



Innovative financing –
business models for
humanitarian action

Innovation Norway has commissioned this paper, with its purpose of being a background paper for the conference "Innovative Financing – Business models for sustainable humanitarian action, organized by Innovation Norway and KPMG, and taking place in Oslo, 27th of November 2019.

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The need for innovative financing

Innovation Norway has commissioned this paper, with its purpose of being a background paper for the conference "Innovative Financing – Business models for sustainable humanitarian action, organized by Innovation Norway and KPMG, and taking place in Oslo, 27th of November 2019.

The aim of the paper is to present a summary of existing literature on innovative financing. Two key questions are to be discussed – both during the conference and in this paper;

- ✓ What attracts new funding and investor financing to humanitarian projects and programming?
- ✓ What characterises sustainable, humanitarian business models?

The humanitarian system is under immense pressure from ongoing crises affecting over 200 million people worldwide. The 2019 overview of funding to humanitarian action¹, however, once again demonstrated that traditional, humanitarian financing is falling short in supporting people facing imminent, new or ongoing crises. In spite of a record high donation total by traditional donors, the current grant-based support system to humanitarian sector is too small, too slow, too short-term, too unpredictable and too reliant on the discretionary contribution of a few governments to fully meet the needs of people affected by emergencies.

The resource gap in the humanitarian system has contributed to an urgent need of action to be taken, at several levels. Current reforms are trying to make crises funding faster and more cost-effective. This on-going shift in the humanitarian architecture imposes new possibilities, but also challenges. In terms of innovation, it brings in new actors and the possibility of creating new partnerships and new types of investments. These may in turn contribute with smarter, greener and more efficient solutions for humanitarian responses.

The paper discusses how businesses, or a business mind-set, and investors can contribute to accelerate the efficiency and quality of humanitarian aid. A key concern is how new humanitarian solutions, in one way or another, can bring in the possibility of a *financial return*. The financial return can be realised by either attracting investors or businesses to the humanitarian sector, or by rethinking business models among actors and organisations already operating in the field.

¹ <https://www.unocha.org/global-humanitarian-overview-2019>

Attracting investors to the humanitarian sector

The first key question to be raised in this paper is how humanitarians can attract investors to the humanitarian sector. There is no secret that this is a rather difficult task – as humanitarian crises offer some of the greatest challenges to investors looking for returns of investment.² Current reforms in the sector, together with new initiatives, may however present some new possibilities for the sector. Blended finance models, impacts bonds and risk financing are some of the new instruments that are being discussed and tested out in the sector. In this paper, however, we look closer at impact investments, as they present a great potential for financing and scaling successful innovative solutions, start-ups and businesses in the sector..

Humanitarian sector as a market

The humanitarian market has the potential of being an attractive market for private sector. The UN alone purchases for 150 billion NOK annually³, and the demand for products and services through long term agreements are high. The sector is particularly interesting for companies offering products and services related to health and medicine, WASH, ICT, clean energy, educational material – and so much more. The procurement systems in the humanitarian sector are also ensuring a transparent market that is contributing to de-risking companies' participation. The humanitarian market is, however, also a challenging market for businesses. Although the procurement system is de-risking companies' investments in fragile markets, the system is also perceived as overwhelmingly bureaucratic and slow, with few buyers and a strong, global competition.

The Sustainable Development Goals have created an entrance for businesses and investors

There is no doubt that the Sustainable Development Goals (SDGs) agenda towards 2030 has created an opening for capital-orientated actors to enter the humanitarian field. The SDGs constitute the world's common work plan for eliminating extreme poverty and for minimizing the negative effects of the climate crises. The 17 goals form a global call to action and provide a roadmap and tools for integrating positive social and/or environmental impact into the core work of both private, public and humanitarian institutions.

Private sector has already embraced the SDGs. KPMG's sustainability report from 2018⁴ shows for example that 43% of companies in the world are linking their activities and strategy to the goals.

The potential of bringing impact investors to the sector

Attracting investors to the humanitarian market has been even more challenging. This is because the sector to a lesser degree has been designed for, nor has it been an enabling environment, for

² <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12581.pdf>

³ <https://www.dagsavisen.no/debatt/fn-og-u-land-som-marked-1.960922>

⁴ KPMG (2018): <https://assets.kpmg/content/dam/kpmg/sg/pdf/2019/05/KPMG-sustainability-report-2018.pdf>

start-up's and businesses to become partners and providers of the humanitarian aid. This trend seems to be reversing slowly, as new players and innovators are entering the humanitarian sector.

Impact investments is of high interest, as both investors and humanitarians are seeking investments that are generating social and/or environmental impact, alongside a financial return. Creating sustainable businesses in the humanitarian system will also be an efficient way of outsourcing important work and services that currently constitutes a burden for the humanitarian organisations.

The humanitarian sector should work systematically to facilitate for impact investors to enter the sector, as they have the potential to be a substantial provider of investments. The estimated assets managed by impact investors today are apparently worth 114 billion USD worldwide.⁵ Furthermore, the interest for impact investments is growing and new generations are more likely to invest in products and services with impact goals.⁶

Investors are, by the nature of their work, looking for investments. The innovation work that has taken place within the humanitarian sector for the last years are therefore of particular interest in this regard, as new prototypes and technological solutions may be potential new start-ups with great scaling and growth potential.

Impact investors are looking for financially viable businesses that have clear, defined and measurable social and/or environmental outcome targets. There are in particular to ways of attracting impact investors to the humanitarian sector. Firstly, public grant mechanisms can be designed to match investors, and thus de-risk the investments in the early phase in the humanitarian sector. Secondly, the sector needs to facilitate for the creation of new start-ups, either by outsourcing existing work to private sector companies or by joining humanitarian-private partnerships, with strong business models, as will be outlined further below.

Humanitarian-private partnerships for joint value creation

The humanitarian context is even more challenging than for instance the development sector or emerging markets. The main reason is the high risks related to operation (and scaling) in fragile contexts, surrounded by conflicts and war. Market players are also limited: 58% of all relief efforts are provided by a small number of multilateral organisations, primarily seven UN agencies, along with the International Red Cross and Red Crescent Movement.⁷

This is the backdrop for the increasing tendency of humanitarian organisations and private sector companies collaborating for improving humanitarian aid through innovation and strategic partnerships. These partnerships enable new opportunities of co-creating innovative solutions. Several innovation mechanisms are also designed to accommodate such partnerships, such as the

⁵ Mudalier et al (2017) in Ferdi. , USAID, European Union and ODI

⁶ KPMG (2019) The numbers that are changing the world. Revealing the growing appetite for responsible investing. KPMG UK report. <https://assets.kpmg/content/dam/kpmg/no/pdf/2019/11/numbers-that-are-changing-the-world.pdf>

⁷ Elrha (2018) Too tough to scale? Challenges to scaling innovation in the humanitarian sector. Elrha Report.

Humanitarian Challenge Creating Hope in Conflict⁸ and the Humanitarian Innovation Program,⁹ which are based on innovation partnerships and innovative procurement frameworks.

Strategic partnerships are characterised by projects built upon the core competencies and strategic focus of all the parties involved in the partnerships. It is a joint value creation, a joint definition of purpose, and it often focuses on collaboration within the value chain of the partners.¹⁰ Partnerships that are perceived as the pinnacle of best practises within the sector today are, amongst others, the global partnership between logistics company TNT and the World Food Programme, Save the Children UK's cooperate partnership with pharmaceutical company GlaxoSmithKline and the International Committee of the Red Cross's (ICRC) Humanitarian Impact Bond.¹¹

Collaborating with an NGO constitutes opportunities for private sector actors. It enables businesses to enter a new and substantive market, simultaneously as the partnership contributes to de-risking the private actor's market-entrance. The humanitarian partner organisation has the competence of the system and may be an important facilitator and can thus provide a smoother access to the market. The partnerships also enable an opportunity for the humanitarian organisation since it may entail substantial joint investments and active participation in innovation, as well as supply of new and needed resources, competences and technology. Brokering, promoting, supporting and maintaining effective partnerships is, however, a complex and resource consuming process.

There are in particular three partnership models of relevance for humanitarian organisations:

- ✓ **Hybrid model** – NGOs are involved in both non-for-profit as well as business ventures, ensuring that the NGO has full control of both development and business investment decisions. The commercial wing of the NGO may provide financial sustainability to the work of the organisation. Business models may be to engage in small income generating activities, such as selling t-shirts of handicraft products, or use of staff to sell consulting services.
- ✓ **Separate entity model** – Many NGOs set up their business ventures, and such entities would then operate like any other business, but share its profits with the NGO and/or other stakeholders. In these circumstances, the NGO is the major shareholder of the company, as for example Grammen Phone, which is partly owned by the non-profit Grammen Telecom.
- ✓ **Outsourcing** – NGOs may outsource services that may be run and delivered more cost-efficiently through a business or start-up, including international companies as well as local businesses and start-ups driven by refugees and beneficiaries.

Reforms will make the sector more attractive for businesses and impact investors

The on-going reforms within the humanitarian architecture provide increased potential for private sector engagement, including private impact investments. In particular, two on-going change processes are worth mentioning: the Humanitarian-Development-Nexus and the Global Compact

⁸ Launched by USAID, FID and Grand Challenges Canada

⁹ Launched by the Norwegian MFA and Innovation Norway

¹⁰ <https://assets.kpmg/content/dam/kpmg/sg/pdf/2019/05/KPMG-sustainability-report-2018.pdf>

¹¹ [https://www.humanitarianleadershipacademy.org/wp-](https://www.humanitarianleadershipacademy.org/wp-content/uploads/2019/04/HSBCandtheAcademy_PrivateSectorHumanitarianAction_April2019_FINAL.pdf)

[content/uploads/2019/04/HSBCandtheAcademy_PrivateSectorHumanitarianAction_April2019_FINAL.pdf](https://www.humanitarianleadershipacademy.org/wp-content/uploads/2019/04/HSBCandtheAcademy_PrivateSectorHumanitarianAction_April2019_FINAL.pdf)

on Refugees. Both open up for larger and more stable business markets, which in turn will improve the journey for scaling and consequently ensuring profitably investments.

A strong consensus on the humanitarian-development nexus emerged at the World Humanitarian Summit in 2016. The nexus challenges the status quo of the aid system, as it is trying to mind the coordination gap between humanitarian intervention and long-term development of aid efforts. The aim is to plan against multi-year planning frameworks, to collaborate at the country level and increase the coherence of aid development. OECD has made the nexus a priority and the UN, donors and NGOs are supportive of the approach.¹²

The emphasis on a more coherent approach offers many opportunities, which in turn also makes the humanitarian sector more attractive for commercial players, both businesses and investors. For example, meeting immediate needs at the same time as ensuring longer-term investment such as poverty, will also imply the potential for longer-term investments, and for scaling the new solutions to larger and more stable markets.

Another potential lies in the Global Compact on refugees, which was established by the United Nations General Assembly in 2018. This is a framework for more predictable and equitable responsibility sharing, recognizing that international cooperation is needed, ensuring that host communities get the support they need and that refugees can lead productive lives.¹³ The framework also constitutes a unique opportunity to invest in local entrepreneurship and innovation, among both refugees and their host communities. In addition, as mentioned above, the framework may also broaden the market access for companies and investors, as the aim is to ensure a closer collaboration between refugee settlement and their host countries, such as Turkey, Jordan, Kenya and Tanzania – to mention a few.

¹² Oxfam Discussion Paper (2019) The Humanitarian-Development-Peace Nexus. What does it mean for multi-mandated organizations? Oxfam. https://reliefweb.int/sites/reliefweb.int/files/resources/dp-humanitarian-development-peace-nexus-260619-en_0.pdf

¹³ <https://www.unhcr.org/the-global-compact-on-refugees.html>

Sustainable business models

An overall goal for most humanitarian innovation projects is to scale its successes and thereby contribute to smarter, greener or more efficient humanitarian aid. A prerequisite for scaling, however, is to include a business model that harmonises the organisation's interaction between economy, society and the environment. Below, we outline how a business mind-set may contribute to improved and more efficient humanitarian innovation programming on the ground.

Creating a harmonious interaction between economy, society and the environment

The core idea of a business is that it creates a financial return. Sustainable businesses in the humanitarian system must correspondingly create business models that are economically viable. Below, we look closer at components needed for creating viable businesses.

A business model describes the rationale of how an organization creates, delivers and captures value.¹⁴ The core idea behind *sustainable* business models, in turn, is to include a triple bottom perspective to the organisation's purpose, performance and results. A sustainable business may be defined as a harmonious and sustainable interaction between the above-mentioned triple bottom lines; economy, society and the environment. The idea behind the model is that economic activity strengthens the social environmental systems they exist within, rather than breaking them down.¹⁵

Sustainable business models ensure that private sector actors include the social and environmental aspects to their core activities, while the humanitarian organisations include activities that generate revenues needed to accelerate their work. In that respect, sustainable business models can also be a valuable tool for developing strategic humanitarian-private partnerships in the humanitarian sector.

Creating value in the humanitarian space

Business model frameworks consist of three main components. Firstly, the organisation needs to formulate its value proposition. The core issue is to understand the organisations' value and who and how someone is able to pay for it, is it a UN agency, government, a refugee or a governmental institution in a host community? Secondly, the organisation needs to formulate its **value delivery**, which refers to the most important resources, activities and partners that are needed in order to deliver the value proposition. Resources are everything the organisation *has*, while activities comprise everything the organisation *does*. Lastly, but not the least, the organisation needs to formulate the **value capture**. This is the organization's ability to create profit from its transactions.

¹⁴ http://oagflibrary.com.ng/bitstream/123456789/121/1/businessmodelgeneration_preview.pdf

¹⁵ (Lozano 2008; O'Higgins and Zsolnai 2017) cited in Jørgensen, S and Pedersen, L.J. T (2018) *Ibid.*

Decisions of revenue streams, payment models and cost structures that allow the organisation to make a profit are decided when defining the value capture.

The next question that needs to be raised, is; how do we include *sustainability* into the business model? A recent trend is to ensure that the business model encompasses the complexity of sustainable value creation. One example is the models of progressive businesses, where the business model includes the way the organisation creates, and destroys, values in the broad socio-ecological context.¹⁶ Another rather new approach is impact investment. In these circumstances, the investor commits to measure and report the social and environmental performance. The core idea is to use economic resources and skills to promote solutions that resolve or meet social and environmental challenges.

There are some characteristics of business model that are sustainable and profitable at the same time. The research group behind the RESTART framework, which is an effort in building sustainable business models¹⁷, emphasis in particular seven main traits that should be included in business model innovations. These are all relevant for humanitarian sector;

Redesign of current business model: Companies and organisations needs to redesign their business models in a manner that reduces the shadow they cast on society and the environment. This is of high relevance for agencies working with humanitarian response. The number of displaced people worldwide is at its highest since World War II, and the refugee camps are putting pressure on the host communities and their resources, including land, water and forests, resulting in increased vulnerabilities. Several humanitarian actors are therefore rethinking their business models. Care Norway and Care Denmark's CAMP+ is a project that is developing a holistic, integrated and circular camp prototype, aiming to be the world's first climate positive refugee camp (CAMP+).

Experiment: All innovation processes, including business model innovation, needs controlled experimentation. While innovating the business model, companies and humanitarian innovation alike need to uncover what works (and what does not work!) and why. In that way, they can increase the likelihood that the business model will be successful when finally implemented in the market.

Service-logic – Companies and humanitarian organisation conduct services for their customers and beneficiary. Embracing a service-logic across all types of products is according to the RESTART framework an important step towards a sustainable organisation. This implies thinking in terms of access over ownership. For example, will your product or service be a shared service, streaming service or a leasing-like payment model? The service logic has already entered the humanitarian space. The solar company [Bright!](#) has for example developed and integrated a pay-as-you-go

¹⁶O'Higgins, El and Zsolnai, L. (2018) "Progressive Business Models. Creating Sustainable and Pro-Social Enterprise". Palgrave Mc Millan.

¹⁷Jørgensen, S. and Pedersen, L. J. T (2018)

solutions to their solar lamps, enabling households to pay for the products in small instalments instead of a one-time, high payment.

Circular: Make smarter use of the scarce resources that are available, and create revenue streams by i.e. turning wastewater into fertilizer, compost, clean drinking- and irrigation water. The possibilities are enormous and many actors are already developing and implementing such solutions in the field, for example Norwegian Refugee Council and their private sector partner Sanivation, self-sustaining waste-to-energy sanitation system, treating 100 tons of faecal waste and transforming it into 100 tons of charcoal briquettes every month. Another way of building a circular economy is to build closed-loop supply chains, in which as few resources as possible disappear in the form of waste or emissions.¹⁸ The idea is to upcycle, rather than recycling, such as Care's CAMP+ project, as mentioned above.

Alliances: No single organisation can solve humanitarian crises, nor improve the environmental footprint of humanitarian crises – alone. Organisations and companies need to look at the entire ecosystem and find collaborative efforts for doing business more sustainably. Strategic partnerships is a core approach in this matter, however it depends on a willingness by all partners to open up their business models to each other and work together in ways that make the whole more than the sum of its constituent parts. A good example of such an approach may be found in Europa, among the car producer Renault. They have created joint ventures with several companies to ensure access to resources, knowledge and competence for a circular business model, some of these companies are recycling Renault's left over steel, while others manages waste.

Results: For sustainability efforts to pay off, they must affect the company's bottom line by influencing revenues and costs directly or indirectly. It is about increasing revenues, reducing costs or both. Or, even better, to transform costs into revenue. An interesting example in this regard, is how the French retail chain Intermarchè managed to transform their loss into revenue. They initiated the campaign "Inglorious Fruits and Vegetables" by selling smoothies made of misshapen fruit and vegetables – with great success. Another example [Empower](#), which has created as solution to the plastic waste problem by giving plastic a value. Their business model is a crowdfunding platform which offers plastic waste in the Global South to paying customers..

Three-dimensionality: Organisations must be designed to become sustainable and profitable. This implies setting the right objectives socially, environmentally and financially.

¹⁸ Jørgensen, S and Pedersen, L.J. T (2018) *Ibid.*



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