Urban Sector’, which prior to 2008 was close to dying out. In 2008, GIZ as the new chair lobbied for a more social developmental approach in the group, including the introduction of urban poverty to the agenda (rather than the prior heavy focus on infrastructure), and the group have since played a key role in raising the profile of urban poverty in Bangladesh, which has culminated in the publication of a strategic approach to urban poverty reduction in Bangladesh, *Bridging the Urban Divide in Bangladesh* (LCG 2010).

<sup>27</sup> Interview, international adviser, GIZ.

and as lessons are learnt from experience may mean new solutions to old problems (LCG 2010).

While the role of community mobilization in improving relationships with municipal governments and service providers is increasingly recognized by foreign aid agencies,<sup>28</sup> it is important to note that given the channels through which they distribute aid allocations, donors face structural barriers to targeting funds to these initiatives. While funding for foreign aid seeks to reduce poverty, aid agencies are not traditionally set up to fund communities at the local level (Mitlin and Satterthwaite 2007). International agencies and organizations are mandated to work primarily with national governments, providing the technical support and finance necessary to improve economic growth and to strengthen national development strategies and institutions—in reality, therefore, they contribute only indirectly to poverty reduction (*ibid.*). Given that aid agencies do not themselves implement poverty reduction initiatives on the ground, they are only as effective as the governments, private sector and other intermediary organizations that they fund (*ibid.*). Satterthwaite (2001a, 2001b) gives a comprehensive overview of the reasons for which foreign aid has been limited in its ability to target funding at urban poor initiatives. Such initiatives require a long-term strategy: institutional change through empowerment of urban poor groups requires modest funds that are available over the long-term to support community and municipal processes, and also requires in-depth knowledge on the local context. These longer-term strategies, however, do not match donor preferences of short-term projects with planned exit strategies (Mitlin and Satterthwaite 2007). Although these limitations are now recognized, it has been difficult to change the institutional structure of development agencies in response to this (Satterthwaite 2001b; Mitlin and Satterthwaite 2007). Some agencies, however, have been better at working with low-income communities than others.<sup>29</sup>

There have been successes in finding novel funding mechanisms for urban poverty reduction based upon previous lessons learned. As discussed in Sections 2 and 3, these include the limitations of donor agencies in involving themselves in the highly political arena of urban poverty reduction, and the recognition that meeting the growing urban challenge requires the international aid community to collaborate and support country-led efforts to encourage local innovation and to scale up ‘what works’ for the urban poor.

Obstacles to targeting funding to low-income urban groups have encouraged some bilateral agencies to seek new channels through which they can support local initiatives for urban poverty reduction. One such mechanism through which they have sought to do this is through providing financial support to international and local funds (Satterthwaite

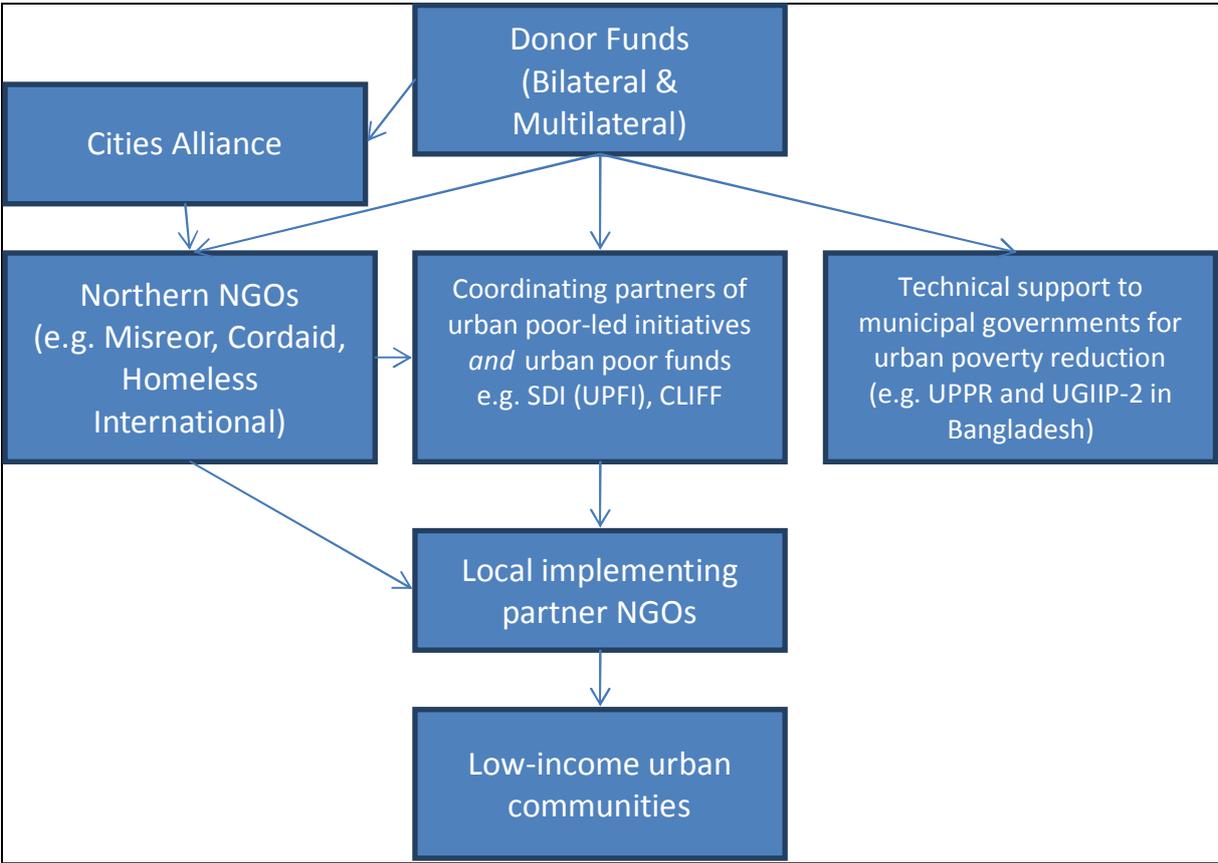
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<sup>28</sup> While relationships between municipal governments and urban poor groups are crucial, these are also influenced at the national level. Banks (2008), for example, finds that empowerment of the urban poor in Bangladesh requires progress not only in terms of integration into local municipal governance. Without national commitment to the urban poor, benefits made at the local level are limited. Municipal and local governments are only able to work within the confines of national regulations and policy frameworks, so policy at the national level plays a major role in setting the framework for successful urban development and poverty reduction.

<sup>29</sup> As Section 2 discussed briefly, central to the success of Sida-funded integrated urban poverty reduction programmes in Central America, for example, was Sida’s long-term commitment to the programmes, and the fact that across the five countries in which Sida funded these projects, although they were based on a similar model, close attention was paid to the country context in which they were operating (Stein and Castillo 2005).

2001b). The existence of urban-poor led organizations and networks such as SDI, SEWA and SPARC has opened up several channels for funding urban poverty reduction initiatives, as Figure 2 illustrates. As well as possibilities for funding these movements directly, donor agencies can also fund these organizations and networks indirectly, through providing funds to supporting northern NGOs, or to contributing to the funding ‘pools’ through which low-income urban communities can access funds for housing and

Figure 2: Funding opportunities for urban poverty reduction<sup>30</sup>



infrastructure improvements. As Box 1 illustrates, two separate ‘funds’ are necessary for the activities of organizations such as SDI. The first is the funds necessary for running and maintaining the network’s activities. In addition, while community groups are based on the process of savings—which provide some funds for community activities—many activities require greater funds through which they can upgrade houses, infrastructure, and even access land, especially to do so at scale. The Urban

<sup>30</sup> In addition to the funding channels represented here, the UK’s DFID has established Partnership Programme Arrangements (PPAs) that enable it to expand its funding to civil society organizations. Amongst its PPAs is a five year arrangement with the International Institute for Environment and Development (IIED), a UK-based institution focused on sustainable development. One of IIED’s key research and policy themes is urban issues, including human settlements, climate change, and governance, and it is a partner of Shack/Slum Dwellers International. Even within the scope of the PPA with IIED, however, it has been difficult to incorporate urban poverty into the agenda, strategic objective and indicators within this working relationship—while urban poverty was at one point on the agreed set of activities under the PPA, it came out. Whether DFID makes a strategic choice to ‘come back’ to urban poverty through placing the urban on the central funding agenda will become evident in the incorporation of urban poverty into future PPAs.

Poor Fund (UPFI) has therefore been set up as a pool of funds to which SDI member affiliates of urban poor groups can apply. Likewise, the Community-Led Infrastructure Finance Facility (CLIFF) is a similar fund operated by Homeless International in Kenya, India and the Philippines, that is supported by DFID and Sida.<sup>31</sup>

In addition, donors (including multilateral and bilateral agencies) can implement programmes for urban poverty reduction through local and national governments. As discussed in Section 3, for example, in addition to long-standing financial and technical support to the Government of India for urban poverty reduction programmes, more recently DFID has provided GB£60 million for the UPPR project in Bangladesh, which is implemented by UNDP and executed by the Government of Bangladesh through the Local Government Engineering Department. This is the largest urban poverty reduction initiative in Bangladesh, and one of the largest in the world. It aims to improve the livelihoods and living conditions of three million slum dwellers, especially women and children, across Bangladesh, in six city corporations and 24 *pourashavas*.<sup>32</sup>

Likewise, in Bangladesh, GIZ, is one recent example of a donor support-funded programme for improved municipal governance for poverty reduction, providing technical cooperation to help develop the capacities of *pourashavas*<sup>33</sup> to monitor urban poverty and effectively address the needs of the urban poor that out the Urban Governance and Infrastructure Improvement Project (UGIIP-2).<sup>34</sup> Notable in these efforts is the strong focus on community participation in the process. In order to access funds for infrastructure development, the 35 *pourashavas* under the project must fulfil certain governance improvement criteria, including participation of women and the poor, enhanced public services, financial accountability, tax collection and participatory urban planning. GIZ is supporting municipal governments in pursuing the active involvement of all stakeholders to identify their needs, priorities and potentials—especially of poor and marginalized groups—and to develop measures to achieve these. Citizen groups are formed, including the participation of women and the poor, to consult on the formulation of a *Pourashava* Development Plan (PDP) that can be used to plan and deliver demand-oriented services for the urban population. The PDP will incorporate a poverty reduction action plan (PRAP) and a gender action plan to identify the specific measures necessary for these vulnerable groups.

Given that financial contributions from the World Bank, the Development Banks, the EU and bilateral donors for urban areas are modest, it has also been recognized that effective change requires coordination of all of these parties (DFID 2001). This was recognized as far back as 1988, when it was recognized that urban poverty reduction

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<sup>31</sup> DFID and Sida have provided GB£15 million and GB£4 million to the second phase (2010-15) of CLIFF. While CLIFF is now managed by Homeless International, in its first phase, funding from donor agencies was managed and distributed through Cities Alliance. As well as DFID and Sida, the World Bank also contributed to the first phase grants (see CLIFF 2010 for further details).

<sup>32</sup> See Appendix 3 and [www.upprbd.org](http://www.upprbd.org) for details on the programme.

<sup>33</sup> *Pourashavas* are secondary city municipalities.

<sup>34</sup> UGIIP-2 (Second phase) is a project of Bangladesh's Local Government and Engineering Department, jointly funded by the Government of Bangladesh (US\$39 million), Asian Development Bank (US\$87 million) and the German Government (US\$35 million). That the programme focuses on secondary cities also removes some of the intense barriers to working for the urban poor in the country's largest cities, especially Dhaka.

would require sums of money, ‘going well beyond that of all aid resources put together’ (Caines 1988: 96).

While bilateral aid agencies have been hesitant to systematically embark upon the urban poverty agenda, there have been successes in coordinated multilateral funding for urban initiatives, starting with the Urban Management Programme in 1986, a joint undertaking by the World Bank, UN-Habitat (then UNHCS, the UN Centre for Human Settlements) and UNDP.<sup>35</sup> The formation of Cities Alliance in 1999 can be seen as a continuation and development of these efforts, now providing a global framework under which most of the international community’s efforts to address urban poverty can be coordinated. Cities Alliance is a broad coalition of 24 members including the World Bank and UN-Habitat (as founder members), United Nations Environment Programme, the European Union, and 16 donor partners (Cities Alliance 2011).<sup>36</sup> As a global coalition of cities and development partners committed to scaling up successful approaches to poverty reduction, its creation marked the first time that all of the major urban assistance agencies worked together on agreed projects across developing countries and regions (Stren 2008). As co-founder and host of Cities Alliance, the World Bank is also its largest financier, providing just under 30 per cent of pledged contributions to the Alliance’s core funding until 2010.<sup>37</sup> Of funds from bilateral donors, the UK is the biggest contributor—pledging just over 10 per cent of core funding—followed closely by Norway (9.8 per cent) and Sweden (8.8 per cent) (Cities Alliance 2010).<sup>38</sup> The total sums donated, however, remain small even from these key donors. DFID’s contributions, for example, represents only US\$7.1 million over seven years, substantially less than its contributions to the second phase of CLIFF. The other channels for funds for urban poverty reduction—through NGOs, urban poor organizations and funds, and through technical support—therefore remain the central channels through which donor funds for urban poverty reduction are spent.

While the Alliance focuses on two key issues—supporting the development of City Development Strategies and slum upgrading—alongside these objectives it considers itself a ‘learning alliance’, working with networks of cities, organizations of the urban poor, universities and other partners to disseminate collective knowledge on urban

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<sup>35</sup> The four phases of the UMP have followed the major trends discussed in Section 3, beginning with a more technical focus on urban management and infrastructure, before taking a more participatory approach that focuses specifically on urban poverty alongside governance issues. Phase 1 (1986-1991) took a global perspective to develop urban management frameworks and tools on issues such as land management, municipal finance and administration, infrastructure and urban environment. Phase 1 (1992-1996) used these lessons to build capacity at the regional level. Phase 3 (1997-2001) emphasized city consultations on three themes: urban poverty alleviation, urban environmental sustainability and participatory urban governance, with gender as a cross-cutting issue. Phase 4 (2002-2006) continued with Phase 3 themes, with the addition of HIV/AIDS. See <http://www.unhabitat.org/content.asp?typeid=19&catid=374&cid=185> (accessed July 2011).

<sup>36</sup> Australia, Brazil, Chile, Ethiopia, France, Germany, Italy, the Netherlands, Nigeria, Norway, Philippines, South Africa, Spain, Sweden, the United Kingdom and the United States. With membership by so many donor partners, it can be argued, therefore, that Cities Alliance is closer to bilateral donor agencies than the previous Urban Management Programme.

<sup>37</sup> These figures uses the term ‘pledged’, because although all pledges were met, given currency fluctuations, the majority of donor partners actually exceeded the funds pledged when converted into US\$.

<sup>38</sup> Appendix 4 provides a detailed break-down of contributions from donor partners and other members.

poverty reduction and improving the quality and impact of urban development cooperation (Cities Alliance). Amongst its key objectives is to build political commitment for urban poverty reduction, and it fills an institutional gap that direct donor funding is unable to in its emphasis on, ‘supporting longer-term, in-country programmes for cities and local governments to support systemic change’ (Cities Alliance). Meeting these long-term objectives, however, will be dependent on greater contributions and long-term commitment from donor funds to Cities Alliance.

As this section has discussed, while donor funds for urban poverty reduction remain small relative to their total spending, several channels for foreign aid for urban poverty reduction have emerged that have built on the last four decades of lessons learned. Opportunities for providing funds to intermediaries—through Northern NGOs and/or Cities Alliance to organizations and networks such as SDI—offer new channels through which donors can fund urban poverty reduction even within some of the key political obstacles that have so far prevented bilateral donors from providing funds for urban poverty reduction, at the same time as increasing the role and power of low-income communities themselves in negotiating for their rights and development. In countries such as India where national governments are receptive of their low-income urban populations, donors have had significant successes in providing financial and technical support to programmes for urban poverty reduction. Even where political resistance is high to placing urban poverty higher on the national agenda, such as Bangladesh, donors are still proving able to support programmes, such as the UGIIP-2 and UPPR programmes. Ongoing interaction, advocacy and support in this manner could be central to longer-term acceptance and recognition of the urban poor in these countries. As the following section concludes however, given the increasing pace and scale of urbanization and the rapid urbanization of poverty, it is critical that donors address the issue of urban poverty more strategically. This means embracing new possibilities for funding at the same time as recognizing urban poverty as a priority issue within their central agendas.

## **5 Conclusions: what role for foreign aid in an increasing urban future?**

Foreign assistance for urban areas has remained limited comparative to total aid spending across the developing world. Increasing recognition that the process of urbanization was a major contributor to improved national outcomes in growth and poverty reduction in the 1980s led to increased attention and spending on urban assistance from major donors, focusing both on municipal governance—to encourage well planned and managed cities—and on improving shelter and infrastructure for the urban poor via slum upgrading. Key to lessons learnt throughout this period, however, was that interventions focusing on a single sector (such as infrastructure) were limited in their benefits. While they may improve quality of life, they did little to tackle the root causes of poverty amongst the urban poor and were not easily replicable or scaled up. Social and political exclusion remained the major driver behind the limited opportunities for poor urban residents to access better incomes, assets and services.

Changing population dynamics and the looming spectre of the urbanization of poverty has led to renewed attention and priority given to urban poverty reduction by donors into the twenty-first century. There remains scope for donor funds to improve our understanding of the scale and complexity of urban poverty through research, including, for example, the need for research into differences in the vulnerabilities associated with

urban poverty across large and small towns. There is now, however, a greater understanding of what works for urban poverty reduction. It is now widely recognized that reducing urban poverty requires a two-pronged approach, focusing both on strengthening municipal governance in terms of resources and decentralized powers, and on changing the relationship between low-income urban communities and state institutions at the national and municipal level to ensure that they are viewed as a legitimate group with rights and demands that local governments and service providers must be accountable to. New programmes and movements for urban poverty reduction, therefore, have focused on grassroots mobilization of low-income urban communities to transform the relationship between them and the state. Through movements such as SDI and SEWA, urban poor groups have been able to fight for greater political recognition, and in the process, for improved access to services, for concessions in building rules and regulations, and in some cases, even rightful ownership of land.

The lessons from four decades of foreign aid in urban areas have revealed that the urban poor are central actors in their own development and poverty reduction. Where they can mobilize to meet their own interests, they are best placed to identify their needs and to find solutions to the problems that they face. Being able to do so, however, requires both political recognition and some level of funding for their activities. Traditional mechanisms for donor funding are incompatible with such programmes, given that their preference and mandate to provide technical support in short-term projects cannot be reconciled with the need for small amounts of funding and support over the long-term that urban poor communities need to succeed in their negotiations with the state.

New channels of funding for these purposes have developed however, with donors now providing funds to low-income communities indirectly, through Northern NGOs, network organizations and urban poor funds, as well as through Cities Alliance. Urban poor funds such as UPFI and CLIFF provide donors with a funding mechanism that is more greatly aligned with the needs of the urban poor, providing a central fund through which they can be provided smaller amounts of funds over long periods of time as they develop.

The emergence of Cities Alliance in 1999 was a major step forward in funding for urban poverty reduction, providing the means through which to pool donor funds and distribute them with greater flexibility. Donor funds to Cities Alliance, however, remain small relative to other channels for funds for urban poverty reduction, and its future success will be dependent on long-term commitment from donors. It remains to be seen whether these new funding mechanisms succeed in pushing urban poverty further into the priorities and agendas of donors. Funding for urban poverty reduction still occurs in a piecemeal fashion, and spending on urban poverty remains small as a proportion of total donor funding. Greater impact on urban poverty reduction, therefore, will be contingent on greater attention, priority and funding for urban poverty from donors.

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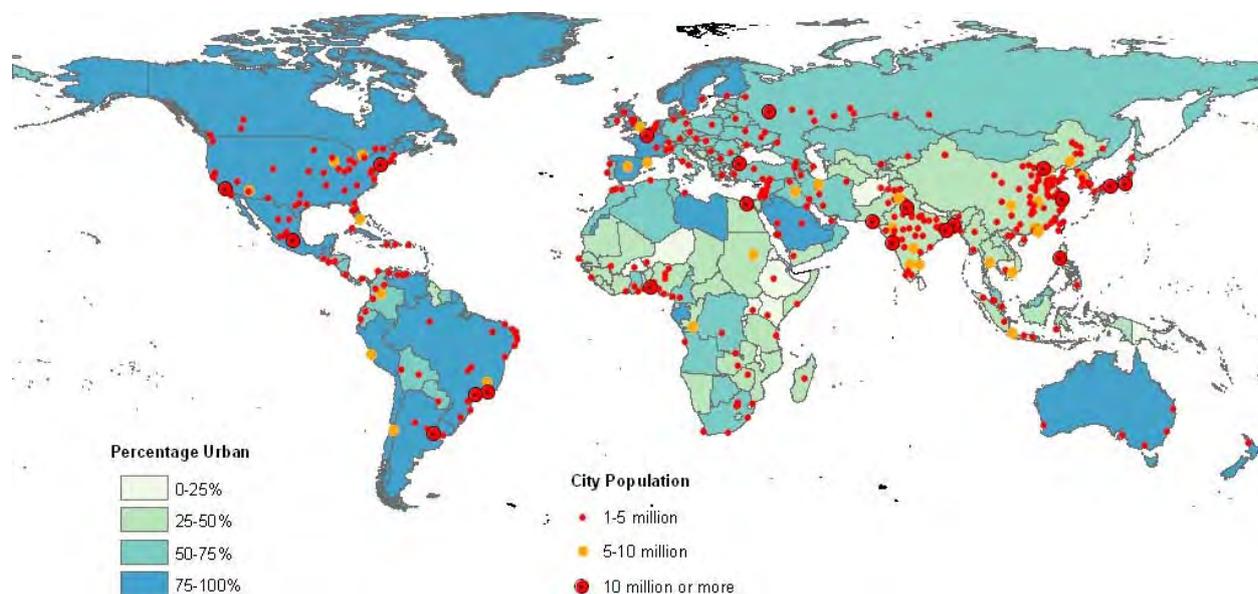
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## Appendix 1: Proportion of World population living in urban areas



Source: UN Population Division Website.

## Appendix 2: Some benefits of urban-poor led initiatives

1. The urban poor stay central to development: in their negotiations with the state they develop their collective organization and agency and their capacity.
2. The urban poor are best placed to identify their own problems and solutions to them. This allows service delivery problems to be considered by those who suffer the consequences of poor policies and service delivery mechanisms. The urban poor design through experience, not through models.
3. Changing the nature of the relations between the government and low-income urban poor groups means improvements are sustainable and puts into place the foundation for future improvements.
4. Where the urban poor identify and implement their own project, funding goes much further than externally-managed projects. The urban poor can identify low-cost solutions and ensure funds are used carefully.
5. Communities are brought together by their common interest and support each other.
6. Practical engagements with the state avoid the confrontation often associated with civil society groups that tend to provoke a defensive reaction from the state.
7. That engagements are non-political also encourages women from low-income urban communities to participate in the process.

8. Participating in these negotiations—and seeing tangible benefits—builds on the capacities and confidence of the urban poor, addressing additional aspects of poverty of fatalism and disempowerment.
9. The process goes beyond meeting the day-to-day needs of the urban poor through improving the relationship between state and citizen. It also helps to meet their aspirations for political inclusion and redistribution of resources.
10. This bypasses the tendency of the international community to disempower low-income communities. Fragmented and simple ‘distribution’ of things like blankets or food aid do not teach communities new skills or how to press for sustainable change. This is why there is such a focus on internal funds and on keeping skills within the community: this is sustainable and will not be withdrawn alongside international support.

Sources: Mitlin and Satterthwaite 2007; Mitlin 2008; Sekai and Muvindi 2010.

### **Appendix 3: Urban partnerships for poverty reduction programme, Bangladesh**

Building on an earlier project—Local Partnerships for Poverty Alleviation Project (2000-2007)<sup>39</sup>—this GB£60 million project spanning eight years (2008-2015) aims to improve the livelihoods and living conditions of three million people—at least 50 per cent women and girls—through; establishing partnerships amongst local governments, urban poor communities, civil society, and the private sector; improving the provision of basic services; and providing access to sustainable sources of finance for housing and livelihoods improvement.

It has three main target outputs:

- i) Urban poor communities and groups are mobilized to create healthy and secure living environments.
- ii) Urban poor families acquire resources, knowledge and skills to increase their incomes and assets.
- iii) There becomes a pro-poor urban policy environment delivering benefits to poor people.

The project is facilitated through community empowerment, supporting poor communities to form Primary Groups, Community Development Committees (CDCs), Clusters of CDCs, and town-level Federations. Through CDCs, community-based savings groups are established with support from the project.

Partnerships are core to the UPPR project. It is nationally executed by the Government of Bangladesh (through the Local Government Engineering Department) and implemented by UNDP, and works with urban local governments to link with other donor, government and NGO programmes to improve effectiveness in urban poverty reduction. The project's approach is to build long-term sustainable relationships between urban poor communities, the local government and service providers for lasting development outcomes. It seeks to mobilize and build the capacity of the urban poor and extreme poor to improve their livelihoods. UPPR follows a community-based approach to urban poverty reduction, mobilizing slum communities into Community Development Committees (CDCs) of around 300 households that meet regularly to determine and prioritize the issues they face, as well as identify ways they can be addressed. These are also organized into clusters of CDCs and town-level federations. At least 90 per cent of the leaders of these groups are women. Alongside technical support from the project, this structure allows communities to build trust within their communities, improve financial management and savings capacities, and plan and manage community contracts to construct basic infrastructure.

There are two funds available for funding CDC priority activities. The Settlement Improvement Fund (SIF) finances the construction of basic infrastructure, while the Socio-economic Fund (SEF) finances activities that improve livelihoods and social conditions in the slum, such as apprenticeships and grants for small business development, and education

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<sup>39</sup> This was funded by a US\$17.9 million grant from UNDP, and benefited around 620,000 people living in 600 slum communities. After its impact assessment found the project capable of replication to other settlements, towns and cities, the basis for UPPR was formed.

grants to keep girls in school. It is also used to address social issues such as dowry, early marriage, domestic violence, disability, and childcare and health centres.

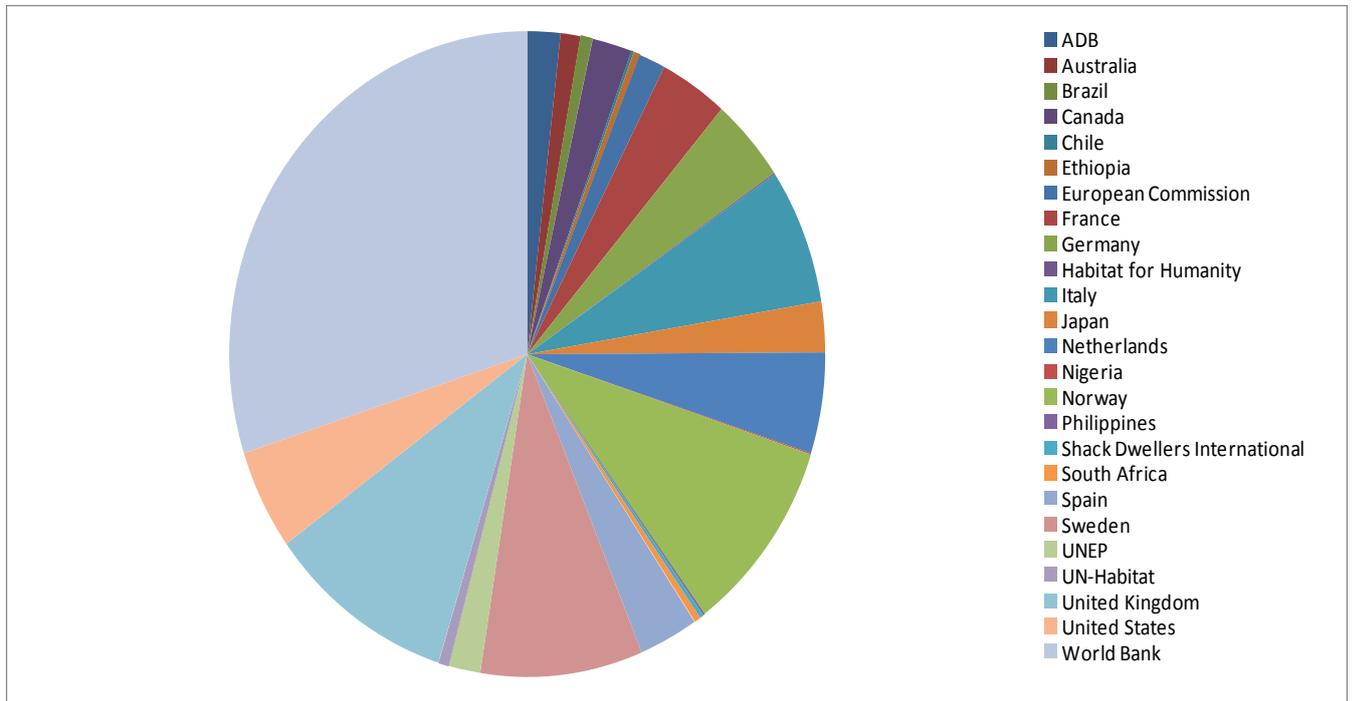
For issues that cannot be met addressed through these funds, UPPR forms partnerships and linkages with government and non-government service providers, who then support the community. To date, 12 national- and 40 town-level linkages and partnerships have been made with UN agencies, government service providers, and NGO service providers.

In addition, the project aims to increase wage employment through its apprenticeship and vocational training programme components targeted at the extreme poor, vulnerable and marginalized, and aims to influence pro-poor policy for the urban poor through engaging in policy makers in central and local governments and the donor community, designing and implementing measures to identify and target low-income urban communities, intervening in cases of evictions and eviction threats, and raising awareness of urban poverty. As of December 2010, the project was reaching over 2.3 million slum dwellers in nearly 19,000 primary groups and around 1,700 CDCs. Over 15,000 savings groups were facilitating access to savings and credit for 256,000 people.

Sources: UNDP no date given (a and b); UNDP 2006a, 2006b; [www.upprbd.org](http://www.upprbd.org); UNDP.

#### Appendix 4: Contributions to core funding for cities alliance until 2010

Figure 3: Contributions for core funding to cities alliance from source (funds pledged until 2010)



Note: Three members have since left the alliance in 2010: Japan, Canada, and the Asian Development Bank.

Source: Cities Alliance 2010.