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GETTING TO THE **LAST MILE** IN LEAST DEVELOPED COUNTRIES

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FOREWORD

The Istanbul Programme of Action seeks to ensure that the tremendous human and natural resource potential of the Least Developed Countries is realized. It lays out a plan to enable half of the LDCs to meet the criteria for graduation by 2020. It represents the commitments of LDCs, “which have primary responsibility for their own development”, and their development partners to a renewed global partnership. More recently, the 2030 Agenda commits to leaving no one behind, and to meeting the Sustainable Development Goals (SDGs) for all nations and all peoples and segments of society.

As a result, LDCs are now seeking to achieve structural transformation and achieve the SDGs and their targets. This calls not just for building on what has worked in the past, but for new approaches that explicitly target and prioritize the “last mile” – not only the poorest of the poor, but also the people, places and small enterprise levels that are under-served and excluded, where development needs are greatest, and where resources are most scarce.

In order to reach the last mile and permanently improve people’s lives, it is important to capture and share lessons about the practical and evidence-based solutions which work. With that in mind, UNCDF and UNDP have prepared this joint booklet for the midterm review of the Istanbul Programme of Action. It presents an analysis of the structural, financial, political and social drivers of inequality and exclusion that exist in the last mile. The booklet stresses the importance of building long-term resilience, recognizing that in a world of risks, development gains can be fragile if not built for sustainability. And it highlights through six detailed case studies, how these challenges can be overcome through innovative approaches that expand access to social protection, promote inclusion, and build sustainable models that make finance work for the poor by unlocking public and private finance at the sub-national, peri-urban and rural levels. It concludes by putting forward eight recommendations as part of a “Last Mile Action Agenda.”

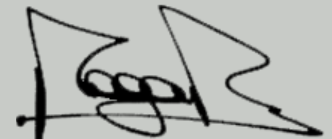
Over the last fifteen years, many LDCs overall have made impressive progress in lifting people out of poverty and in advancing human development. The challenge now is to innovate, scale up and replicate those solutions that empower “last mile” communities and households at risk of being left behind to benefit fully from, and actively contribute to, their countries’ sustainable development.

Making that happen is essential in order to translate the vision of the 2030 Agenda into a better tomorrow for millions of people.

Looking ahead, UNCDF and UNDP are fully committed to ensuring that development processes, resource allocations, and opportunities shift in favour of the last mile, and to supporting LDCs in achieving their graduation and development goals. We hope this booklet sparks a robust debate and generates even greater commitment to reach the last mile in LDCs from the earliest stages of SDG implementation.



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ABOUT THE UNITED NATIONS CAPITAL DEVELOPMENT FUND — UNCDF

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

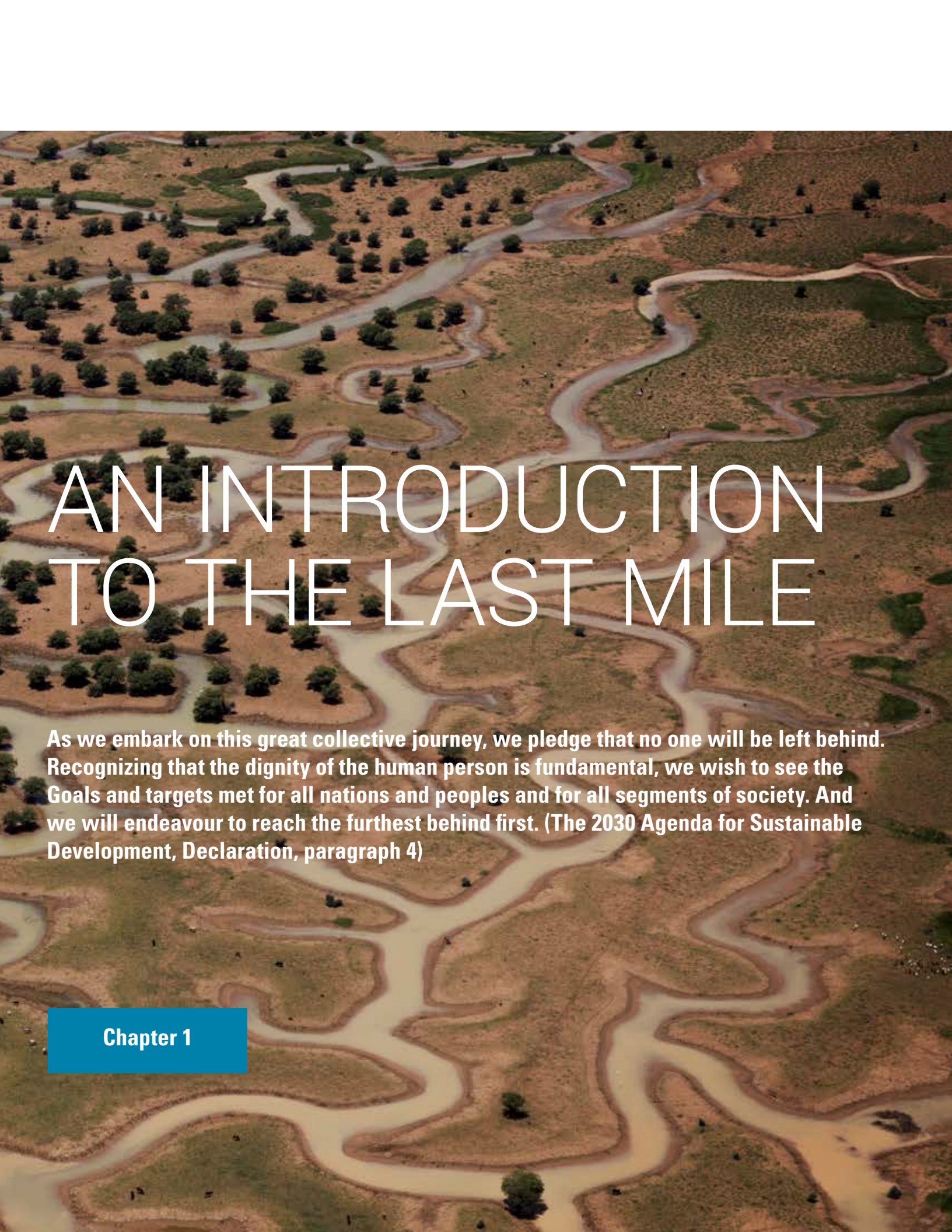
ABOUT THE UNITED NATIONS DEVELOPMENT PROGRAMME — UNDP

UNDP works in some 170 countries and territories, helping to achieve the eradication of poverty, and the reduction of inequalities and exclusion. UNDP helps countries to develop policies, leadership skills, partnering abilities, institutional capabilities and build resilience in order to sustain development results. Inclusive growth, better services, environmental sustainability, good governance, and security are fundamental to development progress. UNDP offers the expertise in development thinking and practice, and decades of experience at country level, to support countries to meet their development aspirations and to bring the voices of the world's peoples into deliberations. Nowadays, UNDP is continuing its work to support to the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals, as they help shape global sustainable development for the next fifteen years.

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AN INTRODUCTION TO THE LAST MILE

As we embark on this great collective journey, we pledge that no one will be left behind. Recognizing that the dignity of the human person is fundamental, we wish to see the Goals and targets met for all nations and peoples and for all segments of society. And we will endeavour to reach the furthest behind first. (The 2030 Agenda for Sustainable Development, Declaration, paragraph 4)

Chapter 1

CONTEXT

The 2030 Agenda for Sustainable Development is an action plan for “people, planet and prosperity.” It articulated 17 Sustainable Development Goals (SDGs) that are integrated and balance the three dimensions of sustainable development: the economic, social and environmental. As part of this, the 2030 Agenda also calls for leaving no one behind and for seeing the SDGs and targets “met for all nations and peoples and for all segments of society.”

The 2030 Agenda also adds to commitments in the Istanbul Programme of Action aims to overcome the structural challenges faced by the Least Developed Countries in order to eradicate poverty, achieve internationally agreed development goals, and enable graduation from the LDC category.

For LDCs to achieve structural transformation and achieve the SDGs, we cannot extrapolate from what worked in the MDGs. We need new approaches that target and prioritize the last mile – and this includes the poorest of the poor, but also the household, sub-national, and small enterprise levels that are under-served and excluded, where development needs are greatest, and where resources are most scarce.

Indeed, the SDGs raise the level of ambition of the MDG era. Whereas the MDGs were concerned, for example, with halving poverty, the SDGs are concerned with eradicating poverty. Looking back over the last fifteen years, global poverty was indeed more than halved, in no small part through large reductions in poverty in rapidly growing populous countries. At the same time, exclusions and inequalities have meant that some countries and significant segments of populations have not benefited from the development process and face many obstacles to a better life and livelihood that decades of development have failed to overcome.

Going forward, “economic growth may not transmit into poverty reduction as easily as in the past” according to the World Bank Group (2016)¹. Chandy, Kato and Kharas (2015) note that eradicating poverty in “persistent pockets” will be much tougher than it was in reducing poverty by half under the MDGs². The World Bank similarly notes that “as extreme poverty declines, growth on its own tends to lift fewer people out of poverty³. This is because these poor people may remain outside the mainstream that benefits from these growth patterns; they may live in areas beyond the reach of existing infrastructure, social

services, or finance; they may be members of a disadvantaged group, be particularly vulnerable to effects of disaster or crisis and lack adequate coping mechanisms, or live in remote areas where economic growth is unlikely to have strong linkages to job creation⁴. Therefore, growth needs to be made more inclusive and relevant to the lives of poor households and communities, and programmes and strategies need to address remaining structural barriers to inclusion in the benefits of growth.

A focus on getting to the last mile is one way of meeting this aspiration to “leave no one behind”. With that in mind, this paper presents different lenses for understanding who is being left behind and why, by examining some of the structural, financial, political and social drivers of exclusions and inequalities facing poor people and places in the world’s 48 Least Developed Countries (LDCs). It stresses the importance of building long-term resilience, recognizing that in a world of risks, development gains can be unwound. And it highlights through selected case studies – how these challenges can be overcome so that no one is left behind. It concludes by putting forward eight recommendations as part of a “Last Mile Action Agenda.”

WHAT DO WE MEAN BY THE LAST MILE?

By the last mile we are referring not only to the poorest of the poor, but also to the people, places and small enterprise levels that are under-served and excluded, where development needs are greatest, and where resources are most scarce. According to the 2014 Human Development Report, people in most countries have been doing steadily better in human development. Advances in technology, education and incomes hold ever-greater promise for longer, healthier, more secure lives. However, there is also a widespread sense of instability⁵. Moreover, millions of people are not benefiting from the fruits of development, especially the poorest and those disadvantaged because of their sex, age, disability, ethnicity, or geographic location⁶.

While many are being left behind in Middle Income Countries in the suburbs of cities, and in industrialized regions of advanced countries, for the purposes of this paper we are focusing on the LDCs. LDCs are the subject of the Istanbul Programme of Action and “represent the poorest and weakest segment of the international community”⁷. LDCs are not a

1 World Bank Group, 2016. Global Monitoring Report 2015/2016: Development Goals in an Era of Demographic Change. World Bank, Washington, D.C.

2 L. Chandy, H. Kato and H. Kharas, 2015. The last mile in ending extreme poverty.

3 World Bank, 2014. Prosperity for all. Ending extreme poverty. Spring meetings.

4 World Bank Group, 2016. Global Monitoring Report 2015/2016: Development Goals in an Era of Demographic Change. World Bank, Washington, D.C.

5 UNDP, 2014. Human Development Report: Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience, p. 1.

6 The Millennium development Goals Report 2015, United Nations

7 United Nations, 2011. Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020.

homogenous group. For instance, some are landlocked, others are Small Island Developing States; some are fragile or in conflict; others are being transformed; population sizes vary enormously; and the constituent parts of their GDP can be widely different. That said, the achievements of the LDCs since 1990 towards the MDGs have been impressive, with many countries recording high economic growth rates and gains in human development. Since 1990, the global Human Development Index value has increased by more than a quarter, while that of LDCs has increased by more than half⁸. That fast progress has improved some countries' prospects of graduating from LDC status.

LDCs as a whole, however, are still characterized by constraints such as low per capita income, low level of human development, and economic and structural vulnerabilities⁹. About 400 million people – nearly half the population – live in extreme poverty in LDCs¹⁰. Only one LDC assessed in The Least Developed Countries Report 2014 was on track to meet all of the seven MDG targets.

Within LDCs, the last mile sees poverty, vulnerability, inequalities and exclusion often reinforcing each other. Poor people, for instance, often lack decent shelter, nutrition, clean water, access to finance or other factors that impede their ability to work or live up to their potential. Certain regions within countries are at risk to falling or remaining behind the national average because they are unable to benefit from or contribute substantially to national growth. In sub-Saharan African, the risk of a child dying before her or his fifth birthday is almost

15 times higher than the risk facing a child born in a high-income country. If current trends continue, achieving universal completion of lower secondary education for girls in the poorest households in sub-Saharan Africa will take almost 100 years¹¹. There are also disparities in development progress and poverty reduction within LDCs themselves¹². This includes disparities between urban and rural areas, men and women, and ethnic groups. These inequalities result in the “systematic exclusion of some groups, as multiple forms of deprivation overlap and reinforce one another.”¹³

It is also important to make sure those improvements are long-lasting. Threats to development such as natural disasters, climate change, disease outbreaks, conflict, or political and economic crises, highlight the importance of putting resilience at the heart of sustainable development, so that families, communities and infrastructure are able to adapt to and withstand shocks, whatever they may be, without having to sell down their assets or risk falling into poverty. For example, people can climb out of poverty as others fall back into poverty (see Figure 1). If the SDGs are to be met, it is important to ensure that when, for example, poor people can escape from poverty or when lagging regions within countries make advances, those gains hold without later suffering reversals when a shock strikes.

8 UNDP, 2015. Human Development Report 2015: Work for Human Development
9 Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020
10 UNCTAD, 2015. The Least Developed Countries Report 2015: Transforming Rural Economies

11 UNICEF, 2015. Progress for Children Beyond Averages: Learning From the MDGs, UNICEF, Number 11 2015

12 UNCTAD, 2014. The Least Developed Countries Report 2014, p. 23, 2014

13 Alainna Lynch and Tom Berliner with Chiara Mariotti, 2016. Overseas Development Institute. Who is being left behind in sub-Saharan Africa? An illustration in Benin and Nigeria. See also: F. Bourguignon, F. Ferreira and M. Walton, Equity, Efficient and Inequality Traps: a Research Agenda. RWP06-025, J. Kennedy School of Government, Cambridge, MA. June 2006.

FIGURE 1: FLOWS IN AND OUT OF POVERTY IN ANDHRA PRADESH, INDIA OVER A 25-YEAR PERIOD



Source: Hallegatte et al. 2015 *Shock Waves: Managing the Impacts of Climate Change on Poverty*, p. 3. Based on survey data for Andhra Pradesh.

THE LAST MILE AND POVERTY

MEASURING POVERTY

The 2030 Agenda, in its opening preamble, underlines the following: "...eradicating poverty in all its forms and dimensions, including extreme poverty, is the greatest global challenge and an indispensable requirement for sustainable development". Extreme poverty is one manifestation of persistent exclusions and inequalities, resulting in people being left behind. It is useful to examine briefly different approaches to measure poverty, as each presents a different picture of the challenges and – by extension – approaches needed to tackle the last mile of poverty.

The most commonly-used definition is related to income poverty. During the MDG period, in developing regions, extreme poverty (as income poverty) overall declined by more than two-thirds, and the number of extreme poor people around the world fell by more than half from 1.9 billion in 1990 to 896 million in 2015.¹⁴

If we disaggregate recent progress in reducing poverty by region, we see notable advances in East Asia and the Pacific, as well as South Asia, which has been largely attributed to the rapid growth of China and India. In contrast, the poverty rate in sub-Saharan Africa did not fall below its 1990 level until after 2002. Even though the decline of poverty has accelerated in the past decade, sub-Saharan Africa continues to lag behind: more than 40 percent of the population in this region still lived in extreme poverty in 2015. The overwhelming majority of people living in extreme poverty reside in two regions which are home to most LDCs: Southern Asia and sub-Saharan Africa. They account for about 80 percent of the global total of extremely poor people.¹⁵

As indicate above, poverty, vulnerability, inequalities and exclusion often reinforce each other. In this regard, the concept of multidimensional poverty helps us to understand these interlinkages and also the root inequalities and exclusions that can make poverty so persistent and even inter-generational.

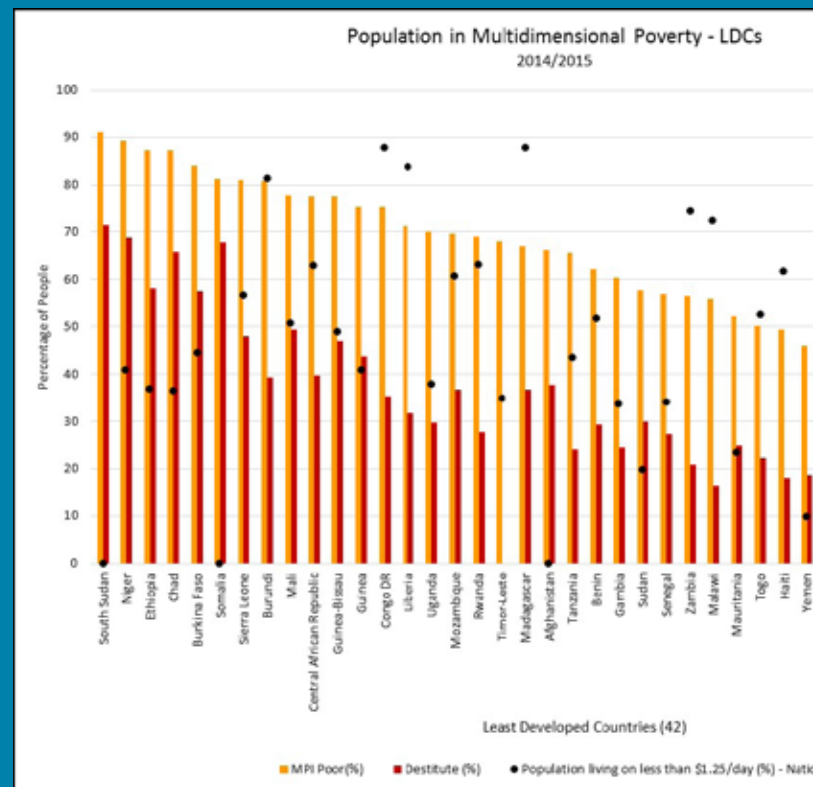
Multidimensional poverty is made up of several factors that constitute poor people's experience of deprivation –such as poor health, lack of education, inadequate living standards, lack of income,

14 Based on the updated \$1.90 a day (2011 PPP) poverty line, 896 million people and 12.7 percent of world population. Global Monitoring Report (World Bank Group 2016). The 2030 Agenda for Sustainable Development included poverty figures based on the previous \$1.25 a day poverty line and consisted of 836 million people in 2015.

15 United Nations, 2015. The Millennium Development Goals Report 2015.

disempowerment, poor quality of work, and threat from violence¹⁶. The Multidimensional Poverty Index was designed to help measure not only the various dimensions of vulnerability that people face, but also the intensity of their deprivations.¹⁷

FIGURE 2: POPULATION IN MULTIDIMENSIONAL POVERTY IN LDCs, 2014/2015



Source: Own elaboration on a sample of LDCs, based on OPHI data, MPI 2014/2015 <http://www.dataforall.org/dashboard/ophi/index.php/> (data from 2010, UNDESA 2013)

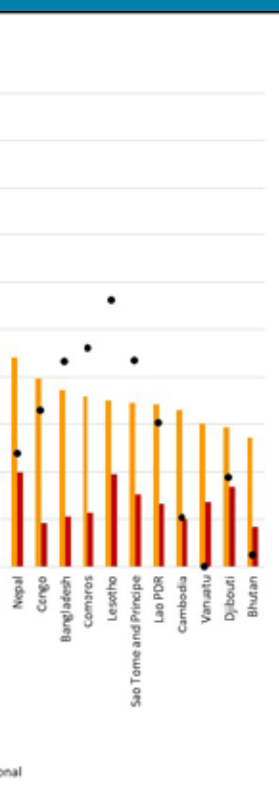
These data on multidimensional poverty therefore allow us to understand who and where are the poorest of the poor¹⁸ - ie: who is

16 Sabina Alkire and Maria Emma Santos, OPHI, 2010. WORKING PAPER NO. 38 Acute Multidimensional Poverty: A New Index for Developing Countries.

17 Multidimensional Poverty Index (MPI) has evolved since the last five years. In this report, we are taking the data from the HDR Report, taking into account that the composition of the index can vary.

18 S. Alkire et al. 2015. Destitution. Who and where are the poorest of the poor? OPHI, Oxford.

destitute. In this definition, a person is “destitute” if she is measured to be deprived in at least one third of the indicators used to identify the multi-dimensionally poor (see box below)¹⁹. The graph above shows the value the measure of destitution adds, by comparing it to extreme poverty (income poverty). In over a third of countries compared, significant mismatches in the percentage of income poverty reduction and multidimensional poverty reduction are evident. Therefore, eradicating income poverty does not necessarily mean eliminating poverty “in all its forms and dimensions” for those suffering some of its worst effects.



To answer the question whether the world’s poor really are being left behind, Ravallion introduces the concept of the “ultra poor”²⁰. He moves the discourse away from poverty lines (what he calls the “counting approach”), and examines the question of whether there has been an increase in the standard of living of the poorest - that is, in raising the “consumption floor” above what he calls “the biological minimum” for people to survive. Using data from 1981 to 2011, he concludes that there appears to have been very little absolute gain for the ultra poor, noting that much of the developing world’s progress against poverty has been “in reducing the number of people living close to the consumption floor, rather than raising the level of that floor.”²¹ He notes that this is consistent with the evidence of weak coverage of poor people by existing social safety nets in developing countries.

These different measurements of poverty help paint a picture of who it is that is

being left behind and what it will entail to “reach” them. They also underscore the importance of using data to inform decision-making and: knowing who the furthest behind are, could help policymakers in targeting pro-poor interventions.

19 The Multidimensional Poverty Index, considers three dimensions: Education, Health and Living Standards, with ten indicators: years of schooling, child school attendance for Education, Child Mortality and Nutrition, for Health. Living Standard includes: Electricity, Improved Sanitation, Safe Drinking Water, Flooring, Cooking Fuel, Assets.

20 M. Ravallion, 2016. *Economics of Poverty. History, Measurement and Policy*. Oxford University Press, New York, pp. 329-330

21 M. Ravallion. Are the world’s poorest being left behind? ECINE Working Paper Series, July 2015.

THE IMPORTANCE OF GEOGRAPHY

Geography also plays a very important role in understanding the last mile. Disparities in incomes and living standards are the result of the unevenness of economic development across space and distance, including within countries. Location matters more for living standards in poor countries than it does in rich ones.²²

According to the 2009 World Development Report, “Place is the most important correlate of a person’s welfare.” It goes on to note that one of the important determinants of well-being is still where a person is born: in which country, in what province within the country, and whether in a city or rural area within that province. Many developing countries are seeing widening welfare gaps between leading and lagging regions.²³

The friction of geography, for instance, impacts how services can be delivered and how businesses can grow. Places close to large markets prosper sooner than places more distant.²⁴ For example, distance from urban areas plays an important role in opportunities for non-farm activities in rural areas. Non-farm employment opportunities and wages are higher in peri-urban areas, while producers in more rural areas further away find themselves competing in urban markets with peri-urban producers who have benefit from shorter delivery times and lower costs, in addition to generally greater access to services and infrastructure.²⁵

The rural/urban divide is important in this regard too. Of the world’s multi-dimensionally poor, 85 percent live in rural areas (which is where more than two thirds of the population of LDCs lives), according to the global Multi-dimensional Poverty Index. In Benin, for example, the likelihood of being in the bottom 40 percent of society is greatly dependent on urban/rural and regional location.²⁶ Similarly, in Asia, there are important disparities between urban and rural areas, ethnic, language, and caste groups. Rural people in LDCs are 50 percent more likely than those in urban areas to lack access to sanitation or to attend secondary school, and more than four times as likely to lack access to clean water.²⁷ Children under five living in rural areas are twice as likely to be stunted as children living in urban areas.²⁸

22 World Bank, 2009. *World Development Report 2009: Spatial Disparities and Development Policy*.

23 Ibid.

24 Ibid.

25 The Least Developed Countries Report 2015, UNCTAD, p. VII

26 A. Lynch and T. Berliner with C. Mariotti, 2016. “Who is being left behind in sub-Saharan Africa? An illustration in Benin and Nigeria” Overseas Development Institute

27 UNCTAD, 2015. *The Least Developed Countries Report 2015*, p. III

28 UNICEF, 2015. “Progress for Children Beyond Averages: Learning From the MDGs”, UNICEF, Number 11 2015



At the same time, sustainable development requires a better planned urban development. No country has moved to middle income status without urbanizing.²⁹ Many rural households depend on urban markets or remittances from urban migrants. Well managed, rural-urban migration can provide an urban workforce for industrial development.³⁰ Poorly managed, it can also lead to unsustainable urbanization, increasing urban poverty, pollution, crime, and social tensions.

Urban poverty is also a serious challenge, and one that is often underestimated. The graph below also shows that there are serious

data shortcomings in measuring urban poverty.³¹ One in four people in urban areas in low-and middle-income countries live in poor quality and usually overcrowded housing without access to safe, sufficient water, and good-quality sanitation. Many of these people live in informal settlements and many are at risk from eviction. Indeed, there are profound inequalities in urban areas related to health, quality of housing, access to basic services, and exposure to disaster risk.

29 World Bank, 2009. World Development Report: Spatial Disparities and Development Policy
30 UNCTAD, 2015. The Least Developed Countries Report 2015, p. III

31 D. Satterthwaite, 2013, A future urban poor groups want: addressing inequalities and governance post2015, International Institute for Environment and Development (IIED)

Table 1 Some estimations for the scale of urban poverty in low-and middle income countries:³²

TYPE OF POVERTY	NUMBER OF URBAN DWELLERS AFFECTED
Inadequate income to cover the cost of food and non-food basic needs	800 to 1.200 million
Inadequate or no provision for safe, sufficient water and sanitation	In 2010, over 700 million urban dwellers were without water piped to their premises and without improved sanitation
Hunger	500 million +?
Living in poverty (that is, in housing that is overcrowded, insecure and/or of poor quality and often at risk of forced eviction	1 billion +?
Homelessness (that is, living on the street or sleeping in open or public spaces)	Approximately 100 million?
Lack of access to health care services, education and social protection; also to emergency services	Hundreds of millions?
Absence of the rule of law	Hundreds of millions?
Lack of voice	Hundreds of millions?

By 2050, two-thirds of the global population will live in urban areas. That figure will be just under 60 percent in Africa.³³ In other words, hundreds of millions of more people will be living in growing secondary cities and peri-urban areas. Yet, local governments in LDCs, especially outside

32 D. Satterthwaite, 2013, A future urban poor groups want: addressing inequalities and governance post2015, International Institute for Environment and Development (IIED)
33 UN-DESA, 2014. World Urbanization Prospects, 2014 Revision, Population Division, United Nations Department for Economic and Social affairs”

major cities, often lack the capacities, financial resources, public investments, and pipeline of bankable projects that would enable them to provide the necessary infrastructure and services. As recognized in the Addis Ababa Action Agenda “expenditures and investments in sustainable development are being devolved to the subnational level, which often lacks adequate technical and technological capacity, financing and support”.³⁴

Even when government transfers are predictable and generous, they do not always fully cover new major infrastructure endowments or required improvements. Even when domestic private capital is available to fund such investments, perceived risks and market failures may keep this private funding away. To support those places requires a development approach that responds to the geography of poverty; that builds national and local capacity to address challenges associated with urbanization and meeting the SDGs; and that empowers local authorities and communities to finance and manage necessary investments that will improve lives and livelihoods.

WHY SOME ARE LEFT BEHIND: INEQUALITIES AND SOCIAL EXCLUSION

To address the structural deficits that leave people and places behind in persistent pockets of poverty, we need to understand the different types of inequalities they face. The case of poverty is illustrative in this regard. Inequality is not a problem on its own; it has negative effects on the ability of growth to reduce poverty too. In countries with rising income inequality, there is evidence that the effect of growth on poverty has been weakened or even reversed. In contrast, in countries where inequality was falling, the decline in poverty for a given growth rate was greater.³⁵ Even without a change in inequality, the effect of growth on reducing poverty is less in countries that are initially more unequal.³⁶

Higher inequality that fosters a larger initial rate of poverty may in turn lead to even higher levels of poverty, resulting in the persistence of poverty. Some argue that a larger level of initial poverty tends to beget more poverty. This finding may be explained by poor people

experiencing unique conditions that tend to trap them into becoming even poorer. Many of these conditions, such as the lack of ownership of capital (human, physical and/or financial), are the result of the initial unequal distribution of assets.³⁷ In Benin for example, in 2013, 98 percent of households in the top quintile had electricity compared with less than 1 percent of households in the bottom quintile. Inequalities in access to improved water across wealth quintiles also remain high.³⁸

Not addressing inequality can trap people into persistent poverty.³⁹ This is an observation made by Alexis de Tocqueville back in the 19th century (“... you will find the principle of inequality at the bottom”), and updated through the concept of horizontal inequalities.⁴⁰ Horizontal inequalities are inequalities between groups with specific characteristics that their members and others recognize as important aspects of their identity.⁴¹ These groups could be defined by culture, gender, ethnicity, religion, race, geographic location, or age, among other characteristics. Horizontal inequalities are the result of systemic discrimination and exclusion that typically stem from stereotypes and prejudice. These inequalities are related to inequality of opportunity, and are experienced in relation to rights and access to social services, education, health, nutrition, housing, assets, justice, employment and economic resources.⁴²

These inequalities can be clustered together as follows:

- + Economic: these include inequalities in access to and ownership of assets (financial, human, natural resource and social). In addition, they comprise inequalities in employment opportunities and livelihoods. Underemployment and precarious employment constitute a serious challenge, with over a third of LDCs’ total employed population living in extreme poverty.⁴³
- + Social: these include inequalities in access to a range of services, such as education, health, nutrition, and housing. For example, in 2013 more than 21 million children of primary

37 M. Ravallion “Why Don’t We See Poverty Convergence?” *American Economic Review* 102(1), pp. 504-523. UN OHRLLS, State of the Least Developed Countries 2014, p. 32.

38 Alaina Lynch and Tom Berliner with Chiara Mariotti, 2016. Overseas Development Institute. Who is being left behind in sub-Saharan Africa? An illustration in Benin and Nigeria.

39 M. Ravallion, *Economics of Poverty. History, Measurement and Policy*. Oxford University Press, New York, 2016, pp-413-430.

40 F. Stewart, Horizontal inequalities as a cause of conflict, Bradford Development Lecture, 2009, p. 1

41 F. Stewart and A. Langer, Horizontal inequalities: explaining persistence and change” CRISE Working Paper, n. 4, Oxford, 2007. UNDP, *Humanity Divided: confronting inequality in developing countries* 2013, p. 27.

42 UNDP, UNDP support to the implementation of Sustainable Development Goal 10, January 2016.

43 Report of the Secretary-General, “Implementation of the Programme of Action for the Least Developed Countries for the Decade 2011-2020”, January 2016

34 United Nations, 2015. Addis Ababa Action Agenda of the Third International Conference on Financing for Development. United Nations, New York.

35 World Bank, *Prosperity for all. Ending extreme poverty. A Note for The World Bank Group Spring meetings* 2014.

36 Ferreira, F., 2010. “Distributions in Motion—Economic Growth, Inequality, and Poverty Dynamics.” Policy Research Working Paper 5424, World Bank, Washington, DC.



school age were not attending school in LDCs.⁴⁴ The proportion of unregistered births in LDCs is over 60 percent, leading to potential difficulties in accessing education and healthcare later on.

- + Political: these include inequalities in the distribution of political opportunities and power among groups. They also encompass inequalities in people's capabilities to participate politically and to express their needs and concerns and have their voices heard, as well as in human rights and the rule of law.
- + Cultural: these include disparities in the recognition and standing of different groups languages, customs, norms, and practices.

Each type of inequality is notable in itself, but most also have wider impacts. Specific kinds of discrimination against particular groups, for example, can result in many people being affected by different and intersecting forms of discrimination that in turn produce and reproduce deep inequalities across generations.⁴⁵

For its part, social exclusion is a process in which members of a minority group are treated differentially (less favourably) or denied full access to rights, opportunities, and resources that are normally available to members of a different group (a majority group) in similar circumstances.⁴⁶ It affects, for instance, urban and rural poor; indigenous people; ethnic or sexual minorities; people with disabilities; people living with HIV; immigrants; refugees, internally displaced people; women; and youth.

Therefore, shaping development policies specifically to address inequalities and social exclusion is critical to reaching those being left behind. This could take the form, for instance, of fiscal policies that are pro-poor; social protection programmes that provide strong social safety nets for most excluded people; universal access to quality basic services; and equitable access to natural and productive resources. It could take the form of broadening participation in public and political life. And it underscores the importance of combating discrimination — i.e., prejudices, stereotypes and other cultural norms that reproduce inequalities — by implementing anti-discriminatory legislation and

reforms aimed at increasing access to disadvantaged groups to better livelihoods.⁴⁷

GENDER INEQUALITIES

Policies and programmes to reach the last mile could have greater impact if they are specifically oriented to empower women and girls and to support gender equality. There have been improvements in addressing gender gaps in the recent decades, especially in education enrollment, life expectancy, and labour force participation.⁴⁸ On education, for instance, the gender gap in primary education has almost been closed in LDCs, though disparities are larger in secondary and tertiary education. The representation of women in parliament has steadily increased over the last 10 years in LDCs.⁴⁹

Still, women in LDCs face persistent gaps and challenges across the economic, social, and environmental dimensions of sustainable development. In Bangladesh, for example, the probability of being poor was the highest for female-headed households.⁵⁰

Any effort to reach those furthest behind therefore requires targeting women and girls. Empowering women and girls is not only an important end in itself, it is also a means for achieving many other development goals. If all members of society are equally empowered to contribute, the sum of their efforts will be far greater than the case where women do not enjoy equal opportunity. In addition, investments made in opportunities and services for women and girls are great multipliers of development progress. For instance, children born to women with some formal education are more likely to survive to their fifth birthday, receive adequate nutrition, and be immunized and enrolled in school.

44 Report of the Secretary-General, "Implementation of the Programme of Action for the Least Developed Countries for the Decade 2011-2020", January 2016

45 UNDP, January 2016. UNDP support to the implementation of Sustainable Development Goal 10.

46 E. Duflo, M. Bertrand, Field experimentations on discrimination, Working paper 22014. National Bureau of Economic Research. Cambridge, MA, 2016. Cf. also Institute for Social Exclusion, Adler University, Chicago, IL. In this paper, the authors measure two different methodologies applied to the existence and prevalence of discrimination. They affirm it is not easy to establish a pattern of discrimination as a specific theory and recommend more research on exclusion.

47 UNDP, 2013. Humanity Divided: confronting inequality in developing countries, pp. 262-267.

48 World Bank, 2012. World Development Report 2012: Gender Equality and Development.

49 United Nations, 2016. Report of the Secretary-General, "Implementation of the Programme of Action for the Least Developed Countries for the Decade 2011-2020".

50 Tanvi Bhatkal and Chiara Mariotti, 2016. Overseas Development Institute, Who is being left behind in Asia? An illustration in Bangladesh and Vietnam

A GENDERED LAST MILE

- + Disparities in girls' schooling. Despite the overall progress, primary and secondary school enrollments for girls remain much lower than for boys living in disadvantaged populations in many Sub-Saharan African countries and some parts of South Asia. Even if social norms permit or encourage girls education, sometimes the lack of gender-sensitive planning such as the lack of school sanitation facilities, for example, often keeps girls out of school, having a long term impact on their future prospects, affecting their health, education and safety.
- + Unequal access to economic opportunities. Women are more likely than men to carry disproportionate burden of unpaid care work, have unequal access to economic resources and assets, including land, property rights, financial credit and natural resources. Women farmers tend to farm smaller plots and less profitable crops than men. Women entrepreneurs operate in smaller firms and less profitable sectors. Discrimination against women in the workforce manifests in unequal pay and opportunity, and vulnerable employment. *
- + Disproportional impact of climate change, natural disasters and environmental degradation. Women often depend on climate-sensitive livelihoods (e.g. agriculture). They also lack the resources needed to weather harsh climatic impacts (e.g. better houses, drought resistant crops). This diminished adaptive capacity makes them even more vulnerable, forcing them to engage in unsustainable environmental practices such as deforestation in order to sustain their well-being.
- + Differences in voice in households and in society. In many countries women – especially poor women - have less say over decisions and less control over resources in their households. In addition, female political participation and participation in peace building processes is at low levels. Violence against women and girls is persistent and widespread, and includes early and forced marriages and harmful practices.
- + Excess female mortality in low- and middle-income countries. In a given year, the rate at which girls and women die relative to men is higher in low- and middle-income countries than in high-income countries. These “excess” deaths are estimated at about 3.9 million girls and women (below the age of 60) each year. And this number is growing in Sub-Saharan Africa especially in childhood and the reproductive years and in the countries hardest hit the HIV/AIDS epidemic. **

Partly excerpted and/or summarized from World Bank, 2012. World Development Report 2012: Gender Equality and Development.

* UNDP, January 2016. UNDP support to the integration of gender equality across SDCs including Goal 5

** World Bank, 2012. World Development Report 2012: Gender Equality and Development.

THE ROLE OF FINANCE

The role of finance is often-overlooked in how it contributes to and can also help address inequalities and exclusions. For instance, between 2011 and 2014, the unbanked population dropped by 20 percent, from 2.5 billion to 2 billion. Yet in developing countries, only 54 percent of the population has an account. This lack of access to basic financial services makes it difficult for poor people to be in control of their economic lives. Without access to formal financial services, people in rural areas often have to travel long distances to get cash, receive a government transfer, or pay a bill. Access to formal financial services helps people to better cope with financial shocks that could drive them further into poverty.

In addition, more than 200 million formal and informal enterprises in developing and emerging markets lack adequate financing to grow their enterprises.⁵¹ This means that individuals must rely on limited savings to start or grow a small business. This has implications for the ability of small businesses to create jobs for women and young people, for instance. Having greater access to and use of formal financial services drives growth and creates jobs on the back of savings that already exist. Putting these resources into formal savings vehicles and productive circulation can help eradicate poverty and get small businesses going. For those who receive remittances, they can also

51 International Finance Corporation, 2013. Peer Stein, Oya Pinar Ardic, and Martin Hommes. Closing the Credit Gap for Formal and Informal Micro, Small and Medium Enterprises.



play an important role in building household resilience and helping to mitigate risks.

Expanded financial inclusion can also reduce inequalities. This can work, for example, by making it easier for poor people without credit history or collateral to access the credit they need to manage their financial lives; or by ensuring that women can open an account without seeking permission of their husband or father; or that people living in remote areas are able to benefit from making and receiving payments using low cost digital technologies such as mobile phones.

Giving women financial autonomy has a huge impact on the entire household. Indeed, women’s finances are more likely spent on household expenses, including food and water, as well as child welfare. Data across 148 countries also finds a positive and significant relationship between female labour force participation and female account ownership, but no similar relationship for men.⁵²

⁵² A report by the World Bank Development Research Group, the Better Than Cash Alliance, and the Bill & Melinda Gates Foundation to the G20 Global Partnership for Financial Inclusion, 2014. The Opportunities of Digitizing Payments: How digitization of payments, transfers, and remittances contributes to the G20 goals of broad-based economic growth, financial inclusion, and women’s economic empowerment.

BUILDING RESILIENCE AND ADDRESSING VULNERABILITY

It is important to view the last mile through a dynamic lens, recognizing that shocks that hit the most vulnerable people or places can unwind development gains. It is not just enough to develop those approaches that reach the furthest behind. We need to ensure that interventions are risk-informed, and build resilience at national and subnational levels so that families, communities, and nations can better withstand and bounce back from adverse events. For this reason, SDG 1 includes two targets specifically intended to build resilience for vulnerable people.⁵³

- 1.3 *Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.*
- 1.5 *By 2030, build the resilience of the poor and those in vulnerable*

⁵³ Transforming Our World: The 2030 Agenda for Sustainable Development, pp12-13.

FIGURE 3: THE WHO, WHAT AND WHY OF VULNERABILITY



situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.

The flipside of building resilience is addressing vulnerabilities. The 2014 Human Development Report explains the concept of vulnerability as per the graph in Figure 3.⁵⁴

The focus on resilience means we have to help countries and communities manage, mitigate and cope with shocks related to economic crises, climate risks, sudden onset natural disasters, disease outbreaks, social tension, conflict, and civil unrest.

Many LDC economies remain vulnerable to economic shocks as a result of limited structural transformation. For example, economic growth in several LDCs is driven primarily by commodity exports, with little economic diversification. Indeed, primary commodities made up 80 percent of LDC exports over the past five years.⁵⁵ In 2014, twelve LDCs achieved growth rates of seven percent or more, in line with the objective of the Istanbul Programme of Action and SDG 8 target 8.1. However, growth rates have been volatile, with sharp declines in some countries, partly resulting from adverse weather events, the drop in commodity prices in recent years and regional security challenges.⁵⁶ Investment flows to LDCs still concentrate on too few countries and sectors and, within LDCs, investments often flow towards extractive industries, real estate, or narrow infrastructure corridors, contributing to under-funded local development plans and gaps in the local infrastructure needed to boost productive capacities.

Moreover, natural hazards, especially weather-related events such as droughts and cyclones which are likely to become more frequent and severe as a result of climate change, threaten to reverse social and economic development gains in LDCs and possibly postpone LDC graduation, given their limited adaptive capacities. Climate change represents a huge additional barrier to poverty eradication in LDCs. Climate impacts are also very likely to increase the cost of meeting all SDGs in LDCs, especially under high-emission scenarios.⁵⁷ From 2010 to mid-2013, people living in these countries were five times more likely to die from climate-related disasters than people living elsewhere.⁵⁸

⁵⁴ UNDP, 2014. Human Development Report: Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience

⁵⁵ Report of the Secretary-General, "Implementation of the Programme of Action for the Least Developed Countries for the Decade 2011-2020", January 2016

⁵⁶ Ibid.

⁵⁷ IIED, May 2015. Impact of climate change on Least Developed Countries: are the SDGs possible?

⁵⁸ United Nations, January 2016. Report of the Secretary-General. Implementation of the Programme of Action for the Least Developed Countries for the Decade 2011-2020.

When Cyclone Pam hit Vanuatu last year, it caused damage and loss in output estimated at over 60 percent of GDP, which resulted in postponement of Vanuatu's graduation from LDC status by three years to 2020. Cyclone Pam was followed by the devastating earthquake which hit Nepal shortly thereafter. The Ebola crisis in three West African LDCs provided a stark reminder of the threats from disease outbreaks to lives and economies.

LDCs in conflict or in post-conflict situations are among those facing the biggest challenges in meeting the SDGs. In these countries, conflict undermines development and poverty reduction, and in turn, under-development drives conflict.⁵⁹

Policies and operational solutions that can build resilience and address vulnerabilities at the national and sub-national level include, for example: strengthening social protection; promoting full employment and decent work; building capable and responsive institutions and financial models, including at the subnational level; investing in social cohesion; strengthening capacities to prepare for and recover from crisis, including at the subnational level; and a focus on mitigating and adapting to risks, including climate change.

⁵⁹ Ibid.





LAST MILE OF INCLUSION AND SOCIAL PROTECTION:

UNDP CASE STUDIES IN CAMBODIA

Chapter 2

OVERVIEW

The 2030 Agenda and the commitment made by all Member States envisage a world free from the tyranny of poverty, fear and violence; “a world of universal respect for human rights and human dignity, the rule of law, justice, equality and non-discrimination; of respect for race, ethnicity and cultural diversity; and of equal opportunity permitting the full realization of human potential and contributing to shared prosperity.”⁶⁰ This is developed through the three dimensions of sustainable development, as a plan of action for people, planet and prosperity, ensuring that no one is left behind. The new Agenda represents a shift and transformation in the way we understand development as the 2030 Agenda and the SDGs are now universal, integrated and more ambitious.

As presented in the first chapter, the last mile is an approach to reach the poorest of the poor, but also the people, places and small enterprises that are under-served and excluded; the last mile is where the development needs are greatest and where resources are most scarce. Reaching the last mile implies completing the unfinished MDG agenda, moving from reducing poverty to eradicating it in all its forms, ensuring that no person is denied their universal human rights and access to basic economic opportunities. Making this possible requires reaching out to the excluded groups in society and providing social protection to help people build

resilience to the uncertainties of life.

We present two case studies of the UNDP approach to the Last Mile in one Least Developed Country, Cambodia. Two programmes of inclusion and social protection are described, each intending to reach people with disabilities and people affected by HIV. These are two of the most excluded groups in the country.

Cambodia has undergone a profound transformation over the last two decades and is now a country characterized by relative stability, peace and vibrancy. Socioeconomic gains have been impressive, whether measured in human-development progress, reduction in absolute poverty, growth in GDP and income per capita, or improvements in infrastructure. Gross domestic product grew at an average annual rate of 8.2 percent from 2000 to 2010, making Cambodia the fifteenth fastest growing economy in the world during the period.⁶¹ According to the World Bank, there has been a considerable decrease in poverty rates in Cambodia from 34.7 percent in 2004 to 20 percent in 2011.

However, many challenges remain to be addressed. One of them is the growing inequality as reflected by income disparity, regional disparity between the urban population and the rural poor, and gender disparity. The second is social exclusion and discrimination, linked to the growing inequalities. Both are causes of persistent poverty at the last mile in the country.

The case studies in this section present two different approaches. The first one is an intervention to address the structural inequalities and discrimination for people with disabilities. The second case study is an intervention of HIV-sensitive social protection for people affected by HIV/AIDS.

It is estimated that in a population of 13.5 million people, around 15 percent have a disability, of which 0.2 percent have very significant difficulties functioning. People with HIV/AIDS are estimated at around 2 percent of the total population, many of which belong to the most marginalized segments of society.⁶²

The two case studies have in common three main principles of UNDP programming for the last mile, including:⁶³

1. Institutional strengthening and public policy support;
2. Human rights- and gender-based approach; and
3. Multi-stakeholder approach, partnerships and sustainability

INSTITUTIONAL STRENGTHENING AND PUBLIC POLICY SUPPORT

UNDP assists countries in improving the design and effective implementation of development strategies, policies and programmatic interventions at national

⁶⁰ Transforming Our World: The 2030 Agenda for Sustainable Development, p. 7.

⁶¹ UNDP Midterm review of UNDP country programme action plan, 2014

⁶² UNDP Midterm review of UNDP country programme action plan, 2014

⁶³ UNDP, UNDP Support to implementation of SDG 10, January 2016.

and subnational levels to help ensure that development reaches marginalized populations, and significantly reduce risks, health inequities and poverty. A critical component of UNDP's approach is working with national and subnational governments to develop analytical tools, policy frameworks, financing methods and knowledge management systems to undertake integrated strategic planning in order to contribute to inclusive development.

In the HIV-sensitive social protection case study, this approach manifests through involvement of multiple sectors, including civil society organizations that represented the people affected by HIV, to understand their needs and the obstacles they systematically face. UNDP then worked to mainstream this information into national development plans. In the second case study, this approach is evidenced in an increase of opportunities for participation in social, economic, cultural and political life through effective implementation of the National Disability Strategic Plan 2014-2018 and the Convention on the Rights of Persons with Disabilities.

HUMAN RIGHTS BASED APPROACH AND GENDER APPROACH

UNDP supports countries in addressing laws and policies against stigma and discrimination, and ensuring that policies are inclusive of all. A human rights-based approach to development programming

builds the capacities of both duty-bearers and rights-holders and enables an understanding of the situation of excluded and marginalized groups and individuals. This helps to analyse complex power dynamics and understand the root causes of discrimination and structural inequalities. UNDP also supports national systems for the promotion and protection of human rights and has supported over a hundred National Human Rights Institutions (NHRI), ombudsman institutions, equality and gender bodies and other independent oversight institutions in order to develop their capacities and enhance the role of NHRIs as cornerstones of national human rights systems.

In the HIV case study, this can be seen in the coordination of forums where the voices of marginalized groups could be heard, and reforming legal, policy and regulatory environments that continue to undermine the response to HIV and health responses.

In the people with disabilities case study, the goal was to address and to remove the legislative, institutional, communication and physical barriers and promote the development process to include minorities.

MULTISTAKEHOLDER APPROACH. PARTNERSHIPS AND SUSTAINABILITY

UNDP promotes effective, transparent and accountable intersectoral and multilevel governance arrangements that are responsive to the needs of all,

but in particular the poorest and most marginalized. This includes building the capacity of national and subnational governments and other stakeholders to more effectively address the social determinants of inequalities, in particular through strengthened governance mechanisms. It also promotes partnerships with the private sector and inclusive local economic development, facilitating public-private partnerships and participative spaces for stakeholder engagement that strengthens the capacity to build local development strategies, plans and governance arrangements that are responsive to the needs of all actors, and advance sustainable development particularly for the poorest and most excluded.

In the case of the HIV-sensitive social protection programme, it requires the involvement of different ministries, the private sector, civil society and communities. Their involvement and partnership is required at every stage - from planning to implementation. This is also important for sustainability.

In the case for disabilities, the programme has developed partnerships between government and civil society in raising awareness about the national law and international human rights instruments.



CASE STUDY 1

— CAMBODIA'S HIV SENSITIVE SOCIAL PROTECTION

CONTEXT

People affected by the HIV/AIDS epidemic are traditionally left behind. HIV/AIDS disproportionately affects the poor, who are often faced with multiple and compounding deprivations.

HIV/AIDS hinders the ability of working-age adults to work while they seek treatment and require care. This results in a loss of labour income, while expenditures increase due to the cost associated with seeking medical care. Households that lack access to insurance or social security are often forced to expend their savings and/or sell their assets in order to cover medical expenses. The strain from HIV/AIDS can also result in disinvestments in education, nutritious food, and health. This has irreversible consequences in human capital accumulation. Additionally, HIV affected households often face discrimination, stigma and other barriers to access labour markets and basic social services.

Improving access⁶⁴ to social protection

⁶⁴ Social protection schemes refers to mechanisms to support household and individual access to goods and services at minimally accepted levels, to protect them from deprivation and social exclusion, particularly during periods of insufficient income, incapacity or inability to work. UNDP strongly advocates for inclusive social protection systems that are free of discrimination, in design and implementation. While most regional, international and domestic legislation for social protection use inclusive language, marginalized groups are likely to miss opportunities to benefit for various reasons including stigmatization, discrimination, lack of access and lack of accessible information about their rights. Designing inclusive social protection systems requires an understanding of the barriers facing vulnerable groups, such as people affected by HIV.

schemes for HIV affected households, both by removing barriers to access, and by making programmes sensitive to their specific needs, can improve their well-being and mitigate the impacts of HIV/AIDS.

HIV-sensitive social protection refers to the integration of HIV concerns, wherever feasible and relevant, into existing social protection schemes and policies. Increasingly, the importance of integrating HIV treatment and prevention into existing social protection schemes has been recognized in different countries and by various development actors. UNAIDS for example, has identified “enhancing social protection for people affected by HIV” as a key priority in its Outcome Framework⁶⁵ for achieving results at the country level. In the Asia and Pacific region in particular, there is a widespread acknowledgement that HIV-sensitive social protection is a prerequisite for strengthening impact mitigation, service delivery, and human rights to HIV affected households.⁶⁶

There are well documented examples of social protection programmes with significant impacts in the mitigation of negative impacts of HIV/AIDS. Cash transfer programmes piloted in countries with high HIV prevalence have shown to have a significant impact on poverty reduction in households affected by HIV and AIDS⁶⁷, as well as supporting

livelihoods, improving access to education and nutrition⁶⁸.

However, it is recognized that stigma and discrimination might prevent affected households from accessing existing cash transfer programmes. Also, the multiple overlapping and sometimes unique vulnerabilities faced by HIV-affected households are at times not recognized in the design and implementation of conventional cash transfer targeting mechanisms. For example, the income-based eligibility criteria used in traditional cash transfers, often leaves out households affected by HIV/AIDS. The result being that they are forced to shift consumptions patterns (e.g. from food, housing and education to health care-related expenses) and to liquidate assets and savings.⁶⁹

While Cambodia has been successful in reducing the rate of HIV in the past few years through committed government leadership, effective policies, and strong civil society engagement, HIV is still directly affecting over 60,000 households and about 280,000 individuals. This represents more than 2 percent of Cambodia's total population, with many belonging to marginalized sections of society.⁷⁰

⁶⁵ Joint Action for Results: UNAIDS Outcome Framework (2009-2011); as quoted in Uji, Kazuyuki. “HIV Sensitive Social Protection.” UNDP, Asia Pacific Regional Centre.

⁶⁶ Uji, Kazuyuki. “HIV Sensitive Social Protection.” UNDP, Asia Pacific Regional Centre.

⁶⁷ UNICEF, ESARO, 2007 as quoted in “Social protection in the context of HIV and AIDS”; Ann Nolan, Irish Aid, Promoting Pro-Poor Growth; Social Protection, OECD, 2009

⁶⁸ Ag ero et al., 2007 as quoted in “Social protection in the context of HIV and AIDS”; Ann Nolan, Irish Aid, Promoting Pro-Poor Growth; Social Protection, OECD, 2009

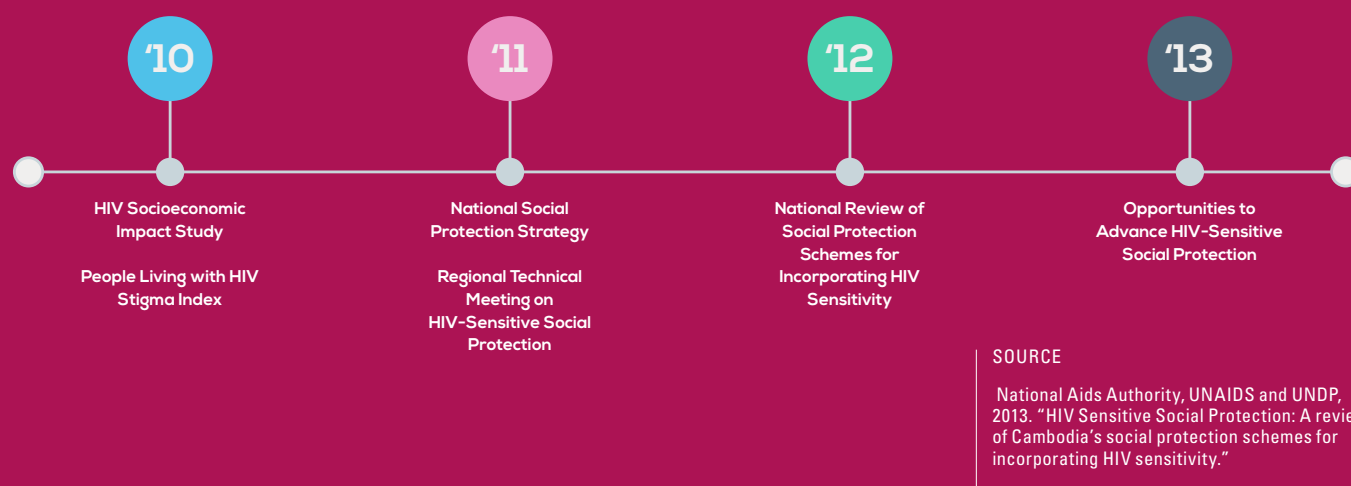
⁶⁹ UNDP, 2014. “Discussion Paper: Cash Transfers and HIV Prevention.” New York.

⁷⁰ National Aids Authority, UNAIDS and UNDP, 2013. “HIV Sensitive Social Protection: A review of Cambodia's social protection schemes for incorporating HIV sensitivity.”

RESULTS: TOWARDS HIV-SENSITIVE SOCIAL PROTECTION — AN INTEGRATED APPROACH

THE ROYAL GOVERNMENT OF CAMBODIA (RGC), IN COLLABORATION WITH UNDP, UNAIDS AND OTHER DEVELOPMENT PARTNERS, EMBARKED ON A COMPREHENSIVE PROCESS TO MAKE SOCIAL PROTECTION SCHEMES IN THE COUNTRY SENSITIVE AND INCLUSIVE TO THE NEEDS OF PEOPLE AFFECTED BY HIV.

FIGURE 4: CHRONOLOGY OF HIV-SENSITIVE SOCIAL PROTECTION IN CAMBODIA



An early step in the process was the development of a socio-economic impact study to better understand the household-level impacts of HIV on human development.⁷¹ UNDP Cambodia and the National AIDS Authority (NAA) led this analysis. The study revealed the significant negative consequences of HIV, and found negative impacts not just on income, but also on

71 UNDP, 2011. "The Socio-Economic Impact of HIV at the Household Level in Asia: A Regional Analysis." UNDP Asia-Pacific Regional Centre.

employment, asset accumulation and education⁷². It also provided important insights into the extent to which HIV

72 TISS and UNDP (2011). "HIV-sensitive Social Protection: A Four State Utilisation Study." http://www.undp.org/content/dam/india/docs/hiv_sensitive_social_protection_a_four_state_utilisation_study.pdf; (2011b). UNDP, 2011. "HIV-sensitive social protection for impact mitigation in Asia and the Pacific: Report of the High-level Technical Consultation, Siem Reap, Cambodia 27-29 April 2011." UNDP Asia-Pacific Regional Centre. http://asia-pacific.undp.org/content/rbap/en/home/library/hiv_aids/hiv-sensitive-social-protection-forimpact-mitigation-in-asia-an.html; UNDP, 2011. "The Socio-Economic Impact of HIV at the Household Level in Asia: A Regional Analysis." UNDP Asia-Pacific Regional Centre; as cited by

sensitive social protection can mitigate the socio-economic impact of HIV on affected households.

The findings of the study were considered in the development of Cambodia's National Social Protection Strategy, which was launched in 2011. The main goal of the strategy was to increasingly protect poor and vulnerable Cambodians against poverty, hunger, shocks, destitution and social exclusion, and ensure they can benefit



from social investment. The socio-economic impacts of HIV and the potential relevance of social protection schemes to mitigate these impacts, was reflected in Objective 5 of the strategy: “special vulnerable groups, including orphans, the elderly, single women with children, people with disabilities, people living with HIV, patients of tuberculosis (TB) and other chronic illness, etc., receive income, in-kind and psychosocial support and adequate social care.”⁷³

The study, along with those in four other countries in the region, was used as the background document for the 2011 regional High Level Technical Consultation on HIV-Sensitive Social Protection for Impact

Mitigation, hosted in Siem Reap. Participants in the consultation included senior government officials from eight countries (Cambodia, China, Nepal, India, Indonesia, Papua New Guinea, Thailand, and Vietnam), UN agencies, civil society leaders and the community of people living with HIV. During the consultation it was unanimously agreed that HIV-sensitive social protection should be a key strategy for the reduction of vulnerability of people to HIV as well as for impact mitigation. Furthermore, as highlighted below, an agreement was reached on five key principles for planning and implementing HIV-sensitive social protection in the Asia-Pacific region (UNDP, 2011).

⁷³ Royal Government of Cambodia, 2011. “National Social Protection Strategy for the Poor and Vulnerable”. Kingdom of Cambodia.

KEY PRINCIPLES FOR PLANNING AND IMPLEMENTING HIV-SENSITIVE SOCIAL PROTECTION IN ASIA PACIFIC:

- + **Aim for HIV-sensitive social protection rather than HIV-specific social protection:** For reasons of sustainability, coverage, involvement of multiple sectors and opportunities for mainstreaming HIV into national and decentralized development plans.
- + **Involve multiple sectors and partners:** HIV-sensitive social protection requires the involvement of different ministries, the private sector, civil society and communities. Their involvement and partnership is required at every stage - from planning to implementation. This is also important for sustainability.
- + **Engage affected individuals, networks and communities, especially key populations:** Design of HIV-sensitive social protection programmes should be inclusive and participatory to ensure the interventions address the specific needs and concerns of the affected people.
- + **Protect and enhance human rights:** While implementing HIV-sensitive social protection schemes, special attention must be paid to ensuring the human rights of the participants are not violated, rather, they are enhanced. Issues of concern are mandatory testing, disclosure of beneficiary details, breach of confidentiality and involuntary confinement.
- + **Take into account sustainability:** As in the case of antiretroviral therapy (ART), HIV sensitive social protection requires long-term political and financial commitment, hence sustainability should be an integral part of the planning process.

Source: National Aids Authority, UNAIDS and UNDP, 2013. “HIV Sensitive Social Protection: A review of Cambodia’s social protection schemes for incorporating HIV sensitivity.”

Following the Technical Consultation, a comprehensive review of the existing and potential impacts of social protection schemes on households affected by HIV was carried out in 2012 by the NAA, in collaboration with UNDP and UNAIDS. The aim of the review was to “identify potential areas where the unique needs and circumstances of people living with HIV, HIV-affected households and key populations affected by HIV, can be incorporated”⁷⁴ into social protection schemes. It also attempts to translate the five principles into practical policy actions and options.

This review marks an important milestone in the evolution of the national efforts to mitigate the impacts of HIV and in national dialogue to reduce poverty and protect the poor and vulnerable from shocks. It builds on the Socio-Economic Impact of HIV study, the 2010 study on the Stigma Index for People Living with HIV, and the technical consultation, and combines the objectives of the National Social Protection Strategy with the data on HIV impact, to understand how social protection in Cambodia can adequately support people living with HIV. The review extended the analysis beyond people affected by HIV, and considers how social protection can work for people vulnerable to HIV transmission and marginalised affected populations.

The review identified ten social protection schemes and mechanisms that are relevant to people affected by HIV. It also discussed the relevant challenges they face, and made specific recommendations to improve the impact of the schemes. Among the schemes

and mechanisms identified were those specifically targeting people affected by HIV, such as free primary health care and ART treatment for people living with HIV, and the Buddhist Learning Initiative, which mobilizes monks to disperse cash, in-kind transfers and psychological support for adults living with HIV. It also included schemes that are relevant, but not directly targeted, to people affected by HIV, such as the targeting mechanisms and criteria for the IDPoor programme, health equity funds, community-based health schemes, among others.

OBJECTIVES OF THE “REVIEW OF CAMBODIA’S SOCIAL PROTECTION SCHEMES FOR INCORPORATING HIV SENSITIVITY”

- + To identify potential entry points to integrate/ strengthen HIV-sensitive provisions.
- + To identify legal, operational, social and financial barriers faced by people affected by HIV in accessing government social protection schemes.
- + To make recommendations on: (1) how best to promote HIV-sensitive social protection and (2) how tangible progress can be achieved in the coming years to guarantee that all the main social protection schemes and efforts adequately cater to the needs of people living with HIV, and their households.
- + To identify gaps and issues requiring further attention and research.

Source: National Aids Authority, UNAIDS and UNDP, 2013. “HIV Sensitive Social Protection: A review of Cambodia’s social protection schemes for incorporating HIV sensitivity.”

The recommendations put forward by the review included mechanisms to expand programmes and the means to ensure access to the programmes for HIV affected households through automatic qualification irrespective of poverty status. Other recommendations included: increased of cooperation across actors; sensitization of key service providers; protocols and procedures to ensure confidentiality of people living with HIV; and including HIV status as a category for accessing schemes, among many others.

In 2014, efforts continued with a national consultation on Advancing HIV-Sensitive Social Protection. The meeting was organized by UNDP and UNAIDS in partnership with the Cambodian People Living with HIV network (CPN+). Seventy representatives participated

⁷⁴ National Aids Authority, UNAIDS and UNDP, 2013. “HIV Sensitive Social Protection: A review of Cambodia’s social protection schemes for incorporating HIV sensitivity.”



in the consultation from the Cambodian government, civil society, community groups, including entertainment workers, members of the LGBTQ community and people who inject drugs. The meeting identified key areas for improving access to social protection services, which included eligibility criteria, making services more user-friendly and non-discriminatory, increasing the communities understanding of how to access and use available services and ensuring that communities are engaged in designing, planning, implementing and monitoring services.

Moving forward, the emphasis is on the actual implementation of the recommendations of the review. This will require using the ongoing the implementation of the National Social Protection Strategy to develop policy, and design and implementation of programmes and monitoring/evaluation, that considers the HIV sensitivity of social protection responses and targeting mechanisms.

Furthermore, the experience of implementing HIV-sensitive social protection in Cambodia can be used as a road map for demonstrating and advocating the importance of making general social protection schemes sensitive to the specific needs of other vulnerable groups as defined in the National Social Protection Strategy, such as ethnic minorities and persons with disabilities (PwD).

INSIGHTS AND LESSONS LEARNED

Cambodia's efforts to improve access to social protection for people affected by HIV provides a number of interesting insights and good practices for making social protection more inclusive of those traditionally left behind. These insights are elaborated below.

EVIDENCE

A solid body of evidence on the drivers and impacts of poverty for a specific group, such as that provided by the socio-economic study on the impacts of HIV conducted in 2011. This is critical to increase the willingness and capacity to tackle the structural factors that

influence poverty outcomes and to inform policies and strategies that aim to improve the well-being of a specific group.

POLITICAL LEADERSHIP

Strong national political leadership, such as that provided by the NAA in Cambodia, accompanied with strong collaboration among development partners, such as that developed between UNAIDS and UNDP. This strengthens efforts to extend social protection to specific groups.

ENGAGEMENT AND PARTICIPATION

Engagement and participation of the specific groups that are being targeted, such as the involvement of people living with HIV and other key populations and their community-based organizations in the Cambodia process. This is critical to understand the needs and barriers faced by these groups.

MULTI-SECTORAL GOVERNANCE AND COORDINATION

Establishment of multi-sectoral governance and coordination mechanisms involving multiple stakeholders and sectors in areas such as health, social policy, law and justice, education, labour, and community development.

EXPERIENCE

Use experience to extend social protection to other marginalized groups. Similar assessment studies can be initiated to pursue, for example, social protection sensitive to the needs of people living with disabilities. Such social protection efforts, with pronounced emphasis on the most vulnerable and excluded, could contribute to inclusive national development founded on the principles of human rights, equity and dignity.

CASE STUDY 2

— DISABILITY RIGHTS IN CAMBODIA

CONTEXT

Cambodia, as we said at the beginning of the chapter, has undergone a profound transformation over the last two decades. Emerging from protracted conflict, the country is now characterized by relative stability, peace and vibrancy. Socio-economic gains have been impressive, whether measured in human-development progress, reduction in absolute poverty, growth in GDP and income per capita, or improvements in infrastructure.

Three UN agencies (UNDP, WHO, UNICEF) partnered with DFAT Australia to develop UN Joint Programme-Disability Rights Initiative Cambodia (DRIC) in order to contribute towards improvement in the quality of life for persons with disabilities in Cambodia. The end-of-programme outcome is to ensure that persons with disabilities have increased opportunities for participation in social, economic, cultural and political life through effective implementation of the National Disability Strategic Plan 2014-2018 (NDSP) and Convention on the Rights of Persons with Disabilities (CRPD). The programme is expected to last 5 years (2014-2018) with estimated budget of USD 11.5 million.

In the framework of the programme and through other intervention UNDP is supporting people with disabilities and their organizations in advocating with Royal Government Of Cambodia for inclusion of people with disabilities in national development agenda. UNDP is working with RGC and disabled people organizations in implementation on NDSP and CRPD.

BACKGROUND AND STARTING POINT

There are no reliable estimates of the number of people with disability in Cambodia, nor of their quality of life or access to disability-specific and mainstream services. The World Bank and WHO estimate that 15 percent of the world's population have a disability, of whom 2.2 percent have very significant difficulties functioning.

The Royal Government of Cambodia's (RGC's) commitment to improving the lives of people with disability through recognition of their rights was demonstrated through ratification of the Convention on the Rights of Persons with Disabilities (CRPD) in 2012. In addition

to ratifying the CRPD, the legal framework of disability rights is also regulated by the Law on the Protection and Promotion of the Rights of Persons with Disabilities (Disability Law) in 2009, the Convention to Eliminate all forms of Discrimination Against Women in 1992, the signing of the Incheon Strategy to "Make the Right Real" for Persons with Disabilities in 2013, and the adoption of the National Disability Strategic Plan 2014-2018 (NDSP).

In response to the commitment of national and international legal frameworks, the RGC created institutional mechanisms to ensure the rights of persons with disabilities are protected, including the Disability Rights Unit under the Disability Action Council Secretariat (DAC - SG), the Disability Rights Administration (DRA) under the Department of Social Welfare for Persons with Disabilities of the Ministry of Social Affairs, Veterans and Youth Rehabilitation. However, these institutional mechanisms operate with very limited capacity due to a lack of funding and human resources. In addition, there are limited ways in which civil society can meaningfully participate in creating and implementing policies aimed at improving lives of disabled people.

The Disability Action Council (DAC) has a role as a top national inter-ministerial coordination and advisory mechanism on disability. The DAC is chaired by the Minister of Social Affairs and has the Prime Minister as an honorary president. The DAC Secretariat is the main UNDP counterpart for disability issues.

The Cambodian Disabled People's Organization (CDPO) is an umbrella disability organization with 63 Disabled People's Organizations (DPOs) as members, including the Women with Disabilities Forums (WWDFs) across the country. CDPO's main role is to represent DPOs/WWDFs nationally and advocate for the rights and interests for persons with disabilities aimed at achieving improved quality of their life. CDPO aims to ensure that persons with disabilities have equal rights and fully participate in society by ensuring that the voices of persons with disabilities are heard at all levels.

There are numerous laws and policies in Cambodia that provide for the rights of people with disabilities. However, in practice they are faced with multiple challenges such as inequality and discrimination in access to education, healthcare and other services as well as being



particularly vulnerable to violence. With a predominantly Buddhist population, it is often thought that disability is seen as a result of a sin in a past life. There are however, other cultural norms that impact on people's perception of disability.

People with disability have limited knowledge about their rights. In addition, there are numerous limitations in venues for redress, whether formal legal action (inaccessible, expensive, low awareness and capacity of duty bearers), as well as the absence of other grievance mechanisms beside courts which can help them to remedy these challenges effectively. Currently, in Cambodia there are no systemic mechanisms aimed at supporting people with disability when they need legal assistance. People with disability also face difficulties in participating in political life. The lack of reliable data and documented practices is an additional challenge.

WOMEN WITH DISABILITY

According to a study published in 2013, Cambodian women with disabilities experience multiple disadvantages resulting from the interplay between gender, disability and poverty. Among other things women with disabilities:⁷⁵

- + Experience almost five time higher rates of emotional, physical and sexual violence by household members (other than partners);
- + Were considered less valuable and more burdensome within the household;
- + Were 2.5 times more likely to require permission from a partner to seek healthcare; and
- + Experience higher rates of psychological distress (as a result of partner violence) and are less able to disclose family violence or seek appropriate support (often because communities/non-government organizations (NGOs) do not seek to include them in prevention/support programs).

⁷⁵ Jill Astbury, Fareen Walji, Triple Jeopardy: Gender-based violence and human rights violations experienced by women with disabilities in Cambodia, AusAID Research Working Paper 1, January 2013, p.20, 29

DEAF PEOPLE AND PEOPLE WITH INTELLECTUAL DISABILITY

People who are deaf or have a hearing impairment are particularly marginalized. It is estimated that there are over 50,000 people who are deaf in Cambodia and 500,000 with a hearing impairment; however, among deaf persons only 1,800 people have been taught sign language.

As a post-conflict country, Cambodia is vulnerable to a number of risk factors which can lead to high prevalence for psychosocial impairments among the population. For example, the prevalence of post-traumatic stress disorder is substantially higher than the global average.⁷⁶ Government efforts to address this issue have not produced significant results, with only 0.2 percent of the total health budget spent on mental health.

UN JOINT PROGRAMME DISABILITY RIGHTS INITIATIVE CAMBODIA (DRIC)

In order to address some of the above challenges facing disabled people in Cambodia, three UN agencies (UNDP, WHO, UNICEF) partnered with DFAT Australia to develop the UN Joint Programme-Disability Rights Initiative-Cambodia (DRIC). It is expected to last 5 years (2014-2018) with an estimated budget of US\$11.5 million. The programme consists of 4 four components:

- + Component 1: Supporting Government implementation of the Convention on the Rights of Persons with Disabilities (UNDP);
- + Component 2: Supporting Disabled People's Organizations to raise the voice and protect the rights of people with disability (UNDP);
- + Component 3: Supporting rehabilitation systems strengthening (WHO); and

⁷⁶ Daniel McLaughlin, Elizabeth Wicker, Leitner Centre for International Law and Justice, Special Report, Mental Health and Human Rights in Cambodia, 2012, pp. 12, 17, 19, 22 Ibid.

+ Component 4: Inclusive governance and inclusive community development (UNICEF).

The programme is designed using a human rights based approach and aims to make a significant contribution to reducing stigma and discrimination against people with disability by: (i) increasing the capacity of key government and civil society institutions for disabilities to implement the NDSP; (ii) addressing physical, institutional, communication and other barriers; and (iii) by promoting development processes to be more inclusive of people with disability.

RESULTS UP TO DATE AND KEY PARTNERSHIPS

INSTITUTIONAL STRENGTHENING AND CAPACITY DEVELOPMENT

Cambodia is the first country to have taken the initiative of constituting Disability Working Groups (DWGs) in each of the ministries to mainstream disability within the policies and programmes of the government. To date, 14 line ministries have established DWGs to enable effective implementation of the National Disability Strategic Plan (NDSP).

A coordination mechanism is in place to ensure that the strategic objectives of the NDSP are implemented and taking into consideration the human and financial resources available. A framework to monitor the implementation of the NDSP has been created and is pending the approval of Government. The process of reporting on the implementation of the CRPD has been initiated by holding a regional learning event to expose the key government officials to good practices for preparing a national report with a disability-inclusive process.

Under the programme, the Disability Action Council (DAC) has opened provincial offices in all 25 provinces in the country. The main duty of provincial DAC offices is to ensure implementation of

the NDSP at a local level, to educate local authorities on the rights of people with disabilities and to liaise with local DPOs and various government departments in addressing potential rights violations and denial of services to people with disabilities. Currently, DAC with support of UNDP, is regularly providing training for their provincial staff. Initial reports from local Disabled People Organizations state that due to active engagement of local and national level DAC staff, several concrete issues facing individuals with disabilities have been successfully resolved.

In order to motivate and orient key government officials in practicing a rights based approach, a regional learning event was organized by UNDP which sought the participation of proactive countries in the region to share their experiences with the Cambodian counterparts.

UNDP has also commissioned a functional analysis of the disability sector institutional landscape in Cambodia with concrete recommendations for improving the system toward higher effectiveness. In addition, in-depth analysis of existing disability-related data sources and recommendations for improving comprehensive disability-related data collection, analysis and utilization has been initiated. At this time follow up actions are dependent on the availability of funds.

ADVOCACY

At the initial phase, the programme organized and facilitated the visit of the 'Special Rapporteur on Disabilities to Cambodia' to strengthen the advocacy initiatives of the DRIC for mainstreaming disability within the policies and programmes of the Royal Government of Cambodia and development partners. The Special Rapporteur has held meetings with various key government officials including the Minister of Social Affairs, the DAC Secretary General and representatives of major development partners active in Cambodia. The visit received significant amount of publicity in local media.

The capacity of the Cambodian Disabled People's Organization (CDPO) to effectively act as the channel for raising the voices of persons with disabilities has been increased significantly with UNDP support. The government has begun to consult the umbrella organization of the



DPOs by providing representation in the technical working groups and committees constituted for the purpose of drafting legislations and policies.

UNDP has used its convening power and good relations with the Government to facilitate cooperation between DAC and CDPO which was instrumental in formulating decrees such as the Inter-ministerial Prakas for discount in school fees and stationery for students with disabilities, financial reward for persons with disabilities who excel in sports, and designation of parking space for persons with disabilities in public areas. Advocacy of the CDPO has led to the government's initiative to include the CDPO in drafting a new Law on Access to Information.

CDPO and its members—Disabled People's Organization (DPOs)—have developed a new advocacy strategy to influence the government to be more inclusive. The programme has also developed a partnership between key government agencies and civil society in raising awareness about the national law and international human rights instruments. The Radio stations that were established by the CDPO under the programme in several province have become a source of information for people with disabilities and other stakeholders about the rights of people with disabilities and also in addressing the various barriers faced by them.

WOMEN WITH DISABILITIES

Since the DRIC began, significant change has been seen in the increase in representation of women with disabilities and other minority groups within the hierarchy of the umbrella organization. Approximately 50 percent of the CDPO staff are women with disabilities and 40 percent of the members of the governing board of the DPOs are women with disabilities.

With UNDP support, the CDPO has organized several new Women with Disabilities Forums (WWDF) in various provinces in the country. Nine of these forums benefited from the small grant provided by CDPO/UNDP in the framework of the project.

POLITICAL PARTICIPATION

Prior to the elections of 2013, UNDP has supported Cambodian Disabled People Organizations and their members (DPOs) in civic education and voter registration. More than 2000 persons with disabilities throughout the country (around 800 were women) were trained on civic education and were registered to vote.

ACCESS TO SERVICES AND JUSTICE

In 2106, UNDP supported the advancement of human rights of people with disability in Cambodia and strengthened and expanded the disability's rights movement capacity to advocate for those rights.

A study was commissioned to provide for a situation analysis on the state of human rights of the people with disabilities in Cambodia and to document the main issues, trends and existing mechanisms for protection of these rights, with focus on of grievance mechanisms and access to justice.

To the extent possible the initiative will use a participatory action research methodology in its analysis and recommendations in order to secure strong participation of people with disabilities and their organizations. This will be done through concentrated efforts to build capacity, expand partnerships (constituency building), document evidence and good practices, and engage in advocacy to identify and achieve sustainable solutions.

The initiative will try to secure a maximum level of partnership by working with CDPO and DPOs, law universities and students, NGOs and the RGC, (particularly with Ministry of Social Affairs, Veterans and Youth and its Disability rights administration department and the Disability Action Council.

In addition, UNDP is assisting the CDPO in creating online tools which will enable people with disabilities and their local DPOs to confidentially report potential rights violations and grievances through the CDPO web site using internet and mobile phones.

UNDP COUNTRY OFFICE

Prior to the launch of the DRIC programme, UNDP Cambodia's Country Programme Document didn't have a single word on disability. Also, the UNDP premises (3 building) were almost completely inaccessible to people with disabilities.

Today, UNDP has fully mainstreamed disability in its new CPD (2016-2018) and UNDAF (in cooperation with other UN agencies). Disability is now mainstreamed in all new initiatives. In addition, during 2013 and 2014 the ground floors of all building were made accessible to people with disabilities with construction of completely new main conference hall.

in the agenda of the government and opening of the DAC provincial offices to reinforce implementation of the Law and address grievances proved to be a good practice.

Since needs and challenges facing women with disabilities can be very specific, it makes sense for a separate and women-specific disabled people's organization to exist (called Women with Disabilities Forum). In a conservative society such as Cambodia, it has be proven that such organizations provides safer forums for women to speak out about their problems.

INSIGHTS AND LESSONS LEARNED

The DRIC has been implemented for only two and half years, so it might be difficult to draw definite conclusions and lessons learned at this stage. Crucial for this will be mid-term programme evaluation which is scheduled for this 2016.

The DRIC has benefited from strong leadership in both national partners institutions (DAC representing Government and CDPO representing civil society). One of the key requirements to make the national disability law work effectively is to have an enforcing authority that is well equipped to promote and protect the rights of people with disabilities and to redress grievances regarding violation of rights. Currently, the Disability Rights Administration (DRA), which is expected to enforce the law, is relatively weak and the programme has to focus more on strengthening the enforcement authority. Meanwhile, the project needed to reinforce existing informal mechanisms by strengthening the cooperation between stakeholders (civil society, development partners and various government institutions).

Constitution of the DWGs in key ministries to implement the strategic objectives of the NDSP and also to ensure mainstreaming of disability







THE ROLE OF LAST MILE FINANCE IN LDCs

UNCDF CASE STUDIES

Chapter 3

OVERVIEW

Official Development Assistance (ODA) can be the largest source of external finance in some of the poorest and most vulnerable countries. LDCs can face major constraints in mobilizing other resources for development—both private and public, foreign and domestic—and in channeling them into social and economic infrastructure and productive investments, particularly at the local level. In addition, the different approaches and priorities of some financial investors mean that many of the dominant investment strategies today are not well-suited to sustainable development. To ensure that growth is equitable and sustainable, leaving no one behind and addressing exclusions and inequalities, it is important that finance is incentivized to flow to the last mile.

LDCs have accumulated public and private capital reserves (banks, pension funds, remittances, savings, revenue from commodity exports, growing local and national tax receipts). These domestic resources, if unlocked, have the potential to promote sustainable development, help retain value locally, and stimulate inclusive growth. Using ODA in catalytic and smart ways to leverage public and private resources, especially at the domestic level, can crowd-in these other resources by reducing the risks for investors, revealing markets to a wider pool of investors, and helping build confidence in local economies.

For this reason, UNCDF promotes and innovates various programmes and

public-private partnerships that use ODA to leverage greater amounts of public and private finance, especially from domestic resources.

To share lessons learned from its experiences with these last mile finance models and to showcase how such models can and do tackle exclusions and inequalities and build resilience in LDCs, including by changing the behaviors of other investors and partners, UNCDF has prepared three case studies of current programmes, demonstrating how a different mix of innovative financing and business models, correctly targeted, can make finance work for the poor in support of various development goals:

01. The Local Finance Initiative (LFI) case study details how ODA – through seed capital and technical assistance - is being leveraged effectively to de-risk and incentivize private sector financing of crucial local infrastructure that underpins local economic expansion and poverty reduction.
02. The CleanStart case study shows how innovative business models and flexible financing platforms can establish viable markets and ecosystems that enhance the diffusion of clean and renewable energy solutions to poor households and communities.
03. The Mobile Money for the Poor (MM4P) case study demonstrates how a shift to digital financial services can reach unbanked, poor and remote populations who have been excluded from traditional financial services networks.

While each of these programmes addressed different development objectives, collaborated with different sets of stakeholders, and operated in a diverse array of LDCs with distinct political, cultural, and socio-economic contexts, several common themes and underlying principles can be gleaned from the narratives. These are elaborated below.

BUILD ECOSYSTEMS AND DEVELOP MARKETS

All three programmes adopted a holistic approach to their support by convening and collaborating with the key market stakeholders to build a mutually reinforcing ecosystem. The programmes work not only with financial service providers to unlock financing, but with the entire supply chain—LFI with the construction and facilities supply chain, and CleanStart with the energy supply chain. They work with national and local governments—LFI to build local government capacity to partner with the private sector and MM4P to promote an enabling regulatory environment for digital finance. Further, they work with a range of traditional and non-traditional private sector actors—CleanStart with the Pay-As-You-Go (PAYGo) enterprises and MM4P with mobile network operators (MNOs)—to push the frontier of financing. Through their efforts, these programmes helped to reveal new markets for local businesses, stimulate new investments into the local economy, and broker new investment opportunities for domestic and international funders..

ADAPTIVE PROGRAMME MANAGEMENT

The cases highlight the importance of flexibility in programme design and approach; this is especially true in LDCs where markets are dynamic and technological advances enable countries to leapfrog the traditional stepping stones of a country's development pathway. For CleanStart and MM4P, the proliferation of mobile technology and rapid growth of digital payment platforms disrupted the traditional operating ecosystem and original assumptions of the programme, but also presented new and interesting opportunities for UNCDF to re-define its role and leverage its resources towards more targeted and strategic investments. For LFI, the programme realized that providing risk capital is necessary, but not sufficient and dedicated more efforts in capacity building at all levels—local government authorities, project promoters, and banks—to enable a more fluid and collaborative process.

TARGETED USE OF INVESTMENT CAPITAL

UNCDF's ability to use a range of financial instruments from grants to credit to guarantees, allowed the programmes to apply capital where it could value, whether to incubate a new venture or business models as under CleanStart, to de-risk a complex infrastructure project finance as under LFI, or to incentivize providers to move beyond their comfort zone towards rural areas and under-served populations as under MM4P.

The programmes are also investing in evidence-based and data-driven research, including geospatial mapping under MM4P, that will help governments and implementing partners (financial service providers, energy providers, mobile operators, etc.) to have a better understanding of the market, to identify gaps, and to make more grounded decisions regarding investment opportunities (private sector) and fiscal resource allocation (governments).

RELATIONSHIP BUILDING AND STAKEHOLDER BUY-IN

For these programmes, having a strong relationship with government counterparts not only ensured buy-in of the approach, but also facilitated communication among the different stakeholders. Having the government as a partner and collaborator also sent the right signal to the private sector that their investment capital is welcomed and encouraged. Successful relationships helped to change the mindset and attitudes of governments as under LFI and MM4P, and unlocked additional capital for priority sectors such as energy finance under CleanStart.

SUPPORTING BEHAVIOURAL CHANGE

Also common to these programmes is that each in its own way seeks to change how investors and other development partners perceive and respond to opportunities in local economies. More broadly, through deploying

a mix of seed capital and technical assistance, these programmes showcase how “last mile finance” models have the potential to alter the dynamic of how finance flows in LDCs and, in so doing, to help LDCs and meet their graduation goals.

LONG-LASTING CHANGE REQUIRES PATIENCE

Ultimately, these case studies confirm the importance and value of public-private partnerships. They also show that these partnerships take time and continuing commitment—time to identify who you can work with, to find common points of interest, and to figure out what, where, and how to collaborate. The fruition of these efforts can take years, not months, and does not necessarily fall neatly into a programming or funding cycle. However, when successful, as was seen under these case studies, these relationships will result in a national regulatory and policy environment that is more self-sustaining, transparent, open to business innovations, and inclusive of all population segments (youth, women), communities (rural and remote), institutions (private and public, non-profit and for-profit), and localities (from small hamlets to tertiary cities).



CASE STUDY 3

— LOCAL FINANCE INITIATIVE

CONTEXT

As most LDCs continue their pathway toward economic growth, we need to focus not only on the rate of growth, but also on the quality of growth, where the benefits of growth are equitably distributed, where sustainable institutions and systems exist at national and subnational levels to build stronger local economies in support of structural transformation, and where cities and communities demonstrate greater resilience to economic shocks, natural disasters, and climate change.

To realize inclusive growth, countries should have the capacity and resources to mobilize, allocate and account for capital flows to “last mile” pockets where poverty is entrenched, economic opportunities are limited, and development plans under-funded. Concurrently, local governments should have access to capital to fund their local development needs and respond to growing demands for better infrastructure, services, and jobs. Indeed, if the local economy does not mobilize resources or support employment generation, innovation, and entrepreneurship, it will struggle to implement development policies and maintain basic services provision in the long run.

Yet, while expenditures and investments in sustainable development are increasingly being devolved to the subnational level, local authorities often lack adequate technical and technological capacity, financing and support to fulfill their responsibilities. In many LDCs, local savings are not invested locally or limited investment is provided for local development because of a lack of confidence from financiers and a track record of successful transactions. The different approaches and priorities of some financial investors, including impact investors, mean that many of the dominant investment strategies today are not well-suited to the local level and beyond capital cities.

UNCDF's local development finance model aims to shift that dynamic by de-risking the local economic space. By applying seed capital and technical assistance to develop innovative solutions and partnerships,

UNCDF seeks to leverage and mobilize the investment of public and private resources - especially from available resources at the domestic level, such as from pension funds or bank liquidity - into local economies through fiscal decentralization, municipal finance, and other innovative forms of private capital mobilization, such as that pioneered by the Local Finance Initiative.

Through these models, local public and private institutions are incentivized to channel financing to the local level for the development of necessary infrastructure that forms the backbone of local economies, supports climate change adaptation, and contributes to growth that is equitable and resilient. Supporting local economic development also expands the potential of local authorities for bringing in additional tax revenues, which can then be re-invested into other local development initiatives.

MARKET FAILURE

In many countries, local governments have small infrastructure needs that are not being funded for several reasons, including:

- + Weak capacity by local governments and local private sector actors to develop “bankable” projects;
- + Project development costs are high and local governments have limited fiscal resources;
- + Local currency financing is available, but there is no mechanism for accessing them;
- + Investor perceptions of the risks and returns from such projects in local economies and concerns about local management capacity; and
- + An “understanding gap” that views local economies as unreliable partners.

The result is a mismatch between the high level of infrastructure needs and the supply of financing. Fiscal transfers from the central

government helps to fulfill some of these local development projects, but these flows are not always reliable and oftentimes not sufficient. Despite significant inflows of domestic and international public and private investment capital for infrastructure, very little is reaching the critical local infrastructure that underpins dynamic local economies, builds resilience to wider economic shock and transforms economic structures. Innovative financing mechanisms that deploy public resources—notably ODA—are needed to de-risk the local economic space, reveal markets to a wider pool of investors and thereby crowd-in non-traditional funders, public and private, into new areas.

THE LFI MODEL AND APPROACH

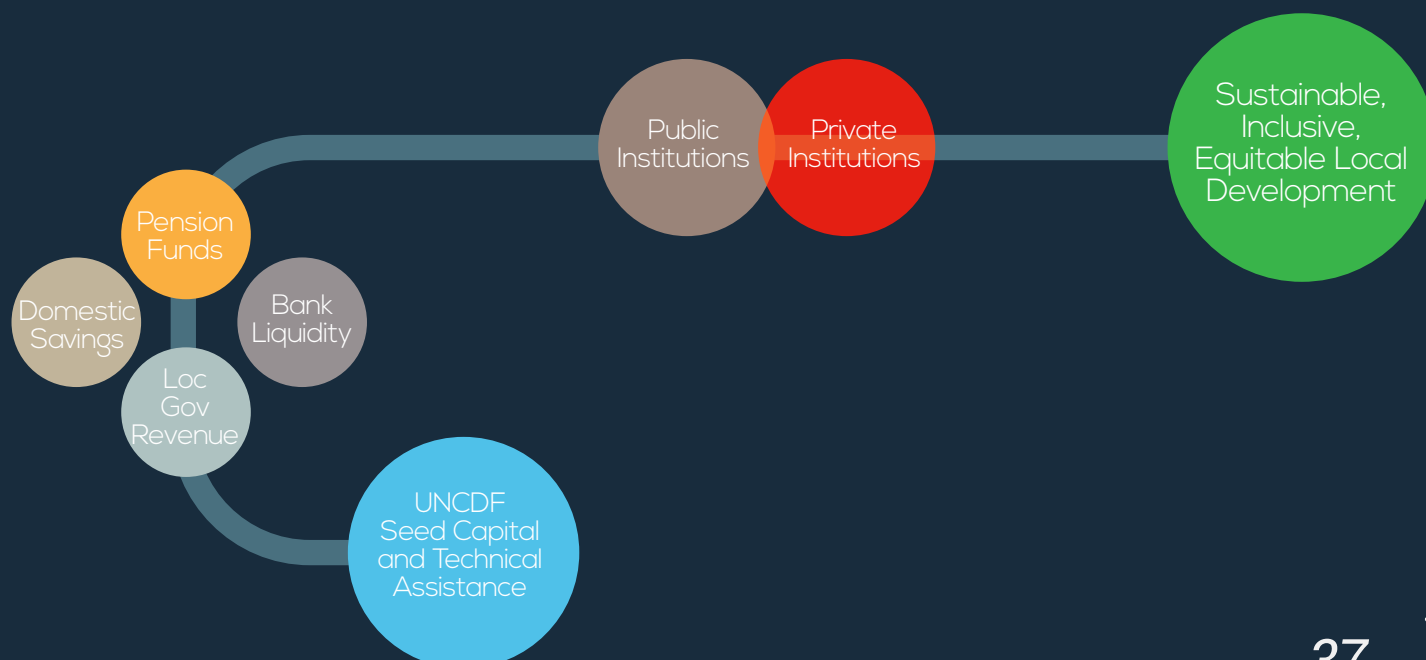
In 2012, UNCDF piloted the Local Finance Initiative (LFI) in Tanzania⁷⁷, a “last mile” finance model aiming to unlock finance so that local

⁷⁷ The LFI model is scheduled to expand to Bangladesh, Benin, Lao-PDR and Uganda in 2016.

development projects can get to “closure.” This case study examines the LFI model and approach through the following guiding questions:

01. How has the model used a blend of public and private financing to overcome market failure and crowd in financing?
02. What are the desired market conditions or pre-existing factors for implementing the model?
03. Who are the beneficiaries/populations served and how has the model addressed the issues of exclusion and inequality?
04. What is the potential sustainability of the model?
05. What were the key successes and challenges of the model? What are the implications for replicating or scaling up of the model?

FIGURE 5: UNCDF’S LOCAL DEVELOPMENT FINANCE MODEL



THE LFI MODEL AND APPROACH

Under the LFI model, UNCDF plays the role of market facilitator—a cog that works in harmony and synchronicity with other cogs to accelerate the engine of local development. As the above graphic illustrates, each cog plays a specific role and contributes in different ways toward the funding, construction, management, and oversight of small-scale local infrastructure projects.

LFI uses public resources—channeled through a combination of technical assistance (TA) and seed capital—in a catalytic way: to mobilize local and inclusive finance for development and thereby reduce risks for other actors to invest outside of capital cities and beyond those sectors where resources are typically concentrated in LDCs. While the process is similar, each local infrastructure project supported is considered unique and the TA is tailored depending on the capacity and needs of the local government or community and the type of project to be supported.

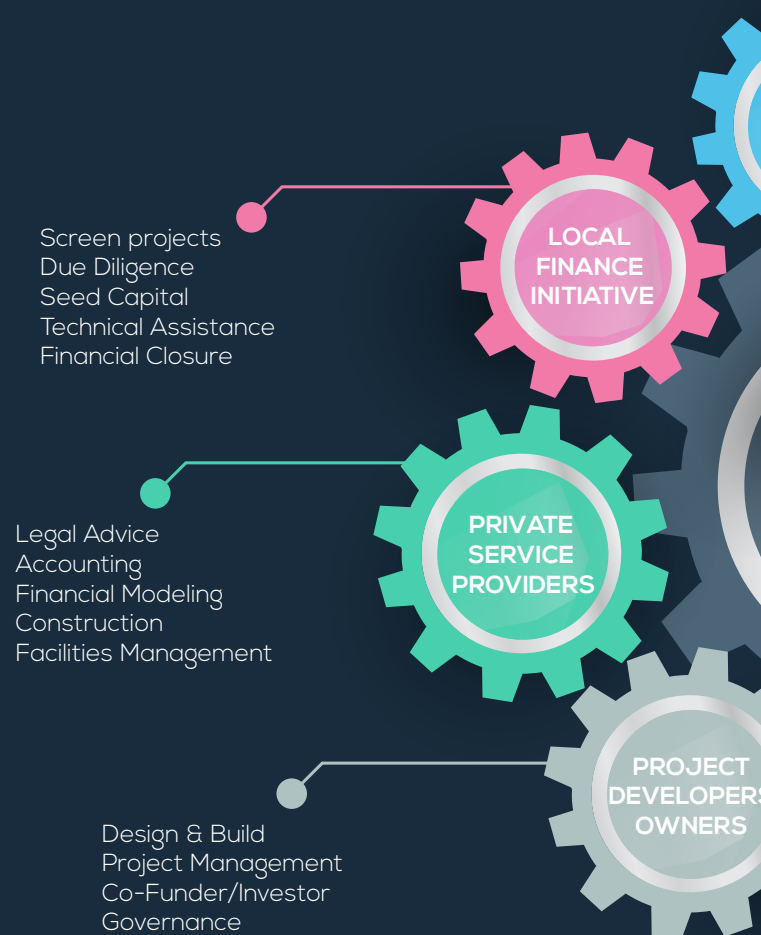
The financing bottleneck is usually at the feasibility phase. Banks and other investors are typically conservative and risk-averse so are not willing to invest the required financial resources for due diligence. So LFI provides a grant for preparation of a business and technical feasibility study, financial modeling, and transaction structuring. This support is aimed at reducing and de-risking the project and reducing transaction cost for both the borrower and the lender.

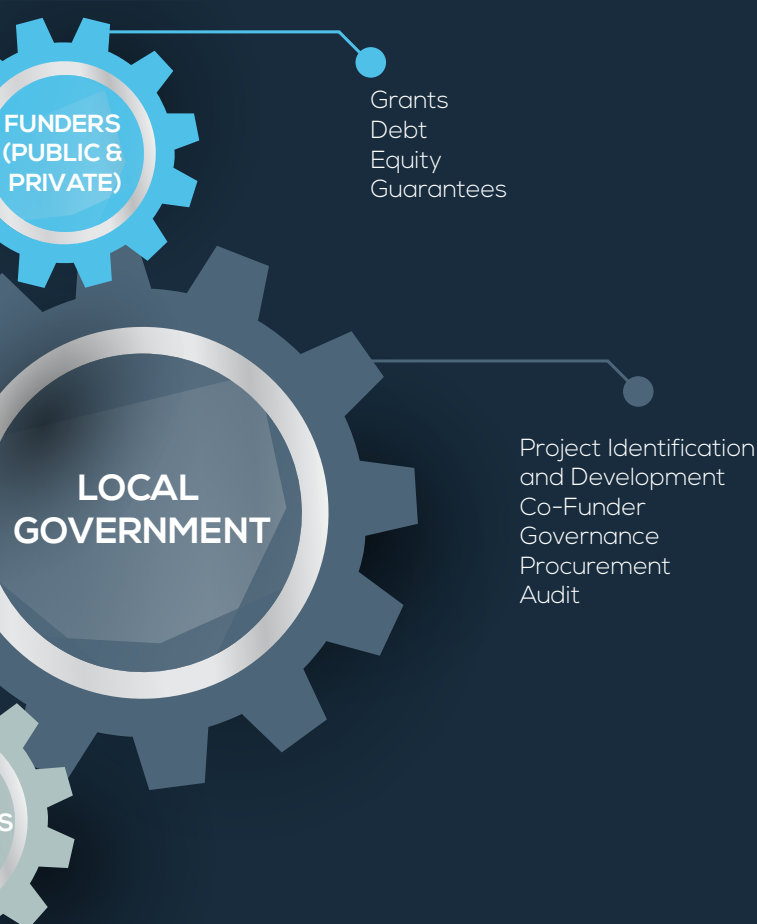
At the onset, the LFI programme conducts a first-level assessment of projects according to the following selection criteria:

01. Transformative development impact on the local community;
02. Bankability/commercial viability – what is the revenue stream, operating costs, etc.; and
03. Small-scale infrastructure projects ranging from \$500,000 to \$20 million.

In addition, the programme targets four thematic interventions: gender/

FIGURE 6: THE LFI MODEL AND APPROACH





women economic empowerment, climate resilience/clean energy, local economic development (public service delivery/public infrastructure), and food security/land restoration.

Once pre-selected, a detailed due diligence process is conducted that comprises of financial modeling, marketing strategy, governance structure, etc. If a project is considered “bankable,” LFI helps to identify and select potential lenders and funders. The lender then goes through its own process before the loan is formally approved. In this way, the ODA deployed is not a transfer resources; it is targeted to “reveal” markets to a wider pool of investors and to leverage greater amounts of public and private resources.

RESULTS TO DATE

LINKING LOCAL GOVERNMENTS TO SOURCES OF CAPITAL

At the end of 2015, LFI has reviewed 42 total projects in Tanzania, of which 30 were selected for direct support. Eight have advanced towards financial closure, which means due diligence has been completed and projects are considered to be “bankable.” The remaining projects are at various stages of due diligence and structuring. Seven out of these eight projects are substantially complete or have received signed loan agreements from local commercial banks, with LFI leveraging over \$26 million in debt funding and another \$18 million in equity/grant funding (see Table 2).

The seven projects cover different thematic areas and cover six different districts/towns. Each project also differs in capital structure, with debt playing a more significant role in traditional fixed investments like a central market or a bus terminal. For smaller clean energy projects, UNCDF partnered with the Rural Electrification Agency to unlock financing for private local organizations.



Table 2. LFI Supported Projects at Financial Closure Stage

Project name	Location	Thematic area	Total project cost	UNCDF funding	Bank funding	Other funders	Notes
Ileje Community Radio	Ileje district, Mbeya region	Food security, Public service delivery	229,547	106,000		123,549	Owner's equity and UNDP grant
Kibaha Modern Market	Kibaha town, Pwani region	Food security, Public service infrastructure	10,065,450	252,160	7,630,910	2,182,380	Kibaha Township Council's equity
Kibaha Bus Terminal	Kibaha district, Pwani region	Public service infrastructure	7,049,180	248,765	5,639,394	1,161,021	Kibaha Township Council
Lupali Hydro-Electric Power Project	Njombe district, Njombe region	Women economic empowerment, clean energy	2,208,700	50,000	859,800	1,298,900	REA Grant, UNIDO in-kind equipment, developer's equity
Moshi Bus Terminal	Moshi municipality, Kilimanjaro region	Public service delivery	15,800,000	238,000	11,150,000	4,412,000	Developers' equity
Maguta Small Hydro-electric Power Project	Kilolo district, Iringa region	Climate Resilience/ Clean energy	9,800,000	100,000	1,100,000	8,600,000	Owners' equity + grants from REA and SCWF
EnSol	Korogwe District, Tanga Region	Climate Resilience/ Renewable energy	474,089	124,000		350,089	Owners' equity, EEI funding
Totals in \$			45,626,966	1,118,925	26,380,104	18,127,939	

“COLLABORATION WITH LFI HAS INCREASED OUR GOVERNMENT’S CAPACITY TO DRIVE THE PUBLIC PRIVATE PARTNERSHIP PROCESS.”

HAJAYAND ADON, LFI GOVERNMENT COORDINATOR

CAPACITY BUILDING

LFI delivers capacity development both at the central and local government levels. At the central government, the project works with the President’s Office Regional Administration and Local Government. At the sub-national level, the project works with district/city/township authorities. During the last four years, the programme has been instrumental in translating local economic development challenges into business opportunities for both the public and private sectors. Prior to LFI, local government officials did not have the capacity or knowledge to conceptualize a local development project in a commercial way, nor did they consider reaching out to the private sector to establish Public Private Partnerships (PPP). Through a series of workshops and training, LFI helped local governments to view the private sector as technical and financial partners, thus revealing market possibilities that were previously unknown or ignored. Eventually, the focus of local government officials was re-oriented from submitting publicly-funded proposals towards developing, owning, and operating income-generating infrastructure projects that can attract private financing.

Likewise, on the supply side, LFI trained project developers and financiers in project finance techniques, risk mitigation strategies, and project development approaches for small and medium sized infrastructure projects that would accelerate local development. Over 400 people were trained in Tanzania over the duration of the pilot programme. Even among large commercial banks, project financing skills and the ability to analyze small-scale local infrastructure projects under the project finance approach were quite under-developed.

MARKET DEVELOPMENT AND PRE-EXISTING CONDITIONS

The model worked in Tanzania for three main reasons. First of all, the LFI was launched at a time when the Government of Tanzania

had undergone a number of economic reforms, including changes in laws, policies and regulations aimed at supporting local economic development. Currently, local governments are responsible for delivery of the bulk of basic services in Tanzania including education, health, water, roads and agriculture. Local governments employ around 65 percent of the total public service and manage some 27 percent of total public expenditures. However, local governments have limited budgetary discretion, as most of the funds they receive are earmarked for specific purposes.⁷⁸ Fiscal autonomy remains elusive so local governments have limited capacity to identify their own investment priorities and make independent funding decisions. The LFI approach is seen as attractive to local governments since it enables them to leverage additional resources for projects that were not earmarked but still contribute significantly to local development.

Second, Tanzania has a relatively mature private sector not only in terms of financial services, but also service providers such as business consulting, legal representation, construction companies, facilities management, etc. In a market where the private sector is under-developed, expertise would need to be brought in from either the capital city or from outside the country. Unless conscious efforts are made to ensure the appropriate transfer of technology and skills to the local level, and thus the creation of local employment, there would not be the same level of benefits that would be derived from working with, say, a local construction firm.

The timeline for implementing infrastructure projects, even small to medium scale, can range anywhere from 2 to 10 years. Political stability and predictability are important mitigants of credit risk for financial institutions, developers, and investors.

⁷⁸ Tidemand, Per, Nazar Sola, Peter Bofin, and Amon Chaligha. Comparative Assessment of Decentralization in Africa: Tanzania In-Country Assessment Report. Prepared for USAID. October 2010. http://pdf.usaid.gov/pdf_docs/PNADX211.pdf



BENEFICIARIES/TARGETED POPULATIONS

LFI focuses by design on the “last mile” – where resources are not flowing and development needs the greatest. It adheres to the hypothesis that “a dollar invested locally in a lagging region has a bigger impact on growth than a dollar invested in a growing region, and that growth is more likely to be inclusive in nature.” For example, Southern Tanzania, though rich in natural resources, remains a very under-developed region. Consequently, LFI tries to catalyze more projects in that region to ensure equity in the allocation of resources and to support broad-based development.

A good example is the Lupali Small Hydroelectric Power Project, a partnership between UNCDF/LFI, the Rural Energy Agency, and the Benedictine Sisters of St. Gertrud Convent Imiliwaha (BSoSGCI). BSoSGCI is a women-led religious organization and its 500 female members initiated and participated in the project development. The Power Project will increase rural electrification for 7,704 people in four villages. By providing clean energy, the project is expected to:

- + Improve the delivery of health and education services by increasing electricity access to one hospital, four dispensaries, three secondary school, seven primary schools and six nursery schools;
- + Increase food security and value-added agricultural production by extending the shelf-life of perishables and enable new business enterprises in the area;
- + Support women’s economic empowerment by reducing the time spent by women to collect firewood and shifting more time toward income-generating activities; and
- + Reduce the carbon emission of the villages by displacing the use of fossil fuel toward a cleaner source of energy.

The total value of the project is \$2.2 million. BSoSGCI contributed its own equity of \$74,000, UNCDF contributed \$45,000 for project

preparation costs including detailed technical feasibility studies, the Rural Electrification Agency provided a grant worth \$1.2 million, and the Tanzania Investment Bank has approved a loan of \$860,000. In short, a relatively modest sized infrastructure project can have wide-ranging benefits on a community. Moreover, by partnering with the Rural Electrification Agency and Tanzania Investment Bank, the LFI programme was able to obtain a 1:16 leverage ratio on its small investment.

FINANCIAL VIABILITY/SUSTAINABILITY

At this stage, the sustainability of the model can be assessed based on the quality of the relationships among the partners, and the process by which projects are developed, vetted, and implemented. The hypothesis is that if the LFI methodology and process can be institutionalized within the local government authorities, there is a higher probability for long-term sustainability.

In terms of bank funding, LFI has partnered mainly with Tanzania Investment Bank, the national development bank. This is because Tanzania Investment Bank has a MOU with the President’s Office to fund commercially viable government projects. Not all commercial banks are interested in funding these local infrastructure projects so in the interest of moving the project forward, LFI has worked more with Tanzania Investment Bank. However, this is changing and some demonstration effect is starting to take shape as several private financial institutions such as Standard Bank, National Microfinance Bank, and CRDB Bank have expressed interest in funding projects in the pipeline. In essence, the LFI model is about changing mindsets, a process that takes time. The use of public resources – such as ODA through UNCDF – can help to unlock and accelerate local governments’ access to different sources of funding.

A second factor influencing sustainability is transparency and fairness of the tendering process. LFI provides capacity building to Local government authorities on the tendering process. The bank is actively

engaged since they hold the most risk and have the most stake in making sure the project is implemented smoothly. The government has its own procurement policies and procedures; UNCDF does not get directly involved, but acts as an observer. The government also has its own audit function to verify compliance with procurement policies. At the end of the day, financial institutions need credible assurance of fiduciary responsibility and accountability on the part of the borrower, regardless of whether it is a town council or a corporation.

Last, governance is another important factor. There's a distinction to be made between ownership of the project and the management of the structure once it's completed. For example, in the case of the Kibaha town market, the local government is part shareholder and owner of the project, but a board of directors and management team has to be put in place for the day-to-day operations. Such boards can be run by a professional service company with experience running similar markets in other parts of the country, or by an association of vendors, or by community members, or a combination thereof. The importance is that the management board should be independent of the local government. Through the LFI-supported workshop and interaction with Local government authorities, there is more acceptance of independent (and private) operation of the finished structures. Until the construction of these structures are completed, and they become fully operational, it is not possible to gauge their long-term financial viability in terms of increased revenues for the local government and the reinvestment of those reflows into additional local development projects.

INSIGHTS AND LESSONS LEARNED

RELATIONSHIP BUILDING AND COMMUNICATION

One early lesson learned is that central government buy-in and engagement should be done at the onset since they have their own checklist for vetting local development projects. The government likes to be aware of these projects even at the feasibility stage so that they can be included in the government budget and investment plan. Confidence and credibility are crucial: LFI builds on UNCDF's 20 year history of working with local governments in Tanzania.

Likewise, establishing a relationship with government agencies like the Rural Electrification Agency, helped to mobilize investments for small hydro-electric power projects and put the project in a stronger position to attract bank lending. Such strategic partnerships can help to further "de-risk" the transaction for commercial lenders and investors and increase their appetite for funding similar projects in the future.

TAKE A LONG-TERM VIEW AND ADAPT ALONG THE WAY

Project financing takes time and patience, especially when new partnerships are being forged. The Kibaha Town Council's modern market was an early transaction that provided some useful lessons. Even after the market building was approved for funding by Tanzania Investment Bank, the disbursement was delayed since the bank required consent from the central government for the local government to borrow. The bank also wanted to make sure that the governance structure of the project had been established.



THE LOCAL CLIMATE ADAPTIVE LIVING FACILITY (LOCAL): USING PERFORMANCE BASED GRANTS TO UNLOCK FINANCING

RESPONDING TO MARKET FAILURE. LoCAL was designed to help local governments unlock financing for climate change from the central (and global) level so that they can cope with the increased cost of building resilience to climate change and natural disasters. In most countries, the mandate for climate change adaptation lies at the local level, yet the bulk of CCA funding stays at the national level and Ministry level. When funding does get transferred to the local level, it is often channeled through a parallel system that does not necessarily adhere to public financial management principles. Supported by SIDA, Belgium, EU, and Liechtenstein, the model launched its initial pilot programme in 2011 in Bhutan and Cambodia. The programme is being implemented in 11 countries, including Bangladesh and Lao-PDR.

Under LoCAL, UNCDF provides technical and capacity-building support combined with Performance-Based Climate Resilience Grants (PBCRGs). These provide a financial top-up to cover the additional costs of making investments in climate resilient structures and ensure verification of climate change expenditure at the local level. The funds are channeled through existing government fiscal transfer systems, rather than parallel or ad hoc structures. Under the PBCRGs, the local government has to demonstrate that it can meet the minimum conditions for implementing climate resilient projects. Usually, the minimum conditions entail good public financial management and good governance. If the local government exceeds the minimum condition to achieve highly quality, it will earn a “bonus”, essentially an increase in the annual fiscal transfer from the central government.

PHASED APPROACH TO IMPLEMENTATION. LoCAL follows a three phase methodology.

- + In phase 1, UNCDF pilots the PBCRG mechanism with a US\$200,000 to \$300,000 grant to one country to work with two or three local governments. The main objective of this phase is to raise awareness about climate change adaptation and to introduce the country to the PBCRG mechanism. The duration of this phase spans from one to two years.
- + In phase 2, UNCDF works with the national government to scale up the PBCRG mechanism to 5 to 10 percent of the local government's. The duration of this phase is about three years.
- + In phase 3, the LoCAL PBCRG will be rolled out nationally. In addition, it is expected that the local government in concert with the national government will be able to secure climate change adaptation funding directly from donors and global funds, notably the Green Climate Fund. UNCDF will play only the role of quality control and will no longer have fiduciary responsibility.

SUCCESS STORY. With the support of SIDA, UNCDF helped Cambodia successfully scale up the PBG mechanism to enter phase 3. In 2015, the Government of Cambodia nominated the National Committee for Sub-National Democratic Development Secretariat, the LoCAL implementing partner in Cambodia, as the first National Implementing Entity to access Green Climate Fund Direct Access to scale up the PBCRG mechanism nation-wide. This shows that LoCAL is a viable platform that can be used to transform a country's capacity to access global funds for climate change adaptation. It is hoped that Cambodia's example will provide a powerful demonstration effect for other LDCs.

INNOVATIVE PARTNERSHIPS. LoCAL also uses innovative partnerships to make cutting-edge technology available to LDCs and to provide global climate funds with the confidence that resources are being spent on climate needs. For example, the Korean Environmental Institute provides its climate forecasting expertise to LoCAL so that it can check that the local investments correspond with the latest climate science about how their ecosystems might change. And the programme is working with the World Resources Institute to ensure that the climate finance allocated to local authorities is verifiably building resilience and delivering results for vulnerable communities.

LOCARB: TAKING LOCAL TO THE NEXT LEVEL. LoCAL can serve as a conduit for projects that are deemed to be outside the scope of local government public investments, but can make a contribution to climate change adaptation. For example, Bhutan is considering growing a new crop, switching from potatoes to citrus as there is strong demand in India for citrus fruits. LFI may be a more appropriate platform for turning this concept into a bankable project. Similarly, Cambodia would like to convert some of its community ponds into sustainable fisheries. This would be a commercial venture rather than a climate change adaptation type of project and LFI can help facilitate financing. Vice versa, where LFI identifies projects that pertain to building climate resilient infrastructure, and where private financing may not be feasible, it could be transferred to the LoCAL platform.

For subsequent projects, LFI learned to obtain central government consent before approaching a commercial lender. The programme also ensured that the business plan included more details on the governance structure of the project and the composition of the management board for the finished structure. Communication and coordination among the different players and project stakeholders are key factors in ensuring that the project makes forward progress toward financial closure.

Nevertheless, it is important to keep in mind that for this type of model, the project timeline is not clearly delineated nor neatly categorized into an open or shut transaction. Even after the lender has approved the loan, the project still needs to meet other bank conditions precedent to the first disbursement. Months could pass before the project is moved from loan approval to the tender stage to select a construction company. At what point can LFI “exit” from the process is yet to be determined.

BE OPPORTUNISTIC WHEN WORKING WITH A FINANCING PARTNER

Finding the right financial institution partner is key in unlocking private domestic capital. However, it is well known that commercial banks are risk-averse and very conservative in their lending approach. In addition, infrastructure financing usually entails a longer time frame than most banks are willing or comfortable to take on. In Tanzania, LFI took advantage of an existing MOU that the central government has with Tanzania Investment Bank to “prime the pump” and show the market that these local development projects can indeed be bankable and financially viable. In Uganda, where LFI is slated to expand during 2016, the development bank is nearing bankruptcy so LFI has to tweak its strategy and seek out other financial institutions with whom to collaborate. Preliminary discussions indicate that regional banks such as Stanbic and Kenya Commercial Bank may make good partners since these institutions have greater portfolio diversification and willing to take on more risks.

WORK WITHIN THE EXISTING SYSTEM AND LOCAL MARKET

LFI made it a point to work with the local government’s existing procurement and audit system rather than initiate a parallel system. All projects use local labour and source materials and equipment from local suppliers or vendors so that more economic value can be retained within the local economy. Most importantly, LFI stays engaged and facilitates but does not control the process so that the local government and local developers are empowered to make their own decisions. When decisions about resources are made locally, and those resources are spent or invested locally, there is potential for an accelerator effect for inclusive growth. The ability to retain value locally also builds more resilience in local market systems than foreign direct investments, which are not only unpredictable in volume and direction, but can also distort local markets by favoring certain market sectors and actors, further exacerbating economic and social inequalities.

IN-COUNTRY EXPERTISE AND TECHNICAL ASSISTANCE

Providing grants to prepare feasibility studies is an important factor in reducing the transaction cost, but it is only one step in a long process of structuring a project finance transaction. The fact that UNCDF has a team of dedicated experts to work with local officials, developers, and bank officers has helped smooth out and demystify the complex process. Given the long-term nature of infrastructure projects, it is important that the financing modalities match with the project duration and cycle. Specialized workshops and training for the relevant parties involved, including bank staff, on project development and project finance were deemed by the President’s Office and the Local government authorities as a very valuable intervention.



CHANGING BEHAVIOR, MINDSET AND ATTITUDE

One key challenge for LFI has been to shift the mindset of the local government from seeing this as free money towards understanding that the project has to be commercially sound and financially sustainable. Sensitization was a necessary first step in LFI's collaboration with the local government. The partnership with LFI has resulted in the following changes:

- + Increasing acceptance with regards to governance structures, allowing for the establishment of separate investment companies owned by Local government authorities and communities;
- + The Government, through the President's Office, will institutionalize within local governments the UNCDF/LFI local development finance approach, promoting investment in commercially viable local infrastructure projects that result in significant transformative impact for local communities; and
- + In February 2015, the President's Office instructed all local government authorities to include commercially viable projects in their Annual Investment Plans and budgets (infrastructure and productive systems). These projects are to be developed under Public Private Partnership or similar joint venture arrangements in an attempt to access new sources of capital, including from the private sector.

LEVERAGE AND DE-RISKING

By directing strategically placed ODA to de-risk and structure priority local infrastructure projects, LFI demonstrates that domestic finance can be leveraged at a rate of at least 1:10 in support of economically transformational investments. In so doing, the programme creates a "crowding in" effect to attract interest in funding smaller-scale projects.

In addition, beyond attracting finance to specific projects, LFI is seeking to change investor behaviors and perceptions over the longer term. By supporting and prompting a critical mass of de-risking in the local economic space, LFI hopes to lead to real structural change in how domestic investors direct their finance, laying the foundation for a greater allocation of domestic and other sources of capital into local economies.

MEASURING IMPACT

Currently, more weight is given to measure the impact of local infrastructure projects on the increase in fiscal space and capital formation. The number of villagers impacted and how are also taken into consideration, but not explored in sufficient depth. The LFI team admits that the programme's impact measurement system at the community level can be improved. A site visit is usually integrated into the due diligence process to assess the potential impact of the project on the local community. However, the due diligence process and methodologies can vary from project to project so there is no standardization in how a project is assessed. This is now changing as projects will be assessed through UNCDF's impact tools for women's economic empowerment, climate change / clean energy, local economic development and food security / land restoration.

There is also a recognition that an assessment of community needs and solicitation of community input could be completed at an earlier stage in project development. Supporting the local government to develop tools and approaches that encourages inclusiveness, participation, convergence, co-elaboration and co-implementation of local infrastructure projects can result in more transparent and democratic institutions and processes, and ultimately more equitable and sustainable local development.

MOVING FORWARD

Beyond the individual projects supported and the demonstration effect, the high level of receptivity to the LFI methodology has resulted in the Government of Tanzania creating a platform to allow easy replication of the LFI approach with local governments and the private sector across the country.

This success, along with the growing demand for PPP models in local development finance, is resulting in rapid expansion to other countries. Bangladesh, Benin, Lao PDR, Senegal and Uganda are in various stages of operationalization. As LFI operationalizes its approach in these countries, it will need to adapt and tailor its approach according to the level and extent of decentralization in the country, the capacity of local governments to develop and invest in local infrastructure projects, and the appetite of local banks for project finance and small-scale infrastructure projects. Having a strong and committed counterpart at the central government level will help with local government authority buy-in and support for the LFI approach. Another critical enabler of replication is for UNCDF to have sufficient funding to support the preparation of feasibility studies, and to have a core team of experts at the country level for relationship building and capacity building.

As the LFI model moves through UNCDF's maturity model from innovation to scale up, it is expected that local governments will be better equipped and empowered to promote, manage and monitor PPPs, moving beyond individual transactions toward a unified and annualized strategic plan for systematizing private sector investment in local infrastructure. Tapping into the available capital of domestic financial institutions is the first step in integrating and linking local governments to the broader national, regional, and global funding sources for local development.

LFI is also showing that a basket of solutions is needed to address the problem of under-investment in local infrastructures. Moving

along the continuum of platforms supported by UNCDF, local governments can tap into performance-based grants under LoCAL to scale up its investments in sustainable, low-carbon and climate-resilient infrastructure. Further, as local governments build their track record for fiscal accountability and public financial management, they will build investors' trust and be able to tap into more sophisticated financial instruments, such as the EcoBond issuance being tested in Bangladesh by UNCDF's Municipal Investment Finance programme.

Beyond ensuring a successful pipeline of bankable projects that support local economic development, LFI's long-term vision is about seeking to change investor behavior at the domestic level. By demonstrating how investments channeled to local economies can be both viable and socially beneficial, it hopes to encourage more and more domestic investors – pension funds and other domestic banks beyond the Tanzania Investment Bank – to perceive and respond positively to opportunities in their own local economies.

More broadly, LFI is showing that, with the support of carefully targeted public resources and technical assistance, domestic resources can be unlocked to finance local development. It is also showing that, with investments in the right capacities and systems, local governments and communities can be reliable partners, their projects demonstrating both financial and social returns. Therefore, there is a need for strong partnerships that can both support and strengthen the capacity of local governments to promote, manage and monitor PPPs and that can localize finance at the subnational level—from global funds and through fiscal decentralization, structured project finance, and municipal finance—to make local economies resilient to risks and dynamic contributors to inclusive growth, climate adaptation, and LDC graduation ambitions.



CASE STUDY 4

— CLEANSTART

CONTEXT

Access to sustainable energy is an essential need that underlies all aspects of a country's development. Sustainable energy provides new opportunities for green growth. It enables businesses to grow, generates jobs, and creates new markets. Children can study after dark. Clinics can store life-saving vaccines. Countries can grow more resilient, with competitive economies.

Yet globally, over 1.1 billion have no electricity. Nearly 3 billion use wood, coal, or animal waste to cook their meals and heat their homes, exposing themselves and their families to smoke and fumes that damage their health, resulting in 4.3 million premature deaths every year.

Lack of access to modern energy services is also one of the chief reasons why many people in LDCs are unable to break the vicious circle of poverty. Women and girls are particularly affected by the lack of reliable and affordable modern energy due to their traditional roles, household responsibilities, and social and political status. In 2015, the UN General Assembly endorsed a set of Sustainable Development Goals (SDGs) which included a dedicated and stand-alone goal on energy, SDG 7 which calls for "access to affordable, reliable, sustainable and modern energy for all."

It is estimated that an investment of \$48 billion per year will be needed to provide universal energy access by 2030.⁷⁹ ODA remains central to the development needs of LDCs. In a context in which ODA flows to LDCs are being reduced, the danger is that available investments, especially from the private sector, are not targeted to where energy needs are greatest. This makes it more important than ever to use ODA to leverage additional resources from the public and private sectors, and foster market-based solutions to

achieve progress in energy access, particularly in terms of "clean" energy.⁸⁰

CleanStart's ambition is to make that happen by supporting low-income consumers and businesses to transition to cleaner and more efficient energy and, in the process, revealing new markets and building financing ecosystems ready to meet clean energy demand. The programme provides risk capital and technical assistance to competitively selected financial and energy service providers. These businesses then develop scalable consumer financing models, ranging from traditional microfinance institutions providing energy loans to enterprises piloting Pay-As-You-Go energy services.

Emerging from CleanStart are valuable lessons on how targeted public resources deployed through financial inclusion business models can be used to de-risk investments and build a pipeline of ideas and projects that promote access to applied technologies in LDCs, to low-income families and to under-served areas.

TURNING MARKET FAILURE INTO A BUSINESS OPPORTUNITY

Efforts by governments to expand the energy grid have largely failed to reach rural and remote areas in many LDCs. The more dispersed and the poorer its population, the greater the technical and economic difficulties faced by energy suppliers that have to be financially viable. In urban and peri-urban areas, the issue of connecting poor people residing in informal or illegal settlements remains an important inhibitor to enabling access to energy for the poor. These failures and challenges have spurred the growth of decentralized energy solutions, using technology innovations and progressive

⁷⁹ Vision Statement by Ban Ki-moon Secretary-General of the United Nations, November 2011.

⁸⁰ Clean energy includes renewable energy (e.g. solar), low greenhouse gas-emitting fossil fuels (e.g. liquefied petroleum gas) and traditional fossil fuels that, through the use of improved technologies and practices, produce less harmful emissions (e.g. improved cook stoves).

business models to create new opportunities for poor families to access clean energy through off-grid and grid-complementary clean energy solutions. Small-scale commercial energy options offered by the private sector offer the most feasible solutions when there are shortcomings in public policies and institutions.

While clean energy sources clearly provide development benefits to the poor, there are numerous barriers to scaling-up access to clean energy. The primary barrier for low-income and poor consumers is the high up-front cost in capital investment (a stove, a lightbulb, a solar panel, or a motor) and the lack of end-user finance schemes that are aligned with their capacity to pay. Conventional banks and many Microfinance Institutions (MFIs) are unlikely to provide end-user finance to poor clients due to their conservative practice and risk aversion. Traditional energy service companies have limited lending capacity and capital to provide supplier credit. More significantly, providing finance to low-income consumers living in rural areas entails high transaction costs for both energy-service-companies and traditional banks.

Another challenge exists in terms of financing for the SMEs and distribution system that enables demand to be met. It is during the 'incubation stage', where businesses models are tested and refined, that start-up companies face the biggest financing constraints. This is an area where impact investors typically are not present.

Yet large business opportunities exist in this frontier area of energy access—where heavy, centralized energy solutions are not always the answer. According to the Global Off Grid Lighting Association, the off-grid lighting sector is a rapidly growing market (77 percent in 2014), with consumers spending about \$27 billion annually on off-grid solutions and the number of solar lighting units sold estimated to grow at a rate of 34 percent over the next five years. The off-grid sector has attracted \$511 million of investments to date, with a sharp increase and bulk of investment going to Pay-As-You-Go (PAYGo) companies. Nevertheless, 60 percent of these investments have

been concentrated in a few countries in east Africa (Kenya, Tanzania, and Ethiopia) and India.⁸¹ There remain many countries, especially those with a higher level of rural and dispersed populations, where the market can expand to ensure more symmetrical and equitable energy access.

Further, while the total of investment volume has increased significantly, the number of transactions has dropped by nearly 50 percent, indicating that investors are congregating around a few early-entry winners and other early-stage companies are facing stiffer competition to raise the needed growth capital.⁸² It is clear that innovative financing models and partnerships are needed to respond to this growing demand of both the end-users and SME and distributors and enable last mile access to energy. This is a space where UNCDF can best leverage its risk capital to level the playing field for new market entrants.

The UNCDF CleanStart programme's main goal is energy access through finance by building a strong energy finance market for the poor on a national level. Following UNCDF's maturity model, CleanStart uses core resources to seed innovations and new business models in a particular market, then consolidates the knowledge and lessons learned to unlock additional capital, public and private, domestic and international, for scale-up and replication. This case study examines the CleanStart model and approach through the following guiding questions:

01. How has the model used a blend of public and private financing to overcome the market failure and crowd in financing?
02. What is the desired ecosystem or market conditions for the successful implementation of the model?

⁸¹ Off-grid Solar Market Trends Report 2016. Published by Bloomberg New Energy Finance and Lighting Global, an innovation of the World Bank in cooperation with Global Off-Grid Lighting Association. February 2016. <https://www.gogla.org/wp-content/uploads/2016/03/Off-Grid-Solar-Market-Trends-Report-2016.pdf>

⁸² Ibid.



- 03. Who are the beneficiaries/populations served and how has the model addressed the issues of exclusion and inequality?
- 04. What is the potential sustainability of the model?
- 05. What were the lessons learned in terms of successes and challenges? What are the implications for replicating or scaling up of the model?

THE CLEANSTART MODEL & APPROACH

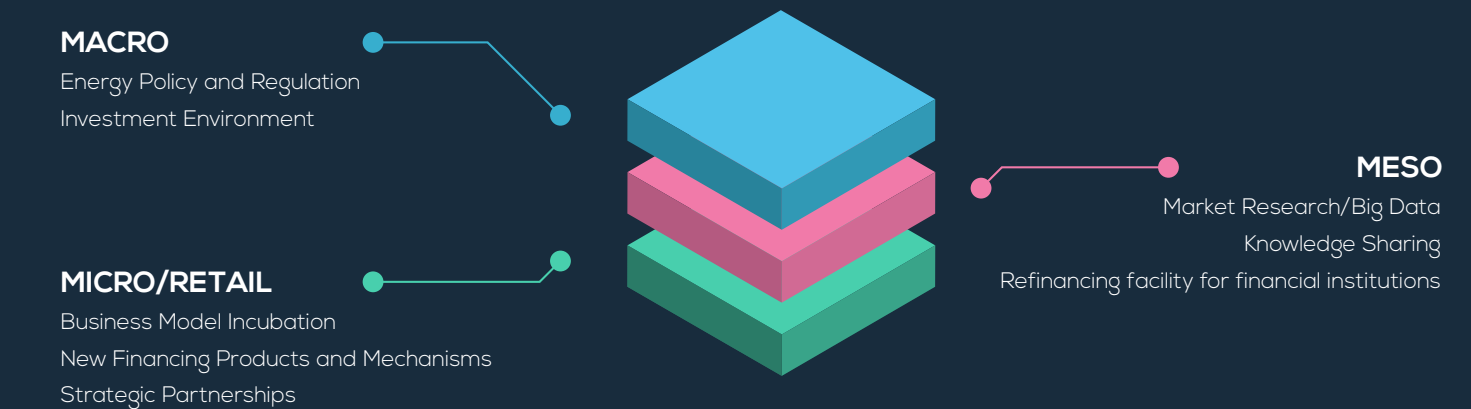
The CleanStart programme seeks to transform the market for energy financing through a more holistic examination of the energy value chain to identify gaps where new business models are needed, new partnerships can be forged, and new financing products can be offered. In the initial stage of the programme, the main focus was on MFIs and other types of financial service providers already serving poor households. Eventually, UNCDF recognized the need for a broader and multi-level approach that seeks to strengthen the overall ecosystem for clean energy service provision (Figure 7).

At the *micro/retail level*, CleanStart utilizes risk capital and technical assistance to incubate new energy enterprises that can move the energy market, such as Pay-As-You-Go energy companies. The programme also incentivizes financial institutions to develop new financial products for both energy consumers and energy enterprises.

At the *meso level*, the programme facilitates market research and exchange forums through CleanStart Connect to increase the knowledge base of market players and encourage human-centered product design. In some countries, CleanStart works with meso-level financing structures to provide further funding to energy and financial service providers, such as with the Central Renewable Energy Fund in Nepal or the Uganda Energy Credit Capitilisation Company.

At the *macro level*, the programme partners with government agencies and policymakers to address legal and regulatory barriers that stand in the way of energy access through business innovation and investments as well as promoting decentralized energy solutions as part of the mainstream solutions.

FIGURE 7: THE CLEANSTART MULTI-LEVEL APPROACH



RESULTS TO DATE

CleanStart was launched in 2012 and is currently supporting programmes in 9 countries throughout Africa and Asia (five directly and four indirectly through partnerships). Overall, CleanStart is partnering with five financial service providers, eight energy enterprises and a microfinance network to test new financing models, with the goal of helping low-income consumers to transition to cleaner and more efficient energy by 2017. To date, the programme has attracted \$10.9 million in private sector funding, either in the form of loans or cash. The type and depth of intervention is tailored depending on the market conditions, capacity and interest of market players, and existing models already operating in that country.

SELECT EXAMPLES OF DIRECT ENGAGEMENT WITH FINANCIAL SERVICE PROVIDERS

In Nepal, CleanStart partners with four financial service providers—ACE Development Bank Ltd. (ACE); Jeevan Bikas Samaj (JBS); Sana Kisan Bikas Bank Ltd. (SKBBL); and Clean Energy Development Bank Ltd. (CEDBL)—to extend loans for solar home systems, biogas and improved cook stoves to at least 102,000 households by 2017. The partner financial service providers comprise a mix of financial institutions; SKBBL is a farmer cooperative bank, ACE and CEDBL are development banks, and JBS is a retail microfinance institution. By December 2015, these partners cumulatively provide energy loans to over 46,800 clients, with the bulk of loans financing solar home systems of 20-watt peaks or higher, which typically powers four lights. CleanStart initially aimed to repeat this process in Uganda in 2014, but found limited interest in energy lending from mainstream financial institutions.

CleanStart is also working with the Government of Nepal to facilitate refinancing through the Central Renewable Energy Fund, a \$120 million multi-donor wholesale fund dedicated to renewable energy.

The purpose of the Fund is to build confidence among commercial banks in the prospects of financing the clean energy sector. UNCDF is now finalizing negotiations with the Government of Denmark to take a custodian role in managing \$2.2 million of the Central Renewable Energy Fund revolving fund component which targets financial service providers financing households and enterprises.

In Ethiopia, CleanStart is working together with UNDP to connect over 200,000 low-income households and micro-entrepreneurs—representing around one million people—to renewable energy technologies through the use of microfinance. The programme will provide risk capital and technical assistance to financial service providers and energy enterprises to facilitate more efficient capital flows throughout the value chain and improve service delivery to low-income consumers. CleanStart will also set up a guarantee fund with the Development Bank of Ethiopia to partially guarantee capital investment and working capital loans to energy enterprises. The guarantee facility will incentivize local banks and microfinance institutions to lend to energy businesses so that they can expand the production and distribution of energy technology.

INCUBATOR FOR INNOVATIVE ENERGY ENTERPRISES

CleanStart has invested in four energy enterprises and one financial service provider in Uganda. In addition, the programme has awarded Challenge Fund grants through the Shaping Inclusive Finance Transformations (SHIFT) platform (see text box) to five small and medium-sized energy ventures, four of which are utilizing the Pay-As-You-Go model.

These enterprises represent the forefront of a new pivot towards an innovation investment agenda for CleanStart. With a UNCDF investment commitment of \$2.8 million, these companies are taking full advantage of technological advancements in smart devices, digital payments, and data analytics, in addition to building up last-mile distribution capacity. By end of 2017, these ten companies plan to have sold high-quality and affordable distributed energy



PAY-AS-YOU-GO

Pay-As-You-Go. The PAYGo model has seen exponential growth in the past few years and has high potential to transform the market for energy finance. Globally, more than \$40 million was invested in PAYGo businesses in 2014 alone, and it is estimated that more than three million PAYGo systems will be sold by 2019. PAYGo pricing allows customers to flexibly pay for clean modern energy sources in the same way they are using prepaid mobile airtime. Typically, consumers make a small deposit or down payment, ranging from 10 to 30 percent of the full cost, to receive the solar product or to have it installed. In addition, they prepay for the ability to use the solar product via mobile money or another mobile-based credit delivery system. The solar product is equipped with a diagnostic chip that will disable or lock the device if the user has used up his/her credit balance.

solutions to more than 178,000 low-income consumers. In addition, there is also strong evidence that PAYGo-enabled businesses actually drive financial inclusion, according to the most recent analysis by the Consultative Group to Assist the poor.⁸³

STRATEGIC PARTNERSHIPS

In West Africa, CleanStart has forged a strategic partnership with the Participatory Microfinance Group for Africa (PAMIGA), a network of locally-owned African microfinance institutions developing rural finance in sub-Saharan African countries. PAMIGA and Schneider Electric, a French company specializing in electrical distribution and the world's largest manufacturer of low- and medium-voltage equipment, are collaborating to help rural households, micro- and small enterprises and entire communities to purchase and use solar-powered energy sources through microfinance. CleanStart is supporting PAMIGA-Schneider Electric to expand their pilot model to Benin, Burkina Faso, Cameroon, and Senegal. This strategic partnership allows CleanStart to expand its footprint and glean knowledge and learning from different models being tested in other countries without having a significant physical presence.

KNOWLEDGE GENERATION AND LEARNING

A more comprehensive body of knowledge about the demand for and supply of end-user financing is needed to enable relevant stakeholders, including MFIs, clean energy companies, financiers and Governments, to make reliable investment decisions. CleanStart has provided a research grant to Humboldt State University to explore what happens after poor consumers in Uganda make the switch from kerosene lamps to solar-powered products and how flexible financing influences adoption of off-the-grid technology. Currently, most solar-powered devices are bought with cash. For

pricier devices that range from higher-end lamps (about \$25) to home systems (about \$250) that power multiple lights, some consumers turn to mobile banking to access microcredit loans or pay-as-you-go plans, spreading payments over time. The University will collaborate with the GSM Association⁸⁴ to collect mobile payments data from its members.

MARKET DEVELOPMENT AND ENERGY ACCESS ECOSYSTEM

The differing level of progress realized by CleanStart in Nepal and Uganda initially and the programme's recent pivot towards a more investment-oriented agenda, demonstrate the importance of viewing programme design through a wider lens of market development rather than solely on access to finance. This is especially relevant in the context of the energy market. It is not sufficient to have the right device or the right financial product. The programme needs to work with the entire value/supply chain, facilitating linkages and partnerships among the players at different parts of the chain to ensure an efficient and cost-effective channel for producing, distributing, and financing energy products and services.

Nepal had several pre-existing market conditions that were more conducive to the "traditional" CleanStart financial service provider approach. Nepal's topography encouraged local schemes so energy awareness is strongly established in the country. Nepal has promoted the use of biogas for over 50 years. In 2013, Nepal had nearly 300,000 household-sized biogas plants constructed in all 75 districts; 100 biogas companies with 200 offices in different parts of the country; and over 260 microfinance institutions were providing credit to biogas users. The government also provided subsidy rebates for energy efficiency installation.

⁸³ <http://www.cgap.org/sites/default/files/Working-Paper-Access-to-Energy-and-Finance-April-2016.compressed.pdf>

⁸⁴ The Groupe Spéciale Mobile Association (GSMA) represents the interests of mobile operators worldwide, uniting nearly 800 operators with more than 250 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and internet companies, as well as organizations in adjacent industry sectors.

Nepal's financial institutions were highly liquid due to limited investment opportunities in a country where one-fourth of its GDP comes from foreign remittances. Moreover, the country's Central Bank, has consistently put in place lending regulations that support the flow of concessional loans to rural areas through microfinance institutions. In 2012, the Central Bank also identified energy as a priority sector, requiring commercial banks to make 10 percent of their loans to the agriculture and energy sectors.

Financial institutions in Uganda, unlike in Nepal, had less experience with energy financing and many still viewed the sector as risky. MFIs like FINCA were providing loans for solar-power panels so that micro-entrepreneurs can use them to set up mobile phone recharging stations, but these schemes were small in scale. In addition, energy companies tended to be clustered in certain districts and lacked distribution channels in rural areas. Consumer awareness of alternative energy was also low so financial service providers do not see an obvious market opportunity in entering the sector. In short, there were a range of market-level interventions, from changing consumer behavior to expanding the service network of energy providers. These were needed before the financing aspect could come into play. This is also what validated the shift of CleanStart to invest in a range of financial service providers as well as energy service providers with financing options.

BENEFICIARIES/TARGETED POPULATIONS

CleanStart's ultimate beneficiaries are the poor households, enterprises, and consumers, who will gain access to or help distribute clean and affordable energy solutions. Women especially are the main segments targeted since access to modern energy services improves women's health, saves time and energy, and reduces consumption poverty, thereby empowering women to participate more fully in development. Existing research on the benefits of biogas in Nepal showed a reduction in the workload of women and girls of three hours per day per household, annual

savings of kerosene of 25 liters per household and annual savings of fuelwood, agricultural waste and dung of three tons per household. Studies also showed that women in electrified households become more involved in home-based activities for income-generation.⁸⁵

Indirectly, CleanStart also provides benefits to financial service providers and energy service companies. For financial service providers, energy lending helps deepen their social mission as better quality of lighting leads to better health for the household and improved education for the children. Developing a new energy financing product also improves the financial service providers' value proposition to its clients. For energy companies, CleanStart through the Challenge Fund delivers patient capital to early stage companies or existing companies that want to set up in a new location or wish to develop a new product. The Challenge Fund grantees comprise different types of companies—international, national (country-specific but often founded by an expatriate) and indigenous. By targeting the funding gap between the \$50,000 grant and the \$1 million investment, also known as the “missing middle” of SME finance, CleanStart is funding initiatives that have gone beyond the “proof of concept” stage and are poised for wider market testing in diverse geographic and market contexts.

FINANCIAL VIABILITY/SUSTAINABILITY

The sustainability of the CleanStart model depends on several factors: i) resilience of the partnerships being supported; ii) behavior change of consumers, energy companies, and financiers; and iii) development of an energy finance market that provides not only access, but also choice, flexibility, and affordability. Ultimately this depends on the emergence of viable business models that see an opportunity to profit from providing decentralized energy solutions to a wide range of clients.

⁸⁵ CleanStart Programme Document, May 2013.



In Nepal, where CleanStart has operated the longest, the strength of the programme's technical support is evidenced by the financial service providers' expanded product line and innovative bundling of services. For example, JBS plans to introduce a "decent housing loan" by combining loans for improved cook stoves or solar lighting products with loans for basic household sanitation needs such as toilets and safe drinking water. SKBBL—otherwise known as Small Farmers Development Bank—is planning to bundle agriculture loans with biogas loans to address fluctuations in client demand during the farming season.

Further, there is increased market dynamism in Nepal as financial service providers move to seize new opportunities and leverage their new market power to drive down prices for consumers. JBS in Nepal has moved towards an integrated model where the microfinance institution set up a subsidiary called JBS Urja (which means "energy" in Nepali) to act as an energy product distributor, installer, and aftersales service provider. The subsidiary currently has 29 technicians on staff and provides aftersales service within 48 hours of customer request. As a result, there is growing interest among smaller microfinance institutions to partner with JBS Urja to tap into JBS' distribution and servicing capacity.

As market leaders with a captive market, SKBBL and JBS have put themselves in a good position to negotiate prices for their clients. The solar home systems they offer are about \$30 cheaper than market price. On top of this, SKBBL offers their energy lending at a lower interest rate than their regular credit products as part of their social mission. JBS Urja is striving to further reduce the cost of clean cook stoves by testing improved mud stoves with local communities and investing in local stove production. In short, CleanStart has demonstrated that a small amount of seed funding and technical assistance can move markets locally and stimulate both additional demand for energy services and financing and their supply.

INSIGHTS AND LESSONS LEARNED

ADAPT PROGRAMME APPROACH TO REFLECT EVOLVING MARKET FORCES

CleanStart's original design was centered on its partnership with financial service providers. While that worked well in Nepal, during the initial experience in Uganda and scoping missions in Tanzania and Cambodia, the programme team learned that energy lending was not a priority for financial service providers in those countries. A change in the external environment perhaps proved to be even more pivotal – the launch of M-KOPA in Kenya where energy access is provided using a mobile payment platform, enabling consumers to adopt a PAYGo payment model. M-KOPA showed that a business can grow at exponential rate servicing last mile households; in addition, M-KOPA can measure when and how much energy people are using in order to predict client behavior. In response to this shift in the market, CleanStart re-oriented its approach to work not only with financial service providers, but also with energy service companies using innovative blending of service provision and financing.

In so doing, CleanStart shows the importance of risk-taking, learning and adaptation when innovating and replicating from one country into another. CleanStart and its partners have understood the experimental nature of building viable business models for financial intermediation in the last mile, and have adapted their approaches to different market conditions and opportunities.

DELIVERY CHANNELS AND AGENT NETWORKS ARE KEY TO SUSTAINABILITY

Having the right product is not sufficient; an enterprise needs to have a channel by which to move the product. This is why financial service providers, especially microfinance institutions with branches in remote areas, remain relevant players and good partners for energy companies by playing the role of “referral and capture.” For example, FINCA Uganda is partnering with a service provision company to improve installation and post-sales support for the solar systems it is financing. At the same time, energy enterprises are developing alternative models for setting up a distribution channel for their energy products. A company can opt to establish its own distribution system using community agents and a commission-based structure like Avon. In Tanzania, one company is partnering with Total to use its fuel stations as a distribution channel. In Cambodia, Hydrologic, a water filter company piggybacked on its existing distribution network to sell improved cook-stoves.

USE THE POTENTIAL OF MOBILE DATA/BIG DATA TO ANALYZE AND PREDICT CLIENT BEHAVIOR

Given the proliferation of mobile payment platforms in LDCs and the increasing adoption of pay-as-you-go digital payment for solar energy products, the collection and analysis of mobile data have the potential to reveal important trends about energy usage (volume, peak periods, etc.), payment history, as well as diagnostic data on the functionality of the device. For energy companies, these data can be a reliable predictor of future behavior that inform their future product offerings. For financial service providers, these data can be used to complement their credit scoring process and reduce the perceived risk of energy finance. For governments, these data can be used to anticipate future demand for energy and the type of infrastructure investments needed.

VALUE OF THE DIFFERENT FINANCIAL INSTRUMENTS

Providing capital and financing solutions at the right time and place can make or break the sustainability path of innovative energy businesses. The rapid expansion of mobile payment platforms has encouraged small and medium sized energy ventures to leverage these digital platforms to innovate the payment system, including for credit, leasing, and fee-for-service. But these enterprises have no means to grow their business because of the lack of capital. CleanStart, through the SHIFT Challenge Fund platform, is providing the necessary expansion capital – through public resources - to help these ventures move beyond the proof of concept phase and to scale up and replicate what works.

MOVING FORWARD

Bringing the right energy technologies to LDCs can have significant acceleration effects on inclusion in the pursuit of sustainable growth, and on the achievement of the SDGs and the graduation targets under the Istanbul Programme of Action. This is especially true for women and girls who stand to benefit the most from investments in cleaner and more efficient energy sources.

As this case has demonstrated, the right financing and business models are an important part of expanding energy access to and within LDCs. Private resources may not be allocated to specific opportunities associated with energy technology because of perceptions of risk; lack of investor understanding or knowledge about a market; or concerns about regulatory environments and weak management. The expected returns on such investments might also not be viewed as financially attractive or viable, especially in the short term. At the same time, consumers – particularly excluded populations that need it most – may lack the means to pay for new energy technologies or may not understand their benefits. Financing



through microfinance institutions brings energy services to rural communities while PAYgo models provide an attractive value proposition for consumers as it combines service provision with finance into one product, using a mobile-based platform that the poor are already using for other types of transactions.

Research is implying that energy is not a one-off investment and that there is an “energy ladder” where households will start by buying a lamp and move up the ladder to better energy sources as they experience the benefits of increased productivity and improved health outcomes. There is also evidence emerging that energy access in itself encourages mobile phone use and financial inclusion, which is changing the way we view energy access. Products at the top of the ladder would require more significant capital investment that may not be appropriate for the PAYGo model, so financial service providers will need to be prepared to respond to these evolving needs with the right financial product. CleanStart has helped reveal the market for energy finance for financial service providers and give them the “first mover” advantage so that they are well-positioned to serve the energy needs of the poor.

Similarly, as they expand, PAYgo companies will have a significant need for capital, which could be partly alleviated by partnering with small and large financial intermediaries such as microfinance institutions and banks. Financial service providers can take on some of the capital requirement by underwriting the cost of goods sold, financing retail-level product distributors, and providing working capital to the PAYgo companies. It is only a matter of time before the PAYgo mechanism is applied to other technologies, utilities such as water and sanitation, or even the purchase of white goods. While the model is challenging the traditional world of microcredit, it is also opening a new type of financing window for financial service providers that are seeking a niche role in the sector.

What’s needed are flexible financing instruments, such as risk-capital grants and risk guarantees, combined with business advisory support, to help promising business models leverage

the financing they need to expand their reach and impact within countries where they currently are and to be replicated in other LDCs. This helps de-risk new business models and build a pipeline of investible projects for public and commercial finance to achieve the necessary scale to bring energy solutions to millions of individuals.

In 2015 in the wake of the devastating earthquake in Nepal, CleanStart and the Local Climate Adaptive Living Facility (LoCAL), an UNCDF programme that aims to unlock local government financing for climate resilient infrastructure, collaborated to build more climate resilient housing and energy sources, working with local governments to incentivize financial service providers to finance post-earthquake reconstruction and energy access as part of Environmentally Friendly local government priorities. This shows the potential for cross-platform collaboration to link private sector financing with local government’s small infrastructure needs and their commitment to global initiatives like SmartCities.

Moving forward, UNCDF can further shift the market by aggregating small-scale energy projects into large enough pools to reduce transaction costs for investors and attract additional finance that could go a long way towards the SDG objective of providing clean energy access for all.

SHAPING INCLUSIVE FINANCE TRANSFORMATIONS (SHIFT): DEVELOPING MARKETS, CHANGING BEHAVIORS

SHIFT aims to advance economic empowerment and market participation of low-income women consumers and small and growing businesses through greater access to and use of financial services. SHIFT's current geographical coverage addresses the needs of the Association of Southeast Asian Nations (ASEAN) with a focus on Cambodia, Lao PDR, Myanmar and Viet Nam. The programme has four main pillars: 1) Challenge Fund Facility: incentivizing financial service providers to test and scale innovative business models and technology with the private sector as a co-investor; 2) Learning and Skills Development: support business development by leveraging ICT solutions to improve productivity in financial institutions; 3) Data and Analysis: generating and analyzing consumer behaviour data to strengthen the evidence base for change in FSPs, regulators, and policy makers; and 4) Policy and Advocacy: ameliorating the ecosystem by influencing policy makers, financial service providers and ASEAN governments to be more responsible to wider development priorities.

SHIFT CHALLENGE FUND FACILITY

SHIFT's next-generation Challenge Fund is a flexible, common platform for crowding-in investors and donors to support projects targeting financial inclusion. The Fund offers competitive matching grants to catalyse investments by private sector financial institutions, often in collaboration with businesses, in testing and scaling innovative business models by altering their risk-adjusted returns on investments. The Fund's approach is to avoid the temptation of "picking winners" but to "start races" and see which model has the most traction in the market. Performance milestones are agreed upon and payments are made against performance, enabling the Fund to quickly identify projects that do not work, and scale up those that do through sustained co-funding. By taking a portfolio approach, SHIFT adopts a greater tolerance for failure and accepts that 20 percent of Fund awardees will actually go to scale. The Fund also offers a flexible risk-sharing structure to enable additional public and private investors to co-invest in deals originating from the Challenge Fund's discovery process through loans, equity, and guarantees.

In the first round of the Challenge Fund, SHIFT collaborated with CleanStart for the Energy Access Window and generated more than \$3.2 million of new investments in clean energy access solutions in Asia, with SHIFT contributing 10 percent of the total envelope, CleanStart contributing 40 percent, and the investees providing the remaining 50 percent as matching funds. By leveraging the SHIFT platform, CleanStart was able to cast its net wider beyond financial service providers to attract new players as well existing players interested in scaling up geographically, providing a useful gauge of the potential future commercial viability of last mile energy financing.

The second window challenges actors in financial markets and real-economy value-networks to propose innovative cross-sector business models to expand women's access to and use of financial services leveraging technology and digital solutions to amplify the impact.

CASE STUDY 5

— MOBILE MONEY FOR THE POOR

CONTEXT

Financial services enable poor people to increase and diversify incomes, build human, social and economic assets, and to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education. Financial services to poor women provide a direct, positive impact on their families, as a majority of the additional income earned is invested in family health, education and nutrition. Numerous impact studies document that the ability to borrow, save, and earn income enhances poor women's confidence, enabling them to better confront systemic gender inequities. The level of outreach by the financial sector also correlates strongly with the level of financial, institutional and infrastructure development across countries. Studies have shown that better access to finance not only increases economic growth, but also helps fight poverty, and reduce income gaps between rich and poor people.

Despite significant achievement made to date, there are still over two billion people around the world who lack access to formal financial services. There is broad consensus that the key bottleneck in access to finance is the lack of strong institutions providing a broad range of financial services, especially savings, to serve large numbers of people on a sustainable basis. For most financial institutions, the biggest constraint is the high cost of delivering basic deposit services to the poor, which usually involve high-volume low-value transactions that require a retail infrastructure often lacking in LDCs.

In the past ten years, mobile phones have been introduced as a technological platform for delivering financial services, paving the way for the movement towards Digital Financial Services (DFS). These services range from basic money transfer to a variety of banking and insurance products that can be partially delivered via mobile phone. The explosive growth of mobile phones underpins the potential opportunity. Nearly 42 percent of the population in LDCs had mobile phones in 2012 while only 14 percent of the population

had access to formal financial services. Even more striking is the growth rate – with mobile phone penetration growth reaching a rate of 23 percent a year in LDCs, while financial access growth is flat. The phenomenal success of M-Pesa in Kenya and GCash in the Philippines in reaching millions of un- and under banked people has spurred Mobile Network Operators and some banks to join the fray.

In light of this, and in light of the young demographic profile of LDCs, the potential is huge for DFS to help expand access to financial services in LDCs. Whereas the other last mile finance models examined⁸⁶ show how UNCDF seed capital and technical assistance can crowd-in public and private resources, MM4P shows how UNCDF uses its convening power paired with a tailored package of technical, financial, and policy support to enhance and shift markets, collaborating with key stakeholders to ensure a level playing field for private sector providers to innovate and scale-up digital finance models in LDCs.

MARKET FAILURE

Efforts to replicate the success of M-Pesa in other countries has had limited success. Often, Mobile Network Operators rushed in without taking the time to conduct market research, understand client needs and realities, or invest in developing a distribution network. The majority of mobile money schemes failed to achieve significant volume, and products offered were also limited mostly to Peer-to-Peer (P2P) transfers such as payments and remittances, and airtime top-up.

The key market failure is the lack of knowledge on the part of governments, providers, and funders about the ecosystem for digital financial services (Figure 8). What is needed in the LDCs is a focus on building mobile money systems for the poor, rather than just a single service (such as payments) or provider (so that the market is competitive). A range of second generation products is

⁸⁶ Local Finance Initiative (LFI) and CleanStart.

FIGURE 8: ECOSYSTEM FOR DIGITAL FINANCIAL SERVICES



needed if mobile money services are to generate enough volume to be sustainable. Such product development will have to come from a good understanding of the market and negotiating “win-win” partnerships, often between previously unrelated companies and industries.

UNCDF’s Mobile Money for the Poor (MM4P)’s **long-term mission** is to help low income and rural households in LDCs increase their financial security through appropriate, affordable and secure means to receive, manage and save money through digital financial services (DFS). To do so, MM4P’s **intermediate goal** is to help build inclusive and client-centered digital financial sectors such that a wide range of DFS are provided responsibly, and at reasonable cost, by sustainable institutions in a well-regulated environment.

This case study examines the MM4P approach for expanding DFS through the following guiding questions:

01. How has the programme used a blend of public and private financing to overcome the market failure?
02. What are the desired market conditions or pre-existing factors for implementing the model?
03. Who are the beneficiaries/populations served and how has the model addressed the issues of exclusion and inequality?
04. How does the programme measure sustainability?
05. What were the lessons learned in terms of successes and challenges? What are the considerations for moving forward?

MM4P APPROACH

The MM4P programme underwent a significant redesign after the completion of its first phase of implementation between 2012 and 2014, where both the programme goals and structures were re-assessed and changed to reflect the lessons learned and market realities. Whereas in the initial approach, financial service providers were the first point of entry, with policy and market research considered as add-on activities where needed, MM4P now adopts a market development approach that looks at the entire ecosystem to assess where and how programme investments can best be applied. In the initial approach the foundational question was: which areas of the ecosystem need to be improved in order for DFS providers to be successful? The question now is: which areas of the ecosystem need to be improved in order for DFS to be widely adopted and used by consumers? In its current design, MM4P follows a theory of change framework in which the DFS market is characterized as evolving in four stages: Inception, Start-up, Expansion, and Consolidation. Figure 9 illustrates the milestones for moving from one stage to another.

MM4P’s approach starts with the DFS Market Analysis Framework which defines the range of interventions needed at different levels of a



FIGURE 9: FROM START UP TO CONSOLIDATION



country’s DFS ecosystem and then invests in interventions in key work streams that help and hasten the market shift across development stages. The work streams reflect the different inter-connected parts of the ecosystem: Providers of DFS (providers, infrastructure); Users (Customer, High-Volume Users), Distribution (Agents); Policy and Regulation; and at the center, Ecosystem Development.

While the primary focus is no longer on financial service providers, direct support to providers is still necessary and the level and type of assistance is based on the data and findings resulting from the market analysis. The important thing is that MM4P continues to use a mix of financial, technical, and policy support to achieve its goals. The “correct” mix depends on the stage of market development in each country, the funding agency, and the interest of the key stakeholders involved.

RESULTS TO DATE

The MM4P programme is currently operating in seven countries: Benin, Laos, Malawi, Nepal, Senegal, Uganda, and Zambia. As Table 2 shows, the number of active DFS users has increased exponentially in the last two years, with the highest growth in early start-up countries such as Benin, Malawi, Nepal, and Senegal. While this growth cannot be attributed solely to MM4P, the programme made an important contribution by building strong relationships with regulators from the Central Banks and Ministries of Finance so that the regulatory and policy framework helps rather than impedes the growth of the DFS market.

MM4P's partnerships with providers have gone through a mix of successes and challenges due to partner leadership changes, staff turnover, mergers and acquisitions, and changes in the political climate. The data on distribution (Table 2) reflect in part the challenges of expanding DFS to the last mile: i) the ratio of agents to customer is still inadequate⁸⁷; ii) agent networks remain concentrated in densely populated urban and peri-urban areas; and iii) providers are still reluctant to invest significantly in their distribution network. These realities confirm that the DFS ecosystem in most countries are shallow and public support through MM4P are needed to pull more providers into early start-up markets such as Laos, and to push providers in expansion markets like Uganda to develop alternative distribution channels, introduce new products, and target under-served populations like women and youth.

MM4P is relatively unique in the sense that the programme considers one of its core activities to be putting in place the pre-existing conditions for building a dynamic and inclusive DFS market. While all donors recognize the importance of an enabling environment, only a few organizations and programmes are actively engaged in partnering

with the government to research, discuss, and issue regulations (or in some cases, to not over-regulate).

MARKET DEVELOPMENT AND PRE-EXISTING CONDITIONS

In developing its country programme, MM4P follows three stages:

- + Stage 1: Buy-In, where MM4P builds relationships with all stakeholders in the sector. Benin, Laos, and Nepal are in this stage.
- + Stage 2: Improve, where MM4P helps key stakeholders to improve their current business and build credibility in the DFS market. Malawi, Senegal, and Zambia are in this stage.
- + Stage 3: Innovate, where MM4P works with these proven stakeholders to develop innovative products and partnership models to serve the unbanked and rural customers. Uganda is in this stage.

In markets where the DFS ecosystem is still in the inception or early stage, MM4P invests a lot of time and resources in the Buy-In stage, where the programme's role is focused on "informing and educating"—by working with regulators on an enabling policy framework, commissioning market research to raise understanding about clients, and facilitating the entrance of providers into the market. For regulators, exposure visits to other countries to learn from international experience is key to raising awareness and maintaining their openness both to new business models and to non-bank institutions entering the financial services space, thereby giving the right market signal to the private sector to enter and innovate.

In markets where the DFS ecosystem is already well populated with a range of providers and the number of active DFS users is at least 10 percent of the population, MM4P focuses on working with providers to develop DFS products that go beyond the 'first generation' of

⁸⁷ There is no standard ratio for the number of agents to users; in fact, MM4P is a pioneer in using geospatial mapping for capturing and sharing this data with key stakeholders and partners.



YOUTHSTART: EXPLORING THE POTENTIAL OF DFS TO EXPAND FINANCIAL ACCESS FOR YOUTH

YouthStart is a UNCDF initiative aiming to increase access to financial services for low-income youth in sub-Saharan Africa. The programme supports financial service providers to design, test and scale up sustainable services tailored to the needs of young people, while helping to create an enabling regulatory environment for young people to access the right financial and complementary non-financial services to make sound financial decisions, build a strong asset base, and create sustainable livelihoods for themselves. Since its launch in 2010, over 600,000 youth (49 percent young women) had accessed financial and nonfinancial services. Young people in the programme saved over \$16 million and over 80,000 young entrepreneurs were provided with \$11 million in loans.

Through market research and pilot tests, the programme learned that using convenient channels for financial service delivery can overcome the barrier of physical access. Schools may be a more appropriate delivery channel to reach in-school youth while door to door agents, village savings and loans associations, mobile vans, or mobile phones might be more appropriate to reach out-of-school working youth.

YouthStart partner, Opportunity Bank of Malawi, conducted market research that indicated most youth prefer ATMs and points of service such as shops in the community, as opposed to banking halls where they have to wait in long lines and are often intimidated by bank staff. Points of service were particularly attractive for rural youth because it eliminated costs of travelling to the bank. Another partner, FINCA DRC, reduced account dormancy by positioning POS agents near schools or areas that had a high concentration of youth. The number of transactions on youth accounts at FINCA DRC increased from 921 to 5,377 in 2013—an increase of over 480 percent, mainly due to the use of POS agents. Furthermore, all of the youth accounts were active (i.e., youth conducted at least one transaction over the span of one year), and savings volume went from \$129,750 to \$224,388—an increase of 173 percent.

Peer-to-Peer and bill payment, or to push Mobile Network Operators to go beyond their geographic comfort zone to the 'last mile' by serving more rural areas, as seen with MTN in Uganda. At the same time, it focuses on building volume by bringing bulk payers into the market (e.g. governments, NGOs, value chain actors) and building the necessary structures for them to work with existing providers. As part of its technical assistance, MM4P also helps providers with

geospatial mapping of access points so that they can competently and confidently make decisions about when and where to introduce new products. This type of research helps providers to address the issue of information asymmetry and reduce their transaction risk.

BENEFICIARIES/TARGETED POPULATIONS

MM4P's ultimate beneficiaries are low income customers including women and rural customers. The desired outcome for the programme is measured using the GSMA⁸⁸ customer journey framework, where first customers become aware of DFS before they either register for, use and try the service because they see the benefit or they are the recipient of a payment. If they have a positive trial user experience with DFS, they typically will become regular users. If service quality is good, customers share their appreciation with others which drive further customer awareness, registration, trial and usage. MM4P has identified six "hurdles" that must be met for customers to adopt DFS in favor of informal mechanisms, namely services must be: available, accessible, reliable, affordable, appropriate and appealing. While providers play a major role in overcoming these hurdles, they cannot do so in isolation. For example, regulation or policy often impacts the availability, accessibility and affordability of services.

All work done by MM4P is intended to influence and create impact for end-customers. MM4P achieves this influence and impact by working with all of the ecosystem players to improve the DFS market, rather than by working with customers directly.

For example, in Nepal, MM4P is working with IME Ltd, an existing remittance company, to design its business intervention model to leverage its existing agent network while tapping into a huge base of remittance customers through e-wallet based services. Since IME's agent network works across multiple banks, MM4P's support also allowed IME to explore other partnership models where they could play a key role in facilitating payments. As a result of MM4P's intervention, IME is planning to offer a bundled product, using an e-wallet as a base that includes micro-insurance, goal-based savings, free voice calls, among other products. The targeted customer

⁸⁸ The Groupe Spéciale Mobile Association (GSMA) represents the interests of mobile operators worldwide, uniting nearly 800 operators with more than 250 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and internet companies, as well as organizations in adjacent industry sectors.

segments include dairy farmers, women cooperative members, youth, and government staff that also happen to be IME remittance senders/receivers. The company intends to serve a cumulative customer base of 250,000 in the pilot geographies by 2019.

Through its market research agenda—which include an annual country assessment, agent network assessment, customer insights surveys, and financial mapping—MM4P helps providers to better understand its customers' product preferences and current usage patterns to inform their marketing strategy, pricing options, agent location, and product mix. All of this results in better customer experience and increased regular usage (or stickiness in DFS parlance).

SUSTAINABILITY/FINANCIAL VIABILITY

There are multiple models for delivering DFS, most of which have not achieved sufficient scale to be considered financially viable. How one defines sustainability depends on the type of provider and the market in which it operates. In addition, there is no consensus to date on standard indicators that could be used to measure sustainability for DFS providers; MM4P along with the Microfinance Information Exchange⁸⁹, GSMA, and other players have been dialoguing on this issue.

As a programme, MM4P follows a comprehensive and integrated results management framework that aims to capture how each country is progressing following a key set of indicators. Certain indicators are aggregated at the global level to show overall impact of the programme. In terms of sustainability, MM4P's work on building an ecosystem may be best measured qualitatively by examining:

+ its success in diversifying the market in the country in which

⁸⁹ The Microfinance Information eXchange (MIX) promotes responsible financial services for underserved communities through data analytics and market insight. The organization uses two decision support platforms, MIX Market and FINclusion Lab. As basic infrastructure for responsible and inclusive markets, these platforms provide a necessary ecosystem to enable and inspire coordinated investment, effective policy, and positive social outcomes for the financially underserved.



it operates—diversification in the type of providers, type of products, socio-economic population, and geographic location; and

- + its ability to convene, inform, and influence regulators and policymakers on the opportunities presented by DFS and help them develop an appropriate regulatory framework to strengthen the ecosystem.

MM4P’s interventions in the Lao PDR provide a good example. Since 2013, UNCDF has invested heavily in winning buy-in and trust in a country without any mobile money or agent banking. UNCDF has been behind every action taken in regard to DFS, including regulation issuance, application review, and pilot preparation. As a result, the Bank of Lao PDR has issued draft regulation to allow banks and non-banks to offer DFS and is taking a “learn by doing” approach.

BCEL was the first and only branchless banking initiative in the country; the BCEL Community Money Express started a pilot in June 2015 and has resulted in a network of 33 Agents serving nearly 1,000 unique users. BCEL has developed more assertive plans to expand beyond the current pilot locations, which has attracted the interest of other market leaders, including the largest Mobile Network Operator, UNITEL. With MM4P’s support, UNITEL received permission to become the first non-bank e-money issuer in Lao. The entrance of these providers, the collaborative approach of the Bank of Lao PDR, and the support of MM4P have combined to create a positive DFS environment for other entrants to invest in and explore.

INSIGHTS AND LESSONS LEARNED

TAKE THE TIME TO INFORM, EDUCATE, AND GET BUY-IN

Bringing stakeholders and partners together and building relationships all take time, but are important for ensuring buy-in and that everyone is working in tandem to build the DFS ecosystem. The depth and quality of the buy-in matters a great deal; having one or two “champions” within an organization is not sufficient since DFS requires systemic change at the market and institutional level. Having an unexpected staff turnover can result in delays or deviation from the initial course of action. Hence, there should be support at the CEO, senior manager, and middle management level of provider institutions to ensure continuity and consistency. Likewise, there are multiple ministries that are implicated in the DFS ecosystem; besides the Central Bank and Ministry of Finance, MM4P also engages with government ministries that handle social transfers regarding digitizing Government to Peer (G2P) payments to encourage high-volume usage. Coordination and collaboration across government ministries, and among different departments within a government agency, will facilitate the harmonization of diverse perspectives and policy positions.

SEEING IS BELIEVING: THE BENEFITS OF EXPOSURE VISITS

For regulators, the opportunity to learn from their peers and to see firsthand how the DFS market works in other countries has been one of MM4P’s key contributions. Exposure visits are instrumental in changing the behavior and attitude of stakeholders. For example, in

MICROLEAD: DIGITAL SAVINGS FOR RURAL WOMEN

MicroLead is an UNCDF programme whose objective is to support financial service providers to undertake the change management process necessary to fully embrace a DFS strategy to mobilize small balance deposits from rural communities, particularly women. Whether it's through the use of mobile phones or point of service devices, through agent networks or informal savings groups, MicroLead partners have made savings collection more efficient and affordable both for customers and themselves. Under MicroLead Expansion, partner financial service providers have developed a total of 27 new products since 2013, which now reach over 500,000 active customers, of whom over 70 percent are women and the vast majority live in rural areas.

Most MicroLead partners—covering 10 countries throughout Sub-Saharan Africa (Benin, Burkina Faso, Burundi, Cameroon, Ghana, Liberia, Malawi, Rwanda, Tanzania, Uganda)—are launching DFS. In Tanzania, CARE and the Mwanga Community Bank brought mobile banking to informal savings groups. Typically, these groups store their money in a simple cash box managed by a group leader and three key holders. This presents both security and accounting issues. With mobile wallets replacing cash boxes, three signatories are required to authorize access to the group account, much like the traditional savings group approach. Individual savings can then be pushed from their e-wallet to the group bank account.

In Uganda, Ugafode is offering mobile banking to existing savings groups through AirSave, a mobile application which enables customers to transact from their mobile phones and at Airtel and MTN mobile money agent locations. Besides improving security and convenience for depositors, this technology also dramatically reduced the transaction cost for clients. The average cost to visit a branch for three signatories – in accordance with rules governing the group account —was over \$20 compared to only \$0.41 for this alternative delivery channel. This is due to the very rural location of the groups which Ugafode is reaching with this channel.

In Malawi, MicroLead is supporting NBS Bank to roll out a proprietary agent network throughout the country. In addition, a new affordable savings product targeting low-income clients was developed under MicroLead called Pafupi Savings, which means 'close to you' savings. This new product offered through NBS' proprietary agency network allows those living in rural areas, which represents 85 percent of the population, to significantly decrease the time and cost of accessing formal financial services.

Offering mobile solutions require that financial service providers upgrade and strengthen their back-end core banking system to support and process digital transactions more seamlessly. For financial service providers like CPEC in Benin and CEC in Cameroon, the introduction of mobile savings also entailed a re-tooling of their internal processes and structures

Linking savings groups to digital is an option that financial service providers continue to research as they experiment with various models to understand what works most effectively and efficiently. MicroLead's experience shows that digital financial services not only increase the overall level of savings among underserved populations, especially women, but also provide a more secure and convenient platform for last mile access to finance.



November 2015, MM4P organized an exposure visit for 19 Central Bank and Ministry officials to the South African Social Security Agency (SASSA) to observe how a government digitized payments of its social security benefits. As a result of this trip, representatives from the Banque Centrale des Etats de l'Afrique de l'Ouest and Ministry of Finance of Senegal enthusiastically recommended to their Minister to develop a pilot to digitize payment for 30,000 retired pensioners. With the help of the Better than Cash Alliance and MM4P, the Ministry has been given a green light to work the national treasury to define the scope and implementation of the pilot.

GETTING DATA SHARING RIGHT

MM4P is premised on the use of market and client data to build relationships with stakeholders and identify areas for direct support. Yet, one of the challenges has been to convince providers, regulators, and other intermediaries to report and share data about service points, transaction volume, and customer usage. Some do not see the benefits of sharing the data for fear of competition. Some take issue with where the data will be stored (at the Central Bank or in the cloud using the MIX platform), who can access it, and how it will be used. Holding discussions on these points to help stakeholders better understand the objectives of the data collection, and getting their buy-in at an earlier stage can help to smooth out the process and help them to prepare internally to respond to the requests. MM4P is also bringing in other DFS organizations that work closely with governments and regulators such as Better than Cash Alliance and the Alliance for Financial Inclusion (AFI) to help make the case for better data sharing.

BE WILLING TO CUT YOUR LOSSES AND MOVE ON

The banking and telecommunications sectors have undergone many changes in the past few years, with many mergers and acquisitions that result in frequent staff turnover and leadership change. This

is one of the challenges in partnering with the private sector. Change at the management level often means a change in strategic direction, organizational structure, and resource allocation. MM4P has experienced several cases where partnership agreements were significantly delayed or derailed due to a provider being acquired by another company, or a change in the CEO. In certain cases, the programme has taken a wait-and-see attitude, and at other times, it decided to discontinue the partnership. Public-private partnerships happen when all parties agree to pursue a common objective; when that objective diverges, it is time to explore other opportunities.

TRAINING IS NOT ENOUGH —SETTING UP AGENT NETWORK REMAINS A CHALLENGE

Under MM4P, over a dozen providers have participated in the Core Agent Network Accelerator (CANA) training offered by the Helix Institute of Digital Finance. Yet, many providers are still reluctant to invest in their distribution network, agent training, communication, and agent management. Regular follow-up and an individualized action plan is needed to operationalize what was learned in the classroom within their own organization. To be sustainable, an agent network should be self-replicated so that the providers' marginal cost for adding new agents will come down over time. However, most agents do not generate enough revenue to see the benefits of recruiting others and, with the lack of active management on the part of the provider, most agents do not feel any loyalty to the provider.

IN-COUNTRY PRESENCE AND JUST-IN-TIME EXPERTISE TO RESPOND TO PARTNER NEEDS

Under the original model, MM4P leveraged existing in-country technical advisors and staff for programme implementation. However, it soon became evident that technical staff with DFS expertise that goes beyond inclusive finance were needed to move

the agenda forward. The current model for engaging with multiple as well as different types of implementing partners (providers, regulators, intermediaries) also presents challenges—both in terms of managing relationships and in terms of providing the right kind of expertise at the right time. This is especially important for the policy and regulation work stream, as regulators often look to other countries to inform their policy decisions, so having an in-country DFS policy expert with that knowledge will improve the quality and timeliness of support.

MOVING FORWARD

DFS contribute to unlocking the existing market barriers and push the frontier of finance towards the last mile and in support of marginalized populations such as women and youth. UNCDF's MM4P has successfully leveraged public funding to develop the building blocks for a dynamic and inclusive DFS ecosystem. By working in LDCs where DFS are in the early stages of development, MM4P is ensuring that public resources are being invested in a way that will bring more choice, convenience, affordability, and security in financial services to the last mile. The programme has supported the creation of DFS markets where none has existed, the expansion of early stage markets by encouraging new entrants and working with governments on high volume usage, and the deepening of more mature markets by pushing providers toward new partnerships and new product innovations.

Moving into the next phase of the programme, MM4P will shift its focus from buy-in and relationship building toward direct support of specific projects identified by its stakeholders and backed-up by its comprehensive research agenda. As the programme seeks to move providers towards last mile customers and areas, there is strong potential to leverage on other UNCDF platforms such as YouthStart and MicroLead. In Senegal, discussions are already underway to

explore using YouthStart clients as DFS agents. Likewise, MicroLead and MM4P have an opportunity to collaborate in countries like Benin to develop digital savings products that leverage and mimic informal mechanisms such as village-based savings groups or door-to-door savings collectors (e.g. susu collectors in Ghana), and can serve as a gateway to a wider range of formal financial services.

Governments will continue to be a key stakeholder in the DFS market, not just in terms of regulations and policy, but also as a provider of DFS. On the enabling environment, MM4P support is needed to encourage interoperability and cooperation among the providers in order to make transactions more seamless, secure, and cheaper across networks. Governments in Senegal and Malawi have already expressed interest in receiving support to implement the digitization of government payments for social transfers, salary and other benefits; the knowledge and learning generated from these two countries' efforts will help spur additional interest by other governments. Facilitating high volume transactions will encourage Mobile Network Operators and other providers to strengthen their distribution networks and expanding the number of access points for customers.

Models like MM4P are helping to build the national eco-systems— inclusive of national regulators, mobile money operators, commercial banks, insurance companies, money transfer operators—that will enable the adoption of digital financial services at scale. Digital finance is not only shaping the prospect of universal access to financial services by 2030, but is also transforming the lives of poor people in many ways, empowering women to assert a stronger role in their household, and enabling access to key information about crops, market prices, health, education and other topics that have a deep impact on people's lives.

Table 3. MM4P Summary Results

Country	Programme Launch	Market Development Stage	Active DFS users		Distribution (Agents per 100,000 adults)	Policy support
			Baseline ¹	December 2015 ²		
Benin	10/2015	Start-up	13,500	214,773	119	Exposure visit to the South Central des Etats de l’Afrique and Ministry of Microfinance Forum and working group d sharing Financial Access Points Ma
Lao	04/2013	Inception	0	979	0.8	Bank of Laos (BoL) issued d to offer DFS.
Malawi	06/2012	Late start-up	1,200	755,280	98	New non-bank entrant Zoon (Airtel, TNM). Developed financial inclusi
Nepal	12/2013	Start-up	25,387	1,907,558	5	Nepal Reserve Bank dedica The department has releas and called on institutions (b
Senegal	04/2015	Early expansion	514,490	4,057,839	104	BCEAO and Ministry of Fina South African Social Secur
Uganda	10/2014	Expansion	5,097,623	8,711,80	43	Launch of first public/private Conducted first regulatory i
Zambia	02/2015	Late start-up	184,000	1,139,840	56.5	Agent Network Assessmen Customer Insights research by Intermedia Launch of first public/private

¹ Baseline for Lao PDR, Malawi, and Nepal is as of December 2013; for Senegal as of June 2014; and, for Benin, Uganda, and Zambia as of December 2014.

² The number of active users include Over the Counter (OTC) transactions, when customers trans Mobile Network Operator, a Money Transfer Operator (MTO), or a financial institution.

Key Achievements		
	Technical assistance	Financial assistance
<p>African Social Security Agency by Banque de l'Ouest (BCEAO), Ministry of Finance, and Ministry of Microfinance</p> <p>Developed for BCEAO / provider information</p> <p>apped</p>	<p>Exposure visit to the South African Social Security Agency by Banque Central des Etats de l'Afrique de l'Ouest (BCEAO), Ministry of Finance, and Ministry of Microfinance</p>	
<p>Draft regulation to allow banks and non-banks</p>	<p>Support Banque pour le Commerce Extérieur Lao Public (BCEL) Community Money Express to launch the country's first branchless banking initiative; currently has 33 service points in its agent network.</p> <p>UNITEL, largest MNO in Lao PDR, received permission to launch pilot service as a non-bank e-money issuer.</p>	
<p>na added competition to current providers</p> <p>on data set for regulator</p>	<p>Roadmap developed for digitizing government payments with three priority payment streams identified.</p> <p>Support Airtel to improve Agent Network yielding results with increased activity rates of customers</p>	
<p>ted a department for payments systems.</p> <p>ed its by-laws on payment and settlements (bank and non-bank) to apply for license.</p>	<p>Central bank adopts new payments regulation allowing non-banks into market</p> <p>Restrictive agent regulations revised</p> <p>Support International Money Express, Ltd (IME) and Global IME Bank to develop strategy for agent banking and wallet-based services.</p> <p>Support NCELL on its pilot design and launch plans.</p>	
<p>ance participated in exposure visit to the City Agency</p>	<p>Support TigoCash to develop digital savings and lending product</p> <p>Helix CANA training for 2 MNO, 2 MFIs, and 1 Money Transfer Operator (MTO)</p>	
<p>te DFS working group</p> <p>Impact diagnostic for DFS</p>	<p>Support to MTN on strategy for rural expansion, partnering with Kyagalanyi Coffee Ltd to digitize payments through the coffee value chain</p> <p>Support to two largest retail banks to develop agent banking strategies</p> <p>Support FINCA to develop a liquidity solution (credit and savings) for MNO agents.</p>	<p>Grant to Mbale DFS for agent training.</p>
<p>t (ANA) completed by Helix</p> <p>n and Customer Adoption Surveys completed</p>	<p>Support UNHCR to investigate potential for use of DFS in refugee camp.</p>	
<p>te DFS working group</p>		
<p>act in cash with an agent who execute the electronic payment on their behalf. This is different from when customers use their e-wallet which are tied to an electronic account registered with a</p>		

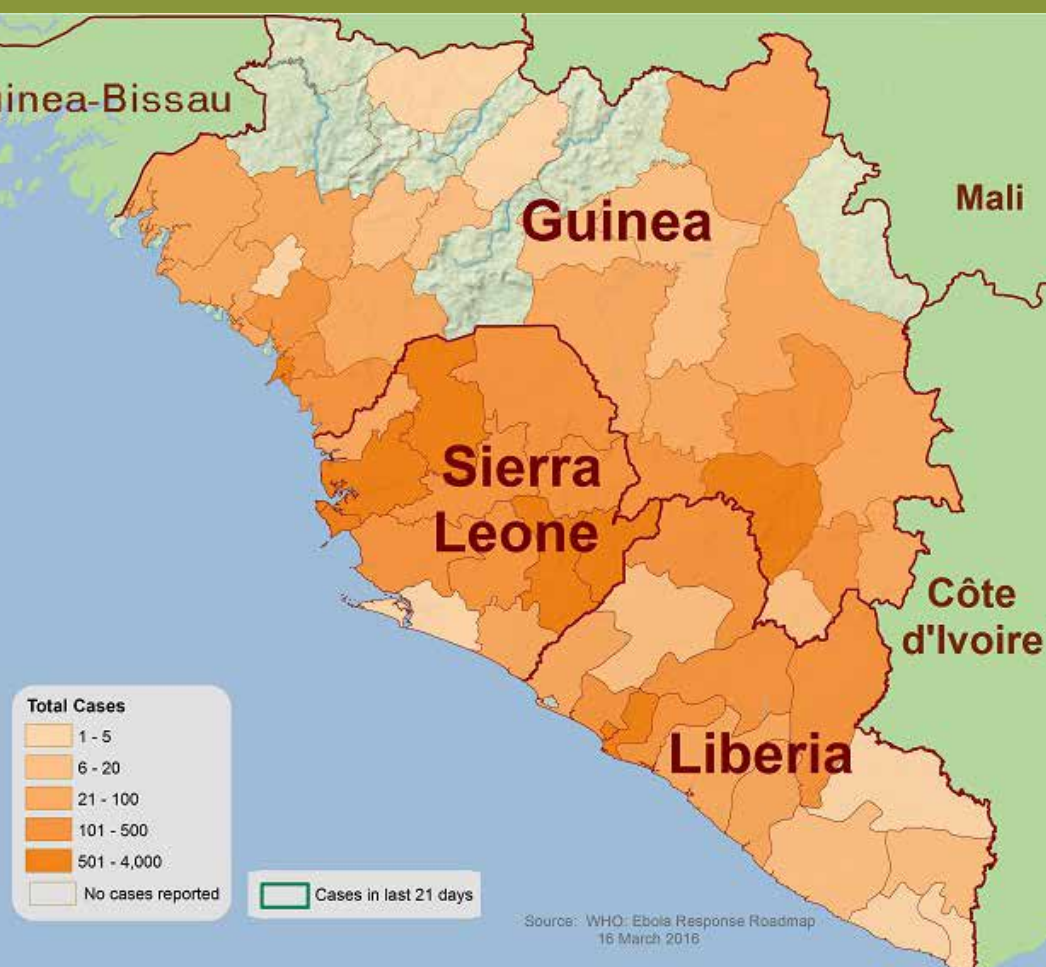




GETTING TO THE LAST MILE IN A CRISIS SETTING

**DIGITAL PAYMENTS FOR EBOLA RESPONSE WORKERS
IN SIERRA LEONE**

Chapter 4



OVERVIEW

The Ebola Virus Disease outbreak that ravaged large parts of West Africa over the course of 2014 to 2015 was by far the worst Ebola outbreak the world has ever seen. The first reported case of this outbreak dates back to December 2013. As of 28 April 2016, the number of confirmed, probable and suspected cases reported in Guinea, Liberia and Sierra Leone was 28,616, with 11,310 deaths.

Sierra Leone was among the countries hardest hit: over 14,000 people in Sierra Leone were infected with the virus, and nearly 4000 people died. The Ebola crisis also inflicted major economic losses on the country.

Ensuring a steady supply of trained, motivated and compensated Ebola response workers was critical to stopping the spread of the disease and saving the lives of those infected. The exponential growth of the Ebola epidemic during the emergency phase of the response challenged the traditional model of managing a crisis response workforce. Ebola response workers proved to be the cornerstone of the response. Over 60,000 response workers were at the front lines – educating communities in epidemic zones, tracing and monitoring those exposed, transporting and caring for the sick, and providing safe and dignified burials.

In the midst of the Ebola crisis, Sierra Leone decided to put digital payments at the center of the country's response to the Ebola Crisis. In this case, the UN Mission for Ebola Emergency Response (UNMEER), with the support of UNDP and technical assistance from UNCDF and The Better Than Cash Alliance (BTCA), set up a Payments Programme for Ebola Response Workers ('the Payments Programme'), which digitized hazard payments to over 15,000 Ebola response workers over the course of just two weeks during the height of the crisis in December 2014, eventually expanding to 26,600 by the end of March 2015.

Moving from cash to digital payments for Ebola response workers helped improve the security, transparency and efficiency of payments, and reduced significantly the strikes and threats of disputes that had slowed down their work due to non-payment, under-payment or late payment. It gave Sierra Leone the full workforce it needed to screen the population at large, and identify, isolate and treat carriers of the disease. Sierra Leone was also able to achieve major cost savings compared to the expense of moving cash during an extremely dangerous time in the country.

The response to the Ebola crisis demonstrates the significant potential of digital payments to improve humanitarian response capabilities and save human lives in large numbers. The case study 'Saving Money, Saving Lives.

A Case Study on the Benefits of Digitizing Payments to Ebola Response Workers in Sierra Leone', which is summarized here, offers important lessons for governments, the private sector, and the international development community about how to leverage digital payments in humanitarian crises and do so in a way that can advance long term financial inclusion.⁹⁰

RESULTS — FROM CASH TO DIGITAL PAYMENTS

In the early stages of the international response to the Ebola crisis, cash payments to workers were deemed an 'essential service', and hazard payments—a three to four-fold increase in usual individual payment amounts—were instituted to compensate response workers for the risks they were taking, and incentivize them to join and remain in the fight against Ebola. The fear of contagion also extended beyond the health sector, for example, to security personnel who guarded quarantined areas or borders. This 'inflationary effect' outside the health

sector created the need for even more hazard payments.

This inflicted an extremely heavy burden on the (already overwhelmed) authorities, who were responsible for making on-time payment to 30,000 Ebola response workers, 50 percent of whom were volunteers. During the crisis, reports of health workers striking or threatening to strike due to non-payment, under-payment or late payment became increasingly frequent. Most strikes occurred after staff were left unpaid for weeks or months, had not received the promised hazard pay, did not have the correct personal protection equipment or training, or were asked to work under unsafe conditions associated with the deaths of other response workers. Payments to response workers were redefined as a significant area of concern within the overall response as strikes by hospital staff and burial teams impeded control efforts.⁹¹

In response to these huge challenges, UNCDF agreed to second a technical specialist to Freetown, Sierra Leone⁹². This technical assistance, along with that of the Better Than Cash Alliance, and in close cooperation with

⁹¹ <http://www.who.int/csr/disease/ebola/one-year-report/factors/en/>

⁹² The UNCDF technical specialist, Tenzin Keyzom Massally, was seconded from the Pacific Financial Inclusion Programme (PFIP), a joint programme of UNCDF and UNDP, supported by the Governments of Australia, the European Union, and New Zealand.

⁹⁰ "Saving Money, Saving Lives. A Case study on the Benefits of Digitizing Payments to Ebola Response Workers in Sierra Leone", Joe Abass Bangura, Better Than Cash Alliance Case Study Series, May 2016.



UNDP, supported the authorities in Guinea, Liberia, and Sierra Leone to coordinate payments for thousands of treatment center staff, lab technicians, contact tracers, and burial teams. The Better Than Cash Alliance provided expert personnel to help design and implement

digital payments to response workers, and brought together bilateral partners such as USAID with private sector partners such as Visa and MasterCard and international organizations such as Mercy Corps, to ensure the best possible expertise and resources were available.

STORIES FROM EBOLA RESPONSE WORKERS

DIGITAL PAYMENTS: BOOSTING TRANSPARENCY OF PAYMENTS AND REDUCING THEFT

John Fofanah, volunteer swabber, Malal Mara Community Health Center, Tonkolili District

The decision of the Government of Sierra Leone to swab all corpses during the crisis led John to apply to be a response worker in return for hazard payments for his work. As a “swabber”, John was aware that he could contract Ebola through this work but wanted to serve his country during the crisis. He had lost a sister to the Ebola virus and had become the primary care-giver for her two children. Like many people from poor communities, he was also incentivized by the monthly hazard payment of SLL 800,000 (approximately \$250). As John was previously unemployed, hazard payments were the only means through which he could support his parents, his wife and the two children of his deceased sister.

John’s work took place almost 100 miles from the District Health Management Team where his initial payments – to be delivered in cash – were scheduled to take place. It was difficult for him to get accurate information about the dates of his scheduled payments, with the result that he was not able to plan his travels to arrive on payday. Consequently, someone else claimed his monthly hazard payments in October and November. It is reported that large crowds made it difficult for payment officials to check identification, so cash payments were disbursed with minimal verification of the correct recipient.

John noted: “I am a victim of such fraud cases”. He reported the matter to his manager - the Community Health Officer and the District Medical Officer, who investigated and compensated John, although the culprit was never identified or charged. John said such incidents happened in many other cases. However, from December to March, John was paid into a mobile wallet, dramatically increasing the security, efficiency and transparency of his payments, and hence reducing theft. In April, he opened a bank account and subsequently received his monthly hazard payments in his bank account. John also noted that he was able to save because senior officials were not able to make unauthorized deductions from his digital payments: “When payments were made on the table, I always lost some of my money to my bosses.”



ENABLING FACTORS AND CHALLENGES IN SIERRA LEONE

Sierra Leone was the only country among the Ebola epicenters where digitization of hazard payments was a realistic option, in part due to two factors:

- 01. Ubiquity of mobile phones among Response Workers & network coverage.** Sierra Leone had nearly 95 percent network coverage across the country and over 90 percent of response workers owned and used a mobile phone. This meant that mobile phones could be used for sending people public-health information or enabling them to call Help Desks, in addition to being a channel for the disbursement of payments through mobile wallets. However, only 15 percent of the response workers were registered for mobile money before the crisis. Owing to the urgency of the Ebola crisis, the Payments Programme worked with the mobile network operators to fast-track minimum “Know Your Customer” requirements so that response workers could be quickly registered and start receiving digital payments
- 02. Liquidity & cash management.** Since Ebola response workers were spread across Sierra Leone’s 14 districts,

including in rural health units, liquidity had to be actively managed to ensure that response workers could ‘cash-out’ as and when they needed. At the time of the crisis there were about 5,000 mobile money agents, as well as the Bank of Sierra Leone’s 13 community banks, helping to ensure there was sufficient liquidity to support cashing-out by response workers. This is despite the fact that there were fewer than 50 ATMs in Sierra Leone and fewer than 50 point-of-sale terminals in the country, 30 of which were deployed by one commercial bank, Ecobank. Most point-of-sale terminals were located in hotels and supermarkets (limited to Freetown and a few urban cities in the country) that were not readily accessible to low-income groups who constituted the vast majority of response workers.

Even with this minimum infrastructure in place, the Payment Programme still had to address a number of challenges, both structural and Ebola crisis-related, which influenced the immediate goal of ensuring that eligible recipients received their payments efficiently, securely and transparently. Among these challenges were the following:

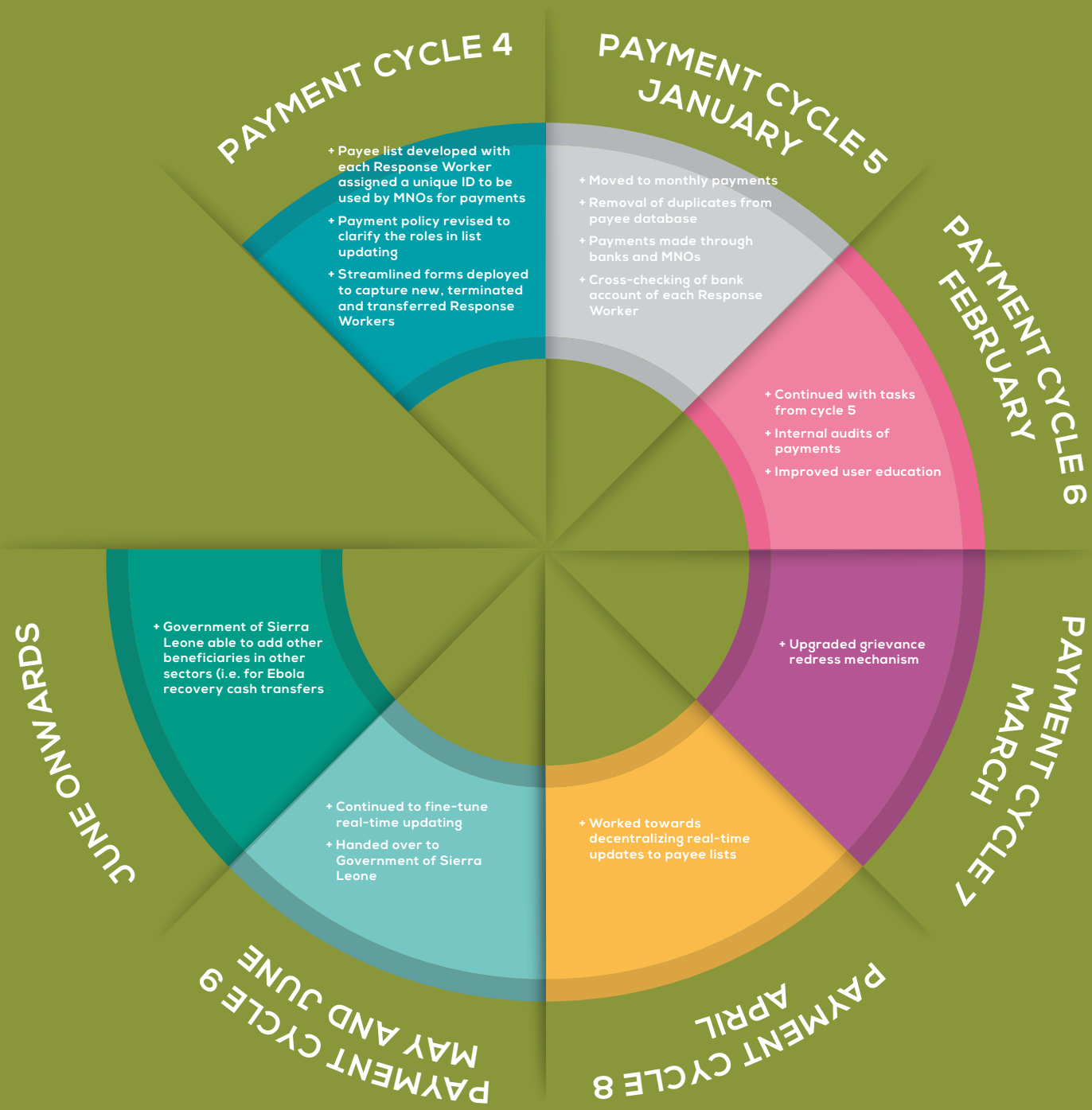
- 01. Network Infrastructure.** While technology and network infrastructure were reaching farther than ever

before, they were not always accessible or reliable, particularly in rural and remote communities. For example, response workers in the northern district of Koinadugu in Sierra Leone who lived away from the town center faced difficulties receiving text message notifications of their digital payments due to poor network coverage.

- 02. List management technology.** Dealing with up to 30,000 response workers’ individual records from 14 districts and over 1,000 medical units across the country meant that the payee lists needed to be managed in a highly systematic way. In addition, the turnover rate for response workers was around 30 percent, with significant numbers moving across districts and work cadres. Therefore, it was critical to ensure that all eligible response workers were included in payee lists on time, before payment amounts were submitted for approval to the donors, the World Bank and the African Development Bank.
- 03. Digital identification.** The use of digital payments required registration of around 30,000 Ebola response workers in a shared digital identification system. In a country where around 70 percent of the population share the top ten most common surnames,



FIGURE 10: IMPROVEMENTS ACROSS DIGITAL PAYMENT CYCLES BY THE PAYMENTS PROGRAMME



“I DON’T LIKE MOBILE MONEY. I LIKE CASH. IF SOMEONE TAUGHT ME HOW TO USE MOBILE MONEY, I WOULDN’T MIND USING IT BECAUSE THERE ARE AGENTS CLOSE TO WHERE I LIVE.”

— ANONYMOUS EBOLA RESPONSE WORKER

the lack of unique identifier for each payee was initially a challenge. In addition, Sierra Leone’s national identification system covers only 15 percent of the population. Since over 50 percent of response workers were volunteer workers from the affected communities, they often lacked any form of national employment identification. In order to ensure that duplicate records of the same person were not being created, a unique identification regime had to be established to track payments and workers as they changed their response worker category or work cadre (with subsequent impact on their eligibility for hazard pay and rates of pay).

04. **Inter-agency coordination.** In addition to the Government of Sierra Leone, other UN agencies and international NGOs were involved in paying response workers within the Government’s hazard payment policy. Efforts were made to delineate roles and responsibilities across agencies. Even so, there were significant risks of the same worker claiming hazard payments under two categories. For example, over 150 cases of ‘double dippers’ were caught when all hazard payment programmes started using a common list management infrastructure provided by the Payments Programme.
05. **Consumer protection.** Financial service providers were not protecting consumers adequately, which means response workers with low levels of literacy were not treated fairly in many cases. This eroded trust in digital financial services.

In response to these challenges, a number of steps were put in place that were added to the original scope of work of the Payments Programme, which was digitizing cash payments. These included undertaking actions related to financial education and list management.

The World Bank diagnostic team designed and implemented a financial education tool in the form of a leaflet and accompanying poster, with support from the Payments Programme team who

organized focus group discussions with response workers and helped with printing and distributing the materials. The focus group discussions revealed that many response workers had limited understanding of the cashing-out process, in particular, security issues (e.g. PIN codes), as well as grievance handling mechanisms and troubleshooting steps. Ten tailored SMS/text messages to response workers were also developed as part of follow-up financial education support. With cooperation from the Payments Programme, the National Ebola Response Center, and mobile network operators, the text messages were delivered in May 2015 to response workers who were scheduled to receive to hazard payments. The text messages provided tips for response workers about how to manage hazard payments effectively, and also highlighted the temporary nature of the payments, in order to help manage response workers’ expectations and financial planning once the Payments Programme would conclude.

Realizing that using multiple pay partners to pay response workers was leading to implementation problems – particularly errors of incorrect inclusion and exclusion from payee lists – the Payments Programme organized policy consultations with development partners, the Ministry of Health and Sanitation, and response workers. The purpose of these consultations was to clarify worker categories, and define pay rates based on levels of risks and Ebola Virus Disease occurrences. The policy revisions also focused on the process of list management and approval. Also, the Payments Programme worked on establishing an effective set of policies and processes to resolve challenges and manage hazard payments efficiently and effectively. The Figure 10 provides an overview of the improvements put in place across digital payment cycles by the Payments Programme.

“THERE WAS A DIRECT CORRELATION BETWEEN DIGITIZING PAYMENTS AND STRIKES.”

— STEVE GAOJIA, COO, NERC

ACHIEVEMENTS

The rapid deployment of digital payments to Ebola response workers can lay claim to some impressive achievements.

Firstly, the programme resulted in a cost savings of \$10.7 million over the 13 months that payments were digitized from December 2014 to January 2016. To put this in perspective, this saving is equivalent to the annual cost of funding Sierra Leone’s Free Health Care Programme that caters for 1.4 million children under 5 years and 250,000 pregnant women. This saving was achieved by a combination of removing incorrectly or fraudulently registered payment recipients; digitally updating changes to recipients’ roles and payment categories; removing costs associated with cash payment operations; and substantially cutting travel costs for recipients who no longer needed to travel to designated cash payment centers once digital payments were implemented.

Second, digitizing payments shortened the delivery time of payments to Ebola response workers from over one month on average for cash payments to one week on average for digital payments. As a result, after digitization of payments, strike actions practically stopped, giving Sierra Leone the full workforce it needed to screen the population at large and identify, isolate, and treat carriers of the disease.

INSIGHTS AND LESSONS LEARNED

The Sierra Leone Payments Programme for Response Workers has had a clear impact on how best to prepare for and deliver humanitarian response payments. The ability to distribute money to people digitally has the potential to change how humanitarian crisis payments are made. It allows stakeholders to act with unprecedented speed to help affected populations during or after natural disasters and other kinds of crises. In Sierra Leone’s case, the transition from distributing hazard payments in cash to distributing them digitally also reduced the incidence of both fraud and ghost recipients.

However, to fully leverage the power of digital payments in crisis situations, governments, the private sector and international organizations need to develop critical infrastructure today in order for digital payments to be deployed as quickly as possible when crisis strikes.

Governments and the international development community are increasingly harnessing digital payments to deliver public transfers and salaries, particularly during crises when speed is critical. This serves both to drive efficiency gains and to encourage beneficiaries’ entry into, and use of, digital networks as a gateway to greater financial inclusion. However, significant work remains to build partnerships and infrastructure that can sustainably include targeted population segments, which are often found in vulnerable and disadvantaged communities. This work is vital to strengthening social and economic resilience in these communities, and extending to more people the broader economic opportunities afforded by digital payments.

Key challenges to greater uptake of digital payments – and hence greater financial inclusion – as observed in Sierra Leone during the Ebola crisis are set out below.

EARLY PREPARATION FOR HUMANITARIAN CRISES

Early preparation for humanitarian crises, particularly by developing and implementing national policy frameworks that drive effective and flexible digital payments ecosystems, is key to harness the full potential of digital payments.

Typically, emergency payment cash transfers are supported by national payment policies that stipulate by whom, in what amounts, and how frequently cash payments can be made. During crises, these policies often need rapid and drastic revisions. It is vital that governments establish clear roles and responsibilities between implementing agencies, particularly those with financial regulatory responsibilities. In particular, it is crucial that implementing agencies are able to accurately identify and verify payment recipients in order to maximize the cost efficiency of digital payments and build public confidence in digital payments as an alternative to cash.

CLEAR OPERATIONAL GUIDELINES AND RESOURCES

Clear operational guidelines and resources are needed to support implementation of digital payments in order to reduce delays

and resistance to change from those who are responsible for distributing payments.

Due to successful global advocacy for digitizing payments by organizations like the Better Than Cash Alliance, the Government of Sierra Leone understood the potential benefits of digital payments. However, Sierra Leone still encountered resistance to new digital processes from a range of stakeholders. Providing clear guidelines and resources – including targeted education of non-traditional stakeholders like local fiduciary agents and audit firms – can reduce this resistance and smooth the transition to digital payments.

DIGITAL PAYMENTS INFRASTRUCTURE

Having a digital payments infrastructure in place should be the goal of governments and donors.

Sierra Leone entered the crisis with 90 percent mobile phone access, and a strong national network of mobile payment agents. This infrastructure proved an advantage in deploying digital payments during the crisis. Providing practical ways for recipients of digital payments to pay for food and other basic goods and services digitally is crucial. Without these tools, digital payments will nearly always be converted to cash, curtailing the larger and long-term

benefits of shifting to digital payments, and limiting the outcome of sustained financial inclusion.

PRELIMINARY PROCESSES

Digitizing preliminary processes for Government to People (G2P) and Development Agency/Donor to People (D2P) payments expedites the deployment and expands the benefits of digital payments in crisis situations.

Without the digitization of preliminary processes like worker identification, registration and payee list management, digitization of payments alone cannot solve the major challenges of leakage and double-payments, ghost workers, inefficiencies due to duplication of processes and timely payments to the correct recipients.

KEY PRINCIPLES

Key principles of responsible digital payments proved crucial for widespread and sustained adoption of digital payments during and after humanitarian crises.

The extent to which digital payments are widely adopted during and after crises – by policy-makers and general populations – will depend on how well financial inclusion stakeholders are able to create responsible and inclusive digital payments ecosystems. Among the broader principles



of responsible financial inclusion⁹³, key imperatives emerging from the Ebola crisis in Sierra Leone include:

- + **Managing risks and providing redress mechanisms.** While many recipients reported high levels of satisfaction with digital payments, there was clear evidence that they also faced financial risks, such as unlawful or excessive agent fees. This can heavily impact people with very low-incomes. Educating recipients about these financial risks and providing accessible and effective redress mechanisms is crucial to boosting acceptance of digital payments in a sustained way; and
- + **Designing products and services to meet specific needs.** Low levels of literacy and numeracy amongst some payment recipients almost always presents a challenge to implementing digital payments in many developing economies. Technology is helping surmount these and other challenges. For example, biometric technology, such as fingerprint scanning, or voice-operated devices can often be used to address problems relating to low literacy. In Sierra Leone, the risk of transmission of the Ebola virus by physical contact meant fingerprint scanning was problematic, but facial recognition software proved effective in its place. The Sierra Leone experience demonstrates how tailored products and services are essential to facilitating adoption.

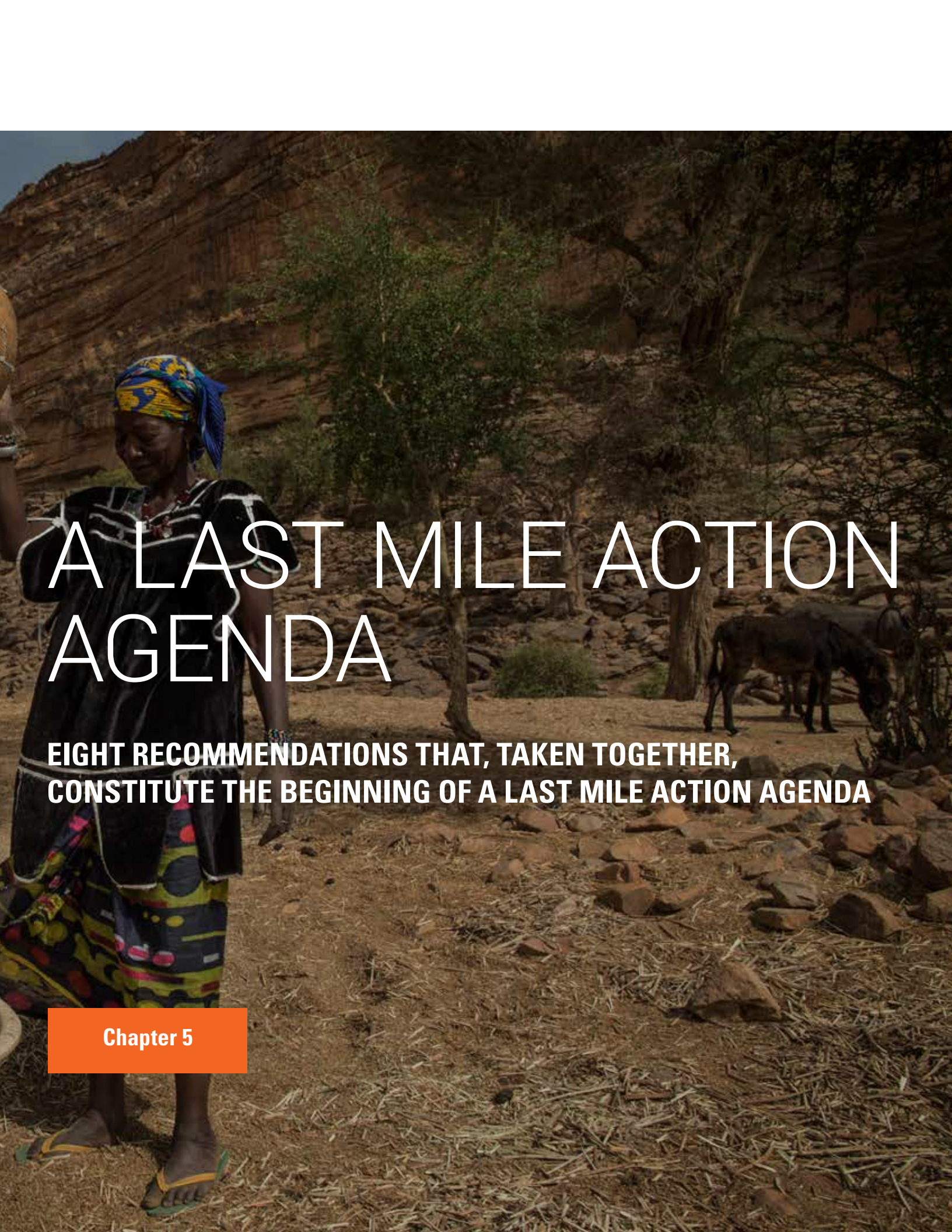
building up infrastructure prior to a crisis striking, so that digital payments can be deployed with minimal delay. The private sector itself was fractured in Sierra Leone, and extra mediation from the UN was needed to create a successful partnership platform. In addition, there is a need for partnerships between the humanitarian sector and digital financial inclusion stakeholders. By working together, there is a higher chance of implementing digital payments quickly and effectively, and of developing processes that promote financial inclusion and drive economic opportunities after the crisis has passed. Both the humanitarian sector and financial inclusion stakeholders need to incorporate each other's perspectives and experiences to drive more robust policy-making and better outcomes.

PARTNERSHIPS

Partnerships are crucial to the effectiveness of digital payments during crises and as an ongoing driver of financial inclusion after crises have passed. Cooperation between government, the private sector and international organizations is particularly crucial to

⁹³ The key principles of financial inclusion are a body of knowledge undergoing rapid development, however commonly cited principles are set out at <https://www.betterthancash.org/news/media-releases/forum-highlights-global-standards-for-responsible-digital-finance>.





A LAST MILE ACTION AGENDA

**EIGHT RECOMMENDATIONS THAT, TAKEN TOGETHER,
CONSTITUTE THE BEGINNING OF A LAST MILE ACTION AGENDA**

Chapter 5

A LAST MILE ACTION AGENDA

The case studies in this report highlight a mix of policies, programmes, models and partnerships that propel growth and development into the last mile, and in so doing, help ensure that we leave no one behind as we begin implementation of the SDGs.

So what do these experiences mean for LDC governments and their development partners? We offer the following eight recommendations that, taken together, constitute the beginning of a Last Mile Action Agenda.

FIRST, LDCs and their development partners should focus on the last mile as a distinct set of needs, behaviors and structures. Targeting the last mile is different from promoting sustainable development overall and hoping that the most excluded and marginalized benefit. Investing directly in the last mile — at the sub-national level, where populations interact with their local economies— is an essential strategy for leaving no one behind. To achieve the SDGs, we cannot just hope that a rising tide of better averages will get us to 2030 on track. We need explicitly to target and prioritize investments in the last mile by understanding the exclusionary factors that face those left behind, and crafting solutions that work dynamically within their economic life cycles.

SECOND, investments must flow more predictably and more sufficiently to where identified needs are greatest, including at the subnational level. Too often, centralized plans and strategies intend to reach excluded and marginalized groups, but the associated budgets and actionable programmes to make that happen are lacking or are underfunded. LDCs and development partners should map and identify what are the persistent exclusions and inequalities different communities and regions within a country face. And they should develop targeted approaches that will overcome these challenges, craft the monitoring frameworks to track progress, and put together the resources to turn plans into action. This includes empowering local authorities with access to financial flows from national and international sources (such as ODA and climate finance), and with innovative forms of finance to help direct resources outside capital cities, into secondary cities, peri-urban and rural communities.

THIRD, last mile challenges by definition will be different in different places and contexts. LDCs and their partners should tailor interventions to the specific last mile environments in which they are operating. In addition, last mile interventions need to be flexible and adaptive — supporting communities and households which have been experiencing persistent exclusions and inequalities will

require learning by doing and a need for patience. In this regard, LDCs and their partners will need to balance the desire for quick wins with the multi-year approaches and real-time learning needed to bring about lasting change in the last mile.

FOURTH, evidence counts. Understanding how different approaches address specific needs requires both supply side and demand side diagnostics, coupled with regular assessments to understand how specific solutions change the factors of inclusion, access, and opportunity. Evidence also helps attract finance, by revealing markets and demonstrating the economic potential of working in the last mile. To this end, LDCs and their partners need to invest in gathering and analyzing that evidence.

FIFTH, it is important to leverage and share lessons about what works. Fostering a “can-do” culture can counter the concern reaching the last mile is too difficult or daunting. As the case studies highlight, there are many excellent examples of programmes that have or are improving the lives and livelihoods of those in the last mile. It is important to build on these successes, to identify what works and why, to recycle those lessons into other programmes, and to replicate them as appropriate. This can include North-South, South-South and triangular cooperation.

SIXTH, public resources – both domestic and through ODA – will remain central to reaching the last mile, and can lay the groundwork and crowd-in other public and private finance to underserved areas and communities. Perceptions among investors of high risk, insufficient returns, and weak accountability at the local level often keep investments away from where development needs are greatest. Actions that are designed to de-risk the investment space can result in the creation of viable local investment pipelines, draw in domestic banks and dormant capital, reveal markets to a wider pool of investors, and demonstrate the returns potential of investing in local economies. This requires a greater tolerance of risk and a commitment to investing “patient

capital” that will see returns sometimes over a longer period than typical impact or donor investors currently expect.

SEVENTH, it is not enough to reach the last mile populations and places with once-off interventions. To leave no one behind requires recognizing that our world is dynamic, that there are persistent vulnerabilities that can result in people and places backsliding and losing gains they have made. LDCs and their partners must therefore build the capacities at the national and subnational levels so that countries and communities are able to withstand, adapt to, and bounce back from shocks. Supporting nations to become more resilient is a long-term endeavor; short-term development support does little to build resilience.

EIGHTH, LDCs and their partners should invest in more research on how exclusions, inequalities, and discrimination interplay with poverty, and in understanding effective models that address the structural causes of what prevents people from contributing to, and benefiting from, economic growth.



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