IKEA Foundation

Leaders and Intrapreneurs: Driving Investment in Frontier Markets

WHITE PAPER

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Contents

Humanitarian Resilience Investing

Foreword

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Private-sector engagement beyond philanthropy has increased significantly over the past decade in humanitarian and fragile contexts, but it has struggled to transition from small-scale pilots to achieve impact at scale. A key barrier preventing this transition is the organizational readiness of humanitarian and development organizations, donors, development finance institutions (DFIs) and private-sector investors to engage with each other in support of investable opportunities in these markets. Financial, cultural and institutional barriers continue to slow this process. Courageous leadership and intrapreneurship are needed to remove these barriers: from humanitarians and the private sector being more deliberate about collaborating beyond philanthropy to bilateral donors removing artificial divisions and DFIs increasing their risk appetite for lower-ticket or riskier investments in frontier markets. All need to move beyond declarations of intent to build readiness into their organizations so they can enter into these new types of partnerships.

Unless these barriers are actively recognized and removed, it will be very difficult to deliver long-term sustainable impact for populations at risk of or affected by conflict and natural hazard-related disasters. There is positive momentum across the humanitarian and development ecosystems to address these barriers, and a number of pioneering organizations have already embarked on this journey. This paper draws attention to this work and highlights the need for leaders to prepare the space for change and for intrapreneurs to capitalize on that space and tackle the internal barriers preventing them from engaging in new types of partnerships.

Executive summary

The paper identifies how leaders have created the space for change and stresses the importance of intrapreneurs driving action.

The Humanitarian and Resilience Investing (HRI) initiative was launched in 2019 to encourage flows of public and private capital into financially sustainable opportunities that benefit communities in humanitarian and fragile contexts.[1] A core enabler to achieve scale and unlock private capital in these contexts is organizational readiness, which refers to the preparedness of an organization to undergo a major change or take on a significant new project. Humanitarian and resilience investing not only introduces new financial instruments but also develops new partnerships and business models that challenge mindsets and push the boundaries of what is possible within the existing rules and systems. If organizations are not ready, new initiatives are likely to fail, because barriers will discourage or defeat intrapreneurs (entrepreneurs within an established organization)[2] to drive change.

The *Organizational Readiness and Enabling Private Capital for Innovative Financing in Humanitarian Contexts* playbook[3] was published in 2020, to equip stakeholders with self-assessment and prioritization tools for identifying and tackling internal barriers across five organizational pillars: *mandate*; *organizational support*; *systems and procedures*; *resources*; and *implementation*. This paper builds on that playbook, detailing the best practices from four pioneering organizations and showcasing key actions taken across the organizational readiness pillars.

CASE STUDY 1

International Committee of the Red Cross (ICRC)

This case study explores how the ICRC secured a *mandate* to enable partnerships with development and private-sector actors, broaden its resource base and deliver more sustainable humanitarian impact by embedding its work on new financing models in the ICRC's resource mobilization strategy (RMS). This was achieved by securing a meaningful and quantifiable target for innovative finance projects under this strategy.

CASE STUDY 2

European Commission: Directorate General for European Civil Protection and Humanitarian Aid Operations (DG ECHO)

This case study explores how the *Organizational Readiness* good practices playbook helped DG ECHO to increase *organizational support* for longer-term humanitarian projects by enabling it to move beyond desk research on humanitarian-blended finance and empowering engagement with legal and finance colleagues. These moves unlocked the funding for humanitarian blended finance pilots and led to robust discussions in which colleagues across the organization began to understand the rationale for exploring new partnerships for longer-term action and to positively contribute to their co-creation.

CASE STUDY 3

World Food Programme (WFP)

This case study explores how having a strong understanding of WFP's existing *systems and procedures* enabled the WFP Innovation Accelerator to design innovation programmes that effectively combine the best practices from the private and public sectors, such as funding for-profit companies as part of WFP's Sprint Programme and Scale-up Enablement Programme, to further enable investment in frontier markets (humanitarian and fragile contexts with investable opportunities).

CASE STUDY 4

FMO – Entrepreneurial Development Bank

This case study explores how the Netherlands Ministry of Foreign Affairs enabled FMO to invest in frontier markets by providing the *resources* to operate the MASSIF fund. MASSIF unlocked smaller-ticket investments in these markets and enabled higher-risk transactions in earlier-stage companies.

The four case studies presented in this paper showcase positive momentum across humanitarian organizations, donors and DFIs, to enable change and unlock investment in frontier markets. Leaders were able to create space for change by empowering their staff, removing bureaucratic and political barriers, and recognizing the learning opportunity from potential failures. Intrapreneurs capitalized on that space and were able to increase their organization's readiness through a number of different strategies. The HRI initiative will continue to work closely with humanitarian and development organizations, donors, DFIs and private-sector actors to support their journey, and identify additional tools and best practices that enable them to actively engage in HRI.

Leaders should be willing to take risks and empower their staff to fail safely and learn from failure. Intrapreneurs should not be discouraged by the challenge ahead and know that their work will cement the foundations for change across the humanitarian and development environments to deliver long-term solutions for vulnerable people. Organizational readiness is indeed driven by leaders and intrapreneurs, and the result is a space for change that can live beyond its creators.

Introduction

There is a pressing need to find new ways of working across the humanitarian and development sectors and with investors to deliver long-term solutions for people affected by conflict and disasters.

Global humanitarian challenges continue to grow unabated. With the world still reeling from the impacts of the COVID-19 pandemic, the combined effects of unresolved conflict and climate change continue to add new crises to ongoing ones. In 2022, heavy floods in Pakistan have led to a large-scale disaster with long-term human consequences at the same time as famine has reappeared in the Horn of Africa following five consecutive failed rains. The war in Ukraine and the global food and cost-of-living crisis have led to further increases in the number of people in need of humanitarian assistance. The 2022 *States of Fragility* report published by the Organisation for Economic Co-operation and Development (OECD) estimates that fragile contexts "account for a quarter (23%) of the world's population but three-quarters (73%) of people [live] in extreme poverty worldwide".[4] By contrast, the rapid growth of international humanitarian funding since the turn of the century has stalled since 2018.[5]

Efforts to widen the resource base have been unsuccessful. There has been insufficient growth in sustained partnerships between the humanitarian and private sectors.[6] Donors and aid organizations are beginning to recognize the opportunity to complement traditional humanitarian responses with long-term, market-driven solutions to support resilience and preparedness. The private sector recognizes the market opportunities that exist in crisis contexts, with examples such as Kakuma refugee camp, with a total annual consumption by refugees and host community estimated at $56 million.[7] But financial, institutional and cultural barriers continue to slow progress for collaboration to scale market-driven solutions.

The Humanitarian and Resilience Investing (HRI) initiative was launched in 2019 to encourage flows of private capital into financially sustainable opportunities that benefit communities in humanitarian and fragile contexts, while creating a financial return.[8] A core enabler to achieve scale and unlock private capital in fragile contexts is organizational readiness, which refers to the preparedness of an organization to undergo a major change or take on a significant new project. Humanitarian and resilience investing not only introduces new financial instruments but also develops new partnerships and business models that challenge mindsets and push the boundaries of what is possible within the existing rules and systems. If organizations are not ready, new initiatives are likely to fail, as barriers will discourage or defeat intrapreneurs (entrepreneurs within an established organization)[9] to drive change.

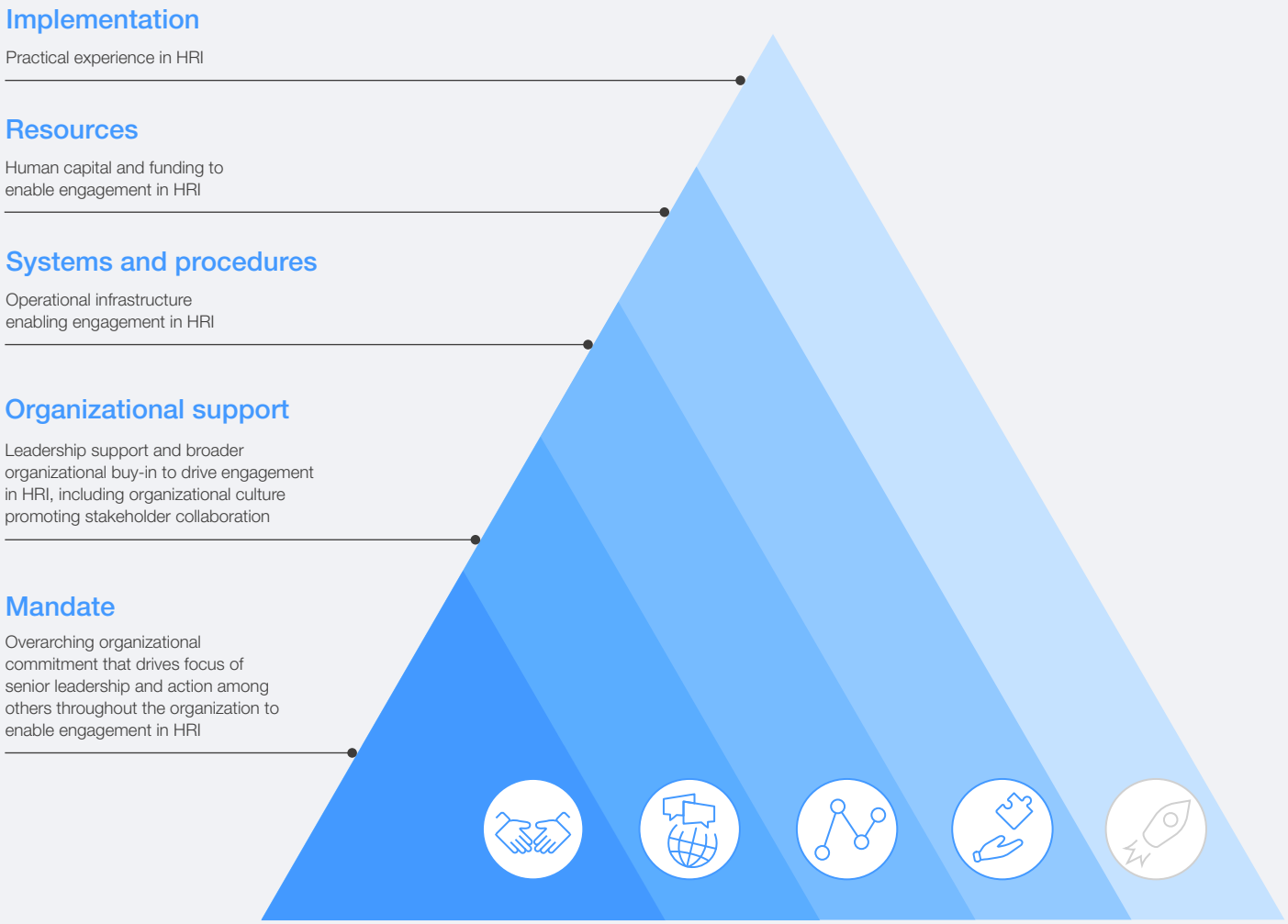
To respond to this challenge, Switzerland and the Directorate General for European Civil Protection and Humanitarian Aid Operations (DG ECHO) came together in 2020, as part of their co-chairmanship for the Good Humanitarian Donorship (GHD) initiative, to support and fund the development of the playbook *Organizational Readiness and Enabling Private Capital for Innovative Financing in Humanitarian Contexts*.[10] The playbook was developed by the Boston Consulting Group, with insights from more than 100 experts from upwards of 50 DFIs, donors, humanitarian-development organizations and private-sector institutions. It aimed to equip stakeholders with self-assessment and prioritization tools to identify and tackle internal barriers across five organizational pillars: *mandate*; *organizational support*; *systems and procedures*; *resources*; and *implementation*. In 2022 the HRI initiative brought together a group of pioneering organizations to operationalize this playbook and provide them with the structure and continuity to accelerate their organizational readiness while maintaining a safe space for sharing and learning. These organizations include the World Bank Group, FMO – Entrepreneurial Development Bank, Proparco, the United States Agency for International Development (USAID), DG ECHO, Innovation Norway, the International Committee of the Red Cross (ICRC), the Danish Refugee Council (DRC), the International Rescue Committee (IRC), the World Food Programme (WFP) and Save the Children.

This white paper highlights best practices from four of these pioneering organizations and showcases key actions that took place behind the scenes before they were able to successfully engage in humanitarian and resilience investing.

The paper identifies the role that leaders played in creating the space for change, and the role that individuals and teams played in using that space to implement the changes required to achieve traction. The case studies provide the reader with concrete actions taken across four of the five organizational readiness pillars.

There is no specific case study for the *implementation* pillar, as all of the case studies presented showcase how actions in their respective pillar led to implementation. These case studies are intended to inspire leaders and intrapreneurs to take action that enables change for investment in frontier markets (humanitarian and fragile contexts with investable opportunities).

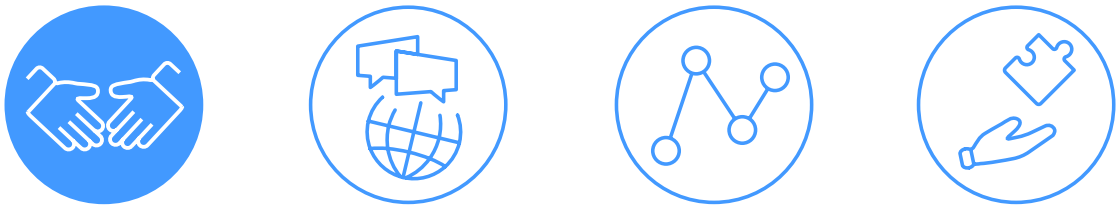
FIGURE 1 **Organizational readiness pillars**



Source: Boston Consulting Group (BCG), "Organizational Readiness and Enabling Private Capital for Innovative Financing in Humanitarian Contexts: Good Practices Playbook", May 2020: https://www.ghdinitiative.org/assets/files/Resource%20Center/Humanitarian%20Financing/Innovative%20Financing/GHD-Organizational-Readiness-Playbook.pdf

1 International Committee of the Red Cross

Mandate



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

Essential takeaways

- Leaders have a responsibility to identify political and bureaucratic barriers that prevent positive change within their organizations, enable actions to address them and invest time and resources to drive and secure such change.
- Securing a meaningful and quantifiable target for innovative finance-related projects within the organization's resource mobilization strategy (RMS) can provide a mandate and unlock the financial resources and organizational support to deliver on it.

1.1 The Humanitarian Impact Bond

The International Committee of the Red Cross (ICRC) is an impartial, neutral and independent organization whose exclusively humanitarian mission is to protect the lives and dignity of victims of armed conflict and other situations of violence and to provide them with assistance.[11] Today, the ICRC is one of the largest humanitarian organizations in the world, and its former president, Peter Maurer, has played an important part in creating a space for change within the humanitarian environment, enabling it to engage the private sector beyond traditional philanthropy.

Maurer believes that **"leaders have a responsibility to identify political and bureaucratic barriers that prevent positive change within organizations and enable actions to address them"**. During his tenure as president of the ICRC, Maurer worked internally and with donors to remove barriers to new financing models (NFMs). The overall logic is that NFMs enable partnerships across sectors, broaden the resource base and deliver more sustainable humanitarian impact.

Maurer addressed the political and bureaucratic barriers by empowering his team to create the Humanitarian Impact Bond (HIB), a pioneering payment-by-results mechanism that enabled private-sector investment in humanitarian contexts and allowed donors to provide funding based on achieved outcomes. The HIB was structured so that at the end of a five-year period, "outcome funders" committed to make payments to the ICRC according to the results achieved. These funds were in turn used to pay back the private-sector investors partially, in full or with an additional return, depending on how well the ICRC performed in terms of the efficiency of its new physical rehabilitation centres.

Maurer engaged investors and donors in various fora, making the business case for the HIB, and worked with governments to address the legal barriers that prevented them from providing funding through the payment-by-results mechanism; in the case of Belgium, this culminated in a change in Belgian law to enable support for the HIB. On the ICRC front, Maurer empowered his staff to innovate, with a full understanding of the risk of failure; if this approach had gone wrong it could have caused significant reputational damage for Maurer and the organization.

In the end, the HIB unlocked 18 million Swiss francs ($19.1 million) from private-sector investors, which was used to build and run three new physical rehabilitation centres in Nigeria, Mali and the Democratic Republic of the Congo. These now provide physical rehabilitation services to more than 3,000 patients per year, with the potential to reach 5,000 patients per annum at full capacity.

1.2 The resource mobilization strategy

The HIB provided the foundation for further engagement with NFMs, but the reality was that the NFMs team was a one-person body, led by Juan Coderque, with a limited number of projects in the pipeline. Today, two more NFMs have been launched – the ICRC Climate and Environment Transition Fund[12] and the Goma West Water Project[13] – and Coderque leads a team of nine experts and has more than 10 projects in the pipeline, with the potential to improve over time the lives of hundreds of thousands of people affected by conflict and fragility.

How was this accomplished? During the initial stages, Coderque was supported by external and internal allies, including the HIB partners and Volta Capital (previously known as Dalberg Capital), which provided full-on, six-month pro bono technical support for initial market assessments and feasibility studies. The Lombard Odier Foundation, the Credit Suisse Foundation, the ICRC's Innovation Board and the Netherlands government provided seed funding to explore NFMs. The Foundation for the ICRC provided funds to contract a second team member, Catherine Howell, who was instrumental in identifying and developing a new pipeline of projects. In parallel, the ICRC leadership hired Colin Bruce, a former World Bank Senior Advisor, now Special Envoy for Humanitarian and Development Affairs at the ICRC, who joined the ICRC's NFMs steering committee and provided support in consolidating narratives, explaining the value-add, securing progress for specific NFMs and ensuring more buy-in from ICRC headquarters and field staff. The partnership between the NFMs, the Water and Habitat unit and the Africa region around the Goma project also provided critical licence to operate.

However, the key breakthrough that secured the NFMs team's mandate within the organization and enabled the team to grow to where it is today was the inclusion of NFMs as part of the 2020–2030 resource mobilization strategy (RMS). Up to this point, NFMs had been mentioned in the 2019–2024 ICRC institutional strategy, which highlighted the need "to explore, test and secure innovative and sustainable humanitarian financing solutions that go beyond grants and philanthropy

and ensure impact-driven investments".[14] But Coderque explains that "this strategy initially remained a wish list without a mandate or resource allocation".

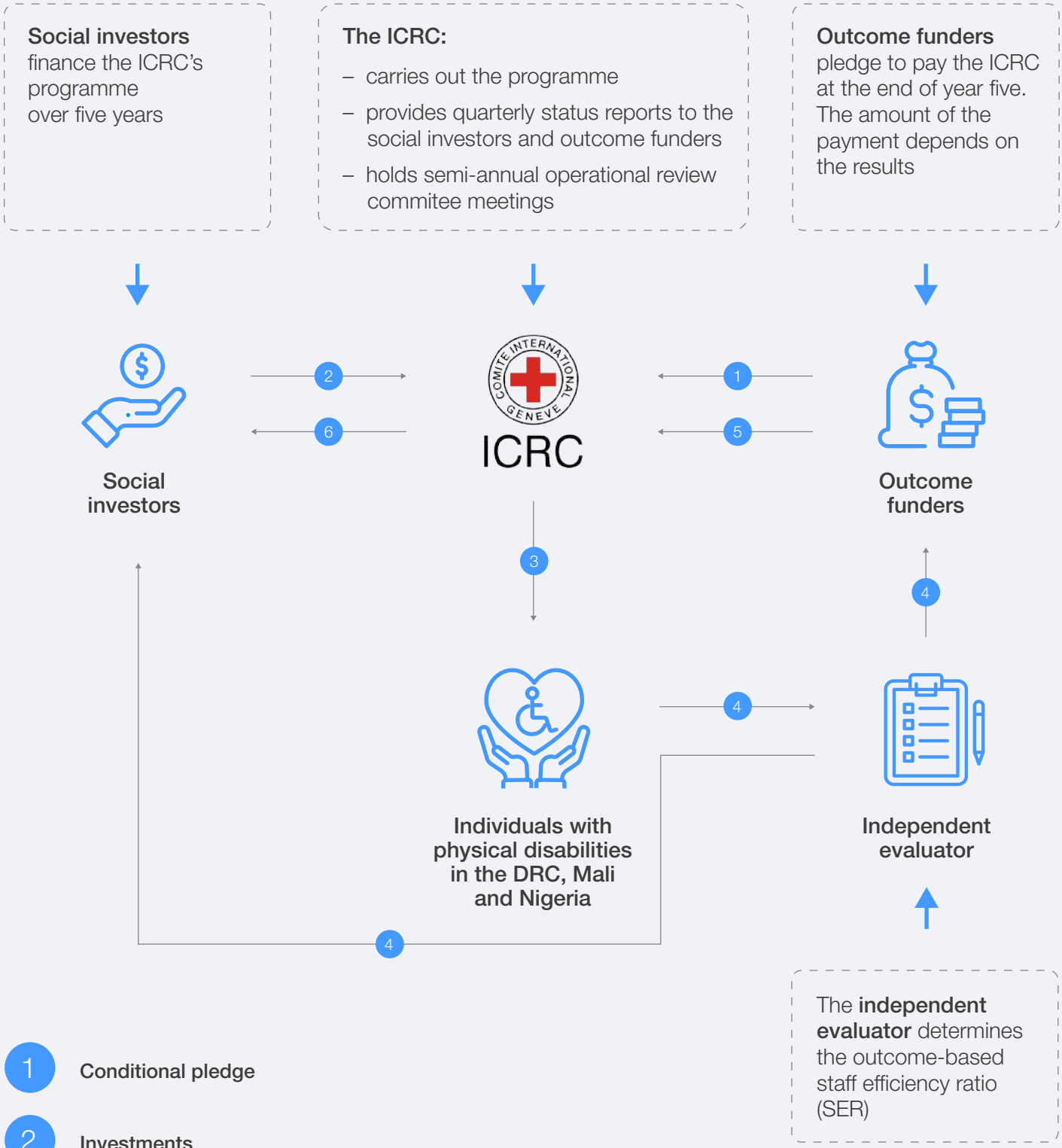
The 2020–2030 RMS provided the resources to deliver on the institutional strategy. By taking a business approach, the RMS stressed the need to spend funds to generate greater funds in the future. The NFMs team made its business case and secured a target to mobilize the equivalent of 5% of ICRC's annual expenditure by 2030, or 150 million Swiss francs (S159.2 million) per year in direct and parallel funding (direct funding refers to funding for the ICRC, and parallel funding refers to funding for the project but not for the ICRC). **Such a target quantified the value of investing in NFMs and enabled the team to secure the financial resources and internal support required to start working on making this vision a reality**.

An example of how this mandate catalysed interest for NFMs can be seen through the attendance of more than 40 participants from across the ICRC to the first edition of the *Driving Innovative Finance for Impact* (DIFI) course,[15] developed in partnership with IMD Business School, the ICRC, the Lombard Odier Foundation and the World Economic Forum. The course was developed in response to strong internal demand and aimed to increase organizational capacity to deliver innovative finance for impact at scale in fragile settings; it will open to other organizations from 2023.

The Humanitarian Impact Bond and the inclusion of NFMs in the resource mobilization strategy laid strong foundations for new ways to deliver long-term impact at the ICRC. The secured mandate to enable partnerships across sectors, broaden the resource base and deliver more sustainable humanitarian impact through NFMs will remain in place until at least 2030. This mandate will continue to enable space for change even if the leaders and intrapreneurs who made it possible are no longer in post. It is an exciting opportunity to push ahead, and the Director-General of the ICRC, Robert Mardini, has expressed his commitment to continue making NFMs a priority in order to find more solutions to reach scale and speed for people and communities affected by armed conflict.[16]

↓ ICRC Physical Rehabilitation Program (PRP).
© ICRC

FIGURE 2 | **HIB financial structure**



1 Conditional pledge

2 Investments

3 Programme implementation

4 Outcome evaluation and verification

5 Payment for results

6 Repayment

Source: ICRC, "Humanitarian Impact Bond In a Nutshell", Switzerland, September 2017

2

European Commission: Directorate General for European Civil Protection and Humanitarian Aid Operations (DG ECHO)

Organizational support

Maturity in this category entails developing an understanding of what humanitarian and resilience investing (HRI) is, why it is important and what needs to change within and outside an organization to make HRI opportunities 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 whom it serves.

↓ Humanitarian aid for Syrian refugees in Jordan. Ten years after Zaatari camp opened in July 2012, it has become a vibrant place with more than 1,800 shops on its "Sham Elysées" – a play on *ash-Sham*, a word Syrians use for Damascus, and the famous Parisian boulevard, Champs-Élysées.

Essential takeaways

- As donors, it is critical to explore new sources of funding for certain humanitarian needs to help close the humanitarian funding gap (the difference between needs and available – mainly governmental – resources), which stands at $27.55 billion.[17]
- The barriers are significant, but the *Organizational Readiness* good practices playbook can provide a first step to help individuals engage with colleagues across the organization and provides an understanding of what is and isn't possible with regards to HRI engagement in an organization.
- However, moving towards working on concrete projects is crucial in building an understanding of what HRI opportunities mean in practice. Without discussions about actual projects, with tangible impacts on funding and addressing humanitarian needs, it is difficult to move the discussion forward and generate buy-in and support from colleagues across the organization for innovative finance.

2.1 The *Organizational Readiness* good practices playbook

The European Commission's Directorate General for European Civil Protection and Humanitarian Aid Operations (DG ECHO) is one of the leading humanitarian donors in the world with a budget of €2.4 billion ($2.5 billion) at the end of 2022. Janez Lenarčič is currently serving as Commissioner for Crisis Management in the European Commission, a mandate he took up in December 2019. In this capacity, he is responsible for EU civil protection as well as humanitarian aid.[18] Since his appointment, one of Commissioner Lenarčič's key concerns has been the growing gap between global humanitarian needs and the available resources. To help address this funding gap, one of the Commissioner's political priorities has been to expand the donor and resource base for humanitarian action. As the European Commission's 2021 Communication on Humanitarian Aid[19] sets out, expanding the resource base includes **"leveraging additional funding through greater engagement with the private sector in support of humanitarian response"**.

On taking office, Commissioner Lenarčič gave the political steer to explore ways of expanding the donor base for humanitarian action. This included looking at ways of catalysing private finance to help address humanitarian needs. Following the Commissioner's political mandate, DG ECHO stepped up its work on exploring entry points for a humanitarian donor to stimulate private investing. An initial opportunity came through the EU's 2020–2021 co-chairmanship with Switzerland of the Good Humanitarian Donorship (GHD) initiative.[20] As part of the GHD's work programme, the Swiss government supported the development of its good practices playbook, *Organizational Readiness and Enabling Private Capital for Innovative Financing in Humanitarian Context*.[21] The playbook aimed to enable humanitarian and development organizations, donors, development finance institutions and private-sector actors to identify and address the internal barriers that prevented them from partnering with each other, strengthening public-private collaboration beyond philanthropy and driving financially sustainable projects that achieve impact at scale. Through the Commissioner's membership of the high-level group of the HRI initiative, the work being done at the GHD was connected to the wider discussion on humanitarian investing.

DG ECHO took the lead as the first organization to use the playbook's self-assessment tool to identify internal barriers and opportunities to support HRI opportunities. The results were shared with relevant stakeholders to demonstrate transparency and encourage others to undertake self-assessment in their respective organizations. While the exercise revealed that significant barriers existed, DG ECHO nonetheless aimed to navigate these barriers and set out ways to respond to the political mandate to engage with innovative finance, using the tools that were available and within the constraints of a European public administration. This process of exploring innovative financial instruments as a means of engaging private finance in humanitarian contexts[22] would culminate with **the launch of pilot projects in "humanitarian blended finance". These projects aimed to move the discussion on humanitarian investing from theory to practice and provide a model for DG ECHO and its humanitarian and financial institution partners to follow in mainstreaming investment projects with humanitarian impact.**

2.2 Humanitarian blending

In DG ECHO's view, "the Humanitarian Impact Bond (HIB), launched by ICRC in 2019, was instrumental in pushing humanitarian donors to better understand how they could engage in innovative financing". As part of the process of exploring innovative financial models, DG ECHO had started an analysis of the legality of engaging with instruments such as the payment-by-results model used in the HIB. While the results-based financing models used in the HIB were ultimately difficult to reconcile with DG ECHO's funding practices and mandate, this exercise did reveal several opportunities to engage with other types of innovative financing mechanism.

The political engagement of DG ECHO's senior management enabled the exercise to move beyond desk research and to engage colleagues across the organization, with legal and finance colleagues being instrumental in this process. Before carrying out this exercise, the received wisdom in DG ECHO had been that "engagement with innovative financing instruments may not have been compatible with our financing rules or mandate, which would not allow the Commission to contract the private sector directly on a project". However, while these barriers existed, DG ECHO also realized it could engage in innovative financing and stimulate private-sector engagement by supporting its humanitarian partners and development finance institutions that already worked with the private sector.

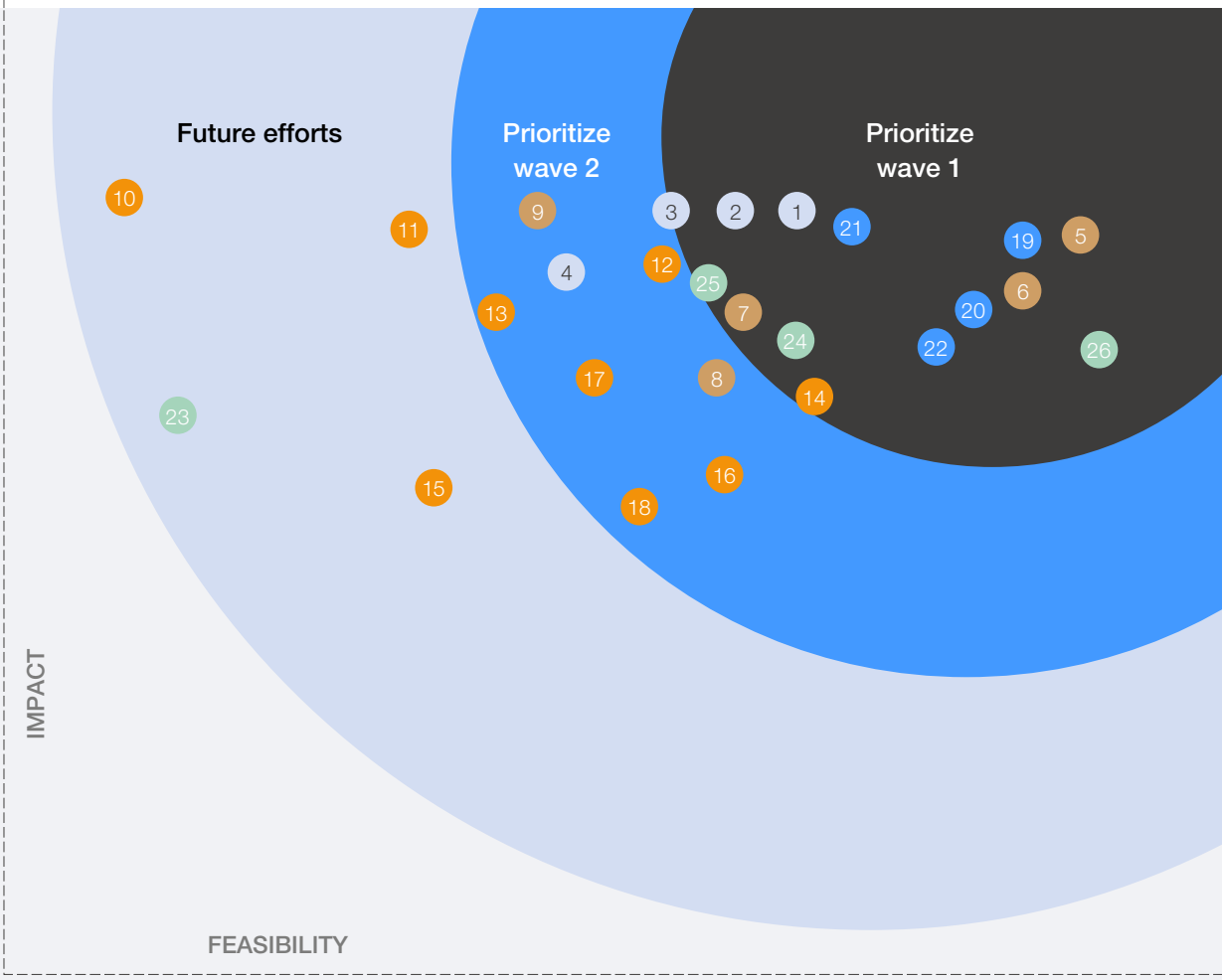
These results fed into DG ECHO's management decision to authorize a budget to pilot blended finance solutions, using humanitarian grants to stimulate, de-risk and draw in additional financing in humanitarian contexts. Two funding rounds took place between 2021 and 2022. The 2021 round supported humanitarian organizations in joining humanitarian blended finance projects and encouraged DFIs to engage in humanitarian contexts. Projects selected included a humanitarian-development partnership between the International Rescue Committee (IRC) and the European Bank for Reconstruction and Development (EBRD) on water infrastructure investment in West Irbid, Jordan,[23] and a refugee investment facility led by the Danish Refugee Council (DRC), which provides impact-linked loans at favourable rates to small, growing and medium-sized private companies with positive impacts on refugees and host communities, rewarding achievement of pre-agreed impact indicators with more favourable repayment terms over the course of the loan. As part of the 2022 round of pilots, DG ECHO aimed to work directly with development finance institutions and will launch projects in early 2023.

Moving from initial discussions with key actors on the idea of trialling blended finance solutions in humanitarian contexts to having workable project proposals was a complex process requiring discussions over the better part of two years between potential DFI partners and humanitarian specialists in DG ECHO's headquarters and the field. A key area of contention was the specificities of a humanitarian investment or blending project compared with a traditional development project. Investment projects almost by definition sit within the realm of economic/private-sector development. To justify financing such projects from a humanitarian budget, there needs to be a clear correspondence with the humanitarian mission to "save lives, prevent and alleviate human suffering, and safeguard the integrity and human dignity of populations affected by natural disasters and man-made crises".[24]

This need to have a clear humanitarian (rather than development) impact required extensive explanations to financial institutions, which are more experienced in economic than humanitarian impact measurements. It also led to questions from staff on the humanitarian side about how compatible these projects were with the humanitarian mandate and whether, rather than helping to close the humanitarian financing gap, they would in fact widen it by pushing humanitarian donors into new areas of financing. DG ECHO's view was that innovative financing projects would clearly be deployed in the nexus between development and humanitarian aid, such as in protracted crises – these types of financing model are very unlikely to be applicable at the sharp end of humanitarian crisis response. The key difference between a "humanitarian blending" project and a development one would be in terms of the identities of the beneficiaries targeted and the measurement of impact on humanitarian needs in addition to economic measurements.

While these projects were breaking new ground, both within DG ECHO and partner organizations, and led to robust discussions, they also sparked positive conversations, in which colleagues across the organization began to understand the rationale for exploring these new partnerships and to positively contribute to their co-creation. The Innovative Finance team at DG ECHO believes that **"having concrete projects to discuss is crucial to engage colleagues to get their buy-in and support for HRI opportunities. Without concrete examples it's very difficult to move these conversations forward."** The organizational readiness self-assessment enabled DG ECHO not only to understand what it could and couldn't do but also to increase awareness about humanitarian and resilience investing across the organization and secure organizational support from colleagues.

FIGURE 3 | **Example of prioritization tool from the *Organizational Readiness* good practices playbook**



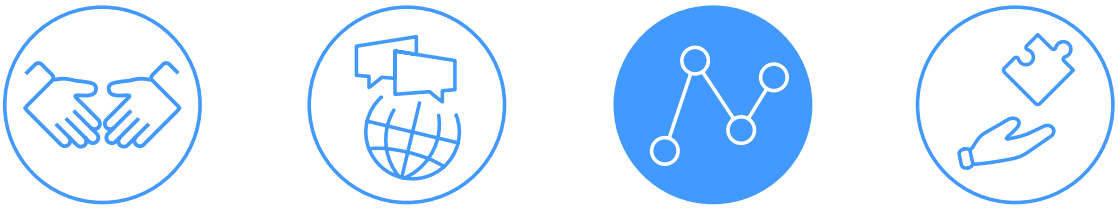
Source: BCG, "Organizational Readiness and Enabling Private Capital for Innovative Financing in Humanitarian Contexts: Good Practices Playbook", May 2020: https://www.ghdinitiative.org/assets/files/Resource%20Center/Humanitarian%20Financing/Innovative%20Financing/GHD-Organizational-Readiness-Playbook.pdf

1 Commitment to make an impact in humanitarian contexts
2 Commitment to engage the private sector and other stakeholders
3 Prevention, resilience and recovery to complement response
4 Learning and innovation capabilities, patience
5 Senior leadership support of HRI
6 Organizational support of HRI
7 Willingness to collaborate across sectors
8 Stakeholder relationships and understanding
9 Risk appetite
10 Risk controls to provide protection but enable flexibility
11 Clear and disciplined risk assessment and funds deployment
12 Flexibility in contracting with counterparties
13 Budgeting practices
14 Accounting flexibility and fund processing
15 Sophistication of impact analysis
16 Impact measurement and evaluation
17 Data management
18 Technological capabilities
19 Dedicated team for HRI
20 Internal expertise for HRI
21 Investment funds allocated to HRI
22 Incentive structure to encourage development of HRI capabilities
23 Track record of investment and impact execution
24 Network of potential partners
25 Pipeline of potential deals
26 Share learnings with broader community

Mandate
Organizational support
Systems and procedures
Resources
Implementation

3 The United Nations World Food Programme

Systems and procedures



To better engage in humanitarian and resilience investing, organizations will likely need to optimize certain facets of their operations. Many of these adjustments entail willpower and organizational learning to enhance existing systems. While HRI engagement can be executed with existing systems, the speed and scale at which the humanitarian community embraces innovation and technology must accelerate.

Essential takeaways

- A value proposition closely connected to the organization's mission and strategic priorities is essential to getting executive and broad organizational buy-in for the innovation unit.
- The WFP Innovation Accelerator uses a lean start-up methodology, which favours quick learning and co-developing with users rather than elaborate planning, and user feedback and iterative design over large upfront development.
- Especially in humanitarian-linked advances, teams must be able to partner with colleagues with deep in-country expertise to drive and scale innovations in-house or through external partnerships.

3.1 Building an organizational structure that fosters innovation

The United Nations World Food Programme (WFP) is the largest humanitarian organization fighting hunger. Since its inception, WFP has embraced innovation and technology in its humanitarian operations, working to save and change lives. In 2015, the global WFP Innovation Accelerator was founded in Munich, Germany, to systematically identify, support and scale innovations to disrupt global hunger. From an initial focus on innovations for zero hunger, the WFP Innovation Accelerator has now built up a specific innovative finance capacity and innovation accelerator programmes as a service for other entities (e.g. the Bill & Melinda Gates Foundation and the United Nations Population Fund in areas addressing vaccine delivery, primary healthcare and gender equality). Valerie Guarnieri, WFP's Deputy Executive Director for Programme and Policy Development, who leads the organization's work in providing food, cash and technical assistance to help communities globally, explains that innovation allows the organization to achieve its full potential. "We know that business as usual will not get us to a world without hunger by 2030. With new solutions and new methodologies, we can solve some of the deeply rooted problems."

Gaining executive and organizational support has been imperative to the establishment and growth of the Accelerator. WFP's current strategic plan (2022–2025)[25] prioritizes innovation as a critical enabler. Since the Accelerator's inception, the WFP executive director has been a champion of bold innovation and improved collaboration with private-sector entities.

The opportunities presented by innovation cannot be denied. The question that the Accelerator was challenged to solve was how to implement innovation projects safely in the humanitarian context. Guarnieri explains that innovation is part of the organizational DNA. "Risks are part and parcel of our work, which compels WFP to innovate. WFP has many needed systems and procedures to support and accelerate solutions."

3.2 Systems and procedures that enable innovation

The WFP Innovation Accelerator uses human-centred design and lean start-up methodologies, which favour quick learning and co-developing with users rather than elaborate planning, and iterative design over large upfront development. This allows the Accelerator to pilot and scale high-potential solutions with comparably smaller funds before larger amounts are invested in innovations with proven impact.

To ensure that innovations address the right challenges, the WFP Innovation Accelerator takes a demand-driven approach that identifies and matches start-ups and innovations with WFP's present needs in specific country contexts. To do this, the Accelerator combines the expertise of two distinct groups of people: 1) WFP's 23,000 staff in 123 countries and territories working directly with food-insecure people, their communities, humanitarian stakeholders and governments; and 2) a team of innovation experts, including social entrepreneurs, digital product managers and human-centred design experts. Bernhard Kowatsch, Head of the WFP Innovation Accelerator, explains that "the WFP Innovation Accelerator team and WFP colleagues across the globe are our secret superpower. Too often, people just look at concepts, but forget that you need cutting-edge talent to make it happen." Creating a space for these two groups to work together towards a shared goal has been critical to the Accelerator's success.

WFP Innovation Bootcamps, one of the WFP Innovation Accelerator's earliest programmes, are a space in which innovation can thrive. The WFP Innovation Bootcamp is a week-long intensive programme where non-profit organizations or internal innovation teams receive guidance, mentorship and pitch training to refine their project plans. Bootcamps culminate in a WFP pitch event at which innovation teams showcase their work to government partners, investors and private-sector entities. The best teams continue in the WFP Sprint Programme, where the Accelerator provides up to $100,000 of equity-free funding, hands-on support through partners and the Accelerator, and access to WFP's field operations. In 2018, in the light of an understanding that impact innovations also have specific scaling needs, WFP's Scale-up Enablement Programme was set up to support scaling of internal and external innovations.

Since its inception, to increase private-sector engagement, the Accelerator has designed its innovation programmes to host external start-ups. Initially, funds for start-ups and companies were disbursed through the WFP procurement process. In 2021, the Accelerator transitioned to a grant-based modality to dispense such funding. Another development, over the years, has been to create more refined mechanisms to generate innovation. This new procedure includes, for example, innovation challenges that invite proposals from start-ups

and innovators worldwide. Each submitted project proposal undergoes a detailed assessment to ensure it addresses an existing food-security need across WFP. The Accelerator helps identify WFP's innovation priorities through regular consultations with country offices and programmatic units and matches them with applicable solutions. This new process increased the implementation of market-based solutions in the humanitarian and development context, while ensuring the required checks and balances. In 2021, WFP launched the asset-based loans model for the H2Grow hydroponics project in Kenya,[26] where a lack of up-front investment was identified as a bottleneck for expansion. The WFP Kenya Country Office facilitates disbursement of loans from partners to participants of the programme and provides them with business training and technical assistance to ensure repayment.

Understanding existing mandates and systems has also been critical to using partnerships with other UN agencies to stimulate investments at scale. In July 2022, WFP and the United Nations Capital Development Fund (UNCDF) signed a breakthrough partnership agreement to use UNCDF's investment instruments to invest in businesses aligned with WFP's mission.[27] The new financing facility, WFP Innovation Bridge, will provide innovations with concessional loans and guarantees to stimulate investments and expedite their growth. This innovative partnership harnesses competitive advantages of the two UN agencies, supporting WFP's mandate to end world hunger while leveraging UNCDF's unique capital mandate and systems. The WFP Innovation Bridge aims to "bridge" the "missing middle" funding gap, de-risk investment opportunities and stimulate additional private-sector capital through co-investments. Kowatsch believes that "the WFP Innovation Bridge can help innovations reach the next frontier of impact, by channelling more private investment towards innovations disrupting hunger".

By the end of 2021 the WFP Innovation Accelerator had positively affected the lives of 9 million people through its global portfolio of innovations and start-ups. Having a strong understanding of WFP's existing systems and procedures enabled the Accelerator to design innovation programmes that effectively combine the best practices from the private and public sectors, such as funding for-profit companies as part of WFP's Sprint Programme and Scale-up Enablement Programme, to further enable investment in frontier markets.

↓ WFP's H2Grow innovation project uses low-cost hydroponics units to grow food. A farmer at a hydroponics garden in Kibera, Kenya's largest urban slum, says the project provides a reliable source of food and income for women and young farmers.
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4

FMO – Entrepreneurial Development Bank

Resources




These enable transactions by providing personnel, funds to deploy and robust systems and technology.

↓ Street view from FMO office in Johannesburg.

Essential takeaways

- One of the biggest challenges that prevents DFIs from investing in frontier markets is investment size. DFIs tend to focus on larger investments, in order to make efficient use of their administrative capacity and human resources.
- Governments play a key role in enabling private-sector and DFI investment in frontier markets through concessional funding, technical assistance and diplomacy.
- Investment officers have the intrinsic motivation to achieve positive impact through their investments. MASSIF supports their intrinsic motivation by providing the funds to enable investments in frontier markets and by setting the targets that give them the time and space to do it.

4.1 The MASSIF fund

FMO – Entrepreneurial Development Bank is a public-private development bank supervised by the Dutch Central Bank (DNB). Its mission is to enable entrepreneurs to increase inclusive and sustainable prosperity, and to demonstrate that strong financial returns and positive impact in developing economies and frontier markets can go hand in hand.[28] Since 2006, FMO has been managing the MASSIF fund on behalf of the Dutch Ministry of Foreign Affairs. MASSIF enhances financial inclusion for micro and small and medium-sized enterprises (MSMEs) that are disproportionately affected by a lack of access to financial services. Since 2016, the fund has increased its focus in frontier markets, supporting intermediaries that reach out to MSMEs in fragile and low-income countries, MSMEs in rural areas and those dependent on agriculture, MSMEs owned by women and youth, and intermediaries providing access to productive goods and services for underserved individuals in the poorest social-economic segments.[29] By 2022 the fund had invested €650 million ($685 million) in 40 countries, with an average of €75 million ($79 million) per year.

One of the biggest challenges that prevents DFIs from investing in frontier markets is the investment size. DFIs tend to focus on larger investments in order to make efficient use of their administrative capacity and human resources. Such opportunities are scarce in frontier markets. This impedes investment officers from pursuing the smaller, more complex and more time-intensive investments that are common in frontier markets.[30]

Birgitta Tazelaar, Deputy Director-General for International Cooperation at the Netherlands Ministry of Foreign Affairs, recognizes that "investing in frontier markets can be challenging and time-consuming, and requires a high-risk appetite, perseverance, patience and sometimes the acceptance of setbacks". She is convinced that "**governments play a key role in enabling private-sector and DFI investment into frontier markets through concessional funding, technical assistance and diplomacy**. The reward is seeing people being able to improve their circumstances and getting perspective on a better future for their children." By supporting MASSIF, the Netherlands Ministry of Foreign Affairs hopes to inspire investment in pathways out of fragility, poverty and inequality.

4.2 Creating the space to pursue investments in frontier markets

Jeroen Harteveld, manager of the MASSIF fund, highlights that "FMO's investment officers already have the intrinsic motivation to achieve positive impact through their investments". **MASSIF further supports this motivation by providing the funds to enable investments in frontier markets and by setting the targets that give investment officers the time and space to do so.** The funds provided unlock smaller-sized investments in frontier markets and enable higher-risk transactions in earlier-stage companies. This allows investment officers not only to follow their intrinsic motivation for impact but also to pursue pioneer investments in frontier markets. Harteveld highlights that the opportunity to be pioneers is also a big motivator that should not be underestimated.

Dedicated MASSIF targets also enable investment officers to spend time on projects that might otherwise be deprioritized. Huib-Jan de Ruijter, FMO's Co-Chief Investment Officer, explains that **"MASSIF targets are considered as important as any other targets. Meaning that smaller deals are not more or less important than bigger deals."** This enables FMO team leaders to address the issue of misaligned incentives and encourages investment officers to take the time needed to pursue investment opportunities in frontier markets.

The investment made in 2021 in La Finance pour ELLE (Fin'Elle), a microfinance institution dedicated to empowering women entrepreneurs in Côte d'Ivoire, is a great example of how MASSIF unlocked a smaller-sized investment in an early-stage institution and enabled Gilles Vercammen, the investment officer responsible for this transaction, to dedicate the necessary time to close the deal. When Fin'Elle approached FMO for investment, the institution was still at an early stage of development and had not yet reached break-even. Even though the concept and target group supported by Fin'Elle met the bank's priority areas, the institution's risk profile was relatively high. Through MASSIF, FMO was able to approve a €5 million ($5.3 million) investment in 2021 in Fin'Elle that was structured so that the first part of the financing was accessible immediately and additional capital could be unlocked after reaching certain milestones. By 2022 Fin'Elle had served more than 10,000 clients and ranked ninth among microfinance institutions in Côte d'Ivoire.[31]

Another example of an investment enabled by MASSIF in collaboration with the European Fund for Sustainable Development is NASIRA, a risk-sharing facility for local financial institutions that supports young, female, displaced populations (including refugees, returnees and internally displaced people) and COVID-19-affected entrepreneurs in sub-Saharan Africa and countries neighbouring Europe. The fund has enabled investment officers to stimulate lending for groups they would normally perceive as too risky, such as refugees, through a guarantee portfolio. Vitas Palestine, a Palestinian microfinance institution supporting the needs of SMEs run by youth and women, received a $10 million investment enabled through this facility.[32]

The investments made in Fin'Elle and NASIRA demonstrate how public funds can enable DFIs to increase their risk appetite in frontier markets, address internal barriers preventing investment officers from pursuing smaller transactions with high impact and unlock the investments required to scale up HRI opportunities in frontier markets.

↓ Women entrepreneurs supported by Fin'Elle in Côte d'Ivoire.
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Conclusion

The case studies presented in this paper showcase positive momentum across humanitarian organizations, donors and DFIs, to enable change and unlock investment in frontier markets.

They highlight positive momentum by humanitarian organizations that are being more deliberate about collaborating with the private sector beyond philanthropy, a donor working to remove humanitarian and development silos, and a DFI increasing its risk appetite for smaller investments in frontier markets.

Leaders were able to create space for change by empowering their staff, removing bureaucratic and political barriers and recognizing the learning opportunity from potential failures. All of the initiatives discussed in this paper presented a high risk of failure because they were pushing their organizations to do something new, which if it had gone wrong could have caused significant reputational damages for the leaders and the institutions. Change will require risk-taking, and it's up to pioneering leaders to create the space for their staff to innovate, fail safely and learn from potential failures.

For intrapreneurs, organizational change can feel unattainable given all the elements that may need to align, but it is important to understand that it is not necessary to be ready at all levels. The case studies in this paper were slotted into the individual pillars of organizational readiness to provide intrapreneurs with concrete actions that they could take under each. However, taking action in one pillar will result in changes across other pillars.

The creation of the Humanitarian Impact Bond by the ICRC led to the inclusion of new financing models in the ICRC's institutional and resource mobilization strategies, securing a mandate for its work and unlocking the resources required to expand its team. The same could be said about the DG ECHO case study, with the *Organizational Readiness* good practices playbook unlocking the resources to pilot humanitarian blending and increasing organizational support through conversations about these projects with staff in the field. Organizational readiness is not a linear process, and an essential takeaway from these case studies should be that actions in one pillar can stimulate additional positive changes across the organization.

This white paper is an initial step to identify and share best practices across the organizational readiness pillars. The HRI initiative will continue to work closely with humanitarian and development organizations, donors, DFIs and private-sector actors to support their organizational readiness journey and identify additional tools and methodologies that enable them to actively engage in HRI.

Leaders should be willing to take risks and empower their staff to fail safely. Intrapreneurs should not be dissuaded by the challenges ahead and should know that their work will cement the foundations for change across the humanitarian and development ecosystems to deliver long-term solutions for those most in need. Organizational readiness is indeed driven by leaders and intrapreneurs, and the result is a space for change that can live beyond its creators.

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