

# **Innovative Financing Solutions for Addressing Internal Displacement: Building on Current Thinking and Practice**

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August 2020

## **Research Briefing Paper**

UNSG High Level Panel on Internal Displacement  
*Work-stream 4 (Innovative Financing)*

**For full analysis and reference to sources, see IDRP research paper by the same author.**



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## 2. Multi-donor, pooled funds should be leveraged

Trust funds that pool contributions from multiple donors while being administered by an international organisation as a trustee can enable policy coherence among different types of actors across the HDP nexus and allow resources to be employed quickly and flexibly. While some commentators caution that combining humanitarian, development and peacebuilding budgets could result in the politicisation of emergency relief, trust funds can help to enable coordination around collective priorities, strategies and risk management, while reducing transaction costs and stream-

of primarily qualitative data complemented by quantitative trends to anticipate such displacement.

Finally, the fact that a government may be an actor in a displacement-inducing conflict could create “moral hazard risks” associated with risk-based financing, which are risks arising when a government has an incentive to create conditions that trigger a financial payout (such as internal displacement) in order to benefit financially. Given this challenge, funding streams that administer funds directly to apolitical stakeholders on the ground, such as local organisations and governments or non-governmental organisations, could help to avoid funds being directed to problematic actors who could benefit financially from perpetrating violence and conflict.

#### 4. Financing sources should be diversified

To address funding shortfalls, financing strategies need to contemplate new funding sources, beyond traditional donors. Increasingly, international financial institutions are offering loans and grants on concessional terms to countries that host refugees, such as through the Global Concessional Financing Facility. They also allocate resources for forced displacement activities, such as through the World Bank’s International Development Association Regional Sub-Window for Refugees and Host Communities. Building on these models, instruments could be designed to target countries experiencing internal displacement. However, the World Bank appears hesitant to establish earmarked financing for IDP interventions, as refugee-hosting countries’ lack of incentives to use their finite development resources on non-citizens does not apply to IDP situations; rather, it seeks to ensure that IDPs benefit from interventions in an equal manner to non-displaced people.

Private sector actors could also play an important role, such as through their involvement in: delivering goods and services; investments that create livelihoods and jobs; humanitarian capacity-building and innovative approaches to humanitarian programming; country-level financing and insurance schemes; and micro-level financing to target IDPs directly. To facilitate the engagement of private sector actors, there is a need for an enabling environment to spur private investment; collective approaches through compacts can help to enhance business environments. This has been done in refugee-hosting countries, such as through the Jordan Compact, and could also be explored in internal displacement contexts.

Finally, strategically using public development funding to mobilise private resources can help mitigate risks and crowd in private capital. For example, multilateral development banks often provide “guarantees” that investors can purchase for protection against political or credit risks; this could be applied in forced displacement contexts. Also, “impact bonds” allow private investors to provide upfront funding for a development programme, which is repaid from public development funds if pre-agreed socio-economic outcomes are met; this makes it possible to “frontload” donor financing when responding to a crisis. Impact bonds have been used to help finance climate change adaptation and mitigation projects, and could also be applied to internal displacement. Thus, for example, they could be used to mobilise “internal remittances” from the IDP “diaspora”.

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to achieve collective outcomes across the HDP nexus. However, while global attention on refu-