

Rethinking Aid to Urban Poverty Reduction: Lessons for Donors

SUMMARY: This paper discusses what has been learnt from the experience of bilateral aid agencies and development banks in urban areas. It considers how urban poor groups might assess such agencies, drawing on studies of projects funded by the World Bank, US AID, UNICEF, NORAD, DFID and Sida. It highlights issues that international donors have to address if they are to become more effective at reducing urban poverty:

- *Recognizing the multiple deprivations faced by low-income groups and broadening their approach to poverty reduction;*
- *Moving from a focus on projects to supporting processes and changing institutional structures that help reduce urban poverty;*
- *Reducing the distance between donor decision-making structures and urban poor groups and developing greater transparency and accountability 'downwards' to these groups; and*
- *Developing new channels to support 'better local governance' and to provide support direct to community organizations.*

This paper also describes the kinds of changes needed within urban governments to make them more effective partners both for donor agencies and for urban poor groups.

I. HOW WOULD THE URBAN POOR EVALUATE INTERNATIONAL AGENCIES?

IF AN ASSESSMENT of international aid to urban areas were undertaken, drawing on the views of the urban poor in Africa, Asia and Latin America, what would it reveal? Probably bewilderment among most of those consulted at the number of international organizations with so much money whose names they have never heard and whose efforts have by-passed them. For those that had been involved in an internationally funded "project", there would often be a memory of intense activity over which they had little or no say. There may be considerable uncertainty as to which international agencies had been involved, because there would have been no interaction with agency staff, only with the local government agency, NGO or private firm in charge of implementation. In many instances, the "beneficiaries" would have seen little permanent benefit. The project might have installed some standpipes or community latrines, for instance, but with no provision for maintenance, so they did not work for long. Among the reactions to some recent donor funded projects are:

- The puzzlement of the children and other community members in Sathyanagar in Bangalore when, after developing their own community action plan, funding was stopped.⁽¹⁾
- The anger of the residents of the donor-funded low-income housing project in Harare who find themselves with poor quality housing and higher mortgage payments than they had been led to expect.⁽²⁾
- The sense of abandonment among the residents of a squatter settlement in Guatemala City that received international support for improved infrastructure and services. As one resident commented: "After the project was finished, they forgot about us." The project may have brought considerable improvements in water, sanitation and some services but much of the population subsist on incomes that permit only one meal a day, and there are serious problems with unemployment, violence and drug abuse.⁽³⁾

If the urban poor had the chance to review the literature published by international agencies, how would they react? Perhaps there would be some resentment at the agencies' claims that poverty

1. See the paper by David Driskell, Kanchan Bannerjee and Louise Chawla on "Rhetoric, reality and resilience: overcoming obstacles to young people's participation in development" listed on the back page.

2. See the paper by Amin Y. Kamete on US AID's housing programme in urban Zimbabwe listed on the back page.

3. See the paper by Andrés Cabanas Díaz, Emma Grant, Paula Irene del Cid Vargas and Verónica Sajbin Velásquez on "The role of external agencies in the development of El Mezquital in Guatemala City" listed on the back page.

This is a brief of the April 2001 issue of the journal **Environment and Urbanization**, which was on **Rethinking Aid to Urban Poverty Reduction: Lessons for Donors**. It draws on the papers in this issue (which are listed on the back page, along with details of how to obtain this issue or obtain copies of individual papers electronically). This summary, produced with support from the UK Government's Department for International Development (DFID), is to allow the journal's main findings to reach a wider audience.

reduction is their primary goal. There would be puzzlement about these agencies' insistence on transparency, accountability and participation when they, the urban poor, were told little or nothing about the agencies' allocation of resources (and the reasons for the allocations) and were given no opportunity to put forward their own priorities, to monitor these agencies' responses and to contribute to the evaluation of projects.

A wide-ranging assessment of international development assistance would certainly find positive aspects as well: low-income individuals, households and communities whose lives had been transformed for the better; households and communities with hugely reduced health burdens because housing and basic services really did improve without becoming unaffordable; individuals and households who found economic niches for their livelihoods that no longer meant periods of hunger each week; savings groups formed by homeless people who developed their own homes and neighbourhoods after successfully negotiating with the local authorities for land. Many other people may not have had their lives transformed but still received real benefits – water supply and sanitation systems that worked, health care clinics in their neighbourhood that they could afford and, sometimes, improved forms of governance which allowed them to exercise their democratic rights to organize, make demands and get a fair response.

There are good reasons why most of the urban poor are unlikely to give international agencies a positive assessment. Aid agencies and development banks, for all their power and funds, have little capacity to reduce poverty unless they can find and support local partners to work through.⁴ “Good local governance” is essential to urban poverty reduction; in its absence (or if higher levels of government prevent international agencies working with local governments) the capacity of international agencies to support poverty reduction is much reduced. Recipient governments may allow them to work with local NGOs, or even directly with community-based organizations, but large agencies with their headquarters in Europe or North America find it very difficult to work with large numbers of small, diverse institutions. It is also nearly impossible to implement effective, large-scale poverty reduction in urban areas without more effective, accountable local government agencies. There are other constraints also on the capacity of official agencies to work “outside” government channels and to work with urban governments, if higher levels of government are reluctant to let them do so.⁵

All international agencies face difficulties in being accountable - from the largest development banks with annual expenditures of tens of billions of dollars to modest international NGOs spending a few tens of thousands of dollars. How do they live up to the principles of accountability, transparency and participation when the disadvantaged groups they are trying to reach, and the intermediaries through which they try to reach them (local NGOs or agencies), have so little voice and independence? The quality of this donor-local intermediary-“intended beneficiaries” relationship is a major influence on the success of development assistance, yet we know little about the perspectives of the urban poor and the local intermediaries through whom most donor assistance get channelled.

II. A ONE-SIDED LITERATURE ON DEVELOPMENT ASSISTANCE

MOST LITERATURE ON development assistance is written by the staff of international agencies (with the World Bank being notable for the volume of literature it generates), by their consultants or by academics, most of them from Europe or North America. Given the limited achievements among international agencies in reducing poverty, we need to learn more about the perspectives of those on the other side - for instance:

- the staff of local non-governmental organizations who draw support from external agencies (and often depend on them) and staff from local and national government agencies whose capacity to invest and even to fulfill their responsibilities often depends on external funding. But it is difficult for these people to write frankly about their experience with external donors since their job or funding source may be at risk if they do so.
- members of community-based organizations that have sought external funding, including those that were denied it. Also their reflections on the appropriateness of external funding, the form in which it was provided and the nature of their relationships with external donors;
- the staff of local schools, health centres, water and sanitation departments or aids prevention programmes whose work has been partly funded by external donors;
- the staff of government institutions working at higher levels of government, involved in negotiations with external donors.

Some literature mentions views or perspectives drawn from some of these groups but almost

4. See the paper by David Satterthwaite on what constrains the effectiveness of aid agencies and development banks in reducing poverty, listed on the back page.

5. See the paper by Michael Cohen on “Urban assistance and the material world: learning by doing at the World Bank”, listed on the back page.

always reinterpreted by staff from international agencies, consultants or academics. It is difficult for outsiders to draw out the views of these groups; they usually do not speak local languages, they usually have a limited knowledge of local society and they are usually perceived as “donors”, so critical comments are suppressed or made strategically rather than sincerely. The respect so often accorded to them by local groups also discourages the voicing of any criticism.

III. DIFFERENT PERSPECTIVES ON LOCAL CAPACITY

THERE ARE DIFFERENT perspectives in regard to local capacity between most of those who write about development and those who work at community level. Most literature on development stresses the weakness of recipient governments, the obduracy of government institutions and the constraints imposed by bureaucracy and corruption. Those who work directly with low-income groups in urban areas, their community organizations and the local professionals with whom they interact often find exceptional people doing exceptional work with very few resources. These include:

- very low-income women who form and manage joint savings and credit schemes with great skill, integrity and capacity to share;
- community organizations who have implemented remarkable projects with very limited resources;
- local teachers, nurses or other professionals who work far longer hours than their salaries cover and who support various local initiatives within the low-income areas where they work;
- local government officials who genuinely seek to meet their responsibilities to urban poor communities, despite very limited resources.

Most donor agencies have failed to develop relationships with those people and institutions at the local level whose individual and collective efforts can do so much to reduce poverty, especially the representative organizations and federations formed by the urban poor themselves.⁶ Of course, there are difficulties and conflicts within any low-income community, and also individuals and vested interests who seek only personal gain or who want to defend their positions of power or privilege, but there are usually people and institutions with whom external agencies can work effectively.

IV. OVERCOMING OBSTACLES TO ASSISTING THE URBAN POOR

a. Taking account of the Multiple Deprivations faced by Low-income Groups

MANY INTERNATIONAL AGENCIES (and most national governments) still identify and measure poverty through income-based poverty lines. They fail to recognize the need for poverty reduction programmes to act on many other aspects of deprivation (including inadequate housing, infrastructure and services and anti-poor political and legal systems) and miss the large potential role of local institutions to address these. They often fail to recognize the multiple linkages between the different dimensions of poverty including how addressing one can bring benefits in others.⁷ In addition, supporting improvements in housing, infrastructure and services (in effect addressing the environmental dimensions of poverty) can be key “entry points” through which social, economic and political dimensions can be addressed.⁸

Effective local institutions are needed to take action. It is often possible to develop poverty profiles and maps which make explicit the multi-dimensional aspects of poverty by drawing information from different local agencies and on-the-ground surveys; in two Argentine cities, developing such maps encouraged more participatory and integrated approaches to poverty reduction.⁹ There are also many connections between reducing poverty and reducing political exclusion. In Porto Alegre and Belo Horizonte in Brazil, participatory budgeting allowed formerly excluded groups to determine investment priorities in their communities and to monitor government responses. This helped to reduce clientelist practices and, perhaps more importantly for a society as unequal as Brazil, to build democratic institutions.¹⁰

Governments and international agencies often forget the spatial dimensions of poverty. All poverty occurs within a particular physical environment and physical improvements can bring material improvements in the quality of people’s lives. Improved housing brings social and institutional multipliers, as important as economic and financial multipliers. For most families, housing is their largest financial investment; it is also their most important physical asset – whether they are low-income squatters building their own houses and negotiating land tenure or middle-income families purchasing a conventional home. “Place-bound” investments in improving housing quality,

6. The role of community organizations and their federations in reducing urban poverty will be the focus of the October 2001 issue of *Environment and Urbanization* (Vol 13, No 2); this is being prepared with Shack Dwellers International.

7. See the paper by Lia Navarro on “Exploring the environmental and political dimensions of poverty: the cases of the cities of Mar del Plata and Necochea-Quequén” which is listed on the back page.

8. See the papers by Navarro, Satterthwaite and Amis listed on the back page.

9. See the paper by Lia Navarro listed on the back page.

10. See the paper by Celina Souza on “Participatory budgeting in Brazilian cities: limits and possibilities in building democratic institutions” listed on the back page.

11. See the paper by Michael Cohen listed on the back page.

12. See the paper by David Satterthwaite listed on the back page. For example, less than 4 percent of the World Bank's funding commitments between 1981 and 1998 went to improving or extending provision for water and sanitation in urban areas and less than 3 percent went to projects to improve housing conditions for low income groups. The priority given to these by the Asian Development Bank for this period was even lower.

13. See the paper by Alfredo Stein on "Participation and sustainability in social projects: the experience of the Local Development Programme (PRODEL) in Nicaragua" listed on the back page.

14. See the paper by Philip Amis on "Rethinking UK aid in urban India: reflections on an impact assessment study of slum improvement projects" listed on the back page.

15. See the paper by Andrés Cabanas Díaz, Emma Grant, Paula Irene del Cid Vargas and Verónica Sajbin Velásquez, listed on the back page

16. See the paper by Michael Cohen listed on the back page.

17. See the paper by Michael Cohen listed on the back page.

18. See the paper by Michael Cohen listed on the back page.

19. See Nadia Taher's paper on "In the shadow of politics: US AID-government of Egypt relations and urban housing intervention" listed on the back page.

20. See the paper by Alfredo Stein listed on the back page.

21. See the paper by David Satterthwaite listed on the back page.

22. See the paper by Nadia Taher listed on the back page.

23. See the paper by Amin Kamete listed on the back page.

24. See the paper by Michael Cohen, listed on the back page, reflecting on his experience within the World Bank.

infrastructure, social facilities, cultural services, environmental quality and security are important components of "income".⁽¹¹⁾ Yet most international agencies give a very low priority to the "place-bound" investments that benefit urban poor groups.⁽¹²⁾

A growing number of donor-funded programmes respond to the multiple dimensions of poverty and explicitly recognize the importance of "place-bound" investments. These include

- The Local Development Programme (PRODEL) in Nicaragua which supported 260 infrastructure and community works projects in eight urban centres and also developed loan programmes to support housing improvements and micro-enterprise development.⁽¹³⁾
- Upgrading projects in various Indian cities which improved basic infrastructure and services in low-income areas of cities and brought many direct and indirect benefits to the inhabitants.⁽¹⁴⁾

Some donors consider these kinds of projects to be too focused on infrastructure – but there is a danger in underestimating the benefits that these interventions can provide. However, there are also the limitations of focusing only on improved infrastructure and services.⁽¹⁵⁾

b. Moving from a Focus on Projects to a Focus on Institutional Structures that serve the needs of the poor

In most nations, there is a need to change institutional structures so they better meet the needs of urban poor groups. Staff at the World Bank recognized this in the early 1980s⁽¹⁶⁾ and sought to shift support from projects to what today would be called better "governance." At the time, the World Bank had the largest donor programme supporting low-cost housing and urban infrastructure. There was a recognition that taking these solutions to scale required more capable, better resourced, more accountable urban governments but this implies considerable political changes which many national governments resist. Addressing problems in many large metropolitan centres is also particularly problematic because of the intensely political nature of any measure to raise and direct funding to the poorest districts.⁽¹⁷⁾ It was politically impossible for the World Bank to discuss metropolitan government with many governments.⁽¹⁸⁾ A study of a US AID funded housing project in Egypt also points to the highly political nature of aid.⁽¹⁹⁾ The international donor viewed their aid as the lever by which to change Egyptian government policies while many Egyptian government officials resented this and sought to undermine it.

One significant feature of PRODEL in Nicaragua was that it set up a local non governmental institution to support its implementation. It also sought not only to achieve its concrete project objectives but also to institutionalize the approaches it funded within urban governments, especially citizen participation in social programmes. PRODEL's methods have come to be used by central and local governments in other programmes.⁽²⁰⁾

c. Avoiding conflicts of interest within donor programmes

International donors also face other difficulties, including the expectations of commercial interests and politicians at home, the foreign policies of their governments and their own institutional structures. No international agency can design programmes from scratch, responding to what their staff regard as the most effective ways to fund urban poverty reduction. Most official agencies were set up more than 30 years ago, when the concept of what constituted an effective donor agency was very different. The understanding of what best supports poverty reduction has changed much more than the institutional structures of the large donors. Also, all official donors have to work with and through national governments, and many have politicians supervising them who have little knowledge of development and a belief that aid programmes should be bringing benefits to their own country. This is the political and institutional context which helps limit the effectiveness of much development assistance.⁽²¹⁾

Many donor agencies have to meet contradictory goals. Poverty reduction in a recipient country may be their stated goal. But powerful domestic commercial interests and foreign policy priorities interfere with good development practices. A study of the Helwan housing project in Cairo shows the difficulties it faced because of the complex, confused and often conflictive relations between the United States and the Egyptian governments. US AID could not halt funding to enforce project conditionality because it was under pressure to spend the money; too many vested interests would also have suffered if funding had been stopped.⁽²²⁾ In the Kuwadzana Extension low-cost housing project in Zimbabwe, there was a contradiction between supporting local development (and local institutions) and the promotion of US exports.⁽²³⁾ The social objectives of any project can also become lost in the complexities of the relationship between the donor and the "recipient" government.⁽²⁴⁾

25. See the paper by David Satterthwaite listed on the back page.

26. See the paper by David Driskell, Kanchan Bannerjee and Louise Chawla, listed on the back page.

27. See the paper by John Kiyaga-Nsubuga, Raphael Magyezi, Sarah O'Brien and Mark Sheldrake on the DFID city community challenge (C3) fund pilot in Kampala and Jinja listed on the back page.

28. This will be discussed in more detail in the October 2001 issue of *Environment and Urbanization* (Vol 13, No 2).

d. Bringing funding mechanisms closer to the intended beneficiaries

These larger constraints create a physical and institutional distance between the decision making processes of international agencies and their "recipients", which mean that "recipients" have very little influence. Many vested interests operating within donor nations and recipient nations limit the possibility of funding actually reaching the urban poor.⁽²⁵⁾ A case study of a child-centred project in Bangalore notes that:

"Although many funding agencies espouse participatory ideals in their programme brochures and publicize participatory practices in their project descriptions, the reality is that few if any funding agencies operate in a manner that actually supports local participation efforts. Most funding agencies limit the range of issues or types of projects for which their funds can be used; want to know ahead of time what the project outcomes will be; prefer to fund a few big projects rather than numerous small ones; prioritize quantitative, project-oriented measures of success over qualitative and process-oriented measures; and establish strict timelines for the start and finish of each project"⁽²⁶⁾

Some donor agencies have sought to address this. The UK government's Department for International Development (DFID) is supporting a local fund in two Ugandan cities to which community groups can apply directly and where the decisions about what receives funding are taken locally.⁽²⁷⁾ DFID is supporting a similar fund in two cities in Zambia. If these locally based funds can develop institutional structures that respond quickly and effectively to urban poor groups' needs and priorities, and are accountable to these groups for their decisions and use of resources, this would represent major progress.

e. Finding new channels of support for local governments and organizations formed by low income groups

An institutional structure for official development assistance that is dominated by the donor-national government relationship makes it difficult for international agencies to engage in two of the most important long-term processes for reducing urban poverty:

- supporting the development of accountable, effective local governments that can undertake or support many different local interventions that can reduce poverty; and
- supporting the organizations formed by lower-income groups.

New means must be found to engage with and support local government agencies that have the potential to become more effective and accountable. New means must also be found to amplify funding channels that go "outside" government so they reach low income groups and their organizations, as in the case of the new funds set up in the cities in Uganda.

f. From Project Cycles to Support for Processes

Finally, there is the limitation of the "project cycle and exit strategy" used by most donors. Most urban neighbourhoods with a concentration of low-income groups need long term support through which individuals and representative community organizations can identify and act on different deprivations. Ideally, as much funding and other resources as possible should be generated internally or negotiated from local institutions. But external funding is often needed too, especially where local government is not prepared to provide appropriate support. One successful project should encourage others, with each "success" helping to support further work. There is nothing more destructive for the development of accountable, effective community organizations than to encourage their involvement in a particular project and then ignore them when this is completed successfully. But most donors will not support additional projects in the same settlement as if one project could actually solve all the problems of urban poverty. There needs to be less emphasis on expensive short-term projects and more on modest external funding available to fund and support community and municipal processes. More support is also needed for the work of local non-government institutions that have the capacity to work with the urban poor and that are accountable to them.⁽²⁸⁾

Complex and constantly changing local contexts in each city also mean that donor agencies either need an intimate knowledge of local possibilities or they need to support local institutions that have this knowledge. Local institutions have a constant local presence that can respond to changing circumstances – for instance, by adapting an existing programme to respond to a particular crisis (a flood, a sudden rise in food prices) or a particular opportunity (a local election bringing a new mayor into office who is more committed to addressing urban poverty). Relatively little official development assistance goes to supporting the work of local institutions such as PRODEL; even less goes to local funds such as the ones set up in Uganda.

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