



Aiding local action: the constraints faced by donor agencies in supporting effective, pro-poor initiatives on the ground

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1. Rihani, Samir (2002), *Complex Systems Theory and Development Practice: Understanding Non-linear Realities*, Zed Books, London, page xvi; also in Leslie Groves and Rachel Hinton (editors) (2004), *Inclusive Aid: Changing Power and Relationships in International Development*, Earthscan, London, pages 210–220.

ABSTRACT This paper examines the institutional and political constraints that inhibit multilateral and bilateral donor agencies supporting poverty reduction initiatives on the ground. These include the constraints related to their own structures and the political systems in which they are embedded, and those related to their relationships with recipient governments. The paper also considers how current trends in development assistance towards greater donor harmonization and the associated processes within Poverty Reduction Strategy Papers (PRSPs), the shift from project support to budget support, and the drive for greater "efficiency" may further limit donors' capacity to support pro-poor local initiatives. It also discusses how these trends in development assistance are marginalizing support for those aspects of development that require relatively little external funding but also require that this funding be used carefully and strategically, engaging directly with poor groups and their organizations, and enlarging their scope for influence and action.

KEYWORDS Aid / budget support / development / PRSPs / poverty reduction

I. INTRODUCTION

"Development is essentially a local affair; a marathon dogged by unexpected twists and turns rather than a rush to a nearby summit."⁽¹⁾

Official development assistance agencies (or donor agencies) are committed to the reduction of poverty and the attainment of the Millennium Development Goals (MDGs), and many are making changes in their institutional structures in the hope that this will allow them to be more effective in meeting these goals.⁽²⁾ But all have difficulties in ensuring that what they fund (and can fund) actually contributes to these outcomes on the ground – for instance, good quality schools, health care systems, provision for water and sanitation and, when needed, safety nets that poorer groups can access. In many instances, it is not a lack of funding that prevents these outcomes from being achieved but rather, a lack of interest from recipient governments and a lack of capacity among local organizations. Poverty may be underpinned by national and international factors but the deprivations faced by low-income groups are usually rooted in local contexts, local power structures and local institutions' performance.⁽³⁾ Donors have difficulties in ensuring that their funding actually addresses the deprivations faced by poorer groups in

each locality. Unless donor agencies can support a shift to more effective and more pro-poor local governments and other local organizations, there is little possibility of them meeting most of the MDGs.

There is a large body of evidence that shows the importance for poverty reduction of more competent, effective and pro-poor organizations in each locality.⁽⁴⁾ Thus, one key part of poverty reduction is to ensure that there is the organizational and financial framework to support the shift in each locality to more effective, pro-poor local organizations. This often includes the need to change the relationship between those with unmet needs and local organizations – particularly local governments – and to make local organizations of all kinds more accountable to those with unmet needs. As most donor organizations have recognized, local government reforms are important for this, but it requires more. It also requires poorer groups having the power and “voice” to change their relationship with government agencies and other groups at the local level.⁽⁵⁾ Pressure from below is necessary to get national and local levels of government to act in a pro-poor manner. Thus, an important part of poverty reduction is supporting the building of more effective governance systems from the bottom-up,⁽⁶⁾ and this includes supporting local initiatives that address deprivations directly.⁽⁷⁾ When such initiatives work to make the local organizations in charge of providing services more accountable to people’s needs, especially the poorest, they also fit with international commitments to promote “good governance”.

Yet only a very small proportion of donor funding goes to support pro-poor local initiatives directly. While many aid agencies and development banks recognize the importance of more effective and pro-poor local governments and of a strong and innovative civil society, they have difficulty supporting local organizations and projects. This paper explores the institutional and political constraints on development assistance support for pro-poor local initiatives. These constraints are related to donor agencies’ own structures (and the political system in which they are embedded) and to the donors’ relationships with recipient governments. The paper also considers how current trends in development assistance towards greater donor harmonization, the shift from project support to budget support, and the drive for greater “efficiency” may further limit donors’ capacity to support pro-poor local initiatives.

II. INSTITUTIONAL STRUCTURES AND LOCAL INITIATIVES

a. The gap between official donors and their clients

Donors’ capacity to support local initiatives for poverty reduction faces serious constraints that are institutional in that they are linked to agencies’ internal working structures and the norms and procedures by which they work. Official bilateral and multilateral agencies’ structures and modes of providing grants, soft loans or non-concessional loans were initially set up to provide recipient (national) governments with large capital sums and professional advice. In part, this is the legacy of the 1950s concept of development assistance, which centred on capital to help national governments invest in productive activities and infrastructure, supported by “expert” foreign technical assistance.⁽⁸⁾ Although the understanding of how international agencies can support

2. Mitlin, Diana and David Satterthwaite (editors) (2004), *Empowering Squatter Citizen: Local Government, Civil Society and Urban Poverty Reduction*, Earthscan, London page 302.

3. Satterthwaite, David (2005), “Meeting the MDGs in urban areas; the forgotten role of local organizations”, *Journal of International Affairs* Vol 58, No 2, pages 87–112.

4. Bigg, Tom and David Satterthwaite (editors) (2005), *How to Make Poverty History: The Central Role of Local Organizations in Meeting the MDGs*, IIED, London.

5. See reference 2, page 282.

6. See Pollard, A and J Court (2005), “How civil society organizations use evidence to influence policy processes: a literature review”, ODI Working Paper 249, July, Overseas Development Institute, London; also Patel, Sheela and Diana Mitlin (2004), “The work of SPARC, the National Slum Dwellers Federation and Mahila Milan”, in Mitlin and Satterthwaite (2004), see reference 2, pages 216–244.

7. The MDG targets are described on the World Bank website: <http://ddp-ext.worldbank.org/ext/MDG/gdmis.do>.

8. Satterthwaite, David (2005), “Meeting the MDGs in urban areas: the forgotten role of local organizations”, in Bigg and Satterthwaite (2005), see reference 4, pages 99–126.

9. Martens, Bertin, Uwe Mummert, Peter Murrell and Paul Seabright (2002), *The Institutional Economics of Foreign Aid*, Cambridge University Press, page 14.

10. Satterthwaite, David (2001), "Reducing urban poverty: constraints on the effectiveness of aid agencies and development banks and some suggestions for change", *Environment & Urbanization* Vol 13, No 1, April, pages 137–157.

11. Term borrowed from Martens et al. (2002), see reference 9.

12. Eyben, Rosalind and Clare Ferguson (2004), "How can donors become more accountable to poor people?", in Groves and Hinton (editors), see reference 1, pages 163–180.

13. See the section on external communication on the Sida website: <http://www.sida.se>, last accessed in November 2005.

14. Degnbol-Martinussen, John and Poul Enberg-Pedersen (2003), *Aid, Understanding International Development Cooperation*, Mellefolkeligt Samvirke (Danish Association for International Cooperation), Zed Books, London, page 174.

15. See reference 10.

16. Carlsson, Jerker and Lennart Wohlgemuth (2000), "Learning in development cooperation – an introduction", in Lennart Wohlgemuth and Jerker Carlsson (editors) (2001), *Learning in Development Cooperation*, International Expert Group on Development Issues, Almqvist & Wiksell International, Stockholm, pages 6–23.

development has evolved much since then, most of these agencies' basic structures remain little changed.

Official bilateral aid agencies are public agencies that are unlike all others in that they work for the benefit of people who are not citizens of their own countries and in that ". . . *the people for whose benefit aid agencies work are not the same as those from whom their revenues are obtained.*"⁽⁹⁾ So unlike other government departments, there are no direct lines of accountability between aid agencies and their "clients" through conventional political processes; the "poor" whose needs bilateral agencies try to meet have no politician in the host nation who is elected to represent their needs, and no rights as citizens to question the validity of what donor agencies provide.⁽¹⁰⁾ In development assistance, there is no "feedback loop"⁽¹¹⁾ between the original suppliers of funds, for example from taxes (or voluntary contributions) in donor countries, and their intended beneficiaries. Aid agencies are accountable not to their "clients" but to their own governance structure, as established by procedures, and they usually view taxpayers as the principal stakeholders.⁽¹²⁾ For instance, the Swedish International Development Cooperation Agency (Sida) states in its policy document that because ". . . *it is the people of Sweden that finance Sweden's development cooperation through the taxes they pay, both Sida and the partner countries/organizations are responsible for reporting on the ways in which the funds have been used.*"⁽¹³⁾ Bilateral agencies must respond to their politicians and civil servants for the delivery of their set development assistance goals, and also be seen to address what the politicians and civil servants who oversee them consider "good practice". Multi-lateral agencies are responsible to their own governing bodies – which are representatives of national governments. Such agencies inevitably place most emphasis with regard to accountability on reporting to the representatives of governments that are their main funders. Thus, for all official development assistance agencies, there is a considerable physical, conceptual and institutional distance between the original suppliers of funds (principally drawn from taxes) and the intended final users, among them the poorest people in aid recipient countries.⁽¹⁴⁾ In fact, donor agencies and the people whose conditions constitute the very purpose of their activity barely have any direct relationship at all.

b. Pressures from domestic constituencies

All bilateral agencies have above them an elected government to which they are responsible, that takes decisions about the allocation of funds for which they have responsibility, and sets parameters and conditions on the use of such funds. Each bilateral aid agency is also under strong pressure from various domestic constituencies.⁽¹⁵⁾ These include a wide range of commercial businesses (contractors, suppliers, consultants) and non-profit organizations (mostly the international NGOs based in that nation) that receive or want to receive that agency's funding. Environmental groups and human rights groups are also active and often powerful influences. Bilateral agencies are also sensitive to pressure from the media. In most donor countries, ". . . *the aid agency is continuously subjected to strong outside pressures trying to influence what should be done, how it should be done and where it should be done*",⁽¹⁶⁾ and one of the major challenges for donor agency staff is ". . . *to manage ministerial expectations concerning the agency's capacity to deliver real world change*", while building

up and maintaining interested constituencies back home in order to help preserve donor budgets.⁽¹⁷⁾ For example, all donor agencies need to maintain favourable links with the lobby groups that have the capacity to influence their budget allocations and with the private sector enterprises and voluntary organizations on which they rely to implement their initiatives.

All official bilateral agencies face difficulties in limiting the influence of domestic vested interests and their government's foreign policy, even in those countries where governments have put a high emphasis on ethical imperatives and international humanitarianism and have set careful checks to keep their aid policy formulation at a distance from foreign policy and commercial influences: ". . . if aid is not openly and directly serving policy interests, it should at least not work against them."⁽¹⁸⁾ Most multilateral agencies may be less subject to political pressure from donor governments, and are often protected by their mandates. Yet inevitably, they are influenced by the policies and priorities of the governments that are their main funders and by those enterprises or civil society organizations that are funded to implement their initiatives.

According to their lines of accountability, donors have to inform and justify to the politicians and taxpayers that the funds they are allocated will actually benefit the people who are poor. This becomes a problem when aid agencies give priority not only to alleviating poverty but also to being *seen* to do this.⁽¹⁹⁾ For example, the media play an important role in shaping opinions among both the public and politicians, who tend to favour support to humanitarian emergencies.⁽²⁰⁾ The Indian Ocean tsunami disaster is mentioned in the first introductory paragraph of almost every European bilateral agency's 2005 reports, and aid agencies have to be seen to address the emergencies that receive extensive coverage by the international media. Investments that reduce a population's vulnerability to humanitarian crises tend to receive less attention in terms of aid support, as they are less visible to public opinion and political constituencies at home.

c. Difficulties engaging with local actors

The distance between donor agencies' decision making and management processes and their intended beneficiaries at grassroots level necessarily creates the need for procedures that can allow them to work and engage with other development actors while at the same time keeping their accountability to politicians and taxpayers back home. Over the years, the desire to improve the quality of aid has led to the extension of project preparation, monitoring and evaluation procedures, and reporting requirements.⁽²¹⁾ These can impose forms of conditionality that local organizations find difficult to meet and which also ill-match local circumstances.⁽²²⁾ Many procedures exclude the local organizations that have the potential to bring significant improvement at the local level, but lack the influence, the Western language skills or the familiarity with accepted procedures to be selected as "beneficiary representatives" and participate in the decision making or implementation of donor-funded activities. Accepted procedures may also bear little relationship to conditions on the ground, and may inhibit the connection of donor agency staff to the local groups whose performance determines the success of the initiative.⁽²³⁾

Numerous case studies have shown that interventions that draw on

17. See reference 12, pages 169–170.

18. See reference 16, page 11.

19. Edgren, Gus (2000), "Fashions, myths and delusion: obstacles to organizational learning in agencies", in Wohlgenuth and Carlsson (editors) (2001), see reference 16, pages 41–68.

20. See Olsen, Gorm Rye (2000), "Public opinion and development aid: is there a link?", CDR Working Paper 009, December, Centre for Development Research, Copenhagen, Denmark; also Olsen, Gorm Rye (2001), "European public opinion and aid to Africa: is there a link?", in *Journal of Modern African Studies* Vol 39, No 4, pages 645–674; Stern, Marc (1998), *Development Aid: What the Public Thinks*, Office of Development Studies, Bureau for Development Policy, UNDP, New York; and Smilie, Ian (1996), "Mixed messages: public opinion and development assistance in the 1990s", in Colm Foy and Henry Helmich (editors), *Public Support for International Development*, OECD, Paris, pages 27–54.

21. See reference 14, page 176.

22. Win, Everjoice (2004), "If it doesn't fit on the blue square it's out! An open letter to my donor friend", in Groves and Hinton (editors), see reference 1, pages 123–127.

23. For a discussion of this, see Jassey, Katja (2004), "The bureaucrat", in Groves and Hinton (editors), see reference 1, pages 128–136.

24. See reference 16, page 15.
25. On the professionalization of the aid industry, see Chambers, Robert (1997), *Whose Reality Counts: Putting The First Last*, Intermediate Technology Publications, page 50.
26. Hasan, Arif, Sheela Patel and David Satterthwaite (2005), "How to meet the Millennium Development Goals (MDGs) in urban areas?", in *Environment & Urbanization* Vol 17, No 1, April, page 6.
27. See reference 19, page 47.
28. See reference 10; also Ostrom, Elinor (team leader), Clark Gibson, Sujai Shivakumar and Krister Andersson (2002), *Aid, Incentives and Sustainability; An Institutional Analysis of Development Cooperation*, Sida Studies in Evaluation # 02/01, December, Sida, Stockholm.
29. Wieslander, Anna (2000), "When do we ever learn?", in Wohlgenuth and Carlsson (editors), see reference 16, pages 250–266.
30. See reference 10; also see reference 28, Ostrom et al. (2002), page xxii; see reference 23, page 132; see reference 19, page 49; and Green, Reginald Herbold and John Toye (1996), *Multilateral Development Bank Concessional Lending. Forward into the Second Half Century*, Institute of Development Studies, Sussex, UK, in Degnbol-Martinussen and Enberg-Pedersen (2003), see reference 14, page 123.
31. See reference 23, page 132.
32. See, for example, reference 28, Ostrom et al. (2002).
- local knowledge and experience are often more effective at reducing poverty and making resources go further. Yet it is difficult for aid agencies to make full use of them. As donor staff are pressured to spend and get results, it is easier and more convenient to use consultants or to contract-out management to organizations in their own country. Many aid agencies' documents report an increasing use of consultants for technical and analytical work, to the extent that ". . . the bias towards using foreign experts has become a systemic problem."⁽²⁴⁾ In turn, this has strengthened the formation of a specialized aid industry within the high-income donor countries, which is also too often distant from local realities.⁽²⁵⁾ Even though most low- and middle-income nations have competent and capable professionals, donor agencies find them too isolated or too inconvenient to use. Donors have even more difficulties working with grassroots organizations, despite the knowledge and capacity they can contribute. In most aid agencies, the poor are still perceived as "targets" or "beneficiaries". Development is still something that professionals and development institutions "do for them".⁽²⁶⁾ The staff of aid agencies may find it difficult to see "the poor" as partners and active agents of their development, with knowledge, resources and rights to influence the way development is delivered to them, as they most often have no relationship with them or their organizations.
- Many donor agencies are placing an increasing emphasis on field offices, in an effort to reduce the distance separating their work from local realities. The decentralization of responsibilities is also seen as a means to increase donor agencies' overall efficiency by shortening the lines of decision making between the different organizational levels.⁽²⁷⁾ Today, decentralization reforms and the delegation of new means and responsibilities to field offices and/or national embassies are a priority for most bilateral donors. This has shifted the balance of decision-making away from headquarters and towards offices (or embassies) in recipient nations. This has also strengthened the relationship between donors and recipient nation governments.
- Yet this does not necessarily decrease the distance between donor agencies and the local actors who require their support. Short-term assignments to field offices and high staff turnover, added to a growing number of temporary contracts in most development agencies, make it difficult for staff to engage with local actors and to absorb sufficient knowledge about the societies in which their projects are to be applied. Also, rarely are there effective mechanisms to ensure post-field knowledge transfers.⁽²⁸⁾ Thus, in most aid agencies' in-country offices, senior staff spend most of their time in their offices in the capital city, under pressure to be "strategic" and with little time to connect with poor people.⁽²⁹⁾ In addition, they tend to be rewarded more for the financial management of funds than for the actual performance of what is funded.⁽³⁰⁾ A staff member from Sida recognized that ". . . development is about taking risks; yet today, (staff) incentive systems discourage risk taking."⁽³¹⁾
- Moreover, there are several factors inhibiting the possibility for international agency staff to change their usual practice and provide more support for local initiatives. Donor agencies' lack of accountability to the beneficiaries allows a series of intermediary actors in the aid delivery process to select and transmit only the information that is likely to benefit them, and to withhold information to secure reputations, conceal poor performance or to negotiate position in the organization.⁽³²⁾ "The

interests of influential stakeholders, inside and outside the aid agency, are intimately tied to an existing order and way of doing things."⁽³³⁾ This is also the case when working with local organizations: aid donors tend to equate civil society with the development NGOs they already know, sidelining other types of civic organizations that may be more legitimate and politically effective.⁽³⁴⁾ Unless they have clear incentives to change and innovate, staff will tend to favour the status quo.⁽³⁵⁾ In addition, there is little evidence of evaluations leading to significant changes in policies or practices.⁽³⁶⁾ The knowledge and experience of returning experts is rarely used effectively within the organization. Those who have worked with archival material in aid agencies note that these concentrate on the spending of money and the transfer of staff and goods.⁽³⁷⁾ These all represent serious drawbacks to internal processes of information sharing and mutual learning, which could bring much improvement to donor agencies' knowledge about how to reach the poor more effectively, and change their ways of working accordingly.

d. The search for greater efficiency and effectiveness

Since the 1980s, development assistance has sought greater aid effectiveness through different means. One has been the adoption of a more explicit and multi-dimensional approach to reducing poverty, with the establishment of clear development goals (such as the adoption of the International Development Targets and later, the UN Millennium Development Goals).⁽³⁸⁾ Another has been a focus on "more efficient" management.⁽³⁹⁾ The shift to "management-by-results" is underpinned by using information to improve decision making and to steer country-led development processes towards well-defined goals.⁽⁴⁰⁾ The need for aid agencies to demonstrate their effectiveness through quantitative and measurable indicators was mostly driven by growing worries among development assistance agencies concerning the fall in public support for aid in the 1980–90s. The pressure to demonstrate results is often expressed with reference to the need to ensure people's support, although several studies have shown that public opinion seems to have little impact on bilateral aid policies apart from emergency aid.⁽⁴¹⁾ More tangible outcomes, such as the attainment of the MDGs, are seen as a way for aid agencies to justify aid spending to taxpayers and political leaders at home.⁽⁴²⁾ During the High Level Forum on Aid Effectiveness in Paris in February–March 2005, the chair of the OECD Development Assistance Committee explained how "results" and "mutual accountability" naturally appear among the five principles of the Paris Declaration, since ". . . we must demonstrate that we are using aid effectively. This will give the people the confidence that aid helps the poorest people in the world, and that more aid is a sound investment in all our futures."⁽⁴³⁾ The use of targets is also necessary to "measure" recipient governments' effectiveness at reducing poverty over time and thus validate donors' support.⁽⁴⁴⁾ "The new partnership for development calls for countries to measure their achievement toward the Millennium Development Goals."⁽⁴⁵⁾ In recipient countries, the MDG results indicators are meant to help build public demand for greater accountability. Across development agencies, they help foster common approaches and better coordinated support. For the prime minister of the Netherlands, ". . . the MDG targets offer a valuable framework for planning and monitoring Dutch efforts [. . .] A common international

33. See reference 16, page 14.

34. Van Rooy, Alison (editor) (1998), *Civil Society and the Aid Industry*, Earthscan, London, page 66.

35. See also Rogerson, Andrew with Adrian Hewitt and David Waldenberg (2004), "The international aid system 2005–2010, forces for and against change", ODI Working Paper 235, March, Overseas Development Institute, London.

36. See reference 16; also see reference 29; and see reference 28, Ostrom et al. (2002).

37. See reference 19, page 48.

38. A commitment by the then 191 UN member countries, reaffirmed at subsequent UN meetings: the UN summits in Monterrey (March 2002) and in Johannesburg (September 2002); the International Forum on Aid Harmonization in Rome (February 2003); the Marrakech Round Table on Financing for Development (2004); and the High Level Forum on Aid Effectiveness in Paris (February–March 2005).

39. Quarles van Ufford, Philip and Ananta Kumar Giri (2003), *A Moral Critique of Development: In Search of Global Responsibilities*, Routledge, London, page 4.

40. The World Bank (2004), *The World Bank Annual Report 2004*, available from the World Bank website: <http://www.worldbank.org/annualreport/2004/>, page 82.

41. See Lahiri, Sojal and Pascalis Raimondos-Moller (2002), "Coordinated and uncoordinated foreign aid", in B Mak Arvin (editor), *New Perspectives on Foreign Aid and Economic Development*, Praeger, London, pages 125–138; also see reference 20.

42. See Driscoll, Ruth, Karin Christiansen and David Booth

(2005), "Progress reviews and performance assessment in poverty reduction strategies and budget support; a survey of current thinking and practice", Overseas Development Institute Report, May, London.

43. Richard Manning speech at the High Level Forum on Aid Effectiveness, Paris, February–March 2005, available from the OECD website: <http://www.oecd.org>.

44. See reference 12, page 170.

45. See reference 40, page 182.

46. In the foreword of the first Dutch MDG 8 Progress Report, May 2004.

47. See reference 9, page 13.

48. DANIDA (Royal Danish Ministry of Foreign Affairs) (2004), *Danida Annual Report 2003*, Copenhagen, Denmark, available from the Ministry of Foreign Affairs of Denmark website: <http://www.um.dk/Publikationer/Danida/English/DanishDevelopmentCooperation/AnnualReport2003/AarsberetningUk2003.pdf>, page 16.

49. These are the two main categories of development assistance recognized in the OECD.

50. See reference 39, pages 5–6.

51. Mosse, David (2005), *Cultivating Development: An Ethnography of Aid Policy and Practice*, Pluto Press, London, page 11.

52. See reference 39, page 5.

53. See Hinton, Rachel (2004), "Enabling inclusive aid: changing power and relationships in international development", in Groves and Hinton (editors), see reference 1, pages 210–220.

format would further improve transparency in reporting and allow mutual comparison among donors."⁽⁴⁶⁾

The use of quantitative outcomes is also a way for development organizations to overcome the lack of clearly defined success criteria.⁽⁴⁷⁾ Most development ends to which donor agencies have committed themselves have been translated into numbered targets for them and their partners to reach. This is central to the MDGs. DANIDA, the Danish bilateral agency, highlights in its annual report that it operates "... with a lean professional staff and business-like procedures", in which "... concrete improvements" are associated to "... improved rationalizations" and "... the strengthening of target and performance management."⁽⁴⁸⁾ The World Bank puts a high emphasis on results-oriented approaches both within the organization and for the programmes and projects implemented in recipient countries. Within all aid agencies, there is more emphasis on everyone reporting and assessing their performance against monitorable targets and efficiency criteria. This is also supported by the OECD Development Assistance Committee's good international practice criteria on the use of development assistance funds, with set standards and reporting requirements that are also based on tangible outcomes and applicable to official development assistance and official aid.⁽⁴⁹⁾ In general, "... government departments, NGOs and private organizations active in the domains of development are increasingly required to operate as if they were businesses."⁽⁵⁰⁾

In many agencies, the search for efficiency has created incentives among staff towards working for results on specific indicators at the expense of the processes that actually deliver for low-income groups. It also creates disincentives to support more innovative initiatives – such as local initiatives – that may not guarantee the delivery of fast, concrete and visible results against which their performance could be assessed. Instead of striving to increase their knowledge about the local situation, staff are encouraged to bring institutional reality into line with policy prescription⁽⁵¹⁾ and defend interventions with reference to results rather than political goals.⁽⁵²⁾ This stands as a serious constraint to donor agencies increasing their support to local initiatives and innovative approaches that deliver important improvements at local level, as these may take longer to deliver results that are less visible than large-scale conventional forms of intervention. Adherence to initial project time-tables is an important part of this – even though imposed time frames for the delivery of results can cause a loss of local ownership and threaten the strength and sustainability of the development process that the project seeks to initiate.⁽⁵³⁾

e. Pressure to keep down staff costs

All donor agencies – from the multilateral development banks, to official bilateral agencies, to international NGOs – are under pressure to keep down staff costs. For the World Bank and the regional development banks, keeping down staff costs relative to total loan amounts is a priority – as it is in any bank. But most official bilateral aid agencies and international NGOs also operate under pressure to minimize staff costs, driven by the assumption among senior civil servants and politicians (and the media) that an efficient development agency is one that is able to spend the lowest proportion of their total funding on their own staff and

administration. The 2004 Sida Annual Report mentions that "... the savings requirement has had the effect that the recruitment of new staff to Sida was strictly restricted in 2004."⁽⁵⁴⁾ The "efficiency programme" to which the UK government's bilateral agency DFID has committed itself since April 2005 plans to cut DFID's staff costs by 3 per cent a year up to March 2008, with the loss of 170 UK-based staff and 124 staff appointed in-country.⁽⁵⁵⁾ One consequence of the drive to demonstrate low staff costs has been that many agencies hire external consultants to do work that was previously done in-house, because consultants do not appear as staff costs in their accounts.

All development agencies face considerable pressure to disburse the funds they have been allocated within their budgetary year or within the timeframe agreed at the outset. "Projects often lead to a focus on disbursements, and donors must use the resources agreed upon and planned for within the framework of the project even though continuous monitoring perhaps shows that implementation capacity is too low, or that other activities should have higher priority."⁽⁵⁶⁾ This need to disburse all available funding is exacerbated by the fact that politicians tend to see success in terms of how much development assistance is allocated or how much debt relief is provided, and "... the whole culture in the aid industry is heavily biased towards measuring agencies and managers in terms of the amount of money they can dispose of."⁽⁵⁷⁾ Managers both at headquarters and in country offices are encouraged to spend their allocated resources; failure to do so may result in budget cuts in the future. In the UN and in the OECD Development Assistance Committee, donors who increase their total spending or total budgets in relation to their GDP are praised. Combine this with the "efficiency" goals and this helps explain the preference among many bilateral agencies for direct budget support or large contributions to programmes managed by multilateral organizations or international NGOs.

But what happens to those aspects of development that require relatively little external funding and a need for this funding to be used carefully and strategically within a range of particular local contexts, engaging directly with poor groups and enlarging their scope of influence and accountability on what gets funded and by whom? If the country offices of donor agencies recognized that they needed strong, permanent working relationships with representative organizations of the urban poor, it would be difficult to accommodate this within the pressure to minimize staff costs.⁽⁵⁸⁾

f. Changes in official donor support

Poverty Reduction Strategy Papers (PRSPs), budget support and aid harmonization. Over the last 10 years, there have been major changes in the way that official development assistance is provided, and these inevitably have importance with regard to the scale and nature of support available for local initiatives. From the late 1990s onwards, there was growing concern among development assistance agencies about the weak recipient country "ownership" of development policies and the negative institutional impacts of both freestanding project assistance and policy-based conditionality.⁽⁵⁹⁾ This was in part translated into a shift in emphasis in donor agencies' policy documents away from the use of conditionalities and towards a language of "partnership" and the

54. Sida (2005), *Sida's 2004 Annual Report*, Stockholm, Sweden, available from Sida's website: <http://www.sida.se>.

55. DFID (2005), *DFID Departmental Report 2005*, CM 6534, June, available from DFID website: <http://www.dfid.gov.uk/pubs/files/departmental-report/default.asp>.

56. See reference 14, page 189.

57. See reference 19, page 54.

58. See reference 3.

59. See reference 42, page vii.

promotion of good governance – a new model through which recipient country governments become the ultimate “owners” of development and budgetary support, the privileged modality for aid delivery. In 1999, James Wolfensohn, then President of the World Bank, proposed the concept of “comprehensive development frameworks”, a new country-specific mechanism to map all the sectoral initiatives within a country onto a single coherent matrix in order to facilitate the coordination of different donors’ aid. All national (government, civil society and private sector) and international (multilateral and bilateral donors, international NGOs) partners involved in the development of a particular country must discuss and agree on a division of responsibility by referring to the national development policies so listed.⁽⁶⁰⁾ Some of these concepts were then incorporated into a new approach to increase the effectiveness of development assistance for poverty reduction – Poverty Reduction Strategy Papers (PRSPs) – which were to be prepared in all low-income countries receiving concessional lending from the World Bank and the IMF.

The World Bank exercises a strong influence on both the international development discourse and development policy and its implementation.⁽⁶¹⁾ Most bilateral agencies agreed to coordinate their work with the Poverty Reduction Strategy Papers (PRSPs),⁽⁶²⁾ and much aid became conditional on countries developing a PRSP. The hope was that these would lead to more effective policies for attacking poverty, that are better adapted to what donors term “local situations” (but which, in reality, refer to national situations), and hence more effective aid. They should also provide the means for better coordination between donors.

Unlike previous approaches to aid conditionality, the PRSP philosophy emphasizes adherence to a process of comprehensive policy making rather than the implementation of particular policies. The theory of the PRSP approach is based on five principles. The principle of “national ownership” states that priorities and policies for poverty reduction should be developed by governments, based on consultation with constituents of the wider society. These strategies should form the basis of a partnership for poverty reduction, embracing government, civil society, the private sector and international actors (the principle of “partnership”). The strategies should be based on the principle of “long-term perspective” and be “comprehensive” in tackling the multiple dimensions of poverty. Finally, according to the principle of “results orientation”, national policies should be based on a detailed analysis of poverty in a country, and monitorable targets should be set to measure their effectiveness at reducing poverty over time. These principles come as “. . . a response to a profound crisis of confidence confronting the World Bank, the IMF and the rest of the international donor community towards the end of the 1990s.”⁽⁶³⁾ They were also seen as a “new” instrument to overcome some of the problems that project-oriented development assistance had faced. For example, in a policy paper by the Netherlands government bilateral agency, sectoral budget support was seen as a way of overcoming the problems with project aid that frequently led to unsustainable “islands of development”.⁽⁶⁴⁾

General budget support is the aid counterpart of the Poverty Reduction Strategy Papers initiative and the international movement towards improving aid harmonization. Its purpose is to support countries in implementing their PRSPs and to do so within the framework of a

60. See Wohlfensohn, James D (1999), “A proposal for a comprehensive development framework – a discussion draft”, available from the World Bank website: <http://www.worldbank.org/cdf/cdf-text.htm>.

61. Stokke, Olav (2005), “The changing international and conceptual environments of development cooperation”, in Paul Hoebink and Olav Stokke (editors), *Perspectives on European Development Cooperation: Policy and Performance of Individual Donor Countries and the EU*, Routledge, London and New York, pages 32–112.

62. See reference 14, page 194.

63. See reference 42, page 2.

64. DGIS (1996), “Aid in progress – development cooperation and the re-verification of foreign policy”, Netherlands Ministry of Foreign Affairs (DGIS), The Hague.

medium- or long-term partnership. Through budget support, donors channel their funds directly into the financial management, accountability and procurement system of the recipient government. These features are intended to strengthen country ownership of policy and policy making, to strengthen processes of democratic accountability (by allowing more effective parliamentary scrutiny for example), and to rebuild the administrative capacity of government to decide and implement policies for themselves after a decade of structural adjustment policies. This approach is also meant to provide predictable, long-term financial support to recipient national governments in a harmonized and coordinated manner that will improve aid effectiveness. There are now many low-income nations in which half of the aid is received in the form of un-earmarked contributions to the national budget,⁽⁶⁵⁾ and by June 2005, 45 countries were implementing PRSPs. Many donors have increased the proportion of their funding to direct budget support, and most bilateral aid agencies are now undertaking structural reforms with the aim of increasing their capacity to provide this kind of support and respond to their new commitment in this direction: procedures are being revised to allow for more flexibility in the adoption of "harmonized" instruments such as programme support, delegated cooperation, adoption of country systems and joint programming and reporting. In many donors' official documents, budget support is described as the most effective form of development aid. The Dutch Ministry for Development Cooperation holds that the PRSPs provide "the best framework" for coherent government policy.⁽⁶⁶⁾ Sida suggests that its partner countries "... always have the main responsibility for their own strategies for poverty reduction and special analyses of projects."⁽⁶⁷⁾ Within DFID, budget support is perceived as the ultimate instrument of partnership, recommended as the most appropriate means to deliver aid in countries with high levels of poverty that demonstrate their commitment to poverty reduction.⁽⁶⁸⁾ The UK, the Netherlands, Sweden, Ireland, Norway and Denmark are among the donors who have committed the most significant proportions of their bilateral aid to budget support. DFID has allocated 47 per cent of its 2004–05 budget to country/regional programmes, with the main emphasis on budget support for health and education.⁽⁶⁹⁾ More than half of the Danish bilateral assistance to programme countries is concentrated in major long-term sector programmes, and is generally on the increase (53.8 per cent in 2001, 56 per cent in 2003).⁽⁷⁰⁾ The European Union also is increasingly focusing its development cooperation on budgetary aid.

Aid delivery in the form of harmonized budget support is popular with recipient governments. It also presents several advantages on the development agencies' side. This is the "one cheque a year" model of development cooperation⁽⁷¹⁾ that allows aid agencies to reduce their administrative and staff costs by transferring the management and implementation responsibilities to recipient governments. For any bilateral agency, disbursing large sums in a few sectors, in a few countries means they can also better concentrate their aid in a way that is more visible to the eyes of politicians and the public opinion in their own country. Overall, it is easier both administratively and financially for donors to disburse their aid budgets to recipient government treasuries than it is to provide a large number of small funding packages and technical support to a mosaic of field-based projects.⁽⁷²⁾

65. Booth, David (2004), "Budgets not projects: a new way of doing business for aid donors", in *ODI Opinions*, February, Overseas Development Institute (ODI), London, available from ODI website: [<http://www.odi.org.uk/publications/opinions/index.html>]3Budgets not projects, page 1.

66. Netherlands Ministry of Foreign Affairs website: <http://www.minbuza.nl>.

67. Sida website: <http://www.sida.se>.

68. DFID (2000), "Eliminating world poverty: making globalization work for the poor", White Paper on International Development, available from DFID website: <http://www.dfid.gov.uk/pubs/files/whitepaper2000.pdf>, page 7.

69. See reference 55, page 175.

70. See reference 48, page 28.

71. Maxwell, Simon (2005), "Spyglass. Spigot. Spoon. Or spanner. What future for bilateral aid?", ODI Working Paper 250, July, Overseas Development Institute, London, page 3.

72. Toulmin, Camilla (2005), "Foreword", in Bigg and Satterthwaite (editors), see reference 4, pages vii–x.

73. The first official aid harmonization conference took place in Rome in February 2003. In the Rome Declaration on Harmonization, ministers, heads of aid agencies and other senior officials representing 28 aid recipient countries and more than 40 multilateral and bilateral development institutions committed to "... harmonize the operational policies, procedures and practices of [their] institutions, and align them with those of partner country systems to improve the effectiveness of development assistance and thereby contribute to meeting the Millennium Development Goals." The Rome Declaration reasserts that the "... key element [of development assistance] is a country-based approach that emphasizes country ownership and government leadership, includes capacity-building, recognizes diverse aid modalities (projects, sector approaches and budget or balance payments support) and engages civil society and the private sector." See the Rome Declaration on Harmonization, adopted at the First High Level Forum on Harmonization in Rome, Italy, on 25 February 2003, available from the World Bank website: <http://www1.worldbank.org/harmonization/rome/hlf/Documents/RomeDeclaration.pdf>, page 1.

74. The Paris Declaration on Aid Effectiveness, adopted at the High Level Forum on Aid Effectiveness held in Paris, on 2 March 2005, available from the World Bank website: <http://www1.worldbank.org/harmonization/Paris/FINALPARISDECLARATION.pdf>, page 1.

75. See reference 74, page 6.

76. King, Kenneth and Simon McGrath (2004), *Knowledge for Development? Comparing British, Japanese, Swedish and World Bank Aid*, Zed Books, London and New York, and HSRC Press, Cape Town, page 29.

Improved aid coordination and the harmonization of donor aid has also come to be seen as a necessary reform to meet the MDGs. Donors agreed within the Paris Declaration⁽⁷³⁾ to harmonize and align aid delivery, and to take "... *far-reaching monitorable actions to reform the ways [aid is delivered and managed] as [they] look ahead to the UN five-year review of the Millennium Declaration and the Millennium Development Goals.*"⁽⁷⁴⁾ The Paris Declaration identifies five principles (ownership, harmonization, alignment, results and mutual accountability) and 12 indicators against which progress toward aid harmonization is to be measured. Its harmonization and alignment agenda implies a greater share of budgetary aid delivered in support of programmes owned and managed by recipient country governments. For example, by 2010, 85 per cent of aid flows should be aligned along recipient government priorities and reported in recipient national budgets.⁽⁷⁵⁾ Aid coordination and the harmonization of donors' procedures are high on the international development assistance agenda and feature among the priorities of most bilateral donor agencies. Since 2003, the OECD Development Assistance Committee has established a special task force on harmonizing donor procedures to encourage its member countries' aid agencies in their efforts towards improving aid harmonization and alignment. Some countries have regrouped themselves to form donors groups such as the Nordic Plus Group (Norway, Finland, Sweden, Denmark, Iceland, The Netherlands, Ireland and the UK), which committed itself in 2003 to "bring the harmonization agenda a step further" by producing an action plan for increasing harmonization.

Improving the coordination of donor efforts within recipient nations, and the alignment of aid behind the national priorities of recipient governments are both necessary parts of more effective development assistance. The need for recipient governments to struggle with the differing (and changing) agendas, timetables and rules, procedures and requirements of many different donors is reduced. This should help strengthen the capacity and effectiveness of recipient governments. PRSPs also put poverty reduction at the centre of the development discourse. Improved aid harmonization and alignment should also facilitate the predictability and coordination of funding flows.

But this also means that support for local initiatives now increasingly depends on the recipient government's priorities. It is up to the recipient government to decide on how the funds for poverty reduction should be allocated among the different sectors, and who should be the main partners for implementation within each sector. The design and management of the policies, programmes and projects are also the responsibility of the recipient government, and rely on its commitment, transparency and capacity in that matter. Meanwhile, the donors' shift towards budget support not only means less direct funding to local initiatives (usually in the form of project support) but also less room for manoeuvre to increase the funding allocated to the support of effective pro-poor local initiatives.

g. Budget support: the right formula for poverty alleviation?

"Agencies have a strongly espoused theory of development as consensus, which leads to claims that PRSPs [...] are means towards ensuring ownership of development by all stakeholders."⁽⁷⁶⁾

With budgetary support, donors' concern for participation and the taking into account of local priorities has moved towards creating the necessary space for national political priority-setting processes. Funds are increasingly channelled to recipient countries' elected governments based on the assumption that they are representative of and accountable to their citizens' needs and priorities, including the poorest. For instance, a DFID departmental report asserts that "... in the preparation of [the PRSP], priorities for poverty reduction are identified, agreed and monitored through processes in which local decision makers and populations are directly involved."⁽⁷⁷⁾ But it is difficult to see how this is actually implemented in practice – for instance, how can a PRSP be structured to allow poorer groups in each locality to put forward their priorities and their suggestions for how best these should be addressed? In fact, there is some evidence that direct budget support may have shifted the balance away from work with civil society organizations, work that was providing an essential element in the foundations for democracy.⁽⁷⁸⁾ Many critiques argue that civil society organizations have little say over the agenda when it comes to the elaboration of the PRSP,⁽⁷⁹⁾ and that the real influence over the process rests in the hands of just a few actors. Recipient governments often claim that civil society organizations lack a democratic mandate, and merely represent their own interests.⁽⁸⁰⁾ National poverty reduction strategies are mostly backed up by the technical staff in the administration who are put in charge of the elaboration of the policies.⁽⁸¹⁾ There is often no time to prepare positions or to consult with wider constituencies.⁽⁸²⁾ The documents discussed at meetings are only made available at the last moment, and they are frequently written in English and not translated into the national language. The poor in particular are very seldom given a part in the process. Their low status and lack of political patronage prevents them from making their needs and priorities heard. Indeed, exclusion from political and policy processes is an important aspect of poverty:⁽⁸³⁾ poor people have very limited capacity to influence government policies and actions, and this is exacerbated by the fact that most countries lack the means to facilitate accountability downwards through the dissemination of detailed information to the grassroots.⁽⁸⁴⁾ Moreover, there are long histories of mistrust between the poor and other social groups in many contexts, and the kinds of changes needed to improve the quality of life of poor households often threaten status quo arrangements that confer substantial benefits on politically influential groups.⁽⁸⁵⁾ Part of the result is that there are too many policies intended to fight poverty that do not take into consideration strategies involving and building partnership with local organizations and civil society groups, although these are much more able to bring significant improvements over a longer period of time.

Poverty cannot be tackled without addressing problems of power relations and the cultural and social interests that sustain unequal access to economic opportunity and social resources.⁽⁸⁶⁾ *"If the poor lack voice and influence, rights and protection by the rule of law, then much-increased donor flows and even debt relief and fairer global markets are unlikely to bring them much benefit."*⁽⁸⁷⁾ The Poverty Reduction Strategies, which donors perceive as "locally owned", are in fact produced at national level and mainly reinforce the position of those in power at the expense of all the other social groups. *"Donors who operate at country level become an integral part of the existing and complex patterns of patronage that already exist in that*

77. See reference 55, page 7.

78. See reference 53, page 213.

79. Hermele, Kenneth (2005), "The Poverty Reduction Strategies: a survey of the literature", Paper prepared for the Forum Syd, June 2006, Stockholm, Sweden, page 14.

80. See Piron, Laure-Hélène with Alison Evans (2004), "Politics and the PRSP approach", synthesis paper, ODI Working Paper 237, March, Overseas Development Institute, London.

81. See reference 79, pages 7–8.

82. See reference 79.

83. See reference 2.

84. See reference 53, pages 213–217.

85. UN Millennium Project Taskforce on Water Supply and Sanitation (2005), *Health, Dignity and Development: What Will It Take?*, Taskforce Final Report, Stockholm International Water Institute (SIWI) and the UN Millennium Project, New York, available from the UN Millennium Project website: http://www.unmillenniumproject.org/documents/What_Will_It_Take.pdf, page 26.

86. Randel, Judith, Tony German and Deborah Ewing (editors) (2000), *The Reality of Aid 2000. An Independent Review of Poverty Reduction and Development Assistance*, Earthscan, London, page 18.

87. Satterthwaite, David (2005), "Why local organizations are central to meeting the MDGs (Introduction)" in Bigg and Satterthwaite (editors), see reference 4, pages 1–25.

88. See reference 12, page 171.

89. See reference 86, page 18.

90. See reference 14, page 198.

91. See reference 10, page 138.

92. See reference 10; also see reference 12.

93. Eyben, Rosalyn (2003), "Donors as political actors: fighting the Thirty Years War in Bolivia", IDS Working Paper 183, April, Institute of Development Studies, Brighton.

94. See reference 14, page 176.

society and political economy", and may be paradoxically ". . . contributing to the reproduction and reinforcement of the prevailing patterns of patronage that they are trying to eliminate through their good governance agendas."⁽⁸⁸⁾ As long as poverty reduction is reliant upon the state for budgetary transfers, priority setting, pricing and investment are likely to primarily favour those with a certain degree of political power – which almost never includes the poor, and the majority of funds channelled through budget support is unlikely to reach those who need it most. But there is still too little recognition among official aid agencies and donor governments that pro-poor development is ultimately about politics,⁽⁸⁹⁾ and this is unlikely to change if bilateral and multilateral donors still primarily view the target group as recipients of public services rather than active participants in international aid.⁽⁹⁰⁾ The donor community has committed itself to increase aid effectiveness in the recent Paris Declaration, yet not a single indicator of progress concerns the participation of civil society in the decision making of what gets to be funded and how.

National governments of recipient countries are the ones that contract grants and loans with bilateral agencies and development banks, which, in turn, rely on them to manage the use of this capital. Donors recognize the importance of decentralizing power and resources to lower-level structures within each nation and ensuring that policy and practice are tailored to fit local contexts. But if budget support provides national governments with increased influence and responsibility for development purposes, the extent to which this is shared through the different levels of government is usually not up to donors' expectations, and most local authorities lack the means and incentives to invest in and sustain improved services provision at local level.

Local institutions and civil society groups are even more unlikely to benefit from budgetary aid support when they can hardly receive any direct aid support without the government's approval. National governments are loath to lose control over which districts and which sectors receive funding, or ". . . to approve of external agencies steering funding to citizen groups, or NGOs that do not support them, or even oppose them."⁽⁹¹⁾ For donors, the direct funding of local organizations and civil society groups may raise serious issues of sovereignty and political accountability, which would put them into conflict with the recipient country government especially when the latter is democratically elected.⁽⁹²⁾ Donors need to keep good relations with recipient governments if they are to spend their budgets or increase their loans, and so do not want to be accused of bias, of getting involved in politics. For example, in the development of a PRSP in Bolivia from early 2000 to mid-2001, donor support to grassroots organizations that directly represented the deprived groups was seen as an unacceptable interference in national political processes by the Bolivian authorities.⁽⁹³⁾

h. Conclusion: the need for alternative funding channels

Many donor agencies are aware of the constraints on their capacity to support pro-poor local development, but in the current context that emphasizes country-driven approaches, these are not easily addressed. The emphasis on national ownership has increased the distance between aid donors and the recipients of aid at local level,⁽⁹⁴⁾ and donors have become less involved in the implementation of development assistance.

During their negotiations with recipient governments for budget support, donors cannot impose their own vision and tell recipient countries what their priorities or policies should be. Meanwhile, their capacity to provide support at local level, usually in the form of project support, has been reduced. With staff cost pressures, many donor agency offices lack the advisers and the technical expertise to be able to assess needs, or engage with and learn from initiatives undertaken at local level by civil society groups and/or municipalities. As budget support receives increased support, the core expertise sought by development agencies is now in areas such as budget formulation, audit and evaluation, results-based management and North–South accountability.⁽⁹⁵⁾ This also means less knowledge and capacity within donor agencies' in-country offices of the kinds of local initiatives that are important for poverty reduction – including housing and land tenure, water and sanitation, and health care.

One way around this is for donor agencies to support intermediary institutions within recipient nations, through which their funding can be channelled to local initiatives and local (governmental and non-governmental) organizations. These intermediary institutions can provide the accountability in the use of funds that donor agencies need. There are various examples of these mechanisms that allow donors to reach local people more effectively, such as the Sida-supported urban programmes in Central America like PRODEL in Nicaragua, FUNDEVI in Honduras or the projects run by FUPROVI in Costa Rica.⁽⁹⁶⁾ The Community-Led Infrastructure Facility Fund (CLIFF),⁽⁹⁷⁾ operational in India since June 2002, is an example of how official donor agencies can support a diverse range of community-driven initiatives in one nation. It is most unusual in that it channels official bilateral aid⁽⁹⁸⁾ to a fund on which organizations of “slum” and pavement dwellers can draw through their own organizations and federations – the National Slum Dwellers Federation and *Mahila Milan* (savings groups formed by women “slum” and pavement dwellers), with the support of a local NGO, SPARC, and Nirman, a non-profit organization established by SPARC to receive and manage external finance – including CLIFF money – for large-scale construction projects.⁽⁹⁹⁾ These organizations/federations can draw on CLIFF to support a set of diverse projects in “slum” upgrading, resettlement and infrastructure, which they themselves develop, carry out and manage in conjunction with municipalities and the private sector. It provides them with loans, guarantees and technical assistance in a form that helps them leverage additional funds and support from public and private resources and, where possible, to recoup the capital for reinvestment. CLIFF funds support a great range of initiatives in different urban centres. Not only do such projects contribute to poverty reduction but they also help build stronger relationships between the different actors involved in the provision of services at local level, and contribute to forms of governance that are more effective and more accountable to those in need. In many other nations, there are also national federations formed by “slum” and “shack” dwellers that are engaged with local governments in many initiatives to reduce poverty, and these also have national funds where their members' savings are managed and from which initiatives are funded. These national funds also provide a means through which donor funding can support local initiatives, working directly with the urban poor.⁽¹⁰⁰⁾

However, most official donors perceive their contribution to the

95. See reference 71, page 4.

96. See Stein, Alfredo and Luis Castillo (2005), “Innovative financing for low-income housing improvements: lessons from programmes in Central America”, *Environment & Urbanization* Vol 17, No 1, April, London, pages 47–66; also Sida's website on housing programmes in central America: <http://www.sida.se/Sida/jsp/polopoly.jsp?d=693&a=8275>.

97. For more information on CLIFF, see the official CLIFF website: <http://www.theinclusivity.org>; also documents on CLIFF available from Homeless International's website: http://www.homeless-international.org/standard_1.asp?category=3&id=27741; and from the SPARC website: <http://www.sparcindia.org>.

98. CLIFF funds are provided by the UK Department for International Development (DFID) (over UK£ 6.8 million) and the Swedish international development cooperation agency (Sida) (approximately UK£ 1.5 million). Homeless International UK coordinates CLIFF at the international level and contributes finance from its Guarantee Fund, which totals more than UK£ 0.5 million at present. These funds flow through the World Bank and the Cities Alliance group, which administers CLIFF on behalf of the bilateral donors.

99. See reference 6, Patel and Mitlin (2004), pages 216–244.

100. For more details, see D'Cruz, Celine and David Satterthwaite (2005), “Building homes, changing official approaches: the work of urban poor federations and their contributions to meeting the Millennium Development Goals in urban areas”, Working Paper 16 in the Poverty Reduction in Urban Areas Series, IIED, London, 80 pages.

support of local initiatives and processes to be through the provision of funds to their nationally based or international NGOs and/or the multi-lateral organizations that implement or support projects at local level.⁽¹⁰¹⁾ But because they favour a restricted list of such intermediary actors (as this makes their transaction costs cheaper and easier), their scope for action is also reduced and contrasts with the need to support a variety of different local initiatives in many different locations. There are often issues regarding the level of accountability of these organizations to low-income groups and their organizations to which the funding ought to be channelled. The result is that only a small proportion of the total funding provided by official donors is able to reach the poor at local level, and even less supports their priorities. There is also too little discussion in development assistance circles on how the official bilateral aid agencies and development banks can systematically support the kinds of local processes that ensure the MDGs are met in each locality. To meet the goals and targets they have set themselves, it is important that international agencies re-think the quality of their contribution to effective local processes of development and poverty reduction, and learn how to develop appropriate funding structures able to support the choices and priorities made by local organizations, formal and informal, in which poorer groups have influence.

101. See Naschold, Felix (2002), "Aid and the Millennium Development Goals", in *ODI Opinions*, February, Overseas Development Institute, London, available from ODI website: <http://www.odi.org.uk/publications/opinions/index.html>

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