Private finance for good

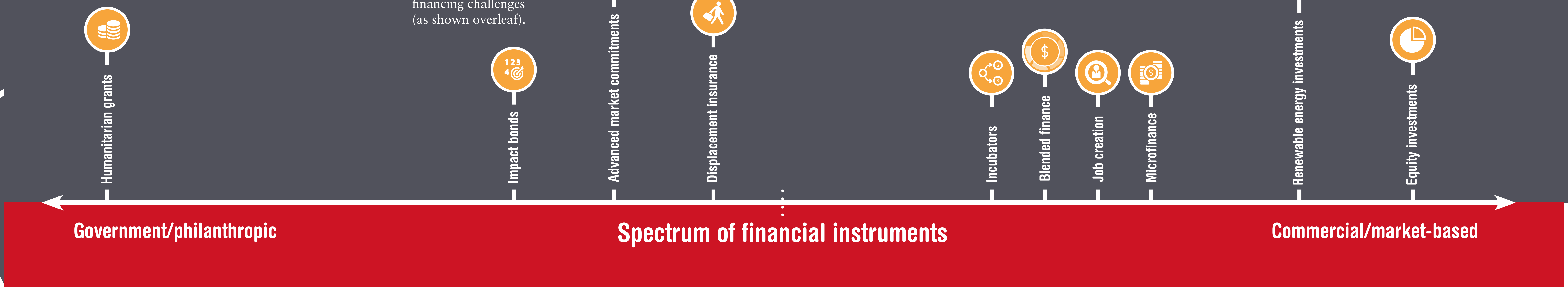
Investing in humanitarian impact

The humanitarian system and its financing are under immense pressure from ongoing crises.

While traditional donors are increasing their grant funding to emergency responders, the gap is still growing between the cost of responding and available funding – in 2018 less than 60% of requested funding needs were met.

Beyond current reform efforts to make crisis funding faster, more consistent and more cost-effective, there is a sense that we need to move from grant-making to using a wider range of financial tools – and private finance has a part to play in new partnerships where grant funding can leverage investment finance.

Financial instruments from across the philanthropic–commercial spectrum could be used to address the challenges facing humanitarian financing. This has become known as innovative financing, or humanitarian investing: using a range of mechanisms intended to raise more money and attract new types of capital for development and humanitarian aid, or solve other humanitarian financing challenges (as shown overleaf).



Ways forward

We see momentum and a window of opportunity where government donors, aid agencies and investors' interests could align for positive impact in humanitarian crises. Seizing this opportunity will require:

- **New strategic alliances:** donors, agencies and investors should adapt to take advantage of the window of opportunity; broader and deeper use of different partnerships, including intermediaries who can advise across the humanitarian/investor divide; and greater focus on engaging and developing local fund managers in crisis regions to direct investment using contextual knowledge.
- **Linking funding and financing:** grant-based financing should focus on what other funding cannot do in supporting frontline humanitarian action, and catalysing investment where it might be feasible.
- **Greater transparency** over current investments and humanitarian agencies' budgets would provide data to encourage further investment.

HPG
Humanitarian Policy Group

Read the full report at odi.org/hpg

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NUMBERS FOR GOOD
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Challenges

Not enough funding

Donor funding, while increasing, is not keeping up with the rising global cost of responding to crises – in 2018 there was a 40% shortfall on requested funding

Inefficient funding

Funding is reactive, short-term, and long transaction chains – from international NGOs to local partners – mean only a small proportion of funding reaches affected people

Funding arrives too late

Late funding can mean needs are not addressed at the start of a crisis or when a situation is deteriorating (e.g. pre-famine when food insecurity is rising)

Short-term solutions

A lack of long-term investment means responses are expensive – e.g. diesel generators are often used rather than alternative energy options that are cheaper in the long run

Lack of economic opportunities

Many displaced people leave their homes for many years and may never return, and their income-earning opportunities in the host country are often restricted

Research and development costs too high

The expense of developing a product may not be commercially justified by its potential revenue – e.g. there is high demand for Ebola vaccine in developing countries, but they can only afford to purchase it at a low price

Financial instruments

Blended finance

- Using grant funding to attract further private sector investment in emerging markets
- These deals can establish a new market, making way for future deals with humanitarian impact

Equity investments

- Buying a stake in a private enterprise, with the promise of future financial returns
- Can support businesses with the potential for humanitarian impact and job creation

Impact bonds

- An investor provides the working capital to a provider to deliver a service based on agreed outcomes; if these are met, the investor's capital is returned by 'outcome funders', typically government donors and foundations
- Allows for flexible, upfront funding, and promotes innovation by being based on performance, with no up-front risk to the outcomes funder

Disaster risk insurance

- Payout is delivered directly following a pre-agreed trigger (e.g. when a tsunami hits)
- Prevents the need for a huge donor or government cash outlay when disaster strikes

Displacement insurance

- Not yet been implemented but is being developed by IRC
- Will help improve host country preparedness for refugees

Renewable energy investments

- Can create long-term savings as well as ongoing employment for displaced people
- Achieves positive environmental impact

Job creation

- Via refugee compacts, impact bonds or direct investments into enterprises
- Can provide long-term financial independence for refugees

Microfinance

- Private funds invested in local financial institutions, who then provide loans to individuals
- Offers funding to businesses that are too small for commercial lending

Incubators

- Intensive support to run and develop the business
- Intensive training and in some cases patient capital is provided at the crucial early stages of a business

Advanced market commitments

- A way of manipulating a market where demand is high from people who cannot afford a product but low from those who can
- An effective way to channel donor funds into long-term, high-impact solutions