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Editorial: Finance for community-led local, city and national development

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I. INTRODUCTION

Finance is as important in the global South as it is in the global North; levels of poverty might mean that finance is less available, but it is no less significant. Access to finance determines access to opportunities in towns and cities. Cash is needed to secure day-to-day sustenance, and finance is needed for investments in shelter and livelihoods. While other factors such as education, residential location, and health also shape opportunities, too often they only exist with access to finance.

Within the various UN-led global agendas, the Addis Ababa Action Agenda[1] agreed in 2015 stresses that finance is key to sustainable development and poverty eradication, and acknowledges that reform of financial systems is necessary for the achievement of global and local development aspirations. However, it does not address how financial systems have to change to meet the Sustainable Development Goals. Nor does the New Urban Agenda.[2] In part this is because few agencies have the understanding and commitment to change finance systems in ways that secure social justice, equity and poverty reduction on the ground. Additionally, global conversations around urban finance remain narrowly focused on the scale of the financing gap. Wayne Shand and Sarah Colenbrander, in this issue, argue that addressing issues of equitable and sustainable urban development requires a broad view that includes individual and collective finance, private entrepreneurial finance, and municipal and other forms of state finance. As demonstrated by all the papers in this collection, multiple local innovations are underway to address the need for a new financial architecture.

This issue of *Environment and Urbanization* provides evidence that the conventional processes associated with access to finance often perpetuate social and economic disadvantage. Structural changes to the institutions associated with finance are needed to tackle urban poverty and lay the foundations for improved outcomes at the city and national scales. The collection demonstrates how a new finance agenda could make a major contribution to inclusion and to "leaving no one behind", as the Sustainable Development Goals pledge, through building individual and collective capabilities, helping to achieve subsidiarity, and strengthening participatory local government and an accountable, effective state.

In the following section we outline the essential contribution of finance to urban wellbeing and poverty reduction. We identify the ways in which finance is crucial for access to essential goods and services. We elaborate innovative approaches that have demonstrated how low-income communities can organize effectively around savings and loan activities, and transform their relations with government. At a superficial level this looks implausible. But when we consider the importance of access to cash in commodified urban livelihoods and recognize the social discrimination against individuals that is based on a lack of access to

1. This was endorsed by governments at the Third International Conference on Financing for Development in Addis Ababa in July 2015. See http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf.

2. This was endorsed by governments at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in September 2016. See http://habitat3.org/wp-content/uploads/NUA-English.pdf.

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money, then the underlying rationale of using finance as a tool for social mobilization comes into focus.

Section III looks at the relationship between finance and inclusion, focusing particularly on the achievements of savings groups and savings-based organizing, and the impacts of participatory budgeting. We reflect on how changes in the way that finance is accessed and managed can strengthen the autonomy of low-income groups and hence improve their negotiating position.

Section IV looks at land-based financing. Recognizing the importance of land management and public investment to enhance the productivity of urban land, we consider opportunities for local governments in China, India and sub-Saharan Africa to generate finance from land. We also note how zoning changes, re-blocking and service delivery negotiated or implemented by low-income communities can increase the value of land in informal settlements through the opportunities created by formalization, potentially catalysing further investment by local governments, commercial banks and property developers.

In Section V, we consider how finance can be used to incentivize more accountable, efficient and transparent governance systems. We present lessons and reforms that have enabled local authorities to access increased flows of finance, thereby securing greater independence from central governments and improved levels of subsidiarity. Sections II and III therefore particularly focus on the ways that community-managed finance is used by low-income groups to build more equal relations between citizens and the state, while Sections IV and V primarily address the ways that municipal governments can raise and manage finance to meet the needs of urban residents.

II. FINANCE AND URBAN POVERTY

The urban context is highly commodified. There are few opportunities for urban residents to secure the goods and services that they require without finance. Subsistence agriculture enables rural residents to obtain food, and natural resources provide fuel and water in at least some rural settings. But in urban areas, cash is essential to avoid the worst impacts of poverty, and individual households can face daunting challenges in this regard. This special issue includes four papers that outline a collective approach to finance developed by low-income urban residents to address multiple household needs. Each describes the design and achievements of community-managed financial systems, operating at the neighbourhood, city and national scales to provide facilities for savings, as well as access to loans for emergencies and investments. Welfare support may also be available through these funds.

Somsook Boonyabancha and Thomas Kerr report on the alternative finance structures that enable the members of the Asian Coalition for Housing Rights (ACHR) to improve local options. Their analysis of five community-designed and community-managed funds from Cambodia, Nepal, the Philippines, Sri Lanka and Thailand shares the experiences of 11,690 local savings groups working in 6,689 settlements in 497 cities. These funds have all been active for at least 20 years. As a result of this work, almost one million members have access to savings and small loan facilities and together these funds have supported over 55,000 households to negotiate for tenure security from the government. The most successful funds have developed a number of different loan programmes to provide households with additional security and protection, as well as enhancing opportunities to develop enterprises and consolidate assets. This paper extends earlier work, which described ACHR's assistance in the creation of social and political institutions necessary to support community initiatives and city-wide upgrading,[3] and in the design and operation of community-managed funds at different levels.[4]

Jane Weru, Omondi Okoyo, Mary Wambui, Patrick Njoroge, Jacinta Mwelu, Evans Otibine, Ann Chepchumba, Regina Wanjiku, Tabitha Wakesho and John Pius Njenga Maina describe how the community-managed fund of the Akiba Mashinani Trust in Kenya enables both individual members to realize their own goals and savings groups to strengthen bonds and implement larger projects. The savings schemes,

3. Boonyabancha, S and D Mitlin (2012), "Urban poverty reduction: learning by doing in Asia", *Environment and Urbanization* Vol 24, No 2, pages 403–421.

4. Archer, D (2012), "Finance as the key to unlocking community potential: savings, funds and the ACCA programme", *Environment and Urbanization* Vol 24, No 2, pages 423–440.

housing programmes and peer-to-peer exchanges of the Kenyan federation of slum dwellers (Muungano wa Wanavijiji) have previously been documented by Weru.[5] To facilitate the achievement of individual and collective goals, AMT has developed a range of financial services including savings, share capital and loans. Loans are for consumption, livelihoods and shelter development (housing, sanitation and other infrastructure). Consumption loans can be accessed by households, livelihood loans are available to both households and savings groups, and shelter development loans are only accessible by savings groups. Between 2009 and 2016, AMT issued project loans and grant capital worth US$ 1,702,186 to savings groups, in addition to consumption and livelihood loans. This is striking considering the extremely low incomes of most members. AMT also supports wellbeing and poverty reduction by enabling the creation of collective informal insurance systems that reduce household risks. Its welfare fund is financed by average monthly contributions of KSh 100 (US$ 0.97) and donations to respond to need. These monies support members if a family member dies or there is another crisis, for instance one related to fire or illness. All of AMT's finance programmes operate across multiple scales (including households, cooperative enterprises, neighbourhood savings groups and settlement organizations, including residents' associations). This appears key to their effectiveness in achieving a more integrated approach to urban development.

Sheela Patel, Aseena Viccajee and Jockin Arputham analyse the finances of the Indian Alliance, a civil society coalition consisting of a membership-based organization (the National Slum Dwellers Federation), a collective of women's savings groups (Mahila Milan) and an NGO (SPARC). These members – mostly women – need cash to respond to emergencies (such as the crises and costs caused by ill health and arrests and fines by the police), as well as finance to pursue opportunities for secure tenure, housing and basic infrastructure. The Indian Alliance has developed the financial and organizational capacity to respond to these needs through the clever use of donor grants. The paper in this issue by Sheela Patel and co-authors provides a detailed financial appraisal to complement earlier accounts of the Indian Alliance activities, which outlined its political and social strategies. **This paper shows that the ability to allocate funds according to a community-driven development strategy is key to effective interventions to improve the wellbeing of low-income individuals and households.** The Alliance has provided lower-cost access to good-quality sanitation for more than 163,000 households, directly supported affordable shelter for 11,623 households, facilitated access to government-provided resettlement housing for 32,774 households, improved tenure security for 42,068 households, and financed livelihood loans for almost 8,500 households. The Alliance has drawn on its invested savings and grants for the bridging finance necessary to cope with the slow delivery of government and market subsidies.

These three papers all recognize that financial processes can be designed and managed in ways that **draw individuals and their households together to assess their priorities, and that enable them to make investments that address both individual and collective needs.** The collective nature of these systems is critical: good-quality sanitation, water, drainage and waste management are all services that can be most cost-effectively provided in urban settlements if they are provided for all. For example, the costs for households of individual sanitation solutions such as septic tanks far exceed the costs of a sewer connection, even if the costs of a local sewer are included.[7] Moreover, the benefits of improved services cannot be achieved by households acting alone: improving access to sanitation for one household does not reduce their health risks

5. Weru, J (2004), "Community federations and city upgrading: the work of Pamoja Trust and Muungano in Kenya", *Environment and Urbanization* Vol 16, No 1, pages 47–62.

6. Patel, S and C d'Cruz (1993), "The Mahila Milan Crisis credit scheme: from a seed to a tree", *Environment and Urbanization* Vol 5, No 1, pages 9–17; also Patel, S and S Bartlett (2016), ""*We beat the path by walking*" Part II: Three construction projects that advanced the learning and credibility of the Indian Alliance", *Environment and Urbanization* Vol 28, No 2, pages 495–514.

7. Banana, E, P Chikoti, C Harawa, G McGranahan, D Mitlin, S Stephen, N Schermbrucker, F Shumba and A Walnycki (2015), "Sharing reflections on inclusive sanitation", *Environment and Urbanization* Vol 27, No 1, pages 19–34.

8. Genser, B, A Strina, L A dos Santos, C A T Teles, M S Prado, S Cairncross and M L Barreto (2008), "Impact of a city-wide sanitation intervention in a large urban centre on social, environmental and behavioural determinants of childhood diarrhoea: analysis of two cohort studies", *International Journal of Epidemiology* Vol 37, pages 831–840.

significantly if their neighbours continue to lack access to adequate services.[8] As Joel Bolnick and Weru et al. underscore in this issue, the bottom-up and flexible nature of community-led funds is also important for reaching the lowest-income groups, which are particularly vulnerable in market-based, highly commodified urban economies. While these households cannot afford to take out larger loans, they also need savings facilities and (supported by local groups) may successfully manage small loans to assist in emergencies. Community-managed funds can be designed to serve the individual needs of the most marginalized and disadvantaged urban residents; additionally, they enable collective action to deliver public goods, which makes these financial structures and processes a powerful developmental tool. Bolnick contrasts this with microfinance programmes, which may provide low-income households with access to loans but do not address the larger need for redistribution and public investment in basic services.

Most city governments in the global South also lack adequate finance to fulfil their responsibilities, including meeting the needs of citizens and making public investments necessary to support economic growth and prosperity. The agglomerations of industries and commercial services (and their workforces) that underpin successful urban economies require water, power, and solid and liquid waste disposal, in particular. But higher population density and levels of economic activity create externalities to be managed for both commercial success and residents' wellbeing. Without access to sufficient finance for both capital investment and operational expenses, such investments are not possible for local governments. Yet municipal budgets are often extremely low – especially in sub-Saharan Africa.[9]

Several papers in this issue analyse the ways city governments have been seeking to strengthen both their fiscal base and their management of finance. Shand and Colenbrander consider how municipal governments can partner with community-based organizations to steer private investment. Jeremy Gorelick explores the scope for debt financing through the issuance of municipal bonds. Stephen Berrisford, Liza Rose Cirolia and Ian Palmer explore land-based financing instruments in African cities, while Jin Zhu and Weicheng Tang consider the ways city governments have used construction land quotas to negotiate access to finance in China. The findings of all of these authors are outlined in more detail in Sections IV and V.

III. FINANCE AND INCLUSION

The argument that financial systems and processes can provide a platform for inclusion and empowerment might seem farfetched. Finance is the most scarce resource for hundreds of millions of urban dwellers, who are excluded from physical spaces, markets and/or services due to their low incomes. In academic discourse, little is made of the ways in which people are discriminated against because of their low incomes; far more attention is given to ethnicity, gender, race and age. Where class is considered, Marxist traditions define it as the relation to the means of production (i.e. investment capital); for sociologists, class remains a labour market distinction. Such distinctions are not irrelevant, but these paradigms may obscure discrimination based on income and associated patterns of consumption. And such exclusionary realities help explain why improving access to finance can be such a powerful tool to empower communities.

The networked savings groups described by Bolnick, by Boonyabancha and Kerr, by Patel, Viccajee and Arputham, and by Weru et al. go beyond the provision of finance to meet household and community needs. **Rather, they use finance as the initial basis for collective endeavour.** These groups require all members to actively participate in the collection, banking and auditing of savings and loans, offering low-income urban residents an opportunity to develop their understanding of finance and their capacity to manage it.[10] As assets and capabilities grow, savings groups become a route to tackling multiple forms of inequality, poverty and disadvantage (i.e. a lack of the kinds of opportunities that lead to social mobility and greater equity). This is clear from the SDI network

9. Cabannes, Y (2015), "The impact of participatory budgeting on basic services: municipal practices and evidence from the field", *Environment and Urbanization* Vol 27, No 1, pages 257–284.

10. Boonyabancha, S (2001), "Savings and loans; drawing lessons from some experiences in Asia", *Environment and Urbanization* Vol 13, No 2, pages 9–21; also d'Cruz, C and P Mudimu (2012), "Community savings that mobilize federations, build women's leadership and support slum upgrading", *Environment and Urbanization* Vol 25, No 1, pages 31–45.

of federations, active in 32 nations,[11] that evolved from the Indian Alliance experience. As Bolnick explains of SDI's engagement in finance, ***"The primary purpose, however, has not been to provide access to credit as an end in itself but rather as a means to urban transformation"*** (page 142).

How does finance enable transformation? The collective action required for community-managed savings groups and the local informal insurance they provide is central to this transformation. The process requires relations of trust to be established, which triggers more profound relational change and the emergence of new capabilities. The ability to pool money within and across communities requires these trust relations both in and beyond the neighbourhood. The community-generated financial contribution is of critical importance. Boonyabancha and Kerr show some of the costs of using development assistance finance, as their findings suggest that **the weaker internal accountabilities associated with external finance lead to a weakened ability to address members' needs. This finding challenges development assistance agencies to think again about their operational processes, to assess why so little of their support goes to community finance and why the funds that do get allocated do not strengthen local processes.**

Relations initially based on neighbourhood-level savings groups can be extended outwards to establish city networks of residents' associations. This reduces the chance that one community is played off against another to the detriment of all. The aggregations of money into city funds also assist in the development of more ambitious projects, establishing precedents that enable communities to lobby state agencies more effectively. Federations and networks negotiate for and then blend monies from the state or donors. Communities with stronger financial management skills can develop innovations that ensure that the grassroots retain control of the agenda and associated resources. They can also reduce their dependence on professionals who may use money unaccountably, and reduce the risk of clientelist relations that weaken communities and inculcate dependency. City funds also help to avoid **time-fixed project and programme funds provided by public and development agencies. These are typically ill-suited to grassroots-led development, which requires a high level of flexibility and autonomy**.

The transformative impact of community-managed finance is effectively illustrated by Patel, Viccajee and Arputham, who outline how an alliance of civil society organizations managed donor finance to good effect. The Indian Alliance has used almost US$ 18 million of international development assistance to leverage additional funds, and established revolving funds to recycle these monies. This has resulted in investments of almost US$ 100 million, of which US$ 56 million has been leveraged from government and market subsidies. Most notable of all, the current value of their revolving funds and capital grants is almost 1.3 billion rupees (or US $20 million), exceeding the initial value of donor contributions. A community-driven process has established new financial structures and processes that offer improved development options for significant numbers of low-income informal settlement residents and protect their capital for further investment.

Weru and co-authors outline how Kenyan savings groups have achieved a similarly transformative impact by negotiating with commercial banks on behalf of residents of informal settlements. These groups originally formed because the conditions for opening formal bank accounts were too onerous for most residents of informal settlements. It required an initial deposit that was too high for low earners, and potential customers were also expected to obtain guarantees from at least two account holders from the same bank. To overcome this obstacle, AMT negotiated the creation of a new banking product – the federation opened a main account with Standard Bank, which then offered subsidiary accounts to individual savings groups. This agreement contributed to a wider change in the terms and conditions offered by formal financial institutions: for example, Equity Bank subsequently reduced the size of the initial deposit required as well as the bureaucratic requirements associated with opening an account. AMT therefore pioneered a fundamental change in the way that commercial banks operated, to enable wider access to formal financial services.

11. For more details see http://knowyourcity.info/who-is-sdi/about-us.

As the key purpose of community-managed finance is to secure social and political capital, the process may fail to deliver against narrowly defined financial targets such as very high levels of loan repayment. Bolnick argues that financial processes designed primarily to amplify voice and achieve redistribution may not match up to the criteria used for financial assessment by both commercial companies and development assistance agencies. Nonetheless, the sophistication of alternative finance is evident from both his paper and that of Boonyabancha and Kerr. These papers elaborate the multi-scalar approach to financing urban transformation adopted by ACHR and SDI. Both networks support savings schemes to combine their resources to form local, city and national funds, which provide a platform to make larger investments and attract additional capital (particularly from the state).

Boonyabancha and Kerr elaborate on the differences across community finance organizations in five Asian countries, illuminating how the processes of negotiation with the state, learning across scales, and innovation at the neighbourhood level can yield locally specific models for decision-making. This diversity reflects cultural differences; but it also reflects the outcomes of highly contested local processes as groups seek to balance the need for local control with the imperative to work together across cities. Collaboration at the city and national scales is essential to challenge policy and programming, and to aggregate finance to enable larger investments. **In a world in which control is predominantly through vertical relations, community finance offers urban residents the ability to develop alternative models of decision-making with stronger horizontal accountabilities and peer support.**

The case studies from Cambodia, Nepal, the Philippines, Sri Lanka and Thailand all demonstrate the significance of autonomy to social movements as choices are made about how finance is secured and used. Autonomy (i.e. the ability to be both independent and self-governing) means that groups can use their funds as they choose, strengthening their own understanding of how monies can be used to best effect. The strong sense of ownership over the money provides an incentive for difficult decision-making and enables effective self-governance. Without autonomy, there is the risk of co-option. Through their analysis of household access to improved tenure, housing and infrastructure, Boonyabancha and Kerr demonstrate the political outcomes that have been achieved by autonomous but networked community-managed finance. The lowest-income households cannot afford to secure improvements in tenure, housing, infrastructure and services without state support; organized groups have negotiated subsidies from the state and made essential goods and services affordable.

IV. FINANCE AND LAND

The importance of land-based finance is a recurring theme throughout this special issue. This is not surprising: land has long been significant for local government finance, and for urban development and urban management more broadly. As significantly, the potential for greater land-based financing has long been recognized. Land values are influenced by demand and supply; but we should recognize that the supply of urban land is dependent on infrastructure investment, land management regimes and municipal capacity to tax land, as well as the aggregated impact of private investments and intrinsic characteristics related to topography and geography. Strategic land use planning and public investment can shape urban form and expansion in ways that yield agglomeration and scale economies, and thereby enhance the productivity and value of urban land. In recent years, there has been particular interest in using rising land values as a source of municipal finance. While some of this increase can be attributed to the improvements associated with infrastructure investment, it is also due in part to quantitative easing undertaken by multiple central banks. This has kept interest rates low and hence resulted in large amounts of finance looking for potentially profitable investments.[12] Land investments and land values reflect public policy and action as much as they reflect the operation of the market. Hence the extent to which they benefit urban citizens and whether or not they benefit

12. See this discussion of Asia in the *Financial Times*: https://www.ft.com/content/5e55a8a6-e38a-11e7-97e2-916d4fbac0da, accessed 23 December 2017.

the lowest-income groups equally or at all is a political choice.

Shirish B Patel, Jasmine Saluja and Oormi Kapadia explore the combined potential of new land management regimes and transport infrastructure investment for economic development, local government management and well-located affordable housing for low-income families. They demonstrate that using a Bus Rapid Transit system feeding a suburban railway station can extend the travel-to-work area in Mumbai. This increases the supply of urban land, which helps to reduce land prices (or at least the rate at which land prices increase). This could enable many residents of the city to afford apartments and contribute to land and infrastructure costs. Assuming cross-subsidized differential pricing of land for different income groups, the authors argue that this transit-led approach has the potential to include low-income households in mixed-income settlements as long as land is not too expensive. In Mumbai (page 131), *"The figures indicate that the scheme is financially viable wherever we can find land around Mumbai under US$ 3.77 million/hectare. This sounds eminently within reach in several places around the city."* The authors also describe ways in which the land can be acquired – and conclude that a new and more inclusive way of organizing urban land is possible, subject to sufficient political will and vision.

Berrisford, Cirolia and Palmer explore instruments and pre-conditions for land-based financing in sub-Saharan Africa. Habitat III discussions optimistically highlighted the potential of land value capture (as had Habitat I 40 years earlier). Crucially, as this paper recognizes, capturing a share of the increasing value of urban land is a political rather than technical process. Berrisford and co-authors analyse the experiences of Addis Ababa, Harare and Nairobi, along with 29 discrete development projects across the continent. Their analysis highlights the need for political will, commitment and capacity if the costs of urban development are to be shared with the property developers and landowners who benefit from infrastructure investments. If local governments cannot find ways of retaining some of the indirect returns of land development, they may not be able to finance public goods. Alternatively, if the costs of land development are not fairly shared with those who directly benefit, then they are likely to be paid by general taxation. In most countries in the global South, general taxation draws heavily on expenditure taxes, which are widely recognized to be unfair to low-income groups. Berrisford et al. articulate the challenges associated with efficient and equitable use of land-based financing, emphasizing poor market information, lack of critical powers at the local level, and undue influence on the decision-making process by vested interests. However, it is evident from their study that city governments are making concerted efforts and generating valuable lessons about possible infrastructure–land–finance configurations for cities in different contexts.

In contrast to the situation in sub-Saharan African cities, Zhu and Tang reveal that in China land-based financing – particularly land leasing to property developers – is already a major source of revenue for city governments. Control of land also offers a way for local governments to assert their autonomy and demonstrate their legitimacy. However, the amount of land available to lease is determined by higher levels of government. Even more problematically, this construction quota is not determined using consistent formulae or criteria: rather, Zhu and Tang argue that (page 156) *"decision-making on land use planning is highly politicized, negotiated and competitive in China, and it reflects the hierarchical system in administration."* Local governments use a range of tactics to bargain with higher levels of government. In the case of Heqing in Shanghai, the local government was instructed to halt the expansion of low-end industrial land use and reduce the construction land quota in its land use master plan. Through a combination of passive responses, informal and bureaucratic bargaining, the Heqing government negotiated an extended timeframe and a more satisfactory land allocation from the regional government. This case study highlights the benefits of flexibility in land use policy and planning to accelerate implementation and facilitate consensus. However, it also raises questions about the effectiveness of land-based financing for municipalities in urban China.

Both Bolnick's paper and that of Shand and Colenbrander consider how the collective capabilities developed by federated savings groups can be used to capture land values and change land governance. As with financial systems, many of the regulations governing

land and property markets favour middle- and high-income households and exclude low-income households.[13] Local authorities may struggle to allocate or attract finance to meet the needs of low-income groups, as high risks and low returns mean that such projects do not satisfy conventional investment criteria. Both of these papers explain how civil society investments related to savings-based organizing have been "pioneer developments". Federations and networks create new and more prosperous neighbourhoods by securing planning permission and required zoning changes; investing in infrastructure; securing state infrastructure investment; developing homes and enterprises; and sharing information about potential benefits of particular locations. Shand and Colenbrander draw on examples from India, Kenya, Pakistan, Thailand, Uganda and Zimbabwe to demonstrate how collective capabilities for data collection, decision-making and action at the city scale allow federations of the urban poor to collaborate with local authorities, property developers and commercial banks to co-finance housing and infrastructure. Both papers conclude that joint ventures that include public, private and community organizations have the potential to drive systemic changes that enable organizations of low-income residents to benefit from their investments and secure at least part of the increase in the value of urban land. The capability for collaboration between grassroots organizations at the city scale is key to these successes.

V. FINANCE, GOVERNANCE AND SUBSIDIARITY

At the heart of any systemic change must be a public administration that delivers essential services to all urban residents in an effective, efficient and accountable manner. Section III articulates how organized communities can use finance to transform relations among citizen, state and market, establishing new financial structures or galvanizing reforms to existing systems to better meet their needs. Section IV explains how municipal governments can use land to raise funds for essential public investments, including by partnering with organized communities. However, in most contexts, land-based financing will not be sufficient to meet municipal responsibilities (not least because municipal governments lack the capacity to realize its potential). To secure the resources necessary to shape their own development agenda, local governments must therefore grapple with the political nature of the scale of finance and design of financial processes. Central to this challenge is the risk of contestation among local government, higher levels of the state and private actors as they struggle for power, space and financial resources within a city.

Like Zhu and Tang, Gorelick focuses on the ways that relationships with higher levels of government shape local governments' access to finance. This paper explores the opportunities for debt financing through the issuance of municipal bonds in four sub-Saharan African cities. Drawing on lessons from Dakar (Senegal), Douala (Cameroon), Johannesburg (South Africa) and Kampala (Uganda), Gorelick concludes that the first, often insurmountable, barrier is national legislation that prohibits local governments from issuing municipal bonds. South Africa is the only country in the region that explicitly enshrines a local government's right to borrow in its constitution, which also clearly articulates the terms and conditions for any municipal bond issuance. In Dakar and Kampala, interventions by central governments have undermined the capacity of their capital cities to issue municipal bonds. While fiscal (ir)responsibility may be a contributing factor, Gorelick's analysis reveals that national political elites may be reluctant to enable democracy and public administration to flourish at the city scale, a conclusion which is supported elsewhere.[14] Political will and commitment at both local and national levels are required to build the necessary financial management capabilities and accountabilities. But this political outcome should not be allowed to mask a critical issue for both equality and equity. Not all cities are equally well-placed to have their own financial base, and there is a continuing need for national

13. Watson, V (2009), "'The planned city sweeps the poor away…': Urban planning and 21st century urbanisation", *Progress in Planning* Vol 72, pages 151–193; also Goodfellow, T (2013), "Planning and development regulation amid rapid urban growth: explaining divergent trajectories in Africa", *Geoforum* Vol 48, pages 83–93.

14. Resnick, D (2014), "Urban governance and service delivery in African cities: the role of politics and policies", *Development Policy Review* Vol 32, pages s3–s17.

governments to ensure that revenue is shared across urban centres.

The analyses by Berrisford et al., by Gorelick, and by Zhu and Tang all show that local governments' access to different sources of finance is substantially shaped by political factors. In each case study, relationships with higher levels of government determine whether local governments have the authority to deploy certain financing mechanisms and, if so, how effective those financing mechanisms are. Outcomes are not fixed, but are contingent on the potential and constraints of decision-making systems to identify and facilitate new possibilities for revenue raising. These too can be shifted as politicians, professionals and social movements acquire new capabilities to raise and manage finance.

The success of community-managed funds and participatory budgeting illustrates how both community- and state-led initiatives can enable deeper collaboration and leverage new resources for urban development. Bolnick outlines how savings groups federate at the city and national scales, pooling a portion of their savings into revolving urban poor funds. All savings groups that contribute to a fund can draw upon these aggregated resources to stave off an eviction threat, upgrade essential services or improve their dwellings. The funds are replenished through household contributions, administered by the savings groups. Affiliates of SDI, the network of these national federations, seek to draw in government contributions to urban poor funds, which may be jointly managed by communities and governments. This offers a platform where citizens can work closely and substantively with government agencies to influence policy and public expenditure. It also enables the federations to channel resources from the state to low-income urban residents. Although urban poor funds have had a transformative effect on urban governance and citizen–state relations in many cities, they face an ongoing political challenge: How can a social movement manage funds to achieve cost recovery and draw in external funding while retaining the horizontal relations of trust, reciprocity and empowerment? Bolnick concludes that the federations must build both the instrument (community organization) and the architecture (local funds) of community finance to create the conditions for more accountable and inclusive urban governance that responds to the needs of marginalized urban residents. For SDI, a key indicator of the "maturity" of the local process is when funds are able to shift *"from delivering projects that are explicitly designed to produce social and political capital, to utilizing this social and political capital to deliver projects that are able to achieve full cost recovery and replicate across settlements at a city-wide scale"* (page 147). Boonyabancha and Kerr add to this discussion by illustrating how the state can support savings groups and community-managed funds to transformative effect.

Yves Cabannes and Barbara Lipietz demonstrate that empowering financial innovations may be driven by politicians or government officials, as well as by social movements and civil society organizations. They evaluate how participatory budgeting can support citizen engagement with local authorities and other state agencies. By devolving decision-making around specific capital budgets to urban residents, public agencies can more effectively identify local priorities while fostering widespread buy-in to public investments. Cabannes and Lipietz capture the alternative benefits sought by participatory budgeting proponents. One of the consequences of more participatory governance, they suggest, is *"an increase in fiscal collections and a reduction in tax arrears"* (page 81). This creates the potential for a virtuous cycle of increased finances for both investment and redistribution alongside the strengthening of local democracy. Stronger engagement has potential impacts beyond tax revenues, as citizens can challenge the self-interest of political elites and press for longer-term, more coherent planning processes. Cabannes and Lipietz also note that the devolution of fiscal resources to local governments and then again to citizens can deepen participation and strengthen subsidiarity. They argue that participatory budgeting can therefore both enhance the quality of governance (by improving the relevance of public investment) and transform state–citizen relationships towards more democracy. However, the authors underscore that *"citizens themselves must be able to define the rules of the game, rather than engaging in PB [participatory budgeting] on the basis of rules defined by the authorities"* (page 76).

Community funds, participatory budgeting and other innovations may facilitate inclusion and subsidiarity, but they cannot compensate

for the critical capacity deficits at the level of local government. Several of the papers in this special issue articulate the knowledge, skills and systems that the state needs if it is to raise and manage finance effectively. Berrisford et al. and Patel, Saluja and Kapadia emphasize the importance of a functional planning system and effective land and property registries, as well as wider enabling conditions, such as the capacity to provide improved access to land. Gorelick explains that municipalities must have adequate own-source revenues (for example, from property taxes, utility tariffs, parking fees and other sources) to repay their loans. Critically, each of these papers emphasizes that local governments can build their capabilities over time. Gorelick, for example, details how the Kampala Capital City Authority designed and implemented an overhaul of its tax collection system that increased its revenue from 30 billion Ugandan shillings (US$ 9 million) in the 2010–11 fiscal year to 81 billion shillings (US$ 24 million) in 2015–16. He explains how local governments enhance their financial capabilities through ongoing efforts to improve the accountability, efficiency and transparency of revenue collection and expenditure, which in turn increase the range of financing mechanisms that they can deploy.(15)

Enhancing capabilities through "learning by doing" is also present in most of the papers. The innovations in financial systems and processes have been developed through practice, and the capabilities have emerged as different ideas have been tried and tested. As explained by Boonyabancha and Kerr, the communities in Asia understand that their community-managed finance is evolving. Success increases ambition while enhanced capabilities enable new potentials to be realized. What is equally evident is that the required capabilities are not yet all in place. For financial investments to be effective in securing inclusion, new models of land ownership are required. Patel, Saluja and Kapadia suggest that a community land reserve (also called a community land trust) may be a suitable model, and these options are further discussed by Turnbull.(16) Arguably, innovative finance has to develop new models of secure tenure for more inclusive urban futures to be achieved.

VI. CONCLUSIONS

This issue explores a number of ways that financial processes and systems can catalyse positive change in urban areas, allowing for more and better services, and improving government effectiveness and accountability. The papers also delve into the ways that land development can be effectively managed to yield resources for local governments and to allow more equitable development to be realized. But the dominant theme in this issue has been community-led finance – both the possibilities for supporting it and its far-reaching implications.

We do not argue that community-managed finance can solve the problems of poverty and inequality: it is only one tool to advance the needs and interests of low-income urban residents. But the papers in this issue demonstrate clearly that it can be a significant and potentially transformative instrument for securing more inclusive and equitable urban outcomes. Access to finance can enable low-income groups to directly address household and community needs, enhancing their economic security and reducing vulnerability to a diverse range of shocks and stresses. Community-managed finance also enables these urban residents to develop financial and organizational capabilities to contribute collectively to urban development, thereby radically changing the power relations that drive exclusion and inequality.

What is remarkable is that the community-led approaches described in this issue have not gained wider interest. Some attention has been given to the state efforts to enhance participation.(17) However, the practice and

15. Floater, G, D Dowling, D Chan, M Ulterino, J Braunstein and T McMinn (2017), "Financing the urban transition: policymakers' summary", Coalition for Urban Transitions, London and Washington, DC, available at http://newclimateeconomy.net/content/cities-working-papers.

16. Turnbull, S (2017), "Democratizing the wealth of cities: self-financing urban development", *Environment and Urbanization* Vol 29, No 1, pages 237–250.

17. See, for example, Baiocchi, G (2015), "But who will speak for the people? The travel and translation of participatory budgeting", in P Heller and V Rao (editors), *Deliberation and Development: Rethinking the Role of Voice and Collective Action in Unequal Societies*, World Bank, Washington, DC, pages 107–132; also Fung, A (2015), "Putting the public back into governance: the challenges of citizen participation and its future", *Public Administration Review* Vol 75, No 4, pages 513–522.

debate around financial inclusion remain dominated by microfinance, despite all its well-established failings.[18]

Few international funding agencies support community-led finance or the long-term incremental processes associated with it. Official development assistance is – in theory – provided with a view to addressing poverty and exclusion, and our personal experience has been that staff, supervisory bodies and agency rhetoric are very pro-empowerment, pro-participation and pro-poor. Yet the structures and procedures adopted by development agencies echo those of conventional financial systems and constrain their ability to support community-led finance. Bilateral aid agencies may include funding for Northern and Southern NGOs (often favouring those based in their own country), but they impose strict financial rules even when the resources are allocated to civil society agencies that have their own processes of accountability.

Patel, Viccajee and Arputham discuss how significant it was to change the logic of vertical accountability attached to donor funds to a logic of horizontal accountability that makes sense to a grassroots network. They argue that reaching low-income households requires robust grassroots processes at the neighbourhood scale, which in turn requires strong social capital and peer-to-peer monitoring. The civil society organizations contributing to this issue have designed their financial processes to be inclusive and strengthen delivery capacities within communities. By comparison, most donors design their financial processes to prioritize vertical accountabilities and introduce conditionalities that undermine local ownership and relations. This is not to say that networks and federations cannot be accountable upwards for outcomes, but rather that financial management systems must first be designed in ways that serve the needs of the most marginalized urban residents and nurture locally determined development.

The potential of community-managed finance is not just a matter of accountability. There is the issue of how far-reaching, lasting change actually happens. It takes time, and involves trial and error. Too often donor-funded interventions are short-term projects with pre-determined objectives and plans that leave little space for genuine learning, engagement or control on the part of the people they affect. Donors need to recognize that empowerment and inclusion can only be achieved if they build the capabilities of, and transfer control to, low-income urban residents. And transferring control means very specifically control over money. Households and communities must have the latitude to set priorities, establish accountable processes, and release funding for opportunities (and sometimes emergencies) that cannot be specified in advance. Choices as to how to best draw down and manage funds have to be made by local civil society if low-income urban residents are to build their financial understanding and skills. Bolnick and Boonyabancha and Kerr offer many examples of cases where local governments have devolved decision-making and resources to community-managed funds, and thereby have been able to address poverty and promote prosperity in a coherent and effective way.

While finance is not a solution to poverty and exclusion, as shown here, community-controlled finance can catalyse action to challenge marginalization and establish new development options. In these papers we see how financial processes change relations, enabling neighbours to work together to reduce risks and provide immediate financial services. These same processes allow community organizations to network at the city scale, co-finance interventions, and catalyse new relations between city authorities and their most disadvantaged urban populations. These changed relationships are key to the capacity of local governments to meet their obligations, and to contribute effectively to the global aspirations for sustainable development and poverty eradication.

18. Mader, P (forthcoming), "Contesting financial inclusion", *Development and Change*.

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