

4 In my view: The untapped potential of innovative financing and humanitarian organisations

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The past several years have been unprecedented for the humanitarian sector. Worsening disasters and evolving crises across the globe have demonstrated that, despite our best efforts, the assumptions, approaches and structures that have long defined humanitarian responses are no longer capable of adequately meeting people's needs.

This comes as no surprise to members and observers of the humanitarian sector. Important and necessary discussions on questions of localisation and the decolonisation of aid reveal the extent to which transformation is necessary – not only for the future of the humanitarian system but also the future of our organisations and the future we strive to build for the individuals and communities we partner with.

At the International Federation of Red Cross and Red Crescent Societies (IFRC), local organisations lead our humanitarian action. The 192 National Red Cross and Red Crescent Societies that make up the IFRC network are embedded in their local communities and are intimately aware of the needs and how best to shape an appropriate humanitarian response. In this way, the IFRC network has a unique strength and capacity to directly channel resources from the international ecosystem to local and national organisations.

A recent analysis found that local and community actors deliver programming that is 32% more cost efficient than that of international intermediaries (Cabot Venton et al., 2022^[1]). We know through the work of our IFRC network that localising humanitarian assistance promotes greater inclusion and equity, more trust, faster and more timely responses, more flexibility, broader access, and long-term sustainability in our operations and programming. By investing in local and national support systems, we are able to strengthen and reinforce national infrastructure – directly benefiting the people who need it most.

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Yet despite donor commitments in the Grand Bargain and significant progress made by some donors, the overall percentage of direct funding to local actors has barely moved beyond the low single digits. As the impacts of climate change accelerate, and as new and unexpected conflicts devastate entire populations, small or medium-sized crises and disasters struggle to attract visibility and funding, leaving those affected at risk of being neglected by the international community. At the IFRC, we are exploring innovative ways of covering the costs of our work to prevent this from happening.

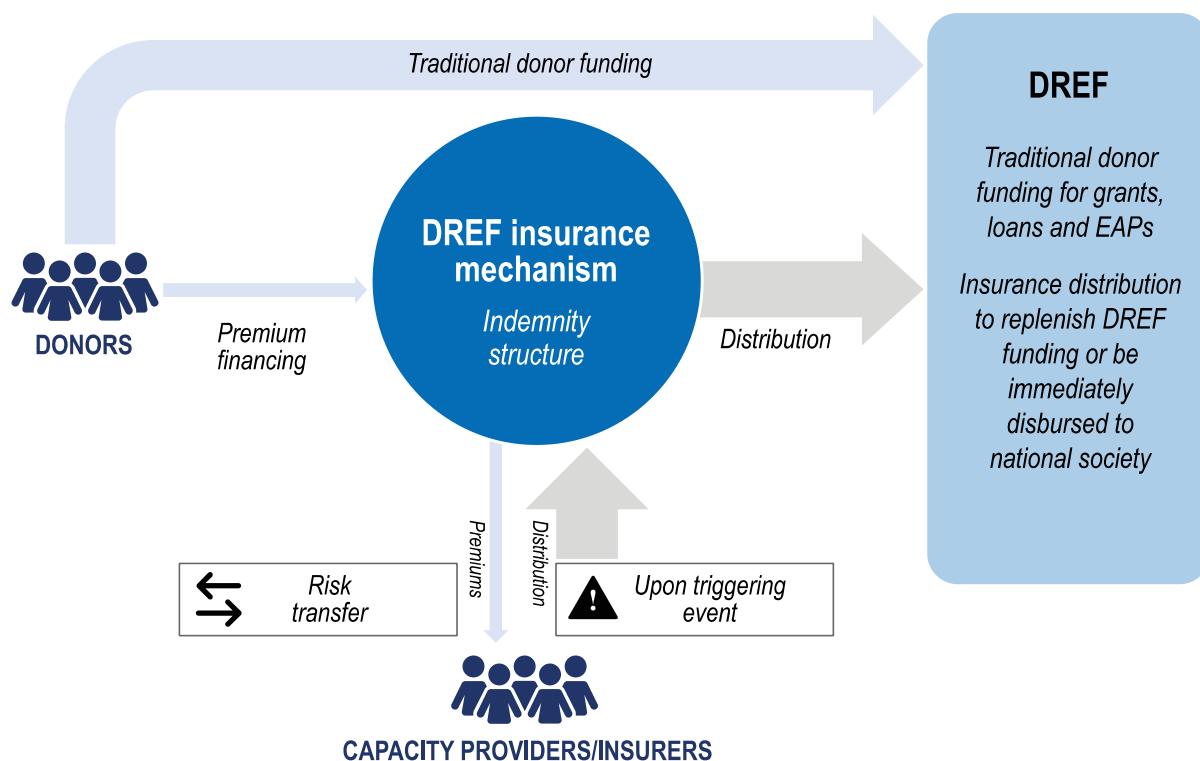
We've had to ask ourselves, how are we reacting to the challenge of doing better with less? How are we exploring innovative ideas around financing and engaging with new donors?

The blurring of lines between the humanitarian and the private sectors is an area of exciting growth that represents untapped potential when it comes to innovative financing. In a groundbreaking move, the IFRC is collaborating with Aon and the Centre for Disaster Protection to build an innovative insurance mechanism whereby commercial insurance markets leverage the contributions of traditional donors to expand the capacity of our Disaster Response Emergency Fund (DREF) to respond to natural disasters.

The DREF, established in 1985, is a central funding mechanism through which the IFRC releases funds rapidly to national societies for early action and immediate disaster response. The balance of funds required by the DREF to meet the demands of national societies has historically been funded through an annual appeal. However, in 2020, high requests for funds meant that DREF allocations surpassed available resources for the first time in history. The growing needs facing national societies around the world and the uncertainties of the future have therefore sparked a process of modernisation with the aim of making the DREF more flexible and more effective.

Through the insurance structure we are developing, donors would pay the premium instead of directly financing disaster responses through the DREF (Figure 4.1) This extends the value of their contributions and transfers the risk to the private sector if allocation requests exceed available resources. Reinsurance markets would relieve the risks of excessive natural hazards and would ensure funds are available for national societies to rely on even in periods of excessive or unexpected demand.

Figure 4.1. The Disaster Response Emergency Fund insurance mechanism



Notes: DREF: Disaster Response Emergency Fund; EAP: early action protocol.

Through this cutting-edge approach, we aim to increase annual DREF allocations to CHF 100 million (Swiss francs), equivalent to about USD 100 million, in 2025. As it is impossible to reach this target through

donor grants alone, the insurance mechanism represents an enormous step forward that has the capacity to transform how the international humanitarian system responds to complex crises in the future.

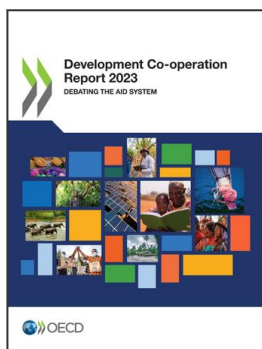
Another way the IFRC has answered this call is through our cash and voucher assistance programming. Using cash reiterates our commitment to more agile and efficient methods of providing humanitarian support that promotes choice and preserves dignity for people and communities. This type of programming allows us to cut down operating costs by placing the people affected by crisis and disaster – and most importantly, their own preferences and decisions – at the centre of our operations.

Recently we developed a new Cash app, built on learnings from other emergency operations, that allows people fleeing Ukraine to self-register and be verified for assistance. This new innovative approach to cash, which has been rolled out in Romania, has allowed us to take our response to scale and at speed, in many instances as the leading agency in the delivery of cash in the Ukraine response. Over 56 000 people have been reached and assisted with EUR 17.4 million in Romania. The app has also been launched in Bulgaria, where in just four days, 20% of the known Ukrainians in the country were able to self-register.

Ultimately, by scaling up and replicating these ambitious and innovative programmes across our global network, the community-connectedness of organisations like the IFRC can be harnessed in a powerful way. The inescapable reality is that more funds will be urgently needed to confront the ever-increasing humanitarian emergencies of the world – yet financial innovation holds the key to sustainable, meaningful and impactful humanitarian work.

Reference

- Cabot Venton, C. et al. (2022), *Passing the Buck: Economics of Localizing International Assistance*, The ShareTrust, [1]
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