

GLOBAL INNOVATIVE FINANCE TEAM

Report 2 – June 2019

Introduction

This is the second update of the Global Innovative Finance Team (GIFT) since its activities launched in mid 2018. The GIFT is a collaboration between the IFRC Secretariat and the British, Danish and Kenyan Red Cross. The GIFT's aim is to "Develop a portfolio of innovative finance experiments to improve understanding and accelerate capacity across National Societies to embed innovative finance into their operations through a "learning by doing" approach. It has two major objectives to achieve this;

1. Support capacity development of National Societies in Innovative Financing and promote the Innovative Finance Agenda;
2. Experiment with and Implement Innovative Financing Mechanisms.

Numerous National Societies have now begun to develop their own Innovative Financing agenda and the GIFT model will need in the coming months to adjust to find ways to support and incorporate these new efforts from the network.

It is proposed that the model will shift toward a 'Global Innovative Financing Initiative' and that it will be more focussed on supporting collaboration, learning, some coordination and joint effort between the many National Societies that are now exploring approaches to innovative financing. Two meetings are being explored in the coming year; during the IFRC Innovation Forum to be held in Qatar in September a specific stream will be offered on Innovative Finance for technical level staff; it has been proposed that a meeting for senior leader level be developed on 'The Future of Humanitarian Financing', which could potentially be held through the Solferino Academy (which is launching in the second half of 2019).

Progress report on the aims and key next steps.



Objective 1. Support capacity development of National Societies in Innovative Financing;

Project 1 - Refinancing the Boma Hotels: Enhancing Asset and Debt Management

BOMA hotel is one of 4 commercial entities set up by the Kenya Red Cross Society with the primary objective of channeling all profits towards supporting the society in funding its humanitarian activities in the country.

The hotel borrowed funds from local banks at startup in 2013 at very high interest rates such that it could only afford to service the interest with very low traction on principal repayments.

In February this year, the GIFT team was asked to help with negotiating better terms through seeking alternate financiers both local or international in order to help the hotel attain its strategic objective of reducing its debt burden. Progress to date includes;

1. Re-worked the financials with realistic revenue projections. The revised cash flow analysis made it clear that the hotel would not be able to meet its principal repayment objectives under the current interest rates.
2. Started discussions on Internal finance re-organization to create efficiencies and bring down costs.
3. Redesigned the commercial entities structure such that the 4 business entities fall under a holding company that would own and manage the consolidated finances of the group. This would make it easier for us to pitch for the refinancing and at much more decent terms.
4. Pitched to three prospective financiers and awaiting feedback

Project 2 - Supporting the Development of Commercial Ambulance/Emergency Rescue Services in Africa

Amongst its commercial entities, the Kenya Red Cross Society owns Emergency Plus Medical Services. An Ambulance rescue company founded in March 2010 with the mandate to provide advanced pre-hospital care and ambulance services in Kenya.

Nine years from inception, the company now owns a fleet of 128 state of the art ambulances with 302 highly skilled front line health professionals and 80,000 community volunteer partners all working within an effective model to provide emergency health care services to people all over the country's geography. The company has grown from strength to strength registering a total revenue of KShs. 1.26billion (USD 12.6 million) last year.

The Kenya Red Cross Society is mentoring and partnering with other National Societies in Africa and governments to help build similar sustainable businesses by replicating the model across the continent, including;

a. The Gambian Red Cross Society

KRCS have signed up to partner with the Gambian Red Cross in setting up an ambulance rescue company in the country. An agreement to the terms of the partnership has been finalised and the process of setting up the operation has commenced, acquiring and equipping the first set of ambulances and selection and training of personnel.

The Gambia initiative will provide an income generating avenue to support the humanitarian activities of the Gambian Red Cross Society and perhaps open the door for future collaborations on our other business models.

b. Equatorial Guinea

KRCS are also in talks with the government of Equatorial Guinea to set up an Ambulance Rescue model, similar to the model in Kenya. The business will be fully funded by the government of Equatorial Guinea. We have shared our cost estimates for the project and are looking to close on this in the next month or so.

For both the projects above, apart from providing the much-needed critical pre-hospital care for patients, these partnerships will generate employment opportunities in the two countries.

Project 3 - Namibian Red Cross – financial restructure

Namibian Red Cross has been awarded grant through the National Society Investment Alliance and has developed a plan for NSD that is supported by both IFRC and ICRC. GIFT has joined this effort to provide specialised technical expertise and consultancy to the Namibian RC Secretary General as they move through financial restructuring, assets disposals and develop a path to sustainability. BRC is also providing financial support towards audit fees.

Project 4 - Development of British Red Cross strategy on Innovative Finance

During Jan-April, a team of students from London Business reviewed BRC strategy and activities against innovative finance agenda. The final report is being reviewed by BRC technical leads and management. This output and decisions will provide basis of input into BRC Fund Raising and Supporter Engagement Strategy currently being finalised, along with Budget and planning cycle for 2020 and beyond.

Project 5 - Nordic Plus Ecosystem Focused Financing (EFF) Working Group

A Working group has been formed comprising national societies from Sweden, Iceland, Finland, Norway, Denmark, and Netherlands organized around the idea of building capacity and co-creating Nordic specific solutions under this EFF approach.

- Initiative will also seek to involve group members MFA to promote best funding practices and alignment of initiatives/priorities.
- A group meeting is being planned for September

Strategy 2030

Innovative Finance has been identified by the IFRC network through consultations, as a key objective under the Financing Transformation of the draft Strategy 2030. Communications on financing have been conducted across the network reaching in excess of 100,000 internal stakeholders. Most recently the Buenos Aires Commitment from the Inter-American Conference also listed 'innovative fundraising' as one of its key priorities in the coming four years.

Objective 2: Experiment with and Implement Innovative Financing Mechanisms

Project 1 - One WASH Fund and Sukuk

GIFT is working with the Islamic Development Bank (IsDB) to structure a blended investment company (the Fund) and Islamic bond (Sukuk) that would finance the One WASH (Water, Sanitation, Hygiene and Public Health) programme in the Organisation of Islamic Cooperation (OIC) member countries identified as Cholera hotspots. The goal is to leverage grant funding with private capital to finance One WASH programs aimed at cutting Cholera related deaths by 90% over the next 10 years. [Programme video](#)

Current Status

GIFT has been working with IsDB for over a year on One WASH and have appointed (pro-bono) financial advisers (HSBC & FAB) and legal counsel (White & Case) at the start of this year.

The structure was presented at the IsDB AGM in Morocco in early April and we have started to engage, together with IsDB, various stakeholder groups. Most recently at the Responsible Financing and Investment summit and in bilateral meetings in Abu Dhabi and Qatar.

At the same time, we are moving the internal process forwards and have been engaging with PNS and WASH technical teams across the RC movement, and have now raised approximately CHF 40 million in pledges towards the initiative and related projects.

On the 12 May a high-level meeting was held in Jeddah with the USG Partnerships, and the SG of the IFRC at the invitation of the President of IsDB. Following which ISDB announced their commitment to set up and administer the Fund for One WASH. The incorporation of the Fund will be submitted to their July board for sanction.

In June, we have presented to the board of the International Finance Facility for Immunisation (who have supported GAVI's Sukuk) and to a 'roadshow' of investors in London, at both events the model and structure received praise and advice for improvement and leads on potential investors.

Next steps

The focus is now on the mobilization of philanthropic capital (donors and outcome buyers) over the next months. This stage will be followed by investor roadshows with commercial debt investors in Autumn 2019 with the aim to issue the Sukuk in early 2020.

Project 2 - Insurance & Securitisation

Volcano Catastrophe Bond

GIFT has continued its progress toward exploring the potential for a Catastrophe Bond in the Red Cross and Red Crescent. Recent updates include;

- NDF (UK) LP, a pool of capital designed to underwrite the risk of the occurrence of natural disasters and funded by DFID, issued an MOU to contribute US\$50K towards building out the cat bond model. They have also committed to invest up to US\$5M in the cat bond. We now have over US\$30M in soft commitments from private investors.
- UK insurance company [Lloyds has brought the cat bond to their natural catastrophe syndicate](#) for financial consideration. This group offers specialist underwriting expertise and new insurance capacity designed to help developing economies build resilience against natural catastrophes
- UK insurance company [RenRe insurance think tank, Weather Predict](#), is conducting a peer review on the cat bond model
- World Bank is discussing our request for them to cover part of the premium payments

Next Steps

Work with IFRC teams to further develop the Cat Bond and Insurance models and agenda. It is critical also to build the commitment book for premiums for the model.

Project 3 - Ecosystem Focused Financing

Rainwater Harvesting

Funding from this facility would support Ethiopian Micro Finance Institutions to provide commercially priced loans to farmers to build out harvesting facilities in rural settings. Furthermore, the platform is seeking to train returnees on how to build the WASH systems, as part of DRC's migrant portfolio.”

- Global Resistance Partnership, which is a Secretariat made up of Care, Mercy Corp, USAID, DFID, ODI, KPMG and others, selected our rainwater project for it resiliency innovation award (May 2019)
- World Bank head of treasury tentatively agreed to help with funding flows but need approval from Country Head of Ethiopia
- Kicked off research with Addis Ababa university
- Working with Meda.org to support agriculture value chain – possible opportunity for co-funding
- Water.org sending delegation to Ethiopia in mid-June 2019 to discuss project

Next Steps

Complete the research with Addis Ababa University; Focus on capacity building with Water.org for MFIs; Coordinate with Meda for value chain support; Gain ap-

Projects in Exploration Stage

Ethiopian Urban Youth

Problem: There are 500K street kids in Addis Ababa, and more are flooding in at around 30% pa.

Solution: Street Kids Outcome Fund - a single pool outcome fund where Ethiopian Government Trust Fund is an outcome payer.

Approach: (1) one day gathering with Addis based NGOs, civil societies, private sector programs, and UNICEF to landscape current solutions, funding, and gaps; (2) harmonise and coordinate to ensure an ecosystem focused approach to addressing these issues; and (3) drag race the interventions over 12 months, and those hitting targets outcomes receive additional funding.

Funding: Danish Red Cross in process of securing 3 years of initial funding

Update:

- We held the partnership meeting on May 29th in Addis Ababa. Attending was Ethiopian Red Cross, World Bank, UNICEF, Save the Children, MSF, Care, and a host of local NGOs. In all, we had 26 individuals representing 90% of the organizations working with Children Living and Working on the Streets of Addis (CLWSA).
- Results of the meeting included the following: (1) agreement and establishment of a CLWSA partnership group (cluster) which would meet monthly with government representatives – World Bank, UNICEF, etc are all participating; (2) agreement to kick off a landscaping and mapping feasibility study as ground work to launch the outcome fund and harmonize partner and government efforts; and (3) creation of a communications and digital library to consolidate research and information while also speaking with one voice.
- We've contracted Social Finance to help facilitate the landscaping and mapping work, research which is being funded out of the Danish Red Cross

Pathways to Innovative Solutions to Displacement

- May 3rd, Danish Red Cross, British Red Cross, and IFRC co-sponsored a gathering hosted by London Business School. 35 participants from diverse backgrounds attended the event.
- Whereas our January 2019 New York City workshop focused on developing standalone financial mechanisms, the second gathering asked participants to solve for specific displacement related issues in the context of a value chain or ecosystems.
- Outputs from the event will include visuals and novel ideas that combine to form a roadmap towards addressing displacement related issues.

Next Steps

Produce final report; continue to engage participants into late 2019 where we hope to launch a product in the market.

Refugee Inclusive Community Currencies (RICCs)

Danish Red Cross, Kenya Red Cross, British Red Cross, Grassroots Economics, and Bancor LLC, in partnership with local telecoms are developing an innovative form of credit accessible on feature phones via Unstructured Supplementary Service Data (USSD) interfaces and back-ended with blockchain scalability, tracking and security. This credit would, if successful, support the creation of self-sustainable, inclusive financial systems for vulnerable communities across Kenya through the use of a new donor funded blockchain based tokens called Refugee Inclusion Community Currencies (RICCs).

Next Steps:

- In early June, we submitted a grant proposal for US\$350K to GSMA, which if awarded would fund the project for 18 months.
- Exploring opportunities to replicate program in Asia