
Background:

In a challenging financial context where traditional forms of overseas development aid are under pressure, innovative financing has emerged as a complementary approach to generate additional and sustainable income to help reach development goals. Innovative financing has mobilized nearly \$100 billion and grown by approximately 11% per year between 2001 and 2013¹. Initiatives like UNITAID financed largely by a levy on air tickets, green bonds, debt to health swaps, Advanced Marketing Commitments and International Finance Facility for Immunization (IFFIm) for GAVI have shown the possibility of capitalising on new financing options including for global pooled funding mechanisms. While breakthroughs have been made for development financing, its potential for humanitarian response remains to be fully explored².

CERF approach to Innovative Finance:

As a global fund with an excellent track record of more than ten years, CERF has a good reputation as a key funding mechanism delivering value and driving impact for its wide group of stakeholders, including donors. With an annual target of \$450 million, contributions from top 10 donors have been vital to attain or surpass the target. In the last three years, the top ten donors to CERF account for 90 per cent of the contributions³, while the remaining (116) donors account for 10 per cent. The heavy reliance on the top 10 donors is a high risk with repeated calls from core donors and other Member States to diversify the donor base. The expanded annual target of \$1 billion a year endorsed by the United Nations General Assembly reinforces the importance of CERF as a global funding mechanism for emergencies and its role in enabling fast and flexible response to people most in need – anytime and anywhere crises hit. However, it also sets out an ambitious challenge, highlighting the urgency to explore and harness additional means to raise capital to achieve this target. In particular, funding that is additional, predictable and sustainable is critical to enlarge and complement the donor base.

Innovation especially capitalizing on private sector expertise, market based solutions and approaches are of interest to most donors. Whether reflected in the remit of government ministries covering trade and development or in specific thematic priorities on innovation in general, there is an emphasis on unlocking the full potential of their resources that maximizes value, drives critical breakthroughs, and transformatory changes (such as market shaping) including leveraging additional funding, and reinforces public-private partnerships. Many top donors who have pioneered and supported innovative financing initiatives especially for the global funds are also represented among CERF's top donors (Australia, Canada, Germany, Netherlands, Norway, Sweden and UK among others).

Innovative finance is a dynamic yet evolving field with groundbreaking initiatives, multiple approaches and a range of instruments (bonds, guarantees, impact investing, levies). Finding the 'right' approach and initiative – tailored to an organisation's mandate, risk profiles and expertise - is critical to ensure success.

¹ Innovative Financing: For Development Sept 2014, Dahlberg

² ICRC and Belgium launched a humanitarian impact bond at WEF Davos in 2016.

³ UK, Sweden, Netherlands, Norway, Germany, Canada, Denmark, Belgium, Ireland

Building on the successful experiences of global funds in development, CERF has explored the potential to tap into innovative financing opportunities to complement the donor base in terms of diversity. In particular, the priority is to generate additional, predictable and sustainable funding that enables CERF to secure part of its funding to address the reliance on voluntary contributions on a yearly basis. In this context, innovative finance was first introduced to the CERF Advisory Group in October 2015 as a general approach emphasising successful initiatives linked to the global funds⁴. This was presented by the Innovative Finance Foundation (IFF) in terms of their experience in setting up UNITAID financed by solidarity levies and developing UNITLIFE (financed by tax on oil and extractive minerals) but also other initiatives like debt swaps. Subsequently, CERF further partnered with the IFF to identify options that had potential for CERF as a global pooled fund on emergency response.

Insurance based initiative for CERF:

Based on several options⁵ and linked to the expertise and networks of the Innovative Finance Foundation, a risk-based insurance initiative is under development. The paper from IFF provides an overview of the initiative based on the expertise of Willis Towers Watson a leading global insurance and brokerage and advisory company.

This initiative has the potential to meet the various criteria of relevance in terms of support to CERF. This includes:

- **Smoothing effect** – In particular, given the nature and scope of the initiative, when there is a year that witnesses a high occurrence of natural disasters, CERF would benefit from insurance pay-outs to help meet these increased demands. In the years that the covered perils are not frequent, CERF may not receive significant payments. However, a tangible benefit would be that during the years of high allocations to covered perils, CERF's ability to respond to these and other crises would not be negatively affected, thus an important "smoothing effect".
- **Additional funding:** With CERF receiving 100% of its funding through grants from donors, this initiative explores the possibility of funding that would not come to CERF in the traditional way. In addition, the use of market driven, private sector approaches could further incentivize and 'pull in' further engagement from traditional partners like government donors and new partners from the private sector that are more open to 'making money work' rather than traditional grant giving. The amount of funding is subject to the nature and scope of coverage of the insurance.
- **Predictable funding:** CERF relies on voluntary contributions on a yearly basis, with approximately seven multi-year agreements largely for two year periods. In this context, the payment of additional funds to CERF based on pre-established criteria introduces a certain predictability in terms of income that would not have been possible otherwise.
- **Sustainable funding:** Within the parameters defined, the initiative enables CERF to access a funding stream that is not ad hoc and maintains continuity.

⁴ Successful initiatives included: solidarity levies to finance UNITAID, UNITLIFE, IFFIm in GAVI, Product RED for the global fund, Dow Jones Global Fund Index

⁵ Options included: debt swaps; endowment financed premium fund; capital guarantee scheme among others.

Links to Interesting Global Initiatives on Risk Insurance⁶:

At the same time, global partnerships emphasising the expertise of the insurance industry for the humanitarian community has seen significant progress, with OCHA playing a prominent role in the engagement including at the leadership levels. Of note is the Insurance Development Forum (IDF), a public/private partnership between leaders of the largest insurance companies, governments and international institutions including the UN and the World Bank. It comprises a Steering Committee, with participants such as Mark Carney (governor of the Bank of England), **Helen Clarke**, ex-UNDG Chair, Stephen O'Brien, UN Emergency Relief Co-ordinator and Robert Glasser, SRSG for UNISDR among others. **Willis Towers Watson, Munich Re, Swiss Re are among** the industry leads in the partnership.

Insurance against climate-related hazards is a priority for the G7 and G20 with several initiatives underway. In addition, the German Ministry for Economic Cooperation and Development (BMZ) has commissioned the German development bank "Kreditanstalt fuer Wiederaufbau" (KfW) to establish and manage an insurance Solutions Fund (EUR 15m) that will finance the development of risk transfer solutions for (sub-) sovereigns. The UK Department for International Development (DfID) has developed proposals for a London *Centre for Global Disaster Protection* and has approval for £30 million funding in UK government resources for this, subject to DfID ministerial approval (currently pending). Beyond the DfID London Centre and BMZ Solutions Fund, the German and UK governments have suggested a 'Global Partnership' to coordinate and enhance cooperation and facilitate innovation and learning across the various initiatives with the industry invited to join a Partnership Coordination Committee, administered by the G7 InsuResilience Secretariat based in Bonn.

Separately, in the German Chancellor's response⁷ to the Secretary General's letter to Member States on the dangerous levels of global food insecurity, she noted the support to CERF. She also emphasized the importance of innovative financing instruments in addressing humanitarian emergencies.

Conclusion:

Innovative finance is a vibrant field with many initiatives that demonstrate large scale impact and several initiatives underway to show value. As highlighted in the first CERF AG meeting on innovative finance (October 2015), successful initiatives share these key features: ambition, global perspective, convincing business model, persuasive value proposition, performance indicators and leadership.

CERF's approach to explore and harness the potential of innovative finance is driven by the expertise and networks of IFF. Partnerships are vital to access this 'space' as CERF does not have the expertise and capacity to engage meaningfully in this area. The focus on insurance based initiative is a small but critical step with the potential to unlock and capitalize on other opportunities in the future. In light of successful global initiatives, it also poses the question – as a global financing mechanism, how could CERF benefit from a 'financing' perspective to complement and address the heavy reliance on traditional grants?

The role of our partners and global champions for CERF is vital to help articulate the vision and ambition on humanitarian financing related to the financing of CERF at a time when humanitarian needs are at a record high. Navigating the complex landscape of innovative finance has multiple risks, but in times of unprecedented global needs, extraordinary efforts driven by ambition and political will are critical to demonstrate the success – success already delivered across multiple initiatives especially to address

⁶ These initiatives are not exhaustive.

⁷ 24th April 2017

development challenges. It is important that humanitarian financing also capitalize on the potential of innovative finance for the benefit of the millions of people in urgent need.