

Additional Information by the United Nations High Commissioner for Refugees to the UN Secretary General's High-Level Panel on Internal Displacement

A Review of Innovative Financing Mechanisms for Internally Displaced Persons

At UNHCR, the term innovative finance refers to financial arrangements to support UNHCR's mission that are not traditional donor-funded grants. These innovative financing mechanisms can include investments, impact bonds, swaps, guarantees, blended finance, and other vehicles, depending on the specific priority being supported. Innovative financing intends to help UNHCR close the funding gap through a range of mechanisms aimed at generating financing for humanitarian aims from capital markets, leveraging and supplementing the grants from governments, foundations, corporations, and individuals that currently provide most resources for humanitarian response. Innovative financing can also help humanitarian organizations diversify their funding base and, in line with the Global Compact on Refugees, bring in a wider range of stakeholders and their financial and other capabilities to supporting displaced people and host communities. However, please note that this is the UNHCR definition of 'innovative financing,' and this definition may vary between organizations and stakeholders.

1. Purpose

The purpose of this paper is to answer the question, "to what extent has innovative financing mechanisms been used for response to situations of internal displacement?" From this basis, this paper also offers preliminary reflections on which innovative financing mechanisms could be considered in the future to support internally displaced persons (IDPs). This paper is based on a rapid, limited review of existing literature.

This paper has been developed to contribute to the ongoing consultations in support of the High-Level Panel. It is not an exhaustive review of innovative finance mechanisms for internal displacement and is not at the level of detail to firmly identify and recommend specific innovative financing mechanisms. We invite other stakeholders to supplement this work with more detailed review and mechanism identification and analysis.

2. Introduction

Humanitarian response is becoming stretched by the number, scale, length, and severity of emergencies. Internal displacement is a global challenge, though it is heavily concentrated in some countries and triggered by specific events. In 2019, 33.4 million new internal displacements associated with conflict and natural disasters were recorded across 145 countries and territories in 2019. At the end of 2019, 45.7 million people were estimated to be internally displaced from conflicts, violence, and natural disasters.¹

Innovative financing is a relatively new area for exploration within humanitarian response. Innovative financing mechanisms encompass a wide range of structures that enable access to greater funding levels from a more diverse set of sources. Beyond traditional grants and donors, innovative financing has the opportunity to develop and apply non-traditional mechanisms to meet humanitarian and development needs. The scale and longevity of today's crises require creativity, a range of partnerships, alliances, and solutions to address all funding needs, multiple organizations including UNHCR have recognized it as an opportunity area to better support displaced people and host communities.²

3. Innovative Financing Mechanisms for IDPs

There are a few existing innovative financing mechanisms that support IDPs. Three examples are apparent of innovative financing mechanisms with strong IDP inclusion:

- The International Committee of the Red Cross (ICRC) has developed the world's first [Humanitarian Impact Bond \(HIIB\)](#) modeled after development impact bonds. This innovative financing mechanism raised 26 million CHF capital to build and run three new physical rehabilitation centers in Nigeria, Mali, and the Democratic Republic of Congo over a five-year period. These centers primarily serve people wounded in conflict. The mechanism has encouraged social investments from the private sector to support ICRC's health programs. The program's impact has yet to be evaluated as its end date is not until July 2022.³
- [Kiva's World Refugee Fund](#). Kiva is an international non-profit working to expand financial access to underserved communities. In 2017, they launched

¹ UNHCR (2019).

² World Economic Forum (2019).

³ International Committee of the Red Cross (2018).

the Fund, which works by crowdfunding loans and unlocking capital by mobilizing lenders to support refugees and IDPs, and hosting communities. The Fund offers 0% interest and risk-tolerant funding to local institutions (Kiva's field partners⁴) who in turn provide loans to refugees and IDPs at scale. They tailor loans to refugees and IDPs' needs by offering smaller loan sizes, expanding the type of identification accepted and being more lenient on guarantor and collateral requirements. They work with UNHCR and NGOs that provide services for refugees and IDPs.⁵

- Another example in the context of IDPs which has not yet been implemented is the land value capture in Somalia. This aims to determine how Somalia's urban municipalities can utilize 'land value sharing tools' in long-term development processes to maximize land use to provide stronger tenancy rights for IDPs and generate revenue to finance response for IDPs. This mechanism involves an in-kind swap between the government and landowners to benefit private landowners to consolidate larger redevelopment zones.⁶

4. Reflections for the Future

As there are few examples of innovative financing mechanisms being used in IDP settings, it is challenging to definitively identify promising innovative financing mechanisms for future development to support IDPs. This review presented three existing models of innovative finance mechanisms for IDPs with the ability to scale. Reflections for possible future avenues of innovative financing mechanisms for IDPs include existing solutions that can be further scaled up, other possible solutions that could be explored, and the importance of a robust project development process.

4.1 Existing Solutions

The three cases identified in section 3 all have potential to be scaled up and replicated to support greater numbers of IDPs. The ICRC's HIIB is another promising instrument with the potential to scale up in other settings. In principle, impact bonds can also be applied for other needs of IDPs beyond physical rehabilitation; globally, the track record of impact bonds include those targeting education, livelihoods and poverty alleviation, healthcare, prisoner recidivism, and multiple other social priorities.

⁴ Kiva's field partners include local non-profits, microfinance institutions, schools, social enterprises and NGOs.

⁵ Kiva (2018).

⁶ GP20 Initiative (2020).

However, impact bonds are costly to design and implement; therefore, they are best suited for multi-year, longer-term projects that can contribute to achieving durable solutions.

Kiva's World Refugee Fund experienced a high repayment rate for refugees and IDPs. This insight demonstrates the viability of lending to refugees and IDPs for other financial institutions. This innovative financing mechanism promotes IDPs' livelihoods by providing them with the capital required to improve skills and capabilities and ensure food and nutrition security.

Finally, the land sharing value capture model in Somalia is a creative tool to increase the access of housing, land, and property rights for IDPs while also generating additional revenue. Housing security is a major challenge for IDPs, and this mechanism presents a promising opportunity to address this concern.

In order to ensure the most impact for IDPs and long-term sustainability of support mechanisms, careful consideration should be given to working with national governments, e.g., for impact bonds governments could take the position of payment providers or outcome payers.

4.2 Other Mechanisms

Other mechanisms that have the potential to provide solutions for IDP settings are insurance mechanisms and funds. A successful insurance model used to offset the impacts of climate disasters is parametric insurance. This mechanism works by triggering a pay-out by the insurer when a triggering event occurs. This is intended to aid in the negative impact of a loss or series of losses. For example, a triggering event might be an earthquake or flood, and the parameter is the magnitude of the earthquake or the amount of precipitation. This tool has broad coverage and a transparent loss settlement structure. Such a model has the potential to be replicated in an IDP setting by establishing conditions for a pay-out directly to IDPs or to host communities to offset the costs relating to hosting IDPs.

Another instrument that has the possibility to be successful in IDP settings is revolving funds. A revolving fund is capital set up for a specified purpose with the concept that repayments to the fund may be used again for these purposes. Once the initial funds have been raised (usually as a grant), the revolving fund model can be self-sustaining, and the repayments can be utilized to finance additional projects. Revolving funds can be used across different sectors such WASH (e.g., the fund provides large upfront

capex for solarization of boreholes and get replenished through yearly repayment from the beneficiaries), environmental restoration (e.g., the fund provides large upfront capex to scale tree planting activities and get replenished with carbon credit revenues), crisis management (e.g., the fund provides seed funds to jump-start critical life-saving operations and get replenished annually through contributions from governments, private sectors, foundations, etc.). It is important to note the repayment periods may be long (typically 5-8 years or even longer) and the fund may vary from year to year due to financial sources mobilized and the return of investments.

4.3 The Project Development Process

To translate innovative financing ideas into concrete solutions, organizations must follow a structured path and be equipped with the right capacity. The project development process is typically long (at least 1-2 years) and often complex due to specific legal and operational constraints. Half or more of all ideas fail before the launch. Consequently, innovative financing instruments must be multi-year to ensure an impact worth the time commitment.

Innovative financing projects often require a level of cross-functional collaboration that goes beyond traditional ways of working. They usually involve several technical units relevant to the topic (e.g., livelihoods, WASH, Health, Environment), key support units (e.g., legal, finance, accounting, HR, procurement), country representatives, as well as a large spectrum of external stakeholders (e.g., governments, donors, implementing agencies, financial institutions and investors). The alignment process involves multiple rounds of internal and external consultations at each stage of the development process.

Executing those projects requires a different skillset from traditional humanitarian work. The work should be centrally led by a manager and a team with solid project management, stakeholder management skills, business case development, and financial modeling skills. The work often touches areas where there is no in-house expertise (e.g., structuring financial products) and requires leveraging specialized external expertise like outside counsel and consultants.

It is important to note that most innovative financing solutions contain a large grant component. For example, revolving funds are often set up with grant money. Sustainable financing comes from the fact that this money is used several times, making it a more efficient and impactful investment. As a result, grant funding is still a critical part of setting up innovative financing options.

5 Final Remarks

This note determines the extent to which innovative finance mechanisms have been used to provide solutions for IDPs and to derive initial reflections for possible future directions. Although few innovative financing mechanisms in support of IDPs exist, all three examples provided appear to have potential for replication and future scale-up albeit with adequate mitigation per context. There appears to be additional mechanisms that could be explored in the future, including insurance-based mechanisms and revolving funds – we note that these broad avenues do not preclude the need for a much greater volume of work for scale-up or additional mechanisms to become a reality. Each specific project idea would require its own project development process, including business case development, financial modeling, and due diligence.

One possible next step to help accelerate the development of innovative financing mechanisms for IDPs would be for an institution such as a think tank, financial agency or a socially-oriented consulting firm to conduct a thorough mapping of possible innovative financing mechanisms, investigate which ones have a viable business case and applicability to IDP settings, and what would be a possible roadmap and the stakeholders needed to turn viable mechanisms into reality. If made available as a public good, this type of fact-based, business-case driven analysis would greatly accelerate the development of viable innovative financing mechanisms to better support IDPs globally.

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17th December 2020

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