

Chapter 9

Funding and Financing Local Cocreation Projects

Abstract

This chapter insists that local cocreation projects need not only good intentions and the hard work of volunteers but also require funding and financing of the design and implementation of new solutions. It draws a conceptual distinction between funding and financing and explains who may help to provide funding and financing and why they may do so. As a part of this discussion, attention is drawn to the importance of writing good and persuasive funding applications and drawing up a strong and convincing business case to secure financing of new solutions. The new and emerging strategy for mobilizing private capital to help finance SDG projects is explained and illustrated, before closing the chapter with a discussion of the need to develop a proper system for fiscal accounting and auditing, which can prevent mismanagement and misconduct that eventually undermine popular support for local SDG projects.

Keywords: Funding; financing; funding applications; business plans; auditing; blended finance

The Need for Funding and Financing of Local Cocreation Projects

It is easy to fall into the trap of believing that cocreation of one or more SDGs will bring together self-sacrificing people who will work for free, need no assistance, pay most of the costs of doing their good deeds themselves, and invent attractive and beneficial solutions that almost finance themselves. The reality is quite different. Both funding and financing of local cocreation projects are generally needed, despite the good-hearted aspirations of the participants and the many beneficiaries. Indeed, more funding and improved financing is a key to achieving global sustainability goals (Friedman & Gostin, 2016).

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Engaging public and private actors in the initiation of a local project and organizing the first couple of meetings is relatively inexpensive in monetary terms, but requires a good deal of time, energy and commitment on the part of changemakers and convener organizations that are launching the project. Some projects sell themselves and easily attract scores of resourceful participants, while others require going from door to door trying to commit hard-to-get actors to participate in collaborative problem-solving and share their knowledge and resources with other actors. The gradual building of an alliance of willing and capable actors takes time and requires patience, communication skills and charisma. Changemakers will have to put in many hours and suffer several setbacks when doors remain closed or are shut in their face, but the actual pecuniary costs at this initial stage are minimal. Most often a suitable venue for meetings can be found free of charge and the small costs of spreading the word, sending invitational letters, printing posters, and using social media to advertise events are easily covered by the participating organizations and individuals. People may bring their own food and drink and pay for their own transport to keep costs down.

Consolidating a local cocreation project and taking it forward into problem framing and solution design increases the costs. Understanding the problem at hand and searching for possible solutions may require further empirical investigations based on collection and analysis of data, coordinated efforts to share knowledge between the participants, field trips, and excursions to other localities where new relevant initiatives have been implemented, canvassing the internet to find inspiration to new and promising solutions, etc. The costs of all of these activities add up, although some of the participating organizations may be able to take care of some of the tasks as a part of their standard operations, thus reducing the need for external funding.

Developing and testing prototypes is even more expensive and the risk of failure is high. Sometimes resourceful organizations, e.g., a local government or a private power plant that stand to benefit the most from a new and promising solution, will be willing and able to shoulder the burden, but external fundraising will often be necessary because the cocreation of new solutions supplements the ongoing operations and existing practices.

Finally, it goes without saying that the implementation, adaptation, and evaluation of cocreated solutions require stable financing. Although the new cocreated solutions may replace old ones, new and better services or regulatory schemes can be pretty expensive and the construction and operation of new physical infrastructures are even more costly.

The bottom line is that local cocreation projects are just as costly as other similar public or private projects. The good thing, however, is that parts of the pecuniary and non-pecuniary costs will be covered through the mobilization of the resources of the participants. Still, there is a persistent need for funding and financing of cocreation of the SDGs.

Since we have already referred to “funding” and “financing” several times without properly defining the terms, let’s briefly establish the conceptual difference between these two terms, which are often used interchangeably. In the

present context, we define *funding* as an amount of money provided by government, donor institutions, corporate firms, community organizations, philanthropists, or crowds for a specific developmental purpose and based on an agreement that describes the form and content of a particular project, the planned outputs and outcomes, and the timeline for deliveries. Usually, funding is provided free of charge. There may be certain contractual requirements for receiving the funding in the agreement, but there are no requirements to pay back the money that can be considered as a grant or donation.

Financing, on the other hand, is an amount of capital provided by public authorities or financial institutions such as banks and investors to pay for long-term investment in and operation of new solutions, including the production and delivery of services, regulation of social and economic activities, and the construction and operation of a particular infrastructure. If the money comes from financial institutions, they must be paid back with interest. Both public authorities and financial institutions may use formal contracts when financing new solutions implemented by public agencies or private for-profit or non-profit organizations.

Financing of new innovative solutions at the end of a cocreation process is what makes the implementation of new sustainable solutions possible. The money may be provided by governments, banks or investors, but in the final instance it is tax payers, customers or users who are *paying for* the financing of new solutions. Direct and indirect taxes paid to local, regional or national governments finance the lion's share of new cocreated solutions delivered by public agencies, although donations, sales tariffs, and user fees may cut the costs. Cocreation may sometimes lead to cost savings in the public sector because it spurs innovation and facilitates mobilization of private sector resources. However, cocreation often leads to the invention of new add-on solutions that governments are expected to finance over the long term. Such add-on solutions will tend to drive up public expenditure.

If the financing of cocreated solutions delivered by public private partnerships, private companies, or public enterprises is provided by private banks and investors, the money is going to be paid back by users and customers, or perhaps by governments who are leasing private infrastructures or purchase services. If financial capital is paid back by government, it tends to be more expensive for tax payers than if government had provided the financing because the private financial institutions must be paid an interest that tends to be higher than the central bank's interest rates.

Table 9.1 summarizes the important difference between funding and financing.

As hinted above, funding is taking place at the front-end of the cocreation process whereas financing is needed at the back-end. However, there is no clear separation in time between funding and financing, which often overlap, especially since the testing of prototypes and the gradual upscaling of successful small-scale solutions shades into the implementation and consolidation of new solutions. Hence, as indicated in **Fig. 9.1**, there is often a gradual trade-off over time between funding and financing of cocreation projects for sustainable development.

Table 9.1. The Conceptual Distinction Between Funding and Financing.

	Funding	Financing
<i>Coverage</i>	Specific developmental purpose	Investment in initial startup and operation of new solution
<i>Endurance</i>	Short-term (a couple of years)	Long-term (into foreseeable future)
<i>Main sources</i>	Government, donor institutions, corporate firms, community organizations, philanthropists, or crowds	Government, banks, or private investors
<i>Regulatory status</i>	Agreement	Contract
<i>Pay back</i>	No expectation that money is paid back	Money provided by financial institutions or investors is paid back with interest

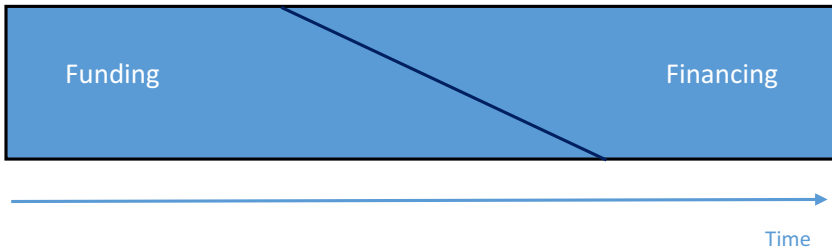


Fig. 9.1. The Combination of Funding and Financing Over Time.

The trade-off between the needs for funding and financing is important because it prompts changemakers and other actors engaged in leading and managing local cocreation projects to spend time on both making funding applications *and* securing future financing. We shall look more closely at these two important tasks in the next couple of sections.

Funding of the Initiation and Development of Local Cocreation Projects

When relevant and affected actors are gathered around the table and begin to explore the problem or challenge at hand, define overall goals, and search for possible solutions, the need for funding becomes apparent. The availability of

funding might actually be brought up in the earlier recruitment phase since potential participants might want to know if there are going to be adequate funds to cover project expenses. Funding may come from a sponsor who is willing to support the agenda, goals, ideas, and actors driving a cocreation process. This sponsor may be completely external to the project (i.e., an international donor organization), a project partner (i.e., a government agency), or a participant (i.e., a private corporation or community organization). The sponsor may provide advice and encouragement, but the main function of the sponsor is to provide a significant part of the necessary funding, if not all of it. Ideally, funders should be agnostic about what the ultimate outputs of the cocreation process, in the sense of making the funding conditional upon producing an output with specific form and content. Such limiting demands could stifle the innovation process, which needs to be exploratory and open-ended.

As indicated in [Table 9.1](#) above, there are many potential sponsors that may fund local projects. Let's look at each of them in turn and reflect on their reasons for providing early-stage funding for the cocreation of one or more SDGs.

Government: Governments at different levels may have several funding programs that changemakers, local conveners, or collaborative networks and partnerships can apply to for money for specific projects. The funding provided by government may either be seed money to get a collaborative project going or funding of the development of new solutions to a problem through cocreation. If there are no available funding programs or the cocreation project does not match the overall purpose of the various programs, it is a good idea to contact government officials to hear whether some special funding could be made available. Government will normally be interested in funding local cocreation projects because they need to involve local actors in order to mobilize societal resources, expand their reach into areas they want to impact, harvest new ideas and stimulate innovation, and build support for the SDGs that most governments have come to realize are impossible to achieve alone through government action.

International donor organizations: Whether operated by foreign governments or large international organizations, the fundamental purpose of international donor organizations is to channel relatively large amounts of funding to local development projects aiming to achieve one or more SDGs. They often have programs and people seeking to identify local partners or social entrepreneurs interested in initiating and driving projects based on broad-based inclusion of local community actors. Donor organizations from various countries may have different agendas and priorities, but they are highly committed to the SDGs and they need to build local partnerships because they have sparse knowledge about local conditions and limited staff to run local projects themselves. Usually governments, business, civil society organizations, individuals, and young innovation leaders can apply for funding from international donor organizations that are advertising their funding schemes on the internet.

Philanthropists: Funding may also come from philanthropists or philanthropic foundations who use their private funds to prevent or solve social problems. Funding from philanthropists is often reserved for local

community-based organizations that focus on specific causes such as reducing poverty, providing health care for the poorest part of the population, mitigating infant mortality, enabling young girls to get an education, or curbing sexually transmitted diseases. Philanthropists may give small or large donations to charitable causes to honor family traditions, for religious reasons, out of ethical concerns to do what feels right, or because they want to give back to the country or community they come from and which helped them earn their fortune. Some philanthropists are motivated to give because they want to build a good reputation for themselves or their business and in some countries philanthropy is incentivized by tax deductions.

Public Donation: Large benefactor-driven, collection-financed or member-based community organizations may fund local projects in their area and thus help to build schools, run health clinics or enhance awareness about gender issues, nature conservation, or sustainability. They are driven by idealism and altruism and since they know and have experienced the limits of national awareness campaigns, they are often keen to support goal- and solution-driven collaboration at the local level through donations.

Corporate business sector: Private businesses may offer funding to community organizations or cocreation projects. They may even offer to become a sponsoring partner in collaborative projects aiming to improve the conditions for their employees, the local community or the environment. A growing number of large business firms have dedicated Corporate Social Responsibility (CSR) programs that enable them to supplement corporate for-profit goals with more ethical concerns for improving social conditions and promoting sustainable development. CSR is ultimately about running business firms in socially and environmentally responsible ways, but private firms with CSR programs may also support local projects and partnerships with money or in-kind resources or by means of participating in collaborative projects aiming to advance social, economic, and environmental sustainability. The good things that arise from donations and partnerships may reflect positively back on the firm.

Crowdfunding: Local cocreation projects may also provide funding by raising small amounts of money from a large number of people, typically via the Internet. Crowdfunding is a form of crowdsourcing and alternative finance that relies on donations from people who like the idea or purpose of a cocreation project and think it is worth supporting. There are numerous crowdfunding sites on the internet such as Kickstarter, Indiegogo, Razoo and Crowdrise, which may support local SDG projects.

This list of possible sponsors begs the question of who to approach to obtain funding for local cocreation projects. On the one hand, it is tempting to contact them all at the same time and see who comes back with a positive response. On the other hand, some sponsors, especially the private ones, may want to be exclusive, or at least the main, sponsor in order to brand themselves. For that reason, it might be a good idea to contact sponsors one by one, explore their willingness to fund the project and discuss further funding opportunities with

them. Some funders such as governments and international donor organizations may be interested in having community organizations or corporate sector actors as cofunders because it lends legitimacy and solidity to the project. Hence, depending on the goal or purpose of a cocreation project, the conveners of co-creation may reflect on how to combine different sponsors in a funding package.

Although funders donate money that does not need to be paid back, they still might try to influence the form and content of the projects they are supporting. On the one hand, having several sponsors may result in conflicting demands to the project that can be hard to accommodate. On the other hand, if there is only one sponsor, the ability of the sponsor to influence the agenda and course of a project is bigger than if there are several sponsors. The extra bargaining power of a single sponsor may be problematic since any attempt to buy influence via the provision of funding will undermine the cocreation process and violate its normative foundation in free and equal participation and the force of the better argument. To avoid this from happening, it is important that several participants in a co-creation project act as cofunders to dilute and weaken the influence of one or more large funders.

Cocreation projects want to be able to attract wealthy sponsors and secure stable funding without giving external funders too much influence. These concerns may give rise to a series of trade-offs. Hence, large philanthropists have much money to give and can provide a steady stream of funding, but they may raise several demands that project must fulfill to get the money. By contrast, crowd-funding does not influence the content of the project at all but also does not provide a stable funding and the amount of money raised may be small. Again, this challenge may call for a combination of different funding sources.

Conveners of cocreation will have to approach potential sponsors to pitch the project. Building a good relationship to sponsors is paramount to receiving funding. Personal meetings help to build trust and bringing along visionary entrepreneurs with a good track record can help to stimulate interest in the project. However, in the end, everything comes down to the ability to write a good funding application. Most sponsors receive many applications and the competition for funding is often tough.

When writing a funding application to a potential sponsor, it is crucial to remember that the application is a sales pitch that must show that there is a pressing problem to solve and an important goal to achieve. The next thing is to demonstrate that the project will provide a new and feasible solution with a clear and measurable impact. Finally, it must be carefully explained who the convener and the project participants are and how they plan to work together to create solutions based on a realistic budget and a feasible plan. [Table 9.2](#) provides some further advice on how to write good and successful funding applications.

Although funding for collaborative projects is highly competitive, it is important that fundraisers do not compromise their idea or project to make it fit a funder's priorities. Doing so may erode the motivation of the participants if they wanted to do something different. If there is mismatch between the project

Table 9.2. How to Write a Good Early-Stage Funding Application.

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- (1) Get someone who has tried writing successful funding applications to help you
 - (2) Keep the application short, and remember that less is more
 - (3) Write in a plain and precise language while avoiding unnecessary jargon
 - (4) Follow the format specified by the funder, and provide all the information that is asked for
 - (5) Describe the problem and the proposed solution, the strategy for how to realize it, and if possible, provide evidence for feasibility and impact
 - (6) Tell what you plan to do if you get the money, and what you will not be able to do
 - (7) Describe yourself and the other actors who will contribute to realizing the stated goals and explain what resources they will bring to the project
 - (8) Explain how you plan to evaluate the project and measure success
 - (9) Ask for a specific lump sum or an amount of money over a period of time, and if this will not cover the full budget, explain where the remaining funds will come from
 - (10) Get someone outside the team to read the application before sending it and ask them to provide constructive criticisms and look for errors or inconsistencies.
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objectives and a potential funder, it is better to look for another funder who appreciates the problem that is going to be solved and embraces the goals of the project. Remember that time spent researching potential funders and their profile and priorities is never wasted but helps to avoid spending precious time making applications that are rejected.

Public and Private Financing of Cocreated SDG Solutions

Combining external funding with the resources and shared efforts of the participating actors may facilitate the development of new and promising solutions to pressing problems such as the provision of clean water and improved sanitation. The new solutions might even have been tested on a small scale and through discussions with experts, local communities and government officials. Now the big question is who will finance the implementation and operation of the upscaled solution in the years ahead? While funding is early, one-off and short term and the amount of money needed is limited, financing is continuous, long term and may involve much larger sums of money. Moreover, while ad hoc funding may be driven by idealistic concerns for supporting creative

problem-solving, financing of new and permanent solutions is driven by bureaucratic concerns about meeting demands and providing equal access to new solutions, while ensuring effective and efficient implementation. As such, it may appear to be more difficult to secure financing of new cocreated solutions than funding the cocreation process itself. This potential difficulty creates risk that new, promising and perfectly feasible cocreation projects will not be fully implemented and thus fail to meet social and planetary needs and achieve the goals that might have been accomplished. To avoid such failures, it is important to address the tricky issue of how to provide future financing of cocreated projects early on and perhaps explore whether some of the funders of the cocreation process may also want to play a role in financing the solution that emerges from the cocreation process.

In some countries, local government can be expected to pay for the implementation and continued operation of cocreated SDG solutions, especially if they can rely on stable grants from national or regional government, stable revenues from income or property taxes, or some kind of user fees (Akenroye, Nygård, & Eyo, 2018). However, the expectation that local government will finance cocreated solutions is not always met in reality due to limited state capacities, lack of taxing power, fiscal constraints, and widespread poverty that makes it impossible to rely on user fees. In some countries, international donor organizations may want to contribute to financing SDG solutions, but money is often channeled through cash-strapped government agencies that need to fill holes in their budget before they can start thinking about financing new and emerging projects that they have not planned and developed themselves. Fortunately, we have seen a steady rise of private financing of jointly created sustainability projects. The rest of this section looks at the public and private financing of cocreated SDG projects and presents different models that reflect the different motives of private banks, investors, and others who may help to finance worthy cocreation projects.

Different kinds of SDG projects require different amounts of financing. The most expensive projects involve the construction and operation of large infrastructures, for example, in the water, energy, transport, or health sectors. Projects aiming to provide particular community services or individual social cash benefits may also be expensive depending on their extension and coverage. At the less expensive end of the scale, we find schemes for public regulation of social and economic activities that merely require the establishment of an effective monitoring and control system that can ensure compliance. Although the price tag of different SDG projects may vary, the total costs are astronomical. Estimates suggest that financing the SDGs will require annual investments of around US\$6 trillion, or US\$90 trillion over 15 years (UN, 2017), and that is a lot of money, especially for the developing countries that will need to chip in. A part of this money will be used to finance projects and solutions resulting from cocreation, but who will actually provide the money?

Government: As a key provider of public goods, governments at different levels are expected to finance a large part of the investments in the SDGs. In order to leverage their budgets to finance the SDGs, government have to look at how existing programs can target them, how public money can be used more efficiently

to free up money for new SDG projects, and how tax collection can become more effective by reducing tax evasion and thus enhance the funds available for new efforts. Since the size of the tax revenues depend on economic growth, it is important for governments to stimulate economic activity in the private sector, although in ways that promote sustainability. At the end of the day, public financing of SDGs is determined by political priorities. How much money should the government spend on the military, policing, public administration, sustainable energy production, habitat protection, health, education, alleviation of poverty etc.? To help governments develop a realistic plan for financing the SDGs, it seems wise to establish a broad-based steering group that can conduct a baseline and gap analysis study and develop a realistic roadmap for SDG investments (Akenroye et al., 2018). While this type of preparatory work may not eliminate political prioritization, it will provide a sound knowledge base for political decisions about the financing of the SDGs.

Governments must often finance all of the cost of public regulation and service delivery but may succeed to attract special-purpose funding from international donor organizations to help shoulder the costs. Governments will also be in charge of financing large SDG-related infrastructure projects through public investment. If public funds are limited, governments will have to borrow money from the private sector and pay for the loans and the operation of new infrastructures by letting the users pay the marginal costs and by recovering eventual losses through the tax system.

As hinted above, governments are expected to produce and deliver public goods defined as goods that can be accessed and used by all or most people. Peace and security, public health, clean drinking water, bio diversity, environmental protection, etc. are examples of public goods that government must provide in order to prevent the under-production of public goods. Governments may gain considerable legitimacy and popular support from providing the amount of public goods that the population wants. Generally, democratic governments are more susceptible to popular demands because they want to ensure reelection. Sometimes, however, particular interest groups or a dominant class, caste or ethnic group may put pressure on government to pursue a narrow set of group-based interests at the expense of the pursuit of a broader set of interests such as the achievement of the SDGs. If that is the case, cocreation projects will have to think about how to create alliances with influential groups. Otherwise, negotiations with government officials who have followed a particular project and can see its merits may eventually secure public financing of new solutions that promise to solve pressing problems and achieve one or more SDGs.

When pitching a new cocreated solution to government, it might be a good idea to develop and submit a business case to help convince public authorities that the cocreated project is worth financing. Often public officials will be a part of the group of cocreators, but they may not have authority to give a green light for financing the cocreated project. However, they can help write the business case. If public agencies have already tested a prototype of a new solution, the business case will focus on why and how the prototype should be upscaled to enhance its impact.

There are many tools and sources that can help cocreation projects to write a good business case that can help to secure financing (Abrams, 2003; Pinson, 2008; Sahlman, 1997). However, in comparison with a normal business case written by a business entrepreneur and submitted to a private investor, a business case that aims to secure public financing (and perhaps integration into the public sector) of a cocreated SDG project will be less focused on customer analysis, marketing and sales plans, competition and profitability. The purpose of the business case is first and foremost to demonstrate that there is a pressing problem and unmet need, a well-tested and feasible solution, a good prospect for producing the desired impact with limited costs, and few and manageable risks.

Table 9.3 provides a list of some key components of a good and persuasive business case.

Private banks and investors: Considering the enormous need for financing the SDGs and the limited capacity of the public sector, the private sector must play a major role in financing SDG solutions and ultimately drive the transition to sustainability. Private financing may have come from several different sources. Banks may offer to lend money to government actors who are investing in SDG-enhancing infrastructures if projects generate a future income and can use tax revenues to cover possible. Venture capital is another source of financing new SDG solutions. Subsidiaries of banks, wealthy investors, and capital partnerships are examples of venture capitalists that might be persuaded to invest in new risky

Table 9.3. Key Components of a Good and Persuasive Business Case.

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- (1) Executive summary
 - (2) Documentation of the problems and needs addressed by the cocreated solution and a brief analysis of the context for solving problems and responding to needs
 - (3) Careful description of the goals, content and scope of the cocreated solution, including how it improves upon existing solutions, and documentation of its feasibility
 - (4) Short account of the people and actors behind the solution, their contributions, and the joint ownership that has been created through broad-based participation
 - (5) Description of the target group, how it can be reached and what benefits it will receive
 - (6) Description of the organizational and managerial requirements for delivering the solution, including the contribution of private for-profit and nonprofit actors and the role of the local community
 - (7) Systematic assessment of the future impact of the solution, the risks that it will encounter and how these can be managed
 - (8) Estimation of the costs and the needs for future financing including potential savings from other programs
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solutions in the hope of receiving an above average return on their investment. Private investors may help finance SDG-related infrastructures either by buying shares in a public enterprise in which government holds the majority of the shares or by participating in a public–private partnership that may be based on a build-own-operate-transfer scheme (Ruiters, 2013). Finally, there are examples of projects such as off-shore wind farms that are financed by issuing shares to the general public that expects to earn a profit on its investment. This type of community-based investment is known as share capital.

A business case is also needed to attract or stimulate private investment. In this case, cocreation projects can rely on public actors to do the hard work of convincing private investors to invest in projects that will not only yield a net gain but will also help make the world a better place. Altruistic motives may not count for very much with private investors, but governments may take actions to change the calculations of private investors in order to make investment in sustainable development more attractive, for example, by setting an end date on energy production based on fossil fuels.

Blended Finance of Cocreated SDG Projects and Initiatives

In developing countries, where public funds are insufficient to finance the SDGs and official development assistance is not enough to close the estimated US\$2.5 trillion per year gap in investments required to meet the SDGs, there is a huge pressure to mobilize private sector finance (UNCTAD, 2014). To this end, blended finance is emerging as an important strategy for funding the experimental prototyping of new solutions and the subsequent financing of their upscaling and diffusion.

As depicted in Fig. 9.2, *blended finance* combines financing from several different sources to support sustainable development outcomes. It uses money from public budgets and official development assistance provided by donor governments and private philanthropic foundations from the development to mobilize other sources of financing from the private nondevelopment sector including multilateral development banks, commercial banks, private pension

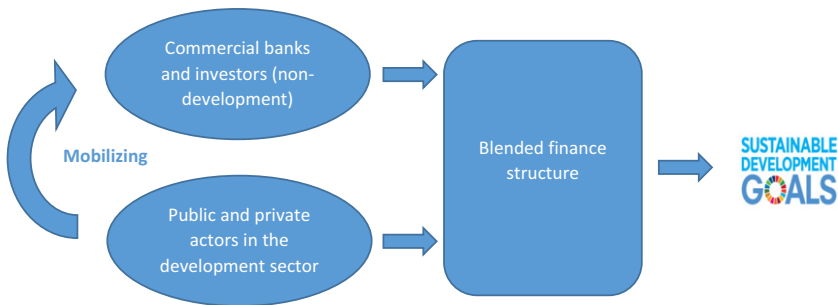


Fig. 9.2. How Blended Finance Works.

funds and venture capital. The underlying problem is that SDG projects backed by a sound business case may not attract sufficient private financing due to the risks associated with projects in more or less stable contexts and the uncertainties related to their future returns. Blended finance solves this problem by using public funds and development assistance strategically to improve the risk and return profile of investments in developing countries, for example, through the provision of grants, guarantees, equity, low interest loans, capped return schemes, etc. (OECD, 2017).

To illustrate, water storage and irrigation infrastructure in Sudan has been declining due to privatization that has lowered government subsidies and failure to collect water fees from farmers (African Development Bank, 2013). A new company – Al-Shamil – was formed in 2006 with 21% minority participation by the federal and state governments and 79% participation by private sector funds. Private funds were attracted partly by having government taking responsibility for major maintenance and overhaul work and by letting water fees being collected by a private entity rather than the government. While the former reduced costs, the latter changed the perception of water as a free resource, which in turn improved farmers' willingness to pay, thus increasing revenues. Hence, a mixture of government subsidies and governance reform stimulated private investment and helped to get the irrigation system back on track.

Another example is from Kenya, where the provision of water and sanitation to local communities has been expanded through blended finance. The government of Kenya and its development partners cannot provide the funds needed to cover the annual costs of investment and rehabilitation in water supply. The monetary gap has to be closed through private sector lending to local utilities, but commercial banks see the water sector as financially weak and unable to generate sufficient returns and the local utilities have limited contact with private banks, are unfamiliar with lending practices and have limited knowledge of what it takes to become creditworthy. Hence, the lending risk was considerable. These problems were solved through a combination of governance reform and new financial instruments that mitigated lender credit risk and improved financial viability of borrowers. New legislation created autonomous local utilities, ring-fenced the revenues with the water sector and enhanced the use of cost-effective water tariffs. Public authorities and development banks worked together to provide technical assistance to potential borrowers to develop business plans and loan applications, enhance and assess creditworthiness, and improve implementation and project performance. Finally, new tailor-made loan programs based on donor cofunding, partial loan guarantees and output-based grants helped securing access to commercial finance. The use of blended financing resulted in a massive expansion of access to piped water and growing productivity in local agriculture. Indeed, it was estimated that for each US\$ 1 invested in the local utilities yielded economic benefits of US\$ 3 to US\$ 4 (Advani, 2016).

A recent report from the World Bank Group (Leigland, Trémolet, & Ikeda, 2016), demonstrates the potential impact of blended finance on the water and sanitation sector in other developing countries, and notes the positive benefits of additional commercial borrowing on investment discipline, external transparency

and accountability and the possibility to reallocate public investments to other sectors. Other sectors including fisheries, agriculture, transport, etc. are also amenable to blended finance that may help to enhance the commercial viability of infrastructure projects as well as the delivery of SDGs (Rode et al., 2019).

The number of blended finance donor facilities established between 2009 and 2016 tripled when compared to the previous 8 years and now amounts to US\$ 31 billion (OECD, 2017). Recent reports estimate the total amount of blended finance has increased to more than US\$ 50 billion. Continued support from the UN, the OECD, the World Bank and key players at the national level may further expand the use of blended financing, especially if they work together to raise awareness of the potential benefits of commercial finance and donors agree to use funds to catalyze rather than crowd out private financing. Institutional investors chasing returns in a low-interest environment may see blended finance that lowers the risk in emerging markets as a window of opportunity (Blended Finance Task Force, 2017). However, so far, the evidence base for blended finance is still quite limited (OECD, 2018), and further evaluation and analysis is needed to assess results and identify best practices in different sectors (see Andersen et al., 2019).

While, in principle, small cocreated infrastructure projects can be successfully realized based on blended finance, other local SDG projects that do not produce a return on investments cannot. However, the basic idea of blended finance might still be relevant since public financing and development assistance will often be able to mobilize monetary or in kind contributions from the private sector that together with the resource inputs from the plethora of cocreating actors will help to provide sufficient resources for the realization of local SDG projects.

Legitimacy Through Oversight and Fiscal Auditing

Since cocreated SDG projects tend to involve public actors and make use of public funding and finance, they will need to be regarded as legitimate by the public. Legitimacy of collaborative projects can be obtained by ensuring participation of relevant and affected actors (“input legitimacy”), establishing fair procedures for collaborative involvement in shaping joint solutions (“throughout legitimacy”), and creation of solutions that solve the problems at hand and achieve relevant SDGs (“output legitimacy”) (Scharpf, 1999; Schmidt, 2013). While, arguably, cocreation is well suited for securing a high degree of public legitimacy, rumors and evidence of fiscal mismanagement, misconduct or corruption may rapidly undermine public support and discredit cocreation as a lever of change. The public will be swift to blame cocreation projects for their complex interrelations between manifold public and private actors engaged in informal collaboration that is hard for external actors to control.

To avoid a fatal loss of popular support, it is important for cocreation projects to maintain a high level of transparency, both with regard to process and results and with regard to fiscal performance. Popular support for promising SDG projects that result from multiactor collaboration will prevail as long as people

can see where the fiscal resources are coming from, how project funding and financing is spent, and who benefits from the results of the project and how and when. Hence, in the midst of collaborative engagement and creative learning processes, there must be a competent bookkeeper who can keep track of the fiscal sources and the money spent and is capable of reporting on the fiscal performance of the project in a transparent way.

While blended finance and other cofinancing arrangements seem to be compatible with the resource mobilization aspect of cocreation, these arrangements may create problems with ensuring transparency and preventing corruption. Demands for the availability and quality of information about project performance will tend to increase as more social, political and economic actors from different levels and sectors become involved in financing local SDG projects. Moreover, as the chains for delivering funding and finance grows longer and the number of financial intermediaries increases, it becomes increasingly difficult to ensure effective oversight and auditing.

In this challenging situation, clear and stable procedures for fiscal auditing of cocreated SDG solutions provide a key instrument for ensuring transparency, oversight, and public support. Projects may construct their own procedures, but in the midst of collaborative engagement and creative learning, it might be difficult for local collaborators to devote sufficient attention to establishing procedures for fiscal auditing. Hence, compliance with externally defined auditing procedures might be helpful for local development projects.

In China, the impact of and support for local poverty alleviation programs were compromised by inefficiencies in the use of funds and defective performance evaluation systems (Gao, 2012). As a result, the government introduced a new system of fiscal performance evaluation that assesses economies, efficiency, and effectiveness. The fiscal part of the evaluation looks at the time it takes for centrally allocated funds to arrive at the local project, the amount of the funds that are actually used to alleviate poverty and the level of the administration costs. The evaluation is based on review of collected data from internal and external documents, questionnaires and field interviews.

The African Development Bank (ADB) has developed a similar and even more elaborate procedure for fiscal reporting and auditing of development projects (African Development Bank, 2020). Projects financed by the ADB are required to maintain accurate records of all financial transactions and fully account for all incomes as well as the resources provided for different operations and purposes. ADB regularly evaluates the borrower's accounting system to verify that their standards and procedures are acceptable. This evaluation strategy serves to build and strengthen the financial management and reporting capabilities of the borrower and/or the project in question. The bank requests accurate and timely information on operational performance and financial status of all projects, but the content and scope of the financial statement vary depending on the type of entity to which the bank has provided loans. The annual financial statements submitted by projects to the bank must be audited by a competent independent auditing firm in order to certify the validity and reliability of the information and

data contained in the statement. The timing of the financial project reports is determined on a project-by-project basis.

Governments, development banks and other funding organizations may have competing standards for fiscal reporting and auditing and the demands for local accounting capabilities and procedures are considerable. Meeting these large and competing demands is a tall order for small collaborative SDG projects, but they may rely on expertise and capacities of local or regional government to ensure proper accounting and auditing. Project managers will also have to spend time on accounting and auditing of fiscal project transactions and changemakers are likely to see this as drain on creative problem-solving. Instead, they should rather see it as an investment in much needed popular support since no one will support projects with a reputation for financial mismanagement and misconduct.

Conclusion

While one of the key features of cocreation is its ability to mobilize public and private resources in the pursuit of noble ambitions such as achieving the SDGs, this chapter has argued that cocreation requires funding and financing. The initiation phase is relatively inexpensive, but the problem analysis, search for solutions and the prototyping of the most promising one can be costly. The partners in the cocreation process may be able to cover some of this costs by providing various forms in kind funding, but external fundraising will often be necessary.

Early-stage funding of the cocreation process may be provided by a broad range of donors including philanthropists and crowds without expectations of the money being pay back. Later in the process, when well-tested SDG solutions have demonstrated their value, proper financing of investments in physical, technical, and organizational infrastructures and the day-to-day operation of the new solution is called for. This type of long-term funding is usually provided by governments, banks and private investor based on contracts and with a clear expectation that loans and investments are paid back with interest. Governments may use blended finance that draws money from many different sources, either to top up public money or to stimulate private sector investment in sustainable solutions.

To get early-stage funding of cocreated SDG solutions, changemakers must learn to write persuasive funding applications. Likewise, to secure long-term financing of innovative SDG solutions, they must be able to produce a convincing business plan or know who can help them to do so. Because early-stage funding and long-term financing is provided from many different sources and used by public and private actors in unison, it often proves difficult to secure financial transparency and avoid corruption, which in turn may undermine the legitimacy of cocreated SDG solutions. Establishing clear and stable procedures for fiscal auditing is therefore indispensable.