

Urban Poverty Strategy Review – May 5, 2010

1. Executive summary

In May 2007, the Urban Poverty Learning Initiative was approved as a new program within GD Special Initiatives with the aim of helping the urban poor improve their income, health, and social opportunities. The initiative identified two priority areas of work:

- Building capacity of organizations working on-the-ground with the urban poor
- Integrating the voice of the poor into the urban planning process

To date, the initiative has committed more than \$150 million to 42 organizations working with more than 15 million people in urban centers of Africa, Asia and Latin America to promote new tools and models for urban poverty alleviation.

The preliminary overarching conclusion of our work to date is that the most successful improvements to the lives of the poor in cities across the developing world are being driven bottom-up by slumdweller themselves. Traditional models of urban poverty alleviation or even simple infrastructure upgrades largely reach the middle and upper classes in cities, further increasing the inequity on the ground. The best examples of successful projects that can be scaled and replicated involve NGOs created by or responsive to the urban poor, first taking action within their communities and then directly engaging government on a variety of issues ranging from service provision to legal security. While we are still learning, our working theory of change is that helping provide local capacity and voice to allow empowered communities and governmental bodies to engage with each other – “inclusive municipal processes” – is critical to ensuring that policies and resource allocations affecting cities have the greatest impact for the poor.

Of the four potential impact areas we proposed in our initial white paper – shelter, governance, planning and municipal finance – we early on chose not to pursue municipal finance because of the significant cost barrier to entry and the indirect impact on poverty alleviation. We learned from the Rockefeller Foundation’s portfolio of urban-planning grants rather than developing our own grants in this area. Accordingly, our grantmaking has focused on two broad, interlinked areas: 1) building capacity for community-led development with an emphasis on projects that involved the urban poor in efforts to improve shelter and service delivery; and 2) promoting livelihood opportunities for the working poor, primarily wastepickers, street vendors or home-based workers.

Our approach has marked a significant departure from most traditional donors working in the urban poverty space, which have tended to focus at the national level and champion top-down solutions. These output-focused interventions largely de-prioritized the importance of local conditions, minimized participation, and proved unable in most countries to keep pace with the speed and scale of slum growth. As an important and encouraging indicator of our learnings and ability to influence other actors in the field, in less than three years of grantmaking, every major private and public donor organization working in this space is now a partner, co-funder or grantee. Further, several national, regional and

municipal governments are also investing their own resources to support and scale elements of our work.

2. Look Back

The 18 months of careful scoping we undertook before commencing grantmaking led us to the initial hypothesis that the incredible pace and scale of urbanization in the developing world required a rethinking of traditional methodologies to meet the needs of the rapidly growing numbers of poor living in slums. While major donors have in the past taken a wide variety of approaches to urban poverty, they have largely failed to improve conditions for the urban poor in aggregate. We believe part of the problem lies in the fact that most experts viewed urban poverty as either a spatial issue, to be solved through “urban development,” or simply a result of the lack of infrastructure. Both views lead to supply-side approaches which, while well-intentioned, have proved inadequate to the challenge and tended to disproportionately benefit the middle-classes at the expense of the poor (e.g., Nairobi, where billions of dollars in donor investments over the past few decades have largely failed to dent the problems in Kibera). This situation provided the impetus for us to experiment with a new approach, directly engaging the poor and their local governments.

2.1. Learnings about Impact

Our working theory of change was that improved capacity and voice are necessary, critical and catalytic means to sustain any gains made in urban poverty alleviation. Below we examine our work to date according to two broad categories: strengthening community-level organizations and promoting livelihood opportunities for the urban working poor.

Based on early learnings from across these categories of grantmaking, we have provisionally concluded that shelter holds less promise for foundation impact because housing affordability is addressed mainly through financial services and politically charged tenure issues. We have also learned that although shelter is a primary concern for the urban poor, it is more sustainably delivered through improved livelihoods (e.g., jobs and income) and governance (e.g., government services and a secure legal environment) rather than through the direct support of housing construction or dedicated housing finance.

Strengthening Community-Level Organizations

Several of our grants sought to explore whether and how increased capacity within the community could be an entry point for more sustained impact on the lives of the poor. Key examples and learnings include:

- A \$10 million seed grant to the Urban Poor Fund International. This fund is a self-governed financial facility that provides capital to slumdweller savings federations undertaking community-level urban improvement and housing projects. The fund was conceived and executed by our grantee, Slumdweller International (SDI), and has supported hundreds of slumdweller groups around the world. Our original grant to SDI allowed them to develop and

implement an international organizational strategy and replicate their savings-based model for local engagement in 35 countries. The long-term goal of this effort is to align the fund with national and local slum upgrading programs and make community funding available for new or improved shelter to all urban-based savings groups in the developing world. Our startup grant, which was regarded as controversial and risky by other funders because it was being made directly to a community group with limited capacity and geographic reach, has since grown in scale and reputation to the point of receiving a £22 million commitment from DFID in early 2010, as well as funding from SIDA, the Sigrid Rausing Trust, and the Norwegian Ministry of Finance.

- A \$15 million grant to the World Bank’s Cities Alliance focusing on land, citizenship and services. This grant, our largest single investment, works at the national level on urban poverty alleviation programs in Uganda and Ghana, and will soon expand to one Asian country (either Vietnam or Cambodia) and one additional country in Africa or the Middle East.¹ This grant allows national governments to engage with their local counterparts and directly with organizations of the urban poor to allocate land and improve service delivery. The program should scale to most of the secondary cities in the four current/future countries, where the World Bank will initiate large urban programs through the provision of loans and technical assistance grants. Over two years of planning with the World Bank and other key multilaterals (GTZ, Norway, SIDA), we agreed to provide the bottom-up capacity building to align with their top-down efforts. This co-investment has played to our unique strengths and proven to be an efficient and transparent way to stay involved in the discussions among international donors. Top-down efforts alone do not reach the poorest urban residents, but can have powerful synergy when combined with well-structured local interventions. While this grant may not deliver as robust results as our other grants, in terms of direct impact for the poor, it has had additional benefits such as an invitation by the World Bank to SDI for the latter to become the first community-led organization to formally serve on the World Bank’s advisory board.

Promoting Livelihood Opportunities for the Urban Working Poor

A second set of grants – many of which are linked directly to those cited above – have focused more directly on securing livelihoods. Key examples and learnings include:

- A \$40 million package of grants comprising the Global Project on Inclusive Municipal Planning for the Working Poor², which aims to improve the livelihoods of more than 100 million urban working poor, most of whom are employed in the informal economy as waste pickers, street vendors and home-based workers. These workers, while numerous, have very little representation or “voice” in the municipal policy and urban planning processes that impact their everyday lives and ability to generate income. Through five grantees—WIEGO, SEWA, Fundación

¹ The decision to select the next two countries will be made jointly with three World Bank teams that are currently shaping loan and grant programs in order to harmonize our efforts.

² This effort is externally known as the Inclusive Cities Project: www.inclusivecities.org.

AVINA, Street Net, and Home Net— and more than a dozen sub-grantees throughout Asia, Africa and Latin America, this project has focused on building the capacity of member-based organizations of the poor in the areas of organizing, advocacy and policy analysis. With enhanced capacity along these dimensions, these groups aim to achieve more inclusive spatial planning and zoning, urban regulations and law, safer jobs, and greater access to urban infrastructure and services. The program has been successful at reaching our target beneficiary at significant scale, and as a result we recently awarded \$5 million in supplemental funding. This project has developed regional strategies for urban recyclers across 12 Latin American countries, for home-based workers in 10 Asian countries, and an active agenda for street vendors in more than 20 countries. Each of these strategies creates new or safer jobs for the urban poor.

- A two-part, \$10 million grant to the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) and Waste Concern to introduce a new mechanism for building the capacity of cities and citizens to sustainably process urban organic waste in 13 countries in Asia. Municipal solid waste management is the only urban sector problem with a large financial upside: trash is cash. By formalizing relationships between municipalities and the urban poor through a decentralized process that involves “Integrated Resource Recovery Centers,” our grantees are building community-level solid waste management projects in ten Asian countries. The unique characteristics of the 10,000+ tons of daily solid waste generated in each of the developing world’s secondary cities can be exploited to create jobs, reduce municipal costs, improve health and transform urban environments. Given the success of this project, going forward we are working closely with our grantees to incubate a new institution, SWERF, capable of taking the concept of sustainable solid waste management to worldwide scale. The aim of SWERF is to deliver financially sustainable, inclusive solid waste management systems to developing world cities around the world. Through a combination of approved carbon finance methodologies, the sale of locally produced fertilizer, methane landfill capture, collection fees, and profits from recycled materials, we are able to leverage significantly beyond our investment to create inclusive and profitable municipal solid waste management systems. Given the success of this work, we are in the process of exploring new methodologies for methane capture that will provide direct economic and social benefits for the urban poor.

2.2. Learnings about Grants Management

Our portfolio has been unusual by foundation standards, in that the majority of our direct grants have been made to organizations based in the developing world. Given this fact, many of our grantees struggle from significant capacity limitations, and addressing this issue has resulted in a number of new grants management approaches. We believe that the lessons we have learned from this work are of benefit to the entire foundation, across areas ranging from communications to funding support to evaluation approaches.

- **Sharing Lessons and Refining Approaches.** We hold monthly or quarterly calls with each grantee and subgrantee, and distribute a monthly newsletter to all our partners. Once per year we offer training for new or existing grantees in reporting and impact assessment, which our grantees

have affectionately named “Gatescapacity” (capacity). We hold annual grantee convenings that include site visits and problem-solving sessions that aim to provide practical opportunities to deepen learning and sharing of lessons. We periodically conduct annual online surveys to improve our performance, efficiency and focus. Collectively, the grantees arrange a four-week annual trip (“Slum Tour”) and learning experience to help us monitor and measure our investments and sharpen our thinking. We believe that the results of the Grantee Perception Report demonstrate the value of this work, in that our portfolio received some of the highest approval ratings within the foundation. Although this approach comes at a cost given the time commitment required, the approaches are worth considering as the foundation thinks through better models of engaging with grantees. Since these grants have all been made and managed by a single program officer, there are likely lessons that can be adopted relatively easily by larger teams that face fewer resource constraints.

- **Balancing Contracts vs. Grants.** While we strongly feel that grants directly supporting the organizations that “do” the work is generally the preferred route to long-term, sustainable impact, there are cases where the tighter control allowed by a contract in terms of outcomes and deliverables (and protection from fiduciary risk) helps us better reach a specific set of goals. For example, we used a contract to support the Development Innovations Group, a for-profit organization, which has designed and been implementing the \$10 million Urbis Program, which explores how to support capacity building that results in immediate, measureable impact without providing programmatic funding. What sets the Urbis program apart from our other grant giving work is that we have provided no funding for capacity projects; rather, the project deliverables are specific outcomes. Examples of results achieved to date include: securing access to significant devolved government funds in Kenya and Angola; designing a unique mechanism for urban utility connection to bring services to 80,000 Ivoirians; working with the Brazilian government to firmly establish a wholesale mechanism for their civic inputs in the form of an NGO school; taking an urban community-based savings fund to national level in Cambodia; and consolidating 23 urban NGOs in Morocco to share resources and align with national upgrading policies around. To attain this level of impact through grants would have taken at least twice as long and been many times more expensive. As a result, we believe that a mix of grants and contracts may help bring about better portfolio-level impact over the long run.
- **Public Interest Litigation.** We are the first portfolio at the foundation to actively support litigation, and the first US foundation to directly fund grantees to do so internationally. While this activity was not something we had planned for initially, with constant vigilance and assistance from our legal team to minimize our risk we have identified several opportunities where laws and policies had either not yet been defined or lacked clarity around pro-poor inclusion. None of the issues we fund are controversial; instead they seek to define or clarify issues with specific relevance to the poor and that have been broadly well-received by governments and civil society alike. The public interest litigation we have supported has been successful (i.e., yielding a pro-poor outcome) in Colombia, Peru and South Africa, and is ongoing in India. As one example of this work, in Colombia the Constitutional Court has ruled that the

city of Cali must allow informal wastepickers submit a bid for the city's solid waste management concession. Constitutional and class action litigation is ongoing in South Africa to help define public space and property rights, brought by our grantee Street Net. We support litigation only when it occurs within the framework of a grant, and our legal team is closely involved with specific funding decisions. However as this aspect of work was not one we initially planned for and have some concerns about, we are in the process of developing a much clearer set of criteria as to when, where and in what context we are comfortable with grantees using our funds in this way. We are also exploring support for the development of legal frameworks that do not involve litigation, such as permit systems (for street vendors), licenses (for wastepickers), and cross-country non-profit registration for international projects (such as the Waste Concern project to wholesale its carbon finance mechanism worldwide).

- **Expenditure Responsibility (ER).** In an effort to get funding as close to the ground as possible and reach our target beneficiaries, this portfolio is home to the foundation's largest collection of ER grants. Expenditure responsibility is a method of making direct cross-border grants to a non-U.S. organization whereby the foundation assumes full responsibility for ensuring that a grant is used for a charitable purpose. The IRS requires that a pre-grant evaluation is preformed, and to date we have utilized KPMG in that capacity as well as to assist with basic follow up requirements and, in some cases, to conduct grantee expenditure evaluations. We also work particularly closely with Legal, Operations, FP&A and other foundation partners, whose assistance is vital to ensure that these ER grants meet all legal requirements yet still strive to achieve their intended goals.
- **External support for lobbying surveillance.** Most of our grantees operate internationally—across different languages, legal systems and cultures—which necessitate involvement of professionals with knowledge of the local context. We have put a lobbying attorney on retainer to provide support to our grantees on advocacy and legal issues, to ensure compliance with local and international law.
- **Intermediaries.** One of the major challenges encountered upon entering the urban poverty space was the paucity of developing world intermediaries. Rather than grant to northern groups and large NGOs, we provided funds to build institutions capable of implementing cross-sectoral programs in the urban geography. In most cases, institutions such as WIEGO, Street Net or SDI existed but were not viewed as credible by other donors because of registration problems, language barriers, or weak organizational capacity. However, we believe that our investments in these organizations have paid off: in addition to serving as our “eyes and ears” on the ground, these intermediary groups have proven to be particularly valuable assets in organizing communities, mobilizing strategies, or crafting city-level projects.
- **Longer and More Flexible Grants.** The situation in developing world cities is constantly changing, and grantee budgets are a reflection of this. If a local policy changes, for example, livelihoods or homes can be lost overnight. Most of our grantees have to recalibrate their budgets at least annually, and many have received supplements. About 10% of our annual

Urban Poverty budget is used either for contracts or supplements to support emergent and urgent changes that are critical to grantees.

- **Upfront Investment.** Working with these groups takes time, effort, and in-person interactions. It requires a lot more work in the proposal development stage than would normally be the case with a large NGO that is familiar with proposal writing and donor relations. But, ultimately, this major upfront investment of foundation staff time and effort means that we are able to give grants to non-traditional groups who are much closer to the poor.

3. Growing and Leveraging Partnerships

While not an explicit goal in the original concept paper, and notwithstanding that our learnings are incomplete, we are already moving the field of urban poverty through example and leveraging significant additional resources.

3.1. Evolution of Funding Flows

The investment approaches of traditional bilateral/multilaterals donors and other foundations continue to evolve. With regard to bilateral/multilateral donors:³

- The World Bank remains the largest investor in urban development, arguably much of which does not directly result in poverty alleviation because of their inability (alone) to link top-down investments with local conditions. Through our partners at the Cities Alliance, we have been involved in the shaping of World Bank policy and have benefitted greatly from advance knowledge of large World Bank loans so that we could take advantage of Bank investments in these locations.
- European governments have engaged in a variety of contexts, with DFID taking a large, and growing, stake in governance; GTZ in local governance and capacity building efforts; and the Scandinavian countries in shelter. Japanese and Chinese investments are infrastructure related, with Japan offering assistance in structuring city master plans to ensure appropriate planning considerations are included.

Private foundation contributions to urban poverty alleviation in the developing world total about \$50 million, based on our most recent conversations:

- The Rockefeller Foundation intends to invest \$5-10 million annually in affordable housing/finance, climate change mitigation and urban health. Their portfolio of urban planning grants has not performed as well as expected, which may be a reflection of their choice of partners or the problem of trying to identify one-size-fits all solutions with software programs or rigid planning packages.
- Although the Ford Foundation had moved away from supporting urban poverty, in April 2010 they will begin to re-engage in this space. It is likely their portfolio will be built around

³ Please see our 2007 Urbanization and Poverty White Paper as well as our 2008 UPPLI Report and Next Steps for detailed priorities of each major donor, both of which are available on Insight.

assessment, community-led development and urban leadership, with an eventual annual payout of \$5-10 million. Ford has traditionally offered smaller grants (\$50,000) to individuals or pilots studies.

- The Macarthur Foundation supports housing and homelessness to a larger degree, but only domestically.
- The Dell Foundation has focused their efforts on urban poverty in India, with about \$1 million invested annually.
- International Foundations with an interest in urban poverty, such as Sigrid Rausing Trust (Tetrapack) and Fundación Avina (Swatch), have brought additional insight and funds to urban poverty by seeking linkages to private sector actors such as Coca Cola, Proctor & Gamble, and Tetrapack. Private foundation donors are also helpful in identifying opportunities that would be attractive to the private sector, unlike traditional donors, which typically partner only with civil society.

With the exception of Macarthur, all of the significant bilateral, multilateral and foundation donors with an interest in urban poverty are now serving as partners, co-investors or intermediaries for our grantmaking. We have tried to capitalize on opportunities and minimize conflicts by shaping partnerships for all of our work.

Further, developing country governments are taking interest in our work and seeking advice based on the performance of our grantees. As a small learning initiative, in considering such requests we are only following up when there is a clear commitment by a government to engage with significant resources and where we already have strong grantees able to engage directly. The two examples we are currently looking at are India and South Africa, where new government programs and dynamic new ministers have created openings where our involvement could leverage significant additional resources.

4. Challenges and Next Steps

4.1. Programmatic

Based on the work to date, apart from the broad learnings about the importance of the linkages between strong local groups and successful implementation of programs to improve governance and livelihoods, we have experienced several challenges and learned various lessons, all of which are already helping guide our next phase of grantmaking:

- **Before proceeding with a particular intervention, we need to determine whether the problem that needs to be addressed is political or financial.** Our work generally succeeds in situations that are “money problems” and fails when we try to use grant funds to tackle political problems. For example, land tenure cannot be solved by non-indigenous organizations because it is a local political problem compounded by the private sector and in some cases tribal/ethnic divides. In Ahmedabad, 75,000 wastepickers organized by SEWA over two years were displaced overnight with one administrative decision. A \$1.5 million supplement was awarded to SEWA in order to

preserve the livelihoods of these individuals and move the planned project to another province where the political climate was more favorable.

- **Financial services are not good learning opportunities for urban poverty.** Microenterprise development is not something we can support without being able to provide consistent access to capital and without a greater on-the-ground presence. Additionally, based on our joint learning experiences with the FSP team and our peer organization Habitat for Humanity, housing finance is not a good option for our scarce resources because it requires high-dollar, long-term investment to be successful. Our funding of this space has risked distorting markets and makes it hard for us to exit. As a result, in some cases we may have to shape smaller, supplementary grants or possibly PRIs to taper our support rather than quickly cease funding.
- **Local and regional solutions work better than national ones.** While national urban poverty reduction strategies are often favored by both national governments and donors, they tend to be less effective than local or regional strategies. Our experience is that neighboring cities or cities with similar problems are much more likely to have common experiences and thus be interested in sharing lessons learned and best practices, regardless of whether or not they are in the same country. As noted earlier, while our World Bank Cities Alliance grant was made to support national level strategies in four countries, it is proving to be less effective in terms of impact. However, it has been extremely effective in aligning donors and integrating the voice of the poor into the process.
- **Aside from some technologies and practices, most developed world solutions are not appropriate to developing world problems.** The urban poor have very different priorities from one city to the next. We have been unsuccessful when we have tried to generalize or use models that have been developed by consultants or technical assistants without a strong background in urban poverty. For example, “modern” urban planning is generally believed to be synonymous with GIS software packages. Although they offer theoretical promise, such technologies are proprietary, poorly supported, and cumbersome and have resulted in mountains of data that cannot be used by average planners or shared across cities. Standards and metrics are also lacking in this space. We have, however, seen promising early results from technology and process transfer between developing world countries. In particular, some of the lessons from China, Brazil and Bangladesh show great promise for urban Africa.
- **Strong measurement and evaluation systems or impact evaluation frameworks benefit the broader field.** We initially approached our grantees in the context of a learning initiative with little understanding about what impact might look like and with limited existing quality work in the field to draw on. Our early evaluation frameworks were fairly academic. While these frameworks were useful for macro-studies, the results they produced were not particularly actionable for our grantees and partners. Accordingly, over the past two years we have been working closely with grantees to determine the most important progress and the best methods for measuring impact. Each grantee has been allowed to develop their own framework, and we have shared all of the frameworks across our entire portfolio. We are now working with IPI to

aggregate the on-the-ground impact learnings into a portfolio-wide measurement and evaluation framework. We hope to use this framework both to guide our own initiative and inform the broader field.

- **Simple solutions are sometimes the most effective.** We have sometimes failed at recognizing innovation on the ground. For example, we were struggling with integrating wastepickers into their communities because middle class families in particular had trouble with “low class” slumdweller dealing with public goods. One of our community-based subgrantees suggested the purchase of uniforms with clear labeling and visibility. This approach has made a huge difference in their daily lives, not the least of which is the self-esteem of the workers – and we have been able to take this idea to other projects with similar effect worldwide.
- **Mobilized local communities are an antidote to poor governance.** We are learning that communities often make excellent watchdogs and can help improve transparency at the city level. Participatory planning has been effective in yielding results, as have been projects of mutual interest to cities and citizens. The millions of women that make up SPARC and SEWA are particularly vigilant and have developed an impressive track record in helping ensure that local governments act responsibly towards citizens. Recently, the directors of these two Indian member-based organizations were appointed by the Prime Minister to help craft implementation strategies for the two urban commissions established to assist the urban poor.⁴

4.2. Funding Trade-offs made

Given the novelty of our approach to the urban poverty field, the initial stages of our work required some clear tradeoffs in terms of how we used our funds. Although this led us to a relatively unusual set of choices in terms of foundation norms, we felt such tradeoffs were necessary to properly test our working theory of change. Our specific trade-offs have included:

- **More Grants, Fewer Intermediaries.** Given the lack of capacity in the field and a clear absence of intermediaries that could engage locally and at the community level, we made many more individual grants than we would have liked. However, because the portfolio has invested in building intermediaries through global projects, this problem has diminished. Nevertheless, the increased use of such intermediaries might reduce the performance and efficiency of current grantees that in the future will become sub-grantees. The reason for this possibility is that the work of local organizations is often not as well-received by local governments and other actors because sub-grantees cannot legally claim to receive funding from the foundation.
- **Getting Close to Beneficiaries.** Pushing grants closer to the ground means a better “sandal-to-suit ratio.” As a result of this direct engagement on the ground, our indirect cost rate averages

⁴ Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is a massive city modernization scheme aimed at institutional reform and infrastructure upgrading launched by Government of India that commits a total investment of \$21 billion over a period of 5–6 years. The Rajiv Awas Yojana (RAY) Program is a \$10 billion scheme for urban poor shelter upgrading with the vision of a slum-free India.

6%; FTEs are limited to five per grant; salary costs represent only 15% of our payout; and 97% of our funds are spent in the developing world.

- **No Funding for “Pure” Research or Academics.** Because we studied the landscape for 18 months prior to making a grant, we were well aware of the existing body of research and ongoing intellectual debates. Through our analysis we were able to identify many promising models, pilots and ideas that needed to be road tested but that were not being funded. Within this environment we do not see an advantage to creating more research that will not be implemented. We do not feel that this is a problem within the urban poverty space, as research is well covered by existing support from bilateral donors and the World Bank.
- **No Grants or Partnerships with the UN’s Urban Organization, UN-Habitat.** Aside from their general lack of impact, outside of its useful annual reports on the state of global urbanization, UN-Habitat has a reputation for being ineffective, expensive, overly political and poorly organized. The Executive Directorship will change in late 2010, and the current leading candidates for the position leave little room for optimism that the agency will improve its practices; this transition may be an opportunity for the foundation to weigh in given that effective leadership is a precondition for any improvements.

5. The way forward

More than half the world’s population currently lives in urban areas and it is estimated that this will grow to as much as 60% by 2015. Virtually all of this growth will occur in the developing world, resulting in severe social and economic inequities and escalating rates of poverty. This extraordinary rate of urban growth is transpiring alongside widespread rural exodus, placing an enormous burden upon both rural and urban local governments, as they struggle to put in place responses to deal with the effects of unprecedented demographic shifts. In this context, unprepared local and regional authorities are rapidly becoming both key development actors and the target of development cooperation. The benefit of urbanization on poverty reduction has been noted in aggregate terms, but so far is only starting to be investigated more deeply. With more than half of global GDP generated by cities, the economic future of most developing countries will be determined by the productivity of a burgeoning urban population, particularly in Africa, and whether cities can become the wider economic engines for growth that they tend to be in more developed countries. As we have seen with our work on Agricultural Development and Financial Services for the Poor, growth has also been accompanied by changes in the composition of production and consumption in many countries, with resulting new patterns of trade between cities, countries and continents. Patterns of urban concentration have become important parts of this process, with countries benefiting from agglomeration economies to achieve increasing levels of productivity.

In the coming decades, most urbanization will occur in towns and urban areas of less than three million people. Even today, only five percent of the world's population lives in cities of ten million or more people, while 50% live in urban areas of fewer than three million. Our basic premise is that providing benefits without addressing fundamental capacity and governance issues is not sustainable or genuinely transformational for cities or citizens. Recent history teaches us that focusing on process or capacity

without delivering visible results will lead to rapid disengagement by the poor and city authorities alike. For the purposes of learning, we have been generally agnostic as to the specific sectoral choice of supported projects as long as the focus selected offers an opportunity for lasting change on the ground in both process and delivery.

Priorities for the coming year

Based on the advice of knowledgeable external reviewers⁵, lessons from the field, alignment of partners, a better understanding of stakeholder issues and a recalibration of the landscape after three years of grantmaking, in 2010 we are focusing primarily on shaping comprehensive city-level projects between governments and local actors. The common theme of the feedback we received last year was that, although risky, we need to test our working theory of change at the city level, to generate practical and measureable evidence that this approach is viable. Along these lines, we are developing an \$18 million Global Project on Local Governance and Municipal Management. This package is scheduled for approval in late May/early June 2010, and will bring our learning focus directly to the city level in five key African cities: Cairo, Harare, Lilongwe, Luanda, , and Monrovia. Each of the city projects supports the creation of sustainable and inclusive municipal processes, structures or institutions that deliver new or improved jobs or services for the urban poor. For each project, city officials and civil society groups are required to work together, contributing their unique capacities while also learning how to partner with one another. Cities were selected based on criteria developed from our learning, with each representing a different model and opportunity. Since there is very little experience in this area, we are also experimenting with the technicalities of donor engagement at the city level:

- Bilaterals with long-term national commitments and in-country presence (GTZ in Cairo)
- Contracts in volatile political situations (Harare)
- Municipal assemblies / City executive's office (Lilongwe)
- Local NGOs as implementers (Luanda)
- Government Ministries as fiscal agents for low capacity cities (Monrovia)

By ensuring that our implementation partners for the city-level work will include organizations of the urban poor (such as SDI and its national affiliates) and municipal governments, with bilateral and multilateral donors like GTZ, JICA and the WB providing shared oversight and funding, we hope to be able to draw some preliminary conclusions about which types of partners are most effective. To help with both implementation and learning, we have also selected an international urban policy body (United Cities and Local Governments) with a strong African presence to lead the monitoring, impact assessment and dissemination across the cities. Should this model and mechanism be successful at codifying the creation of sustainable and inclusive municipal processes, structures or institutions that deliver new or improved jobs, services, or shelter for the urban poor, we hope to replicate it to other cities across Africa, Asia and Latin America, ideally to locations that other foundation programs have designated as priority geographies. We are particularly interested in cities with new natural resource

⁵ Three external reviewers are contracted annually to offer feedback about our performance, selections and partnerships.

opportunities or those that rapidly urbanize as a result of improved agricultural productivity, where concurrent increases in GDP might bolster government effort. This model for local engagement combines governance and community-led development, and may represent a new sub-initiative within this portfolio.

We will also continue to test the concepts of city twinning, low technology city planning, and municipal solid waste management – all of which bring new ideas, incentives, tools and sources of finance to cash-strapped municipalities. We are considering the most strategic mechanism for engagement with India and South Africa, since we have a very competent set of grantees that are ready to be deployed. Ultimately, we believe that our best investment in urban poverty alleviation will be building the scaffolding onto which all current and future urban development will depend. We view our capacity and voice efforts as means to ensure that our ends will be realized.

We will continue to make grants against a flat budget and prioritize our opportunities accordingly, unless new resources become available. As our grants are young, we will continue to monitor outcomes and improve performance wherever possible. Our main priority for the rest of this calendar year is delivering a full-fledged Special Initiatives (SI) team strategy refresh, including determining the next steps for the various portfolios, including Urban Poverty. However, based on early results, our working expectation is that Urban Poverty will remain the “anchor” component of SI for the foreseeable future, and based on that assumption SI is in the process of realigning two positions to further support the portfolio: one APO position, which to date had been working across the SI, Global Libraries and Water, Sanitation & Hygiene teams; and one PO position, which had been focused on one-time opportunities and international family interest grants for Bill Sr. (these grants have already been transferred to the executive office with Bill Sr.’s approval).