FINANCING THE FUTURE:

LESSONS FROM THE DANISH RED CROSS'S FIVE-YEAR JOURNEY INTO INNOVATIVE FINANCE

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Lydia Tanner and Jennie Thomas

INTRODUCTION

The humanitarian sector is experiencing a growing funding gap, exacerbated by the increasing frequency and severity of climate-related crises, deepening conflicts, and rising costs. In response, the 2016 World Humanitarian Summit (WHS) and subsequent 'Grand Bargain' highlighted innovative finance as a way to diversify funding sources, enhance aid effectiveness, and promote private sector engagement.

Recognising these challenges and opportunities, the Danish Red Cross (DRC) began exploring innovative finance in 2018, establishing a new workstream in 2020. Since then, it has launched 15 different initiatives, including trigger-based insurance, a catastrophe bond, and debt swaps. In 2022, the Humanitarian Innovative Finance Hub (HIFHUB) was established in collaboration with the International Federation of Red Cross (IFRC) and the International Committee of Red Cross (ICRC) as a way to support greater use of innovative finance mechanisms within the Red Cross Red Crescent (RCRC) movement.

In 2024, DRC commissioned an external review to take stock of its work over the last five years, to gather lessons learned, and to inform DRC's innovative finance work going forward. A key objective was to provide "actionable recommendations on how the DRC can take forward its next phase of innovative finance work, considering the lessons learned."

This paper was produced to enable DRC to share its overall results and lessons learned and to contribute to the growing body of experience with innovative finance in the sector.

2018

Danish Red Cross first began exploring innovative finance

2020

DRC established its own Innovative Finance workstream

2022

DRC established the Humanitarian Innovative Finance Hub

2024

DRC takes stock of learning from five years of investment

INVESTMENT RESULTS

Laying the groundwork: Innovative financing initiatives require significant investment in design, including for technical and regulatory arrangements and relationship building. To date, seven initiatives (47%) have been prototyped, and a further three (20%) have been piloted in real-world environments. Seven of the initiatives are still active - several of which show great promise and are on the brink of testing (see Figure 1).

Organisational readiness: The DRC has developed stronger organisational readiness for innovative finance, including an understanding of innovative finance and its potential, an understanding of the risks associated with different mechanisms, new partnerships, and a willingness to make its own financial investments.

Reaching communities: The clearest success story from DRC's portfolio is the Community Inclusion Currencies (CICs) project Kenya. Around 60,000 households in Kenya used CICs, and reported improved food security, increased food and water consumption, and improvements to quality of life. The initiative has now become a core part of the Kenya Red Cross's operational toolbox, and similar CICs have been adapted by other organisations.

Replicating new mechanisms: Another significant achievement was the Volcano Catastrophe Bond, which was the first of its kind in the humanitarian sector. This inspired subsequent work on insurance models at DRC and more widely, including in the IFRC's Insurance for Disaster Relief Emergency Fund (DREF).

Replicating new ideas: Innovative finance is still relatively new to the sector, and much of DRC's work has focused on generating and sharing knowledge. Eight of the 15 initiatives led to new research or tools that were shared within the Movement and wider sector. For example, the DRC published research on CICs, blockchain, and financial mechanisms for the care of non-communicable diseases (NCDs) in humanitarian settings. It also convened workshops on refugee financing, health insurance schemes, and outcome financing of NCDs.

Founding and hosting the HIFHUB: The HIFHUB promotes and supports the application of innovative finance within the RCRC movement. It also contributes to expertise, evidence building and dissemination of knowledge and learning.

FIGURE 1. **INITIATIVES AT EACH STAGE**

RESEARCH & IDEATION	PROTOTYPE & TEST	PILOT & CONCEPT BUILD UP
5 initiatives	**7** initiatives	**3** initiatives
Refugee Financing ⊗	CICs Malawi ⊗	Volcano Catastrophe Bond > **HIFHUB**
Outcome Fund for Street Children ⊗	Philippine Mangrove Project > **HIFHUB**	CICs Kenya > **Kenya Red Cross**
CICs Ethiopia ⊗	Debt Conversion Malawi ⊗	CICs Cameroon ⊗
CICs Zimbabwe ⊗	InsuResilience Malawi > **DRC**	
Rainwater Harvesting in Ethiopia ⊗	Insurance Loss + Damage Niger > **DRC**	
	Humanitarian Health Fund II **DRC**	
	NCD Prevention Bond > **DRC**	

Key:

⊗ Inactive
> Active - **Continued by**
II Paused

CICs - Community Inclusion Currencies
NCDs - Non-communicable diseases
HIFHUB - Humanitarian Innovative Finance Hub

LESSONS LEARNED FROM THE INVESTMENTS

1. INNOVATIVE FINANCE NEEDS CLEAR OBJECTIVES AND MEASURES OF SUCCESS

One of DRC's biggest lessons was the importance of defining clear, measurable objectives. In the early stages, DRC's broad ambitions for innovative finance allowed it to explore widely and develop some ambitious and pioneering concepts. But it made it hard to monitor and evaluate the success of the workstream. Defining clear objectives with specific measures of success would have helped inform the choice of financial mechanisms, operational context, and area of work.

2. ORGANISATIONAL ALIGNMENT IS NOT GUARANTEED; BESPOKE GOVERNANCE STRUCTURES HELP

Innovative finance offers some promising solutions, but they must be firmly grounded in operational needs and priorities. The DRC's early initiatives often struggled to gain traction because they were not fully aligned with the operational priorities of DRC's country offices or the specific challenges facing host national societies. The views of operational staff were not always incorporated into the design of the mechanisms, which meant that they didn't respond directly enough to local needs and were hard to implement. Stronger governance can help bring organisational alignment by supporting information sharing, ensuring sustained buy-in at the appropriate levels, bringing different expertise and knowledge to bear on key decisions, and allowing for shared sign-off on risk assessments.

3. SUSTAINED AND FLEXIBLE INVESTMENT IS VITAL

Piloting complex financial mechanisms is difficult, and on average, it took 2 to 3 years to design each concept and address the mechanism's technical and regulatory requirements. Sustained and flexible funding from the Danish Ministry of Foreign Affairs (MFA) allowed the DRC to invest in this technical groundwork while also building institutional capacities, establishing new partnerships, and supporting mindset shifts within its teams and partners.

4. CROSS-FUNCTIONAL TEAMS BRING TOGETHER IMPORTANT CAPACITIES

Projects benefited from teams that brought together a diverse skill set - from financial expertise and technical knowledge to logistics and partnership management. These diverse skills were needed even in the early stages of new initiatives. In several instances, DRC relied too heavily on skeleton teams without the full range of skill sets, which made it difficult to make progress and to engage different stakeholders meaningfully. The lesson was that innovation is stronger when teams are diverse, adequately resourced, and able to draw on a wide range of expertise from across the organisation.

5. DEPTH OVER BREADTH: BUILD COMPETENCE AROUND A NARROWER SET OF FINANCIAL MECHANISMS

Focusing on a few financial mechanisms aligned with strategic goals allows organisations to build competencies in the most promising mechanisms. The DRC's portfolio was ambitious, with initiatives spread across multiple modalities, from impact investing to trigger-based insurance and from CICs to catastrophe bonds. This was challenging for a small team with limited funds, especially given the technical and regulatory demands of some of the financial mechanisms. Testing a smaller number of financial mechanisms would have helped ensure resources were concentrated where the potential for impact is highest. DRC is now narrowing its focus to a few mechanisms that are aligned to operations, have senior management support, and where there are proven opportunities with donors and Movement partners. It is also looking for ways to add innovative finance components to existing projects.

6. FOSTER A STRONG NETWORK OF SPECIALIST EXPERTISE

Innovative financing in humanitarian contexts requires multiple forms of expertise and engaging specialist technical partners was crucial to the DRC developing high-quality mechanisms. The DRC worked with partners specialised in insurance, blended finance modalities, debt swaps, and impact bonds to access skills that are not traditionally found in humanitarian organisations. Its experience underscores the importance of early and continuous involvement of stakeholders as well as the need for careful handover of partnerships during staff turnover.

7. PRIORITISE LOCAL PARTNERSHIPS AND PERSPECTIVES

The complexity and risk associated with innovative finance processes mean they are often top-down innovation processes. However, to be successful, they need to be well-integrated with operations. This means involving country offices and partners in the selection and design of mechanisms and providing training in innovative financing for staff and partners at the country level. Given the long lead times, funding must be available to cover staff time for country offices and partners.

8. GREAT INNOVATION NEEDS STRUCTURES AND PROCESSES

The DRC implemented several processes to manage the initiatives, including go/no-go decision points and risk assessments. However, they would have benefited from stronger innovation management processes, including stage gates, comprehensive risk assessments, a process for escalating decisions, a clear line of governance and agreed-upon decision-making.

CONCLUSION: THE ROAD AHEAD

The review found that innovative finance presents numerous opportunities for the DRC and others in the sector. There is growing interest from donors and governments in diversifying and blending financing mechanisms, including approaches such as risk financing, insurance, and leveraging private sector investment. The opportunities presented by mechanisms such as insurance illustrate that innovative finance is not only about accessing more finance but about changing how humanitarian organisations work and mobilising more stakeholders to support humanitarian action.

The DRC's five-year journey into innovative finance has demonstrated the potential of diverse financial mechanisms to enhance humanitarian operations. The path has not been straightforward, and the lessons outlined in this paper illustrate the importance of investing in substantial groundwork, building technical expertise, and prioritising alignment with operational needs. Nevertheless, the DRC's achievements with CICs and the Volcano Catastrophe Bond highlight the possibilities for new forms of finance.

The review also highlights the opportunities for donors, humanitarians and financial service providers to share their experiences and promote the design of mechanisms rooted in humanitarian needs on the ground. Humanitarian organisations should also learn from conservation NGOs who have been experimenting with these mechanisms for more than 30 years. Collaboration, investment, and alignment with local and global priorities will be essential in realising the full potential of these innovative approaches.

THE RESEARCH PEOPLE