

# Organizational Readiness and Enabling Private Capital for Innovative Financing in Humanitarian Contexts

## GOOD PRACTICES PLAYBOOK

MAY 2020

---

This study was carried out in the context of the Switzerland—  
EU/DG ECHO co-chairmanship of the Good Humanitarian Donorship Initiative



# Table of Contents

---

## **INTRODUCTION**

[Executive Summary](#)

[Why Now?](#)

[Value for Money](#)

[Playbook User's Guide](#)

## **SECTION I: EVALUATING ORGANIZATIONAL READINESS FOR HRI**

[Self-Evaluation Rubric](#)

[Organizational Mandates](#)

[Organizational Support](#)

[Systems and Procedures](#)

[Resources](#)

[Implementation](#)

## **SECTION II: BUILDING ORGANIZATIONAL READINESS FOR HRI**

[Assign, Assess, and Prioritize](#)

[Implement](#)

## **SECTION III: CONTEXTUAL PRIMER FOR HRI**

[Creating Unity: Humanitarian, Development, and Beyond](#)

[Organization Profiles](#)

[Investing in Humanitarian Contexts](#)

[Innovative Finance](#)

## **APPENDICES**

[Frequently Asked Questions](#)

[Abbreviations](#)

[Contacts](#)

[Acknowledgments](#)

[Bibliography](#)

# Executive Summary

---

The number of displaced people and those living in fragility has increased dramatically, but humanitarian aid has not kept pace, leaving an ever-widening funding gap between aid provided and needed. According to UN Coordinated appeals, the gap increased from \$9.6 billion in 2009 to \$27.8 billion in 2019. Climate, conflict, and xenophobia drove a rise in fragility and displacement, which shows no signs of abating. Existing aid mechanisms are insufficient to address today's problems: new pools of capital are required to meet the growing need. With \$212 trillion in the global capital markets, redirecting even a small portion toward Humanitarian and Resilience Investing (HRI) would help address these escalating humanitarian needs. Indeed, in 2018, the Impact Investing market totaled \$500 billion, more than three times that of 2017 Overseas Development Assistance (ODA), which was \$146.6 billion.

There have been many helpful reports on this problem of insufficient humanitarian and development aid and potential solutions to it. This playbook's purpose, rather than informing the reader on those topics, aims to be more used than read. It focuses on helping the user change systems, processes, and capabilities in their organization to engage in HRI to help solve humanitarian and development-related problems; it provides relevant background information to support change that enables transactions.

## **Innovative Finance: Powerful, but Not So Innovative**

"Innovative finance" takes on new meaning depending on the stakeholder and the context. It is so widely used that its connotation has become broad, vague, and confusing. A description of this proliferation and common innovative finance vehicles can be found in [Innovative Finance](#).

Many stakeholders fixate on the word "innovative" and draw incorrect conclusions about this umbrella of financial tools, whether to think they are always new and better, or to think they are always overly complicated and one-off. In this playbook we use the term HRI – Humanitarian and Resilience Investing, focusing on solving humanitarian challenges and building resilience rather than focusing on being innovative per se.

Including the private sector in humanitarian contexts has been a long-standing theme. This theme continued at Davos 2019 when Kristalina Georgieva, the CEO of the World Bank at the time; Peter Maurer, the president of the International Committee of the Red Cross; and Børge Brende, the president of the World Economic Forum, launched an [HRI initiative](#) with membership spanning across multilateral development banks (MDBs) and development finance institutions (DFIs), humanitarian and development organizations, governments, and investors.

The goal of HRI is to increase scale of funding and to create more value for money by improving delivery mechanisms to increase impact. This investment space is still nascent, with interest bolstered by clear, positive examples of impact and returns. However, many other examples cast light on the challenges of HRI. Thanks to early pilots, we see the opportunity for both greater impact and better execution.

## **PREVIEW: ORGANIZATIONAL READINESS PLAYBOOK**

This playbook comprises insights from over 100 experts from more than 50 DFIs/MDBs, donors, humanitarian-development organizations, and private sector institutions. It is designed to help these actors engage in HRI transactions (HRITs) more effectively and to enable collaboration. Content is divided into three sections: Evaluating Organizational Readiness for HRI, Building Organizational Readiness for HRI, and Contextual Primer for HRI.

## Section I: Evaluating Organizational Readiness for HRI

presents a maturity curve on which organizations can chart their level of experience and capabilities on a rubric across four stages, beginning in “Primary” and moving toward “Best-in-Class.” All stakeholders use the same maturity curve, but not all can or should reach “Best-in-Class.” The rubric helps organizations identify actions that either help or hinder HRI.

**Maturity is measured against five categories, with several dimensions contained within each category; these are described to the right:**

### **Mandate**

Articulates the overarching organizational commitment that drives the focus of senior leadership and action among others throughout the organization to enable engagement in HRI, including:

- [Commitment to make an impact in humanitarian contexts](#)
- [Commitment to engage the private sector and other stakeholders](#)
- [Prevention, resilience, and recovery to complement response](#)
- [Learning and innovation capabilities, as well as patience](#)

### **Organizational support**

Leadership support and broader organizational buy-in to drive engagement in HRI, and an organizational culture that promotes stakeholder collaboration, including:

- [Senior leadership support of HRI](#)
- [Organizational support of HRI](#)
- [Willingness to collaborate across sectors](#)
- [Stakeholder relationships and understanding](#)
- [Risk appetite](#)

### **Systems and procedures**

Operational infrastructure enabling engagement in HRI, including:

- [Risk controls to provide protection but enable flexibility](#)
- [Clear and disciplined risk assessment and funds deployment](#)
- [Flexibility in contracting with counterparties](#)
- [Budgeting practices](#)
- [Accounting flexibility and fund processing](#)
- [Sophistication of impact analysis](#)
- [Impact measurement and evaluation](#)
- [Data management](#)
- [Technological capabilities](#)

### **Resources**

Human capital and funding to enable engagement in HRI, including:

- [Dedicated team for HRI](#)
- [Internal expertise for HRI](#)
- [Investment funds allocated to HRI](#)
- [Incentive structure to encourage development of HRI capabilities](#)

### **Implementation**

Engaging in HRI directly and as an ecosystem building in the past, present, and future, including:

- [Track record of investment and impact execution](#)
- [Network of potential partners](#)
- [Pipeline of potential deals](#)
- [Share learnings with broader community](#)

Each of these dimensions is described in great detail, with content explaining:

- What the dimension means
- Why the dimension is important to organizational readiness for HRI
- To which stakeholders the dimension is most relevant
- The characteristics of an organization that would be considered Best-in-Class
- A path to follow to progress toward maturity
- Self-assessment questions to aid in reflection
- Challenges to manage
- Ad hoc case studies

Readers will note that of the four types of organizations highlighted in this playbook, donors and humanitarian - development actors are referenced as key stakeholders far more than DFI/MDBs and the private sector. Donors and humanitarian organizations are the on ramps to private sector involvement in the humanitarian space. Donor and humanitarian organization capabilities are inextricably tied to whether the private sector can effectively engage in helping solve humanitarian challenges.

The private sector has opportunities to better enable the ecosystem, but given the critical and leading role that donors and aid organizations play, much of the actionable advice in the playbook is tailored to them, with private sector-focused advice in the organization profile for [investors](#).

**[Section II: Building Organizational Readiness for HRI](#)** helps organizations apply learnings from the self-evaluation rubric, first by presenting prioritization tools, and then with a framework to guide implementation. Three prioritization options are presented. The first is the spotlight analysis of the rubric, which helps organizations understand the minimum level of maturity required to engage in HRI for each dimension. Maturity stages are categorized as red (prevents HRITs), yellow (permits HRITs), and green (facilitates HRITs). Organizations that have any one dimension in “red” must improve that dimension before engaging in HRITs. The second prioritization framework is a feasibility and impact chart, which helps organizations focus on those efforts that will provide the greatest impact with the least difficulty. Finally, a Gantt chart is presented as a tool to help with both prioritization and work planning.

### **THE [IMPLEMENTATION FRAMEWORK](#) INCLUDES THREE STEPS:**

#### **Formulate**

Define the goals and motivations, note the barriers to overcome, identify the relevant stakeholders, and determine the resources required

#### **Activate**

Convey the goals, engage leaders to eliminate impediments, create champions to drive change, and socialize the work plan

#### **Execute**

Manage the process to ensure accountability and alignment of incentives

**[Section III: Contextual Primer for HRI](#)** outlines the relevant background knowledge that interviewees highlighted as crucial context for engaging in HRIs. This includes a description of stakeholders active in HRI, the challenges of investing in humanitarian contexts, and an overview and definition of “innovative finance” and relevant tools.

As noted earlier, organizations must assess their own strengths and weaknesses to enable effective participation in HRI; but to have any impact, they must also enable the ecosystem. This playbook is designed to empower individuals to be the force for change within the organization, the community of practitioners, and the humanitarian landscape at large.

# Why Now?

---

*The time is ripe to engage in HRI: Aid systems are underfunded and have no visible path to improvement, and private sector capital is eager to fill this void and generate an impact.*

The humanitarian situation is ominous. The Organisation for Economic Co-operation and Development (OECD) forecasts that if current trajectories hold, 80% of the world's poorest people will live in dire humanitarian need by 2030. Similarly, over 80% of World Bank–designated Fragility, Conflict, and Violence (FCV) countries will not reach basic Sustainable Development Goals (SDGs) by 2030 if trends persist. As crises proliferate, funding will support acute intervention programs, which leaves little reserves to build resilience, ensure prevention, or facilitate recovery. While crisis response is necessary, it is also well-documented that prevention is more effective and cost-efficient than responding after the fact.

There is a glimmer of hope, as new pools of capital seem poised to address the widening gap between needs and funding. The sustainable investing market now totals \$30 trillion, after increasing 30% over the past two years. Within that, there is a growing impact investing movement that is estimated at \$500 billion. However, to mobilize capital that truly encapsulates HRI's mission—to create genuine, humanitarian impact while providing an investment return—stakeholders must invest time, effort, and money to create solutions that serve this dual purpose. Once the capabilities are firmly recognized and proven, experts estimate that it will take another ten years to establish HRI as an asset class and to meaningfully draw upon the broad-based impact investing appetite.

Fortunately, the theme of private sector involvement has already taken hold, as it was mainstreamed in 2016 with the [Grand Bargain](#) and the establishment of the [IDA18 Private Sector Window](#). The fascination continued, and was popularized in a 2019 report from Overseas Development Institute (ODI): [New Financing Partnerships for Humanitarian Impact](#). At Davos 2019 Kristalina Georgieva, then CEO of the World Bank; Peter Maurer, president of the International Committee of the Red Cross (ICRC); and Børge Brende, president of the World Economic Forum, convened a high-level group on HRI, which evolved into a concerted effort across public and private sector stakeholders.

Given the confluence of obvious need and clear appetite, now is the time to establish an HRI market. Including the private sector in the humanitarian sphere is a powerful tool, but donors are indispensable. Without donor support and de-risking capital, the private sector cannot enter. Collaboration among donors, the private sector, and other stakeholders activates cross-functional expertise to ensure aid is properly served. Stakeholders have varying levels of risk tolerance, which can be distributed synergistically to enable broader collaboration across projects. The focus on investment and payment for results will help ensure that humanitarian and financial impact are both sufficiently met.

No amount of well-intended discussion of collaboration, however, can substitute for individual and organizational action. This playbook focuses on helping organizations assess their own strengths and weaknesses and then make the necessary changes for their organization to complete HRITs. Shared learnings are critical to helping individuals and organizations evolve, building capabilities within, and thereby enabling the HRI ecosystem.

# Value for Money

---

Value for money encourages organizations to consider what results or impact they achieve through each dollar spent. [Innovative finance](#) (HRI) theoretically increases value for money by involving the private sector, which brings market-based, customer-centric solutions; complementary skill sets and risk appetites; and new delivery mechanisms. However, HRI is still in its infancy, so many worry the potential risks outweigh the gains in value for money without fully considering the potential of innovative blended finance approaches.

This is of utmost concern to donors as they deploy taxpayer money knowing that all uses must be beyond scrutiny. There is a spectrum of stakeholder views on value for money: some organizations have the flexibility to experiment with funds, while others are obligated to pursue only the highest value for money opportunities. Organizations define value for money differently—some have robust equations while others have not decided on the needed inputs.

The Department for International Development (DFID), which spends about 75% of UK aid, is advanced, with a clear methodology and periodic reviews of its approach to value for money. For each decision, DFID considers economy, efficiency, and effectiveness, and it also ensures marginalized groups are cared for. It tracks results, holding implementers responsible and carefully controlling costs. DFID notes that delivering aid to marginalized members of society can often incur greater time, effort, and costs, resulting in a lower value for money relative to more straightforward contexts.

Measuring value, or success, is a challenge, both in selecting the right metrics and in tracking them. In DFID's quest to improve its value for money calculations, it has evolved to a holistic approach with an explicit focus on quality in addition to quantity. It has intentionally shifted its focus to a longer-term timeline and has sought sustainability in results.

DFID explicitly notes that “achieving value for money...requires experimenting and adapting.” This is particularly relevant in complex, hard-to-measure contexts, but it also pervades the entire organization, as DFID encourages other programs to experiment. Similarly, aligning on a calculation of value for money requires iteration. An organization must be flexible in determining what it measures, how it measures, and how those decisions vary based on context.

It is impossible to know value for money before a given humanitarian action. Donors, as catalysts for HRITs, hold the keys to the kingdom, and their actions or inactions determine whether the private sector can mobilize to solve the problem. While adding the incremental uncertainty associated with interfacing with the private sector decreases the expected value for money, the potential additionality of HRITs should more than balance it out. Donors must understand the value of their capital and the benefits of experimentation and consider this when calculating their value for money. There is no space for HRITs if they do not generate value for money, so organizations must find a way to ensure effective, durable impacts.

# Playbook: User's Guide

---

## Thank you for making this playbook possible

This document comprises the insights relayed by over one hundred experts from more than fifty public and private sector organizations globally. Every interview, workshop, and follow-up were critical in developing this playbook, and were it not for your efforts, it would not exist.

Case studies are woven throughout the playbook to help provide concrete examples of organizations doing their part to mobilize private capital into humanitarian contexts. A special thanks to all contributing organizations, who endured multiple calls and iterations to share their insights with the community.

This playbook articulates the preconditions for effective engagement in HRI, with recommendations focused on: DFIs/MDBs, Donors, Humanitarian-Development Organizations, and the Private Sector.

The content is divided into three sections. The first section is focused on self-evaluation, the second helps organizations apply and implement learnings, and the third provides contextual support. While this playbook can be read linearly, we suggest readers new to HRI begin in the Contextual Primer for HRI. To enhance ease of navigation, all blue text are links, either to external sources for further reading or to relevant sections within the playbook.

## **SECTION I: EVALUATING ORGANIZATIONAL READINESS FOR HRI**

This section presents a maturity curve on which organizations chart their level of experience and capabilities using a rubric across four stages, beginning in “Primary” and moving toward “Best-in-Class.” All stakeholders can employ the same maturity curve, but not all stakeholders should strive for “Best-in-Class” in all dimensions. While progression along the curve is important, definitions of maturity are meant to be informative, not necessarily goalposts. The point of the rubric is to understand which actions organizations take enable HRI transactions (HRITs) or prevent them.

There are five key categories against which maturity is measured: Mandate, Organizational support, Systems and procedures, Resources, and Implementation. Within each category, there are several dimensions that describe capabilities an organization should have. Each dimension is divided into four levels of maturity, with criteria that describe the hallmarks of each stage.

## **SECTION II: BUILDING ORGANIZATIONAL READINESS FOR HRI**

This section helps organizations apply learnings from the self-evaluation, first by offering three prioritization methodologies, and second with an implementation framework. The playbook presents three key ideas in prioritization. The first is the spotlight analysis of the rubric, which helps organizations understand the minimum level of maturity required to engage in HRI for each dimension. Maturity stages are categorized as red (prevents HRITs), yellow (permits HRITs), and green (facilitates HRITs). Organizations that have any one dimension in red will not be able to participate and should focus efforts on improving those dimensions. The second prioritization framework is a feasibility and impact matrix, which helps organizations focus on those efforts that will provide the greatest impact with the least difficulty. The third framework is a Gantt chart, which is often leveraged in work plans; it helps users identify which actions or results must precede other efforts.

### **SECTION III: CONTEXTUAL PRIMER FOR HRI**

This section contains a wealth of background knowledge related to stakeholders active in HRI, investing in humanitarian contexts, and innovative finance. This information was included in response to requests and suggestions from interviewees.

#### **Definition: Humanitarian**

For this text, we subscribe to the Good Humanitarian Donorship's (GHD's) definition: "The objectives of humanitarian action are to save lives, alleviate suffering, and maintain human dignity during and in the aftermath of man-made crises and natural disasters, as well as to prevent and strengthen preparedness for the occurrence of such situations." For many aid organizations, the term humanitarian comes with commitment to the principles of humanity, neutrality, and independence, which allows them to deliver aid where there is conflict and fragility, usually on short timescales, without objectives to build longer-term institutions. For other organizations, including many in the private sector, the word has a broader meaning relating to activities aimed to help those in need whether through charitable efforts or in considering potential impacts beyond profit.

Relative to many definitions, the GHD definition is quite broad. Indeed, as this paper goes to publication – May 2020 – the world has ground to a halt. We are embroiled in a battle against COVID-19, which has brought high-income countries (HICs) to their knees, to say nothing of their impact on middle-income countries (MICs) and low-income countries (LICs).

Clearly humanitarian needs exist across the globe, even in areas where they are least expected. Whatever definition of humanitarian resonates with you or your organization, the goal of this playbook is simple: support organizations to more effectively mobilize private capital to deliver more aid to more people in need and to build resilience and self-reliance within those populations.

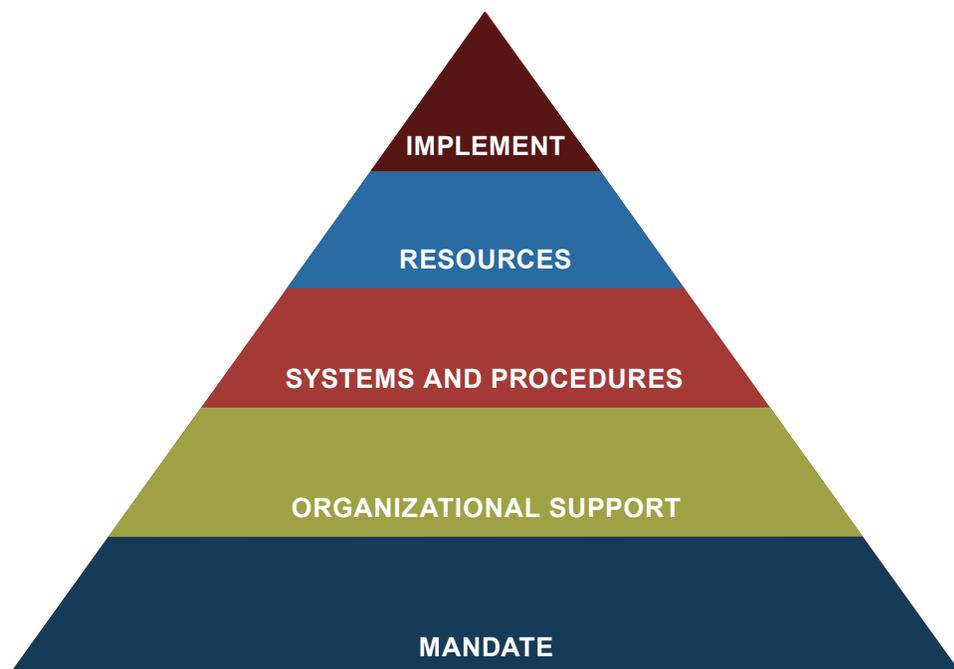
# Section I: Evaluating Organizational Readiness for HRI

HRI is a powerful tool to help organizations unlock new sources of capital and to improve project execution. This playbook captures insights from more than 50 practitioners to help organizations understand their readiness to engage successfully in HRI and it gives the key steps to succeed in this space.

**Figure 1 shows the five categories on which to assess an organization's maturity level of readiness:**

- **Mandate:** Articulates overarching organizational commitment that drives focus of senior leadership and action among others throughout the organization to enable engagement in HRI
- **Organizational support:** Leadership support and broader organizational buy-in to drive engagement in HRI, including organizational culture promoting stakeholder collaboration
- **Systems and procedures:** Operational infrastructure enabling engagement in HRITs
- **Resources:** Human capital and funding to enable engagement in HRITs
- **Implementation:** Engaging in HRITs directly and as an ecosystem building on the past, present, and future

**FIGURE 1: BUILDING BLOCKS TO PROFICIENCY**



These categories serve as the basis for the organizational readiness self-evaluation. The dimensions within each category are explored in detail in the coming pages. There is no explicit path toward readiness that organizations must follow; indeed, certain changes will be easier and higher impact for some organizations than others. Overall, organizations should expect to revisit each of these steps to proficiency to enhance their readiness over time.

As organizations consider the optimal order of operations, initial efforts should focus on securing a mandate and organizational support. These categories correspond to top-down enablement and widespread alignment and buy-in. Without reasonable levels of maturity in these two categories, it is hard to expect sufficient resources to enable HRITs or a track record of effectively doing so. Maturity in all categories can always evolve, but mandate and organizational support usually lead the effort. It is because of this layering effect that early maturity levels within mandate and organizational support seem incongruous with those in other categories, such as implementation.

Resources and Systems and Procedures are part of the next wave of efforts. Progress can be made within each category concurrently and changes are often symbiotic. For instance, a change in procedures can enable an HRIT, such that it makes sense to hire a new team member, or a transaction could require a technological improvement.

Implementation is the final step, though one which will benefit from iteration and refinement. It represents the culmination of the mindset and structural changes that have transpired and is the ultimate measure of their efficacy.

## Self-Evaluation Rubric

---

Users will consider each category—Mandate, Organizational Support, Systems and procedures, Resources, and Implementation—in turn. Within each category are a series of dimensions, described from left-to-right ordered from most (top) to least (bottom) important. Users should evaluate their maturity by beginning with the first dimension (row) and reading the four different maturity stages: Primary, Developing, Robust, and Best-in-class. Users should select the description that most closely describes their organization and continue their analysis through each subsequent dimension and category.

As users proceed through the self-evaluation rubric, they will learn some of the hallmarks that distinguish each level of maturity. Following the evaluation, each dimension is explained in detail, allowing users to grasp the full importance of the dimension to each stakeholder type, learn steps toward improvement, and employ a maturity self-assessment to better chart a path forward. In [Section II: Building Organizational Readiness for HRI](#), users learn how to translate their learnings into organizational change.

### Notes on the rubric

Descriptions are imperfect: Your organization will not fit neatly into a box; the self-evaluation is a tool to facilitate reflection and to help you identify critical areas for improvement within your organization

One size does not fit all: These descriptions are general guidelines and results can vary substantially based on organization type, size, or other factors

Different destinations for maturity: “Best-in-Class” is not and should not be attainable for all organization types. It is included in the rubric to show a perfect state. At a minimum, organizations must ensure that their activities do not prevent HRI; beyond that, they should strive to enable it. Given that this rubric applies to donors and investors alike, maturity and enabling HRI will look different.

## Organizational Readiness Maturity Ranking – Mandate

Illustrative characteristics—not comprehensive

### PRIMARY

### DEVELOPING

### ROBUST

### BEST-IN-CLASS

*Progression implies preceding criteria have been surpassed*

<b>Commitment to make an impact in humanitarian contexts</b>	<b>No mandate</b> to enter humanitarian contexts and generate impact	Strategic or operational reference to impact; <b>no humanitarian imperative</b>	Clear commitment to achieving impact, <b>humanitarian efforts not central to strategy</b>	<b>Clear, stated commitment</b> to create impact in <b>humanitarian contexts</b>
<b>Commitment to engage the private sector and other stakeholders</b>	<b>No mandate</b> to work with the private sector or other stakeholders	<b>Mandate</b> to work with the private sector or other stakeholders, but <b>no institutional roadmap</b>	<b>Mandate</b> to work with the private sector early in the structuring process, with <b>emerging track record of stakeholder engagement</b>	<b>Clear, meaningful mandate</b> to engage with the private sector and other stakeholders, and a successful <b>track record of engagement</b>
<b>Prevention, resilience, and recovery to complement response</b>	<b>No formal strategy beyond crisis response</b>	Crisis response with leeway to deliver aid in <b>protracted crisis and development</b> settings	Crisis response; <b>strategy to engage in prevention and resilience-building</b> outside of protracted crisis	Mandate to <b>respond to crises</b> accompanied by strategy to <b>help prevent crises and build resilience</b>
<b>Learning and innovation capabilities, patience</b>	<b>No procedures</b> to deconstruct failed efforts and build learnings	Innovation and learning a stated goal, but <b>impatience</b> prevents transactions	<b>Incentives prioritize speed and success</b> over iteration, innovation, and learning	<b>Leadership rewards</b> engagement in <b>learning</b> process, organization <b>participates</b> in HRITs <b>despite prolonged structuring</b>

## Organizational Readiness Maturity Ranking – Organizational Support

Illustrative characteristics—not comprehensive

### PRIMARY

### DEVELOPING

### ROBUST

### BEST-IN-CLASS

*Progression implies preceding criteria have been surpassed*

<b>Senior leadership support of HRI</b>	<b>Statements</b> disparaging HRI, <b>rejects supposed</b> benefits	<b>Ambivalent toward HRI</b> , plan to observe peers, but not act	<b>Developed a strategy</b> and signaled HRI as a <b>priority</b> ; the initiative may be siloed	HRI included in many business unit strategies, <b>senior leadership oversight</b>
<b>Organizational support of HRI</b>	HRI is not a commonly used term; imply <b>lack of understanding</b> of what it means or its implications	Many employees within the organization are <b>familiar</b> with HRI and follow progress of firms applying it	<b>Appetite</b> for organization to <b>engage</b> in HRI; support existing forays into HRI	All <b>key roles support HRI</b> , and personnel are <b>dedicated to executing</b> HRI
<b>Willingness to collaborate across sectors</b>	Organization <b>does not recognize need to collaborate</b> with other stakeholders	Organization <b>says it wants to collaborate</b> , but is slow to make new partners	Organization has <b>several collaboration partners</b> , but establishes partnerships on an ad hoc basis only	<b>Systematic approach to partnership development</b> across stakeholders and a commitment to help others develop partnerships
<b>Stakeholder relationships &amp; understanding</b>	<b>Insular</b> ; Doesn't acknowledge that cross-sectoral stakeholders are worthwhile partners	A few valued <b>legacy partnerships</b> ; views most partnerships as an <b>inconvenient requirement</b> , rendering interactions terse and transactional	Desire to enhance cross-sectoral partnerships; <b>explores opportunities to deepen and develop relationships</b>	Clear and <b>articulated understanding</b> of stakeholder interests; <b>focus on commonalities</b> in purpose or areas of expertise to improve collaboration
<b>Risk appetite</b>	<b>Risk averse</b> with respect to change—no credible discussion or plans to divert from current protocols	Risk averse, but <b>willing to incur risk</b> after extensive due diligence and returns/impact are sufficiently high	<b>Appetite to take risks, but no structured approach</b> to do so systematically or safely	<b>Appetite to take measured, thoughtful risks</b> manifested in clear protocols to sandbox efforts

## Organizational Readiness Maturity Ranking – Systems & Procedures

Illustrative characteristics—not comprehensive

### PRIMARY

### DEVELOPING

### ROBUST

### BEST-IN-CLASS

*Progression implies preceding criteria have been surpassed*

<b>Risk controls to provide protection but enable flexibility</b>	Unwilling to revisit current risk protocols	Understand need to adjust risk protocols, but <b>unable or unwilling</b> to do so	<b>First steps in changing risk modeling</b> and approaches	Wholesale implementation of <b>HRI-friendly risk protocols</b>
<b>Clear and disciplined risk assessment and funds deployment</b>	Decisions and funding approvals require <b>numerous levels of approval</b> , often <b>blocking HRITs</b>	<b>Match decisions and funds deployment to subset of organizations</b> to enable adequate and timely funds deployment	<b>Accelerator or special vehicle</b> established to ensure expedited decisions or funds deployment to match opportunities	<b>Regularly</b> match stakeholder needs with respect to <b>thoroughness, risk controls, and timing</b>
<b>Flexibility in contracting with counterparties</b>	<b>Restrictive permissions</b> on source of funds; <b>inflexibility</b> on terms, and no efforts to amend requirements	<b>Identified</b> contractual provisions that hinder HRITs and <b>acknowledge</b> that change is required	<b>Some provisions altered</b> with workarounds to facilitate HRITs while <b>contract requirements evolve</b>	Off-the shelf contracts <b>purpose-built to facilitate HRITs</b>
<b>Budgeting practices</b>	Budget <b>exclusively</b> in <b>annual</b> cycles	<b>Individual projects receive limited funds</b> on multiyear basis	Many <b>projects receive moderate funds</b> on <b>multiyear</b> basis; clear procedure to obtain multiyear funding	HRI budget and funding available in <b>five-year cycles</b>
<b>Accounting flexibility and fund processing</b>	<b>Restrictions</b> on ability to accept <b>funds from new sources</b>	Can <b>accept funds from multiple sources</b> , but <b>process is onerous</b> , costly, and no longer-term fix is underway	Time and effort invested to <b>overhaul accounting system</b>	Fully functional accounting system capable of <b>processing funds from multiple donors and investors</b>

## Organizational Readiness Maturity Ranking – Systems & Procedures (Continued)

Illustrative characteristics—not comprehensive

	PRIMARY	DEVELOPING	ROBUST	BEST-IN-CLASS
<i>Progression implies preceding criteria have been surpassed</i>				
<b>Sophistication of impact analysis</b>	<b>Easily countable</b> metrics tracked with no thought of perverse incentives; <b>strict and onerous impact tracking</b> requirements by capital providers	Metrics <b>consider perverse incentives</b> ; uncoordinated measurement requests from capital providers are cumbersome	<b>Metrics evolve over life of project</b> , and accurately reflect intended outcome; capital providers work to reduce requirements	Thoughtfully considered impact measures tracking, with <b>proxies for hard-to-measure outcomes and streamlined measurement requirements</b> from donors
<b>Impact measurement and evaluation</b>	<b>Cannot track impact past one year</b> , with no plans to upgrade capabilities; no impact measurement analysis	<b>Plan in place to improve</b> impact measurement	<b>Some multiyear</b> tracking capabilities; can interpret impact measurement findings	<b>Multiyear</b> impact tracking <b>common</b> across all initiatives with <b>third-party assurances</b> ; thorough and compelling <b>data-driven narratives</b>
<b>Data management</b>	<b>Data tracked, but not stored or retained</b> in a useful manner	Efforts underway <b>to improve and broaden data management</b> efforts	<b>Common reporting standards</b> , interoperable data	Collect <b>high-integrity</b> , transparent, <b>standardized</b> data, and <b>share broadly</b> while ensuring privacy and security
<b>Technological capabilities</b>	<b>Unable to execute</b> HRITs due to <b>lack of technology</b>	<b>Emerging technical capabilities</b> not fully unlocked for engagement in HRITs	<b>Powerful technology</b> in certain geographies or use-cases	Can <b>execute all on-the-ground or analytical tasks</b> needed to effectively engage in HRITs

## Organizational Readiness Maturity Ranking – Resources

Illustrative characteristics—not comprehensive

### PRIMARY

### DEVELOPING

### ROBUST

### BEST-IN-CLASS

*Progression implies preceding criteria have been surpassed*

<b>Dedicated team for HRI</b>	<b>No team</b>	Employees focused on HRI as a <b>carve-out of existing job</b>	<b>Subscale, but dedicated team</b>	<b>Well-sized team</b> that enables investments to proliferate and scale
<b>Internal expertise for HRI</b>	<b>No internal expertise or understanding that expertise is needed</b> to deploy HRITs	Dedicated team, but <b>limited expertise</b> in employing HRITs	External hires or internal advances with <b>adequate skill and track record</b> , have developed pilots, accelerators, or other enablers	<b>Excellent team with deep experience</b> in deal structuring and HRITs; expertise within sector, geography, or model type
<b>Investment funds allocated to HRI</b>	There are <b>no funds</b> to deploy for HRITs and <b>legal barriers</b> prevent their usage	<b>Limited funds</b> for HRITs; money <b>not earmarked</b> , and so could be reallocated	<b>Limited to moderate funds dedicated</b> to HRITs; intend to use a portion of funds to <b>experiment or pilot</b>	<b>Large funding pool</b> available for HRITs with adequate <b>funds earmarked</b> as such; <b>experiment and piloting</b> viewed as an <b>important</b> use of funds
<b>Incentive structure to encourage development of HRI capabilities</b>	Employees <b>not incentivized</b> to pursue HRITs	HRI <b>incentives not well-articulated</b> with respect to desired input, outcome, or compensatory result	<b>Clear incentives</b> to encourage focus on HRI, but incentives <b>not compelling</b>	<b>Well-articulated and compelling</b> incentive structure to encourage employees to focus on HRI

## Organizational Readiness Maturity Ranking – Implementation

Illustrative characteristics—not comprehensive

### PRIMARY

### DEVELOPING

### ROBUST

### BEST-IN-CLASS

*Progression implies preceding criteria have been surpassed*

<b>Track record of investment &amp; impact execution</b>	<b>No executions</b> attempted	First trials in <b>progress</b> , no clear outcomes	Small number underway, <b>emerging track record</b> of generating returns and impact when executing HRITs	<b>Strong, well-established track record</b> of generating returns and impact through HRITs
<b>Network of potential partners</b>	<b>No connections</b> with stakeholders active in HRI	<b>Limited connections</b> with partners operating in <b>similar capacities</b> in HRI value chain; have coinvested	<b>Loose relationships</b> with stakeholders <b>spanning value chain</b> , enabling inroads to execute HRITs	Numerous <b>trusted relationships across value chain</b> to enable HRITs in relevant sectors and geographies
<b>Pipeline of potential deals</b>	<b>No potential</b> HRITs offered nor ability to source relevant <b>deals</b>	<b>Can participate</b> in (not lead) HRITs; <b>sourcing deals is challenging</b>	<b>Valued deal participant, nascent deal leader</b> projects; strong visibility into potential deals	<b>Robust protocols to source and structure</b> deals directly or discover compelling opportunities as a participant; <b>integral</b> member of deal development <b>pipeline</b>
<b>Share learnings with broader community</b>	Organization views successes and failures as <b>proprietary or confidential</b>	Willing to <b>share</b> experiences with <b>close allies</b>	Willing to <b>share when approached</b>	Clear, open communication of successes and failures with a <b>reputation for sharing broadly</b>

# Organizational Mandates

---

Mandates reflect the alignment of priorities and aspirations and are inherent within the organization and reinforced by the governance bodies. Mandates can be advanced by the organization, and importantly, serve as a catalyst for change. A strong mandate is essential to effective engagement in HRITs.

## There are four dimensions within Mandates:

- [Commitment to make an impact in humanitarian contexts](#)
- [Commitment to engage the private sector and other stakeholders](#)
- [Prevention, resilience, and recovery to complement response](#)
- [Learning and innovation capabilities, as well as patience](#)

## KEY TAKEAWAYS

The first three mandates focus on broadening approach. Organizations must be encouraged to enter new contexts, engage new partners, and tilt their focus to include complementary interests. The final mandate is to ensure that, given all the change that organizations are undergoing, they collect the necessary data and interpret it adequately to steadily improve their participation in HRI. These mandates will challenge organizations to shift their mindsets, and as they do so and enter new fields, these organizations will need to manage risks associated with new operating environments. It is critical that these mandates are specific and actionable, and cross-cut the entire organization so that accountability is not questioned and change efforts are not siloed.

# Organizational Mandates

## Commitment to make an impact in humanitarian contexts

### EXPLICIT SUPPORT OF ACTIVITIES THAT GENERATE IMPACT IN HUMANITARIAN CONTEXTS

Humanitarian contexts are challenging, and some organizations do not explicitly focus on driving impact in these settings, so an articulated mandate incites and supports action. This is not as relevant for donors and humanitarian and development organizations, which are inherently tied to humanitarian contexts. Efforts within this mandate must not only align with humanitarian principles but also balance developmental efforts and private sector needs.



#### RELEVANT STAKEHOLDERS

##### DFI/MDB:

Imperative to focus a percentage of investments in the most fragile humanitarian contexts; otherwise, efforts drift toward more hospitable, straightforward markets

##### PRIVATE SECTOR:

A mandate to focus on humanitarian impact opens the investment landscape and permits different risk-return thresholds relative to an organization singularly focused on return



#### GOAL

Clear, stated commitment to create impact in humanitarian contexts

##### PATH TO SUCCESS:

- Acknowledge centrality of humanitarian impact in achieving organization's mission or business interests
- Pursue humanitarian impact while constructively managing financial and reputational risks
- Elevate commitment to humanitarian contexts into overarching mission statement

##### CHALLENGES TO MANAGE:

- [Investing in Humanitarian Contexts](#) thoroughly discusses the relevant risks. Investment and operational risks include poor governance, political instability, asymmetric risk profiles, complicated dynamics. Additionally, the humanitarian backdrop structurally depresses returns as projects have longer lead times, are smaller, and require more due diligence
- HRI requires partners to de-risk activities through funds, local knowledge, implementation, or other areas of expertise. This reliance on partnership means less flexibility in timing, implementation, and execution and the added challenge of stakeholder management



#### SELF-ASSESSMENT QUESTIONS

##### DFI/MDB:

Do capital deployments tie to humanitarian needs?

Does your organization explicitly focus a certain amount of funds or deals on the most fragile humanitarian contexts?

##### PRIVATE SECTOR:

Does your organization regularly discuss humanitarian needs?

Does your organization aim to deliver humanitarian support through its business operations?

Is your organization active in fragile humanitarian contexts?

Is there a plan to expand business activities in humanitarian contexts and make them more central to your organization's overall mission?

# Organizational Mandates

## Commitment to engage the private sector and other stakeholders

### **COLLABORATE WITH PRIVATE SECTOR IMPLEMENTERS AND INVESTORS IN HUMANITARIAN CONTEXTS, ALONG WITH OTHER STAKEHOLDERS NEEDED TO EXECUTE HRITS**

*Concerns over upholding humanitarian principles make many humanitarian organizations hesitant to collaborate; a clear mandate will facilitate movement toward broad partnership between the public and private sectors.*



#### **RELEVANT STAKEHOLDERS**

##### **DONOR:**

Donors must navigate internal cultural barriers and regulations surrounding stakeholder engagement and upstream restrictions on funds. A mandate provides the political will to address these challenges

##### **HUM-DEV ORG:**

A cultural distaste for the private sector still lingers within many humanitarian organizations, so a mandate addresses mindset and enables follow-on system changes

##### **PRIVATE SECTOR:**

To facilitate collaboration, the private sector should share their motivations for engaging in HRI. Donors and humanitarian-development organizations must commit to engaging the private sector. Without collaboration, the private sector cannot execute HRITs



#### **GOAL**

Clear, meaningful mandate to engage with the private sector, and a successful track record of engagement

##### **PATH TO SUCCESS:**

- Articulate mandate to work with private sector and other stakeholders
- Understand legitimate self-interest of private sector involvement in HRI to help identify private sector partners that add the greatest value
- Find roles for the private sector to play early in the project design phase
- Create a roadmap detailing guidelines and expectations for private sector and other stakeholder engagement to facilitate partnership development and build trust
- Ensure ability to engage with private sector in a business capacity, not just philanthropically
- Develop a track record of successful engagement across functions within the organization and external stakeholders

## CHALLENGES TO MANAGE:

- Public-sector stakeholders may feel that partnership with private sector contradicts the organization's mission. Therefore, this mandate is best supplemented with tactical support to cultivate buy-in
- The mandate must clearly apply to the entire organization, lest it be construed to apply only to a branch that regularly interfaces with external stakeholders
- The public and private sectors can only partner if they can deliver principled humanitarian aid in synergy with the necessary investment approach. Concurrent with that, there must be a clear [value for money](#) argument in favor of engaging with the private sector, rather than implementing alone
- Donors need clarity on scale of collaboration, investor fees and returns, and examples of how the relationship could be formalized
- One-off partnerships and pilots are important, tenable first steps in public–private sector collaboration. Organizations must demonstrate an ability to move beyond pilots to larger-scale engagement across numerous projects



## SELF-ASSESSMENT QUESTIONS

### DONOR:

Does a mandate direct funds to facilitate increased flow of private capital into humanitarian contexts?

Is there a roadmap to initiate collaborative relationships with the private sector or other stakeholders?

Are there clear guidelines, expectations, and advice for partnering with the private sector or other stakeholders?

Is the mandate to engage the private sector and other stakeholders clearly supported and integrated across the organization?

Is there capacity to advocate for increased authority to more robustly engage the private sector around shared value during program implementation and development?

### HUM-DEV ORG:

Does a mandate encourage collaboration with the private sector or other stakeholders in humanitarian contexts?

## IDA18 Private Sector Window

The International Development Association (IDA) is a World Bank fund dedicated to elevating the world's poorest, most fragile countries. The aid provided represents the largest source of humanitarian or development funding that these countries receive. IDA typically disburses funds in three-year cycles with an express goal of boosting economic growth, fighting inequality, and improving living conditions.

IDA18, so-named as it was the 18th time the IDA fund was replenished in its 56-year history, occurred at the end of 2016. It was noteworthy for two reasons: first, it received a \$75 billion commitment, which was the largest in history. Second, instead of merely comprising donor remittances, it also included funds raised in the capital markets along with a stated, clear commitment to achieving SDGs.

Critically, the WBG established an IFC-MIGA Private Sector Window (PSW) with \$2.5 billion, comprised of \$2 billion from IFC and \$500 million from MIGA, which launched in July 2017. The fund focused on driving private sector investment into fragile and conflict-affect IDA countries. The creation of this window recognizes that the private sector is critical to achieving SDGs in fragile contexts, and that the private sector cannot enter these contexts alone. The PSW was created to fill in gaps where other WBG interventions were insufficient.

The PSW is designed to focus on SMEs, agribusiness, social inclusion, infrastructure and innovation and technology. Financial mechanisms employed include guarantees, first-loss coverage, currency hedging, and providing co-investments. The PSW operates through four key facilities:

**Risk Mitigation Facility:** \$800 million to \$1 billion of funds focused to provide guarantees for projects without sovereign indemnity. The focus will largely be on private capital in infrastructure transactions.

**MIGA Guarantee Facility:** \$500 million of MIGA reinsurance to provide first-loss coverage and share risk, particularly with respect to political risk.

**Local Currency Facility:** \$300 million to \$500 million in local currency loans provided to countries where currency hedging is impossible.

**Blended Finance Facility:** \$400 million to \$800 million in loans, debt, or equity, to be used toward risk sharing with the private sector to catalyze investments in focus areas.

The PSW has been deployed effectively with \$1.6 billion of funds more than matched with \$1.7 billion in investments, including from the private sector. In IDA19, IFC and MIGA will again allocate \$2.5 billion to the PSW focused on fragile contexts. The new window will enable 20% of funds to be deployed outside of "PSW-countries," and development of new mechanisms to enable local currency lending using both the Local Currency and Blended Finance Facilities.

# Organizational Mandates

## Prevention, resilience, and recovery to complement response

### INCREASE PREVENTION AND RESILIENCE INITIATIVES AS A COMPLEMENT TO CRISIS RESPONSE EFFORTS

*The private sector can participate most readily in prevention and resilience settings and so humanitarians must meet them there*



#### RELEVANT STAKEHOLDERS

##### HUM-DEV ORG:

Humanitarian actors often view their remit as specifically geared toward crises, but the line blurs in protracted crises. Formalizing an approach to prevention and resilience will enhance humanitarian response and create opportunities for private sector engagement

##### DONORS:

GHD principles encourage donors to help with response but also to build capacity in local communities to help prevent and minimize crises. Principle nine encourages donors to ensure sustainable livelihoods, and to increase scope beyond humanitarian relief to also include development



#### GOAL

Mandate to respond to crises accompanied by strategy to help prevent crises and build resilience

##### PATH TO SUCCESS:

- Identify where to go beyond providing short-term support during a protracted crisis
- Engage in prevention and resilience-building to increase efficiency of aid
- With successful track record of building resilience, include these efforts within organizational strategy, recognizing that it also helps fulfill crisis-response imperative

##### CHALLENGES TO MANAGE:

- Organizations must ensure new resource allocation, which involves investment in prevention, resilience, and recovery still enables organization to effectively respond to crises
- Organizations must assuage employee ideological or moral concerns stemming from the perception that funds are being diverted from crisis response to ensure they are bought-in to new plans
- Organizations must execute in different contexts (e.g., prevention versus response) while ensuring that they do not stray from their core competency
- Within a single donor organization, there can be multiple, conflicting mandates (e.g., a separate humanitarian, development, and peace mandate). This can create challenges as it is unclear where one mandate ends and the other begins, therefore making it a challenge to engage in the space



#### SELF-ASSESSMENT QUESTIONS

##### HUM-DEV ORG:

##### DONORS:

Is there a mandate to address humanitarian-development-peace nexus?

Can aid and programming adjust to build resilience or prevention?

How does the organization contribute to the triple nexus?

Does organization operate in contexts and activities that could include the private sector?

Is prevention and resilience viewed as an important component of activities?

# Organizational Mandates

## Learning and innovation capabilities, as well as patience

### FOCUS ON LEARNING AND INNOVATING IN PURSUIT OF SUCCESSFUL HRITs

*HRITs are groundbreaking, so an ability to capture learnings from success and failure alike is critical. Organizations must take measured risks and embrace learning through pilots.*



#### RELEVANT STAKEHOLDERS

##### DFI/MDB:

Organizations must consider smaller deals, as scale is a challenge in the most fragile humanitarian contexts and learning through transaction experience is critical

##### HUM-DEV ORG:

Organizations must apportion some of their resources to pilot early HRITs to enable private sector contribution, and ultimately strengthen the humanitarian system

##### DONORS:

Donor capital enables private sector participation. Donors must experiment with funding modalities to find effective instruments that bring in the private sector, ensuring that they secure adequate value for money. According to GHD principles, donors must support learning initiatives to enable more effective and efficient execution of humanitarian efforts and conduct regular reviews to appraise performance

##### PRIVATE SECTOR:

The private sector must be patient and understand that organizations are stepping outside of their comfort zones to chart new regulatory territory and that deal structuring could be a prolonged process



#### GOAL

Leadership rewards engagement in learning process, organization participates in HRITs despite prolonged structuring

##### PATH TO SUCCESS:

- Communicate that executing transactions are key to learning. Review case studies and build-in conservative time frames when estimating return
- Dissect successes and failures at a granular level to glean insight
- Seek partnerships and syndicate risk to ensure downside protection, and therefore protect ability to engage in future transactions
- Earmark funding for pilots to ensure organization continues to deepen knowledge of HRITs
- Engage in many HRITs, discussing lessons learned and ensuring employees are incentivized to pilot, even if unsuccessful

##### CHALLENGES TO MANAGE:

- A mismatch in timeline between sectors and stages of maturity creates challenges, but clear expectations, set in advance, are helpful. The public sector should understand that longer lead times dampen private sector returns, and so time is of the essence
- An organizational culture that disincentivizes risk-taking could hamper the speed with which organizations engage in HRITs, which would decrease learning potential
- Pioneering any new field is risky, and so it is important to have clear procedures in place to learn from success and failure—effectively doing so will require careful metric-tracking and procedures for self-reflection
- Donors are particularly risk averse, and so they pressure against risk-taking and do not tolerate failure



## SELF-ASSESSMENT QUESTIONS

DFI/ MDB:	PRIVATE SECTOR:	DONOR:	HUM-DEV ORG:
-----------	-----------------	--------	--------------

Does the organization support learning through experimentation?			
---	--	--	--

Will the organization participate in HRITs that are time consuming to structure?			
--	--	--	--

	Will individuals fight for internal approvals to enable HRITs?		
--	--	--	--

Will the organization continue to experiment to grow its HRI tool kit?			
--	--	--	--

Are lengthy structuring processes built into the investment process?			
--	--	--	--

	Is there an appetite to navigate bureaucracy to develop HRI instruments?		
--	--	--	--

### The Mali Investment Facilitation Platform (MIFP)

CrossBoundary and USAID established the Mali Investment Facilitation Platform (MIFP), which unlocked \$44 million of private investment in Mali through eight transactions across agribusiness, energy, and sanitation between 2015 and 2018. The goal of the donor-supported investment facilitation was to drive increased investment and inclusive growth in fragile and frontier markets. In this case, USAID funded CrossBoundary to act as a neutral arbiter of transactions between local firms and investors while also providing transaction-related technical support. This approach helps unlock investment in underserved markets by reducing transaction costs and solving coordination failures.

#### POTENTIAL AREAS OF MISALIGNMENT BETWEEN DONORS AND INVESTORS

##### Country-level vs. firm-level interventions.

Donors often focus heavily on addressing macro-level constraints to investment through policy reform or infrastructure development funding; while these are essential, firm-level barriers persist that prevent beneficial transactions from taking place even if there are improvements in the investment climate.

**Sector selection.** Development programs may choose to focus only on specific sectors, or even niches within those sectors, for example, a single crop type. In markets with limited investment opportunities, these restrictions can drastically restrict investment, as most investors would like (and expect) to consider a larger number and broader range of opportunities.

**Time horizon.** Donors often favor short-term metrics and fast wins due to monitoring and evaluation requirements, the advantage of immediate feedback on impact, and the realities of funding cycles; however, especially in fragile environments, it can take many months, or even years, to successfully close a transaction, much less capture the full impact of the investment.

#### THE MIFP SOLUTION

**Transaction-level support.** MIFP provided highly targeted support, directly addressing firm-level barriers to raising investment through technical assistance tied to specific transactions.

**Sectoral diversity.** Through MIFP, CrossBoundary supported investments in a variety of sectors. This enabled CrossBoundary to close deals in energy, sanitation, and agribusiness.

**Three-year platform.** One deal MIFP supported took 33 months to close. Having a three-year platform enabled MIFP to support deals all the way through to financial close without having to pause support midway through the transaction.

**Perspectives on “failure.”** Donor-funded projects are rarely incentivized to acknowledge or share failures; on the other hand, the success rate for deals to close in frontier markets is around 50%, and even in more developed markets failure to secure investment is common.

**Different perspectives on profit.** Development actors may be uncomfortable with supporting profitable businesses, due to the idea of public money being used to enrich business owners; however, private investments are made with the expectation of business success and a certain rate of return on the investment.

**Speaking the same language.** Often the private sector and development actors struggle to work together due to differences in language. In investment, for instance, development practitioners’ lack of familiarity with financial concepts and terminology can deter them from engaging in the space.

**Accepting risk.** In total, MIFP assisted 23 projects and successfully closed eight transactions. By supporting MIFP, the donor understood that only a selection of the transactions CrossBoundary supported would end in financial close.

**Recognizing profit as a legitimate metric.** USAID recognized that to build a resilient Malian economy it was important to support profitable anchor firms. Supporting these “first movers” has been shown to have positive effects across the market both on other anchor firms and on the macroeconomic level.

**Actively educating development partners.** CrossBoundary’s team of six investment professionals developed training materials on finance to educate their counterparts at USAID.

The platform demonstrated that donors can help catalyse investment in frontier markets by funding credible investment intermediaries. Inaccessible financing in frontier markets is not necessarily a reflection of a lack of available capital. Local and international capital providers will often fund credible proposals. Rather, the lack of investment is often driven by (1) a lack of expertise, bandwidth, and/or geographic presence, hindering investors and entrepreneurs from overcoming information gaps, and (2) a lack of trust and an imbalance of information, where investors lack knowledge of market characteristics and entrepreneurs lack transaction experience or an understanding of market-standard terms. A neutral intermediary can address these challenges while also providing an additional stimulus to investment by reducing investor’s transaction costs in areas such as due diligence, market intelligence, and deal sourcing.

### **Example Investment: Mali Shi**

Omnium Mali is a Malian manufacturer of batteries. As part of the company’s diversification plan, Omnium approached CrossBoundary to help secure investment for Mali Shi, a greenfield shea butter manufacturing plant.

Mali Shi faced three critical risks to securing investment: supply risk; market risk; and execution risk given the sponsors’ lack of experience in the shea and agribusiness sector. In addition, while Omnium had some experience in international capital markets, the company had few prior connections to international investors. CrossBoundary provided support in three main areas:

**1) Improving the investment readiness of the project.** To reduce supply risk, the Platform introduced a shea trader to Omnium, facilitating discussions that brought the trader into Mali Shi’s capital structure as a minority shareholder. To reduce the market risk, the Platform supported Mali Shi in the identification of a major international off taker of shea butter, which resulted in a purchase pre-agreement with Mali Shi.

**2) Completed key project documentation to be shared with investors** such as a detailed financial model and a project investment memorandum.

**3) Introduced the investment opportunity to financial institutions,** including impact funds, development banks and commercial banks, and facilitated negotiations with interested parties.

In the end, Mali Shi was able to raise \$4 million in debt and equity from the IFC, Banque Atlantique and impact investor Ecodev. The company is expected to generate 100 direct jobs and create market opportunities for 120,000 shea collectors across the country.

# Organizational Support

---

This category is geared toward mindset, and a general openness, willingness, and enthusiasm to engage across stakeholders to execute HRITs.

**There are five dimensions within Organizational support:**

- [Senior leadership support of HRI](#)
- [Organizational support of HRI](#)
- [Willingness to collaborate across sectors](#)
- [Stakeholder relationships and understanding](#)
- [Risk appetite](#)

## KEY TAKEAWAYS

Maturity in this category entails developing an understanding about what HRI is, why it is important, and what needs to change within and outside of an organization in order to make HRITs happen. Leadership and organizational support are grounded in facts and focus on articulating the benefits of HRI both to the organization itself, and to the people who it serves. The other three dimensions are about internalizing the support for HRI and using it as a catalyst to change how the organization views and interacts with the world around it.

While the final dimension explicitly calls out risk appetite, one could argue that this entire section relates to risk—the risk of new financial models, new mindsets, new partners, and new engagements. Throughout, are methods to help organizations find the internal and external supports necessary to identify these risks and to move forward, mitigating them, and committing to HRI.

# Senior leadership support of HRI

## LEADERS WHO CONTROL THE STRATEGY AND FUNDING DECISIONS WITHIN THE ORGANIZATION SUPPORT HRI

*The private sector needs cross-stakeholder support to enter fragile, humanitarian contexts, and HRI capabilities enable this support.*



### RELEVANT STAKEHOLDERS

#### DFI/ MDB:

HRITs present reputational and financial risks and developing deals that appropriately mitigate those risks is difficult and time consuming. Given attractive alternatives, senior leadership must expressly support HRITs

#### HUM-DEV ORG:

Engaging in HRITs is beyond the normal scope of humanitarian and development organizations, so senior leadership support is paramount in securing transaction funding and encouraging employee engagement with the private sector

#### DONOR:

If there are regulations around use of funds, investment vehicles, or co-investors, then donors will need high-level support to navigate these barriers, as this could entail a governmental petition

#### PRIVATE SECTOR:

Operating in humanitarian contexts is challenging; absent normal risk-return ratios, leadership support justifies participation in these markets



### GOAL

HRI included in many business unit strategies, senior leadership oversight

#### PATH TO SUCCESS:

- Senior leadership must understand the basics of HRI and the instruments therein. They must articulate the incremental value HRITs can drive and grasp the costs to unlock these benefits
- Leadership must develop a clear HRI strategy
- Leadership must disseminate the HRI strategy throughout the organization and incorporate it in as many different teams as possible
- The HRI team should integrate with other functions in the organization to help execute HRITs

#### CHALLENGES TO MANAGE:

- Generating senior leadership buy-in can be challenging—organizations can secure it through either a top-down or bottom-up approach
  - **Top-down:** A mandate can drive leaders to act, which is critical as leadership sets the strategy, controls the budget, and can limit changes to existing processes and procedures
  - **Bottom-up:** Evidenced-based support for impact generated by HRI, and additionality demonstrated through articulation of differences between traditional funding mechanisms versus those offered by HRI
- If leadership within an organization is not empowered update the strategy reflecting HRI aspirations, then allocating resources in support of HRI demonstrates commitment
- There is a tendency to silo humanitarian and development action when they should be viewed in concert, and this habit complicates engagement in HRITs, which are built on collaboration
- Political leadership must support HRI. This can be a challenge because these funds are meant to save lives, and therefore commingling funds with the private sector comes with substantial reputation risk if this seems to undermine the core objective of addressing humanitarian funding gaps



## SELF-ASSESSMENT QUESTIONS

### DFI/ MDB:

Does leadership want to engage in HRITs?

Does the organization have a strategy to use HRITs?

Is deploying HRITs a priority?

Is the HRI strategy a key component within the overall organizational strategy or is it siloed?

Do many teams execute HRITs, or are relatively few employees involved?

### PRIVATE SECTOR:

### DONORS:

### HUM-DEV ORG:

Does leadership understand what HRI is?

Does leadership want to engage in HRITs?

### Team Creation in Société Générale – Social Impact Solutions (SIS)

The Social Impact Solutions team formed in 2019, following the call by Société Générale’s CEO for innovative proposals within its internal startup initiative, a clear manifestation of senior leadership support.

The SIS team comprises three dedicated employees with expertise across financial services, corporate strategy, and social impact who engage with the private sector, humanitarian and development organizations, and traditional funders to design and structure interventions that align with the SDGs while also creating sustainable business models.

The team is committed to bridging the public and private sectors by focusing on the common sphere of social impact to attain optimal interest and risk alignment among all stakeholders.

In addition to leadership support, the team has two factors working in its favor:

- Alignment with Société Générale’s strategic direction toward and commitment to supporting the global environmental and developmental challenges of its clients
- Resources, skill and experience as part of a renowned bank coupled with expertise in emerging markets and structured finance

The team’s ambition is to grow the public–private social impact venture into an operationally and financially sustainable model, relying mostly on advisory and structuring services. It is gradually entering the humanitarian space through small pilot projects, while extensively developing its internal methodologies and guidelines to adapt to this unfamiliar terrain.

By bringing the expertise of a large bank to bear on solving important challenges, the Social Impact Solutions team may prove to be an important contribution to the social impact space. Perhaps more importantly, though, the formation of a dedicated group points to a growing interest among large financial institutions in engaging in socially responsible projects, a trend that could be leveraged by the humanitarian sector. The idea that these efforts drive value for all of Société Générale’s clients and by extension the bank, provides positive signaling for HRI’s future.

# Organizational support of HRI

## PERSONNEL THROUGHOUT THE ORGANIZATION SUPPORT HRI

HRITs require cooperation at many levels within an organization, so relevant personnel must support the initiative.



### RELEVANT STAKEHOLDERS

#### HUM-DEV ORG:

Many humanitarian organizations have country and sector teams that can reject projects, so buy-in and integration from these teams is critical

#### DONORS:

Donors may need to change systems and procedures to engage in HRITs. Gatekeepers of these changes must support HRI



### GOAL

All key roles support HRI, and key personnel are dedicated to executing HRITs

#### PATH TO SUCCESS:

- Employees in key job functions across the organization must have a shared understanding of HRI and the breadth of associated tools
- Ensure employees are aware of the benefits of HRITs in delivering humanitarian aid
- Employees must transition from familiarity and curiosity to support for organizational engagement in HRITs

#### CHALLENGES TO MANAGE:

- Local offices tend to have a stronger focus on providing aid and more skepticism toward the private sector. To secure buy-in, highlight the expanded reach and effectiveness of aid delivered when leveraging the private sector. If applicable, remind local offices of the organizational mandate and high-level support of HRITs
- Only certain job-functions must buy into the concept of HRI—identify these employees to ensure they act as enablers and not as blockers



### SELF-ASSESSMENT QUESTIONS

#### DONORS:

Does the organization understand HRI and grasp the implications that engaging in HRITs could have for the organization itself?

Does the organization track HRITs in relevant geographies or sectors?

Do employees within the organization express a desire to engage in HRITs?

Do all parties who are capable of gating funds support their use in HRITs as appropriate given risk tolerance and purpose of funds?

#### HUM-DEV ORG:

Is there a shared, common definition of HRI within the organization?

Do numerous functions within the organization have a clear mandate to support HRITs?

# Willingness to collaborate across sectors

## AN APPETITE TO COLLABORATE WITH STAKEHOLDERS TO EXECUTE HRITS

*HRITs require cross-sectoral collaboration; civilian and local organizations should help implement humanitarian action.*



### RELEVANT STAKEHOLDERS

#### HUM-DEV ORG:

Aid organizations must engage the private sector and development actors, overcoming organizational hurdles and mores

#### DONORS:

Donors must overcome institutional barriers to commingling funds with investment capital, as donors are the most important catalysts of private capital



### GOAL

Systematic approach to developing partnerships across stakeholders and a commitment to help others develop partnerships

#### PATH TO SUCCESS:

- Express organizational mandate or high-level decree to collaborate
- Establish collaboration partners
- Develop systematic approach to forging partnerships among all stakeholder types and facilitate collaboration for those organizations that are less advanced

#### CHALLENGES TO MANAGE:

- Collaboration requires a shared level of understanding. To properly develop this, organizations must find a way to square private sector interests with SDGs and humanitarian principles
- Organizations that are concerned about violating humanitarian standards should consider the full improvement in aid delivery made possible by engaging the private sector. While many organizations believe this level of evidence on the efficacy of HRI is insufficient to cause them to redirect their funds, they should consider what ecosystem enabling actions they might take to build up this knowledge and data surrounding HRITs
- Restrictive contracting regimes will limit collaboration through onerous counter-terrorism or money laundering rules, with legislation a particular challenge for financial institutions
- A “language barrier” in terminology used by public and private sectors can hinder alignment and generate misunderstanding
- A central focus by the private sector on returns can give public interest partners the impression that the private sector is profiteering, thus fostering distrust
- Organizations may not want to collaborate because they feel that they can perform better without partners due to: 1) superior ability to deliver results internally, 2) extended time frame required when collaborating, or 3) additional costs from involving additional parties. Organizations that express these views should understand 1) the benefits of comparative advantage, 2) internal hurdles that complicate collaboration, and 3) operational costs associated with diseconomies of scale
- Organizations that don’t want to collaborate due to competitive concerns must understand that partnering grows the potential pie, and is beneficial for everyone
- Organizations that don’t wish to collaborate due to conflicts of interest or on moral grounds, must search for areas of commonality and build partnerships in those contexts



## SELF-ASSESSMENT QUESTIONS

### DONORS:

Does the organization understand how partnering with the private sector can increase aid and improve efficiency?

Do employees express an interest in collaborating?

Has the organization used funding to catalyze private sector capital?

Does the organization have a clear and systematic method to develop partnerships?

Does the organization help others create meaningful cross-sector relationships?

### HUM-DEV ORG:

Does the organization recognize a need to collaborate to maximize scale and efficiency of humanitarian aid?

Does the organization have collaboration partners within and among sectors?

### Global Partnership for Education (GPE) Multiplier

The GPE Multiplier is an innovative finance instrument that crowds-in funding for learning via a blended financing approach, developed by the Global Partnership for Education. GPE normally provides concessional grants for educational programs in developing countries, and their Multiplier program sets a condition on those grants, requiring countries to mobilize \$3 in new and external funding for every \$1 given from the Multiplier funds.

This approach incentivizes recipient countries to prioritize funding to their most high-impact and well-constructed educational programs, because these are the most likely to attract the additional financing needed to access grants from the GPE Multiplier. So far, the co-financing is coming from other philanthropic foundations, the IDA (World Bank concessional finance organization), and other bilateral foreign aid agencies and regional development banks, rather than private sector investors. However, the Multiplier program helps by aligning education funding toward national priorities, instead of each of those organizations independently issuing grants for several disparate projects in country.

An initial allocation of \$67.5 million from the Multiplier generated over \$400 million in co-financing, far above the \$3 to \$1 ratio goal. Based on this success, GPE approved another \$200 million in grants through the Multiplier, cut the approval turnaround time from six months to one month, and doubled the number of eligible grantees to 69 countries.

# Stakeholder relationships and understanding

## STAKEHOLDERS FOCUS ON FINDING COMMON GROUND TO EFFECTIVELY PARTNER

Stakeholders have different, yet overlapping interests, as they develop partnerships and they should focus on commonalities.



### RELEVANT STAKEHOLDERS

#### DFI/MDB:

DFI/MDBs must understand what factors are valuable to their counterparties so they can more efficiently collaborate and negotiate

#### HUM-DEV ORG:

Humanitarian and development organizations have traditionally had misgivings toward the private sector. Understanding motivations and goals will cultivate a more collaborative, trusting relationship

#### DONORS:

Donors must allocate closely-guarded funds to enable HRITs, so they want to understand the motivations driving the other stakeholders

#### PRIVATE SECTOR:

A more nuanced understanding of humanitarian and development organizations and their history will help the private sector to partner more effectively. They must do their part to be open and transparent about return and impact needs, so they can help the public sector develop compelling, bankable projects



### GOAL

Clear and articulated understanding of stakeholder interests with a focus on commonalities in purpose or areas of expertise to improve collaboration

#### PATH TO SUCCESS:

- Build trust with others in existing networks and facilitate discussions on achieving shared humanitarian objectives
- Increase interactions with other stakeholders, focus on finding commonalities
- Develop a clear understanding about what drives other organizations, and use this to build new relationships, and choose most effective means of engagement

#### CHALLENGES TO MANAGE:

- Cultivating deep understanding takes time and patience—attempts to accelerate it have led to superficial, unproductive relationships



### SELF-ASSESSMENT QUESTIONS

#### DONORS:

Does the organization acknowledge the benefit of using donor capital as a catalyst for private sector?

#### HUM-DEV ORG:

Does the organization acknowledge partnering across sectors is beneficial?

#### DFI/MDB:

Do organizations approach partnership as an inconvenient requirement?

#### PRIVATE SECTOR:

Does the organization seek commonalities and opportunities to deepen and develop relationships?  
Does the organization have a clear understanding of other stakeholders' missions and interests?  
Does the organization help others develop partnerships?  
Does the organization operate in an open, transparent manner to enable others to be the best partners possible?

## **EUROPEAN COMMISSION'S DIRECTORATE-GENERAL FOR EUROPEAN CIVIL PROTECTION AND HUMANITARIAN AID OPERATIONS (DG ECHO)**

Institutional donors operate under a legal framework which governs how and to whom they can disburse humanitarian aid. These legal frameworks have been carefully crafted to ensure that the primary goal of humanitarian aid is to address the immediate needs of people in an impartial, neutral and independent manner, not only from governments but also market forces. As a result, many humanitarian donors have limitations on their ability to work directly with the private sector or to spend public funds in ways other than grants, which are designed so that as much money reaches beneficiaries as quickly as possible.

Yet, donors such as DG ECHO have shown their commitment to engage the private sector and support the expansion of the resource base for humanitarian emergencies. DG ECHO has cooperated with its traditional partners bilaterally (UN, international humanitarian organisations and NGOs) and participated in international fora such as the Humanitarian Investing Initiative, which increases its exposure to and understanding of private sector actors. Capitalising on the recommendations of the UN High-Level Panel on Humanitarian Financing to expand partnerships with the private sector, the World Economic Forum invited DG ECHO to join the Humanitarian Investing Initiative's High-Level Group. As part of this group, DG ECHO and other stakeholders bring a donor perspective to the various initiatives that are being planned. This approach can help direct the efforts of the initiative on projects that are consistent with the norms and values of humanitarian aid and ensure that innovative finance activities are coherent with the work of the wider humanitarian ecosystem. Whilst DG ECHO itself has not participated in a full-fledged HRIT so far, integration in these international and cross-sectoral fora has provided a better grasp of the complexities and potential benefits of HRI. This can be considered as an opportunity to foster collaboration and linkages as and when appropriate.

Another potential avenue of enhanced cooperation is centred on developing more granular, timely and user-friendly climate risk data which can improve DG ECHO's predictive analysis and resilience strategies. For a humanitarian organisation, better data improves the use of early warning systems and planning of the response. For the private sector (including insurance companies), better data helps with quantifying and managing risk. In this regard, the European Commission facilitates the supply of free and openly available climate data globally through Copernicus, the EU's Earth Observation Programme. Thanks to its research and innovation programs, the European Commission also supports projects that boost risk modelling capacity.

# Risk appetite

## ORGANIZATION IS WILLING TO ACCEPT REASONABLE FINANCIAL, OPERATIONAL, AND REPUTATIONAL RISK TO ENGAGE IN HRITS

*Piloting HRITs is inherently risky, so organizations must accept the possibility of financial or operational setbacks.*



### RELEVANT STAKEHOLDERS

#### DFI/MDB:

DFIs/MDBs must accept the risk that HRITs could be inefficient from both an impact and returns perspective, as new structures require optimization and experimentation

#### DONORS:

Donors must accept the risk that a new HRIT structure has less impact and therefore value for money than a traditional use of funds

#### HUM-DEV ORG:

Humanitarian and development organizations operating projects funded by HRITs must accept operational risks posed by new investment structures and collaboration partners

#### PRIVATE SECTOR:

The private sector must be prepared to accept financial, operational, and reputational risks



### GOAL

Appetite to take measured, thoughtful risks manifested in clear protocols to sandbox efforts

#### PATH TO SUCCESS:

- Build trust with others in existing networks and facilitate discussions on achieving shared humanitarian objectives
- Increase interactions with other stakeholders, focus on finding commonalities
- Develop a clear understanding about what drives other organizations, and use this to build new relationships, and choose most effective means of engagement

#### CHALLENGES TO MANAGE:

- Some organizations may have explicit mandates or duties that preclude very risky projects, and so they will need to be creative in how they purport to enable the HRI ecosystem. For instance, these organizations might consider sponsoring advisory services versus an actual investment or right-sizing donations to manage risk
- Reputational risks are challenging to size, and the most valuable mitigating factor is extensive due diligence. Organizations should look to build a network to broaden the sphere of vetted partners and should create clear procedures with respect to due diligence to cost-effectively shield themselves from reputational surprises
- Donors may worry that their funds could be 'wasted' by engaging in experimental models, instead of tried-and-tested approaches. In this case, they should focus efforts where they can mobilize the most private sector capital or on experimental efforts grounded in robust research



## SELF-ASSESSMENT QUESTIONS

### DONORS:

### HUM-DEV ORG:

### DFI/MDB:

### PRIVATE SECTOR:

What are the relevant risks posed by engaging in HRITs?

Does the current risk appetite enable HRITs?

What constrains the risk tolerance?

Is there scope for increasing the risk appetite, given the relevant constraints?

What measures can enable HRITs within current risk budget?

### Wellcome Leap—Risk appetite for innovation

In 2018, the Wellcome Trust announced the creation of the Wellcome Leap fund, putting \$300 million of the Wellcome Trust's \$32 billion endowment toward the new initiative. The Leap Fund is a not-for-profit, which will support research designed to tackle the most difficult and riskiest research projects in global health, which might otherwise go unfunded. The team is expressly committed to innovation, driven by a mandate to "encourage speed, agility and an appetite for risk-taking." The fund seeks to mimic technology and venture capital funds by allocating charitable investments to high-risk, early stage ideas in the health and life sciences spaces to accelerate the speed-to-market of innovative technologies, not just those that are likely to generate a profit.

# Systems and Procedures

---

To better execute HRITs, organizations must change certain facets of their operations. These changes can be didactically instructed at a high-level, and so can proceed concurrently with the broad socialization phase within the organization. Many of these adjustments entail a commitment of resources or strong political willpower to adjust.

There are **nine dimensions** within Systems and procedures:

- [Risk controls to provide protection but enable flexibility](#)
- [Clear and disciplined risk assessment and funds deployment](#)
- [Flexibility in contracting with counterparties](#)
- [Budgeting practices](#)
- [Accounting flexibility and fund processing](#)
- [Sophistication of impact analysis](#)
- [Impact measurement and evaluation](#)
- [Data management](#)
- [Technological capabilities](#)

## KEY TAKEAWAYS

HRI is a new space, and so many organizations involved in an HRIT may not have optimal systems and procedures in place. While deals can be executed with sub-optimal systems, scaling will become challenging. The first five dimensions listed will have the greatest impact on an organization's ability to engage in HRI and will require the most political willpower to enable. The final four dimensions are also critical as they relate to impact tracking and data dissemination. While these systems would require funds to implement, they tie more readily to an organization's typical operations and so are likely easier to secure relative to the first grouping.

## Risk controls to provide protection but enable flexibility

### RISK CONTROLS ARE FLEXIBLE ENOUGH TO ENABLE HRITs, BUT EFFECTIVE ENOUGH TO PROVIDE ADEQUATE PROTECTIONS

*Piloting HRITs is inherently risky; standards must allow these transactions, but thoughtful mitigation approaches are critical.*



#### RELEVANT STAKEHOLDERS

##### DFI/MDB:

Deploying HRITs in extremely fragile contexts requires a nuanced approach to risk budgeting, with more stringent guidelines paired with a higher risk envelope. These organizations need to develop a better understanding for nonfinancial risks

##### HUM-DEV ORG:

Risk measures should dictate the amount of capital hazarded and ensure the organization is protected throughout the project. Measures must consider both context (e.g. conflict) and financial (e.g. structuring) risks. Measures must support contingency planning, funding allocation, and strengthen response capacities

##### DONORS:

Donors could face reputational, operational or regulatory risk by working with the private sector. Risk mechanisms should safeguard the organization as it engages in these efforts

##### PRIVATE SECTOR:

Risk measures must account for both the macro environment and the instrument used; right-sizing investment is critical



#### GOAL

Wholesale implementation of HRI-friendly risk protocols

##### PATH TO SUCCESS:

- Understand the types of risks common in HRITs and the need to analyze these risks differently
- Take steps to change onerous controls
- Implement broad-based changes to make organization innovative-finance-friendly

##### CHALLENGES TO MANAGE:

- Some organizations establish a governance committee to help navigate risk frameworks. If the committee includes individuals opposed to HRITs, it could serve as a blocker, rather than an enabler. If the committee is too large, or its members are too stretched, then it might not deliver an adequate level of input or speed in decisions. There must be accountability at the committee level, otherwise it will disperse decision-making authority. An HRIT-focused mandate and compensation scheme would help enable risk control adjustment
- Donors could face backlash if they fail to meet impact goals. This risk must be managed to ensure can run pilots in search of greater impact, while acknowledging that lesser impact could occasionally transpire



## SELF-ASSESSMENT QUESTIONS

### DONORS:

### HUM-DEV ORG:

### DFI/MDB:

### PRIVATE SECTOR:

Do current risk protocols hinder HRITs?

Is the organization willing to adjust current risk protocols?

Will the organization earmark funds today that will pay out in five years?

Will the organization engage with the private sector, when such actions have historically been seen as compromising humanitarian principles?

Will the organization engage with a small NGO that has minimal track record, presenting reputational risk?

Would the organization enter a new country, with a potentially inhospitable government?

Does the organization accept that risk and return tradeoffs in HRI are less favorable than in other contexts?

Can organization identify and price all relevant risks?

Can organization mitigate risks operationally?

Can organization mitigate risks through insurance or other measures such that increased returns are not required to balance perceived risks?

Has the organization established a governance committee to ensure swift operations as risk protocols evolve?

Can the organization effectively implement important risk protocol changes?

Has the organization ensured new protocols are flexible enough to enable change across the life-cycle of HRITs while still providing protection?

Has the organization implemented wholesale changes to ensure risk protocols are innovative-finance-friendly?

# Clear and disciplined risk assessment and funds deployment

## CAN EXECUTE HRITS WITH SUFFICIENT AND TIMELY FUNDS

*There are many structural barriers that could delay deploying funds to HRITs. Organizations must reduce or circumvent these barriers to deploy funds promptly, while not undertaking excessive risk. Swift movement of funds is critical in emergencies and providing flexible and timely funding enhances ability to meet humanitarian needs.*



### RELEVANT STAKEHOLDERS

#### DONORS:

Ability to deploy funds promptly in light of risks associated with HRITs

#### HUM-DEV ORG:

Ability to navigate internal protocols to match necessary pace of transaction when disbursing funds

#### DFI/MDB:

Ensure ability to engage with counterparties to execute HRITs



### GOAL

Regularly match stakeholder needs with respect to thoroughness, risk controls, and timing

#### PATH TO SUCCESS:

- Enable protocols to facilitate funds deployment when a transaction involves a subset of repeat, highly trusted counterparties
- Create an accelerator or SPV to ensure expedited decisions or fund deployment to match opportunities
- Adjust organizational-level practices to establish a best-in-class process that accommodates all stakeholder needs, while ensuring adequate risk controls

#### CHALLENGES TO MANAGE:

- Hierarchical organizations can have particularly long decision time-frames, which can cause problems when interfacing with the private sector, where speed is highly valued
- Humanitarian funds must be allocated in proportion to needs and on the basis of needs assessments—this could impact the deployment of funds for use in HRITs



### SELF-ASSESSMENT QUESTIONS

#### DONORS:

#### HUM-DEV ORG:

#### DFI/MDB:

Does deploying funds require numerous layers of approvals?

Do approval processes hinder execution of HRITs?

Does the organization believe that the speed of fund deployment is a problem?

Can the organization streamline the approval process when working with trusted counterparties or in familiar situations?

Can the organization develop an SPV or accelerator to facilitate executing pilot transactions?

Has the organization developed a streamlined approach to risk assessment, broadly enabling careful and thorough controls without compromising on timing?

# Flexibility in contracting with counterparties

## ABILITY TO CONTRACT WITH COUNTERPARTIES ACROSS SECTORS

*HRITs require expanding the sphere of counterparties and types of interactions, and an imperative to approach contracts flexibly can prevent roadblocks.*



### RELEVANT STAKEHOLDERS

#### **DFI/MDB:**

Can commingle funds with new organizations and have different organizations implement

#### **DONORS:**

Can enter unique transactions, particularly those related to results-based financing

#### **HUM-DEV ORG:**

Can collaborate with the private sector as implementers and investors



### GOAL

Off-the shelf contracts purpose-built to facilitate HRITs

#### **PATH TO SUCCESS:**

- Understand which contractual provisions make HRI challenging, and acknowledge need to change provisions and adjust internal procedures, focusing efforts first on grants for innovation, and subsequently expanding focus
- Adjust procedures to capture low-hanging fruit and develop workarounds for more entrenched provisions so HRITs can continue as the contracting process evolves
- Develop one HRIT-ready contract that requires little adjustment, and apply it to similar projects repeatedly
- Adjust HRIT-ready contract to apply to other sectors, countries, or financial instruments

#### **CHALLENGES TO MANAGE:**

- Multiyear contracts are the biggest bottleneck—more restrictive than counterparty type
- Contracting with counterparties can be a long and difficult process for donors to navigate without help. Blueprints for standard contracting would smooth the process



## SELF-ASSESSMENT QUESTIONS

### DFI/ MDB:

### DONORS:

### HUM-DEV ORG:

Are contracting RFPs complicated and expensive to complete?

Does the RFP process favor existing partners, and make it difficult for new and smaller organizations to participate?

Is the organization transparent with counterparties about needs and expectations?

Is the procurement process slow and rigid?

Are there heavy restrictions on how the organization can deploy funds, to whom they can deploy funds, or with whom they can partner?

Has the organization reviewed contracting requirements to determine if any provisions make engaging in HRITs challenging?

Have problematic clauses been altered, if applicable?

Has the organization developed work-arounds to facilitate HRITs as the contracts evolve?

Are contracts built explicitly to be used as boiler plates for HRITs?

### WFP Innovation Accelerator

Founded in 2015, the Munich-based World Food Programme (WFP) Innovation Accelerator identifies, grows, and scales novel humanitarian projects. The boot camp is the scoping phase; the Sprint Programme demonstrates proof of concept; and the Scale-Up Enablement Programme funds projects to optimize their operations and grow their impact. The accelerator effectively supports a steady pipeline of innovatively financed humanitarian projects, many of which represent a collaboration with an external organization, often a start-up, which can have return-seeking investors. Projects are given equity-free funding on the order of \$100,000, as well as mentorship and access to WFP's worldwide presence. To date, the accelerator has implemented more than 80 projects, with 11 currently scaling globally and 1.4 million people reached in 2019 alone. The 11 global-scale projects have secured \$79 million in external donor funding. The accelerator is funded by the German Federal Ministry for Economic Cooperation and Development, the German Federal Foreign Office, the Bavarian State Ministry of Food, Agriculture, and Forestry, the government of the Netherlands, the government of Luxembourg, and USAID. In all, the WFP's Innovation Accelerator is an instructive example of how a large humanitarian aid organization can encourage innovative approaches to humanitarian financing.

#### Factors enabling success:

- **Organizational and senior leadership support** for innovative approaches to financing humanitarian projects allowed the accelerator to get off the ground. WFP has experience collaborating with private players in food supply chains, and enthusiasm for the initiative went up to the executive director's office
- **Deep understanding of the organization's problems** prior to starting and taking a **human-centered design** and lean start-up approach on an ongoing basis helped ensure the accelerator delivered value for the organization
- While the accelerator relies on the scale of the WFP's operations to grow its projects, it also enjoys **a level of autonomy that fosters an innovative approach**. It was intentionally located inside an innovation ecosystem and apart from the WFP headquarters
- It was crucial to find **a donor that shares the accelerator's vision** of unconventional humanitarian innovation. Buy-in was ensured at the national level by the German government and at the state level in Bavaria. The accelerator's location was strategically chosen partly to match it with a receptive core donor. In addition, it is ideally situated with access to a robust innovation and technological ecosystem

(continued)

- **A willingness to learn from the private sector** while adapting good practices to the humanitarian sector allowed the accelerator to leverage existing knowledge. During the design phase, the accelerator spoke with Y Combinator (one of Silicon Valley's best-known technology accelerators). WFP learned from top private sector start-up accelerators and global innovation leaders and has since confirmed for itself that the best way to select entrants is to focus on the quality of the team more than the quality of the project proposal—an overturning of conventional wisdom in the humanitarian sector. This is crucial because, in an accelerator, projects must change rapidly to align with the needs of the people its innovations serve, and team capabilities can influence. Some aspects of the private accelerator model had to be changed: most notably, the WFP Innovation Accelerator had to be distributed to get closer to those in need. As WFP is an organization with global reach, the accelerator also had to adapt to being a service provider to its global operations by combining excellence in virtual/remote activities with in-person ones. Further leveraging learnings from the private sector, many accelerator employees were previously with private firms
- **An emphasis on engaging with partners** plugged the accelerator into a broad network. In addition to those listed above, the accelerator has collaborated with the BCG, Bill & Melinda Gates Foundation, Google Launchpad, BASF Stiftung, Cargill, , the German Academy of Science and Technology (Acatech), the German Aerospace Center (DLR), Singularity University, and XPRIZE Foundation

#### Challenges:

- In the humanitarian sector, **risk must be mitigated** due to the vulnerability of those served. By funding **small pilots**, the accelerator weeds out ineffective programs early, avoiding significant waste. By embracing an iterative **human-centered design approach**, the accelerator quickly adapts ideas to best serve those in need, again minimizing waste. When early innovations are trialed, **some redundancy is ensured** to safeguard those served

#### Example: H2Grow

H2Grow, a hydroponics project, started with a pilot in the slums of Lima, Peru. In the first phase, fresh vegetables were grown in this semiarid region for human consumption. In the next phase, the accelerator supported WFP operations in Algeria, aiming to deploy hydroponic setups housed in shipping containers in the refugee camps of Tindouf. Responding to the local community, the human-centered design process replaced the initial pilot using a shipping container with locally sourced materials and reoriented the project to grow animal fodder, in turn creating higher yields of more nutritious meat and milk for the seminomadic Sahrawi people. Therefore, risk is minimized by investing small amounts of money in ideas that are expected to change. By replicating this tailored model, the solution now reaches more than 8,000 people in nine countries around the world.

#### Further Reading:

[WFP Innovation](#)

[WFP Innovation Accelerator on LinkedIn](#)

[WFP Innovation on Twitter](#)

#### Example: Building Blocks

When the Building Blocks system for dispersing cash aid through a blockchain system was first trialed with 100 users in Pakistan during its incubation, the previous bank-account-based system was kept ready to distribute funds if necessary. Within six months, the project scaled to serve 10,000 Syrian refugees in the Azraq and Zaatari camps in Jordan. Today, 107,000 people are served by the system, enabling them to access cash-based transfers and to purchase food in local markets. This successful solution is being replicated in the Kutupalong refugee camp in Bangladesh, the largest in the world.

[H2Grow: Growing food in impossible places](#)

[Building Blocks: Blockchain for zero hunger](#)

### Key contracting enablers:

Enable an innovative and inclusive procurement process

- **Create a common application:** Highly specialized RFPs may favor incumbents and can crowd-out smaller suppliers
- **Use creative screens:** Provide opportunities for newer or smaller companies to begin contracting by exploring risk-reduction techniques (e.g. team or company experience, insurance)
- **Provide a clear timeline:** Ensure all parties learn of opportunities at the same time, and new and repeat providers have adequate time to fill out RFPs
- **Develop a workaround:** If you cannot change your organization's procedures broadly, find a niche to test new procurement ideas as a proof of concept
- **Be Specific:** Design and draft tender documents precisely to target the specific goods/services you seek
- **Be proactive:** Contact smaller companies to inform them of the competitive process
- **Be Inclusive:** Hold information sessions to educate potential new vendors on the steps of the process and the tenders procured

### Subcontracting: limitations to overcome

- **Tender Process:** Many donors insist on open tenders for a specific contract size, however, for some, the amount doesn't move the needle. So, it would be good to increase this size giving the grantee more room to use their own internal procurement systems/process, allowing more flexibility on subawards
- **Co-creation:** There are a lot of restrictions around who can apply for a subaward or receive funding when dealing with a public-private engagement; overall, the process is not supportive of such engagements
- **Matching grants:** Donors do not know how to calculate or account for in-kind support as part of the matching. In-kind can be in the form of a partnership paying their own employees salaries that would otherwise need to come out of grant funding, or paying for software licenses, or commodities like petrol or transportation

# Budgeting practices

## BUDGETARY CAPABILITIES ENABLE MULTIYEAR AND MIXED FUNDING

HRITs operate over several years and often require blended capital, so budget capabilities must accommodate this. Annual budgets prevent organizations from planning ahead and investing for longer-term sustainability.



### RELEVANT STAKEHOLDERS

#### DONORS:

Needs to commit capital with delayed and uncertain payment, as in outcome funds

#### HUM-DEV ORG:

Needs to participate in multiyear projects



### GOAL

HRI budget and funding available in five-year cycles

#### PATH TO SUCCESS:

- Evolve annual budgetary cycle by using small sums of multiyear funding on select projects as test cases and proofs of concept
- Expand the number of projects that receive funds on a multiyear basis and increase the amount of funds designated for a multiyear investment
- Create a clear procedure for personnel in the organization to apply for multiyear project funding
- Build toward a five-year budgetary cycle for all HRITs, or organization broadly

#### CHALLENGES TO MANAGE:

- Senior leadership support is required to change anything budget-related
- Ensure state budgetary procedures allow for revolving funds
- Ensure seed funds exist to support design/structuring
- Ensure funds can meet volatile needs



### SELF-ASSESSMENT QUESTIONS

#### DONORS:

Does the organization fund development and humanitarian need separately?

Can the organization provide flexible funding (i.e., go beyond a grant)?

Can the organization provide funding in longer cycles to help humanitarian organizations plan?

Can the organization spread payments over time?

#### HUM-DEV ORG:

Does the organization acknowledge the need for a longer-term budgetary system?

Can the organization accommodate multiyear budgets for a subset of projects?

Can the organization increase funding amounts for multiyear budgets and increase the number of applicable projects?

Do personnel within the organization understand how to secure multiyear funding?

Has the organization developed an HRIT-friendly budget that enables widespread project funding in at least three-year cycles?

# Accounting flexibility and fund processing

## ACCOMMODATE MULTIPLE SOURCES OF CAPITAL FROM CROSS-SECTOR STAKEHOLDERS AND ENSURE ACCURATE, TIMELY, AND TRANSPARENT REPORTING

HRITs often blend funds, so organizations must account for these funds accurately and easily.



### RELEVANT STAKEHOLDERS

#### HUM-DEV ORG:

Humanitarian-development organizations are closest to the transaction without accounting and processing systems purpose-built for financial transactions



### GOAL

Fully functional accounting system capable of processing funds from multiple donors and private sector investors

#### PATH TO SUCCESS:

- Develop capability to accept funds from multiple sources
- Invest time and resources to overhaul accounting system to ensure it can readily account for multi-sourced funds
- Seamlessly process funds from multiple donors and private sector investors with purpose-built accounting system

#### CHALLENGES TO MANAGE:

- Humanitarian and development organizations spend a considerable portion of their budgets on people, security and supply chain. These costs are typically pooled (e.g. country-level) and so are not attributable to a specific project. Organizations must track costs at the project level to determine budget and calculate cost-savings, which are important for HRI
- As organizations move towards multi-year budgets, the accounting systems should also evolve



### SELF-ASSESSMENT QUESTIONS

#### HUM-DEV ORG:

Can the accounting system accept funds from multiple sources?

Is there a workaround if the system cannot accept funds from multiple sources?

Has the organization invested time and money to revamp the accounting system?

Is there an HRIT-ready system that enables processing funds from multiple donors and private sector investors?

### Accounting flexibility to secure grants

In November 2019, Danish Red Cross received a US\$660,000 grant from Innovation Norway to develop the Community Inclusion Currencies program. The grant stipulated that prior to DRC's grant drawdown it needed to mobilize an equivalent amount of capital from private sector partners. Through a combination of in-kind, direct cash, and cryptocurrency contributions from private sector and individual donors, DRC and its partners satisfied this requirement; effectively navigating an innovative public-private multi-stakeholder engagement.

- Consulting firm (in-kind)
- DSV (private cash)
- DOEN (foundation cash)
- Gitcoin (Cryptocurrency contributions)

# Sophistication of impact analysis

## UNDERSTAND WHICH METRICS TO MEASURE TO VERIFY OUTCOMES

HRITs theoretically offer more efficient aid, so tracking outcomes to test that hypothesis is crucial.



### RELEVANT STAKEHOLDERS

#### DFI/MDB:

Impact measures show efficacy of funds used in all projects

#### DONORS:

Impact measurement reveals if funds are allocated effectively, increasing accountability

#### HUM-DEV ORG:

Impact measures to judge success of their own and their partners' projects

#### PRIVATE SECTOR:

Proof of effective outcomes drives returns and reputation



### GOAL

Thoughtfully considered impact measures tracked, with proxies for hard-to-measure outcomes and streamlined measurement requirements from donors

#### PATH TO SUCCESS:

- Look beyond easily countable metrics and consider perverse incentives when selecting metrics
- Evolve metrics to ensure relevant details for each project stage. Donors and investors should harmonize reporting requirements to reduce burden on implementers
- Develop proxies for hard-to-measure outcomes to ensure projects aren't left behind due to measurability concerns. Strive toward standardization of reporting requirements among capital providers

#### CHALLENGES TO MANAGE:

- Perverse incentives can arise due to the unintended consequences associated with selecting parameters to measure success. Actors must carefully consider benchmarks to ensure that they are aligned with genuine outcomes—more details can be found at [Employee Motivation](#)
- Projects with hard-to-measure outcomes can get left behind. Sophisticated impact measurement capabilities will help ensure these projects get funded



### SELF-ASSESSMENT QUESTIONS

#### DFI/MDB:

#### DONORS:

#### HUM-DEV ORG:

#### INVESTOR:

- Does the organization focus only on easily countable or popular metrics?
- Does the organization consider perverse incentives when selecting metrics?
- Does the organization evolve metrics tracked throughout the project to reflect relevant outcomes?
- Does the organization create proxies to describe hard-to-measure outcomes?
- Does the organization insist on strict and onerous impact tracking?
- Does the organization coordinate impact tracking requests with other capital providers?
- Does the organization streamline metrics it requests?
- Does the organization limit metric requests to a harmonized list common to other donors?

# Impact measurement and evaluation

## ABILITY TO MEASURE NECESSARY METRICS TO DEMONSTRATE IMPACT

*Increased impact is a value proposition of HRITs and can determine payouts and value-for-money, so tracking is critical.*



### RELEVANT STAKEHOLDERS

#### HUM-DEV ORG, PRIVATE SECTOR:

Reports metrics when implementing projects



### GOAL

Multiyear impact tracking common across all initiatives with third-party assurances; thorough and compelling data-driven narratives

#### PATH TO SUCCESS:

- Acknowledge need to track impact past one year, and develop a plan to build capabilities
- Enable multiyear tracking along subset of metrics
- Launch multiyear tracking across all initiatives. Use third-party assurances to ensure integrity

#### CHALLENGES TO MANAGE:

- Impact tracking is challenging, particularly when multiple organizations are deploying uncoordinated efforts to serve the same population. Organizations must be cautious of double-counting and ensuring attribution is correct



### SELF-ASSESSMENT QUESTIONS

#### HUM-DEV ORG:

#### PRIVATE SECTOR:

Can the organization track the impact of interventions past one year?

Can the organization leverage technology to improve tracking?

Can the organization creatively access hard-to-reach, remote areas?

Can the organization routinely meet reporting needs of counterparties?

Does the organization regularly look to upgrade capabilities to ensure multiyear tracking is reliable and cost effective?

# Data management

## ABILITY TO COLLECT, SAFEGUARD, AND SHARE DATA

*Data collected for impact measurement could benefit many organizations but is often only used once to prove impact.*



### RELEVANT STAKEHOLDERS

#### HUM-DEV ORG:

Humanitarian and development organizations often implement or track results, and so control data management. Private sector implementers may view data as proprietary



### GOAL

Collect high-integrity, transparent, standardized data, and share broadly while ensuring privacy and security

#### PATH TO SUCCESS:

- Develop retention policies to ensure tracked data can be useful to others
- Help establish and adopt common reporting standards to ensure data is interoperable
- Ensure data has high-integrity and is standardized. Create transparency by sharing broadly through digitization, while ensuring privacy and security

#### CHALLENGES TO MANAGE:

- Robust data management could be difficult and time-consuming to set-up, and costly to maintain and safeguard
- Organizations may need to stray from their core competencies in establishing viable data storage and dissemination tools



### SELF-ASSESSMENT QUESTIONS

#### HUM-DEV ORG:

Does the organization store data so others can use it easily?

Does the organization create usable data?

Does the organization structure data according to common reporting standards?

Is the data high-quality?

Has the organization ensured privacy and security?

Has the organization created electronic access to the data?

Does the organization already routinely collect data that permits transparency about results, risk, and effort at low transaction cost in one or several areas of operation?

# Technological capabilities

## THE ORGANIZATION HAS THE NECESSARY TECHNOLOGIES FOR ENGAGING IN HRI

*Certain technologies can be crucial to HRITs—this can range from remote impact measurement capabilities to advanced data analysis tools.*



### RELEVANT STAKEHOLDERS

#### DFI/MDB:

Ability to predict needs, measure risks, structure deals, monitor outcomes

#### DONORS:

Ability to evaluate potential uses of capital

#### HUM-DEV ORG:

Ability to predict needs, measure risks, optimize programs, and monitor outcomes

#### PRIVATE SECTOR:

Ability to predict needs, measure risks, structure deals, optimize programs, and monitor outcomes



### GOAL

Can execute all on-the-ground or analytical tasks needed to effectively engage in HRITs

#### PATH TO SUCCESS:

- Determine technology requirements based on context and specific HRITs to be deployed
- Assess whether technologies exist off-the-shelf or need to be developed
- If technologies need to be developed, assess whether this is best outsourced or undertaken internally
- Acquire, develop, or outsource production of the required technologies

#### CHALLENGES TO MANAGE:

- Difficult to justify spending money on technology when funds would otherwise be channeled to delivering lifesaving, humanitarian aid
- Investments in technology can be expensive and time consuming, and may not yield desired results if the result proves to be inadequate
- Anticipating technology needs far enough in advance to allow time for them to be met can be challenging in fast-moving contexts



### SELF-ASSESSMENT QUESTIONS

#### DFI/MDB:

#### HUM-DEV ORG:

#### DONORS:

Does the organization have the technologies required to engage in HRITs?

Does the organization have internal capabilities for developing required technologies?

Does the organization have experience in acquiring technologies from external providers?

Has the organization conducted a technology needs assessment?

Does the organization have a strategy for keeping technologies updated and managing transitions between solutions?

# Resources

---

Resources enable transactions by providing personnel, funds to deploy, and robust systems and technology. Mandates and articulated strategies are important litmus tests of organizational appetite, but one of the truest indicators is the extent to which resources have been allocated to HRI.

There are **four dimensions** within Resources:

- [Dedicated team for HRI](#)
- [Internal expertise for HRI](#)
- [Investment funds allocated to HRITs](#)
- [Incentive structure encourages development of HRI capabilities](#)

## KEY TAKEAWAYS

Resources is one category where stakeholders of various sizes and from different sectors will likely see themselves at disparate levels of current maturity, and also aspiring to starkly different levels of future maturity. For instance, some organizations will consider how they can best scale up their team of internal HRI experts, while other organizations will perfect their outsourcing protocols. Regardless of the situation, resources are a valuable tool.

# Dedicated team for HRI

## ROBUST TEAM SOLELY FOCUSED ON HRI

*Successfully executing HRITs is a team effort.*



### RELEVANT STAKEHOLDERS

#### DFI/MDB:

DFI/MDBs must have dedicated staff who understand both the development finance and humanitarian space

#### HUM-DEV ORG:

Developing HRI capabilities is time consuming and initially leads to fewer funds deployed at slower rates than through traditional channels. A team must focus on HRITs to ensure deals occur

#### PRIVATE SECTOR:

Private sector actors must focus on fragile contexts; if a team has a broader remit, then efforts could drift to easier projects in less fragile areas



### GOAL

Well-sized team that enables investments to proliferate and scale

#### PATH TO SUCCESS:

- Develop a strategic partnership with other experienced players
- Hire an internal team focused fully on HRI
- Hire more personnel to provide capacity needed to grow number, size, and impact of HRITs

#### CHALLENGES TO MANAGE:

- A team partially dedicated to HRI is a positive signal but could backfire by not making progress on HRI and by allowing other responsibilities to suffer. Team size must be balanced as too small of a team leads to onerous responsibility, whereas too large of a team could diminish accountability. Incentives ([Employee Motivation](#)) can help focus the team and drive accountability. Hiring external support to guide, teach, and hold accountability is useful in the early stages



### SELF-ASSESSMENT QUESTIONS

#### HUM-DEV ORG:

Can the organization source the best partners to help execute desired HRITs?

Has the organization built adequately deep relationships with consulting partners to enable timely structuring of complex deals?

Can the organization manage multiple outsourced parties at once?

Does the organization have a team dedicated to HRITs?

Are HRI team members solely focused on HRITs or split between several job functions?

Is the HRI team appropriately scaled?

## **Building an Innovative Finance Team in the Dutch Ministry of Foreign Affairs**

The way innovative finance for development is organized within the Dutch Ministry of Foreign Affairs (MoFA) has evolved over the past few years. Active planning on the future of innovative finance within the organization is ongoing, with several steps leading to the current setup.

### **2015: Establishment of Innovative Finance Task Force**

The 2015 adoption of the Action Plan for Finance for Development in Addis Ababa resulted in the establishment of a task force on innovative finance. MoFA's long-term engagement in private sector development is reflected in its substantial portfolio of blended finance programs. However, the approach was for a large part bottom-up and thematic. The ministry created the task force to ramp up innovative finance by familiarizing the organization with basic innovative finance concepts and opportunities. The task force consisted of policy officers from across the organization with interest, but not necessarily expertise, in innovative finance. Its approach was to create broad support among colleagues from different parts of MoFA and to provide senior management with advice.

### **2017–18: Decision to Create Dedicated Innovative Finance Team**

The minister's clear focus on innovative finance in the 2018 "Investing in Global Prospects" report motivated senior management to create a dedicated team of experts in development finance and economics. The team's focus was on developing innovative finance, with a goal to support the different departments in the ministry and increase development impact. Given the general, nonfinancial background of a large part of the organization, the ministry hired external experts specifically for the team.

### **2018–19: Establishment of Program Team for Innovative Finance**

The team, which will operate from 2019 to 2022, is mandated to develop innovative finance for the policy areas and SDGs involving the MoFA. Affiliated with MoFA's Sustainable Economic Development Department, the team benefits from synergies with the division's private sector activities and engagement. It works for and with all divisions of the Directorate-General for International Cooperation, covering the broad range of policy areas and SDGs the ministry is involved in.

At the end of 2019, the team presented a road map, identifying concrete end goals and the steps to reach them. Since innovative finance is complex and technical, the road map serves to state policy results that contribute to the development priorities of the organization. The team established the roadmap in close consultation with the relevant thematic divisions and with approval from the director-general for international cooperation.

Given the need for tailored solutions in innovative finance, the road map also emphasizes the importance of working closely with colleagues in the broader organization who are familiar with context and policy specifics. For example, the team works on investing in humanitarian and fragile contexts with the ministry's experts on private sector development and humanitarian issues.

### **Path Forward: 2022 and Beyond**

The next step is to structurally embed innovative finance in the organization. How this is done depends on multiple considerations, including how to best align innovative finance capabilities with broader strategic goals, how to secure and organize the required expertise, and how to manage quality and risk control given the complexities of innovative finance.

### **STRUCTURING AN HRIT REQUIRES A SPECIALIZED SKILL SET, TYPICALLY ASSOCIATED WITH A BACKGROUND IN FINANCE, BUT EXECUTING ON IT AND DRIVING RETURNS AND IMPACT REQUIRE A BREADTH OF OTHER CRITICAL SKILLS.**

*The team has industry knowledge, financial expertise, and experience in humanitarian contexts. The team is also comprised of individuals capable of executing large, multiyear projects and has staff focused on partnerships for HRI and pipeline generation.*



#### **RELEVANT STAKEHOLDERS**

##### **DFI/MDB:**

Donors must understand HRITs to intelligently deploy their funds

##### **HUM-DEV ORG:**

These organizations are not purpose built to engage in HRITs, so they need a team with financial expertise to identify, structure, and complete deals

##### **PRIVATE SECTOR:**

Private sector actors must prepare to operate in fragile, humanitarian contexts



#### **GOAL**

Excellent team with deep experience in deal structuring and HRITs; expertise within sector, geography, or model type

##### **PATH TO SUCCESS:**

- Organizations must understand the complexity associated with HRITs and the proliferation of investments therein when considering the option to build a team from within
- Solicit external support in building HRI expertise to enhance speed and affordability relative to a full-time hire
- Ensure team members are experts with a track record of executing HRITs, and in building teams and internal systems to accommodate HRITs
- Team has a growing track record, with depth in key financial instruments, sectors, or countries

##### **CHALLENGES TO MANAGE:**

- As a complex system with many stakeholders, HRI requires deep knowledge of the humanitarian ecosystem, its parameters, and what qualifies as a responsible, principled humanitarian investment. Without dedicated personnel and thought leaders, companies, investors, DFI/MDBs will miss the mark on legitimate humanitarian investments, or risk disrupting ongoing response operations through misguided interventions
- Structuring the financial side of the deal is only half of the challenge; organizations will need to execute on complex, multi-year projects and show they are capable of driving impact and investment return. This will require excellence across numerous job functions, and close integration with the HRI team
- Developing internal HRI expertise without a background in finance is almost impossible without the help of an expert. Organization must understand the magnitude of required work, and staff the team accordingly
- Donors must choose which deals to fund and deploy funds in a timely fashion. Donors, therefore, will need to develop a level of HRI expertise, or consult external financial experts. Donors must engage their tax-base in value-for-money discussions, which are a key component of HRITs



## SELF-ASSESSMENT QUESTIONS

### HUM-DEV ORG:

---

Would the team seek external guidance, particularly from those with deep financial expertise?

Does the organization recognize expertise is needed to navigate HRITs?

Did the organization leverage consultants to develop early transactions?

Did the organization hire externally for expertise or up-skill from within?

Are those focused on HRITs experts in finance and deal structuring?

Does the HRI team have a strong track record of success?

Are members outside of the HRI team well-versed in HRITs so they can participate or facilitate as needed?

Are HRI team members capable, with personnel contributing deep knowledge in specific sectors, geographies, or model types?

Does the organization have teams capable of implementing multiyear projects at a scale appealing to investors?

### Building an innovative finance team: Danish Red Cross

IFRC, Danish Red Cross, and British Red Cross formed the Global Innovative Finance Team (GIFT) whereby each organization hired someone to focus on Innovative Finance. After 12-18 months the sponsoring organization brought that person in house to set up internal operations, effectively ending GIFT as a platform, but launching innovative finance within the organization.

In the second year, DRC hired more people to set-up an innovative finance team, now called Innovative Finance and Systems Change.

DRC is now using its own donor funding to create the Humanitarian Innovative Finance Platform, which invites private sector to join with Red Cross National Societies to form working groups around specific areas. The funding from DRC is used to develop programs that raise funding. If successful, the DRC will recover its initial investment and the rest goes to the program. This structure allows DRC to do a cost recovery solution while providing catalytic funding and aligning interests.

# Investment funds allocated to HRITs

## FUNDS DESIGNATED FOR HRITs

*Executing HRITs is more challenging than employing traditional funding mechanisms, so organizations must designate funds to ensure that transactions occur.*



### RELEVANT STAKEHOLDERS

#### DONORS:

Earmarking funds to use in HRITs ensures transactions happen. Similarly, increasing flexibility to allow funds to be used in HRI or for longer-term funding can facilitate fund deployment in HRITs

#### HUM-DEV ORG:

Earmarking funds to use in HRITs ensures transactions happen

#### GOAL

Large funding pool available for HRITs with adequate funds earmarked as such; experiment and piloting viewed as an important use of funds



#### PATH TO SUCCESS:

- Allocate sufficient funds so that transactions are possible
- Protect funds for use on HRITs
- Acknowledge efficiency could suffer, but that funds enable learning
- Steadily increase allotment of dedicated funds, ensuring a portion dedicated to pilot new ideas, and push HRITs forward

#### CHALLENGES TO MANAGE:

- Organizations must right-size funds to ensure they have a meaningful impact, but that they do not incur excessive risk
- If structuring takes longer than anticipated, funds could get tied up without being invested or distributed to those in need, which runs contrary to the goal of HRI



### SELF-ASSESSMENT QUESTIONS

#### DONORS:

#### HUM-DEV ORG:

Is the organization willing to use funds for HRITs?

Are funds for HRITs earmarked, or could they be reallocated?

Are funds for HRITs too limited to provide proper scale and flexibility?

Are funds explicitly designated to experiment/pilot in HRITs?

Is experimenting/piloting viewed as an important developmental effort within HRIT?

## Airbel Impact Labs

The International Rescue Committee's Airbel Impact Lab is an innovation center for the design, testing, and scaling of humanitarian interventions. It combines creativity and rigor, openness and expertise, and a desire to think afresh with the experience of a large-scale implementing organization. The lab brings together human-centered design, behavioral science, strategy, and longer-term, research-based approaches to find the most effective and cost-efficient products, services, and delivery systems possible. The Airbel Impact Lab team has designed and tested innovative approaches to tackling malnutrition and will now begin to scale. The Airbel Impact Lab's portfolio also includes projects across economic well-being, education, empowerment, health, safety, and more.

Humanitarian aid funding is often prioritized for immediate interventions rather than exploratory approaches that could enhance long-term effectiveness, which can stunt initiatives like the Airbel Impact Lab. Overall, the Airbel Impact Lab is a clear example of how a large aid organization can foster a rigorous yet creative approach to discovering new approaches to humanitarian interventions, including innovative financing.

### Novel financing approaches used by the lab include:

- The IRC's Innovation Fund provides early-stage seed funding for new and innovative ideas to save and transform lives. The Innovation Fund provides donors with the opportunity to invest in a portfolio approach and take bets on generating new products and services for crisis-affected people. To date, the fund has supported 15 projects for a total allocation of \$1M
- In collaboration with the DFID-funded Centre for Disaster Protection, Airbel Impact Lab convened an innovation lab in late 2018 to explore the application of innovative finance in refugee contexts
- In late 2019, Airbel Impact Lab launched the USAID-funded Defining and Driving Innovative Finance project, to design pilot-ready innovative finance solutions for people affected by or at risk from violent conflict and to contribute to the rapidly emerging community of practice

### Factors enabling success:

1. The lab has **a mandate to explore ideas related to prevention and resilience** in addition to short-term humanitarian response, allowing it to investigate long-term solutions.
2. **Sophisticated approach to impact assessment and data collection**, including randomized controlled trials (RCTs) and other designs of experimental pilots, helps the lab determine precisely what works and what doesn't.
3. The lab is **committed to sharing learnings**, especially by publishing open-access research based on its projects, letting the broader community benefit from its rigorous approach.
4. The lab has **a commitment to exploring novel financing approaches for humanitarian intervention** allowing it to maximize the impact of its projects.

### Further reading

[Innovative Financing for Responses to Refugee Crises](#)

[Defining and driving innovative finance](#)

# Incentive structure to encourage development of HRI capabilities

## PERSONNEL MUST BE INCENTIVIZED TO ENGAGE IN HRITS

*Personnel will focus efforts on those tied to performance and compensation metrics, if desired results related to HRITs are not incentivized, they will not occur.*



### RELEVANT STAKEHOLDERS

#### HUM-DEV ORG:

HRITs take extra time and effort to successfully execute, so ensure personnel at firm are adequately compensated



### GOAL

Well-articulated and compelling incentive structure to encourage employees to focus on HRITs

#### PATH TO SUCCESS:

- Include goals around HRI as part of employee incentive structure
- Ensure incentives are clearly defined and well-understood
- Ensure incentives are strong enough to encourage needed behavior

#### CHALLENGES TO MANAGE:

- Properly motivating employees is challenging. Sometimes incentive structures do not resonate with personnel, and sometimes they encourage behavior that is not aligned with the organization's overall goal. See [Employee Motivation](#) for advice on how to effectively activate employees



### SELF-ASSESSMENT QUESTIONS

#### HUM-DEV ORG:

Is employee compensation affected by time and effort dedicated to HRITs?

Is the presence of HRI incentives well-known?

Are HRI incentives clearly articulated and compelling?

Are employees outside of the HRI team incentivized to help with HRITs?

# Implementation

---

Implementation is the final category of organizational readiness, as it sits atop the building blocks carefully laid out in the preceding categories. It is the ultimate judge of organizational readiness, because even if organizations appear mature across numerous dimensions, if this does not translate into successful implementation, then the organization is clearly not ready.

There are **four dimensions** within Implementation:

- [Track record of investment and impact execution](#)
- [Network of potential partners](#)
- [Pipeline of potential deals](#)
- [Share learning with broader community](#)

## KEY TAKEAWAYS

The ultimate level of maturity is to have a strong track record of success and impact, which takes years to cultivate, even after HRI is established as an organizational mandate. The key in developing this is to innovate, experiment, and above all, participate in as many transactions as reasonably advisable. Organizations learn the most through trial and error, and completing transactions gives the organizations an opportunity to deepen partner relationships.

To move from developing organizational maturity internally to enabling it in others, stakeholders must share their learnings with the broader community. This is a really difficult concept for a lot of organizations whether it is because they do not wish to share failures or because they view their lessons as proprietary. Whatever the reason, organizations must look to the big picture goal of facilitating private capital deployment into humanitarian contexts.

## Track record of investment and impact execution

### GENERATE RETURNS FOR INVESTORS IN LINE WITH FORECASTS OVER SEVERAL HRITS THAT RESULTED IN EXPECTED HUMANITARIAN OUTCOMES

*Investors have allowable risk/return tolerances, and investments must yield results within expectations to reduce uncertainty and enable further participation. Every organization in the value chain should care about delivering financial performance. Simultaneously, it must be ensured that funds deployed successfully help achieve SDGs in humanitarian contexts.*



#### RELEVANT STAKEHOLDERS

##### DFI/MDB:

Returns are an important component of organizational mission, and driving impact is an organizational priority

##### HUM-DEV ORG:

Humanitarian and development organizations engage with the private sector to increase impact and scale of intervention; therefore, it is important to ensure the private sector continues to participate. Driving impact is also an organizational priority

##### DONORS:

Donors deploy capital in blended finance transactions to mobilize the private sector, therefore it is important to ensure the private sector continues to participate. Driving impact is also an organizational priority

##### PRIVATE SECTOR:

Investors must show financial success for clients. Corporates must demonstrate ability to deliver promised results within budget and on time to remain a relevant member of the ecosystem. They must also show humanitarian value in the ecosystem by delivering results



#### GOAL

Strong, well established track record of generating returns and impact through HRITs

##### PATH TO SUCCESS:

- Organizations must culminate earlier efforts by successfully executing HRITs
- Success is not expected at the outset: Patience and iteration are critical, and first-hand learning is invaluable. It is more important for organizations to engage in transactions with a measured financial envelop and limited expectations to gain experience than to stall in search of perfection
- Carefully assess if HRIT enabled greater impact than would otherwise be expected and if efforts not additive, evolve approach
- Develop a track record of successful humanitarian impact with strong investment returns and have line of sight for future transactions
- Over time, success is critical to encourage continued private sector participation

##### CHALLENGES TO MANAGE:

- HRITs must yield greater impact than normal financing to demonstrate payoff is worth the effort. This requires high-level execution, robust impact tracking, and data analysis capabilities. If organizations are unable to unlock the potential impact gains from HRI, then there is no rationale to continue to pursue HRITs



## SELF-ASSESSMENT QUESTIONS

### DFI/ MDB:

### DONORS:

### HUM-DEV ORG:

### PRIVATE SECTOR:

Has the organization engaged in any HRITs?

Has the organization identified and started to solve for hurdles that prevent transactions?

Is the organization gaining efficiencies in structuring or due diligence that enable superior returns with a growing track record?

Is the organization gaining relevant experience to deploy funds effectively?

Does the organization select the right projects and counterparties to drive impact?

Does the organization have a philosophy and process in place to ensure lessons are learned as the track record evolves?

Does the organization have a strong track record of success that would attract partners and encourage further private sector participation in humanitarian contexts?

# Network of potential partners

## STAKEHOLDERS ACROSS SECTORS WILLING TO WORK TOGETHER

HRITs are a group effort, so partners are critical.



### RELEVANT STAKEHOLDERS

#### DFI/MDB, DONORS, HUM-DEV ORG, PRIVATE SECTOR:

Need partners to execute HRITs



### GOAL

Numerous trusted relationships across value chain to enable HRITs in relevant sectors and geographies

#### PATH TO SUCCESS:

- Make connections with partners in the space, evolving from those in the same sector, to those across the value chain including originators, investors, funders, and implementers
- Cultivate closer relationships
- Ensure relationships span relevant sectors and geographies
- Commit to running pilots with partners to ensure closeness of relationships and that they move past ideation and into implementation

#### CHALLENGES TO MANAGE:

- Creating meaningful partnerships is an ongoing challenge
- Organizations must invest time and energy in the effort, as described in [Partnership Expansion](#)
- To more broadly enable the ecosystem, a consortium of organizations could establish a charter or rules of engagement that others are allowed to join. Membership of this organization could serve as a signaling mechanism to potential partners about shared values and desire to collaborate



### SELF-ASSESSMENT QUESTIONS

#### DFI/MDB:

#### DONORS:

#### HUM-DEV ORG:

#### PRIVATE SECTOR:

Does the organization have partners active in HRITs in fragile contexts?

Do the organization's partners span the value chain from deal sourcing to implementation?

Are partnerships adequately close, with mutual respect and interest in developing more robust working relationships?

Do partners have expertise in specific sectors and geographies?

# Pipeline of potential deals

## ORGANIZATIONS NEED ACCESS TO BANKABLE PROJECTS

Organizations need a pipeline of projects to participate in HRI.



### RELEVANT STAKEHOLDERS

#### DFI/MDB, DONORS, HUM-DEV ORG, PRIVATE SECTOR:

Organizations need partners to execute HRITs



### GOAL

Robust protocols to source and structure deals directly or to discover compelling opportunities as a participant; integral member of deal development pipeline

#### PATH TO SUCCESS:

- Can participate in HRITs
- Highly valued by partners as a deal participant, with good visibility into potential deals, but still developing skills necessary to lead deals
- Procedure to scan internal programming and organization to see if innovative finance deals within
- Robust protocols to source and structure deals directly or discover compelling opportunities as a participant; integral member of deal development pipeline

#### CHALLENGES TO MANAGE:

- Finding bankable projects is one of biggest hurdles in fragile contexts. There are often regulatory, governance, and size constraints, as well as a lack of understanding from those closest to the projects as to what constitutes a “bankable” project
- Small projects often get left behind as scale prevents meaningful returns—organizations must find a way to pool and monetize them in order to drive proper humanitarian impact



### SELF-ASSESSMENT QUESTIONS

#### DFI/MDB:

#### DONORS:

#### HUM-DEV ORG:

#### PRIVATE SECTOR:

Is the organization a good partner - can it meet institutional timelines, easily engage in contract discussions, execute successfully, provide flexible mandates, and offer a clear focal point of contact?

Does the organization have clearly articulated institution goals/interests, so others know which deals are most compelling to offer?

Does the organization aspire to structure the deals, and if so, is it capable?

Does the organization have a robust network of partners and financial savvy to understand when a deal is bankable?

## Private Infrastructure Development Group (PIDG)

In 2002, the Dutch government, along with the UK, Switzerland and Sweden, established the Private Infrastructure Development Group (PIDG) to address a series of market and government failures in attracting private sector investment to infrastructure in developing countries, specifically: a lack of bankable projects for investment; high upfront costs of project development; a shortage of long-term foreign debt; a lack of local currency debt; and inadequate capacity and expertise in public and private sectors in some of the world's most challenging markets of Sub-Saharan Africa and South and South-East Asia.

The PIDG supports infrastructure projects in low income, lower-middle-income countries and in fragile and conflict affected states at different stages of their development. By using limited amounts of donor funding, PIDG reduces the project development risk and crowds in other private sector investors to make projects happen.

Often the initial stages of project development require small amounts of finance but high levels of risk, perceived or real, which can deter private sector investors from investing. By deploying its own expertise and small amount of capital, PIDG addresses the early stage risk associated with infrastructure projects. In doing so, PIDG's additionality is significant in that it not only helps to create bankable projects, but also encourages investors who wouldn't otherwise have.

PIDG's comparative advantage comes from the fact that each facility has been set up to address a particular market gap, and as a group they provide support across the project development cycle and across the capital structure. Its capital structure, risk appetite and relatively lean size has meant it has been able to respond quickly to project opportunities and attract private investors to participate in infrastructure deals in markets where investors or developers have been scarce, experience is limited and the levels of public funding constrained.

### PIDG Facilities

PIDG's early stage facilities, InfraCo Africa and InfraCo Asia, develop 'greenfield' projects or help restructure or refinance existing projects that may be stranded. In both cases they take projects through to financial close, and in some cases through to operation, to prove projects are viable before they exit the deal and reinvest in their project pipelines. Few, if any, facilities on the market today provide the same level of early stage project development support as PIDG's InfraCos.

PIDG's debt arm (Emerging Africa Infrastructure Fund, EAIF) and its local currency guarantee vehicle (GuarantCo) play an important role in mobilising private finance from international and domestic markets, which not only helps deliver vital infrastructure in frontier markets but also assists in developing the local banking sector and alleviates the pressure facing countries balance sheets if they had to finance these projects themselves.

GuarantCo mainly works with domestic financial institutions to enable them—through guarantees and technical assistance – to provide local currency loans to infrastructure projects. This includes working with institutional investors, such as domestic pension funds, to enable these to invest in infrastructure in local currency. Using local currency financing also helps reducing the currency exchange rate exposure of end customers and project developers.

PIDG facilities can access PIDG's Technical Advisory Facility (TAF) funding to make sure the projects they implement are affordable and commercially viable by i. embedding advisors into a project; ii. funding pre-project feasibility work to ensure that PIDG projects can meet additionality requirements and iii. providing Viability Gap Funding (VGF) to help PIDG facilities provide affordable services to the poorest by bridging the affordability gap that might exist between the cost of providing the infrastructure service and the ability of the end user to pay for that service.

### Results

Over the last 15 years PIDG has helped deliver 170 infrastructure projects to financial close: 82 of these have been in fragile and conflict affected states and 95 are now commercially operational. The \$1.4 billion committed by donors to the PIDG has helped mobilize \$23 billion in private sector investment, which means for every \$1 of donor funds invested PIDG has raised \$17 of private local and commercial financing (\$23 including DFIs). Through these projects PIDG is expected to provide 230 million people with access to new or improved infrastructure.

## Share learnings with broader community

### WILLINGNESS TO SHARE LESSONS LEARNED BROADLY—FAILURES HELP COMMUNITY IMPROVE, AND SUCCESSSES HELP NEW PARTIES FEEL COURAGE TO JOIN THE HRI MOVEMENT

*HRI aspires to be a new asset class and it can develop faster and more robustly if built on a repository of shared knowledge.*



#### RELEVANT STAKEHOLDERS

##### DFI/MDB, DONORS, HUM-DEV ORG, PRIVATE SECTOR:

Growing expertise from all counterparties involved in a transaction improves impact and financial results, and broadens landscape of potential future investments



#### GOAL

Clear, open communication of successes and failures with a reputation for sharing broadly

##### PATH TO SUCCESS:

- Share success and failure with close allies
- Share successes and failures when approached
- Publish case studies for all to benefit, developing a reputation for sharing

##### CHALLENGES TO MANAGE:

- Sharing best practices, investment results, and deal terms or templates would reduce both the perception of and actual risk, thereby lowering transaction costs, and encouraging new entrants. While this is obviously beneficial for the system overall, there is no business case for the private sector to do so—they would be building and subsidizing competition



#### SELF-ASSESSMENT QUESTIONS

##### DFI/MDB:

##### DONORS:

##### HUM-DEV ORG:

##### PRIVATE SECTOR:

Does the organization view success and failures as proprietary?

Will the organization share learnings with close allies?

Will the organization share learnings when approached?

Does the organization understand that sharing learnings helps grow the market?

Does the organization provide clear, open communication about learnings and have a reputation for sharing?

Does the organization provide clear, open communication about learnings and have a reputation for sharing?

## CAMEROON CATARACT BOND

### Overview

A coalition between the Fred Hollows Foundation, Sightsavers, the African Eye Foundation, Conrad N. Hilton Foundation and Volta Capital came together to develop and launch the Cameroon Cataract Bond. This DIB, launched in 2018 and concluding by the end of 2023, was designed to raise US\$2 million of funding to complement US\$10 million already raised to fund the operations of the Magrabi ICO Cameroon Eye Institute (MICEI), a subspecialty eye care hospital and training institute in Central Africa. The DIB model involves risk sharing between the outcome funders and the service provider in the case of non-performance and a significant capital protection for the investors.

#### Time period:

March 2018–March 2023

#### Service provider:

Magrabi ICO Cameroon  
Eye Institute (MICEI)

#### Thematic area:

Sight-restoring cataract surgery

#### Outcome funders:

Fred Hollows Foundation  
Conrad N. Hilton Foundation  
Sightsavers

#### Target population:

Low-income and middle-income patients with cataracts in urban and rural areas in Cameroon

#### Investors:

Overseas Private Investment  
Corporation (OPIC)  
Netri Foundation

#### Outcome metric:

Number of cataract surgeries, quality of the surgeries, financial sustainability and equity target

#### Bond manager:

Volta Capital

#### Loan value:

\$2 million

#### Independent verification:

AEDES

---

## MANDATE

### Enablers

**There was a shared understanding of the policy ‘problem’ and sufficient evidence for the intervention so that it is credible, and knowledge based.**

The shared understanding amongst outcome funders of the importance of the intervention and how it contributes to addressing the health challenge in Cameroon was a key enabler of the launch of the Cameroon Cataract Bond. Given that outcome funders were engaged in the eye care sector, they all shared their ambition in preventing avoidable blindness. Going forward, targeting only outcome funders with strong interest in the eye care sector will help shorten the timeline for securing outcome funders.

The alignment between outcome funders and service provider in terms of their ambition also contributed to the setting of ambitious targets, based on extensive evidence and knowledge of the intervention.

### Challenges

Not identified

## ORGANIZATIONAL SUPPORT

### Enablers

**The adoption of a collective leadership approach in the form of a Design Coalition has contributed to the relationship and understanding between stakeholders**

The creation of a Cataract Bond Design Coalition, rather than having the design sit with only one party from the coalition, contributed to building strong relationships with all actors, which facilitated the setup of the impact bond. There was a sense of ownership among members of the Coalition which has led to avoiding premature termination of the development of the Bond when facing important roadblocks, which happened several times during the design process and implementation. The fact that the DIB was launched and implemented despite the complexity and difficulty in finding suitable investors over a prolonged period of time highlighted this commitment as well.

### Challenges

**There is a need to clearly align with stakeholders what is expected from their leadership teams to ensure their involvement throughout the process and a good flow of information.** It was not originally anticipated that representatives from one of the outcome funders needed to join the regularly scheduled calls about the DIB, which resulted in them not being up-to-date with certain changes to the terms of the deal during negotiations with prospective investors.

**There was limited buy-in of certain stakeholders within their organisations due to the complexity of the model, and concerns about the alignment of risk and return across the different actors.** For example, one organisation's board members enquired why the money for the hospital could not be obtained via a large grant instead of via the DIB at the final stages of the bond's development. The board felt the additional costs of the bond seemed high, while the obvious benefit to parties involved seemed unbalanced, given that the investors had such significant capital protection.

## SYSTEMS AND PROCEDURES

### Enablers

**The existence of data to build up a business case, including data on the eligible cohort and outcomes likely to be achieved was critical for the design.** For instance, the cataract surgical volume targets set for MICEI were based on the unmet demand for cataract surgeries in the region, benchmarks from other existing eye hospitals, as well as Magrabi's track record in other countries. Data from the Africa Eye Foundation was used to build the financial modelling behind the performance indicators.

**The existence of a M&E system with a rigorous reporting process contributed to making the transaction more attractive to investors.** Investors highlighted that DIBs work particularly well for service providers that already have an M&E system in place and are flexible enough to change their strategy based on the feedback they receive. Having an independent evaluator and an M&E system already well designed and in place provided investors with more confidence in the project and incentivized them to participate. The M&E system also led to more rigorous reporting, which continues to enable stakeholders to track the progress made and impact of their investment and involvement in the DIB.

## Challenges

**Investors and outcome funders highlighted that the lack of data to benchmark the risk appetite for similar interventions in similar country contexts made the pricing of the risk difficult.**

## The set-up phase of the DIB took longer due to several challenges in contracting.

A total of 13 contracts had to be executed between stakeholders involved in the design and implementation of the bond. Some of the stakeholders involved such as OPIC and the Conrad N. Hilton Foundation were restricted in the type of contracting tools they could deploy and agreements had to be redrafted from scratch to suit the specifics of the DIB structure. The bond manager and outcome funders worked together to create a blueprint for OPIC to invest in performance-based contracts. The Conrad N. Hilton Foundation, as a grant-making organization, did not have a mechanism to make contingent grant payments on future dates, as per the pay-for-success nature of a DIB. As a result, the Conrad N. Hilton Foundation's initial outcome funding agreement was structured like a conventional grant, held in custody by one of the other outcome funders, with a set schedule of payments and an accredited grant recipient (The Fred Hollows Foundation).

## RESOURCES

### Enablers

**There is a need to budget sufficient staff time by each organization involved in the design process.** All coalition members have devoted pro bono staff time to the set-up phase. This, as well as the pro bono work from some of the advisors strengthened the overall coalition's capabilities and ensured continued resources throughout the design and launch phase.

### Challenges

**Finding investors willing to invest in the bond were considered as the main challenge for the set-up of the bond.** Initially, the members of the design coalition misread the investors risk appetite for the suggested bond in a context like Cameroon. The initial terms proposed by the bond coalition (5% interest rate and partial capital guarantee) were often challenged and rejected by prospective investors. The bond coalition has underestimated factors such as the perceived risk of investing in Cameroon; the newness of the hospital; and the lack of alignment with investor priorities.

**The process of setting up the DIB took two years, which was longer and more costly than expected. This resulted in stakeholders involved in the set up incurring higher costs than anticipated in terms of staff time, consultant fees and legal advice.** The development of the bond required a steady stream of financial support that led the bond coalition to request multiple grants such as a grant proposal of USD 200,000 to Standard Chartered Bank's competitive "Seeing is Believing" Innovation Fund, which did not go through and forced partners to assume more costs pro bono than anticipated

## IMPLEMENTATION

### Enablers

**Service provider track record and reputation:** Magrabi's track record in running for-profit hospitals in other countries and their experience in applying the Aravind model gave investors' confidence.

### Challenges

Not identified

# Section II: Building Organizational Readiness for HRI

**Building organizational readiness** is divided into two components: **Assign, Assess, Prioritize and Implement**. In these sections, you will learn how to determine which dimensions of organizational readiness require immediate attention, and how to employ frameworks that can help your organization drive change.

## Assign, Assess, and Prioritize

---

**Assign accountable executive:** Select a senior executive sponsor and an accountable executive to take responsibility for the initiative.

**Assess your organization:** Use the [self-evaluation rubric](#) to identify areas of excellence and improvement opportunities. The rubric contains 26 dimensions of readiness across five categories.

**Prioritize efforts:** Focus on those dimensions where movement along the maturity curve will have the highest impact and where implementing change is easiest. The following text describes three methods to help prioritize your efforts: Stoplight analysis (Figure 2a-e), Impact vs. Feasibility chart (Figure 3), and Gantt chart (Figure 4).

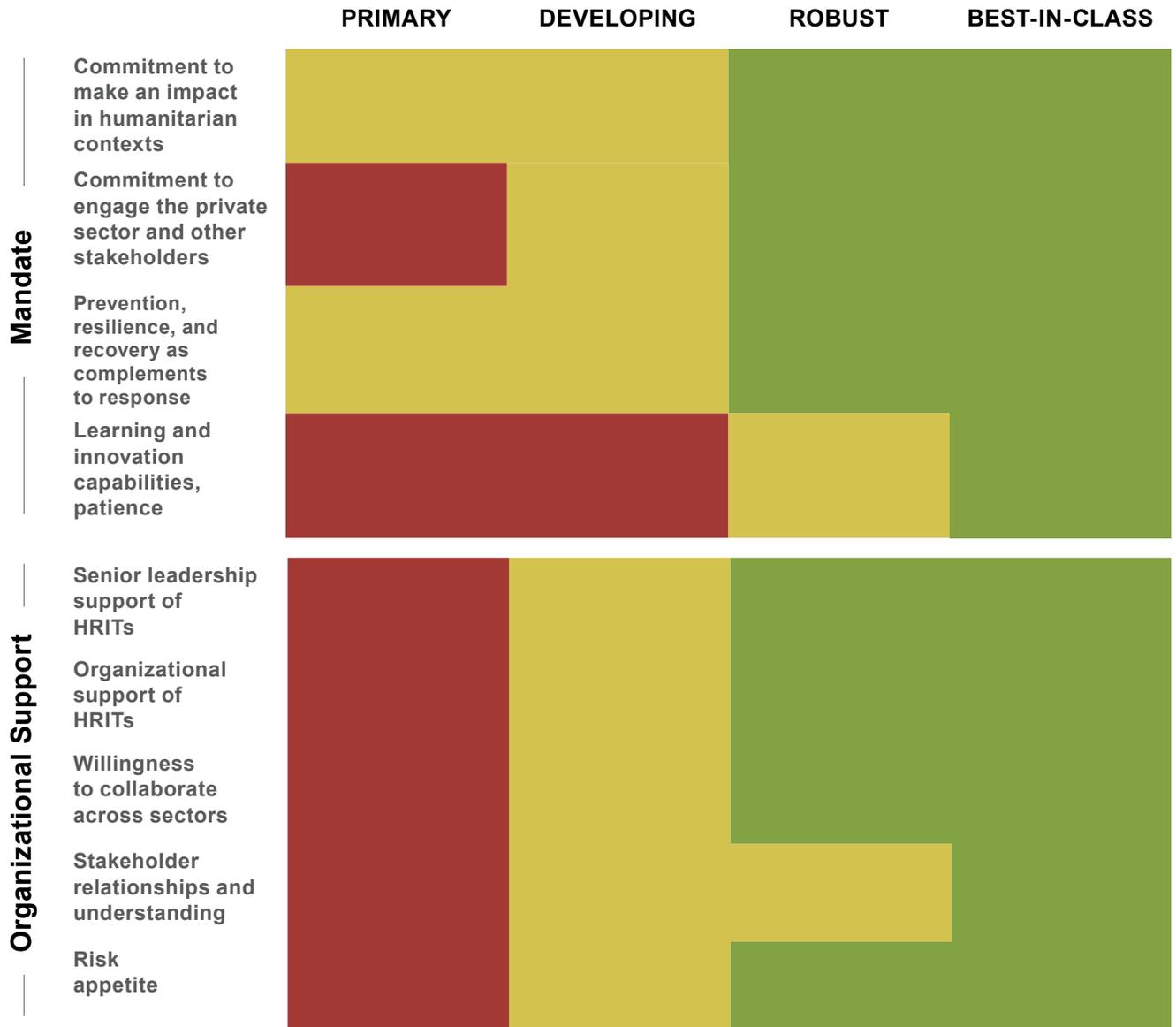
### STOPLIGHT ANALYSIS

This analysis highlights the impact that readiness in certain dimensions has on an organization's ability to execute HRITs. Characteristics that are highlighted in red will prevent an organization from engaging in HRITs, while those in yellow allow engagement and those in green actively facilitate engagement.

If an organization displays any one characteristic in red, then executing HRITs will be incredibly challenging. The organization should therefore seek to improve the red dimensions first—movement from yellow to green is immaterial if any dimension remains in red.

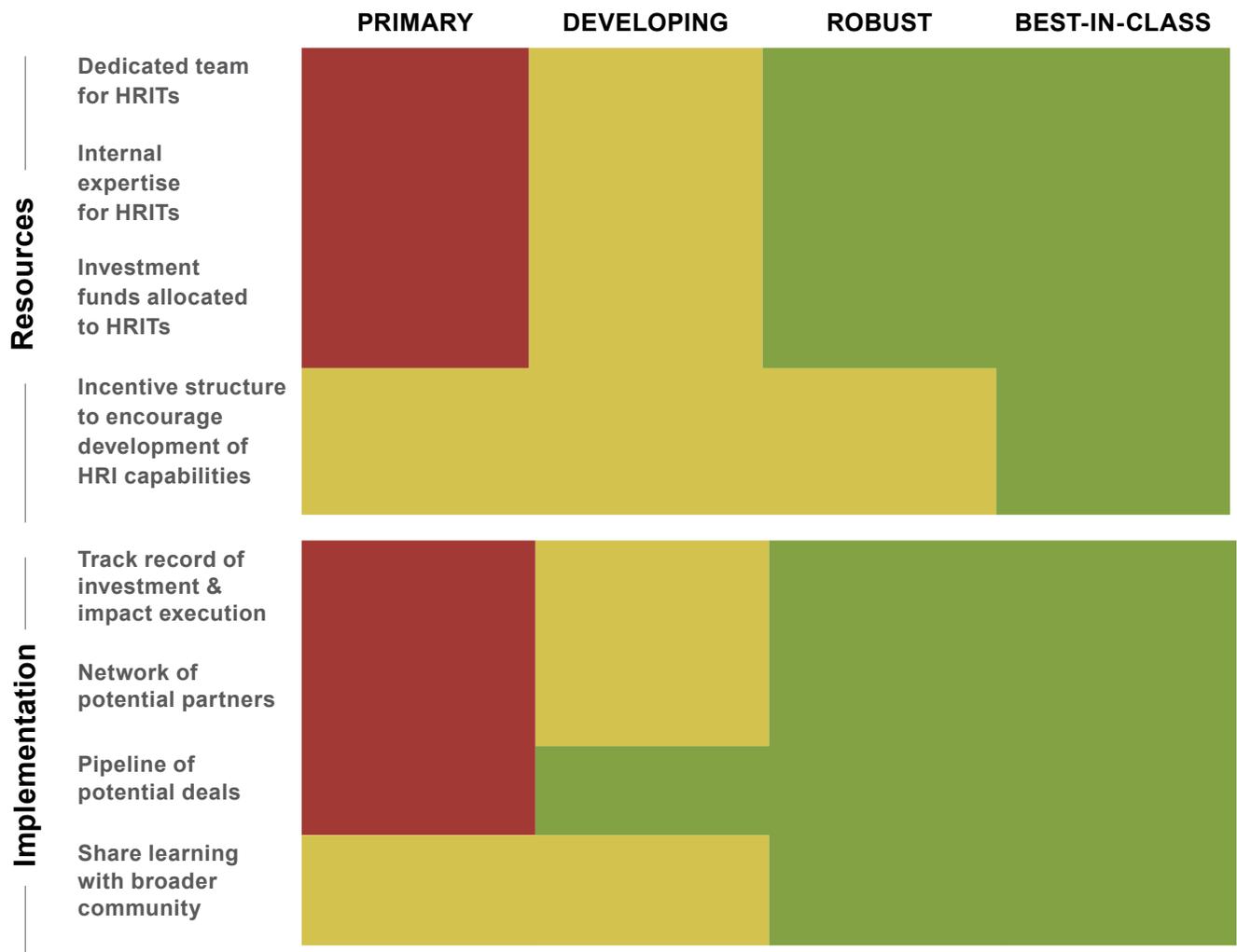
The benefit of the stoplight analysis is that it shows the minimum capabilities needed to execute HRITs. It is simple to use, and quickly triages the dimensions that need immediate support. However, for those dimensions that are all yellow, this analysis provides no insight to the user on where to begin. For a more nuanced view, pair this method with either of the two subsequent prioritization tools.

FIGURE 2A-E: STOPLIGHT ANALYSIS



**Systems & Procedures**

	PRIMARY	DEVELOPING	ROBUST	BEST-IN-CLASS
Risk controls to provide protection but enable flexibility	Red	Yellow	Green	Green
Clear and disciplined risk assessment and funds deployment	Yellow	Green	Green	Green
Flexibility in contracting with counterparties	Yellow	Yellow	Green	Green
Budgeting practices	Yellow	Yellow	Green	Green
Accounting flexibility and fund processing	Yellow	Yellow	Green	Green
Sophistication of impact analysis	Yellow	Yellow	Green	Green
Impact measurement and evaluation	Yellow	Yellow	Green	Green
Data management	Yellow	Yellow	Green	Green
Technological capabilities	Red	Yellow	Green	Green



A key advantage of the stoplight charts is that they are intuitive, and easy to read at a glance. For instance, according to “Resources,” a dedicated team, with expertise and funds are necessary to complete HRITs, while an incentive structure allows engagement at most levels, but only facilitates HRITs when Best-in-Class.

### IMPACT VS. FEASIBILITY CHART

This shows Impact on the y-axis and Feasibility on the x-axis. As you move to the right on the x-axis, the change becomes more feasible. As you move up the y-axis, impact becomes larger. In this case, circles in the upper right corner are easiest to implement (most feasible) and have the highest impact. The prioritization waves show, generally, which ideas should be considered first, second, or future efforts. The graph should be used to narrow the list of possible priorities and does not indicate that all “Prioritize Wave 1” dimensions should be tackled at the same time.

The user can apply this charting tool in different contexts by selecting relevant measures for the x- and y-axes. This portrayal is illustrative and is solely meant to introduce the chart.

**FIGURE 3: IMPACT VS. FEASIBILITY PRIORITIZATION TOOL**



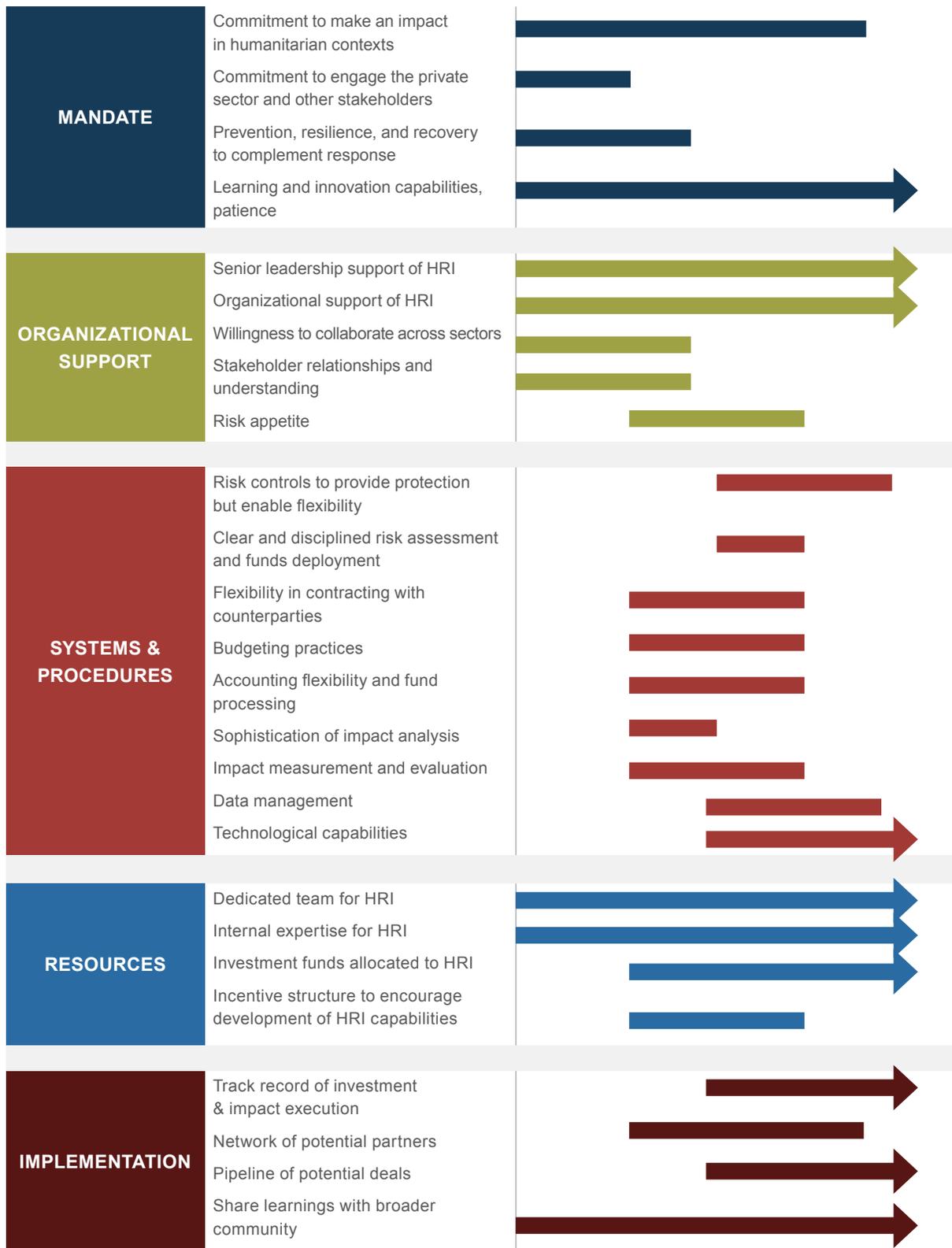
- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>1 Commitment to make an impact in humanitarian contexts</li> <li>2 Commitment to engage the private sector &amp; other stakeholders</li> <li>3 Prevention, resilience, &amp; recovery to complement response</li> <li>4 Learning and innovation capabilities, patience</li> <li>5 Senior leadership support of HRI</li> <li>6 Organizational support of HRI</li> <li>7 Willingness to collaborate across sectors</li> <li>8 Stakeholder relationships and understanding</li> <li>9 Risk appetite</li> <li>10 Risk controls to provide protection but enable flexibility</li> <li>11 Clear and disciplined risk assessment and funds deployment</li> <li>12 Flexibility in contracting with counterparties</li> <li>13 Budgeting practices</li> <li>14 Accounting flexibility and fund processing</li> <li>15 Sophistication of impact analysis</li> <li>16 Impact measurement and evaluation</li> <li>17 Data management</li> <li>18 Technological capabilities</li> </ul> | <ul style="list-style-type: none"> <li>19 Dedicated team for HRI</li> <li>20 Internal expertise for HRI</li> <li>21 Investment funds allocated to HRI</li> <li>22 Incentive structure to encourage development of HRI capabilities</li> <li>23 Track record of investment &amp; impact execution</li> <li>24 Network of potential partners</li> <li>25 Pipeline of potential deals</li> <li>26 Share learnings with broader community</li> </ul> |
|---|--|
- 
- |  |
|--|
| <ul style="list-style-type: none"> <li>● Mandate</li> <li>● Organizational support</li> <li>● Systems and procedures</li> <li>● Resources</li> <li>● Implementation</li> </ul> |
|--|

Location of the dimensions on this chart will vary by organization based on its position within the HRI ecosystem, existing level of readiness, and other idiosyncratic. In this illustration, “Senior leadership support of HRI” is signaled as the easiest and most effective dimension, indicating that efforts to improve readiness should focus there first.

**GANTT CHART**

A Gantt chart is commonly used when creating workplans to show timelines and how to order tasks. Those that have lines beginning farther to the left (earlier in time) should be started before those that begin farther to the right (later in time).

**FIGURE 4: GANTT CHART**



This chart makes intuitive sense—some of the first priorities entail getting a mandate and generating organizational support. Similarly, acquiring resources predates development of systems and procedures, which must precede implementation. While all dimensions can improve and mature through iteration, the arrows on certain dimensions indicate that they in particular require continuous effort.

# Implement

Organizations can apply a three-step framework to enhance their maturity across and within dimensions. The steps, detailed in Figure 5, help organizations move from goal development to implementation.

**FIGURE 5: CHANGE IMPLEMENTATION FRAMEWORK**

FORMULATE	ACTIVATE	EXECUTE
<ul style="list-style-type: none"><li>• Prioritize</li><li>• Define goals and motivations</li><li>• Note barriers to overcome</li><li>• Identify relevant stakeholders</li><li>• Determine resources required</li></ul>	<ul style="list-style-type: none"><li>• Share context and goal with stakeholders</li><li>• Engage leaders to eliminate impediments</li><li>• Create champions to drive change</li><li>• Socialize work plan</li></ul>	<ul style="list-style-type: none"><li>• Manage the process—ensure accountability and clear metrics/deadlines<ul style="list-style-type: none"><li>- Workplan</li><li>- Governance</li><li>- Cadence</li></ul></li><li>• Align incentives</li></ul>

## Formulate

### KEY STEPS

1. **Prioritize:** Use one or more of the prioritization frameworks to determine a starting point. Focus efforts on at most three dimensions simultaneously (one dimension may even be the right number) to ensure your organization remains capable and focused.
2. **Define goals and motivations:** Align goals and motivations and document them in writing to ensure your workplan is targeted and all efforts are effective and efficient.
3. **Note barriers to overcome:** Identify challenges early to develop mitigations that smooth the change process. Re-evaluate assumptions to ensure they are credible, with no lurking obstacles. Remember: barriers can be anything—systems and processes, technical capabilities, personnel, etc.
4. **Identify relevant stakeholders:** These stakeholders are staff who can remove or circumvent barriers and those who are passionate about the potential for change. Complete buy-in is unlikely and impractical, so identify the critical internal and external stakeholders.
5. **Determine resources required:** Sharply focused goals enable execution within financial or human-capital budget, given supporting systems and procedures. Required resources must match existing resources, goals, and time frame. Attempting to effect change if these conditions are not met will likely fail and could sour organizational appetite for future attempts at change.

### Example: Selecting an HRI Instrument

Each organization will have different goals, so the following inputs or requirements could help decide what instrument capabilities to develop:

- **Risk:** Financial and reputational risk
- **Return:** Financial and impact
- **Cost:** Complexity in structure, feasibility, and timeline
- **Sector-specific:** Profitability, fragmentation, growth expectations, and governmental influence

### Example: Sizing HRI Team

Consider top-down and bottom-up approaches to calculate ideal team size.

- **Top down:** Benchmark number of deals or dollar flow per full-time employee (FTE) to calculate the number of employees needed
- **Bottom up:** Estimate capacity per activity per FTE and total capacity needed to calculate the number of FTEs needed per transaction

## Activate

### KEY STEPS

1. **Articulate:** Describe the goal and demonstrate its importance. This should be a specific, structured communication and engagement plan with stakeholders—an external-facing goal developed during the formulate stage. This step calls employees to action and can be the foundation upon which you secure organizational support and socialize the initiative.
2. **Secure senior support:** Engage leadership to eliminate impediments identified during the formulate stage. Leadership can motivate stakeholders and secure resources.
3. **Create champions:** Find passionate employees who are willing and politically able to effect change. Focus on those who, due to either their level or personality, can rally support. Consider informal leaders within the organization, particularly employees who bridge multiple groups, as their influence may spread farther.
4. **Socialize:** Present a clear and complete plan to share with stakeholders to forge a united front.

### LEADERSHIP

Senior leaders are role models, so their support is essential to generating buy-in. Leaders must hold employees accountable and have a clear understanding of what is or is not being done. They must ensure employees do not exploit change efforts, and they must evolve their focus areas. Successful change hinges on senior leadership – if they are not supportive, then change will not happen.

### Buy-in

Leadership can clear a path for change, but they cannot drive it single-handedly. Employees across job functions must join the process to enable success. During the formulate stage, these employees are identified; during the activate stage, they commit to the effort. These employees need clear roles and responsibilities and a road map to follow.

### Workplan

Design an approach consistent with the culture that provides context for change, acknowledging the cultural norms and recognizing bottlenecks. The best change levers depend on the organization and implementation plan. Leadership has several choices:

- **Locus of intervention:** Change processes versus change people
- **Roll-out model:** Gradual versus immediate
- **Motivating influence:** Symbolism and logic versus enforcement
- **Guide for individual action:** Self-discovered versus command and control

## Execute

### KEY STEPS

1. **Manage the process:** Create a clear project management process to ensure that the workplan, governance, and cadence needed to reach milestones are clearly articulated and followed.
2. **Align evaluations and incentives:** Ensure the execution process has outcomes explicitly tied to employee incentive structures. Employee support for change is an insufficient driver—incentives are critical to force them beyond typical roles and responsibilities.

A robust project management process includes identifying a workplan, governance structure, and cadence. **Once completed, organizations should answer the following questions:**

- ✓ Is the overall direction and rationale for change clear?
- ✓ Are the costs and benefits associated with the change efforts understood?
- ✓ Are the process enablers in place (technology, facilities, training)?
- ✓ Are the right teams and leaders in place?
- ✓ Are the roles and responsibilities clear?
- ✓ Are the goals, timeline, and milestones clear and well communicated?
- ✓ Are the right metrics in place to measure success?

To execute at HRIT, an organization needs a motivated workforce, partners, and a pipeline of potential projects.

### Employee motivation

As an organization's overall mandate, strategy, or key activities change, so too must employee activities. Even if employees support the changes, their behavior does not necessarily change. This could be due to habits, system challenges, conflicting targets, or an unclear road map. To encourage appropriate actions, clearly articulate incentives based on metrics that are aligned with the organization's overall goals.

While a well-designed incentive program can be an incredibly powerful tool, organizations must be aware of the potentially destructive challenges of poorly articulated metrics or suboptimally designed rewards systems.

#### Metrics reflect organizational goals and should be:

- Streamlined with few metrics to track
- Easy to design
- Robust enough to allow many facets of an organization to participate

Metrics should unite an organization through a common language and establish clear accountabilities at many organizational levels.

#### Rewards systems should have:

- Clear metrics and measurements
- Consistent application of the performance appraisal process
- Compensation tied to performance
- Inclusive rewards and recognition

Adjust reward systems to **effectively recognize and incentivize participation** in well-structured HRITs.

Rewards systems orient the employee as to organizational goals, motivate the employee to achieve those goals, and aid in reflection by grounding performance reviews in clearly defined metrics.

A well-structured reward system:

- Ensures employees focus on the organization's goals and do not engage in value-destroying behavior
- Are realistic, clear, consistently applied, objective, and in line with peer practices
- Simple to understand, tied to feedback, and valued by employees, thus ensuring the cost of the rewards is tied to a commensurate benefit

## Partnership Expansion

Organizations must appreciate that to navigate today's nuanced complexities and avert conflict, cultivate resilience, and nurture peace, partnerships are paramount. However, transitioning from understanding to implementing is an incredibly challenging task, and each organization must follow a path that aligns with its mission and values. Below are a few tactical suggestions:

- **Mission-driven:** If all organizations centrally focus on executing their mission and finding alignment with other stakeholders, then partnerships can more readily form. Organizations must be willing to have open and early conversations to ensure missions align, determine mitigating strategies if they do not, and halt fruitless efforts at pursuing untenable partnerships
- **Cultivate understanding:** Legacy views within the organization may be challenging hurdles to overcome. It is important to acknowledge and understand an organization's cultural history, vested interests, and traditional positioning. To establish a partnership, organizations should focus on a specific need, target a shared objective, and create a solution together
- **Invest in partnerships:** Partnerships are critically important and challenging to cultivate, and should be treated as such, with personnel focused on and compensated for developing them. In particularly challenging situations, establishing partnerships at the senior leadership level can be helpful. Without clear accountability, confusion abounds as to who is the focal point and what is the proper path forward, which creates drawn-out timelines, breeds frustration, and kills partnerships. Organizations that are thinly staffed at headquarters level and have a rotating model at field level will need to establish a partnership model. A high-quality, focused partnership team sends a strong message about the quality of the potential partner and its appetite for collaboration
- **Be patient:** Rushed partnerships are not built on trust and eventually collapse. Partnerships are best created over time through repeat interactions, but there is an important balance to strike—ensuring that close partnerships do not turn into insular mindsets
- **Understand the variables:** While employees are representatives of an organization, they do not necessarily represent an entire organization. Carefully consider differences and similarities to understand if a partnership is challenging because of the organization or because of the focal point
- **Use an intermediary:** If bridging the gap across stakeholders is too challenging for an organization given internal structures or the external environment, then an intermediary can be a powerful tool. Often, organizational barriers are not the challenge, but determining how to proceed is. Intermediaries understand the different actors and the context and can therefore serve as powerful allies in the early stages of partnership development.
- **Create value:** Partnerships are never free—there are implicit and explicit costs to partnering, and these must be acknowledged and counterbalanced by a clear benefit to each partner and the greater good. Partnerships should maximize impact and minimize costs, and partners should offer one another credibility, funding, expertise, or access
- **Be transparent:** Organizations must be clear on the roles, responsibilities, and expectations of each partner. There should be clear metrics to evaluate success and the overall relationship, in addition to a process to capture relevant data. Partnerships evolve over time, so partners must invest in one another and the partnership by maintaining open lines of communication

## Pipeline Development

A common complaint among organizations active in humanitarian settings is that there are not enough investable projects. If an organization wants to be truly mature, it needs to have a pipeline of projects so that it can execute transactions on an ongoing basis. To secure bankable projects, an organization must understand with whom they should partner and how to structure a deal. They must also understand what is important to a local community and how businesses operate, from revenue generation to product delivery. Technical assistance and advisory services are key to generating a pipeline because they improve the quality of local companies and counterparties.

## Implementation Checklist

### FORMULATE

- ✓ Prioritized most important efforts
- ✓ Defined goals and motivations to help move your organization along maturity curve in dimension of interest
- ✓ Acknowledged existing and potential barriers and created mitigation plans
- ✓ Identified key stakeholders and resources required to meet your goal

### ACTIVATE

- ✓ Publicly articulated context and goals with stakeholders
- ✓ Socialized the workplan to generate buy-in with senior leadership and champions from all levels of the organization
- ✓ Prepared all necessary staff to complete their mission

### EXECUTE

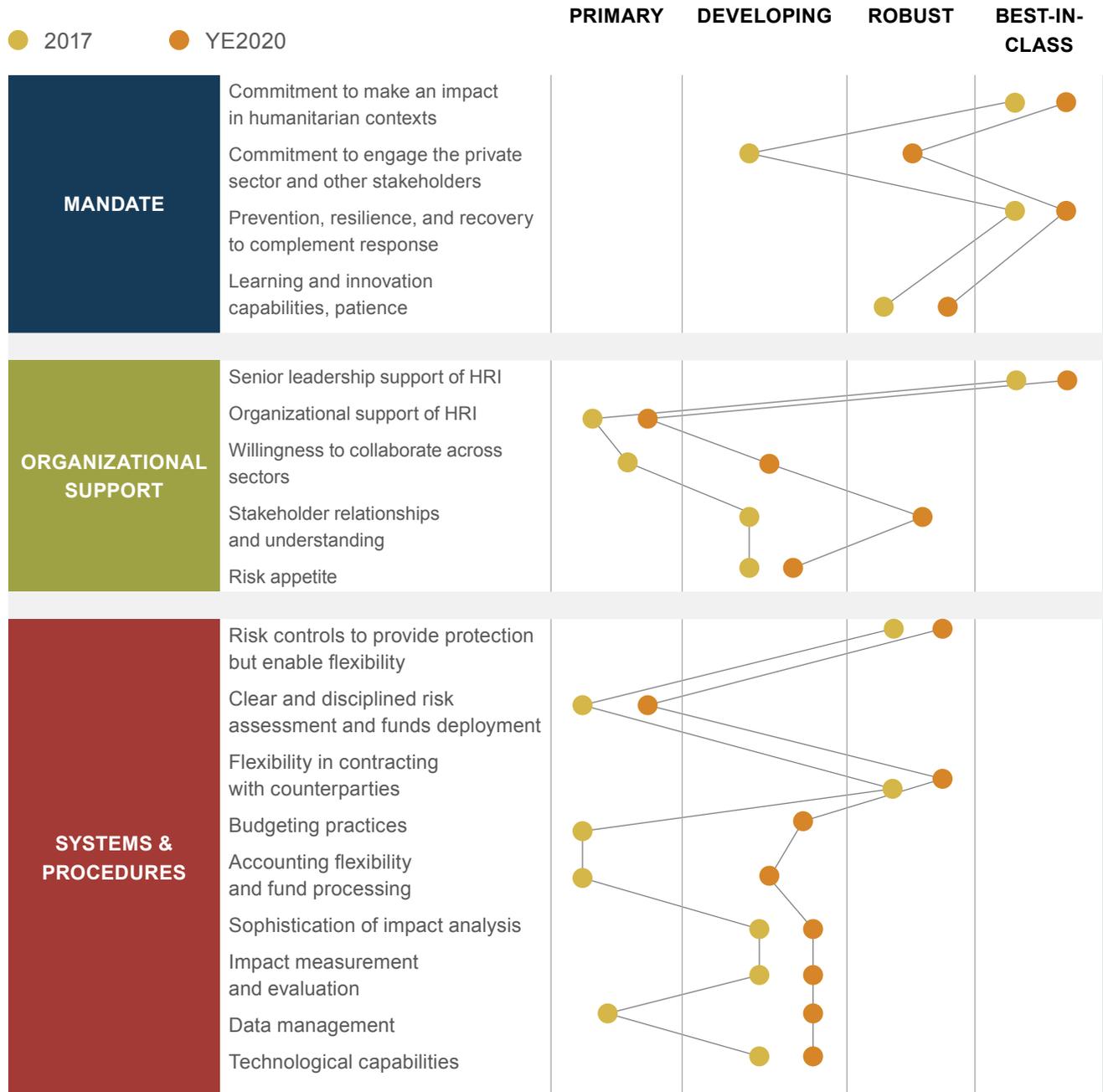
- ✓ Carefully managed change process
- ✓ Adhered to a workplan, which outlined expected cadence of work and governance structures
- ✓ Motivated employees to act by leveraging strong incentives
- ✓ Moved along maturity curve in dimension of interest

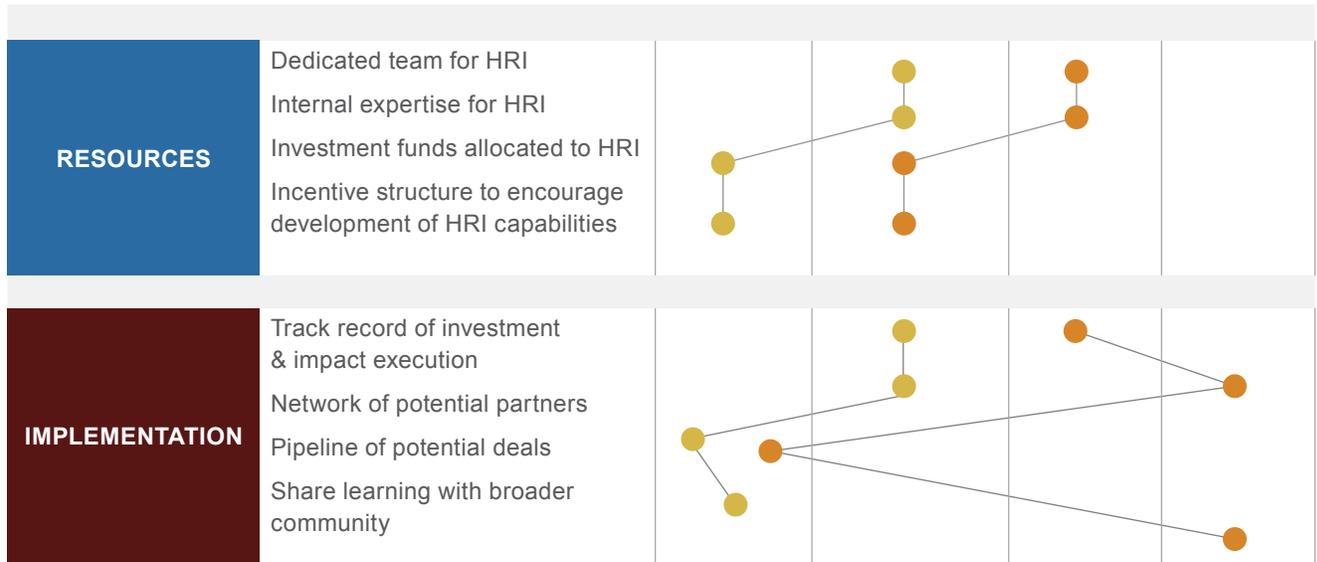
## ICRC - JOURNEY TO ORGANIZATIONAL READINESS

The graphic below tracks ICRC’s organizational readiness in 2017 compared to its expected readiness at YE2020.

To assess the progression, it is useful to consider the [stoplight analysis](#), which indicates the minimum required capabilities to engage in HRI, or New Financing Models (NFM), as the ICRC calls them. Progression in Mandate and Organizational Support are important first steps as they are precursors to movements towards readiness in the other categories.

**FIGURE 6: ICRC: SELF-EVALUATION RUBRIC 2017 TO YE2020**





**Mandate**

Over the past few years, ICRCs mandates have been HRI-friendly. While the organization made strides to improve relationships with the private sector and other stakeholders during the time of review, the organization’s prior stances did not preclude HRI, so this improvement is less relevant than some of their other advances.

**Organizational Support**

Progress within Organizational Support mirrors the progress in Mandate, where a commitment to engage private sector and other stakeholders showed improvement. Within Organizational Support, this was manifested by improvements in “willingness to collaborate” and “stakeholder relationship and understanding.”

Movement along “willingness to collaborate” was particularly striking as this moved ICRC from a “red” indicator to a “yellow” indicator. This progress is likely a reflection of the substantial support shown by senior leadership to HRI. Indeed, over the timeframe, leadership showed their commitment to HRI by playing a fundamental role in developing, and eventually launching the Humanitarian Impact bond (HIB) on 3Q2017.

The central problem in 2017 remains the same for ICRC today: insufficient organizational support for HRI. This dimension is classified as red on the stoplight analysis, indicating that HRITs will be extremely difficult to execute. The fact that ICRC was still able to launch the HIB in this backdrop speaks volumes to the support and commitment from senior leadership.

**Systems and Procedures**

Over the timeframe of the analysis, ICRC made progress in three out of nine dimensions. While this is an impressive feat, none of these dimensions were in the stoplight’s red zone, and so progression here will likely not have had as material an impact on operations as the improvements in other dimensions of the organization.

**Resources**

Leadership has enshrined their focus by launching an institutional Strategy covering 2018-2022, which explicitly commits to exploring, testing, and securing innovative finance solutions that create impact. In addition to a clearly articulated strategy, leadership has also set lofty targets to govern their resource mobilization: Overall, ICRC targets 5% of annual income will be used on HRITs by 2030.

Leadership’s commitment, both written and implemented showed incredibly promising results: the ICRC advanced in maturity in all four dimensions of readiness.

## Implementation

The ICRC made substantial strides within most dimensions in this category as well. They demonstrated an appetite to engage beyond the HIB and expended substantial resources to explore other HRITs, such as the [Famine Action Mechanism](#), Access to Education outcomes-based model, and Goma West Water Supply Project in DRC.

The most impressive gains were in “share learning with broader community.” This is a particularly challenging prospect for organizations, so ICRC’s movement from Primary to Best-in-Class is particularly laudable. As manifestation of their desire to share knowledge and help others partner, ICRC has co-led efforts such as the Humanitarian Investing Initiative, launched in Davos 2019 with the World Bank, the World Economic Forum and a core community from across the humanitarian, development and private sectors.

## Path Forward

Before focusing efforts to advance in any other dimension, the ICRC must confirm overall HRI KPIs and drive organizational support. It should be noted that the entire organization does not need to support the initiative, just a selection of key decision-makers and implementers at various levels across the institution. To improve buy-in, ICRC must do the following:

1. Identify the key individuals needed to implement HRITs
2. Define behavior that reveals a lack of support for HRITs
3. Assess rationale for lack of support for HRITs
4. Change perception and behavior of critical employees through proofs of concept, or retarget HRI efforts such that these employees are no longer able to block progress

Learning through doing remains a priority for the ICRC. However, without the benefit of broader organizational support, improvement on other categories and dimensions will remain ongoing. In fact, a number of efforts have been started, around the governance of NFMs, the wholistic identification of organizational readiness challenges, or the specific changes required to build specific NFMs such as the Goma West Water Supply Project.

# Section III:

## Contextual Primer for HRI

### Creating Unity: Humanitarian, Development, and Beyond

While much of the global public-benefit community shares a commitment to fundamental principles and objectives, significant divisions do exist. Divisions exist within the humanitarian community, and further divisions exist within the broader sphere of international public-benefit organizations that comprise both humanitarian and development actors.

Within the humanitarian community, a subset of actors is concerned that by anchoring too strongly on the core principles of humanity, neutrality, impartiality, and independence, they risk the ability to properly deliver aid by creating false divisions and overlooking institutional shortcomings.

It should be noted that others, including some religious-based and non-Western aid organizations, still reject these core tenets altogether.

Such divisions are compounded by competition among humanitarian actors, as organizations vie for scarce funding in a context in which humanitarian needs continue to outpace the ability of the international community to respond. Established organizations may sometimes attempt to crowd out local NGOs or other operations to protect funding. Organizations can be under pressure to self-preserve and grow their funds, reputation, and presence in the market. Rather than share knowledge or resources and partner, some organizations may do exactly the opposite. Some organizations grow their business, straying from their core competency. Effective engagement in complex humanitarian contexts requires deep expertise; in the absence of focus and collaboration, organizations may deliver sub-par services, to the detriment of people in need.

The divide continues at the multinational versus local level, where there is contentious debate about who is best positioned to deliver aid. Those in favor of local solutions point to their context-specific knowledge. Others argue that close local ties can make organizations seem partisan, and therefore render their aid ineffective in certain situations. Some favor international actors without providing any rationale, while still others point to numerous advantages of the international players: scale, funding, technical and logistical capabilities, and the ability to act swiftly in complex circumstances.

Overall, there is broad acknowledgment that aspects of the current system are not working. Organizations must accept the spectrum of humanitarian aid. Tactically, the system must cut through the red tape, shed its bureaucratic past, and establish a system to deepen relationships, create meaningful partnerships, and avoid adversarial, transactional interactions. Leading into the 2016 World Humanitarian Summit in Istanbul, the humanitarian space took a meaningful step forward with the establishment of the Grand Bargain to help generate efficiency in an effort to combat humanitarian need in the context of a shrinking resource pool.

## Grand Bargain

The Grand Bargain was laid out in a 2016 report published by the High-Level Panel on Humanitarian Financing and delivered to the United Nations Secretary-General. The report, titled “[Too important to fail – addressing the humanitarian financing gap](#)”, details a series of commitments that those active in humanitarian aid must make to themselves and one another to improve the efficiency and effectiveness of aid delivered. It was written in response to the \$15 billion funding gap between the needs and resources available to meet said needs.

Originally, the agreement was geared toward the five largest government donors and the six largest UN Agencies, but as of March 2020, there are 62 signatories. As of 2018, signatories contributed 73% of all humanitarian aid, representing 70% of aid-intake by agencies. By signing the Grand Bargain, organizations signal commitment to support the principles within the Grand Bargain, to collaborate with one another, and to be transparent.

These principles are:

1. **Increase transparency:** produce timely, digitally accessible reports with high-quality data and analytics; support other organizations in their efforts to similarly share data
2. **Improve capabilities of local and national responders** through longer-term funding and training, and include these responders in international efforts to reduce administrative and transaction costs and to ensure international aid is complementary
3. **Increase cash donations** in acknowledgment that it provides the highest levels of flexibility and empowerment; simultaneously develop good practices in delivering and monitoring cash-based programming to ensure effective and efficient use of funds
4. **Reduce management costs** by reducing measurement requirements on the donor side, and by harmonizing required assessments and leveraging technology to complete those assessments on the aid side; additionally, pool procurement needs to leverage economies of scale and gain bargaining power
5. **Enhance needs assessments** by collaborating with stakeholders to ensure data-collection is non-duplicative and unobtrusive, and safeguards privacy while still providing detailed, context-specific, impartial, and timely data that is crucial to delivering aid in a targeted and effective manner
6. **Foster a “Participation Revolution”:** create a standard approach to include aid recipients, particularly those most vulnerable in the community, in the donation decision-making process and ensure that donated funds are flexible enough to be applied to community feedback
7. **Tap multiyear, non-earmarked funding** to improve transparency and flexibility in navigating protracted humanitarian situations
8. **Streamline and coordinate** reporting to ensure common lexicon and that key results are captured, and findings can be shared easily to enhance access to information

One component of the Grand Bargain is to inspire transparency with respect to data and how funds flow from donors to affected populations to enhance decision-making and collaboration. Another key element is the critical need to collaborate with new and existing partners – particularly the private sector. It requires adjusting existing mindsets and finding innovative methods of delivering aid. The importance of addressing relief and also development needs was formalized as the “humanitarian-development-peace nexus” and is a key area within which collaboration and mindset shifts are crucial to deliver coordinated aid. The importance of this effort was voiced in 2015, with Sustainable Development Goal (SDG) 17, which calls to “revitalize the global partnership for sustainable development,” with specific mention of bolstering “multi-stakeholder partnerships.”

The above divisions within the humanitarian community are addressed to a certain extent by initiatives like the Grand Bargain, but further work remains to create unity across humanitarian and development actors. A proliferation of entrants and approaches to delivering aid has caused a widening schism between humanitarian and development aid, leaving questions about how these types of aid can work together, particularly in protracted crises, to reduce and holistically respond to needs. Some view humanitarian efforts as incongruous to development efforts as it is imperative to maintain the speed and dexterity of the organization in crisis response.

Development, which is characterized by a longer-term effort, typically entails coordination with governments or existing political institutions, and therefore poses a risk to upholding the key tenet of impartiality, squarely landing it outside of the humanitarian camp. Conversely, others view prevention as a key lifesaving mechanism, which opens the door to activities previously considered “development.”

Many outside the humanitarian and development sphere do not understand the difference between these types of actors, and often think of them as interchangeable, in stark contrast to how these organizations view themselves. The lines between these organization types are blurred, particularly in protracted crises, and many feel we must do more to knock down the silos in which these organizations operate, as doing so would enable more effective and efficient provision of aid. In fact, one of the benefits of HRI is to build bridges between different stakeholders, including humanitarian and development actors.

The table below highlights the lines along which these organizations might divide themselves.

	<b>HUMANITARIAN</b>	<b>DEVELOPMENT</b>
<b>Time-frame</b>	Short-term, crisis response	Long-term, develop economies
<b>Counterparties</b>	All stakeholders who hold authority or control over people, accountability to those they help	Local, national governments, development banks
<b>Focus</b>	Upholding international humanitarian law, protecting and assisting people affected by conflict	Helping country, build economy, SDGs
<b>Scale</b>	~\$15B ODA	~\$110B ODA
<b>Response to conflict</b>	May increase presence	May decrease presence
<b>Government alignment</b>	Neutral and impartial	Critical, focus on channeling foreign policy objectives of nation state
<b>Money flow</b>	Donor to humanitarian agencies	DFI/MDB to government and private sector
<b>Money type</b>	Grants/funding	Concessional, market based

Development actors seek to create industry, while humanitarian actors dole out goods, potentially undermining development and private sector activities. The private sector plugs in much more seamlessly with the development sector than with the humanitarian sector due to the common pursuit for market-based solutions. Humanitarians have also been much more reserved in their approach to the private sector, as they have both structural (e.g. annual budget) and cultural (e.g. impartiality) concerns associated with interfacing with the private sector.

### **Procurement: Humanitarian compared to Development**

The differences between humanitarian and development organizations are reflected in their procurement practices. Understanding these differences sheds light on how to best approach these organizations as partners or counterparties:

#### **Humanitarian**

- Quick delivery focused on agile and flexible response
- Hybrid system mixing public and private assistance
- Shielded from political pressures in difficult contexts

#### **Development**

- High touch process, established well in advanced based on selection panels and geographical preferences of suppliers
- Lengthy procurement process that is challenging to change within a year, sufficient for development needs

Development in fragility requires coordination among all actors, and lowest hanging fruit is to build connections between development and humanitarian workers who operate within the same government.

### **Applying this playbook in humanitarian and development settings**

This playbook is designed for humanitarian contexts but can be applied to development contexts. There are **two additional challenges** when applying the playbook to humanitarian settings:

1. **Volatile macroeconomic backdrop:** Deep humanitarian situations are difficult for the private sector to enter alone. They require close partnership with donors, aid organizations, and others who have rich contextual knowledge and who are available to de-risk the investment. Development settings are also challenging for the private sector to enter alone; the added stresses of a humanitarian setting underscore the importance of striving for maturity in organizational readiness to best collaborate and drive change.
2. **Availability of capital:** Investors have risk budgets that they must adhere to, and a fiduciary responsibility to their clients. For many investors, entering a traditional, strictly humanitarian space is impossible; some investors may need to gain experience in difficult development contexts as an on-ramp to deeper humanitarian investing; and still others might be prepared to enter a humanitarian context immediately. These restrictions and appetites are discussed in greater detail in [Section III: Contextual Primer for HRI – Investors](#).

While the tenets of organizational readiness are the same in humanitarian settings as they are in development settings, there are a few key areas where importance in humanitarian settings is magnified:

- Appropriately de-risk (concessionary capital)
- Strong partnerships—locals who understand the situation and can effectively engage
- Experienced actors who can execute in trying situations
- Articulated, robust structures that enable organizations to play to their strengths and appropriately share risk
- Mandates that enable experimentation and resource allocation

Within all HRI efforts, we must not forget about the importance of including local entrepreneurs or social enterprises both as valuable allies and as representatives of the private sector that will have radically different risk-and-return objectives or needs.

# Organization Profiles

Collaboration requires understanding. This section provides a brief overview of stakeholder types, adding nuance to the terms public and private sector, which are often thrown around as monolithic, all-encompassing terms. Each profile answers the following questions:

- Who are they?
- Who operates them?
- How do they work?
- What role do they fulfill?
- What is their role in innovative finance?
- Example organizations

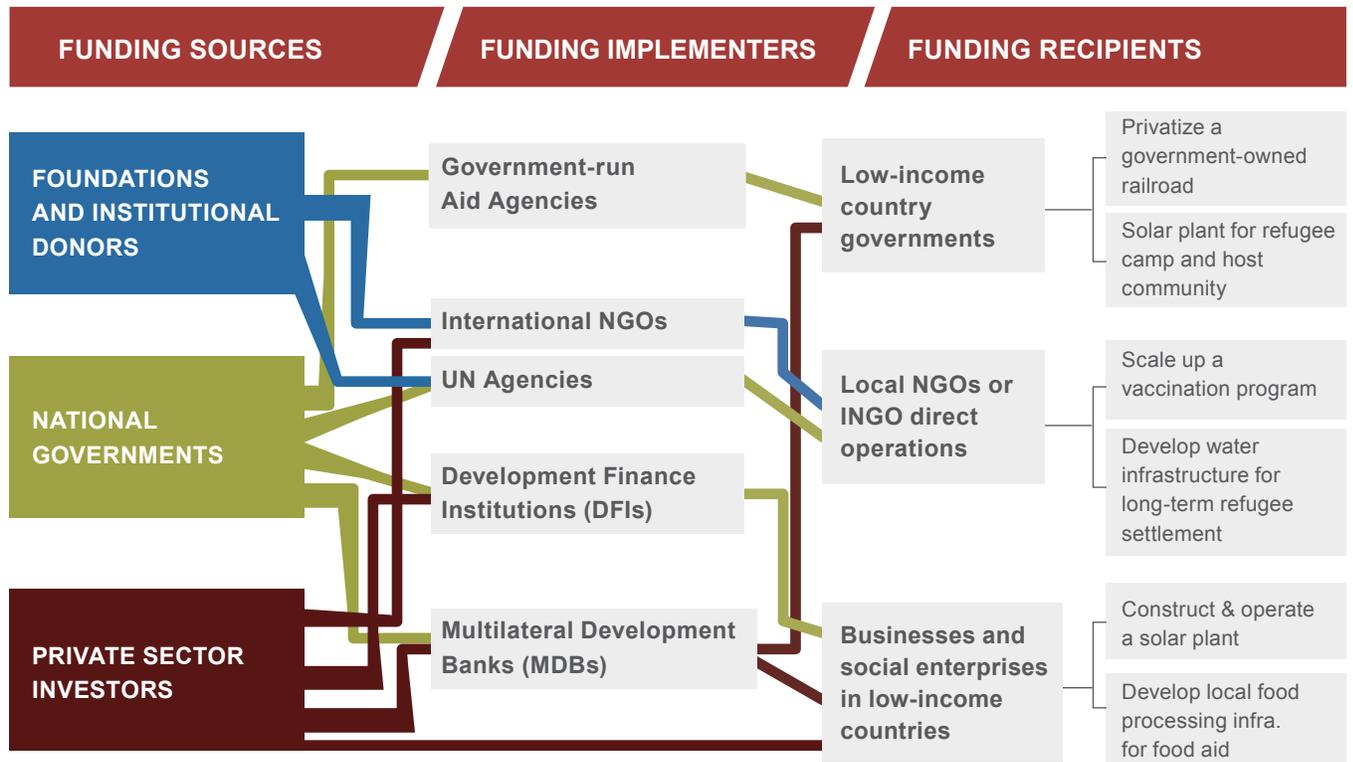
These profiles are not meant to be exhaustive renderings, but rather short glimpses into different stakeholder types. Boxes at the end of each section provide recommendations for further, detailed reading.

The types of organizations profiled include:

- [AID Organizations](#)
- [Corporates](#)
- [DFIs](#)
- [Donor – Institutional](#)
- [Donor – Philanthropic](#)
- [Investors](#)
- [MDBs](#)
- [NGOs](#)
- [Social Enterprise](#)

These organizations all play an important role in the overall aid ecosystem. While organizations assume various roles, the typical roles associated with each stakeholder type are described in Figure 7, below.

**FIGURE 7: VALUE CHAIN FOR DELIVERING FINANCE TO DEVELOPMENT AND HUMANITARIAN CONTEXTS**



This figure is for illustrative purposes only—to truly reflect the extreme nuance of the value chain for aid, the chart would span several pages. If you take nothing else away from this chart, note how incredibly intertwined all of the organizations and fund flows are in the value chain of aid delivery. If these organizations learn to communicate and cooperate with one another, imagine the humanitarian good that could be achieved.

## Aid Organizations

### WHAT ARE THEY?

Humanitarian organizations are large, international nongovernmental entities with a dedicated mission to alleviate emergencies and natural disasters and protect vulnerable people around the world. Focusing on various issues—from saving the lives of citizens in conflict zones to providing food, water, and medicine to refugees, humanitarian organizations are distinct from bilateral foreign aid organizations because they involve multiple national government stakeholders. For example, several UN agencies focused on humanitarian issues (OCHA, UNHCR, and UNICEF) are funded and operated through the United Nations framework of intergovernmental cooperation. This also distinguishes humanitarian organizations from private NGOs and charities like Oxfam, who may serve similar ends and operate in similar areas, but do not receive funding and direction from an international body.

### WHO OPERATES THEM?

Leading humanitarian organizations are nonsectarian, impartial, and nongovernmental, although they may be chartered by intergovernmental organizations like the United Nations. Typically, humanitarian organizations are formed when state parties (signatories) agree to permanently endow an organization with specific funding and mission goals. For example, the International Committee of the Red Cross was originally founded by a consortium of European national governments in 1863, and the signatories to the Geneva Convention of 1949 re-ratified the ICRC's mandate to protect victims of conflict.

### HOW DO THEY WORK?

- **Organizational Structure:** Most humanitarian entities are structured similarly to their parent organizations, with some sort of collective decision-making body of representatives that establish policies and overall strategy, as well as an executive committee or presidency to operationalize the decisions of the assembly members. Some humanitarian organizations, like UNHCR, are organized with a specific mission delegated from a broader international body, and an appointed or elected executive officer to manage operations and implementation of funding. Organizational structure can vary tremendously, but most humanitarian organizations have a central charter or founding document signed by national government members, and they make decisions in a deliberative and collective way, while empowering an executive body to operationalize those decisions
- **Scale:** In 2017, the UN used 32% of its \$53.2 billion budget for humanitarian relief, with another 19% for peacekeeping missions which are often closely related. Direct funding to humanitarian response was estimated at \$28.9 billion in 2019. This amount is significantly smaller than Official Development Assistance or direct FDI to the developing world, but very few countries receive this essential, lifesaving support. Most funding goes to heavily affected countries like Syria, Yemen, South Sudan, Iraq, and Somalia, all of which received over \$1 billion in humanitarian aid in 2017
- **Typical financing instruments:** Humanitarian aid is not activated through financing mechanisms, but is typically delivered as actual physical supplies, such as food, water purifiers, tents and structures, medical equipment, and technical assistance of experts deployed to suffering areas

## WHAT ROLE DO THEY FULFILL?

Humanitarian organizations protect people in crisis situations. They are focused on saving lives, not on generating financial returns. The areas in which they operate are far from suitable for private sector development, and are typically ravaged by war, famine, disease, and poverty. Therefore, humanitarian organizations attempt to fulfill the most basic human needs of suffering people. When they do so successfully, the areas they operate in can eventually progress to the point where private sector development is appropriate—but this is often predicated on fundamental changes to the external circumstances, such as resolving a war.

## WHAT IS THEIR ROLE IN HRI?

Humanitarian organizations are not focused on development finance, but that doesn't mean they don't pursue innovative solutions to fund their operations. The Red Cross and UN agencies still look for ways to diversify and maximize their funding outside of the traditional country and foundation donors that currently foot the bill. Humanitarian organizations currently face several funding challenges, including not having enough overall funding, funding arriving too late, inefficiencies due to earmarking funds for specific relief purposes, and development costs after crises remaining too high. HRI can help mitigate these challenges, from blended finance and equity investments filling the fundraising gap, to disaster risk insurance helping ensure rapid funding, impact bonds tying funding to outcomes to improve efficiency, and advanced market commitments (AMCs) reducing post-disaster development costs.

## EXAMPLE ORGANIZATIONS:

- International Committee of the Red Cross
- United Nations High Commissioner for Refugees
- UNICEF
- United Nations Office for the Coordination of Humanitarian Affairs

## Further Reading

[Innovative Financing for Responses to Refugee Crises](#)

[Global Humanitarian Assistance Report 2019](#)

[Ten donors and 10 crises dominate humanitarian spending](#)

[Report: Innovative financing for responses to refugee crises](#)

[A simple guide to exactly how the United Nations is funded](#)

[Innovative financing for refugee situations: background paper](#)

## Corporates

### WHAT ARE THEY?

In the context of this playbook, “corporates” refer to the companies actively operating in fragile and humanitarian contexts. When discussing corporates in the development context, we refer mostly to the operations of multinational companies in country, rather than the local small businesses and entrepreneurs that are also active. Corporates employ local workers and make investments in capital (such as factories and utility plants). As such, they help “operationalize” development for people on the ground.

### WHO OPERATES THEM?

Corporates based in the developed world operate subsidiaries or have direct operations in fragile countries. Some examples of companies that frequently operate in humanitarian contexts are banking services, ICT, agriculture, mining, oil & gas, construction, and utilities. This includes some of the largest and most profitable companies in the world—so private sector corporate development operations sometimes carry an exploitative or extractive stigma.

### HOW DO THEY WORK?

- **Organizational Structure:** Corporates are legally organized in the developed world, and either operate directly in poorer countries, work through regional or country-specific subsidiary firms, or conduct extensive contracting to execute their operations in the developing world
- **Scale:** Foreign Direct Investment by companies in the developing world is an extensive source of capital—according to UNCTAD data, FDI flows to developing countries remained stable at \$671 billion in 2018, dwarfing the funding received from bilateral foreign aid (ODA), and greater than financing provided by MDBs and DFIs combined
- **Typical financing instruments:** Corporates employ local workers, purchase equipment and supplies in country, and sometimes engage in local project financing through debt or equity deals with local partners and banks

### WHAT ROLE DO THEY FULFILL?

Corporates are an important presence in many communities, providing stable jobs, income, and benefits that enable better, healthier, and more productive lives in many parts of the world. However, corporates are profit-driven and so may not enter the most vulnerable communities, although technology is changing the scope and type of interactions corporations can offer at-risk communities. In addition, caution is needed with corporate investments in extractive industries like mining and energy, because when the resource is used up, the jobs may be eliminated, which can further destabilize fragile communities. More recent attention on these issues has led to banks adopting sector-specific financing standards to ensure corporates are engaging in sustainable, lasting, and responsible development projects in certain geographies and industries.

### WHAT IS THEIR ROLE IN HRI?

Corporates provide inflows of capital to developing countries, helping developing countries to buy imports. They may help improve infrastructure in a country through capital investments, and they often provide training that improves worker skills. Because corporates are highly conscious of the negative media and investor relations implications of operations in fragile contexts, they have established rigorous frameworks around operational standards with regards to human rights, environmental sustainability, biodiversity protection, and other environmental and social due diligence factors. These governance standards and rules can provide a framework for businesses to operate in the absence of adequate government regulation. Corporates, along with NGOs, are typically the entities most active “on the ground” in fragile countries, so they have the experience and connections to actualize development investments into sustainable business models. As such, investors looking to engage in innovative financing would do well to partner with responsible corporates already in place.

## CONCERNS ABOUT CORPORATIONS:

Some are skeptical about the role that corporations can play in humanitarian contexts. On the one hand, activities can be viewed as disingenuous PR-related efforts that are likely transitory at best; on the other hand, private sector can be seen as overly aggressive, profit-seeking and transactional. The healthy middle ground is to articulate a corporate strategy and show how involvement in a particular context can drive shared value to stakeholders and customers or beneficiaries active in that space.

### Example Organizations:

- BP
- Coca-Cola
- Norsk Hydro

### Further Reading

[Do multinational corporations play a role in entrepreneurship in developing countries?](#)

[Global Corporations, Global Impact](#)

[Impact of Multinational Corporations on Developing Countries](#)

[Business and conflict in fragile states](#)

[Business and conflict in fragile states: The case for pragmatic solutions](#)

[Companies in Fragile Contexts: Redefining Social Investment](#)

[Are multinational corporations undermining freedom in poor countries?](#)

[Global foreign direct investment slides for third consecutive year](#)

[The Role of the Private sector in Fragile States: Catalyzing Investment for Security and Development](#)

[How to grow businesses in fragile and conflict-affected countries](#)

## DFIs

### WHAT ARE THEY?

DFIs are specialized development banks that invest in private sector projects in low-and medium-income countries, with the goal of spurring job creation and sustainable economic growth in poorer parts of the world.

### WHO OPERATES THEM?

Most DFIs are financed by national governments, but they operate as legally independent entities and not as government agencies. DFIs fall into two major groups:

- Bilateral DFIs are operated by individual countries and often connected with government foreign assistance agencies. They generally source their funding from national or international development funds and help execute foreign policy priorities
- Multilateral DFIs are financed and operated by multiple stakeholders, often a regional group of national governments. They typically have a greater financing capacity than bilateral banks alone, and support the private sector through equity investments, loans and long-term guarantees

## HOW DO THEY WORK?

- **Organizational Structure:** About half of DFIs are set up to pursue very broad, general development goals - especially the regional and multilateral DFIs, and large DFIs run by wealthy countries. The other half focus on specific sectors or outcomes, such as agriculture and rural development, trade promotion, housing, or entrepreneurship
- **Scale:** The global DFI system is responsible for ~\$85 billion to \$90 billion in annual financing, less than Official Development Assistance (ODA) flows at ~\$150 billion, but a major increase from the \$12 billion that DFIs provided in 2000
- **Typical financing instruments:** DFIs use similar investment instruments as large private financial institutions: loans, equity, quasi-equity, guarantees, insurance, and risk management. One challenge is that DFI financing flows to countries with more established financial systems and markets—meaning that the poorest countries with the least developed financial infrastructure often cannot access funding from this source

## WHAT ROLE DO THEY FULFILL?

Because DFIs' access to capital is through their national governments, they can raise large amounts of money in capital markets and offer financing on very competitive terms. Their capacity to support relatively high-risk projects also helps mobilize private capital such as commercial banks and investment funds in support of these projects. In addition to seeking returns, DFIs also pursue specific development policy objectives, so they strategically invest in improving capital markets, speeding up industrialization, and incubating vital industries and technologies.

## WHAT IS THEIR ROLE IN HRI?

Recent attention on DFIs suggests their role will increase in the future—with the U.S. and the UK, for example, making significant investments in their respective DFIs and raising their portfolio caps by a factor of two to three times the previous limits. With this increased attention and funding comes an increased need to improve financing to poorer and more fragile countries. Some recent examples of innovative financing solutions include the U.S. DFC's Development Impact Bond and Portfolio for Impact and Innovation PI2 products, which helped Kiva Microfunds provide almost 100,000 microloans to low-income women entrepreneurs, or CDC Group's thematic Catalytic Capital strategies which focus on improving access to energy and medicine. DFIs are also working to increase their financing through blended concessionary finance, mobilizing over \$6 billion in blended finance solutions in 2018. Even private financial institutions are wading into the development finance world, with J.P. Morgan establishing a dedicated branch of its corporate and investment bank to specifically serve clients in developing countries and contribute to realize UN Sustainable Development Goals (SDGs).

## HOW DFIS CAN ENABLE:

- **Stretch beyond development:** Entering humanitarian contexts at the periphery, such as in protracted crises, could help build bridges between humanitarian and development actors and facilitate the delivery of improved aid
- **Reconsider risk metrics:** Invest and operate in more challenging geographies, partnering with humanitarian organizations to de-risk involvement through better understanding of context and conflict-dynamics, political economy considerations, supply chains, and value chains
- **Partner with local NGOs:** Ensure impact is positive and as high-value as possible
- **Develop robust procedures to better incorporate local knowledge**
- **Nimble analysis:** Do not impose the same framework unilaterally on all different situations
- **Collaborate, do not compete:** Some competition is healthy, and spurs innovative solutions and improved efficiencies, but too much competition is a distraction and is wasteful
- **Improve structure:** Act as an asset manager or co-investor to mobilize private capital, not just generate returns for their own capital

## EXAMPLE ORGANIZATIONS:

- DFC (International Development Finance Corporation - United States)
- CDC Group (UK)
- KfW/DEG (Kreditanstalt für Wiederaufbau - Germany)
- FMO (Financierings-Maatschappij voor Ontwikkelingslanden - Netherlands)
- AfD/Proparco (France)
- FinDev (Canada)

## Further Reading

[JPMorgan's DFI: financial innovation or development washing?](#)

[DFI Working Group on Blended Concessional Finance for Private Sector Projects: Summary Report](#)

[Dutch approach to Innovative Financing for Development: policy paper and toolbox](#)

[Impact Investing](#)

[J.P. Morgan Launches Development Finance Institution](#)

[Mapping Development Finance Institutions Worldwide: Definitions, Rationales, and Varieties](#)

[Our approach to innovating with catalytic capital](#)

[Development Finance Institutions: Plateaued Growth, Increasing Need](#)

[The Role of Development Finance Institutions in Enabling the Technology Revolution](#)

## Donor – Institutional

### WHAT ARE THEY?

Institutional donors, sometimes referred to as bilateral foreign aid agencies, are official national government departments dedicated to allocating and disbursing assistance to foreign countries notably via implementing partners.<sup>1</sup> This foreign assistance can take many forms: from humanitarian aid such as direct food and water distributions after natural or man-made disasters, to economic development assistance and even foreign military aid and arms transfers. Humanitarian aid and development finance flows are often implemented by separate departments or agencies within the same national government. In the United States, for example, USAID's Office of Foreign Disaster Assistance and Office of Food for Peace administer most humanitarian aid, while a separate government agency, the Development Finance Corporation, administers grants and loans for development assistance. In most donor countries, aid organizations receive a budgetary allotment as part of the regular legislative or parliamentary process, and they assign that money to various countries, categories, and programs, determining the best allocation of aid to the recipient parties (foreign governments or third parties such as the UN, other international organizations, INGOs), and then disburse the assistance, which often goes along with direct technical assistance or oversight to ensure the foreign aid is used responsibly.

### WHO OPERATES THEM?

National governments operate their foreign aid agencies to achieve specific foreign policy objectives, such as supporting impacted populations in the wake of natural or man-made disasters, improving human development, health, and educational outcomes, or increasing influence in parts of the world.

---

<sup>1</sup>Next to bilateral foreign agencies, the European Union also features among the world's leading institutional development and humanitarian donors. EU humanitarian aid is managed by the European Commission's Directorate-General for European Civil Protection and Humanitarian Aid Operations (DG ECHO).

## HOW DO THEY WORK?

- **Organizational Structure:** Most institutional donors are structured as full-fledged departments, but aid agencies work closely with the foreign policy departments and are sometimes organized as a component or subsidiary of those departments instead. Like other government agencies, donors are typically staffed by a mix of career foreign development professionals and temporary political appointees. Operating around the world, they may have staff located in other countries or in regional hubs to monitor the disbursement of funds, as well as liaison officers or shared resources with INGOs like the United Nations
- **Scale:** Bilateral foreign aid is generally regarded as the largest source of direct development support for poorer countries. Official Development Assistance, the OECD's definition for official concessional aid flows from the 27 donor countries comprising the Development Assistance Committee (DAC), has increased from an annual amount of ~\$130 billion to ~\$150 billion over the past ten years. According to CSIS, "ODA is still the dominant form of development funding." In contrast, the OECD estimates global humanitarian aid from DAC countries at \$18.2 billion in 2017
- **Typical financing instruments:** Foreign aid is normally provided on a concessional basis and may be disbursed directly to recipient countries or to other entities. While development finance, health, and education funding can frequently be bilateral, most humanitarian aid is funded through national governments but implemented by NGOs and UN agencies. Donor countries have increasingly shifted to providing grants instead of loans, because developing countries receiving excessive loans often struggled with an accumulation of debt that limited their ability to conduct effective monetary and fiscal policy. About 33% of official foreign aid is earmarked for multilateral institutions such as the United Nations and the World Bank Group, who implement the funding through specific geographic or thematic programs. Note that Foreign Direct Investment (FDI), bilateral trade, and international corporate activities in other countries does not constitute foreign aid

## WHAT ROLE DO THEY FULFILL?

Humanitarian donors provide critical assistance following natural and man-made disasters around the world—their central focus is to provide needs-based assistance according to humanitarian principles. Their grants provide life-saving assistance, help lift people out of poverty, encourage environmentally sustainable development, and shore up strategic or vulnerable sectors of the recipient nations' economies.

## WHAT IS THEIR ROLE IN HRI?

Official foreign assistance is not typically regarded as especially innovative, taking the form of grants most often and occasionally loans. However, with ODA commitments increasingly under downward budgetary pressure across donor countries, aid agencies have been more willing to explore innovative financing arrangements for their development assistance, often through collaborations with national and multilateral DFIs and the World Bank or IMF. For example, USAID is increasingly issuing conditional and catalytic funding such as milestone-based payments, seed funding, and Global Development Alliances to make traditional concessional assistance more efficient, while also leveraging commercial investment techniques from the private sector, such as match funding towards humanitarian objectives and innovation, to identify areas of shared value for a return on a company's bottom line while addressing core humanitarian outcomes and vulnerabilities. USAID's Sustainability Financing Initiative for HIV/AIDS, Grand Challenges for Development, and Global Development Alliances are all recent examples of the application of non-traditional financial tools.

### Example Organizations:

- DFID (Department for International Development – UK)
- DG ECHO (Directorate-General for European Civil Protection and Humanitarian Aid Operations – European Commission)
- GiZ (Gesellschaft für Internationale Zusammenarbeit – Germany)
- JICA (Japan International Cooperation Agency – Japan)
- SDC (Swiss Agency for Development and Cooperation – Switzerland)
- USAID (United States)

## DONOR REPORTING REQUIREMENTS PRESENT A CHALLENGE

Donors have a duty to report back to their tax bases and to ensure that they are deploying funds intelligently. As part of the report-back endeavor, however, they can be overly prescriptive, quantitative, and onerous. They can incentivize actions instead of outcomes and waste time on required report-backs.

Another problem comes with the granularity of reporting requirements. This can be particularly challenging for humanitarian organizations that have privileged information. Oftentimes, donor data could be subject to public disclosure, and even the perception of providing information that could be confidential, without actually proving it, could jeopardize trust and therefore prevent the provision of humanitarian aid going forward.

Along a similar vein, donors often have a fiduciary duty to check and make sure proceeds are delivered. This presents a challenge for some aid organizations because third parties are not allowed to visit these sites due to safety concerns. Simply providing geotagged pictures, however, would not be sufficient as this information is confidential, and if it were to fall in enemy combatant hands, could be grave security risks.

### Further Reading

[US Foreign aid is worth defending now more than ever](#)

[Foreign Aid Might Help More People as a Grant](#)

[The Logic Behind China's Foreign Aid Agency](#)

[Foreign Aid: Grants versus Loans](#)

[Innovative Financing for Development](#)

[Foreign Aid: An Introduction to U.S. Programs and Policy](#)

[Innovative finance](#)

[Innovative financing for development](#)

[Investing for Impact: Capitalizing on the emerging landscape for global health financing](#)

[Bilateral versus Multilateral Aid](#)

[Official Development Assistance \(ODA\)](#)

## Donor - Philanthropic

### WHAT ARE THEY?

Donors include private individuals, high net-worth individuals who may be operating a personal foundation, and large foundations and corporate philanthropies that are focused on humanitarian issues. These organizations are typically funded by a large pool of investments, which generate financial returns that are then donated to nonprofits to fund their activities. Donors do not expect a financial return from their giving to nonprofits, but they often have specific goals or outcomes they are attempting to engender. They give their money to charitable causes primarily to relieve humanitarian crises, but also to spur sustainable economic development in poorer parts of the world.

### WHO OPERATES THEM?

Donor profiles can vary in maturity and include the following categories—roughly organized from the smallest and most diffuse to the largest:

- **Individuals:** small-dollar donors acting in their individual capacity, e.g. through online donations to an NGO. In many developed countries, 50%+ of the working-age population makes charitable contributions, often accessing favorable tax conditions as a result. Not all those funds, of course, are directed toward development, though. Some individuals make use of donor-advised funds run by public charities to magnify the impact of their contribution by recommending grant recipients

- **Private family foundations:** Small entities, such as family trusts, that are legally organized to optimize the value and impact of donations from high net-worth individuals
- **Corporate philanthropic foundations:** Charitable organizations set up by companies, often to support local community development, education, and other causes. Examples: Verizon Foundation, The Merck Company Foundation, company matching of employee charitable gifts
- **Private foundations:** Large private foundations are endowed with significant assets, which they invest in financial markets and use the returns from investments to make donations. While these foundations may bear the name of their founder, they are professionally administered by large staffs. They leverage their significant capital for socially impactful causes. Examples: The Bill and Melinda Gates Foundation, the Ford Foundation, J. Paul Getty Trust

## HOW DO THEY WORK?

- **Organizational Structure:** Organizations that primarily donate to charitable causes often enjoy favorable tax conditions which are predicated on requirements to donate a certain portion of their assets (in the US, this donation requirement is 5% of assets per year to retain tax-exempt status). Donor organizations have several main organizational components: financial advisors manage the investments to secure a return that can then be donated to charity, while program officers choose how to distribute the funds and to whom. The largest institutions, such as the Gates Foundation, also have technical staff to provide advice and guidance to charity recipients and conduct in-house research and analysis. Foundations are broadly organized into “spend down” models that aim to give away all assets in a short period of time (Gates’ goal is to give away all assets within 20 years of Bill and Melinda Gates’ deaths), versus more traditional “perpetual” foundations that live on as long as possible
- **Scale:** Donor trends vary by geography and type, but most charitable giving comes from individuals. Individuals in the US alone donate more than \$425 billion to charity, mostly to local charities operating in the US. Globally, however, the Rockefeller Foundation estimates that only \$8 billion of the annual private philanthropic spending goes to global development
- **Typical financing instruments:** Donors almost always give their money away, akin to the concessional lending and grants issued by other development players

## WHAT ROLE DO THEY FULFILL?

Because donors are not concerned with financial returns, they can put their resources toward solving the most desperate problems that cannot be easily resolved through private sector involvement and investment. For this reason, traditional donors and charities have focused on issues like health, food security, education, and conflict resolution. They fill a valuable gap that private industry cannot by providing basic services that are not financially viable investments.

## WHAT IS THEIR ROLE IN HRI?

Donors increasingly want to see and understand the impact of their contributions, not just give money away for a tax write-off. Donors may see innovative finance as a way to magnify their impact and make a more lasting change to poorer communities by spurring the economic development and jobs needed to produce a lasting lift out of poverty. There is significant opportunity to engage donors more on innovative finance solutions, including through mechanisms such as crowdfunding, micro-contributions via social media, and public-private partnerships. Because donors are not seeking a financial return, they can offer concessional funding to support blended finance arrangements. Donors can also help de-risk investments, for example by committing to repay social impact investors if certain humanitarian conditions are met (see the [Cameroon Cataract Bond](#) case study example). Philanthropy acts as a catalyst for innovative financing by mobilizing capital toward priority topics that have not traditionally received funding and attention from development banks and DFIs, such as climate change, food insecurity, and health.

Donors and the charities they support could pioneer new products, explore new partnership models for development impact, and leverage their significant resources to work more cohesively with the main global economic development organizations.

### **Example Organizations:**

- The Bill and Melinda Gates Foundation
- The Prudential Foundation
- The Rockefeller Foundation
- Ingersoll-Rand Charitable Foundation
- Novo Nordisk Foundation
- Mastercard

## **CONFLICTING VIEWS OF PRIVATE SECTOR**

[Value for money](#) is a particularly critical debate for donors. On the one hand, they don't want the private sector to make excess returns on the back of their concessionary capital. On the other hand, the opportunity to enhance their funds by mobilizing the private sector is particularly appealing.

## **IMPROVE FUNDING PRACTICES**

- **Fund local:** Donors often fund international NGOs or UN agencies who take a portion of the funding and then pass through donations to local NGOs. Donors must become comfortable with going directly to local NGOs to enhance the impact their funds have on local contexts
- **Promote collaboration:** NGOs and other organizations often spend a lot of time and effort fighting over funding to ensure their organization's future existence, rather than focusing on the core mandate. If donors use their funds to incentivize proper collaboration, these organizations would have aligned incentives and those people in humanitarian need would ultimately benefit
- **Flexible funding:** Donors are encouraged to remove earmarks on 30% of funds provided to humanitarian agencies by 2020 to align with GHD principles of flexible funding. Of the earmarked funds, donors should strive to have less onerous restrictions
- **Visible funding:** Donors should provide funds that are predictable and span several years to enhance humanitarian organization ability to plan

## **EXCLUSIVE CONTRACTING PROCESSES**

Donors are accountable to taxpayers for how they deploy funds. While there are levels of actual accountability, this is also a veil which some have accused them of trying to hide behind, or not doing enough to change. Accountability metrics include:

- Anti-corruption and counterterrorism constraints that prevent partnering with certain governments and local NGOs
- Onerous financial statement proof that preclude small organizations
- Costly and complicated legal registration that puts an undue burden on smaller organizations
- Track record requirements that prevent newer organizations
- Robust internal controls that are only consistent with large, established organizations, which already have access to mainstream funding

Donors cannot simply change protocols overnight, but they need to implement clear standards to help get funds into local NGO hands. This entails simultaneously evolving their recipient requirements and enhancing local NGO capabilities to come more in line to meet required fiduciary hurdles.

## **OPENNESS TO EXPERIMENTATION**

Donor funds are absolutely critical to mobilizing private capital in humanitarian contexts, because they provide the de-risking assets needed to make HRITs occur. As mentioned, donors have a legal duty to their tax base to ensure that funds are deployed wisely and in accordance with organizational regulations. This practice, however, puts a damper on the possibility of piloting as donors are principally interested only when there are clear results associated with new ideas.

## ONEROUS LEGISLATIVE REQUIREMENTS

Donor governments are accountable to their taxpayer base and they need to abide by national economic sanctions lists and national tax regimes when deploying their capital. This can complicate the provision of aid because, for instance, it could mean that a donor in Europe deploying funds in Cambodia would have to follow European, not local regulations. This is further complicated when deals are structured in a different country altogether. Certain options, such as employing a neutral jurisdiction like the Cayman Islands or Luxembourg can facilitate the process, but in other geographies and depending on investment vehicle, the complications can multiply.

### Further reading

[New Sources of Development Finance](#)

[Charitable Giving for Overseas Development: UK Trends over a Quarter Century](#)

[Promoting Pro-Poor Growth: Policy Guidance for Donors](#)

[Giving Statistics](#)

[Innovative Finance](#)

[Innovative Financing for Development: Scalable Business Models that Produce Economic, Social, and Environmental Outcomes](#)

[Private Donations for International Development](#)

[Who Gives Charitable Donations for Overseas Development?](#)

## Investors

### WHAT ARE THEY?

Impact investors are private sector organizations that mobilize financing with a dual goal of generating financial returns as well as improving social outcomes. In this case, impact investors focused on developing countries typically work with MDBs and other international organizations to finance projects that also cause a positive impact, for example improving rural infrastructure, reducing greenhouse gas emissions, or spurring sustainable business development in country. Proponents see impact investing as a catalyst to mobilize large-scale socially impactful projects and to bridge the significant funding gap for the UN Sustainable Development Goals (SDGs).

### WHO OPERATES THEM?

Banks, pension funds, and active asset managers can all be considered impact investors—any financial firm that has an explicitly stated purpose to generate positive social impact along with financial returns would qualify. When we think of investors deploying capital into fragile contexts, we are almost exclusively talking about those who have very high-risk tolerances. Within this group of willing investors, we have two types:

1. **Returns-seeking:** Requires a high return to compensate for higher levels of risk
2. **Impact driven:** Willing to accept an unfavorable risk/return profile to generate a positive impact for those in need

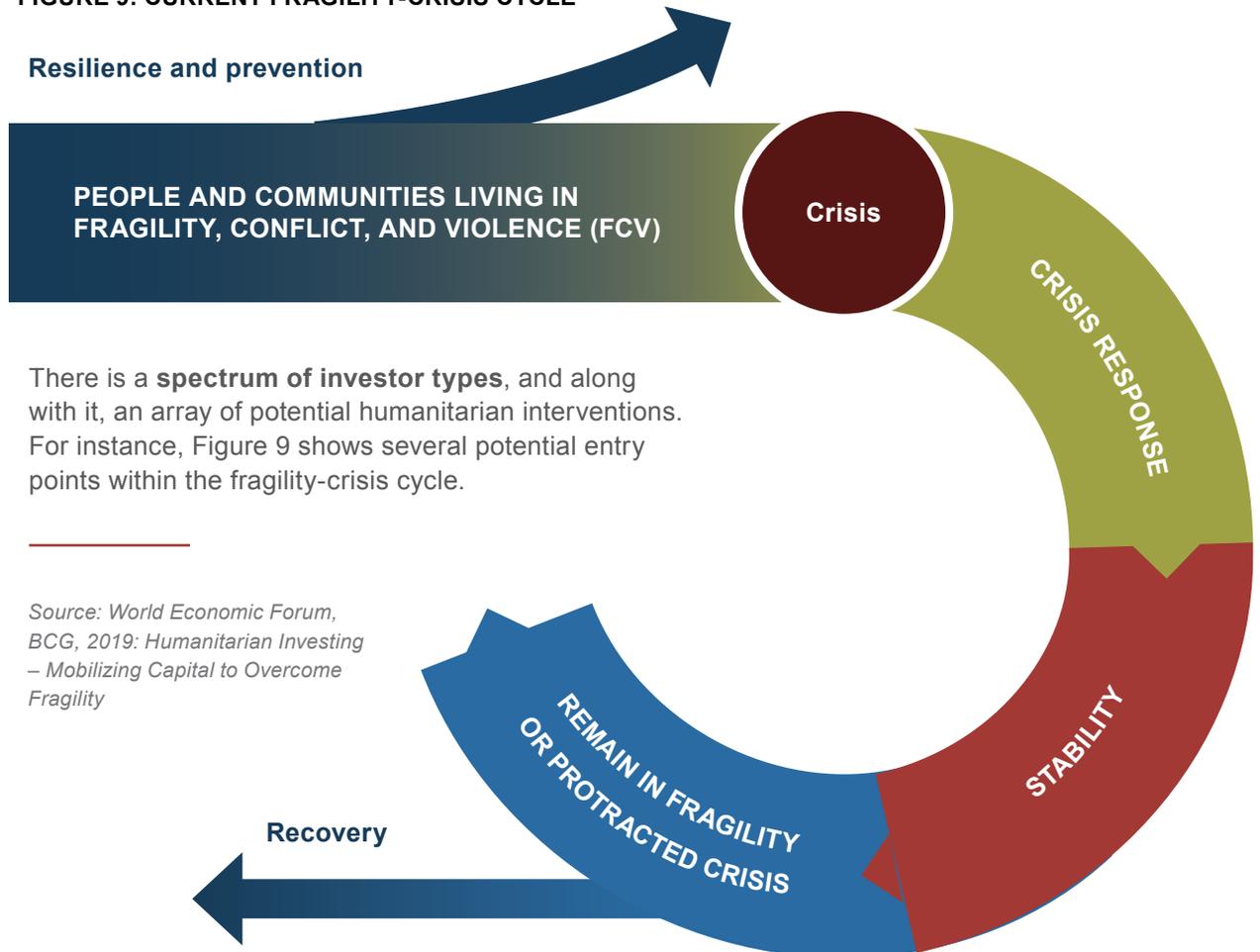
It is critical to note that even though the second investor is noted as willing to accept lower returns, they are still an investor, and thus not in the business of giving money away. While they may be willing to accept a 3% rate of return when the market would typically demand a return of 11%, the potential for a return must be present, because otherwise it is nothing more than concessionary capital. Figure 8 shows the array of investor impact and return needs

**FIGURE 8: SPECTRUM OF CAPITAL**

				Undersupply of investable opportunities relative to demand for high-impact projects	Undersupply of donor capital relative to humanitarian need
<b>INVESTMENT APPROACH</b>	Traditional	Responsible	Sustainable	Impact-driven	Donor Capital
<b>FINANCIAL GOALS</b>	Deliver competitive risk-adjusted financial returns			Tolerate higher risk	Tolerate below-market returns
				Partial capital preservation	Accepting full loss (e.g. grant)
<b>IMPACT GOALS</b>	<b>Don't consider</b> May have negative outcomes for people & the planet	<b>Avoid harm</b> Try to prevent significant effects on negative outcomes for people & the planet	<b>Benefit</b> Effect important positive outcomes for people & the planet	<b>Contribute to solutions</b> Have a material effect on important positive outcomes for underserved people or the planet	

*Source: World Economic Forum, BCG, 2019: Humanitarian Investing – Mobilizing Capital to Overcome Fragility*

**FIGURE 9: CURRENT FRAGILITY-CRISIS CYCLE**



The spectrum of possible investor types cannot fit within each type of intervention. For instance, stability, recovery, and prevention could likely accommodate the full array of investors, while crisis response is a much more specialized, deeper humanitarian context. Private capital is unlikely to find its way into a crisis response situation in a return-seeking manner, but deeply volatile contexts could be a possibility for a small subset of investors, who are willing to operate on the high impact, donor-adjacent side of the spectrum.

Some of these stages of humanitarian intervention more closely resemble the development context than others. In resilience, prevention, and longer-term recovery, interventions can be similar to development activities. In immediate crisis response and stabilization, interventions are more distinctly humanitarian in nature.

These different types of humanitarian intervention pair with different types of investors. In immediate crisis response, money is often needed quickly and with no possibility of preserving capital, necessitating involvement from “investors” to the far right of the spectrum: namely donors. Responding to a severe crisis requires swift action, which precludes the careful structuring and detailed due diligence required for an HRIT. Additionally, there is little scope or appetite on behalf of the private sector to enter such circumstances and generate a financial return. There is both an internal perception that these contexts are not the right time to profit and an acute awareness of external optics should they attempt to intervene in a profitable manner.

In longer-term resilience, prevention, and recovery, investors far closer to the “traditional” left of the spectrum can participate more actively, as they regularly do in the contemporary development field. Therefore, when considering investor participation in humanitarian contexts, attention must be paid both to the spectrum of investor types and to the variety of humanitarian interventions.

## HOW DO THEY WORK?

- **Organizational Structure:** The landscape of investors is incredibly varied. To name just a few, there are endowments, pension plans, sovereign wealth funds, foundations, insurance companies, banks, asset managers and more. All these different investor types can behave very differently, but they are all effectively ruled by an “investor policy statement” – a set of agreed-upon expectations between the asset owners and investors as to how the capital is to be deployed; this agreement is often legally binding and based on two main factors: time frame and risk appetite. Time frame is simply how long are you willing to have your capital “locked up” before you expect your return. Risk appetite is how much loss are you willing to accept for a given amount of gain. The important thing to note is that at the outset of all asset owner and investor relationships, among other details, time frame and risk appetite are clearly aligned
- **Scale:** With a market size of \$500 billion in 2018 compared to ODA worth \$146.6 billion in 2017, Impact Investing has the potential to be a major catalyst in driving humanitarian impact. The impact investment market also shows clear signs of growth, with many new players entering the industry: 50% of the impact investors surveyed by GIIN in 2018 made their first impact investment in the past decade. In addition, impact investors that have also been surveyed five years ago have grown their impact investing assets at 13% per annum, and ‘have done so in part by expanding into regions, sectors, and asset classes that have historically been less popular’
- **Typical financing instruments:** Impact investing can take many forms, from purchasing development bonds issued by MDBs, to more typical equity investments, other fixed-income vehicles, venture capital, and private equity investments

## WHAT ROLE DO THEY FULFILL?

Impact Investors provide valuable capital inflows to augment concessional financing from MDBs and international organizations by buying development bonds and other financial instruments issued and de-risked by MDBs. This is how MDBs currently leverage the private sector in funding development goals. Impact Investors also occasionally invest directly in developing country projects on their own, but this is rare because investors will have different levels of familiarity and comfort investing in fragile contexts. Those who are newer to the field, or who are just entering a new country will need further support to better understand the risks at play. A better understanding of both the broad geopolitical situation as well as the local context will help investors quantify the risks and feel more comfortable deploying cash.

## WHAT IS THEIR ROLE IN HRI?

To be active in many of the contexts relevant to this playbook, some level of innovative financing is a precondition for investor involvement. The investors, as mentioned, have a duty to their clients to ensure that the investment offers the appropriate risk-return features - failure to do so, in some instances, would be considered a breach of fiduciary duty, and is against the law. If investors are unable to get satisfactory risk/return expectations, then they are duty-bound to their clients to walk away from the investment. This is also the case with impact-driven investors, however as these clients are expressly willing to accept lower terms, and are likewise interested in having a positive impact, there is more wiggle room.

A key component in helping to establish a more favorable risk/return profile is de-risking capital. Therefore, an investor will need concessionary or first-loss capital presented by an MDB, donor government, foundation, etc. To further reduce risk, investors may wish to up their expertise through partnership. This could take several forms - potentially hiring an advisory firm, coinvesting with a DFI, or ensuring NGO involvement in a project. Investors will seek to mitigate any risks they possibly can, while still leaving space to generate a return.

## BANK-SPECIFIC CHALLENGES

- Banking regulations, such as anti-money laundering policies and capital requirements can make it particularly challenging for banks to participate in some of the more fragile contexts
- Bank can mobilize larger amounts of funds at a lower cost of capital than other mechanisms. Their flexible financial structures (e.g. SPVs) can navigate the barriers and regulations in a more adaptable manner to local circumstance
- Banks may not be known for strong innovation skills, but they are capable of substantially scaling up proven investments

## FRICIONS BETWEEN INVESTORS AND PUBLIC SECTOR

- **Perception that Investors are getting rich:** If an investor's sole purpose was to generate outside returns, they would not participate in humanitarian contexts where risks are so high that concessionary capital is required to make an investment. The private sector players who generate substantial returns in humanitarian contexts are security firms, not investors
- **Belief that investors demand too much return:** A central concern is that investors require far too much return to be active in the space and are over reliant on concessionary capital, which plays into the perception that investors are profiteering. This concern, however, really boils down to the risk appetite of the particular private sector player, as there are differences in their ability, legally, to take on certain types of risks. One key to moving away from this conversation is to look at the value and impact the private sector can provide beyond an extra source of cash
- **Private sector is impatient:** Investors returns are closely related to how long their capital is tied up. Prolonged deal structuring or false starts in deploying capital dampens investor returns. Therefore, what some counterparties may see as impatience, could actually be investors attempting to ensure their clients or beneficiaries receive the best return possible

## HOW THE PRIVATE SECTOR CAN IMPROVE ORGANIZATIONAL READINESS

- **Learn history:** Private sector actors are new to humanitarian contexts and to humanitarian organizations. They must focus on learning about the situations that they purport to want to enter. These organizations should read [Section III: Contextual Primer for HRI](#). This background material was suggested and created specifically with the private sector as new entrants in mind.
- **Study tool kit:** Understand the range of de-risking instruments and practices available that could make a humanitarian investment fit within the investor's portfolio
- **Engage partners:** Investors must be willing to engage with all organizations that come together to execute an HRIT
- **Understand partners:** Better understanding of constraints of public stakeholders
- **Engage early:** Partner to craft projects that have desirable attributes and meet goals
- **Pick sweet spot:** Matching the right private sector players with the right opportunities
- **Share learnings:** Less focus on proprietary information, more collaboration, grow the pie
- **Develop contextual awareness:** More sophisticated risk management and understanding of local context to better assess risk, and thus expect lower return
- **Focus on mission:** Retain focus on HRI from beginning to end, without pressuring the project for returns in excess of initial commitments; stay focused on dual mission of impact and return
- **Embrace metrics:** Derive value from both financial and humanitarian impact
- **Engage and support public sector:** Just as the private sector needs to understand the multifaceted and nuanced nature of the public sector, so too does the public sector need to understand the private sector. Investors must be open and help teach humanitarians about investors and investments

### EXAMPLE ORGANIZATIONS:

- Bamboo Capital Partners
- CrossBoundary
- FERD
- KOIS
- Leapfrog Investments
- Société Générale
- Volta
- Shell
- Lomard Odier
- MasterCard

### Further Reading

[Foreign Direct Investment for Development: Maximizing Benefits, Minimising Costs](#)

[Impact investing: the missing link in sustainable development finance?](#)

[Impact Investing in Developing Countries](#)

[Here's how impact investing can change the world](#)

[Investing for social impact in developing countries](#)

## MDBs

### WHAT ARE THEY?

Multilateral development banks (MDBs) are international financial institutions funded and operated by groups of countries to provide low-cost financing to poorer parts of the world, with an explicit goal to help those countries develop their infrastructure, lift citizens out of poverty, and address pressing global problems of environmental sustainability and conflict resolution. Importantly, MDBs do not seek to maximize profits from their lending, but rather focus on development goals and outcomes. Therefore, they often lend at low or zero-interest rates or provide grants to fund projects in priority areas.

### WHO OPERATES THEM?

MDBs are funded and operated by groups of national governments. MDBs are officially apolitical and subject to international law, and they essentially fall into two buckets:

- **Large international organizations:** The best-known development banks, such as the World Bank Group and European Investment Bank, fall into this category. Originally established in the wake of World War II to rebuild war-torn nations, additional MDBs were formed at the end of the Cold War to finance economic reconstruction and private sector development
- **Regional organizations:** Low-income countries sometimes pool their resources to form a regional multilateral development bank so that they can then borrow collectively via the MDB and secure more favorable financing rates than would otherwise be individually available. One example is the Caribbean Development Bank

### HOW DO THEY WORK?

- **Organizational Structure:** MDBs are owned by their shareholder countries, who invest the money which is then lent out to recipient nations. Countries control a share of votes correspondent to their investments, and typically exercise this voting power in nominating and approving the bank's global and regional leadership and voicing lending priorities. The World Bank, for example, has a President (always a U.S. citizen nominated by the United States), subject to confirmation by the 25-person Board of Directors and serving a renewable five-year term
- **Scale:** According to the World Bank, MDBs lent ~\$60 billion to developing countries in 2017, of which \$22.5 billion was concessional. However, when including the value of grants, risk-sharing instruments, guarantees and equity investments, MDB support was over \$127 billion annually—making MDBs one of the largest sources of development finance, ahead of DFIs but behind Official Development Assistance flows from bilateral foreign aid agencies
- **Typical financing instruments:** MDBs commonly issue grants or loans with very low interest rates to countries. These loans and grants can be tied to specific outcomes and are monitored by teams from the bank. The banks are key players in international capital markets, where they can raise significant funding by issuing bonds which are AAA-rated because the stakeholder governments are obligated to pay them back. This financial firepower enables MDBs to lend on favorable terms to recipient countries, often in the form of project-based loans to build large-scale infrastructure projects, or policy-based loans that require recipients to commit to certain public policy changes (e.g., privatizing a state-owned industry). MDBs act as powerful counter-cyclical financiers—at the peak of the 2008-2012 financial crisis, the MDBs and the IMF ramped up their annual financial support by 30-50%

## WHAT ROLE DO THEY FULFILL?

Importantly, MDBs are distinct from DFIs in that they are generally funded by large groups of countries as opposed to one country, and they are less concerned with spurring private sector investment and more with engendering positive development outcomes. As such, they rely more on direct grants and provide vital technical expertise around the world. This technical assistance often takes the form of advisers and experts who implement and monitor the bank's projects. These bank representatives serve as vital capacity builders by helping recipient countries translate their loans and grants into lasting programs and initiatives. MDBs played a critical role during the global financial crisis, providing \$222 billion in financing when few other institutions would lend to developing nations.

## WHAT IS THEIR ROLE IN HRI?

MDBs are clearly focused on pursuing more innovative solutions—particularly because they have historically been criticized for quickly “getting money out the door” with limited transparency and insufficient accountability on results. According to the World Bank's “From Billions to Trillions: Transforming Development Finance” report, development banks must pursue more HRI solutions and collaboration with the private sector to close the funding gap for the UN's Sustainable Development Goals. Recent examples include the IFC's development finance arm issued its first development finance bond in 2018, raising \$1.5 billion from capital markets stakeholders that would normally be wary to invest in risky countries. The African Development Bank's Fight COVID-19 development bond is another recent example, raising \$3 billion in just days to help alleviate the economic fallout of the coronavirus pandemic in Africa.

## EXAMPLE ORGANIZATIONS:

- The World Bank Group
- European Investment Bank
- Asian Development Bank
- African Development Bank (AfDB)
- Islamic Development Bank
- Inter-American Development Bank

## Further Reading

[Catalogue of the MDBs and the IMF Financing Solutions](#)

[The IMF and the World Bank - How Do They Differ](#)

[From Billions to Trillions: Transforming Development Finance](#)

[Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions](#)

[Multilateral Development Banks - Issue Brief Series for the UN Inter-agency Task Force on Financing for Development](#)

[Multilateral Development Banks - U.S. Department of the Treasury](#)

[Multilateral Development Banks – MDB Lending](#)

[Multilateral Development Banks: Overview and Issues for Congress](#)

[A guide to multilateral development banks](#)

## Nongovernmental Organizations (NGOs)

### WHAT ARE THEY?

Nongovernmental organizations describe a broad category of charities, international institutions, and local partners that operate around the world. Mainly referring to nonprofit organizations with a stated goal of positive social benefit, this category of organizations often has the most experience operating in fragile states and humanitarian contexts, as they provide the food, health services, medicine, disaster relief, refugee services, and other vital goods that the world's most desperate people need to survive.

### WHO OPERATES THEM?

NGOs range from large international coalitions of national governments to tiny charities working in a strictly local context. Some categories of NGOs include:

- **Intergovernmental organizations:** institutions made up of national governments, such as the United Nations and its associated agencies
- **International NGOs (INGOs):** large multinational organizations with operations in many countries, like Médecins Sans Frontières (Doctors without Borders)
- **Cooperative organizations:** programs that mobilize groups of stakeholders in country (such as farmer-to-farmer programs) and catalyze volunteering efforts around specific and thematic focus areas
- **Local and regional organizations:** small nonprofits located in affected countries, focused on direct service/program delivery and building capacity in local communities

### HOW DO THEY WORK?

- **Organizational Structure:** Intergovernmental organizations are run by their member states, often through a representative system of voting on initiatives and through rotating leadership positions to give every member nation a “seat at the table.” Large INGOs are often structured as nonprofit charity organizations, taking in funding from donors and providing services on the ground through their own funded operations or via contracts and affiliates. The local NGOs can be run by community leaders or private citizens and vary in size and scope. NGOs often rely on volunteers donating their time and expertise to operationalize their activities in country
- **Scale:** Hundreds of thousands of NGOs operate in countries around the world, and they are often the “last mile” of funding delivery, turning donations from foundations, institutional investors, and governments into impact on the ground
- **Typical financing instruments:** NGOs are generally do not provide financing, but instead implement funds from donors to purchase supplies, pay for staff on the ground, and provide their services to vulnerable people

## **WHAT ROLE DO THEY FULFILL?**

NGOs are often the “last mile” of funding delivery, turning donations from foundations, institutional investors, and governments into impact on the ground. Organized mostly as nonprofits, they play a vital role in the development ecosystem by providing the basic goods, services, and needs for people in dire straits. NGOs often provide the foundational resources needed for any viable private sector business to develop and flourish in poorer countries, especially in places where local government assistance and financing from the developed world is scarce for reasons of conflict, difficult environmental circumstances, or poor investment potential.

## **WHAT IS THEIR ROLE IN HRI?**

NGOs have potential to increase the impact of innovative financing solutions through partnerships with private sector stakeholders who may not have experience with developing countries. They hold key expertise in operating in fragile contexts and connections with community leaders. NGOs are often closest to the mission of humanitarian aid and understand the needs and customs of local people. NGOs work mainly through grants and have been exploring other vehicles to increase their impact. According to InterAction, the largest alliance of NGOs in the US, over 30% of international development NGOs have used impact investment funds, direct equity, performance-based contracts, microfinance investment funds, and guarantees to augment their normal grantmaking operations. Some NGOs have also created investing arms – for example, Mercy Corps Ventures connects social entrepreneurs with private sources of equity, convertible debt, and blended finance. They managed the Innovation Investment Alliance, a collaborative fund financed by USAID’s Global Development Lab and the Skoll Foundation to help scale up social enterprises’ operations and impact.

## **CAN NGOS UNLOCK BANKABLE PROJECTS?**

A key strength of NGOs is their local presence, networks, and knowledge. They are efficient at working with communities, small organizations, and local stakeholders. They have strong market intelligence, know who the key players are, and are able to speak the right language. Many interviewees agreed that a closer collaboration between NGOs and DFIs would be mutually beneficial in increasing the scale and impact of collective action.

Some interviewees argue that NGOs aren’t great at finding bankable projects because they are so focused on providing humanitarian aid and generating development impact that they ignore profitability. Others point to a substantial skill gap within the NGO sector for which technical assistance is required. Notably, this relates to developing financial mechanisms and partnering with the private sector. Up-skilling in these areas can be expensive, and not coincide with increased funding, and this, therefore, leaves NGOs unsure of the cost/benefit analysis of engaging with the private sector. Those who discount NGOs point toward a lack of sectoral experience and expertise, and note shortcomings associated with technical, heavy construction. They suggest NGOs are not empowered to respond to competitive bid processes from the private sector.

Others, however, suggest that NGOs are capable of doing specific jobs that large firms cannot do. Some NGOs are specialized in specific trade-linked construction or management activities and can deliver high quality services efficiently. These individuals suggest that NGOs can access funding through their reputation and can also develop bankable projects and win in funding competitions against the private sector.

## STRUCTURAL ISSUES OF NGO FUNDING

- **Fundraising a large portion of budgets:** On average, humanitarian NGOs spend at least 13% of annual revenues on fundraising, with UNICEF clocking in at 25%. They are structurally incentivized to spend full budgets, and so this can lead to suboptimal results
- **Empire building:** If NGOs were to properly execute on their organizational missions, there would be no need for them to exist. This tension is obvious in their budgeting issues, their tendency to scope creep, and their reticence to channel efforts through smaller, local partners. To alleviate this situation, organizations must restructure incentives to advocate for collaboration and build capacity in local operators. Major funders of NGOs must provide more flexible funding and establish targets to push toward collaborative goals, not incentives to implement on their own. NGOs are crucial contributors and valuable partners in humanitarian settings—evolving their structures will enable them to focus strongly on their core competencies and deliver superior aid, in alignment with their missions

## EXAMPLE ORGANIZATIONS

- Ashoka
- International Rescue Committee
- One Acre Fund
- Oxfam
- Partners in Health

### Further Reading

[An Overview of International NGOs in Development Cooperation](#)

[The Rise and Stall of Non-Governmental Organizations in Development](#)

[Innovative Finance for Development: A Guide for International NGOs](#)

[Non-Governmental Organizations \(NGOs\)](#)

[How reliant are big development NGOs on UK aid money?](#)

[Funding the United Nations: What Impact Do U.S. Contributions Have on UN Agencies and Programs?](#)

[Nongovernmental Organizations and Influence on Global Public Policy](#)

## Social Enterprises

### WHAT ARE THEY?

Social enterprises are private organizations with a goal of maximizing social impact alongside profits. These organizations typically take a market-driven approach to solving a social or environmental problem that is not adequately addressed by existing public sector initiatives, businesses, or nonprofits. Social enterprises are normally set up as a business, but with social goals embedded in their objectives and business models. Social enterprises are self-sustaining (not reliant on external philanthropy), but they reinvest profits into achieving their mission. Well-designed social enterprises can scale their operations in a way that increases both their profits and their impact on the community. For example, Grameen Bank provides loans to female entrepreneurs who would not normally be able to access financing. It operates as a bank and is financially solvent as a business and pursues goals of financial inclusion and equity as well.

### WHO OPERATES THEM?

Private entrepreneurs operate social enterprises, as with other businesses. Occasionally, social enterprises can be set up as a partnership between a business and public sector organizations, educational institutions, or other nonprofits, but the core definition of a social enterprise requires it to be financially self-sufficient and to operate as a business.

## HOW DO THEY WORK?

- **Organizational Structure:** Can be set up as a normal for-profit business, with social impact goals integrated into the mission statement, values, purpose, and business model of the company. In some locations, social enterprises may be registered as a nonprofit, cooperative business, mutual organization, benefit corporation, or low-profit limited liability company
- **Scale:** The social enterprise sector is still relatively new, with the idea of a social enterprise originating in the 1970s and gaining traction in the early 2000s. Social enterprises are more common in the developed world, especially in Europe, where they may represent between 1% and 5% of all businesses in countries like the UK and Italy. Social enterprises are increasingly common in the developing world, too: with many of the world's poor people now living in “middle income” countries that receive less official foreign aid, new models are required to secure access to health, education, and other positive social outcomes
- **Typical financing instruments:** Some social enterprises are set up as microfinance lenders, and they typically use small-scale loans and other traditional banking instruments

## WHAT ROLE DO THEY FULFILL?

Social enterprises do not require a constant flow of subsidies or funding from governments or foundations, so they can be more financially sustainable in the long term, and not vulnerable to ending due to external budgetary constraints or changing priorities. Well-run enterprises are also able to scale by reinvesting their profits in reaching more stakeholders, an option that isn't available for most government-run grants or even the development financing provided by MDBs and DFIs, which is often organized around specific goals, outcomes, and timelines. For these reasons, social enterprises can help fill the gap between the grant assistance given to the very poor and the financing through loans and private sector investors that is typically only available to established businesses. Social enterprises are a way to catalyze investment in small entrepreneurs and provide services to populations left behind by more traditional forms of development financing—all while growing the private sector of developing countries.

## WHAT IS THEIR ROLE IN HRI?

Social enterprises may be good recipients of HRITs from MDBs and DFIs. For example, a small-scale social enterprise could benefit substantially from a secured social impact loan or a portable guarantee to scale up its operations. Social enterprises can also be providers of HRI capital, as is the case of Grameen Bank (arguably the world's most well-known social enterprise). Grameen Bank provides small loans to very poor borrowers, almost all of them women, to make and sell items and become financially self-sufficient. As such, it is a social enterprise operating as a source of innovative microfinance for disadvantaged people. Some social enterprises are also pioneering hybrid finance solutions on the small scale, such as tiered capital structures that adjust the mix of grants and debt/equity capital over time to help the social enterprise “graduate” into long-term financial solvency.

## EXAMPLE ORGANIZATIONS:

- APOPO
- GoodWeave
- Grameen Bank
- Imazon
- Indego Africa
- Mercado Global
- United Prosperity

## Further Reading

[5 Examples of Social Entrepreneurship in Developing Countries](#)

[Financing for Social Enterprise](#)

[A New Approach to Funding Social Enterprises](#)

[Social Entrepreneurship as a Path for Social Change and Driver of Sustainable Development: A Systematic Review and Research Agenda](#)

[Innovative Financing for Social Entrepreneurs](#)

[Social Entrepreneurship: The Case for Definition](#)

[Two Keys to Sustainable Social Enterprise](#)

[Investigating Social Entrepreneurship in Developing Countries](#)

[Filling the Funding Gap: Two Innovative Ways to Improve Financing Opportunities for Social Impact Entrepreneurs](#)

# Investing in Humanitarian Contexts

Humanitarian and resilience contexts are where inhabitants struggle or fail to meet basic standards of living. The roots of the fragility – whether conflict, violence, forced displacement, natural disaster, or other pernicious causes – will affect the investability of the location, and therefore the tools needed to effectively deploy capital. The assessment of investability cannot be made at the regional or even national level but must be in depth to include the subnational context. A country might not be considered fragile, but there could be several clear pockets of humanitarian need (or a clear need to build resilience) within it, with different geneses and therefore different levels of investability.

## Definition: investable and bankable

The terms investable and bankable are often used interchangeably. They mean that a use of capital (e.g., a project) can generate a financial return, accreting more value to the investor than that which was deployed.

While innovative finance, as its name may suggest, is never easy, it becomes particularly complicated in humanitarian contexts. The following section will serve as a brief overview of some of the challenges and benefits of Humanitarian and Resilience Investing (HRI), and the overwhelming need to push through uncertainty and increase the investment universe.

Humanitarian and resilience contexts share many market-based hallmarks with emerging economies:

- Inadequate or unenforced laws and regulations
- Macroeconomic and currency instability
- Insufficient capital
- Lack of skilled labor
- Pervasive informal business structures
- Underdeveloped infrastructure
- Minimal demand
- Poor supply chains

However, in some complex humanitarian contexts, these characteristics are layered against a backdrop of inhospitable environments, conflict, violence, heightened political instability, or a combination thereof. Indeed, the political backdrop is particularly harsh when dealing with unpredictable leaders who behave counterintuitively. These leaders must approve of public and private investment, and combat corruption, provided they can and are so inclined. Unfriendly governments are a key barrier to private sector investment.

## Importance of resilience

Not all fragile contexts are the same. For instance, 29 million people in 26 countries are acutely food insecure due to climate-related shocks. Challenging governance, lack of skill, and tepid demand may not be critical risks. Building water infrastructure in northern Kenya to prevent destructive droughts clearly adds to resilience but would not fall into some of the more turbulent characteristics associated with humanitarian contexts. COVID-19 has revealed humanitarian needs in unexpected locations, many of which do not share the hallmark risks of the poorest LICs. These areas are ripe for resilience-building efforts, which can help prevent crises. Some analyses find that between two and six preventative interventions could be carried out before the cost of reacting to a crisis is exceeded.

Of course, these contexts are complicated, and HRI remains a catalyst for private capital. The private sector is far from monolithic, with many different risk appetites, experiences, and desired levels of impact. There is room to participate across the scope of humanitarian needs, from conflict- to climate-induced fragility, and to generate various levels of impact or financial return. HRI is an incredibly powerful tool that allows the private sector to generate both impact and returns.

There are a myriad of sources and drivers of instability within a government, but consensus dictates that stabilizing a government without a growing economy (and the jobs, tax revenue, and accompanying social services) is nearly impossible. In developed economies, job creation is largely the purview of big, established firms; in fragile contexts, additional support is needed in the form of Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs), which are detailed in [Organization Profiles](#).

DFIs strive to attain market rate returns, but given their governmental mandate to pursue development objectives, they can also engage in riskier investments than private institutions can. For its part, the World Bank, an MDB, has a stated commitment to enter fragile contexts and spur development and long-term growth. Within these contexts, the World Bank, in concert with its sister organization, the IFC, enhances the rule of law and improves relationships between the public and private sector. The two organizations seek to strengthen the backbone of the economy by redeveloping the value chain, (re)introducing banking, and improving communications networks. Combined, these efforts combat corruption and spur entrepreneurship.

However, even for MDBs, which can engage on a purely concessionary basis, humanitarian contexts are still challenging. They require a longer timeline as it is difficult to develop projects, navigate murky policy and regulatory environments, and capacity build within recipients. Sourcing bankable (investable) projects is an onerous task. This challenge is striking given that WBG has a growing record of operating in humanitarian contexts, robust analytical capabilities, deep financial resources, and structuring know-how, as well as meaningful scale. When the challenges are this arduous for the organizations with governmental support that are designed to deploy capital into humanitarian contexts, it is nearly impossible for private sector participants to enter alone.

Over the past ten years, IFC invested in only 75% of the then-designated FCS countries, citing widespread conflict, insufficient laws or regulations, and a dearth of investable projects as reasons for not investing in the remaining countries. IFC, due to its scale, has substantial reach. In 2016, the 15 largest DFIs invested \$1.3 billion in fragile contexts, of which IFC investments represented one third. It is particularly telling, then, that many markets remain off-limits, even for the IFC. It merits repeating: without support of local governments in cultivating the private sector, international efforts will largely revert to altruistic funding, not impact-oriented financing.

## **SUMMARY: RISKS OF INVESTING IN HUMANITARIAN CONTEXTS**

1. Reputational risk due to illicit activities or corruption
  - Military pressure or discriminatory rules that preclude operating in certain environments
  - Existing arrangements between incumbent business and government
2. Environmental, social, governance
  - Pollutive practices or need to resettle displaced populations
  - Reliance on informal institutions that are by nature not inclusive and could control important business channels
3. Financial: insufficient returns

The IFC approaches all investments with a clear set of policies and procedures, but those in fragile contexts require special levels of focus and intention to mitigate the above-mentioned risks, and a diversion from typical procedures.

## **SUMMARY: IFC'S TACTICS TO MITIGATE RISK IN HUMANITARIAN CONTEXTS**

1. A designated risk envelope provides funds for high-risk yet high-impact investments, which would otherwise be outside of normal policies and procedures
2. Robust integrity and environmental and social due diligence to screen out companies early in the process, before too much time is invested
3. Risk assessment: conflict risk, government, macroeconomic forecasts, security outlook
4. Project preparation: prepare the government and improve private sector capacity—technical assistance is a powerful tool in developing investable projects
5. Source strong local actors, or bring in new ones
6. Employ blended finance

## **ESG: CRITICAL IN EMERGING ECONOMIES, BUT PRESENTS UNIQUE CHALLENGES**

At the DFI Fragility Forum in February 2020, 27 multilateral and bilateral DFIs asserted that investing responsibly in fragile environments is a public good and that the higher costs in doing so are warranted as ESG is a cornerstone of healthy development and should never be sacrificed. Key hurdles to implementing ESG in humanitarian contexts are the incremental layers of complexity, outdated technology, insufficient infrastructure, and undeveloped processes.

IFC's portfolio in fragile contexts trails its overall average for two key reasons:

1. Finding bankable projects is challenging—many funds remain undispersed and investment sizes are smaller.
2. Extensive due diligence and preparation are more granular, nuanced, and time-intensive efforts than in developed markets. Preparation entails structuring the project, developing capacity within the government, evaluating sponsors (fund recipients), ensuring environmental and social issues are thoroughly addressed, providing security for local staff, and evaluating the likely impact of the project.

While finding adequately sized bankable projects in humanitarian contexts is a structural challenge, IFC's other efforts in due diligence and preparation help lay the foundation for profitable private sector involvement in the space. To further engage the private sector, DFIs provide subsidies to reduce entry costs, build capacity, offer technical assistance, and invest alongside pioneer firms to mitigate uncertainties.

## Problems, but not projects

Overwhelmingly, interviewees noted an abundance of funds, but a dearth of bankable projects. Project sizes are often too small, with expected returns insufficient to cover due diligence costs. Until organizations learn how to invest in smaller projects profitably or bundle projects, these important efforts will have to proceed without private capital.

Many projects in humanitarian settings do not meet ESG or have not been designed to meet ESG requirements imposed by DFIs/MDBs or institutional investors. While these organizations are willing to help implement improvements at the project level, many local project leaders view the requirements as too costly and time consuming to merit the effort.

In many settings, DFIs are accustomed to organizations approaching them with thoroughly described, buttoned-up projects in need of funding. In humanitarian settings, this is simply not the case. Potential investors need to find a way to source projects, either through their own internal teams or through partners on the ground.

Finding bankable projects requires expertise on two sides: sourcing and structuring. [Nongovernmental organizations \(NGOs\)](#) are a common on-the-ground actor, but they are viewed as largely unequipped to develop a project. Staff are mission-driven and too focused on the goal of helping people to dedicate time to understanding DFIs and financial structures to identify or present compelling projects. Beyond financial expertise, identifying projects also requires project development and industry expertise, which are typically outside the scope of NGO job functions.

The scant, but growing, number of projects coupled with organizations attempting to meet target dollar values of funds deployed in fragile contexts mean everyone is vying for the same projects and destroying value through excessive competition.

The Multilateral Investment Guarantee Agency (MIGA) reports outside returns in fragile contexts, yielding 14.5% from 2006 to 2011, compared to 9.7% for LICs and 6.2% globally. This experience reflects some of the key advantages of investing in humanitarian contexts:

- Low-cost labor
- Unfettered access to natural resources
- Clear market needs for basic services
- Accelerated, dramatic growth during periods of geopolitical calm or upticks in government spend

HRI is a key tool to make investing in fragile contexts more palatable. Various mechanisms are described in the coming pages, but blended finance, which entails pairing concessionary capital with investment capital, is particularly common. In 2018, more than 40% of IFC's investment in fragile contexts were supported by some form of blended finance. However, those situations that need blended finance the most, see the fewest transactions, with most concentrated in insurance. Therefore, as discussed in [Evaluating Organizational Readiness for HRI](#), it is critical to have an organizational mandate focusing efforts on the most fragile contexts.

# Innovative Finance

---

## Overview

In the early 2000s, innovative finance was regularly discussed in the context of development. Since then, it has continued to evolve. In 2009, the UN secretary-general provided an update on innovative finance, highlighting the vast array of mechanisms that had proliferated. During the past two decades, innovative finance has been applied to many development settings, and also within climate finance, including the development debt-for-nature swaps and green bonds.

Today, there are probably as many definitions of innovative finance as there are mechanisms that fall within its scope. In this playbook, the term Humanitarian and Resilience Investing (HRI) has been used in lieu of innovative finance because it describes contexts where innovative finance thrives, where this playbook seeks to channel capital, and because it does not evoke the same level of confusion.

As complicated and inaccessible as some of the mechanisms may seem, the logic behind HRI boils down to a straightforward equation:

$$\text{Funds} \times \text{Transmission} = \text{Impact}$$

Increasing the funds or improving the transmission increases the impact. This may seem simple, but significant complexities exist in raising and deploying funds. Innovation and collaboration are required to improve the process and drive greater impact.

Within HRI, the focus is on crowding in capital that would not typically be available in the relevant circumstances. This money is additive or catalytic, provides diversification, complements ODA, and increases scale or liquidity. The transmission of funds needs to be reliable and should meet the additional criteria of being “timely, predictable, adequate, and sustainable.” The impact component highlights improved outcomes, enabled either by the structure of the transaction or the unique collaboration of the partners involved, who bring different areas of expertise and whose different preferences enable an efficient redistribution of risk.

Organizations can leverage innovation to maximize the above formula by focusing on collaboration and using new and old tools in different ways, with respect to both fundraising and fund deployment. This interpretation of the role innovation plays is intentionally broad as organizations have different capabilities and appetites. The goal of this playbook is to enable a wide variety of organizations to engage in HRI. To be as inclusive as possible, the scope of the tools discussed is also broad.

## HRI PRESENTS ENORMOUS OPPORTUNITIES

HRI can be costly to implement, but it drives considerable value. It helps access new funds or provide liquidity and improves the implementation of aid, thereby driving greater impact. Without HRI, the only alternative would be purely donated funds, which would be at a smaller scale and disbursed without the benefit of employing market mechanisms to drive value. Additionally, HRI brings many groups together. This diversity enables groups to specialize their efforts, and for each to play to its strengths. Similarly, groups have differing risk appetites, whether financial or situation-specific, and HRI divides and optimizes these risks to satisfy all risk, return, and impact needs.

## DRIVERS FOR PRIVATE SECTOR ENGAGEMENT IN HRI

- **Mission:** Some private sector organizations have an internal mandate to generate good in the world. These investors would engage in HRI as part of their overarching corporate mission
- **Market opportunity:** The private sector may see an opportunity to capture investors' or customers' desire to have impact and use their ability to drive impact as a key area of differentiation. Investors may also believe there is a reasonable investment case to enter the market and choose to do so without regard for the impact
- **Willing partners:** Investors can be coaxed into fragile contexts if there are willing and able partners who can syndicate risk and improve execution performance, thus raising the likelihood of returns

## DRIVERS OF PUBLIC SECTOR ENGAGEMENT IN HRI

- **Fund distribution:** If private sector capital is brought to bear, then organizations can deploy their capital to reach more people in dire humanitarian need
- **Fund multiplier:** Private capital in HRI will likely come in with more than a 1:1 ratio of concessionary capital, so the public sector could benefit from a disproportionate increase in funds to distribute in needy humanitarian contexts
- **Impact multiplier:** Cooperation and differing areas of expertise could generate greater humanitarian impact for people in need
- **Foundation for self-help:** If the public sector can cultivate interest within the private sector to act in humanitarian spaces, then the private sector's market-driven mindset could help establish self-sustaining solutions in humanitarian contexts
- **Private sector mindset shift:** The private sector has not historically been involved in serving humanitarian need as part of its core business (and for many, not even as charitable work). If the public sector can introduce some of the ongoing challenges of humanitarian contexts, it is possible that the private sector may have an eye-opening experience and change its ways

## HRI: A POWERFUL TOOL, BUT IN THE RIGHT SITUATIONS

HRI is an incredibly powerful tool in the humanitarian space. Any project or intervention that is structured as a purely donations-based intervention could better be completed in partnership with the private sector, for two reasons:

- **Extend reach of donated funds:** If the private sector contributes capital to an intervention, then the concessionary capital it replaces can be used to deliver more aid, reaching deeper along the humanitarian need spectrum
- **Improved impact:** Cross-stakeholder collaboration entails bringing together different skill sets and expertise. This diversity will lead to improved results. Additionally, organizations have different missions and limitations. When working alone, there is a relatively narrow band in which they must operate. When working together, they can share risks and adjust roles and responsibilities to add humanitarian value in a wide array of contexts

However, several conditions must be met for HRI to be feasible:

- **Navigable market:** Political regime and financial regulations accommodate private sector participation
- **Bankable projects:** Opportunity to invest in a project that generates impact, but has cash flows or other features that can provide a return to investors
- **De-risking partners:** Donors must provide concessionary capital
- **Execution partners:** HRI requires collaboration—other stakeholders can enhance the probability of success by de-risking further through local knowledge or implementation expertise

There are also situations where HRI is not the appropriate course of action. These are contexts when private investment and partnership will not function or are unlikely to function:

- **Crisis response:** Responding to a severe crisis requires swift action, which precludes the careful structuring and detailed due diligence required for an HRIT. Additionally, there is little scope or appetite on behalf of the private sector to enter such circumstances and generate a financial return. There is both an internal perception that these contexts are not the right time to profit and an acute awareness of external optics should they attempt to intervene in a profitable manner
- **Excessive costs:** If structuring an HRIT will cost more than the value delivered by involving the private sector (both funds and impact), then do not move forward with the transaction
- **No partners to provide adequate de-risking:** Organizations should take appropriate, measured risks, and if the prospects of a successful intervention are bleak, they should find better alternatives for their capital
- **No concessionary capital needed:** Do not use HRI in contexts where a public market solution could exist. Using HRI in such a scenario is inefficient from a donor capital perspective and harms a potentially well-functioning market

## HRI CHALLENGES

- **Do not underestimate the costs:** HRITs are complicated to structure and can entail hiring an internal team as well as consulting external financial and legal support. Organizations that enter a HRIT looking for more private sector money are destined to be disappointed – HRITs must deliver on both scale and impact of investment
- **Value for money:** The organization must have a clear understanding of value for money, and the added value of HRI to a humanitarian response. As the scale of humanitarian needs continues to outpace capacity to respond, further evidence is needed to demonstrate how HRI can play a meaningful role in improving the effectiveness and efficiency of humanitarian aid in line with humanitarian principles. This concept is becoming increasingly common with donors and will help organizations understand what they must get out of HRITs to make them worth the effort
- **One size does not fit all:** Generic innovative instruments cannot be applied in all situations; rather, specific instruments must be structured around particular situations and desired outcomes. The bespoke nature of HRITs dampens replicability and creates a steep learning curve, but it also enables the improved effectiveness of the tools deployed
- **In it for the long haul:** HRITs are multiyear instruments. Many humanitarian aid organizations are not set up to operate in situations for prolonged periods of time, despite the protracted nature of many crises. To use a HRIT, organizations must acknowledge a longer-term presence in a situation
- **Focus on hard-to-reach areas:** Ensure that de-risking capital is only deployed if a unsubsidized investment is impossible. Subsidized investments can crowd out the market and hurt situations by not letting them build up in a sustainable manner

## Instrument Types

There are numerous ways to categorize HRITs. One simple taxonomy is to divide them into **four categories**:

1. Financial products
2. [Risk mitigation](#)
3. [Results-based tools](#)
4. [Technology-enabled solutions](#)

This division is not perfect, as some tools fall within more than one category and can be applied in different ways across a range of constructs. Not all these financial instruments will appeal to all actors; indeed, some heavily regulated stakeholders may only participate in specific ways in a subset of transaction types.

### FINANCIAL PRODUCTS

HRI financial products are often just traditional financial products deployed in unique ways. Those described below are largely debt instruments; however, impact investments or thematically focused investment funds could be included within this segment as well.

A classic financial product is a **loan**, which must be paid back, often with interest, by a specific, contractually determined date. **Secured social impact loans** are secured against an asset and provided by both social and commercial banks. These loans are typically suited for stable, cash-generating projects. A key challenge associated with them is securing the requisite collateral required for the loan. An **unsecured social impact loan**, conversely, does not require collateral. However, there are not as many willing loan providers, which are typically relegated to trusts, foundations, and high-net-worth individuals. Given that there is no collateral and fewer lenders, interest tends to be higher. This type of loan is typically used for riskier, cash-generating projects.

#### Global Concessional Financing Facility (GCFF)

The GCFF was launched in 2016 with co-sponsorship by the UN, the World Bank, and the Islamic Development Bank. It utilizes concessional capital to reduce rates on loans, unlocking a larger amount of loans. The facility was created to help middle-income countries that host refugees, but which were not eligible for the IDA concessional loans. This GCFF targets Lebanon and Jordan, but in April 2019, it granted \$31.5 million to support Colombia during the influx of Venezuelan refugees. The GCFF's goal is to secure \$1.5 billion in grants to unlock \$6 billion in lower-rate (concessional) loans. By the end of 2018, the fund had secured \$600 million in grants and deployed \$2.5 billion in loans. Donors include the UK, the US, Sweden, the Netherlands, Canada, Denmark, Germany, Japan, and the European Commission.

**Equity** rewards investment with an ownership stake in the target entity. The value depends on expectations surrounding the entity's profitability. Relative to other instruments, equity investments are uncommon in the HRI space.

## Africa Improved Foods

Africa Improved Foods (AIF) was founded in 2016 and is based in Kigali, Rwanda. The company's mission is to reduce malnutrition in the region while shifting elements of the global humanitarian value chain to Africa. AIF is for-profit joint-venture between the Government of Rwanda, Royal DSM, IFC, FMO, and DFID Impact Acceleration Facility.

The business produces nutrient-rich food products which are distributed under a commercial brand for profit, with similar versions of the products sold at cost to public benefit organizations including the WFP and Rwanda's Ministry of Health. The company uses the commercial line to cross-subsidize the non-profit sales, lowering their cost. Many of the products are tailored to high-priority groups such as pregnant women and post-breastfeeding children.

Aside from combatting malnutrition, the organization generates a positive economic impact for the region by shifting spending in humanitarian food supply chains to Africa, stimulating job creation and development. Additionally, it reduces environmental harm by localizing East African humanitarian food supply chains, reducing freight emissions.

The company is growing well: it has recently broadened its sourcing of soybeans to Malawi through an expanded partnership with the Clinton Foundation, and has opened a new plant in Ethiopia. AIF is a clear success story and expects to add 2% to manufacturing's contribution to GDP and 5-10% to the export sector's contribution to GDP.

**Contingent credit** is a risk-reduction mechanism under which credit is granted to an institution when a certain condition is triggered, with negotiated interest rates and maturity criteria. This guards against unforeseen risks by providing liquidity to deal with the situation associated with the trigger conditions—it can be seen as a form of insurance. Like typical insurance products, contingent credit can have a parametric trigger, enabling speedy payment. Given that this type of credit typically applies in times of crisis, the subscriber may need to prove the existence of adequate mitigating measures to receive such credit.

## JICA's Stand-by Emergency Credit for Urgent Recovery (SECURE)

Japan's International Cooperation Agency (JICA), a foreign aid organization, established SECURE in 2013 to provide contingent credit for developing countries in the wake of natural disasters. SECURE provides post-disaster financing of up to ¥10 billion or up to 0.25% of country GDP based on prior agreements with JICA.

The first agreement signed between Japan and the Philippines proved prescient, as Typhoon Yolanda activated ¥50 billion of SECURE funding. The emergency financing helped the Philippines recover from the disastrous typhoon by supporting the Build Back Better reconstruction activities while also boosting capacity on disaster risk reduction and management. JICA also signed a SECURE agreement with Peru to strengthen disaster prevention and response and improving emergency warning systems.

The immediate funding available through SECURE helped both recipient countries recover more quickly in the aftermath of natural disasters and demonstrates the effectiveness of rapid financial response and also the power of incentivizing more preventative measures.

### Further reading

[Providing Contingent Lines of Credit for Disaster Risk Financing](#)

[Signing of Japanese ODA Loan Agreement with the Republic of Peru](#)

[Signing of Japanese ODA Loan Agreement with the Republic of the Philippines](#)

[JICA ramps up aid to PH disaster recovery with 50B Yen emergency assistance](#)

## IDA's Immediate Response Mechanism and Crisis Response Window

Since 2011, the World Bank's concessional finance arm has allowed countries to rapidly access up to 5% of their undisbursed IDA investment balances following a crisis. The Immediate Response Mechanism and Crisis Response Window cut the lead time for financing from several months to just weeks, with most small countries able to access up to \$5 million in emergency financing for recovery efforts, such as scaling up safety nets, repairing basic infrastructure, and boosting health and medical response. These tools are two components of the IDA's \$1.3 billion response to the global COVID-19 pandemic.

### Further reading

[Immediate Response Mechanism](#)

[Crisis Response Window](#)

[Financing of pandemic response: where does the money come from?](#)

## Inter-American Development Bank's Contingent Credit Line and Contingent Credit Facility for Natural Disasters

The Inter-American Development Bank (IDB) operates two programs to help member countries cover urgent needs in the wake of a natural disaster. Set up in 2012, the Contingent Credit Line (CCL) for Natural Disasters provides up to \$2 billion in rapid relief and augments the existing \$600 million Contingent Credit Facility (CCF), which offers loans with financing terms prepared in advance and disbursed after IDB has verified the occurrence of a disaster.

The CCF is used to help cover "extraordinary government expenditures incurred six months after the disaster," including emergency sanitation equipment, medications, temporary shelters, and water and food for affected populations. These loans have the same conditions as a typical investment loan, with a maturity period of 25 years, a grace period of five and a half years, and an interest rate benchmarked to LIBOR. Loans from the CCL are shorter term, with a six-year maturity and three-year grace period.

Seven Latin American countries accessed the CCF in the years following its creation, with IDB disbursing almost \$1.4 billion in emergency financing to Honduras, Ecuador, the Dominican Republic, Panama, Costa Rica, Peru, and Nicaragua from 2009 to 2014. These emergency loans were critical to financing reconstruction activities following earthquakes and other natural disasters in the affected countries.

### Further reading

[IDB announces \\$8 billion in new credit lines to deal with external shocks, natural disasters](#)

[What is the Contingent Credit Facility?](#)

[Development and implementation of financial mechanisms and instruments](#)

[Evaluation of Contingent Lending at the IDB](#)

**Counter-cyclical loans** (CCLs) provide flexibility in light of exogenous shocks. They entail an up-front agreement whereby debt payments are automatically reduced or temporarily cancelled should a crisis occur. The goal of this instrument is to free up capital, preventing the need to secure a new loan or restructure existing debt.

## Agence Française de Développement (AFD) PTCC Counter-Cyclical Loans

AFD pioneered the use of CCLs to help vulnerable countries respond to shocks in commodity prices.

Introduced in 2007, AFD's Prêt Très Concessionnel Contracyclique (PTCC) enables borrowers to temporarily suspend debt payments following a shock to the intercountry terms of trade. PTCC carries a shorter fixed grace period on loan repayments but allows borrowers an additional five-year floating grace period if export revenues fall below a certain threshold. This approach reduces the risk of borrowers defaulting on development loans due to changes in the price of their core exports (often agricultural goods or commodities like oil and minerals).

Through the PTCC, AFD has provided 16 loans to five sub-Saharan countries at a total value of approximately 350 million euros. AFD plans to expand its counter-cyclical lending activities to middle-income countries, through its new Prêt à Remboursement Variable et Reechelonable facility, which is still under development.

### Further reading

[Extending Countercyclical Loans](#)

[AFD-UNDP Financing the SDGs in the Least Developed Countries](#)

[Loans: AFD's main financing tool](#)

A **debt swap** enables a creditor to transfer a portion of the capital they should have received from the issuer into a contribution toward said issuer, which is typically a country. In this case, donors will consider the capital relinquished ODA. Debt swaps are not viewed as creating additionality since no incremental capital is deployed, only the payment terms change.

### WFP debt-swap funding

Debt swaps can provide funding for humanitarian efforts and relief from immediate debt pressures. For instance, Russia canceled all \$40 million of Mozambique's debt to it, on the condition that Mozambique give an equivalent amount of money to a program to feed 150,000 schoolchildren over a five-year period in partnership with the WFP. The WFP is investigating similar debt-swap-funded projects by France in Africa's Sahel region and by Russia in southern Africa.

## Risk Mitigation

Risk mitigation encompasses subsidies, guarantees, insurance, and options, among other tools. Guarantees are mechanisms to help organizations or projects that under normal circumstances would not be considered bankable to gain access to financing. Guarantees reduce risk to investors, by assuring the investor of some return of capital even if the debtor is unable to make repayments. There is usually a fee to purchase a guarantee, but they are often offered at concessionary rates in the humanitarian context. While the debtor organizations maintain control of investment decisions, they may need to provide some concessions to the guarantors, such as offering a seat on the board or agreeing to certain parameters with respect to investments or fund distribution. There are **four broad types of guarantees**:

1. **Individual loan guarantees** provide protection on specific transactions to facilitate a particular loan. They are typically instituted with a contract, securities deposit, or derivative.
2. **Portable guarantees** are linked to a specific borrower, and so this guarantee provides assurance across different loans and even different lenders.
3. **Balance sheet guarantees** help institutions raise risk capital quickly by improving their credit rating through this purchased protection. The guarantee can be implemented with a contract, equity, returnable grant, securities deposit, or derivative.
4. **Portfolio protection** applies to a creditor/investor and insures its investment against certain losses, enabling it to delve into riskier segments of the market. This differs from the other guarantees, which apply to a debtor and allow the debtor to present a more attractive opportunity to creditors. Portfolio protection can be implemented via a contract, securities deposit, SPV, or derivative.

## AFD Guarantees – Extending Coverage

Guarantees are one of the first instruments many think of when they hear the term innovative finance, and indeed, they are an often-used tool that provides a clear level of coverage applicable in a variety of situations. However, sometimes guarantees do not enable the private sector to go far enough, and by virtue of the constraints around them, they still render the lowest-income, most fragile contexts off-limits.

This was the case with AFD, until it took determined measures to change its approach. Typically, AFD offers guarantees that cover 50% of final loss, with a minimum coverage of around \$100,000. However, in particularly remote, challenging areas, the final loss coverage is too low, and the minimum deal size too high for companies to accept. Because of this, AFD did not provide any guarantee products to financial institutions or microfinance institutions (MFIs) in fragile or conflict-affected countries, and so they recognized a clear need to change approach.

AFD and its DFI subsidiary, Proparco, estimated that if they could accept up to 80% of final loss and decrease coverage amount to financial institutions' and MFIs' portfolios that included loans to very small and small enterprises (\$500 to \$150,000), they would be able to serve even the most fragile communities.

This meant upping the traditional 50% final-loss threshold usually considered a responsible business practice, as well as including loans in the financial institutions' and MFIs' portfolios that were significantly lower, meaning those entrepreneurs taking on the loans were heading businesses with fewer than ten and possibly even fewer than five employees and thus significantly higher risk. With a grant of €3 million for the pilot phase funding from AFD, Proparco was in a position to award two guarantees for a total of \$4 million.

Since the creation of this new guarantee mechanism, Proparco has offered it to Advans Cameroun, an MFI, to ensure Advans serves communities in northern Cameroon and the Anglophone region, as well as to Vitas, a Lebanese MFI, for young entrepreneurs in those regions hit hardest by the Syrian crisis and the influx of Syrian refugees. It is too early to tell what the portfolios that the guarantee will cover will look like: the average size of loans and the total number covered have yet to be determined since the determination period is two years.

There were **two key elements** for the success of Proparco's new guarantee instrument:

1. The conviction that serving clients who would traditionally be seen as too risky was necessary if small businesses were to be reached
2. A willingness by the boards of AFD and Proparco to heed the argument that the new frontier for DFIs is fragile and conflict-affected countries where even successful businesses are smaller than their counterparts in less risky markets, and where the risk of those businesses failing is inherently much higher, meaning that local banks and MFIs cannot assume too much risk

## Partial Guarantee Credit Facility

Sida, Sweden's development ministry has teamed up with the UNHCR and the Grameen Crédit Agricole Foundation (GCAF) to facilitate the provision of affordable financial and nonfinancial services, including loans, financial literacy, and business development training, to refugees and their host communities by de-risking the endeavor for both financial services providers (FSPs) and microfinance investors.

Sida has guaranteed up to \$15 million to partially cover loan defaults. GCAF will provide debt funding to three FSPs with the guarantee from Sida. The facility entered development in 2016 and is slated to ramp up operations in Uganda and Jordan. In conjunction with the consulting firm Microfinanza, a needs assessment was undertaken in 2018 in both Uganda and Jordan to determine what financial and nonfinancial services are most needed in the respective refugee and host communities.

**Insurance** is a key tool to mitigate risk, and it comes in many forms where the subscriber transfers risk to the insurer or to capital markets more broadly. It is possible to pool across a group of subscribers, thus lowering risk for the insurance company and cost to the subscribers. When entering an insurance contract, it is vital that the anticipated payouts meet the needs, the triggers are thoughtful and accurately devised, and payout is reasonably assured.

Typically, insurance is used to defray catastrophic risks that are unlikely to occur, such as those related to geophysical or climate-related crises. The premiums paid are determined by the likelihood of an event and the potential payout required. The more likely the event, the less likely that there is a willing insurer at a given premium. For risks that represent a relatively small expected financial impact, a good possible solution is donor grants or funding from the national budget. For risks with high expected cash value and frequency and those best solved by insurance or grants, contingency financing from an MDB could prove useful.

One demarcation between different types of insurance is based on how payouts are determined. Under familiar indemnity insurance, the insured party must file a claim for damages incurred, and payouts are based on the assessment of the actual loss suffered. Under parametric insurance, objectively measurable indicators are used to trigger a payment. For example, a farmer takes insurance against the possibility that excess rain damages their harvest. If they have an indemnity insurance policy, they must file a claim and an assessment must be made of the actual loss incurred. If they have a parametric insurance policy, then the policy may pay out based on the higher-than-average rainfall itself. Indemnity insurance ensures that payouts are adequate and not excessive with respect to the assessed loss, thereby minimizing basis risk (risk of a mismatch between funds needed and funds received); parametric insurance facilitates quick payouts and low verification costs due to the absence of a loss-assessment process.

Parametric products have become popular and had many successful implementations; however, their quantitative nature requires substantial data inputs. It is critical that triggers are independent and easily verifiable. Parametric products are customizable in that specific triggers are set, and multiple triggers can be employed. Parametric triggers limit the risk of moral hazard (organizations knowingly entering unadvisable situations), but they do present a level of basis risk.

### **World Bank Famine Action Mechanism (FAM)**

Food insecurity is a major global problem, with more than 124 million people, half of whom live in conflict zones, currently experiencing crisis-level food conditions. Detecting and responding earlier to famines can save lives and reduce suffering. A quick response also makes interventions more cost-effective, potentially lowering humanitarian costs by as much as 30%.

The World Bank is partnering with Microsoft, Google, and Amazon Web Services to better predict famine risk with an early warning system. This system will link to “prearranged financing to ensure that funds are released before a crisis emerges” —a unique system that seeks to make financing for famine relief more predictable and strategic.

FAM is part of the World Bank’s broader strategy to shift from crisis response to better forecasting risks and preventing crises before they occur. FAM will be piloted in five countries with food-insecurity challenges.

### **African Risk Capacity (ARC)**

ARC launched in 2012 with funding from public donors and foundations. Its focus is to combat risk and severity of weather-related crises. One arm within ARC focuses on building capacity within countries; the other arm provides insurance to all member countries on a pooled basis. Since inception through 2018, the fund has provided \$400 million to help support communities facing drought.

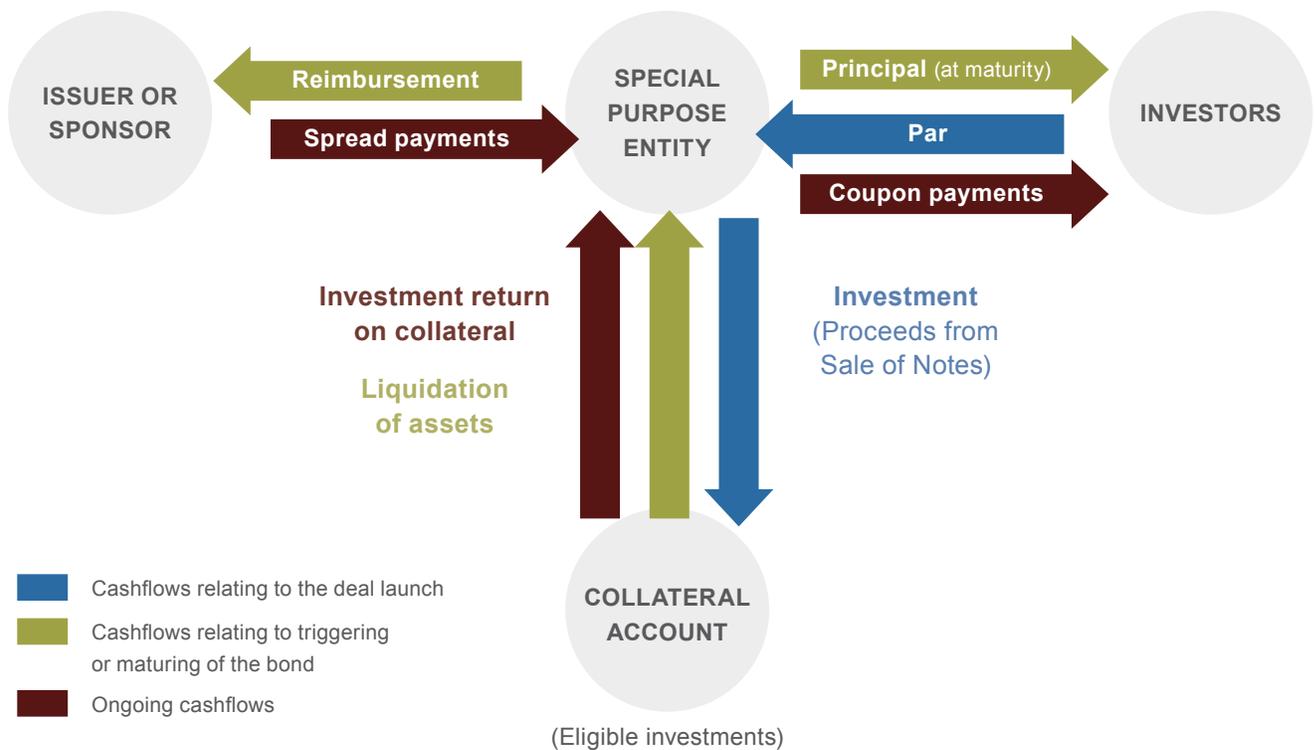
## Caribbean Catastrophe Risk Insurance Facility (CCRIF)

CCRIF was established in 2007 to help Caribbean governments withstand the financial ramifications of natural disasters by swiftly providing funds when policy triggers were hit. The World Bank developed the fund, and capitalized it with donor capital, and premiums from participating governments. As of January 2019, the fund had paid out a total of \$103 million spread across 36 events to 13 governments.

**Industry-triggered insurance** pays out based upon events within an industry or region. **Micro-insurance**, often described as a class unto itself, is typically parametric insurance that is bundled with other products (e.g., micro-credit) and sold to low-income clients. **Sovereign risk pools** enable governments to transfer risks to reinsurance providers and the financial markets more broadly. They can secure favorable insurance rates by virtue of their scale and distribution across various risk types and so obtain better rates than individual states could secure on their own.

**Catastrophe (CAT) bonds** are an instrument to transfer risk to the capital markets. There are three key roles within the CAT structure: the issuer or sponsor, a special purpose entity, and investors (see Figure 10).

**FIGURE 10: KEY ROLES IN CAT STRUCTURE**<sup>131</sup>



The issuer or sponsor can be an insurance or reinsurance company, a corporation, or even a government. The issuer seeks protection from the financial implications of a catastrophic event, such as a natural disaster, and pays premiums. On the other side of the equation, investors are willing to bet that the catastrophic event will not occur. Investors purchase the bond through the special purpose entity. The entity invests the principal and collects monthly premiums from the issuer. Investors receive regular coupon (interest) payments.

Following the term of the loan—typically three to four years—if no qualifying event is triggered, investors receive their principal in full. However, should a qualifying event occur during the coverage period, the investor loses all or part of the capital used in purchasing the bond, and the issuer receives the capital to cover losses.

This transaction is far more complicated than traditional insurance, yet with that comes valuable features. On the issuer side, it can secure protection from catastrophic losses, diversify reinsurance providers, and feel secure as the protection is collateralized and safeguarded by the special entity. Additionally, the issuer can customize the product needed and secure multiyear coverage at a stable price.

Investors in this type of transaction have historically been Insurance Linked Securities (ILS) fund managers, who accounted for 70% of new interest. Recently, other institutional investors, such as pension funds and asset managers, have stepped into the space. These investors seek CAT bonds because they provide diversification from an asset allocation perspective. They generate high returns in the context of the broader fixed income market, are liquid, and are not volatile.

### **Pandemic CAT Bonds**

The World Bank issued a pandemic catastrophe bond in July 2017, which remained untriggered despite the Ebola outbreak. There were four triggers required to ensure payout, and while the first two were confirmed immediately, the second two are still pending verification:

1. More than 250 deaths
2. International spreading of disease
3. Rolling number of cases confirmed at time of triggering
4. Growth factor in rate of new cases reported

This example demonstrates the importance of setting clear, transparent, and easily verifiable triggers up-front. While these criteria could not provide immediate support for the Ebola outbreak, as of March 31, 2020 all conditions were met for the COVID-19 outbreak, triggering an expected payout of almost \$196 million.

## Danish Red Cross: Volcano CAT Bond

The Danish Red Cross (DRC) is issuing a callable 2-3 year \$10 million volcano CAT bond to provide early financial assistance in the wake of an eruption from one of ten volcanoes selected based on their high threat to vulnerable communities. The bond is a form of parametric insurance, as the single variable of the height of the ash column released by an eruption triggers payment to the DRC and communities of concern. The DRC selected this metric because it is easy and quick to verify and because it is well-correlated with the expected damage caused.

A blockchain system triggers payments within hours of an eruption, potentially releasing funds before ash from the eruption falls to earth, causing the majority of the expected damage. The bond is paired with a sophisticated model to quickly predict where humanitarian funding will be needed, optimally directing payments. The bond is a type of Insurance-Linked Security, which the DRC will domicile in Guernsey and list on the Channel Islands Stock Exchange.

### Key players:

The **DRC** is the sponsor, responsible for developing the bond and issuing payments to investors should it remain untriggered. **Replexus** is an advisor, intermediary, and blockchain administrator. **Mitiga Solutions**, a spinoff of the Barcelona Supercomputing Center, is responsible for the modelling associated with structuring the bond (including the selection of volcanoes posing high humanitarian risk), the verification of ash column height in the event of an eruption, and the modelling to direct payments post-eruption. **DFID's** Natural Disaster Fund LP is a strategic partner.

### Why a volcano bond:

1. **The Red Cross is grossly underfunded** to respond to volcano-related catastrophes but is exposed to significant risk from this possibility.
2. **Volcano-related loss is delayed, unlike other perils.** Thus, the Red Cross can model the trajectory of the volcanic ash cloud using prevailing winds to better estimate the impact and more effectively guide CAT bond proceeds. This makes the project the very first blended CAT bond that allows for ex-ante (anticipatory) and ex-post (actual) disaster and catastrophe financing.
3. **Diversification for investors:** ILS managers have little to no direct exposure to volcano-related catastrophes, so this offers uncorrelated returns.

### Factors enabling potential success:

1. **A blockchain system enables low costs and transaction efficiencies.** Costs are reduced by \$200-400k per issue relative to traditional settlement systems, investors save 5-10 basis points annually by being able to hold their own securities rather than rely on a financial institution for this service, secondary trades of the bond can be made instantly and without transaction costs, bond issues take minutes rather than days, and MiFID II requirements for market transparency are automatically fulfilled.
2. **Choice of financial instrument minimizes complexity and cost.** A cat bond lite was chosen instead of a 144A security, because it is simpler and easier to set up and has lower transaction costs. Nevertheless, a cat bond lite is as well regulated as a 144a security and can be traded as a secondary.
3. **Sophisticated modelling gets money to the right places.** Mitiga Solutions has used its extensive expertise to develop a state-of-the-art model using stochastic and Monte Carlo methods on numerous data inputs to predict where funds will be needed.

## Obstacles:

1. **COVID-19 has caused funding issues** for the project. In early 2020, partial funding for the final development phase fell through due to COVID-19. Additional funding is being sought from private sector partners who see the importance of humanitarian organizations playing a role in ILS markets. This highlights not only the need to ensure that other humanitarian priorities are not neglected despite the immense near-term pressure created by the pandemic but also the need to nurture public-private partnerships in the mobilization of innovative humanitarian financing.

2. **A careful balance needs to be struck between keeping costs to the DRC low while ensuring that the insurance payments trigger if needed.** Making the trigger condition more lenient increases the cost of the bond by increasing the probability that investor money is disbursed as relief funds. This highlights the importance of donors funding insurance premium pools and industry stakeholders lowering the barriers of entry (e.g. high admin, modeling, and data costs).

Overall, the DRC's volcano CAT bond demonstrates how the humanitarian community could leverage sophisticated technology and minimally complex financial instruments to enhance preparedness.

## Further Reading

[Volcano Cat Bond](#)

**Securitization** is another important tool to transfer or reduce risk. A **securitized product** pools small loans to make a larger, investable loan. **Risk layering** is a method of turning an incredibly risky instrument or portfolio into a less risky proposition. One method of doing this is by using concessional capital to absorb first loss, and then allowing investors to enter at higher-level tranches. Risk layering is often a component of securitized products as it enables the creation of many products with different risk-return appetites that satisfy a wide variety of potential investors. Additional definitions of risk layering may occur in the humanitarian sector, as the term could be applied in the context of reducing nonfinancial risk. For example, the World Food Bank can be seen as a means of securitizing food: by purchasing excess food in times of overproduction and keeping nonperishable stores for sale in times of unexpected collapse in local food markets, the WFB reduces risks of both constricted food supply and reduced incomes for small farmers in times of overproduction.

## CrossBoundary Energy Access

CrossBoundary Energy Access (CBEA) is a blended-project finance facility in Africa that has successfully aligned stakeholders, creating a blueprint for scaling mini-grids across the continent. Mini-grids promise to provide 100 million people in Africa with affordable grid-quality power for the first time. Decreased mini-grid capital costs mean that mini-grids are now the lowest-cost way of providing power to at least 100 million people living off-grid in Africa.

## Challenge of investing in mini-grids

Mini-grid assets are extremely difficult to finance because (1) mini-grid companies develop, construct, and own mini-grids, but no single investor will fund all these activities; (2) mini-grids are small, with ticket sizes typically below investor thresholds; and (3) mini-grids target rural consumers in developing economies who are typically costly to connect and have low spending power. CBEA's model overcomes these challenges by ring-fencing mini-grid projects so that investors only finance assets, while also aggregating mini-grids into portfolios that are large enough for commercial investors to invest in.

## Catalytic Capital

CBEA attracted concessional capital to bridge the profitability gap associated with proving the model. In January 2019, CBEA launched with funding commitments from impact investor Ceniarth and philanthropic organization the Rockefeller Foundation. This has allowed the fund to initially invest \$16 million into mini-grids serving an estimated 170,000 people.

## PowerGen Investment in Tanzania

In July 2019, CBEA established a special purpose entity in Tanzania to purchase PowerGen's existing and future operating mini-grids assets. By pooling assets, CrossBoundary is able to invest at scale and spread fixed transaction costs across many assets. As part of the transaction CBEA raised debt from the Renewable Energy Performance Platform (REPP), a UK-based DFI. CBEA now owns eight mini-grids in Tanzania that continue to be operated by PowerGen. PowerGen has an additional ten operating mini-grids and a pipeline of ~40 mini-grids to be constructed over the next 18 months, all of which will be acquired by CBEA under this structure.

## Incentive Structure

Central to the success of CBEA's model is the close alignment of incentives between PowerGen as the developer/operator and CBEA as the long-term owner of the mini-grid portfolio. PowerGen receives a share of the distributions from the portfolio and an operating fee that includes a performance bonus when the grids' revenues exceed projections. As a result, CBEA's and PowerGen's profits come from the grids performing well and providing long-term value to customers. The sale of the mini-grids to CBEA soon after they are developed also allows PowerGen to recycle capital and focus on developing more projects, from which all parties will benefit.

## Impact

CBEA's investment will provide grid-quality power for the first time to 34,000 people in rural Tanzania.

**Blended finance** reduces risk for the investor by pairing investment capital with concessionary capital. Philanthropies and the public sector provide concessionary, catalytic capital to improve the risk-return profile of projects for private investors, thus increasing the flow of capital to development or humanitarian initiatives. Without the concessional capital, investors would not participate in these types of transactions; thus blended finance can bring additional capital that would not otherwise be accessible. If governments provide the needed concessionary funding, they can target private capital to areas of greatest need. Key concerns with blended finance are that such transactions could hurt the development of the purely private market if not deployed properly, and that there is limited evidence of the impact that the investments can have.

There is no one blended finance structure. For instance, catalytic capital can be deployed in the form of technical assistance to build capacity or pay for a guarantee on a project or as a first-loss guarantee on a private equity or debt fund.

## **USAID Scaling Up Renewable Energy (SURE)**

The SURE program aims to support USAID partner countries in improving their renewable energy capacity through strategic planning, grid integration, competitive procurement, renewable energy zones, and smart incentives. USAID provides knowledge sharing and expertise such as policymaking guides, institutional support, and hands-on technical assistance to more than 20 countries.

Holding competitive auctions to attract private investment is a major component of SURE. In the developing world, where utilities contracts are often awarded through backroom deals or funded by development assistance that cannot meet country demand, setting up fair, transparent, and open auctions helps investors connect with renewable energy development partners and also lowers energy prices for the developing countries.

In 2018, SURE worked with Colombia to hold events in Bogotá and New York City to attract private investment for wind and solar projects, with more than 150 investors and financial institutions in attendance. The events helped Colombia's Ministry of Mines and Energy to secure more than \$2 billion in private investment capital to develop over 2,250 megawatts of renewable energy capacity. In 2019, the SURE project supported four additional auctions, helping developing countries award almost 1,400 megawatts of renewable energy projects and leveraging more than \$1.3 billion in private investment capital.

### **Further reading**

[Scaling up renewable energy](#)

[Competitive energy procurement](#)

[Scaling Up Renewable Energy](#)

## Harnessing pension funds to finance the SDGs

Pension funds manage approximately \$40 trillion in assets under management (AUM), and so asset allocation decisions could have a meaningful impact on the growth of the HRI market. They are subject to strict fiduciary duties associated with the risk level of invested assets. To create impact, while limiting risk, some funds have focused their efforts on investable opportunities and then evaluated each to find alignment with SDGs.

The Danish SDG Investment Fund (\$600 million AUM) was capitalized by six Danish pension funds and Denmark's DFI, called the Investment Fund for Developing Countries (IFU). To ensure pension funds receive sufficient returns, all returns up to 6% go exclusively to the private funds, while returns above 6% are shared among all investors, including IFU. Example investments include clean energy in Pakistan and education in Africa.

In another instance of pension funds manifesting an appetite to drive impact, Dutch pension fund service providers established the SDI Asset Owner Platform, which uses artificial intelligence to determine the extent to which investible companies contribute toward achieving the SDGs. As of 2019, 15% of PGGM investments were aligned with SDGs, representing more than \$35 billion, and the platform has garnered substantial global interest from other pension funds.

### Takeaways

1. Power of blended funds—IFU-deferred returns enabled pension capital
2. Creativity in approach—pension funds found a way to participate, even though risk-return profile theoretically precluded it
3. Strong appetite for SDG impact implies potential for HRI appetite
4. Technology as a tool to enable impact

## PUBLIC-PRIVATE PARTNERSHIPS

**Public-private partnerships** (PPPs) come in many structures, but one of the most straightforward is the **build-operate-transfer** (BOT) model. Under such a contract, a private company is given a concession to build certain infrastructure and operate it to recoup capital and generate a return on investment. Following this period, ownership of the infrastructure is transferred to a public interest authority, such as a government or an aid organization. This model is common in large infrastructure projects that are straightforwardly monetized, such as toll roads. The structure has also been employed in humanitarian financing. There are many other variations of PPPs, including **build-finance** and **design-build-finance-maintain**. These variations differ in the extent to which autonomy over the project is ceded to the private partner. In addition to bringing in private capital and expertise, PPPs can reduce risk for public interest organizations by off-loading aspects of project development to private partners.

### DRC-Grundfos Business Humanitarian Partnership Lab

The Danish Refugee Council (DRC) and Grundfos, a large industrial corporation, have joined forces to create the Business Humanitarian Partnership Lab. One of its projects is a build-operate-transfer PPP to provide access to potable water in Uganda. Prior to the intervention, water was trucked to refugees at large financial and environmental costs. A 2017 study by the Technical University of Denmark, in collaboration with the DRC and Grundfos, found over a ten-year period that displacing water trucking with solar pump solutions would provide cost savings of seven to ten times greater, in addition to significant emissions avoidance.

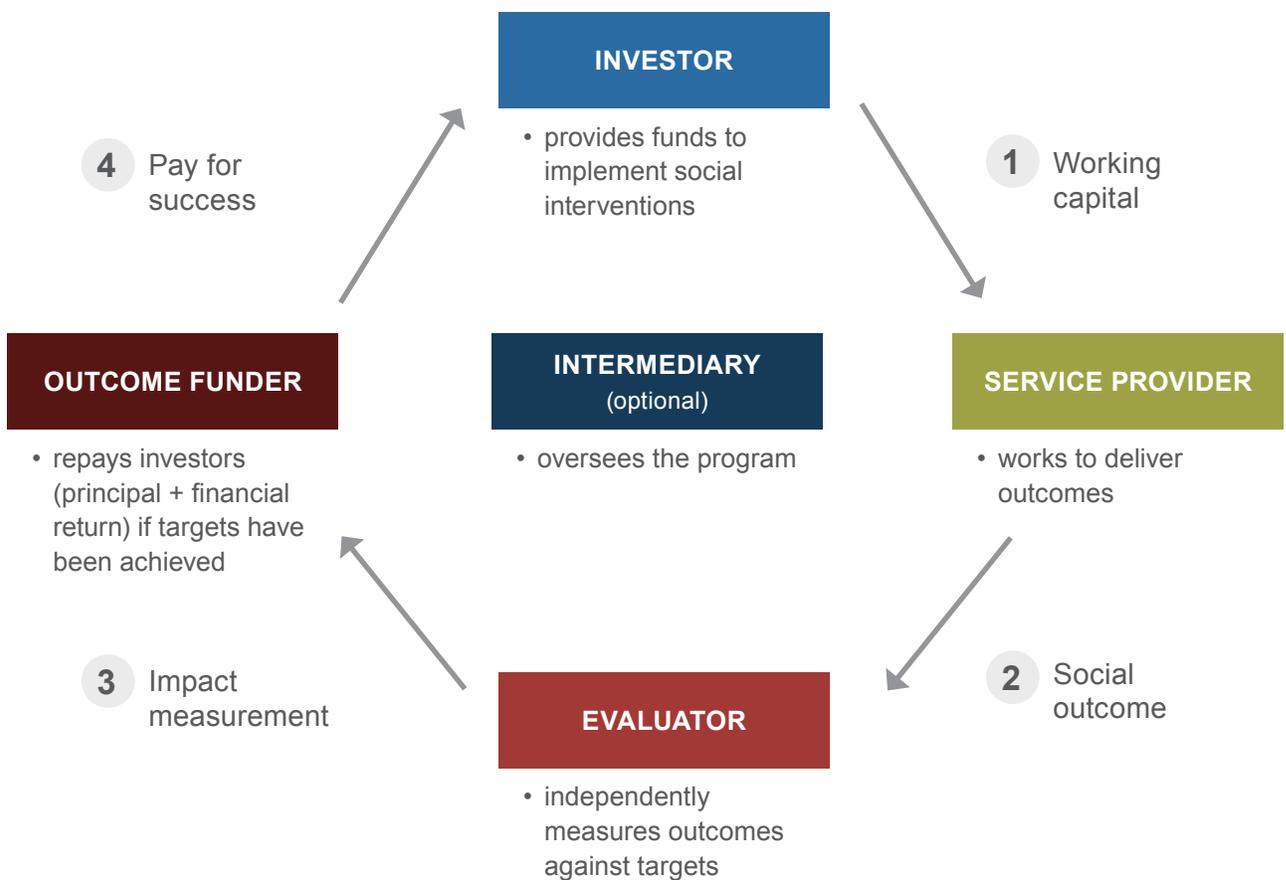
Following this study, the DRC and Grundfos partnered with the UNHCR to implement a solar pump water solution for refugees in Uganda. Under the arrangement, DRC and Grundfos are to build the infrastructure and operate it during a concessional three-year period, before transferring ownership to the UNHCR, the government of Uganda, or both. During those three years, the DRC and Grundfos will be paid for the provision of water, either at a preagreed fixed price or at a variable performance-based price. The DRC and Grundfos are projected to recoup their investment and generate a return before transferring ownership. The BOT PPP setup is intended to bring private capital and expertise into the execution of a humanitarian project.

## RESULTS-BASED SOLUTIONS

**Results-based financing** encompasses development and social impact bonds, outcome-based funds, advance market commitments, and other tools designed to maximize impact and quality. **Impact bonds** are outcome-based or pay-for-success tools where investors provide up-front capital, and the loss they take or the return they receive is predicated on their ability to execute on desired, predetermined outcomes (see Figure 11 for the typical structure of an impact bond). An impact bond is generally a one-off vehicle created for a particular project and aims to invest in organizations with a double bottom line: profitability and social impact. These are not bonds in the traditional, financial sense of the word, but rather performance contracts.

**Outcome funds** are very different. They enable multiple results-based financing structures to be implemented within a common framework, streamlining development, and rewarding the completion of successful projects.

**FIGURE 11: IMPACT BOND STRUCTURE**



Source: BCG

Impact bonds welcome a wide array of investor types, ranging from foundations, intergovernmental financial institutions (IFIs), and nonprofits, to investment funds and beyond. Investors favor this type of investment if they are seeking to have an impact or at least benefit from the potential halo effect of such an investment while still retaining a financial return.

## ICRC Humanitarian Impact Bond

In 2017, the ICRC launched the Program for Humanitarian Impact Investment (PHII), known as the world's first Humanitarian Impact Bond (HIB). Much like the more familiar social impact bonds or development impact bonds, the HIB uses committed donor outcome funding to raise private impact investor capital to pre-finance a humanitarian intervention. The funded project is the launch of three new ICRC centers for providing mobility equipment to those with physical disabilities in Nigeria, Mali, and the DRC.

### Outcome funders

Next to incubation funding from the government of the Netherlands, outcome funding was provided by the governments of Belgium, Switzerland, Italy, and the UK, as well as the La Caixa Foundation, signed on as outcome funders. They will pay between 10 million Swiss francs and 25 million Swiss francs depending on the project's success. Following project completion and evaluation, the outcome funders will pay the required amount to the ICRC, which will return this money to the investors. Should the project be unsuccessful, the ICRC itself will be liable for returning an additional 10% of capital to investors.

### Assessment

Philanthropy advisors will assess the project in 2022, following three years of construction and two years of operation. They will compare the ratio of those receiving mobility devices to the number of physical rehabilitation professionals with the ratio in existing centers run by the ICRC.

### Investors

Nine companies invested, including Munich Re, to raise approximately 18 million Swiss francs in capital.

### Advisory and support

Bank Lombard Odier, Marten Touw, KOIS Invest, and Norton Rose Fulbright all helped make the HIB a reality.

### HIB goals

- **Multi-year funding:** The HIB provided multi-year innovation capital and introduced capital market discipline to a non-profit organization
- **Provide liquidity:** pull forward capital from the end date to the present so that it can be deployed
- **Reduce risk to humanitarian donors:** investors bear the brunt of unsuccessful projects as donors pay less, thus transferring risk to the private sector
- **Unlock additional capital:** The bond can theoretically unlock additional capital if there is risk-averse capital that is available only if execution is assured. By introducing investors, donors are protected from the risk of poor execution, and so can grant freely. However, many are skeptical of additional capital in this context, noting that investment capital is only present given the existence of outcome funds and because the private sector stands to take more money out of the project than it puts into it

### Factors enabling a successful launch

- Senior leadership support within the ICRC and donors, who were able to exert political pressure
- Culture of experimentation within ICRC
- Willingness to take risks and rightsizing the risk so relatively small compared with overall budgets
- ICRC's reputation as a top-notch implementer facilitated buy-in from other stakeholders

### **Pilot benefit: impact measurement and technology**

The ICRC rolled out an ICT system for rehabilitation centers that focused on electronic patient record and digital enterprise management. This introduction created some logistical challenges associated with baseline comparison, but it was a true boon to the project as the ICRC effectively had the opportunity to pilot an innovation raising efficiency and effectiveness, that they could then leverage across a range of similar interventions. If viewed as an opportunity to innovate, one could argue that the HIB's cost structure is not as bloated as some argue.

### **Initial challenges**

The ICRC did not have sufficient financial expertise. They had trouble building the business case for the investment, structuring, tracking impact, and parsing the legal implications of the structure. They partnered with external stakeholders to shore up weaknesses, with many partners engaging on a pro bono or low-cost basis. ICRC will need to strike a balance between bringing these functions internally and finding a way to affordably replicate such transactions going forward.

### **Ongoing challenges**

**Structure and scale:** Structuring the first HIB took one and a half years, which was time consuming and expensive relative to the size of the project. To make future HIBs viable and bring down the percentage of overhead, they must either leverage the existing structure or offer substantially more scale.

**Systems must support multi-year projects:** accounting, monitoring, and reporting were challenges that ICRC dealt with on an Ad hoc basis. To scale multiyear projects, a more robust solution is required.

While many focus on the shortcomings of the HIB both with respect to the scale of funds deployed and the drawn-out structuring process, the effort was truly revolutionary both for the industry broadly and for ICRC in particular. The HIB effort clearly demonstrates ICRC's willingness to take risks, innovate, and engage with the private sector. Not only did the HIB send a strong message about the lengths certain stakeholders are willing to go, it also serves as a learning opportunity about some of the unforeseen difficulties of exploring new financial structures.

### **Further reading**

[The world's first "Humanitarian Impact Bond" launched to transform financing of aid in conflict-hit countries](#)

[Humanitarian Impact Bond](#)

[Saving lives and making money: Can humanitarian impact bonds marry the two?](#)

## SDC and the Humanitarian Impact Bond

SDC was a key catalyst in getting the HIB up and running as they noted the power of the private sector and suggested that ICRC look to diversify its donor base, and to involve the private sector in doing so. The Minister of Foreign Affairs felt incredibly strongly about the need to be progressive and innovate, and so in 2015 he sat down with ICRC to help them developing the HIB.

The financial instruments were new and complicated. The ICRC convened SDC, the private sector and others to try and understand the instrument. This was a noteworthy step, as it recognized both the need for and lack of expertise. This was particularly important because SDC showed a willingness to engage the private sector and to learn from other stakeholders. It was a learning process for everybody and that journey was important as through discussions and questions asked, the instrument could mature.

SDC knew that given that the project was revolutionary, that there was a risk that performance might not be up to stands, and they certainly did not want that to equate to private sector involvement. Therefore, SDC ensured that metrics were clear and thoughtful to align efforts with desired outcomes and avoid perverse incentives.

While it seemed that the bond was slated to proceed without a hitch, there were several contracting concerns associated with ICRC's immunity and challenges of providing a 7% return to the private sector with donated funds. Negotiations mired the team for six months to meet the deadline for signing the contract. The deadline needed to be met, as preparation work of ICRC were on the way (ordering construction material, hiring people etc) Through this, SDC and others learned a valuable lesson – the importance of preparation, trials, and experience and mitigating risk inherent in launching unprecedented financial structures. Every country has different legislations and legal restrictions that need to be respected. It is worth analyzing them thoroughly before engaging. As transaction costs are high with pilot projects, resources need to be made available to carry out the whole preparation process and the internal to the organization dissemination efforts.

**Service providers** use impact bonds to access long-term financing and as a helpful lever in their pursuit of specific outcomes. They have the freedom to innovate in their effort to maximize impact. Service providers can be a wide range of actors: nonprofits, international organizations, development organizations, charities, impact investors, or local community actors. **Evaluators** are independent bodies that assess the outcomes relative to the targets. They could be research institutes, professional service firms, or academics. **Intermediaries**, who oversee the program, tend to be universities, think tanks, law firms, or social consultancy organizations.

**Outcome funders** that like to pay only for results achieved will favor impact bonds. These types of organizations include foundations, IFIs, governments, nonprofits, and investment funds. An outcome funder will repay the investors' principal and a return if targets are achieved. Therefore, it is necessary to find an outcome funder who values de-risking its spending, as a successful result will cost a premium.

Structuring the impact bond is an incredibly challenging task. It is necessary to have realistic targets and to closely coordinate between all stakeholders to ensure that risk is minimized and that credibility and impact are maximized. Throughout the life of the bond, outcomes must be rigorously measured to ensure the ultimate evaluation is accurate. All of these efforts are costly, so it is important that the impact bond is large enough to defray administrative costs. Alternatively, structures for impact bonds could be reused sufficiently enough to allow smaller bonds to have a reasonable ratio of project size to overhead costs.

Impact bonds are still in their infancy. They offer clear benefits, such as their focus on outcomes and the promotion of accountability through outcome focus and measurement. This focus, combined with the draw of private capital, improves the efficiency of public sector and donor spend. Impact bonds enable the provision of funds over longer periods of time, which enables service providers to better scale interventions. Additionally, some experts maintain that they better stimulate innovation and enable enhanced flexibility with regard to interventions than the traditional alternatives. Many of these benefits, however, remain theoretical as the instruments are still so new.

For all of the unproven benefits associated with impact bonds, there are also very clear costs, which hinder their financial viability. The structure is complex to set up and transaction costs are high. Such bonds have so far had limited scalability, focusing on one deal at a time, which means there is limited capital over which to defray the costs. Early investors in these projects are often willing to accept a 0% return.

With **social impact bonds**, the public sector is responsible for paying for outcomes. Development **impact bonds**, which make up a modest percentage of social impact bonds, are used outside of the developed country environment. Social impact bonds are derived from **social policy bonds**.

## KOIS and IKEA Foundation Development Impact Bond (DIB)

### Overview

KOIS anticipates a mid-2020 launch of a DIB—the Near East Foundation will be the service provider—focused on creating employment opportunities for vulnerable refugees and host populations in Jordan and Lebanon. The effort began in 2016, when Convergence and the Canadian government sponsored a pre-feasibility study. Subsequently, the IKEA Foundation and Convergence cosponsored a grant to support KOIS in structuring the bond. The IKEA Foundation later officialized its intention to be the anchor outcome funder of the DIB, with 6.8 million euros. This intention to commit and Convergence’s initial grant served as key catalysts for establishment of the DIB. Additional outcome funders and investors are still to be confirmed, and the independent evaluator is in the process of being selected.

### Fundraising

KOIS is raising both investment capital and outcome funds, the latter with a goal of up to \$25 million, to be distributed between two implementing organizations running micro-enterprise creation and vocational training projects. One of the challenges in raising outcome funds is navigating bilateral and multilateral agencies’ decision processes, particularly in light of policy changes. Additionally, public agencies and foundations often have governing rules that may prevent paying for outcomes or being seen as funding returns for profit-seeking investors. These organizations may also have limits on how much they can deal with for-profit entities, depending on statutes and country of domicile.

### Structural Change

The original concept was to offer two DIBs under a single umbrella. However, bundling two projects complicates risk analysis for investors—simultaneous operational and organizational due diligence of two nonprofit interventions proved to be a roadblock. Investors are unfamiliar with analyzing nonprofits, which requires a different framework and in turn considerable bandwidth and resources. The original rationale of providing diversification to investors turned out not to be a valid draw. The other rationale was to amortize development costs over a larger base, which has been validated by the design process so far.

Given the change in structure, KOIS will launch a first tranche with \$10.4 million in outcome funding and an \$8 million investment in Jordan, with a forthcoming Lebanon tranche once outcome funding is secured.

### Evaluation Criteria

Creating income-generating activities (IGA) and spending on essential needs are key evaluation criteria for the DIB and are linked to investor payments. The other critical evaluation criteria—reported self-confidence in women, as well as their bargaining power, agency, and ability to save money—will not affect payments. These latter impact goals are subjective, but they are also inextricably tied to the deep impact goal of the program, and so KOIS ensured that they would be measured. To do so, KOIS aligned investor constraints surrounding data quality and measurement with benefits to the implementing partner responsible for securing those measurements, and the outcome funders’ desire to maximize impact, for which dissemination of those measurements would also be required.

Thanks to funding, sophisticated and robust measurement is possible. An independent evaluator—present for the bond—will collect the data and rigorously measure all metrics. The DIB’s impact results will be shared with its stakeholders, including the implementation partner, the Near East Foundation, for whom the data will be useful to inform future programming in accordance with the results, as well as with the wider community of development actors in humanitarian contexts. While this ability to share learnings is not inherently a benefit associated with DIBs, it could be an aspiration.

## Determining Attribution

Attribution will be measured through a control group method. While standard practice, it is challenging in a context of fragility and flux. A standard randomized control trial (RCT) necessitates not providing support for certain portions of the population, or it assumes there is such a large group of potential beneficiaries with tracked data that finding a control group will be simple. KOIS was able to establish a method with intervention control groups to track the program's success.

## Learning from Experience

KOIS has structured many SIBs and DIBs and has built on its knowledge from bond to bond to facilitate the process. Over time, it has learned:

- Best practices for tying payments to metrics
- Common technical aspects that must be solved
- Typical roadblocks and stakeholder pain points

## Hallmarks of a Good Partner

Partnering with the IKEA Foundation facilitated the establishment of the DIB. The foundation stood out for its flexibility in contracting and its experience with multiyear funding. The IKEA foundation favors simple, lean structures and is guided by a clear mandate, which together enable it to engage in streamlined negotiations.

## Facilitating Investor Involvement

Performing due diligence on NGOs is outside of many investors' wheelhouse. Therefore, selecting an implementing partner that is well organized and has a robust, watertight governance structure and strong operational processes and financial controls will help investors gain confidence more readily. The better and stronger the implementer, with a track record of success in specific interventions, the easier it is to secure investment capital.

## Value for Money

The Refugee Livelihoods DIB was designed with value for money for the outcome funders in mind. Even with funding the DIB's evaluation and oversight during its lifetime, on top of investor repayments and interest, project cost for the outcome funders compares favorably to existing straight grant-funded Syria Response livelihood interventions.

## Challenges to Overcome

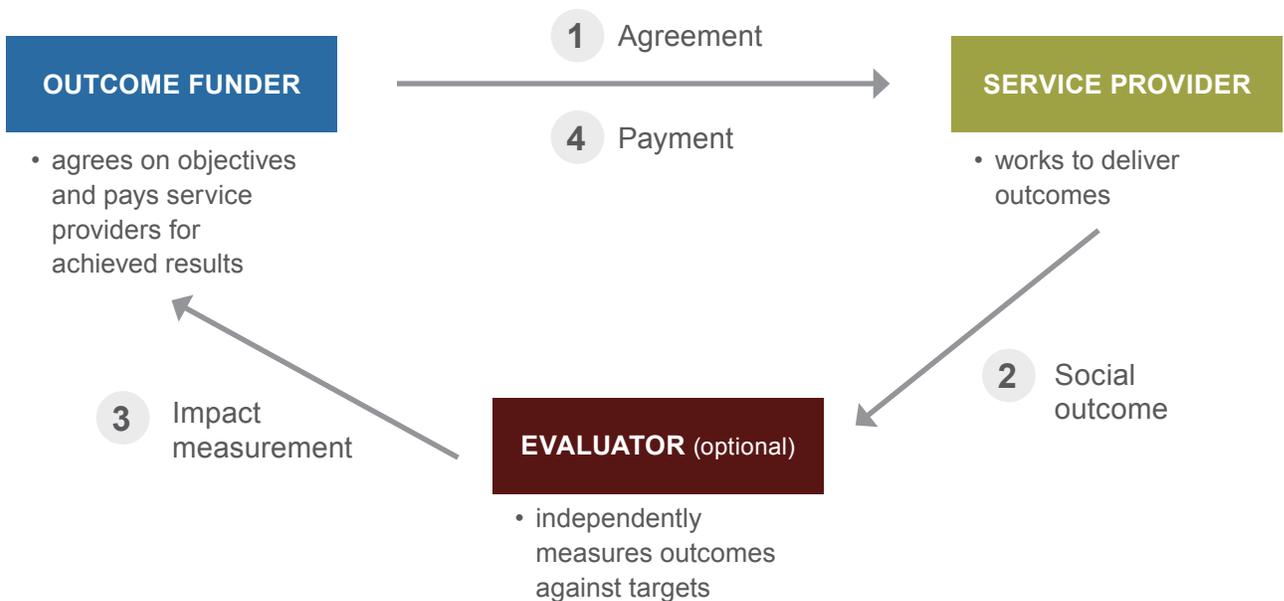
- Distrust or lack of understanding of DIBs; trouble navigating complexity of some donor agencies
- Public and private sector mismatch with respect to willingness and ability to collaborate and decision-making time frames
- Over-anchoring on importance of scale

## Keys to Success

- Complexity of DIBs must be met with additionality
- Securing outcome funding first accelerates time to market
- Transparency at the outset improves relationships and speeds up results.

Like impact bonds, results-based financing (RBF) aligns payouts with a series of predetermined results to be verified independently. This model differs from the impact bond structure, as the investor and service provider are the same (see Figure 12).

**FIGURE 12: RESULTS-BASED FINANCING STRUCTURE**



Outcome funders are typically governments, international donors, or philanthropies. As with impact bonds, these funders favor this structure as they only pay for results achieved. If results are achieved, they pay a premium to the service provider. Service providers can be a wide variety of organizations, including nonprofits, IOs, NGOs, and impact investors. This structure allows them to access long-term financing and enables greater flexibility in execution to reach goals. As with impact bonds, evaluators tend to be research institutions, academics, and professional services firms.

Like impact bonds, it is critical that set targets are realistic. One of the key benefits of RBF is that it focuses on outcomes, not inputs. To have a successful product, then, it is critical that flexibility in implementation is maintained. There are also clear downside risks associated with RBF. Without a carefully written contract or research procedures, it is possible that service quality could deteriorate or that service providers could cherry-pick the easiest areas to implement or potentially even resort to fraud. Similarly, the focus on payment could reduce intrinsic motivation and lead to the development of an exploitative market for remunerated services that were previously delivered free of charge. The focus on pay-for-outcomes could detract funds away from hard-to-measure social-outcome-driven projects.

The key difference between an impact bond and results-based financing is the explicit presence of the investor. With an impact bond, the investor fronts the capital and is liable if an outcome is not accomplished. In results-based financing, the service provider takes on all the risk associated with fronting capital and executing the project. Including the private sector investor and transferring risk in that manner adds to the complexity and costs associated with impact bonds, which are not present in result-based financing.

**Advanced market commitments (AMC)** are tools to help develop a market by ensuring that private sector actors will yield sufficient returns for their activities. This has been seen in the pharmaceuticals industry or agriculture where governments want to incentivize private players to invest in R&D for drug development and new growing mechanisms, respectively.

**Contributions** are funds transferred from one party to another that are subject to certain performance restrictions. An **unconditionally repayable contribution** (URC) requires repayment of loans with the terms of such repayment clearly delineated in the contract. A **conditionally repayable contribution** (CRC) may require repayment, with the repayment based upon contract stipulations.

## Technology-enabled solutions

**Technology-enabled solutions** are an even newer field and include blockchain, digital technology, crowdfunding, and more. **Challenge funds** are a way for organizations to source solutions for problems from a wide array of innovators. The key goal is to reach new audiences and tap into new solutions that traditional funding mechanisms might overlook. The funds pay out to the top ideas, and some can be structured to layer in payouts as solutions are implemented. Given that successful implementation is a significant unknown, many of these proposals are not considered bankable.

**Crowdfunding** can take several forms: donations-based, rewards-based, equity-based, and peer to peer. The first three types are distinguished by what is given in return for investing: nothing, a reward in the form of goods or services, or equity in the funded entity. Peer-to-peer crowdfunding is distinguished from traditional crowdfunding by calling on individual investors to also become fundraisers on behalf of the entity, thus multiplying their impact. As with any internet-based technology platform, there is always a risk of fraud. Transparency and proper due diligence on the part of the lender are critical. These platforms could help develop a pipeline for HRITs by catalyzing different projects.

### Kiva Refugee Investment Fund

Kiva identified access to credit as a key barrier for refugees, internally displaced persons, and their host communities. Kiva crowdsourced donations, which were lent to refugees at 0% interest, with all returned capital converted into new loans. This process enabled them to collect data on \$13 million in loans made to over 15,000 refugee entrepreneurs. They found that the repayment rate was over 95%, comparable to non-refugee borrowers.

As a result of these findings, Kiva is launching the Kiva Refugee Investment Fund, which is an investment vehicle that targets \$20 million in debt and \$10 million in equity to provide loans to refugees while delivering a return to investors. Going forward Kiva hopes to use a new technology platform to create credit histories for refugees.

The preceding section laid out numerous potential tools to engage in HRI and a wide variety of case studies showing such efforts in action. Clearly, this field of investing offers compelling opportunities both in impact and financial returns. HRI is an incredibly powerful tool, but its parameters of use must be respected. The following challenges emerged as themes during the interviews held in developing this playbook.

# Appendix A:

## Frequently Asked Questions

---

- [What are the do's and don'ts of organizational readiness? What pitfalls should we avoid?](#)
- [When should I use HRI?](#)
- [When shouldn't I use HRI?](#)
- [Why should the private sector engage in HRI?](#)
- [Why should the public sector engage in HRI?](#)
- [What can the private sector do to enable organizational readiness and engage in HRI?](#)
- [What does it take to make an HRIT a success: effective and generating durable impacts?](#)
- [How does the playbook differ when applied to humanitarian and development contexts?](#)

# Appendix B: Abbreviations

---

AFD - Agence Française de Développement/The French Development Agency  
AfDB - African Development Bank  
AIF - Africa Improved Foods  
AMC - Advanced Market Commitment  
APOPO - Anti-Persoonsmijnen Ontmijnende Product Ontwikkeling/  
Anti-Personnel Demining Product Development  
ARC - African Risk Capacity  
AUM - Assets Under Management  
BCG - Boston Consulting Group  
BOT - Build-Operate-Transfer  
BP - British Petroleum  
CAT Bond - Catastrophe Bond  
CBEA - CrossBoundary Energy Access  
CCF - Contingent Credit Facility  
CCL - Contingent Credit Line, or Counter-Cyclical Loan  
CCRIF - Caribbean Catastrophe Risk Insurance Facility  
CRC - Conditionally Repayable Contribution  
CRW - Crisis Response Window, of the IDA  
CSIS - Center for Strategic and International Studies  
DAC - Development Assistance Committee  
DCA - Development Credit Authority  
DEG - Deutsche Investitions- und Entwicklungsgesellschaft/German Investment Corporation  
DFC - U.S. International Development Finance Corporation  
DFI - Development Finance Institution  
DFID - Department for International Development  
DG ECHO - European Commission's Directorate-General for European  
Civil Protection and Humanitarian Aid Operations  
DIB - Development Impact Bond  
DRC - Danish Refugee Council, or Democratic Republic of the Congo  
ESG - Environmental, Social, and Governance, often referring to ESG investing  
EU - European Union  
FAM - Famine Action Mechanism, of the World Bank  
FCV - Fragility, Conflict, and Violence  
FDI - Foreign Direct Investment  
FMO - Financierings-Maatschappij voor Ontwikkelingslanden/  
Financing Company for Developing Countries  
FSP - Financial Services Provider  
FTE - Full-Time Employee

GCAF - Grameen Crédit Agricole Foundation  
GCFF - Global Concessional Financing Facility  
GDP - Gross Domestic Product  
GHD - Good Humanitarian Donorship  
GIIN - Global Impact Investing Network  
GiZ - Gesellschaft für Internationale Zusammenarbeit/  
German Corporation for International Cooperation  
GPE - Global Partnership for Education  
HIB - Humanitarian Impact Bond  
HIC - High-Income Country  
HRI - Humanitarian and Resilience Investing  
HRIT - HRI Transaction  
Hum-Dev Org - Human Development Organization  
ICRC - International Committee of the Red Cross  
ICT - Information and Communications Technology  
IDA - International Development Association  
IDB - Inter-American Development Bank  
IF - Innovative Finance  
IFC - International Financial Corporation  
IFI - Intergovernmental Financial Institution  
IFU - Investeringsskandelen For Udviklingslande, a Danish DFI  
ILS - Insurance Linked Securities  
IMF - International Monetary Fund  
INGO - International Non-Governmental Organization  
IO - International Organization  
IRM - Immediate Response Mechanism, of the IDA  
JICA - Japan's International Cooperation Agency  
JV - Joint Venture  
LIBOR - London Inter-bank Offered Rate  
LIC - Low-Income Country  
LP - Limited Partnership  
M&E - Monitoring and Evaluation  
MDB - Multilateral Development Bank  
MIC - Middle-Income Country  
MICEI - Magrabi ICO Cameroon Eye Institute  
MIFP - Mali Investment Facilitation Platform  
MIGA - Multilateral Investment Guarantee Agency  
NGO - Non-Governmental Organization  
OCHA - United Nations Office for the Coordination of Humanitarian Affairs  
ODA - Official Development Assistance  
ODI - Overseas Development Institute

OECD - Organization for Economic Co-operation and Development  
OPIC - Overseas Private Investment Corporation  
Oxfam - Oxford Committee for Famine Relief  
P4R - Program-for-Results  
PPP - Public-Private Partnership  
PR - Public Relations  
PSW - Private Sector Window  
PTCC - Prêt Très Concessionnel Contracyclique  
RBF - Results-Based Financing  
RFP - Request for Proposal  
SDC - Swiss Agency for Development and Cooperation  
SDGs - Sustainable Development Goals  
SDI - Sustainable Development Investing  
SECURE - Stand-by Emergency Credit for Urgent Recovery  
Sida - Swedish International Development Cooperation Agency  
SPV - Special Purpose Vehicle  
SURE - Scaling Up Renewable Energy  
UN - United Nations  
UNCTAD - United Nations Conference on Trade and Development  
UNHCR - UN High Commissioner for Refugees  
UNICEF - United Nations Children's Fund  
URC - Unconditionally Repayable Contribution  
USAID - United States Agency for International Development  
VC - Venture Capital  
WBG - World Bank Group  
WFB - World Food Bank  
WFP - World Food Program

# Contacts

---

If you or your organization is interested in starting or continuing your engagement with organizational readiness for humanitarian investing, please contact:

**Ashley Blum, BCG**

*Principal Author and Researcher*

Blum.Ashley@bcg.com

# Acknowledgements

---

Special thanks to Andrej Kirn, Barnaby Willitts-King, Olivier Lavinal, Juan Coderque, Adam Bornstein, Max Martin, Dave Young, Douglas Beal, and Carl Brinton, for their support and advice in developing this paper.

We are also so grateful for the inputs we received from representatives of the Good Humanitarian Donorship and the following organizations:

African Development Bank	IRC	Shine Invest
AFD	KOIS	Sida
Bamboo Capital	Lazard	Société Générale
BlueOrange Capital	Lix Capital	UNHCR
CrossBoundary	Lombard Odier	Volta Capital
Danish Refugee Council	MasterCard	World Bank Group
Earth Security	Meridiam	World Food Program
Ecorys	MIGA	
Ferd	OCHA	
FMO	Red Cross	
ICRC	RHDHV	
IFC	Schneider	
IKEA Foundation	Shell	

# Bibliography

---

- Africa Improved Foods, 2020. Economic and Private Sector Development. [Online] Available at: <https://africaimprovedfoods.com/economic-development/> [Accessed 4 May 2020].
- Alcayna, T., 2019. Organisational Flexibility and Programming Across the Humanitarian–Development–Peace, London: ODI/ALNAP.
- Ali, A., 2017. Nestle Creating Shared Value application by AIF. [Online] Available at: <https://network.changemakers.com/challenge/creatingsharedvalue/entry/africa-improved-foods-rwanda> [Accessed 3 May 2020].
- Australian Aid; Belgian Development Corporation, Et Al., 2016. The Grand Bargain - A shared commitment to better serve people in need. [Online] Available at: [https://www.agendaforhumanity.org/sites/default/files/resources/2018/Jan/Grand\\_Bargain\\_final\\_22\\_May\\_FINAL-2.pdf](https://www.agendaforhumanity.org/sites/default/files/resources/2018/Jan/Grand_Bargain_final_22_May_FINAL-2.pdf) [Accessed 20 April 2020].
- Bennett, C., Foley, M., & Pantuliano, S. (2016). Time to let go: Remaking humanitarian action for the modern era. London: Humanitarian Policy Group of the Overseas Development Institute.
- Berfond, D., & Andrian, S. (2019). Private sector and refugees: Pathways to scale. Washington, D.C. & Boston: IFC & The Bridgespan Group.
- Botzung, M. & Kata-Blackman, J., 2016. Bringing private sector investments to challenging markets - Predicaments and solutions, Washington, D.C. : International Financial Corporation.
- Cabot Venton, C., 2013. The Economics of Early Response and Resilience: Summary of Findings, London: DFID.
- Cabot Venton, C., Richardson, J., Clarey, T., & Ginevra, J. (2019). Innovative finance for responses to refugee crises. London: DFID Expert Advisory Call-Down Service Lot B.
- Clinton Foundation, 2019. Clinton Foundation expands partnership with Africa Improved Foods (AIF) to reduce hunger and support livelihoods in Malawi and Rwanda. [Online] Available at: <https://www.clintonfoundation.org/press-releases/clinton-foundation-expands-partnership-africa-improved-foods-aif-reduce-hunger-and> [Accessed 1 May 2020].
- Collier, P., Gregory, N., & Ragoussis, A. (2019). Pioneering firms in fragile and conflict-affected states: Why and how development finance institutions should support them. Washington, D.C. : World Bank Group.
- DCED. (2019). Donor engagement in innovative finance: Opportunities and obstacles. DCED.
- DFI Fragility Forum. (2020). Communique on meeting, February 11-12. Oxford.
- Douste-Blazy, P., 2009. Innovative financing for development: The I-8 Group, Leading Innovative Financing for Equity, New York: UN.
- Farrar, J., 2018. Director's update: Introducing the Wellcome Leap Fund. [Online] Available at: <https://wellcome.ac.uk/news/directors-update-introducing-wellcome-leap-fund> [Accessed 3 May 2020].
- Fondation Grameen Crédit Agricole, 2019. UNHCR, Sida and the Grameen Credit Agricole Foundation together for the financial inclusion of refugees. [Online] Available at: <http://gca-foundation.org/news/unhcr-sida-and-the-grameen-credit-agricole-foundation-together-for-the-financial-inclusion-of-refugees> [Accessed 5 May 2020].

- Fosseli Olsen, E. (2019). *Innovative financing: Business models for humanitarian action*. Oslo: Innovation Norway.
- Global Affairs Canada. (2019). *A Canadian approach to innovative financing for sustainable development*. Retrieved from Global Affairs Canada Web Site: [https://www.international.gc.ca/world-monde/issues\\_development-enjeux\\_developpement/priorities-priorites/fiap\\_fsd-paif\\_fdd.aspx?lang=eng](https://www.international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/fiap_fsd-paif_fdd.aspx?lang=eng)
- Global Impact Investing Network, 2020. *Impact Investing*. [Online], Available at: <https://thegiin.org/impact-investing/> [Accessed 8 May 2020].
- Good Humanitarian Donorship. (2020, May 1). *24 Principles and Good Practice of Humanitarian Donorship*. Retrieved from GHDInitiative.org: <https://www.ghdinitiative.org/ghd/gns/principles-good-practice-of-ghd/principles-good-practice-ghd.html>
- Government Outcomes Lab, 2020. *Outcome funds*. [Online], Available at: <https://golab.bsg.ox.ac.uk/thebasics/outcomesfunds/> [Accessed 13 May 2020].
- Hurley, G. (2012). *Innovative finance for development: A new model for development finance?* New York: UNDP.
- ICAI, 2018. *DFID's approach to value for money in programme and portfolio management*, London: ICAI.
- IFC. (2019). *Generating private investment in fragile and conflict-affected areas*. Washington, D.C. : IFC.
- International Labour Office. (2019). *Overview of relevant and existing forms of innovative finance mechanisms, related opportunities and risks, and potential for ILO engagement*. Governing Body 335th session (pp. 1-8). Geneva: ILO.
- International Rescue Committee Airbel Impact Lab. (2019). *Defining and driving innovative finance for humanitarian response*. New York: IRC.
- IRC Airbel Impact Lab, 2020. *Airbel.rescue.org*. [Online] Available at: <https://airbel.rescue.org/> [Accessed 3 May 2020].
- Jerving, S., 2017. *WFP plans to expand debt-for-development swaps*. [Online] Available at: <https://www.devex.com/news/wfp-plans-to-expand-debt-for-development-swaps-91519> [Accessed 8 May 2020].
- Kiva, 2020. *Kiva refugees*. [Online], Available at: <https://www.refugees.kiva.org/>, [Accessed 12 May 2020].
- London Stock Exchange Group, 2019. *Africa Improved Foods*. [Online] Available at: <https://www.lseg.com/resources/companies-inspire-africa/companies-inspire-africa-2019/consumer-services/africa-improved-foods> [Accessed 11 May 2020].
- Lowcock, M. (2019, December 2). *Anticipation saves lives: How data and innovation financing can help improve the world's response to humanitarian crises*. Speech delivered at the LSE. London: United Nations Office for the Coordination of Human Affairs.
- Mundle, D., & Davis Pluess, J. (2017). *Innovative finance to expand access to healthcare: Opportunities for business*. San Francisco: BSR.
- OCHA Financial Tracking Service, 2019. *Appeals and response plans*. [Online] Available at: <https://fts.unocha.org/appeals/overview/2019> [Accessed 8 April 2020].
- OCHA Inter-Agency Standing Committee, 2020. *About the Grand Bargain*. [Online] Available at: <https://interagencystandingcommittee.org/about-the-grand-bargain> [Accessed 25 April 2020].
- OCHA Inter-Agency Standing Committee, 2020. *Enhanced quality funding (Increase collaborative humanitarian multiyear planning and funding and reduce the earmarking of donor contributions)*. [Online] Available at: <https://interagencystandingcommittee.org/Quality-funding> [Accessed 25 April 2020].

- OCHA Inter-Agency Standing Committee, 2020. Frequently Asked Questions (FAQs) on the Grand Bargain?. [Online] Available at: <https://interagencystandingcommittee.org/frequently-asked-questions-faqs-on-the-grand-bargain> [Accessed 25 April 2020].
- OCHA Inter-Agency Standing Committee, 2020. Grand Bargain Signatories. [Online] Available at: <https://interagencystandingcommittee.org/grand-bargain-official-website/grand-bargain-signatories> [Accessed 25 April 2020].
- OECD DAC. (2018). OECD DAC Blended finance principles. Paris.
- OECD. (2018). Making blended finance work for the Sustainable Development Goals. Paris: OECD.
- OECD. (2019). Social impact investing: The impact imperative for sustainable development. Paris: OECD.
- Oteh, A., 2018. Speech: Leveraging Innovative Finance For Realizing The Sustainable Development Goals. New York: World Bank.
- Parker, B., & Redvers, L. (2019, December 3). Searching for the nexus: It's all about the money. Retrieved from The New Humanitarian: <https://www.thenewhumanitarian.org/special-report/2019/12/3/triple-nexus-aid-development-humanitarian-donors-cooperation>
- PGGM, 2019. 15 percent of PGGM investments are now SDG-aligned. [Online] Available at: <https://www.pggm.nl/english/what-we-think/Pages/15-percent-of-PGGM-investments-are-now-SDG-aligned.aspx> [Accessed 10 May 2020].
- PGGM, 2019. APG and PGGM develop AI-powered platform for investing in the UN Sustainable Development Goals. [Online] Available at: <https://www.pggm.nl/english/who-we-are/press/Pages/APG-and-PGGM-develop-AI-powered-platform-for-investing-in-the-UN-Sustainable-Development-Goals.aspx> [Accessed 1 May 2020].
- Pielichata, P., 2020. Pension fund assets to climb to \$61 trillion by 2025. [Online] Available at: <https://www.pionline.com/pension-funds/pension-fund-assets-climb-61-trillion-2025-report> [Accessed 4 May 2020].
- Pio, G., 2019. WFP focal points update [Interview] (November 2019).
- Poole, L. (2018). Financing for stability in the post-2015 era. London: OECD.
- Poole, L., & Scott, R. (2018). Financing for stability: Guidance for practitioners. Paris: OECD.
- Rundell, S., 2019. Investors cluster around AI SDG platform. [Online], Available at: <https://www.top1000funds.com/2019/09/investors-cluster-round-ai-sdg-platform/> [Accessed 4 May 2020].
- Saldinger, A., 2020. What it may take to engage pension funds to finance the SDGs. [Online] Available at: <https://www.devex.com/news/what-it-may-take-to-engage-pension-funds-to-finance-the-sdgs-96533> [Accessed 10 May 2020].
- Sharrock, D., Georgieva, K., & Shah, N. (2016). Too important to fail - addressing the humanitarian financing gap. High-level panel on humanitarian financing.
- Swithern, S. (2019). Innovative financing for refugee situations. Bristol: Development Initiatives.
- Talbot, T., 2018. GPE scales up innovative financing for education to US\$300 million. [Online] Available at: <https://www.globalpartnership.org/blog/gpe-scales-innovative-financing-education-us300-million> [Accessed 4 May 2020].
- The Rockefeller Foundation, 2020. Innovative Finance. [Online] Available at: <https://www.rockefellerfoundation.org/commitment/innovative-finance/> [Accessed 2 May 2020].

- Tilleard, Matthew, et al. "Minigrids Are the Cheapest Way to Bring Electricity to 100 Million Africans Today." Greentech Media, Greentech Media, [Online] Available at: [www.greentechmedia.com/articles/read/minigrids-are-the-cheapest-way-to-electrify-100-million-africans-today](http://www.greentechmedia.com/articles/read/minigrids-are-the-cheapest-way-to-electrify-100-million-africans-today) [Accessed 20 April 2020]
- WEF; BCG, 2019. Humanitarian Investing – Mobilizing Capital to Overcome Fragility, New York: WEF.
- Wellcome Trust, 2020. Wellcome Leap announces leadership team. [Online] Available at: <https://wellcome.ac.uk/news/wellcome-leap-announces-leadership-team> [Accessed 13 May 2020].
- WFP, 2017. Russia Debt-For-Development Initiative to support School Meals in Mozambique. [Online] Available at: <https://www.wfp.org/news/russia-debt-development-initiative-support-school-meals-mozambique> [Accessed 10 May 2020].
- Willitts-King, B., Assomull, R., Bryant, J., McCartney, C., Dhami, T., Llewellyn, D., & Adamczyk, S. (2019). New financing partnerships for humanitarian impact. London: Humanitarian Policy Group of the Overseas Development Institute, Numbers for Good, and the Ikea Foundation.
- World Bank Group. (2020). World Bank Group strategy for fragility, conflict, and violence 2020-2025. Washington, D.C.: World Bank Group.
- World Bank, 2020. Famine Action Mechanism. [Online] Available at: <https://www.worldbank.org/en/programs/famine-early-action-mechanism> [Accessed 10 May 2020].

This document has been prepared in good faith on the basis of information available at the date of publication without any independent verification. BCG does not guarantee or make any representation or warranty as to the accuracy, reliability, completeness, or currency of the information in this document nor its usefulness in achieving any purpose. Recipients are responsible for assessing the relevance and accuracy of the content of this document. It is unreasonable for any party to rely on this document for any purpose and BCG will not be liable for any loss, damage, cost, or expense incurred or arising by reason of any person using or relying on information in this document. To the fullest extent permitted by law (and except to the extent otherwise agreed in a signed writing by BCG), BCG shall have no liability whatsoever to any party, and any person using this document hereby waives any rights and claims it may have at any time against BCG with regard to the document. Receipt and review of this document shall be deemed agreement with and consideration for the foregoing.

This document is based on a primary qualitative and quantitative research executed by BCG. BCG does not provide legal, accounting, or tax advice. Parties responsible for obtaining independent advice concerning these matters. This advice may affect the guidance in the document. Further, BCG has made no undertaking to update the document after the date hereof, notwithstanding that such information may become outdated or inaccurate. BCG does not provide fairness opinions or valuations of market transactions, and this document should not be relied on or construed as such. Further, any financial evaluations, projected market and financial information, and conclusions contained in this document are based upon standard valuation methodologies, are not definitive forecasts, and are not guaranteed by BCG. BCG has used data from various sources and assumptions provided to BCG from other sources. BCG has not independently verified the data and assumptions from these sources used in these analyses. Changes in the underlying data or operating assumptions will clearly impact the analyses and conclusions.

This document does not purport to represent the views of the companies mentioned in the document. Reference herein to any specific commercial product, process, or service by trade name, trademark, manufacturer, or otherwise, does not necessarily constitute or imply its endorsement, recommendation, or favoring by BCG.

Apart from any use as permitted under the copyright Act 1975, no part may be reproduced in any form.