Taking money to making money: SPARC, NSDF and Mahila Milan transform low-income shelter options in India

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The three authors have played diverse and critical roles in contributing to the strategy of the alliance. They have also contributed, in various ways, to the data analysis in this paper.

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The Indian Alliance – the Society for the Promotion of Area Resource Centres (SPARC) and two community-based organisations the National Slum Dwellers Federation (NSDF) and Mahila Milan – works in partnership on issues of land, housing and amenities for the poor in cities in India. SPARC facilitates the creation of voice for the urban poor in the development of the city, Mahila Milan is a decentralised network of poor women's collectives that manage credit and savings, and NSDF is an organisation of community groups and leaders which mobilises the urban poor to find solutions to their problems.

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In India, a new approach to finance has transformed shelter options for low-income households and supported community-led development. This paper examines the financial architecture developed over 20 years to support hundreds of community-driven developments by the National Slum Dwellers Federation (NSDF) and Mahila Milan (a federation of women's savings groups). These community organisations work in alliance with the Mumbai-based NGO the Society for the Promotion of Area Resource Centres (SPARC). Much has been written about the alliance's work. But to date, its financial architecture has had little attention. This paper views the alliance's work through the lens of financial management and administrative procedures. It demonstrates the value of engaging community organisations and federations and shows how they can co-produce, design and execute large projects due to the expertise they have developed through smaller modest projects.

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Summary

Detailed accounts of how civil society organisations use funding are usually confined to reports to funders. In this paper, we describe the financial architecture that developed over the last 20 years to support hundreds of community-driven developments by the National Slum Dwellers Federation (NSDF) and Mahila Milan (meaning 'women together' and a federation of women's savings groups). These community organisations work in alliance with the Mumbai-based NGO the Society for the Promotion of Area Resource Centres (SPARC). Together, the Indian alliance has developed a financial strategy and associated financial architecture to transform shelter options for low-income households.

In this paper, we review the alliance's many projects and programmes through the lens of financial management and administrative procedures. It includes careful documentation of the savings and other resources that community organisations bring – and highlights the value of community-managed local-level finance. It also describes the external funding received by the alliance over the last 20 years, the use of revolving funds (a fund that is continually replenished as withdrawals are made) and the leveraging of state and market subsidies.

Of course, all funding comes with conditions – for what purpose, what can be funded, the institutional structure required of the institution to be funded, payment schedules and reporting, and accountability requirements. These influence (and often restrict) what can be done and with whom. Funders generally have little or no idea of local priorities, possibilities and constraints. The challenge for civil society organisations that are committed to community-led development is to ensure that such constraints do not limit the usefulness of monies to households that are struggling to secure affordable housing improvements.

This paper provides an account of how two large federations of 'slum' dwellers used, managed and generated funding – covering all funding they received from different sources (international, government of India, state government, local government) and how this was used and blended with their own resources (including savings). Also, how these federations sought to make the funding go as far as possible – through revolving funds and loans where possible and through using their funds and capacities to leverage funding, land and support from local government and other groups. This paper reports on the development of the strategy from 1984 to the present.

The financial architecture

Much has been written and published about the programmes and projects undertaken by the alliance of these two federations and SPARC. But to date, little attention has been given to looking at the financial architecture – including institutional processes and financing and the funding delivery systems that underpin this. One key issue is how to remain fully accountable downwards to the communities they seek to support as well as upwards to funders. A second is how local resources of communities and other local funds blend with these that come from international sources and national funds.

Most funders or potential funders of the alliance – and of other national federations of slum/shack dwellers – are a long way from the 'spend' on the ground. What is planned and done locally has to be reconciled with priorities set, choices made and conditions set by distant funders. There is often a long chain of delivery agents through which the funding passes. All financial and administrative arrangements are influenced by funders – and these influence the organisational and administrative culture of those they fund.

We in the Indian Alliance – and the other federations of slum/shack dwellers who are members of Shack/slum Dwellers International (SDI) – believe that the benefits of development finance are maximised when allocated by local groups to support their priorities and enhance their capacities. This can produce (and often has produced) changed relationships between the local stakeholders that increase the scale and scope of what can be done. It often leverages local state and market resources as well as contributions of cash and kind from local and national processes. It also encourages other initiatives and brings in other groups.

In this paper, we demonstrate the value of engaging community organisations and federations and to show how they can co-produce, design and execute large projects due to the expertise they have developed through smaller modest projects. We show how our financial architecture has supported community-led development to:

- **Create opportunities** for communities to develop interventions which are essential for them and needed by the city,
- **Enable communities to define their own role** in those projects and their contribution to implementation,
- **Facilitate the scaling up of such projects** through the leveraging of additional finance,
- **Enhance capabilities to identify, innovative and undertake projects**, develop financial knowledge to produce budgets, accurately identify and assess risks, build skills to develop options to offset the risk, and
- **Maintain the process** with new and emerging social movement organisations with capacitated leadership.

The alliance believes that what people do for themselves transforms their self-perceptions and allows them to recognise their essential contribution to their own development. This is more valuable than any external money or goods given to the process. Within this, the federation leaders and members are not stuck in subservient beneficiary roles assigned to them by mainstream society because they have low-incomes and live in slums (informal settlements). Their internal reflections and discussions transform their survival experiences into innovative strategies for personal and collective transformation.

In this paper, we describe how a new approach to finance has transformed shelter options in India. That approach has four components that work together to produce the outcomes summarised below.

- First, savings contributions and the management of local revolving funds provides for strong location ownership of monies and increases the financial management capabilities of organised communities enabling them to be active participants in development projects.
- Second, alliance revolving funds provide the capital for precedent interventions enabling local communities to design new shelter options (housing, infrastructure and services) that work for them. These revolving funds further build up financial management capabilities. These interventions have led to policy changes which have in term enabled community-led development options to secure both state and market subsidies.
- Third, a community-owned construction company, SPARC Samudaya Nirman Sahayak (SSNS), enables the Indian Alliance to scale up its interventions to improve shelter options in India. The company builds on the capital contributions that the alliance has raised from international development assistance and uses these monies to access and use state and market subsidies for shelter improvements. These include individual toilets, community toilets, resettlement units, new-build housing and incremental housing improvements. Enumerations and surveys continue to be financed through the main work of the alliance and help to provide tenure security.
- Finally, monies earned through the alliance's involvement in market subsidies, the transferable development rights (TDR) policy in Mumbai, enable the recapitalisation of local revolving funds to ensure that the process continues moving forward.

As a result of this financial architecture and associated community action, the alliance has assisted 258,840 households between 1984 and 2015. Of these, 163,185 have gained access to community-managed sanitation, 495 to individual toilets, 11,623 to dwellings constructed by the alliance, 75,085 to enumerations leading to 32,904 families being relocated (with the rest receiving service improvements), and 8,452 benefiting from income-generation loans. The alliance is currently managing over 1 billion rupees of capital in revolving funds. This capital has already grown to 1.3 billion rupees.

1 Introduction

In this paper, we examine the finances and associated financial processes and structures (or architecture) that have evolved within the Indian Alliance, a grouping of community organisations and professional/technical support agencies. We show how the innovative use of monies, particularly through revolving funds (a fund that is continually replenished as withdrawals are made), has simultaneously built local ownership and accountabilities, secured the partial return of investments, and facilitated the leverage of state monies. Strong local ownership has led to demonstrated effectiveness and supported policy reform to legitimate community-managed development. Not only has the financial architecture helped to ensure effective development interventions, it has enabled the scaling of these interventions.

The alliance began its work in the mid-1980s. Over the last three decades it has developed an innovative finance system that has used 1.2 billion rupees of foreign donor finance to leverage additional monies resulting in a total expenditure of 6.4 billion rupees, including 3.6 billion from government and market subsidies as a result of the transferable development rights (TDR) policy in Mumbai (Table 3; see also Box 1). This money has been used to address the sanitation needs of more than 163,000 families (Table 12), and the shelter needs of more than 86,000 families (Table 11). Around 75,000 households have been involved in data-collection activities that have helped to establish collective priorities and engage the state for improvements; and nearly 8,500 households have benefited from income-generation loans (Table 12).

The substantial numbers reached has been achieved because of specific approaches to funding. The value of monies received has been maximised through three distinct strategies that have interacted to have the impact summarised above. First, investments have been made in learning. The initial funds were used to create, sustain and federate a large network of the urban poor across India. Their reflections made it possible to develop new approaches to urban upgrading and redevelopment. This knowledge capital has helped to ensure that funds are used to maximum effect through innovating new approaches to addressing shelter needs. These activities also helped to prepare for the scaling up of both housing and service delivery. Experimental activities took place through the Society for the Promotion of Area Resource Centres (SPARC) (Table 4) with a separate agency, SPARC Samudaya Nirman Sahayak (SSNS), being established for the management of construction contracts. Activities passed to SSNS when the modalities of delivery were established and large-scale finance secured (Table 7). A total of over 4.5 billion rupees has been spent on projects related to construction of housing and sanitation (primarily toilet blocks but also some individual toilets) (Table 5).

Second, monies have been revolved wherever possible with an emphasis on the blending of external finance with local community contributions from savings to maximise the likelihood of a return of funds (Table 6). The original capital has grown over the decades (Table 9). Community leaders understood that local ownership over funds is critical if monies are to revolve successfully. Community capacity to manage revolving funds is built up first using their own funds ('hot' money), with external funds ('cold' money) then being added. Strong social capital within savings schemes and the more broadly based federations have helped to manage this process. Most attention has been given to shelter improvements with additional support for income generation (tables 11 and 12).

Third, in addition to revolving, funds have been multiplied through efforts to maximise leverage. Table 6 summarises the multiple sources of finance that have been catalysed by the finance strategy of the alliance (differentiating between external capital, community savings, interest payments, and both gross and net income from the TDR policy in Mumbai). The leverage strategy has resulted in two distinct modalities

BOX 1. TRANSFERABLE DEVELOPMENT RIGHTS (TDRS)

All over the world, cities use the ratio of land site measurements to what is permitted to be built on it to regulate construction. In India, this is referred to as floor space index (FSI). City governments have used additional FSI provision to serve many development objectives such as to gain land for public amenities and widening roads or to encourage densification in specific locations.

In 1996–7, the government of Maharashtra enacted a policy to provide secure tenure to slum dwellers residing in Mumbai and utilised the additional floor area ratio/FSI incentive to provide a market subsidy for slum housing to address the inability of the state government to finance slum redevelopment. It enacted the Slum Rehabilitation Act, through which the development control regulations for the city of Mumbai authorised the municipal corporation to give permission to provide additional FSI ratio of up to 2.5 (the city had an original ratio of 1) to cover the costs of construction of new tenements for slum dwellers. Essentially, this provided a market-financed subsidy to provide free accommodation for low-income residents previously living in slum areas. Constructing tenements of 21m^2 for these residents has generated additional FSI. If the additional FSI generated cannot be utilised on the same piece of land, it can also be converted to 'transferable development rights' (TDRs) which are provided in the form of a certificate, which can be traded (ie sold on the market) to provide additional construction space as per the regulations. All of the alliance's projects have utilised all of the land to build tenements and have chosen to sell TDRs instead of constructing additional housing units for sale.

to scale up access to finance for construction. When the policy to accelerate slum redevelopment was designed, the alliance was influential in enabling projects led by communities and NGOs to access the market subsidy through TDRs, leading to projects which demonstrated how this access could be actualised. This has both generated resources for construction (see below) and has led to a surplus from the sale of TDRs that can be used for other alliance activities. Other policy reforms have been to improve the efficacy of expenditure with, for example, a new design for the construction and management of public toilets. In the area of sanitation, experimentation pilots and precedents led to a new public policy to produce community toilets. Construction was financed by the cities and managed by residents' associations. Effective access to both these sources of subsidy capital has only been possible because the alliance developed sources of bridge finance (Tables 7, 8 and 10) that have enabled the alliance to manage the complexities of large construction with state subsidy finance and TDR constraints.

In this paper, we describe and analyse the financial flows that have taken place, and the ways in which resources have been used to create new options for disadvantaged urban households. We look at how the alliance members use their own sweat equity, grants and funds obtained from external sources to design solutions and leverage access to national and further international resources. These resources in turn have produced policies, project delivery mechanisms and modest but crucial revolving bridge funds that allow the alliance to continue projects beyond the first cycle of funding for which money was given. The financial and administrative procedures emerged, for the most part, from intuitive choices that were gradually refined by the collective values of the alliance.

This community-led alliance has engaged with international development assistance over three decades to enable social movements at local, national and international scales to become drivers of the development that works for them and the cities they live in. Consideration of the financial architecture that the alliance has developed to facilitate the work of organised communities helps to illuminate the pressures faced by a community-led development process. The broad context is one in which bilateral, multilateral and philanthropic grant makers increasingly seek to blend a wide range of financial resources to make investments that improve, transform and change the lives of low-income and vulnerable households. By and large, these choices are made far away from the location of the 'spend', and all local actors are in a chain of delivery agents executing this strategy. Global financing has frameworks, systems and audit procedures that demand accountability to fulfil agreements with those who give the funds. These institutional arrangements have rigorous systems to work out how projects need to be designed, criteria for who can and should produce the projects and deliver them, and how the delivery should be monitored and evaluated. There is considerable upward accountability which produces a top-down process involving multiple contractors, beneficiaries and consumers of development assistance. This happens regardless of the rhetoric which generally states the total opposite, ie wanting development assistance to be locally driven.

How does a community-led process respond? We argue that maximising development benefits requires that the financial and administrative architecture of the alliance (and similar southern organisations) has to be accountable to the communities that it seeks to support. However, at the same time, our alliance has had to develop the capacity to meet external fiduciary requirements. In our experience, internal perceptions about accountability mirror the relationship between the organisation and the external context. Hence a core challenge for the alliance is that those giving money make programming and accounting requirements. Those receiving that money need to understand how these requirements affect their work. In particular, they need to understand what is facilitated and what is constrained by donor conditionalities, and how the relations within the organisation – as well as between the organisation and other agencies – are affected. They need to be able to communicate with grant makers, and engage them in reflection about these issues so as to minimise adverse consequences.

While the alliance's constituency – disadvantaged urban dwellers living in slums and other forms of insecure housing – are intended to be the primary beneficiaries of development agencies, the impacts of decisions that funders take influence the internal arrangements of southern NGOs and social movements. Choices made by donors around financial and administrative arrangements create systems and practices that influence the organisational and administrative culture of any agency. The financial architecture and associated institutional practices define opportunities and choices both for local activities and more substantive programming. Of particular significance are those processes that define how accountability is understood and enacted. These impacts are insufficiently understood. For the alliance, the challenge is that there is frequently a clash of 'cultures' with external accountability requirements proving to be inflexible and dominant when juxtaposed with the tentative exploratory and emerging accountability frameworks for an alliance of community networks and the NGOs that seek to support them. Although the funding flows are ostensibly to assist the most vulnerable, the risk is that financial practices negatively affect relations and constrain subsequent outcomes. The alliance has had to mitigate such risks.

What started in 1984 as a unique partnership between SPARC (a group of professionals) and NSDF and Mahila Milan (as organisations of the urban poor) to stop evictions on the streets of Mumbai has now become a national movement present in 70 Indian cities, and has been replicated in its organisational form in 33 countries in Asia, Africa and Latin America. Federations of the urban poor represent themselves as a transnational organisation of the urban poor called Shack/Slum Dwellers International or SDI.

SPARC, the National Slum Dwellers Federation (NSDF) and Mahila Milan[1] are partners in what is often referred to as the Indian Alliance. We are one of the founders of SDI, a global network in which many of the rituals, practices and strategies of the Indian Alliance have been adopted, adapted, refined or have inspired a wide spectrum of possible activities driven by communities (Patel and D'Cruz, 1993; Satterthwaite and Mitlin, 2014). Over the years, we as the Indian Alliance and as SDI have collectively produced a range of innovative strategies that deepen, strengthen and build the repertoire of what people themselves can initiate as community federations of the urban poor associated with SDI.

Within the alliance, SPARC is the legal, financial and professional partner. It is a charitable trust registered to administer programmes in India. Project proposals are written by SPARC in collaboration with NSDF and Mahila Milan which remain the primary identifiers of the federation-building programmes and projects that need funding. Community federations execute the projects by themselves with support and assistance from SPARC. The Indian Alliance has written a great deal about various programmes and projects that communities have taken up over the last three decades (Patel *et al.*, 2016; Patel and Bartlett, 2016). However, little has been shared about financial processes, financing systems and finance itself. These have only been reviewed within statutory or grant makers' audits.

This paper provides an opportunity for us to explore the alliance's commitment to a transformative financial architecture and its significance to a community-led development process. Here we explain how the financial resources of communities are blended and used, and how the communities' sense of ownership is established and maintained. The rationale underlying this architecture may be rarely elaborated but it is significant. There is value in articulating and examining this architecture both to help internal staff members understand the structure and to challenge those in the external environment who make decisions that negatively impact on such arrangements.

1.1 What are the collective values that underpin the financial architecture?

A starting point is that organisations of the urban poor drive the agenda, and related activities and project delivery. The alliance makes choices cognisant that the objective is substantive long-term impact at scale, and draws on the following principles that have emerged from its practice:

- The benefits of development finance are maximised when finances are allocated by local groups. The projects need to be implemented through processes that create opportunities for communities to develop interventions that are essential to them and needed by the city authorities.
- Multi-level associations of global and local actors can produce new capacities, new sensitivities and a culture of collaboration that can facilitate the expansion and/or localisation of community-driven development processes. When these multiple levels share strategies and experiences, new opportunities emerge and knowledge and other capabilities expand. They gain knowledge,

1. Mahila Milan – meaning 'women together' in Hindi – is a decentralised network of poor women's collectives that manage credit and savings activities in their communities.

improve partnerships and produce impacts that go beyond any singular project, however large it may be.

- External funds need to be used to leverage local government, state and market resources (as well as contributions of cash and in kind from community processes to ensure local ownership) and to maximise the likelihood of scaling up.
- Initial investments finance projects that are the foundation for adaptation, refinement and replication. Projects need to be able to demonstrate the potential for scaling up both within the city and beyond.
- Project implementers need to be in a continuous process of devolution, passing project-management responsibilities down to community organisations of the urban poor as their capacities advance. Project-management processes need to support new and emerging social-movement organisations with capacitated leadership.
- Projects have a limited time span during which funds are used and reported on. After this, external supervision and monitoring ends. Financial management processes need to be designed to go beyond first-round impacts to maximise the 'legacy' that remains. If these issues are not considered, projects will not be maintained and will not contribute to the alliance's commitment to make lasting change.
- At the same time, the alliance needs to create deepening analytical capacity to identify and undertake projects, develop financial knowledge to produce budgets, accurately identify and assess risks, and build skills to develop new pro-poor urban development options.

The following sections explain the alliance's financing strategy, the ways in which finance has been used to advance the alliance's agenda and the outcomes. In Section 2, we discuss data sources and elaborate on the reason for the study. In Section 3, we introduce baseline finance data, identify seven phases in the financial development of the alliance to date, and report on key events in the historical development of the alliance's financial architecture. We then explore the data on the use of funds and show the form that the funding flows have taken in Section 4, as well as the use of revolving funds. In Section 5, we report on the outcomes that have been achieved with this data and present our conclusions in Section 6.

2

The study: origin, purpose and data sources

Our purpose behind this paper is to reflect on how the alliance's model of financing urban social movements has evolved both to share our experience with external readers, and to reflect on what this model offers to a community-driven processes. Tracing the evolution of the alliance through its financial strategy offers new insights into its unique processes and systems of administration that remain centred on local community priorities recommended by the NSDF and Mahila Milan who continue to set the agenda for all activities.

From the beginning of its work, SPARC has drawn on donor finance. In the early years, this was primarily from overseas. As we have noted in the introduction, such financial transactions involve those giving the money making programmatic and accounting requirements. Those receiving that money need to understand how these requirements affect their work. Equally, grant makers need to understand these feedbacks and make changes. Such perceptions, actions and interpretations affect the work on the ground, and there is a risk that donors change the drivers of the development process as the rules set by donors may inhibit actions needed. There may be a clash of systems of accountability and often the inflexible external accountability and the formal financial regulatory frameworks win when juxtaposed against the tentative exploratory and emerging accountability of those who are vulnerable and for whom this resource was created in the first place. These are the challenges that the alliance has had to engage with.

As organisations which have struggled to find donors and grant makers, as well as to leverage government subsidies for informal slum dwellers' identified needs, we see the following challenges in the aid architecture.

- First, whatever verbal acknowledgement is made to facilitate participation and to ensure women's central involvement, communities of the urban poor and the NGOs that work with them are the last to get integrated into the programme. In most cases, communities are pre-selected externally and may not be those who are organised and/or want to participate in change.
- Programmes that are designed prior to implementation with clear procedures, rules and prescription of how funds will be used find that when implementation happens, processes don't work for the poor and/or deliver outputs that do not get used by the poor.
- This non-utilisation of precious resources is as true for international development assistance projects as it is for national subsidies for the poor.

Wherever and whenever federations are empowered, they challenge design and delivery protocols, and seek a change in strategy that enables resources to be used by themselves and others. Frustratingly, we do not see much discussion of these challenges in aid delivery agencies.

In terms of international development assistance, 2015–6 has seen a changing trend in how philanthropic, bilateral and multilateral developmental funds are flowing to local and national civil society organisations. In many countries including India, (a country which boasts about being middle income, but which includes large numbers of urban and rural households living below the poverty line), civil society organisations and NGOs are receiving less and less funding to take up their own agendas. Rather these agencies are sub-contracted to deliver global and/or national agendas. A challenge for the alliance is how to cover core budgets and demands for project financing that have increased due to a growing constituency.

There are new funding opportunities. The government of India has introduced regulations that require all public and private-sector companies to put aside 2 per cent of their before-tax profits for corporate social responsibility. Hence trillions of dollars should be available to developmental causes. These are early days and most companies are grappling with what they could be doing, how outcomes should be measured and related issues. Although urban housing and basic amenities (especially sanitation, due to the prime minister's clarion call to stop open defecation by 2019) receive considerable attention, most funds are going to rural projects, in part because traditional philanthropy has greater familiarity with this sector. The alliance continues to explore these and other new and existing possibilities, but finding monies to support secure tenure and basic services for the urban poor and to champion an identity for the city's informal citizens appears difficult.

Reflecting on historic relations, grant makers have struggled to understand the alliance's unusual arrangement with large unregistered networks of federated communities creating the agenda for activities and associated budgets, and then managing the funds. Donors are often concerned about the risks SPARC faces as the legal holder of donor-financed projects, memorandums of understanding (MOUs) and contracts despite projects and activities being managed by the community networks. Initially, many grant makers urged that NSDF and Mahila Milan should be registered and should sign contracts taking over responsibility to mitigate the risks to SPARC. However, NSDF and Mahila Milan have never considered signing any MOU with SPARC. Their understanding was that informality was essential to retaining their character as social movements. Joint processes were only worthwhile as long as there was complete trust in each other's commitment to our shared values. Taking risks and exploring 'the unexplored' was the basis of SPARC's own inception. The organisations shared an unstated commitment they would shut down if this trust failed their alliance.

In terms of the data itself, there has always been a tussle about digitalisation and computers. For example, Jockin (one of this paper's authors) has a deep anxiety about and hostility to computers due to concerns that computerisation alienates community members with no access to such instruments. Many early rituals of surveys and savings taught illiterate leaders, especially women, to change their perceptions of themselves of not being able to manage these activities by developing creative ways of overcoming the initial challenge faced by illiteracy. However, with the rapid growth of the federations, it became clear that digitalisation was the only way to store and analyse data. So surveys and savings began to be digitalised. Despite this shift, each community first does manual tabulations, and all groups keep written registers of their savings and loans which get photocopied and sent to SPARC.

Digitalisation was supported initially in three areas, one of which was finance. Aseena (another author) started in SPARC as a volunteer to develop the software to document savings and loans data. Tara Ramkumar, another staff member, developed the software to enter survey data with consultants helping to set up accounting software. In all of these three areas, software was custom designed as no suitable software was available. The software had to fulfil multiple criteria including the ability to operate on very old computers so data collected in any of the 70 cities and towns on hired computers could be sent (on 'floppies') to the SPARC offices to be added to the databases. We are now exploring how to digitalise and link the household survey data with savings and loans data, and potentially project data. So the alliance does have digital records. However, earlier data has to be converted so it can be used within newer software. Some tables and numbers in this report will remain tentative until this is complete.

This study draws on the historic financial data of the alliance, as well as information on the assets secured. Financial data was digitalised in accounting data software in 1997. Before that, we would manually input the required information. The inputting of the financial information has served an added purpose as it has helped to ensure that names of projects and other such details are corrected. Procedural mechanisms introduced and refined in the last decade have helped clean up older data. Information on assets constructed has been regularly collected since the inception of the alliance. This data has been shared in annual reports of SPARC and SSNS.[2] The detailed financial data is now a valuable and integral part of the monitoring process. It has been used for internal assessments, reviews and planning.

Staff, federation leaders, trustees and auditors have contributed to the historic review of finances. This has produced greater collective awareness of finances and their management, which helps the current process of transition. Further benefits are that it helps to develop leadership skills and assist with the presentation of new grant proposals, loans and partnerships. The review of SPARC financial data is occurring as SDI is also undertaking a review of its own finances, the project portfolios that it has seeded within affiliate national urban funds, and the funds these investments have leveraged.

This paper has been catalysed by four distinct discussions. First, our own internal learning, monitoring and evaluation processes have highlighted that those managing accounts

2. See www.sparcindia.org

and finance have often not been part of the documentation processes through which the alliance represents what it does. This is a chance for them to elaborate how choices are made, systems are developed and how we collectively design, raise funding and execute projects and programmes. Second, we have recognised that it is important to document the trusteeship values held by NSDF and Mahila Milan that influence the culture of the organisation and how the human and financial resources generated by their work evolve, how strategy is put into practice and how ownership is devolved. Third, we are aware that development assistance trends and priorities shift and change, with profound impacts on our organisational arrangement. Sharing knowledge about this is important to both SDI and its affiliates and they have agreed to be part of an IIED study looking at these issues at the global scale. Fourth, our long-term association with IIED has produced many jointly designed funding proposals. Recently, we have been exploring the possibility of access to climate change funds. We find little acknowledgement about how fund absorption, utilisation and impact are improved when such innovative civil society partnerships secure project finance. More generally, we find little acknowledgement of the significance of the factors highlighted above in the development assistance sector.

3 Baseline data and developing the financing strategy

The alliance's strategy assumes that the creation and mobilisation of large networks across cities of the urban poor living in informal settlements is a crucial ingredient in development investments for transformation. Hence, SPARC and later SSNS developed proposals for international development assistance that sought to produce the capacity within federations to manage first small and then large projects. This later helped the federations develop their role as trustees of development assistance. In this section, we report on financial flows to the alliance, and introduce developmental phases that have emerged from this reflection.

When SPARC was set up, there were three significant government agencies supervising charity finances. Hence, SPARC is registered as a trust and a public society under the Bombay Trust Act. SPARC is exempt from income tax under a special dispensation (this also enables those that give donations to SPARC to get a 50 per cent tax rebate on their donation). SPARC is also registered under the FCRA (Foreign Contribution Regulation Act) which in turn requires all NGOs and non-profit organisations to register their organisations with the Ministry of Home Affairs. The ministry provides a registration number that is linked to a bank account and all foreign funding must be deposited in that one account. Each year, audited statements certified by a chartered accounting firm appointed by SPARC and passed by SPARC's governing board have to be submitted to each of these agencies. Initially, SPARC accounts were manually recorded but as the funds increased and demands from various authorities became more rigorous, we employed accounts staff then digitalised the accounts.

3.1 A history of the alliance and its finances

Table 1 reports on the annual financial flows from international development assistance and divides the period into seven phases. Looking across the five-year intervals in Table 1, the growth of the alliance up to and including the period 2000–2004 is evident. From that date, there has been the maturation of the process and increased recognition by government.

Grant proposals in the first two years of the alliance from 1984 (**Phase 1**) were mainly to examine what role SPARC staff (as professionals) might play in an experiment to develop institutional forms that enabled staff to partner poor people's organisations. The goal was to understand and support priorities of the community with an initial focus on pavement dwellers in Byculla (Mumbai). Modest funds either generated by founders themselves through consultancies, or generous but small donations in cash and kind, supported the initiation of collectives of women in pavement slums in Byculla. The gentle consolidation of activities with pavement women and the formation of Mahila Milan was disrupted by the 1985 Judgment of the Supreme Court of India on pavement dwellers. In 1980–81, the then chief minister had evicted households living on the pavements of Mumbai in the midst of the monsoons, and

BOX 2. THE GROWTH AND CONTRIBUTION OF SAVINGS BY WOMEN

Women's savings are a critical dimension of alliance processes and the women's savings programme has grown exponentially. External agencies frequently misunderstood savings, so the alliance had to state vehemently and frequently that savings are not microcredit. Most women in the initial period of the alliance's formation were first-generation migrants from other states of India. They were also illiterate, had followed their husbands to the city and felt isolated and alien, with low self-esteem. So why did making regular savings address these women's needs and interest?

Savings introduces a daily ritual: putting left-over money from daily household expenses into a common 'kitty'. Savings activities also require women to connect with each other through a nominated volunteer who collects the money, which in turn has created trust between members. Daily contact has given them greater knowledge about problems other women face at home and has increased collective support. Women began to give each other modest loans for managing daily crises, such as buying food, bus fares or medicines; no interest was charged, and money was returned on terms agreed. This enabled women to avoid informal money lenders who had previously been their only source of emergency funds (charging 10 per cent interest per day on small amounts). Over time, women leaders emerged. The modesty of their financial transactions did not threaten male leaders and male family members permitted the women to take on this more public role.

The possibility of getting larger loans, first to repay existing high-interest loans, then for businesses and later for housing repairs created new momentum. NSDF and Mahila Milan began to seek loan capital to on-lend to the women's savings collectives. Women developed status as managers of funds, givers of loans and successful managers of loan repayments. Monthly interest rates of 2 per cent on a decreasing loan amount was charged. This both serviced the interest rate of the borrowed money, and produced (from about 1 per cent per month) a hedge fund to be lent out, and which was available to pay off loans for households facing difficult situations such as those which had lost their head of household or whose first business failed. As they resolved problems such as when treasurers absconded with funds, their confidence grew and further options emerged.

The women's collectives gained the support and respect of their traditional male leaders. Gradually, they went on to explore other activities including access to services for the neighbourhood, and links with police and the municipal administration. Over the years, more and more women have become NSDF leaders nominated by their city and federations to be on various NSDF committees.

In terms of financial management, Mahila Milan groups found that lending to each other worked well and these small amounts were returned on terms agreed by the group and borrower. When external block loans were taken by SPARC to on-lend to communities or grants were converted to loans, the procedure remained highly localised, and loans were 'given' from local savings and reimbursed to savings groups either weekly or fortnightly. Mahila Milan leaders believed their process converted 'cold' money into 'hot' money. Hot money was their own money while cold money was external money. By maintaining systems they had developed, external money was treated as their own, and the sense and process of ownership was maintained.

dropped them outside the city limits. A journalist took the municipality to court in a public-interest litigation in a case referred to as the 'Olga Tellis versus Bombay Municipal Corporation'. When the evictions were ordered to be stopped, the city took the case to the Supreme Court. In July 1985, the Supreme Court ruled that however sympathetic the chief justices were to the plight of the pavement dwellers, the responsibility for maintaining the health and safety of all citizens overrules the right to life and livelihood of the pavement dwellers and that the municipality of Mumbai could evict the pavement dwellers with adequate notice. The order was valid from 1 November 1985.

The threat of large-scale evictions catapulted SPARC into undertaking a census of pavement dwellers. Women's demands for secure habitat came to the fore (Patel and D'Cruz, 1993). In 1986–7, the NSDF (National Slum Dwellers Federation) joined SPARC and Mahila Milan and from then on the alliance's growth accelerated as did the demands for resources. At this time, NSDF included a network of eight cities (which has since grown to 70 cities). Enumeration activities (surveys, census, mapping) by the pavement dwellers, which have now been standardised, were consolidated along with the formation of tenure-based federations and strategies to explore long-term solutions to evictions (Phase 2). The enumeration activities developed when SPARC met with senior government and municipal officials at the request of Mahila Milan, whose members feared being evicted and their menfolk fighting with the police and getting beaten and/or arrested. When these meetings took place, it was evident that the image of pavement dwellers held by the officials was of migrants who lived for very temporary periods on the pavements when in fact settlements had been there for decades. The challenge facing us was to identify the most effective way to show them that this image was wrong. The solution was a census of pavement slums to reveal realities. The pavement dwellers and SPARC ended up undertaking the survey (Patel *et al.*, 2012).

Federations also produced self-designed housing and sanitation and created the house model exhibition (or *melas*) to showcase strategies to members, other community residents, politicians and officials (Appadurai, 2001). With these precedents, the use of revolving funds was introduced to facilitate capital for further projects by either the same or other groups. By now it was evident that all funding the alliance received had to be treated as an investment. At the same time, savings was recognised as a critical foundation underpinning organisational strength and capability, and reducing the vulnerabilities that women face as individuals and family members (Box 2).

During **Phase 2**, the budget structure used by the alliance and formalised through funding proposals began to take shape with six 'cost centres' for administration and project (precedent) finance:

- **Area resource centres** are a physical manifestation of the community's capacity to become city federations. This is where Mahila Milan collectives aggregate settlement savings, agree loans and document these transactions. Minimum costs for these activities, costs of rent, phone and electricity, tea at meetings and travel for horizontal exchanges are the primary costs to cover.
- **Enumerations** (maps and surveys) are designed and coordinated at these centres where data is manually tabulated before being sent to SPARC for digitalisation. Costs include minimal payments to data collectors for travel and stipends, plus cost of data inputting and analysis.
- **Horizontal peer exchanges** within and between cities.
- **NSDF and Mahila Milan supervision and mentorship** of emerging leaders who travel between networked cities. Costs include travel and stipends when away from home and training expenses to acquire skills.
- **Dialogue with city and state** government officials and with central government for advocacy. Costs of travel and meetings.
- **SPARC professional, administration and accounting staff costs** including audits and other administrative requirements. Cost of office rent and associated charges, plus the cost of data digitalisation.
- **Precedent finance.** Capital both for experimentation and then for scaling up construction efforts (ie small projects then larger programmes).

During this phase, the alliance adopted specific conditionalities that affected budgets and expenditures, and from which internal accountability emerged. Informal settlements joining the NSDF belong to a specific tenure-based federation (eg the Railways Slum Dwellers Federation). All are encouraged to set up women's savings groups. In these groups, women collect savings daily and over time offer loans to their members (Box 2). Enumeration activities (maps and surveys) help to identify collective priorities.

When communities' priorities cannot be realised due to policy and programming constraints, federation groups have developed precedents to demonstrate alternative, more effective solutions. All collectives participate in NSDF decision-making about the priorities for innovations and precedent projects. In some instances, these can lead to policy reforms, and produce a significant impact as other slum dwellers have their basic needs for secure tenure and basic amenities realised as a result of these reforms. Further capital investments are frequently demanded, and taken up by federations to demonstrate the scalability of their precedents. Sharing knowledge and the mobilisation of a critical mass of the urban poor are essential foundations to sustainable and scalable development investments.

The alliance recognised that precedents both sustain the mobilisation of a critical mass of the urban poor and secure their transformation from beneficiaries to active partners in development. In addition to nurturing the federation and preparing them for new and more substantive interventions, the precedents directly address local needs.

In the first years of the Indian Alliance, we evolved this process intuitively and it took a long time. Now this mobilisation occurs more rapidly across India. Federation leaders encourage the transformation, drawing on their personal and collective histories offering confidence and belief to new communities.

As demands from the various federations emerged, additional funds were needed to explore possibilities and test solutions. This included demands for more elaborate surveys, for additional top-up for loans, and precedents to address needs like sanitation and housing. This money was then passed to communities for experimentation as recommended by NSDF and Mahila Milan. These projects demonstrated solutions that the community showcased to their federations and the city governments. Sometimes, this involved championing what had worked in another city and which needed to be demonstrated elsewhere. The 'precedent' concept recognised the potential of a capital fund available to neighbourhood and city federations to enable them to realise development options offering scale and impact. As growth occurred, the demand for precedents became hard to anticipate and a general unspecified line item called 'precedent setting' was included in grant budgets wherever possible. Initially, the alliance was unable to predetermine which precedents would be needed but gradually the federation's focus on land security, housing and sanitation consolidated (**Phase 3**).

During Phase 2, fund management processes began to be established. The trustees and federations approve the setting-up of each revolving fund and every year the audit

Table 1. Annual funds from foreign sources, SPARC and SSNS from 2000 (in current '000 rupees)

YEAR	FUNDS RECEIVED	PHASE	TOTAL FOR PHASE
Actual total	**2,231,382**		**2,231,382**
1984	19	Phase 1: Focus on pavement dwellers' survey and savings begins. House models emerge.	
1985	200		
1986	1,637		
1987	1,314		
1988	1,787		4,957
1989	1,721	Phase 2: NSDF and other federations join in association. ACHR exchanges begin. Federation model develops. Deepening of exploration with women's savings groups. Enumeration activities.	
1990	1,066		
Dec 1990 to April 1991	5,928		
April 1991 to March 1992	4,231		
April 1992 to March 1993	14,707		
April 1993 to March 1994	6,761		34,413
April 1994 to March 1995	1,390	Phase 3: Exchanges (local and international) begin in Asia. South Africa exchanges begin. Precedent investments begin to be made. Funds start to revolve.	
April 1995 to March 1996	16,878		
April 1996 to March 1997	16,479		
April 1997 to March 1998	17,245		
April 1998 to March 1999	40,573		92,565
April 1999 to March 2000	33,739	Phase 4: Mumbai takes on World Bank projects that need the alliance's input. Resettlement begins. SSNS is created. Community toilet blocks in Pune. And SDI is formed.	
April 2000 to March 2001	125,803		
April 2001 to March 2002	148,194		
April 2002 to March 2003	67,307		
April 2003 to March 2004	373,266		748,310
April 2004 to March 2005	98,240	Phase 5: Sanitation, reconstruction and resettlement projects in Mumbai. CLIFF formed and projects get larger-scale capital finance for construction.	
April 2005 to March 2006	180,847		
April 2006 to March 2007	87,803		
April 2007 to March 2008	51,053		
April 2008 to March 2009	119,218		537,161
April 2009 to March 2010	155,072	Phase 6: Large projects continue as does housing construction facilitated through bridging finance (particularly related to CLIFF) and government of India monies through the BSUP	
April 2010 to March 2011	158,284		
April 2011 to March 2012	96,383		
April 2012 to March 2013	172,977		
April 2013 to March 2014	118,021		700,737
April 2014 to March 2015	63,630	Phase 7: Increasing difficulties in securing external monies, emphasis on self-sufficiency facilitated by TDR monies.	
April 2015 to March 2016	49,609		113,239

Table 2. Annual funds from foreign sources (% shares between SPARC and SSNS from 2000)

	SPARC	SSNS
Up to 2000	100	0
April 2000 to March 2001	91.89	8.11
April 2001 to March 2002	84.05	15.95
April 2002 to March 2003	65.23	34.77
April 2003 to March 2004	16.46	83.54
April 2004 to March 2005	56.33	43.67
April 2005 to March 2006	42.74	57.26
April 2006 to March 2007	76.81	23.19
April 2007 to March 2008	70.71	29.29
April 2008 to March 2009	61.87	38.13
April 2009 to March 2010	53.33	46.67
April 2010 to March 2011	85.12	14.88
April 2011 to March 2012	78.57	21.43
April 2012 to March 2013	50.25	49.75
April 2013 to March 2014	78.82	21.18
April 2014 to March 2015	96.54	3.46
April 2015 to March 2016	99.98	0.02

includes all financial transactions of each fund. New projects from existing revolving funds are reviewed at the trustees' meetings. NSDF and Mahila Milan suggest the allocations, based on their discussions and budgets, and the review of fund balances. The finances are then dispersed, the documentation of expenses made and a report produced.

Over the years, alliance documentation has shared experiences as to how specific precedents have led to scalable projects and policy – especially in the areas of sanitation, housing and relocation (Patel *et al.*, 2002; Burra *et al.*, 2003; Patel, 2013; Patel *et al.*, 2016). The alliance's concept of trusteeship begins with these revolving funds; communities use these resources and understand how they can leverage additional support.

Every project has a name, location and purpose, and details of the costs and sources of funds for that project are recorded. As projects are completed, what can be is returned to the revolving fund.

Each year, repayments are estimated and these estimates are compared with actual returns; about 35 per cent of revolving funds return money. Gradually, as the alliance has developed a portfolio approach we have come to understand that most projects will not be financially viable (returning all the monies that were invested). What do we mean by a portfolio approach? The tables show that initially projects were simply demonstration projects for housing, sanitation and then relocation. However, these became three areas in which there was substantial scaling up, both in Mumbai and in other cities. Instead of taking each project as a standalone intervention, we began to aggregate them by sector, by city and by the type of financial blending needed. In every instance, some initial funding had to be invested. However, even when the money was a grant, communities agreed that funds would be returned to a revolving fund (through community, state and/or market reimbursements) and made available to another project. This resulted in SPARC staff and the federations agreeing to take on loss-making projects that were important to demonstrate solutions and with the potential to change policy. Over time, this process showed that grants provided to communities can leverage other resources. Across the portfolio of projects, some generate surpluses that can cover and compensate deficits elsewhere. Most deficits occur because of the time taken to get the subsidies monies owing from city, state and national projects.

By the early 1990s, city authorities and various government departments began to commission projects and the alliance was drawn in through tenders and bids by government agencies. Rapid learning was needed, and the precedent-setting budgets proved invaluable. Successful tendering required considerable preparation as it was necessary to give performance and other guarantees. Moreover, initial costs have to be pre-financed prior to the tender-related monies flowing back. Initial bids did not anticipate these costs, so precedent-setting budgets were used for bridge financing. Monies were also needed to support the associated capacity building and training of NSDF, Mahila Milan and SPARC staff. However, the opportunities for the scaling up of activities were substantive. But with these new opportunities came new challenges. As described in Box 3, in the late 1990s the alliance participated in a UK Department for International Development (DFID)-funded research project that enhanced learning and reflection about both development strategies and associated financial architecture.

The value of these precedents became clear as their outcomes led to policy changes and/or the scaling up of associated interventions. The projects explored in **Phase 4** and undertaken in **Phase 5** demonstrated that the capacity of community groups to design and execute projects is an effective policymaking tool and advocacy route. Benefits are not restricted to members of the federations. These changes in policies and associated benefits are equally available to others in the specific constituencies. For example, more than 30,000 households were surveyed by the pavement dwellers federation in Mumbai in 1998 but only about 25 per cent were federation members; others also benefited from the policy to relocate pavement dwellers (Patel *et al.*, 2002).

Phase 4 was when we designed the precedent that provided the model for community sanitation contracts (1995). The first projects came with tenders won by the alliance in Pune and Mumbai (1998–2005). This required changed procurement rules that allowed NGOs and

BOX 3. BRIDGING THE FINANCE GAP RESEARCH PROJECT

In 1998, Homeless International, who together with the Latin American, African and Asian Social Housing Service (Selavip) were the most committed of our grant providers, secured finance from DFID to study the difficulties faced by the urban poor due to their inability to obtain project funds. Ruth McLeod, then director of Homeless International, invited SDI to participate in this research. The research findings, *Bridging the finance gap*, focused on the rising potential of organised networks of the urban poor and the inability of market agencies and governments to design financial instruments to address the financial needs of marginalised groups (McLeod and Mullard, 2003). While few of the study's findings were new, its succinct representation helped with advocacy.

The research findings reconfirmed the alliance's understanding of the challenges that their financial architecture had to address:

- Low-income households only obtain tenure at the end of a project. But formal institutions require clean tenure documents from the beginning. The risk for lenders is high as they are financing projects without land tenure, and they do not wish to take on this risk.
- Scale is only possible if a wide range of financial tools is available for project financing. This include loans secured through guarantees, finance to change procurement frameworks, and start-up capital.
- While many bilateral institutions give finance to mainstream banks to on-lend to the poor, these funds are focused on the rural sector and are not available to the urban sector.

By the time the study was completed in 2001, the alliance had secured funding for a large housing project from the Housing and Urban Development Corporation (Hudco, a government housing-finance company) using a guarantee from Selavip. Homeless International also developed a guarantee fund used in another project financed by Citibank. More such finance was needed and international development agencies could usefully capitalise a fund to assist communities to provide infrastructure and housing. The research findings helped to secure DFID support for a new programme, the Community-Led Infrastructure Financing Facility (CLIFF).

community-based organisations (CBOs) to compete for tenders; the changes took place because private contractors were not bidding for these tenders. Integral to the growth of capacity of the alliance and the shift from **Phase 3** (small local precedents) to **Phase 5** (collaboration with government programmes and securing state tenders), was the creation of SPARC Samudaya Nirman Sahayak (SSNS), which in Hindi means SPARC's support to collective construction, and it was established in 1998 to 'demonstrate the potential and value of facilitating communities to drive construction of their homes and neighborhoods; to establish a working relationship with professionals, financial agencies, politicians and administrators' (SSNS, 2015: 6). All of SSNS's profits are passed back to SPARC.

Why was SSNS needed? Initially all the construction projects which emerged were either financed by grants or contracts. While they were within the terms of activities that SPARC (as a charitable trust) could take up, several issues emerged:

- Some individual construction projects were several times more than SPARC's annual budget. Rather than distort systems and processes within SPARC, it appeared to be more effective to set up a separate agency to manage these activities. Moreover, these projects needed different kinds of professional expertise.
- Many of these projects involved land that had to be temporarily handed over to the development organisation. The charity commissioner responsible for trusts needed to give permission. SPARC also found that if they were to take a loan, permission was also required. While permissions were sought in a timely fashion, they were unlikely to come through within the project period.
- By 1998, it was evident that the volume of investment was likely to expand exponentially. Creating a sister organisation to support community-driven construction with a company registration appeared more functional.

SSNS was set up to be jointly owned and managed by SPARC, NSDF and Mahila Milan. They share three directors on the board with between one to three independent directors. This structure remains to this day. The federation (NSDF and Mahila Milan) had to identify three people from their organisations to be on the board. The president, Jockin, was one of these three, but the federations chose two professionals associated with SPARC who were their champions to be on the board for the first three years. Gradually, this shifted to the national leadership of Mahila Milan and NSDF.

Projects initiated in SPARC were transferred via an MOU between SPARC, the communities and SSNS. SPARC and SSNS can be understood as being at different ends of a continuum – starting on one side with federation building, empowerment and establishing rituals, and with completed physical assets at the other end. SSNS takes over when a construction project emerges. The NSDF and Mahila Milan membership wanted to ensure that the values and institutional practices created in SPARC continued in SSNS. As a result, the director of SPARC and the secretary of SSNS is the same person. The registered office is different but both organisations work out of the same space with shared accounts and administrative staff.

SPARC and SSNS have faced intense questioning from professionals from various donors, bilateral and multilateral institutions. These individuals held a wide range of views on both strategy and organisational form and this interrogation helped the alliance reflect more deeply about its choices. The alliance became confident that the neighbourhood associations and federations had the right to design and execute their own projects. They worked in a context in which there were no supportive functional institutional arrangements. No bank would give them loans, no city government could contract them and most technical professionals did not know how to work with slum dwellers. SSNS enables the extension of the trusteeship role that NSDF and Mahila Milan has played for local communities and which has facilitated their involvement in projects. SSNS's staff have sought to maximise the return on investment while reducing risks and managing losses for local communities. Most importantly, in a context where such intermediation is not created institutionally, SSNS enables the intermediation between formal finance and legal requirements and the urban poor – ensuing that local communities are not burdened by formalities and denied their community control over developments.

External experts questioned SSNS's not-for-profit status. But SPARC, NSDF and Mahila Milan did not agree that this should be changed. Their experience was that development finance never trickles down; there have been many market-based for-profit organisations that began by building small houses for economically weaker sections, but which rapidly moved towards the construction of larger houses. Moreover, the transfer of capital from SPARC to SSNS would not be possible if it was 'for profit', and the tax concessions associated with a not-for-profit status makes it easier to manage regulatory requirements.[3]

Once SSNS was set up, the boards of SPARC and SSNS agreed that those funds for construction activities would be transferred. All donors who had capitalised the formation of revolving funds were asked for permission to transfer them to SSNS. Smaller precedents continue to be financed by SPARC. Once the alliance had secured project capital (in part facilitated by the launch of CLIFF – see Box 4), this facilitated negotiations for additional finance and permissions to begin projects. Banks were ready to discuss loans with us, and the combination of the CLIFF guarantee funds and bridging capital led to loan finance for projects. Access to start-up capital (both from CLIFF and other sources) ensured that communities could take up these projects, completing the first phase using bridge finance prior to government finance being drawn down.

From 2000–4 onwards (**Phase 5**), project investments began to increase as government monies were accessed and the government policy in Mumbai enabled projects financed through transferable development rights (TDR). The TDR scheme provides a market subsidy; developers can buy the right to construct high-income dwellings with augmented densities (ie a higher floor-space index) in return for providing free accommodation for people previously living in notified slum neighbourhoods. As the alliance negotiated new projects that challenged existing development modalities and opened up the possibility of further scaling up, the need for additional capital funds was clear. Neither the state nor banks would provide the required bridge financing. Table 3 shows the division of funding that the alliance received between SPARC and SSNS. Funding for construction activities was not smooth but the growth in activities is evident. SSNS's income from development assistance agencies has been less significant recently (grant income for SSNS has now ended), but this should not be understood as meaning there has been a decline in project activities. Rather, funding is now available through the TDR and government subsidies.

Phase 6 is the period in which the alliance was increasingly drawn into Indian government policies and programming that explored how state and central government could support urban development and assist low-income households to improve their shelter. Both the TDR policy and later Basic Services for the Urban Poor (BSUP) emerged in part from policy interventions made by the alliance. The BSUP is a sub-mission of the Jawaharlal Nehru National Urban Renewal Mission (2005–2012, with subsequent extensions to finish investments). Despite its name, the BSUP was a housing construction and improvement programme which drew on the experiences of the alliance in in-situ slum upgrading (Patel, 2013). During this period, the alliance continued to construct community sanitation blocks. Community members took up all initial contracts as other entrepreneurs were not willing to explore this work. In practice, this was beneficial as others did not have the skills to motivate communities to manage the facilities.

By now both SPARC and SSNS had operational revolving funds capitalised by multiple sources (grants from donors repaid by projects, specific grants to create capital funds, and surpluses from various projects). The financial documentation retained information on the original provider, the lending to projects, repayments and further cycles. Any donor whose grants were revolved could see this documentation. In some cases, funds would shrink when the payments did not return, but as a portfolio of revolving funds, the TDR-linked surpluses ensured that the aggregated value would maintain its value.

By **Phase 6**, gradually SDI itself began to seek capital funding, and began to seed projects amongst those

3. However, more recently as the SSNS project portfolio has grown, it has been necessary to explain why we should continue to get tax exemption.

BOX 4. THE ESTABLISHMENT OF CLIFF

Following the *Bridging the finance gap* project report (McLeod and Mullard, 2003), DFID agreed to support the concept of a new finance facility, and invested £10 million in 2000. DFID was unable to pass funds directly to Homeless International, and the Community-Led Infrastructure Financing Facility (CLIFF) was established in the World Bank with the monies being routed through Cities Alliance and managed by one of the World Bank's trust funds.

The process through which CLIFF was initiated is characteristic of the challenges related to community finance. SDI and Homeless International were members of a committee formed within Cities Alliance. Homeless International was contracted to be the executing organisation. USAID, DFID, the World Bank and the Swedish International Development Cooperation Agency (Sida) were also members of the committee. Due to inputs by SDI and Homeless International, community federations were the first recipients, starting with the Indian Alliance. Later, SDI affiliates in Kenya and the Philippines also joined the committee and received monies.[4] CLIFF remains the largest contributor to the alliance's capital funds (see Table 6).

The Indian Alliance believed that CLIFF monies should be used as a revolving funds, similar to the project capital that the alliance had already secured. DFID and later Sida treated these as grants, and there was no discussion of repatriation to the international CLIFF fund. An internal assessment of funds within DFID rated the CLIFF fund as 'best performing' and additional funding was provided to this programme by DFID and Sida.

Over time, Cities Alliance stepped back and Homeless International was given funding directly by DFID and Sida. The second generation of CLIFF required the funds to be returned to Homeless International. However, Indian financial regulations did not permit this, and a separate bank account was established in India by SSNS for the funds that were required to be returned. It was agreed that further on-lending of monies from this account would only happen if and when Homeless International's CLIFF committee gave approval for loans to another SSNS project.

More recently, DFID stopped its programmes in India and new funds can only be provided if monies are returned to the Homeless International CLIFF fund. Legal experts and alliance consultants are exploring this possibility, but at present there is no more borrowing from CLIFF. Homeless International has now changed its name to Real Equity for All (REALL) and adopted a new identity with the original strategies for executing this facility now amended. Alliance staff continue to attend meetings and participate in discussions, but SDI is no longer a member of this CLIFF committee.

In retrospect, CLIFF remains the most ambitious and truly pathbreaking institutional arrangement that the alliance has been involved in. If pursued, it could be the conduit for development investments for governments and for private sector 'angel' investors who value delivery to low-income groups. However, the alliance's belief is that CLIFF's present emphasis on innovative Southern shelter agencies securing financial self-sufficiency very quickly has led to an emphasis on private sector and markets and is reducing its relevance to low-income communities.

affiliates where projects emerged from activism. The first phase of CLIFF (CLIFF #1) managed by Homeless International and SDI, began with SSNS and SPARC receiving the capital funds; this was followed by other SDI affiliates exploring similar processes. SDI planned to develop soft funding for precedent projects, which would then apply for CLIFF monies once capacity and project pipelines developed. However, over the next few years, the relationship with Homeless International (now called REALL) weakened (although SPARC and SSNS continue to participate in CLIFF/REALL activities.)

In this period, SDI became a significant provider of soft capital. All funds provided become national funds to be revolved as and when returned to the fund. All SDI affiliates use revolving funds and recognise the importance of financial innovations to support shelter development. The first SDI affiliate to set up a finance and construction support agency was South Africa with the uTshani Fund in 1995. Over the years, many other affiliates have set up similar separate organisations. From 2000, SDI's international secretariat began to be involved in project financing (Bolnick, 2016). More and more SDI affiliates were taking up opportunities to construct housing, sanitation and other basic amenities and needed start-up capital. Especially in countries where there were no subsidies like in India, South Africa or Brazil, there was a need for creative and flexible use of monies. The SDI secretariat had begun exploring an international fund with support from IIED and Misereor. In 2007, the secretariat began the process of setting up Urban Poor Fund International (UPFI) capitalised initially by the Bill and Melinda Gates Foundation with US$ 10 million. SDI began to institutionalise allocations to various affiliates to support both running costs and projects. For the most part, these project funds were revolved at the national level (Bolnick, 2016).

4. More details of this activity can be obtained from SSNS and CLIFF annual reports on their respective websites.

Table 3. Total income received (foreign and domestic) 1995–2015 (current '000 rupees)

	SPARC	SSNS	TOTAL
Grant income	1,105,351	170,009	1,275,360
Flexible revolving fund from core grant	189,491	14,335	203,826
Revolving fund for projects	90,184	641,807	731,991
Income-generation fund from core grant	20,206	0	20,206
Community contribution	200	19,121	19,321
Subsidy capital	524,692	995,453	1,520,145
TDR income	297,656	1,779,724	2,077,380
Investment income	98,626	106,802	205,428
TOTAL INCOME	**2,326,406**	**3,727,251**	**6,053,657**
Loans received	55,471	311,021	366,492

During this period, SSNS and the Indian Alliance, along with some other SDI affiliates, began to create the institutional arrangements to increase construction activities that could potentially generate a surplus and cover the essential running costs previously financed by grants.

Phase 7 was a period in which most bilateral agencies and international foundations who gave SPARC grants withdrew from India, which had declared itself to be a fast-growing middle-income economy. The alliance found most Indian grant makers to be wary of the federation approach, seeing it as involving high reputational and other risks as processes are beyond their control. The alliance also realised that social businesses and enterprises with a for-profit strategy were not interested in assisting the alliance as its goals would never generate profits.

Recognising the need to be self-sufficient, we agreed that TDR surpluses would be used for multiple purposes. SSNS has created protocols to help allocate surpluses. The first call on the surpluses is the group of revolving funds. The second is the federation running costs. The alliance has estimated needs and will aim to set aside the capital required to generate a yearly income equivalent to core costs. Third, NSDF and Mahila Milan have secured the agreement of SSNS's board to contribute to the development of SDI national funds. A first step is to create a register of all SDI and UPFI-funded projects in India, and then use the register to create a separate revolving fund called the Federation Fund. Once capitalised with the repayments from these projects (step two), the NSDF, Mahila Milan and a SDI leader from another affiliate who sits on SDI's management committee will make recommendations for the use of this fund. Following agreement by the SSNS board, some funds have set up the account. The alliance will aim to build up the capital to US$ 10 million using project surpluses. The interest on this money will cover the cost of activities that Indian affiliates would previously have drawn from SDI. The capital itself will finance more projects, and help to grow the fund to US$ 10 million. As the law permits and when funds are available, SDI will use this money to guarantee partial or full bank loans to finance the projects of other affiliates.

SDI affiliates across the network and the network itself are under increasing pressure from international donors to be self-sufficient and to move toward the financing of core federation activities. Funding is diminishing due to the choices being made by international development agencies. There was an understanding that UPFI would finance high-risk projects in an initial phase of development and affiliates would move onto CLIFF finance as they gained experience. However, at present this possibility does not exist and UPFI has had to move towards exploring resources from other development investors.

Table 3 summaries all the income that the alliance has received from multiple sources. It is immediately evident that the grant income received has been multiplied through the use of both externally financed revolving funds and government and market subsidies. Grant income, the flexible revolving fund from the core grant, revolving fund for projects and income-generation fund from the core grant are all monies that have been received from development assistance and other such donors. They have been augmented by the community contribution, subsidy capital, TDR income (a market subsidy) and investment income. Loans received have also been part of the mix of monies that the alliance has used to undertake development interventions. In the following section, we provide an analysis of the financial architecture and underlying financial model.

4

Form and use of funds

As the Indian Alliance, we have undertaken an analysis of our own data to see what emerges and how this can change the understanding that we and others have about how to finance long-term community-driven processes. The discussion below describes and analyses financial flows and Section 5 reports on the outcomes of associated construction and the households that secured improved shelter.

As noted above, the cost centres for federation-building, community-strengthening and general administration activities by the alliance at both the federation and professional levels established in Phase 2 continue to be of importance throughout the period. They were augmented by two kinds of revolving funds. Once precedent solutions began to be explored in Phase 2, there was an immediate need for project finance. Further funds were needed to scale up efforts; these monies included capacity-building and project-linked costs. By 2000, the projects and programme budgets increased significantly and larger allocations were secured (Phase 5). Project investments were either covered by state subsidies, or were repaid by community residents.

Table 4 presents the grant funding received divided into three types:

- **Running cost grants** are funds provided to cover the expenses of developing and expanding the federation model of the alliance and supporting its core activities.
- **Revolving funds** are those given to provide the federations with monies to explore solutions and revolve repayments where possible.
- **Capital grants** are those made specifically to invest in construction projects.

This table does not include TDR monies earned (although it does include surpluses that have been used) nor does it

Table 4. Grants made to the alliance via SPARC and SSNS (foreign and domestic donors) ('000 rupees)

PROJECT PHASE	NON-MANDATED PROJECTS							
	RUNNING COSTS		REVOLVING FUNDS		CAPITAL		TOTAL	
1985–1989 (Phases 1 and 2)	4,957	0%	0	0%	0	0%	**4,957**	**0%**
1990–1994 (Phase 3)	33,673	3%	740	0%	0	0%	**34,413**	**2%**
1995–1999 (Phase 4)	75,584	6%	16,981	8%	0	0%	**92,565**	**4%**
2000–2004 (Phase 5)	351,303	28%	95,427	43%	301,579	41%	**748,309**	**34%**
2005–2009 (Phase 6)	292,108	23%	61,695	28%	183,357	25%	**537,160**	**24%**
2010–2016 (Phase 7)	517,735	41%	49,186	22%	247,054	34%	**813,975**	**36%**
TOTAL	**1,275,360**	**57%**	**224,029**	**10%**	**731,990**	**33%**	**2,231,379**	**100%**

include government subsidies (nor community savings contributions).

Between 1985 and 2016, 33 per cent of monies came specifically for assisting in capital projects, 57 per cent were grants for the general activities and running costs, and 10 per cent came from project-specific revolving funds. Grants were small in the first and second phases, increased slightly in the third and fourth, and have been high from 2000 onwards. Note that this does not include major capital grants for construction as these went through SSNS (see below).

Table 5 summarises the projects that emerged from the precedents and subsequent negotiations with the state. Total project finance between 1985 and 2016 equalled over 4.5 billion rupees. This table does not include the ongoing administration and small-project monies managed by SPARC and reported in Table 4. Table 5 shows the growing significance of two capital flows: the monies to support community sanitation block construction (particularly in Mumbai and Pune) from Phase 4, and the significance of TDR housing from Phase 5.

The division between housing (64 per cent), sanitation (34 per cent) and services (just 2 per cent) is detailed in Table 5: 71 per cent of housing project funds have been linked to TDR-based housing ie developments in Mumbai linked to market-financed subsidies. Only 12 per cent of the project came from BSUP – in other words, from state housing subsidies. With respect to sanitation, most of the projects have been community-based sanitation or state-subsidised community toilets constructed by small companies run by informal settlement residents (Patel and the SPARC team, 2015). The government pays the capital costs of construction and provides land. Non-sanitation services have had very little project finance primarily because government agencies do not permit services on land that have no tenure security. Included in this category are relocation processes, and surveys for the state on contract.

The scale of investments has grown over the seven phases with the highest investment being in Phase 7. However, sanitation investments peaked in Phase 6; large-scale funding for community toilet blocks has been uneven with a slowdown in Phase 7.

In Phase 4, based on initial learning in phases 1–3, the alliance sought grants for two reasons. First, to train community leaders and technical professionals to take on new roles and second to provide the bridge finance required.

Table 5. Investments in project activities, SPARC and SSNS (‘000 rupees)

PROJECT PHASE	PROJECTS										
	HOUSING					SANITATION			SERVICES	TOTAL	
	Self-build	Subsidy	Transit	TDR	**Sub-total**	Individual toilet	Community toilet	**Sub-total**			
1985–89 (Phases 1 & 2)	-	-	-	-	-	-	-	**-**	**420**	**420**	**0%**
1990–94 (Phase 3)	-	-	-	-	-	-	-	**-**	**2,450**	**2,450**	**0%**
1995–99 (Phase 4)	18,129	-	-	-	**18,129**	-	391,995	**391,995**	**6,690**	**416,814**	**9%**
2000–04 (Phase 5)	18,419	108,909	30,000	998,284	**1,155,612**	3,950	20,757	**24,707**	**3,293**	**1,183,612**	**26%**
2005–09 (Phase 6)	1,355	370,980	-	5,000	**377,335**	545	830,557	**831,102**	**57,999**	**1,266,436**	**28%**
2010–16 (Phase 7)	24,100	259,564	-	1,040,000	**1,323,664**	2,835	294,257	**297,092**	**31,794**	**1,652,550**	**37%**
TOTAL	62,003	739,453	30,000	2,043,284	**2,874,740**	7,330	1,537,566	**1,544,896**	**102,646**	**4,522,283**	**100%**
% TOTAL	2%	26%	1%	71%	**64%**	0%	100%	**34%**	**2%**		**100%**

Table 6. Capital accumulation by source of funds, SPARC and SSNS ('000 rupees)

	1990–94 (PHASE 3)	1995–99 (PHASE 4)	2000–04 (PHASE 5)	2005–09 (PHASE 6)	2010–16 (PHASE 7)	TOTAL
A) Original project monies received and lent to projects						
Grant capital received and on-lent*	0	0	332,296	227,267	172,428	**731,991**
Capital contributions from community savings	0	0	200	3,234	16,065	**19,499**
New cash contribution from interest repayments	0	0	123	56,540	212,184	**268,847**
TDR revolving fund (on-lent to projects from TDR recovery)**	0	0	0	0	75,438	**75,438**
Operational expenditure received and used as loan capital	740	19,107	106,061	49,872	48,251	**224,031**
New bank loans	0	0	31,930	322,062	12,500	**366,492**
B) Recycled (which means second revolution of monies as detailed above)						
From grant funds (capital available for relending)	0	0	0	0	0	**641,388**
From TDR (not yet received)	0	0	0	0	0	**0**
C) Other						
Surplus from TDR	0	0	0	56,600	138,800	**195,400**

* The additional revolving fund contributions and capital contributions from Table 3
** After the TDR monies are recovered, any funds borrowed from revolving funds are repaid and allowance is made for any continuing demands from the related investment. After monies are set aside for core alliance expenses, a contribution is made to a new revolving fund for on-lending to new projects. To date over 75.4 million rupees have been allocated for this.

As and when the first round of projects reimbursed the alliance, the money used from precedent-setting grants was returned to the revolving funds that had been set up (see Table 6). The expenditure on the first round of projects often exceeded the initial budget, but the knowledge and experience created were acknowledged by alliance partners. This experience provided the basis for the expanded financial architecture that characterised the work of the alliance from Phase 5 on.

Table 6 examines how multiple sources of monies were available for project funding. The table is divided into three sections. The first section reports on the capital initially raised and received. The first row gives details of new capital received for projects over the period (see Table 3). Row 2 reports on community savings used for project activities. Although small in quantity, they constitute the most important demonstration of capacity to manage and leverage funds despite considerable uncertainty in

Table 7. Agency-specific capital fund contributions to the alliance separated for SPARC and SSNS (‘000 rupees)

	‘000 RUPEES	% OF SUB-TOTAL	% OF TOTAL FUNDS
SPARC			
Shack/Slum Dwellers International	71,689	19%	
Selavip	58,574	16%	
IIED	49,776	13%	
TDR Milan Nagar (project surplus)	47,527	13%	
Ford Foundation	27,929	7%	
TDR Rajiv Indira (project surplus)	25,663	7%	
Homeless International (REALL)I	29,143	8%	
Bilance	17,484	5%	
Funders with less than 5% share	47,008	13%	
SPARC sub-total	**374,792**	**100%**	**36%**
SSNS			
CLIFF fund #1	514,220	78%	
CLIFF fund #2	101,342	15%	
Misereor, 2000	22,676	3%	
Selavip, July 2012	13,776	2%	
Homeless International (REALL)	4,128	1%	
SSNS sub-total	**656,142**	**100%**	**64%**
TOTAL	**1,030,933**		**100%**

acquiring project development monies (ie the ‘hot’ money referred to in Box 2). Communities also contribute to local revolving funds; those monies are not reported here. Row 3 reports on interest earned. This money is used to cover the riskier elements of the project which are evident, especially in the early stages. Having this money is also important to help complete activities at the end of projects. Row 4 shows the flow of monies earned through the construction of TDR dwellings and sale of the subsequent ‘rights’. Row 5 provides details of grant income for operational expenditure that was (with the agreement of the community and donors) turned into loan capital ie capitalising revolving funds. Row 6 reports on new bank loans. TDR income first has to repay the borrowings and the balance is used as a contribution to alliance revolving funds. Although some of these construction projects began in 2000, their earnings are only available many years later showing how long TDR projects take to complete in part due to putting rights on the market at the best possible time.

The second section of Table 6 reports on the funds that have been recycled from these initial grants as they have been lent out to second and subsequent projects. The third section shows money made from the sale of TDRs, ie monies earned as the transferable development rights generated through housing construction for informal settlement residents have been sold on the TDR market to enable developers to construct at higher densities in Mumbai.

Table 8. Capital funders to the alliance for construction activities ('000 rupees)

	2000–04 (PHASE 5)		2005–09 (PHASE 6)		2010–16 (PHASE 7)		TOTAL	
CLIFF #1	303,836	92%	210,384	94%	-	-	514,220	70%
CLIFF #2	-	-	-	-	101,342	57%	101,342	14%
UPFI	-	-	12,565	6%	59,124	33%	71,689	10%
Selavip	21,767	7%	-	-	2,462	1%	24,229	3%
Others	4,296	1%	-	-	16,215	9%	20,511	3%
TOTAL	**329,899**	**100%**	**222,948**	**100%**	**179,143**	**100%**	**731,991**	**100%**

The fund accumulation reported in Table 6 has been catalysed through multiple contributions from donors. Capital contributions initially came to SPARC, but as noted previously when SSNS emerged as a subsidiary company to take on construction, some funding moved across. Over the last 25 years, 38 per cent of all funding (capital and running costs) has come to SPARC and 62 per cent to SSNS (Table 3).

Table 7 summarises the capital contributions by donor to SPARC and SSNS. Some of these contributions may look very small relative to the overall expenditures of the alliance but they provide the essential research and development capital enabling experimentation to occur and hence bigger problems to be realised successfully. SSNS monies have been secured by development assistance. SPARC monies have been secured both from development assistance agencies and TDR earnings.

Table 8 reports on the main providers of capital funds for construction. In total, nearly 7.32 million rupees were provided as capital for these activities and this money was granted from 2000–04 onwards. Most of the monies were provided in Phase 5, demonstrating the importance of this capital for construction in subsequent phases. CLIFF #1 was particularly significant, providing 70 per cent of the funds. In terms of the inflow of foreign funds, the most significant period is 2000–04 with 92 per cent of the funds being received in this period. CLIFF #1 and CLIFF #2 together have provided 84 per cent of all capital received and these monies have enabled multiple projects. However, it was Selavip which helped the alliance get its first bank loan through an international guarantee. The first housing project (Markandeya Housing Cooperative Society begun in 1998) is a multi-storey building for which Hudco was willing to give a loan only if there was collateral. The land could not be used as collateral, so we required a guarantee. A 100 per cent guarantee in the form of a deposit in the bank was needed to facilitate the loans (Patel *et al.*, 2016).

Selavip later gave funds to demonstrate the value of transit housing and the success of this precedent led to the alliance's substantive work on relocation. When the railway federations (part of NSDF) were negotiating for relocation from their homes alongside the railway track, the city wanted households to move to transit accommodation while tracks were being laid and housing constructed. Land was provided by the State of Maharashtra and the basic infrastructure was given by the Indian Railways. The 900 houses required were financed by Selavip to demonstrate the value of transit housing. The rest is history. The World Bank-financed Mumbai Urban Transport Project II (MUTPII) built on the success of this precedent and led to the alliance's substantive work on relocation (Patel *et al.*, 2002). A further 18,000 households were relocated in the next decade.

If we review the revolving funds, SDI's UPFI provided 10 per cent and Selavip 3 per cent. Although these amounts seem relatively small, they provided capital for difficult high-risk projects. The growing significance of UPFI is also evident from Table 8.

Table 9 shows the actual value of the revolving loan funds established from the capital reported in Table 7. These are the funds that have enabled the experimentation to take place. The current value is based on monies that have been returned to date (some of which have been loaned again) and added to the original capital. The future value has been estimated by looking at the expected money from the repayment of current loans. No adjustment has been made for the changing value of money (inflation). Table 9 include three types of funds which have all become revolving funds:

- Those that are originally given as capital grants to SPARC with the understanding that the funds would be revolved after the first project returns the money.
- Precedents where the community decides to repay the alliance and that gets put into the revolving fund kitty.

Table 9. Current and future value of revolving funds (including bridge funding) (current '000 rupees)

	FUNDING FROM GRANTS/ OTHER CONTRIBUTIONS	GROWTH OF FUND FROM ORIGINAL	OF WHICH SPARC	GROWTH OF FUND FROM ORIGINAL	OF WHICH SSNS*	GROWTH OF FUND FROM ORIGINAL
Original value	1,030,933		374,792		656,142	
Current value	1,299,780	126%	395,156	115%	904,624	106%
Future value	1,680,610	130%	491,143	125%	1,188,467	132%

* These include TDR/subsidies and other funds that were revolved

Table 10. The Indian Alliance and SDI's UPFI by project (US$ '000 and '000 rupees)

UPFI CAPITAL FUNDS	START DATE	US$ RATE AT TIME OF TRANSFER	ORIGINAL VALUE IN US$	VALUE IN RUPEES
SDI UPFI 80 Water and sanitation	March 2010	45.30	5	2,265
SDI UPFI 68 Odisha Housing	March 2010	45.37	440	19,963
SDI UPFI 178 20 Pilot Projects	October 2011	51.49	200	10,298
SDI UPFI 177 Housing and Sanitation	October 2011	52.51	300	15,753
SDI UPFI 142 Federation Strengthening – Pune BSUP*	March 2011	50.79	250	12,697
SDI UPFI 89 MSDP	June 2010	46.81	100	4,681
SDI UPFI 015/2014 Sanitation	October 2010	61.69	111	6,878
SDI UPFI 005/2014 Education Loans	September 2014	61.28	100	6,128
SDI UPFI 178a/2014 Housing and Sanitation	November 2013	62.80	100	6,280
SDI UFP 032 Nanded 200 Houses	December 2014	62.49	200	12,498
SDI UFP 054 Nanded 200 Houses	May 2015	63.50	50	3,175
TOTAL VALUE			**1,857**	**100,617**

*This was originally a federation grant that was transferred to a capital project to support the BSUP informal settlement upgrading in Pune.

- Projects that have the initial costs covered by precedent or capital grants but which produce a surplus which is returned to revolve to other projects.

In our experience, almost 30 per cent of households delay repayments due to affordability difficulties. However, it is critical for local accountability that the money is recovered.

As noted above, funding that has been provided through SDI's Urban Poor Fund International (UPFI) to alliance revolving funds is now being placed in a special fund to benefit the SDI network and other SDI affiliates. Table 10 summarises alliance projects for which SDI capital monies have been received. These grants were made in dollars and their values are being monitored in this currency hence the US$ rate is given/above.

5

Outcomes

In total, the alliance has received 6.4 billion rupees in funds of which 1.2 billion rupees has been from overseas. This section reports on the assets that the alliance has created and transferred to individual households (in the case of housing and individual toilets) and communities (in the case of block sanitation). The scalability, robustness and impact of the process is evident.

Table 11 reports on the numbers of households who have benefited. Those benefiting from housing include both those with whom housing has been constructed and upgraded, and those that the alliance has assisted to be relocated. Up to March 2015, just over 31,000 households had been relocated with alliance support. This is particularly associated with the redevelopment of the railways (MUTP) in Mumbai. Even those households that have just secured toilets have benefited from secure tenure as permission by the city or state to construct toilets leads to secure tenure in all instances.

Table 12 summarises the development benefits from alliance construction activities. A total of 258,840 households have been directly served by the projects. About two-thirds (175,303 or 68 per cent) have benefited from construction activities and 32 per cent (83,537) by services. Of the 75,085 households benefiting from surveys and enumerations, 32,904 (44 per cent) households have been both enumerated and relocated; 113 households have been enumerated for service improvements and 42,068 households (in the Mumbai Sewerage Disposal Project or MSDP) have been enumerated to facilitate the provision of sanitation. Every project is a precedent-setting intervention at varying scales in various cities. All of these emerged from federation problem solving and solution building. Particularly notable are the community toilets and surveys which reached maximum numbers at the least cost; TDR unit costs incurred the greatest expenditure per household.

Table 12 also provides an indication of the monies still owing due to loan finance that was advanced. Of the total loan costs advanced for projects (over 4.5 billion rupees), nearly a billion rupees (nearly 22 per cent) are presently not recovered and it is anticipated that only half of these funds (48 per cent) will be recovered. Community toilets which served the most have the highest non-recoverable funding and they exemplify why we chose to allow cost increases to occur. When we began this work, we had no experience in sanitation construction but a lot of experience in community processes. We found that commercial contractors did not respond to tenders and we agreed to fill this gap. Additional funds were spent on the capacity building of 150 community contractors in Mumbai and Pune. Many initial mistakes were treated as learning costs. We also absorbed

Table 11. Shelter improvements (houses constructed and/or relocations, toilet blocks, toilet seats)

	1990–94 (PHASE 3)	1995–99 (PHASE 4)	1990–94 (PHASE 3)	2005–09 (PHASE 6)	2010–16 (PHASE 7)	TOTAL
Houses constructed/ households relocated	287	18,005	18,695	3,380	46,341	**86,708**
Community toilet blocks	0	338	73	441	44	**896**
Individual toilet seats	0	5,650	968	9,493	880	**16,991**

Table 12. Projects portfolio, families served and status of outstanding dues (SPARC and SSNS)

	FAMILIES SERVED	AVERAGE SPEND PER HOUSEHOLD (RUPEES)	TOTAL PROJECT COST ('000 RUPEES)		TOTAL OUTSTANDING, MARCH 2016 ('000 RUPEES)		RECOVERABLE ('000 RUPEES)		NON-RECOVERABLE ('000 RUPEES)	
Total	**258,840**	**17,582**	**4,550,883**	**100%**	**992,830**	**22%**	**473,356**	**48%**	**519,473**	**52%**
Construction	**175,303**		**4,419,638**		**960,621**	**97%**	**473,356**	**100%**	**487,264**	**94%**
Community toilets	163,185	944	1,539,767		363,044	38%	44,298	9%	318,746	65%
Individual toilets	495	10,364	5,130		825	0%	141	0%	684	0%
Incremental housing	44	44,318	1,950		930	0%	930	0%	0	0%
Self-build housing	1,891	31,757	60,053		37,344	4%	10,311	2%	27,033	6%
Subsidy housing	4,067	181,818	739,454		270,467	28%	159,166	34%	111,301	23%
TDR market-subsidy housing	3,121	654,689	2,043,284		263,511	27%	258,510	55%	5,000	1%
Transit housing	2,500	12,000	30,000		24,500	3%	0	0%	24,500	5%
Services	**83,537**		**131,246**		**32,208**	**3%**		**0%**	**32,208**	**6%**
Surveys and enumerations	75,085	1,367	102,646		26,944	84%	0	0%	26,944	84%
RMK loan revolving funds	8,452	0	28,600		5,264	16%	0	0%	5,264	16%

repair costs when users exceeded the numbers initially planned but the city did not make funds available. Our investment led to policy reform and further government investments; we believe that this was worth the money that is not recoverable.

Income gains from future TDR projects will compensate for these losses. Typically, initial projects incur higher losses. There are many lessons that emerge from mistakes that occur due to inexperience. Over time capacity is built and effective systems emerge. Grant finance covered much of these costs in the early days. Increasingly, projects either break even or are financed by grant and loan funds enabling learning costs to be covered/reimbursed. Going forward, as grant finance becomes hard to obtain, federations will need to balance lesson-learning but loss-making projects with those that make a surplus.

Achieving these outcomes has depended on our ability to leverage additional monies and hence scale up the investments that the alliance has undertaken and improved over time. Critical to this has been the ability to recover funds – both from the state and from local communities who have contributed directly in terms of finances. The state's contribution is two-fold. It has contributed through pro-poor policies and through financial transfers. The financial transfers are dependent on the pro-poor policies; however, through the TDR, state policymaking is responsible for drawing in market subsidies to low-income housing. This shows that the state can help in ways that go beyond the provision of subsidies. Community contributions are also important in ways that go beyond the direct provision of funds. Strong local ownership is essential to ensure that the interventions address the needs of local residents, manage the local complexities involved in any construction project and secure the repayment of loans.

6 Conclusion

In this paper, we have described how the alliance has sought to develop solutions that have embedded within it the processes that will both maintain investments and scale up delivery. At the centre are organised communities, able to make decisions, learn from experiences and build on development assistance to produce new ways to make communities of the urban poor drivers in development. The alliance believes that what people do for themselves transforms their perception of themselves and their capabilities, and this is more valuable than any external money or goods given to the process. Resources, however modest, that are generated by communities are managed more carefully than external resources given to them. The financial architecture that the alliance has developed, in terms of the presence of two technical/professional agencies, the relationship between those agencies and the federations, and the ways in which financial decisions are taken and accountabilities maintained, reflects these beliefs and has had implications for the choices that have been made.

6.1 What we have learnt?

Reflections on the underlying process have highlighted three essential contributions from the alliance that have resulted in this strong financial process able to multiply donor monies through the leverage of additional funds and policy reform:

- **The creation of long-lasting organisations that federate the poor** and the ongoing educational process through the 'rituals' developed is the most valuable and essential investment without which project-based interventions would fail. Federations enable organised communities to learn from each other, assist each other with solutions someone else has explored, and support each other in negotiations with the state and in financing.
- **The capacity to explore and develop a wide range of strategies to produce solutions**, experiment with and refine them, and represent them to neighbourhoods and city governments and resource providers. The alliance became a research and development laboratory producing affordable solutions that address community needs and that fit with the resources and preferences of other city stakeholders. Most projects are vertical in their accountability and often come with a list of external requirements as they are financed and monitored by state or financial institutions. Capacitated communities can challenge the design, suggest adaptations and feed their experiences into wider national and global networks of the urban poor.
- **Access to and use of people's and state resources to produce improved interventions, and secure and absorb state subsidies.** Communities' own resources are essential to the process, ensuring strong local ownership both of the physical asset and the revolving fund. It is the latter that secures repayments and enables further projects from the original grant donation. The federation process enables communities to assist each other and knowledge and financial capital are enhanced. The organisation of communities and their critical mass encourages governments to develop new and more appropriate policies, and allocate resources to addressing shelter needs.

Our goal in writing this paper has been to demonstrate the evolution of the alliance's collective trusteeship of financial resources. We show why and how the financial architecture evolved in the form that it has. We also show how internal governance seeks to balance external expectations without rupturing internally set priorities; and how this process has supported the expanding scale and priorities of the network, which has required changing roles and relationships of low-income citizens and the city. We have had to create capacity to manage social and political risks of projects, and reduce the risks to financial institutions giving guarantees or loans to their projects. And, as discussed above, we work in a context that is ever changing, and which requires new responses; most recently this has required explorations between existing federations (NSDF and Mahila Milan) and SDI to use financial resources more effectively across the transnational network.

Underpinning activities is a recognition of the need for a dynamic and long-lasting organisation of the urban poor that secures social justice; more specifically, ensuring access to land tenure, basic amenities and essential services for the urban poor. To facilitate this, all grants came to be seen as investments to create and strengthen an organisation with a critical mass of members.

A crucial element of the culture of the alliance is that federation leaders and members are not 'stuck' in subservient beneficiary roles assigned to them by mainstream society because they have low incomes and live in slums (informal settlements). Their internal collective reflections and discussions transform their painful survival experiences into innovative development strategies which they put in place first at family level and then at the neighbourhood level. The identification with this large network motivates people to see themselves differently and helps build organisations with the capacity to aspire to voice and choice, and become transformed from supplicants to drivers of change and development. This transformation begins either through the savings groups or through the enumeration process. It is consolidated through horizontal peer exchanges at intra-city, inter-city and national and international levels where they meet others like themselves, develop solidarity through seeing what other groups seek to do, and learn from each other. Isolated and marginalised communities now see themselves as part of a large supportive and learning network.

The discussions do not just criticise the state or city for what is not being done, but also recognise that many programmes are well-intentioned but their execution is not well-designed nor are programmes sufficient in scale to cover all those in need. The national federations encourage the Mahila Milan collectives and various local neighbourhoods to select an area of priority so that they can develop a strategy where they reformulate what they will do, what the city will do, and from that how the scalability will emerge. The financial architecture is designed to first support local activities and then facilitate experimentation, replication and scaling. To achieve this, it also has to support a range of engagements with various state agencies mostly at the city and state levels. In the context of finances, negotiations to prevent evictions and cope with demolitions are followed by exploring ways to access subsidy entitlements and develop new solutions. The engagement with central government departments and ministries emerges when changes in the regulatory frameworks are required.

6.2 From local to global

With landmark agreements including the Sustainable Development Goals and the Paris Agreement for climate action in place, there is much discussion on the scale of funding needed to deliver these ambitious agendas, and the institutional structure through which they will be delivered. One question is where these funds will be found. Another, equally important, is if they will be accessible to key stakeholders – including organisations of the urban poor. Existing financial architectures facilitate the flow of global development finance (be it multilateral, bilateral or other), through vertical structures. Top-down decisions made by distant international funding institutions are far removed from messy day-to-day realities. Who gets funding, for what, and how, depends on where the money comes from, who sets the agenda and whose definition of what needs to be done informs this. This shapes design, delivery, execution and assessment of resource flows. And it shapes what happens to the finance when the project is complete.

In the alliance's experience, the effectiveness of all international agencies and global funds depends on the quality and capacity of the (mostly local) intermediaries that implement the initiatives they fund. And it is rare for these intermediaries to be accountable to local populations whose needs they are meant to address. The criteria for selecting who gets funding is little influenced by those in greatest need, whom the fund is meant to reach. Large funding pots are allocated to a few agencies mainly in the global North, or national governments with generally no accountability to local populations. Pressures to spend leads to project money being distributed quickly, often with very little planning. Key local stakeholders are rarely involved in project design or able to share their experiences, while evaluations hardly ever help course corrections, and leaving a 'legacy' of resources is not discussed; local projects are carried out by civil servants and professional consultants, who then leave when the project is over.

In our experience, internal perceptions about accountability mirror the relationship between the organisation and the external context. Hence a core challenge for the alliance is that those giving money make programming and accounting requirements. Those receiving that money need to understand how these requirements affect their work. In particular, they need to understand what is facilitated and what is constrained by donor conditionalities, and how the relations within the organisation as well as between the organisation and other agencies are affected. They need to be able to communicate with grant makers, and engage them in reflection about these issues so as to minimise adverse consequences.

We know all these problems; what this paper has done is demonstrate how different it is when local organised communities have a stake in controlling financial decision-making.

The urban poor represent 30 to 75 per cent of the residents of most cities in the global South. Action at the local level sets precedents for addressing city and national challenges. Such transformation addresses the risks linked to development investments, its absorption and its utilisation. Communities that are empowered to link neighbourhoods, cities and provinces and operate nationally can help change who participates in executing, supervising and managing assets created. We have shown four related dynamics which help to ensure change at scale:

- First, problem solving and co-production in one focus area (eg healthcare, education or water) can create the foundation for addressing other priorities.
- Second, the consistent use of revolving funds ensures that funds are used effectively and dependency is reduced.
- Third, the integration of financial support alongside the building of social and political capital enables required policy and programming reforms to take place.
- Finally, networks allow sharing of experiences and help in problem solving, resulting in processes that can be replicated and adapted to be relevant to other localities. SDI and other global networks of the urban poor, regardless of their focus (habitat in the case of SDI; others focus on women, children, or livelihoods) have – in their own modest way – demonstrated their capacity to work effectively with other city-based, national or international organisations and put resources to their best use.

6.3 Things can be different

The creation of local funds demonstrates an alternative way of using money. Capitalising local funds is an alternative to one present trend in development assistance, which is to bring capital from the global North in hard currency, exchanging it into local soft currency but requiring repayments in hard currency. SPARC's and now SDI's experience shows why this is not viable. First, managing currency-exchange risks is a sophisticated and complex process that neither NGO professionals nor communities should be expected to manage. Secondly, there is huge depletion of value in the soft currency.

SPARC's experiences demonstrate that all external money should be allowed to revolve locally and its value should be assessed by considering what these funds leverage, what they produce as assets for the poor, and what policy reforms they catalyse. Local funds which are owned and managed by community networks makes them financially capable of taking on projects, getting bank loans and leveraging subsidies. More recently using the Indian example, SDI now gathers local fund values to aggregate its overall asset value which allows aggregation as well as local ownership of money to work to the advantage of both SDI as well as national affiliate levels.

Well-designed funds can help to develop long-term partnerships between technical and professional organisations and networks or social movements of the poor, so that design and delivery is effective and accountable to both funders and communities. They can nurture positive relationships between global funders and transformative civil society organisations to build trust and work with them to develop subject expertise and financial and monitoring capacities. Finally, local funds can ensure a legacy from these financial allocations as the revolving of monies helps to maintain a capital base. Linked with networks of organised communities, revolving funds also capitalise the real memory banks of good programmes and practice – the urban poor themselves.

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Acronyms

ACHR	Asian Coalition for Housing Rights
BSUP	Basic Services for the Urban Poor
CLIFF	Community-Led Infrastructure Financing Facility
DFID	Department for International Development
Hudco	Housing and Urban Development Corporation
IIED	International Institute for Environment and Development
MOU	Memorandum of understanding
MUTP	Mumbai Urban Transport Project
NGO	Non-governmental organisation
NSDF	National Slum Dwellers Federation
REALL	Real Equity for All (formerly Homeless International)
SDI	Shack/Slum Dwellers International
Selavip	Latin American, African and Asian Social Housing Service
Sida	Swedish International Development Cooperation Agency
SPARC	Society for the Promotion of Area Resource Centres
SSNS	SPARC Samudaya Nirman Sahayak
TDR	Transferable development rights
UPFI	Urban Poor Fund International

In India, a new approach to finance has transformed shelter options for low-income households and supported community-led development. This paper examines the financial architecture developed over 20 years to support hundreds of community-driven developments by the National Slum Dwellers Federation (NSDF) and Mahila Milan (a federation of women's savings groups). These community organisations work in alliance with the Mumbai-based NGO SPARC. Much has been written about the alliance's work. But to date, its financial architecture has had little attention. This paper views the alliance's work through the lens of financial management and administrative procedures. It demonstrates the value of engaging community organisations and federations and shows how they can co-produce, design and execute large projects due to the expertise they have developed through smaller modest projects.

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