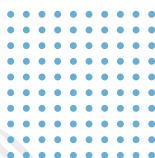




The Global Alliance for
Humanitarian Innovation

DIVERSE OPPORTUNITIES TO LEVERAGE FINANCIAL INNOVATIONS IN AID

www.thegahi.org



It will be helpful to identify the distinct modes of action that are at the root of new finance strategies ... and the varied problems that finance can address.

Finance as a Tool for Innovation

As with many other terms in the field of innovation, it is common to find that people are talking about different things when they attempt to bring together broad concepts like finance and innovation.

One of the key themes of the GAHI Pathways to Scale paper is that this murkiness in definition and framing limits the quality of the work that can be done in the domain. For example, the commonly produced lists of scaling issues don't provide a working framework that can be used to define distinct journeys to scale.

Likewise, there are many options in the Aid Sector to use finance to foster innovation, and vice versa, using innovation to expand finance options. To explore these possibilities, it will be helpful to separate several distinct modes of action that are at the root of finance strategies from the problems that finance might address.

Finance innovations are typically discussed in terms of:

- **Platforms:** New systems for accessing and distributing financial resources among many actors. Examples include: cash programming, crowd funding, and micro finance.
- **Products:** Financial products, such as insurance programs, impact bonds, and social enterprise grants, provide a particular financial service to a targeted group of actors.
- **Purchases:** Those with funding power also have the power to shape innovations in other fields by directing financial resources to innovators and the challenges they face.

Addressing Big Problems

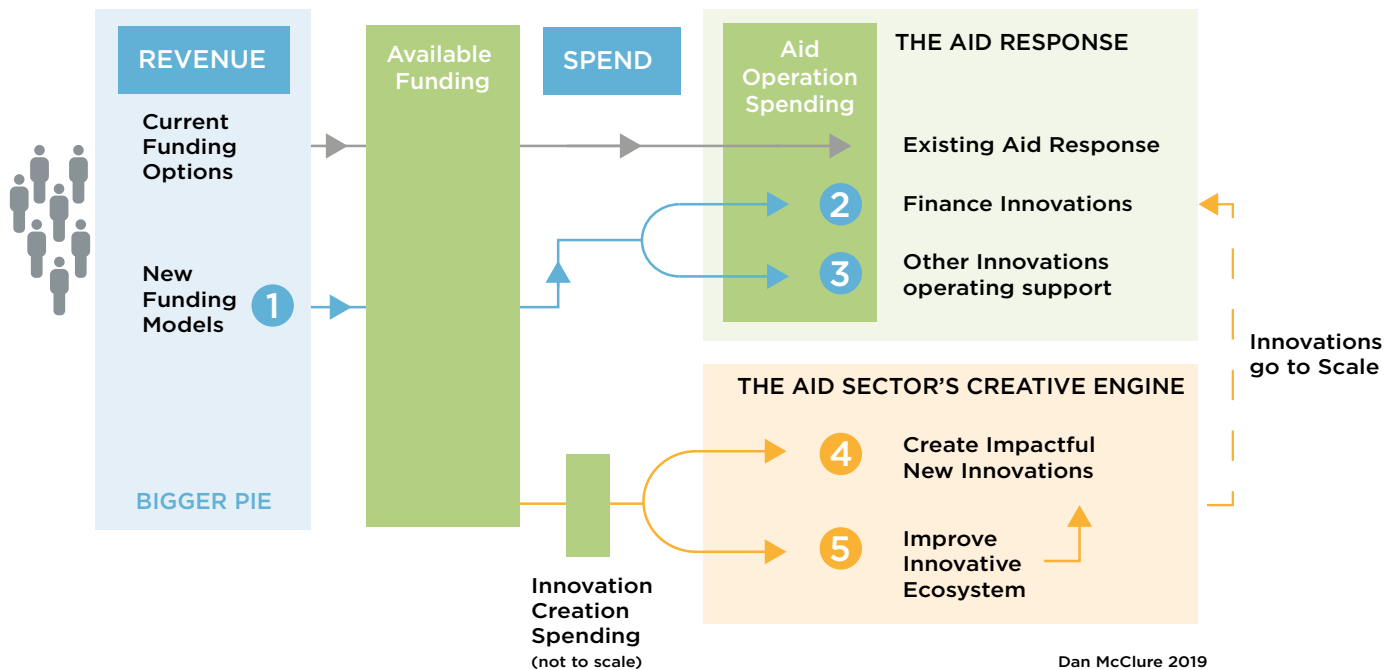
These broad strategies are being applied to several distinct Aid Sector challenges.

1. **Augmenting Revenue** – Increasing the funding available to support the Aid Sector mission.
2. **Applying Finance to Aid Services** – Using finance based innovations to improve the effectiveness and efficiency of an Aid response.
3. **Supporting Innovation Operations** – Successful business models are at the heart of innovations at scale. Enabling new business models fosters the success of Aid sector innovators.
4. **Funding Innovator's Work** – A less direct, but crucially important path for influencing creative change is the use of financial resources to invest in innovators creating innovations.
5. **Enabling Creative Ecosystem** – One step further removed from direct response engagement is the opportunity to improve the performance and power of innovators to shape high impact innovations.

The diagram on the following page shows where each of these opportunities applies in the overall effort to raise money, deliver aid services, and make improvements to the aid sector's offerings.

Each of these problem areas is its own complex and evolving area of opportunity. A tour of these challenges and the emerging possibilities for finance innovators are the focus of the rest of this paper.

1 | A Bigger Pie – Growing Revenue



Some of the most directly impactful innovations in finance are those that expand the Aid Sector's ability to attract funding. There are multiple opportunities here with active innovation leveraging, products, platforms and even purchases to grow the size and diversity of Aid Sponsorship.

Financial Products – Tapping New Resources

There has been a push to redefine the options for funding aid away from pure donations and government sponsorship, toward strategies that leverage tools that are familiar in the commercial sector.

Various impact investing products have created a new type of financial investment that promises both positive social impact and financial return. This potentially allows the Aid Sector and other actors delivering social benefit to access large scale sources of investment.

It is particularly effective when paired with innovation and systems change since these financial instruments often require both a stream of social value and a stream of new revenue. Other financial products that express returns solely in social impact should also be possible, extending these strategies into very low resource environments.

Financial Platforms – Diversifying Sponsors

Over the last decade digital financial platforms have enabled new financial strategies such as crowd funding of projects and causes. Today, additional platforms continue to emerge, engaging different groups of individuals with a tailored value proposition that could potentially diversify the timing and form of support for Aid.

For example, the growing diversity of new platforms has engaged specific social communities (e.g. diaspora) and areas of expertise (e.g. prosthetic designers). As platforms grow and diversify, new data sources such as the Internet of Things (IOT) can fuel much more specific real time calls for support.

Personal Engagement – Aid as Part of Life

Companies such as Tom's Shoes and Warby Parker glasses have made support for people in need a key part of their mission based operations. These relatively simple Buy One/Give One propositions demonstrate the potential to tap daily life choices for positive impact on others.

New technologies, such as blockchain, can provide detailed insight over the impact of personal choices and control over the positive and negative impact of those choices. Such verifiable direct giving of aid has the potential to radically shift the control over both the source and disposition of funding.

2 | Food to Finance – Improving Aid

Financial services are increasingly taking a lead role as an actual component of aid. Here we see the full complement of financial strategies applied directly in the service of helping those with pressing needs in crisis. This has been enabled by the emergence of market aware aid strategies, where financial tools and resources have a key role to play.

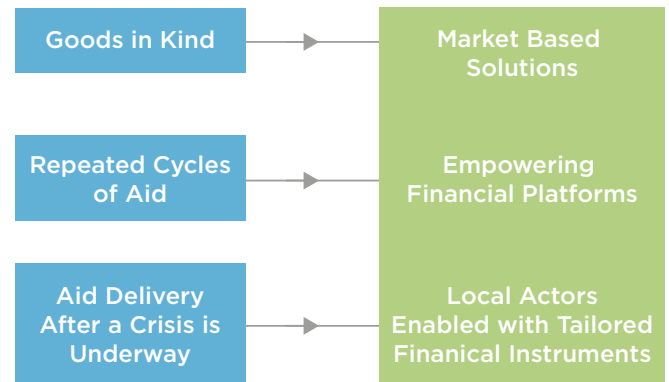
For many years the aid sector was characterized as one that delivered goods in kind, such as food, shelter, and WASH. The implied premise was that local systems had been rendered ineffective by crisis, and so the only alternative was to bring in physical products and services from the outside.

There is growing recognition that in many cases there are viable local economies and markets even within a crisis area. These would benefit more from injections of spending power rather than a flood of free products.

The use of financial interventions has the potential to reinforce the value and strength of local systems, thereby helping a region emerge from crisis and making them more resilient in the face of future threats. As a result, platform innovations like mobile phone based micro financing or aid based on cash programming (a debit card instead of a bag of rice) are rapidly expanding.

There are other product innovations that work at a broader scale. For example, the START Network has developed a program that seeks to quickly put funds in the hands of those dealing with the opening days of a crisis. Other regional insurance programs help provide support to governments that face predictable threats like drought but cannot predict exactly when the problem will materialize.

Locally Empowering Financial Innovations



Supporting an Innovator's Journey

The prior examples illustrate how Finance can itself be an innovation to expand funding and improve the impact of aid services. Of course, not all innovations are financial services. For many innovators, the key role for finance is to fund their long and often difficult creative lifecycle.

Over the last decade the primary focus of innovation funding has been on the early stages of idea development and testing. Early stage pilot programs have been an attractive investment, since they come with a relatively low price tag, quick turnaround, and exciting (if as yet unrealized) stories. Far less attention has been given to the later stages of the innovation lifecycle, where successful pilots are taken to scale, deployed, and put into operation.

The disproportionate focus on early stage pilot funding matters because there are substantial differences among later stages, resulting in a variety of funding needs.

• Pilot Funding

Short term grants work well if these projects are scoped narrowly. Ideas can be proposed and validated by innovators over a period of several months. Under lean innovation practices, failure or pivots in approach are accepted, so the outcome of each individual investment is uncertain. To account for this, grant programs typically build a portfolio of small pilot projects.

• Scaling Up Sustainable Solutions

Pilots emerge from their quick validation stage with an indication of impact, but also with incomplete designs and gap filled implementations. During testing innovators are encouraged to take shortcuts to accelerate learning. In this phase real world constraints that demand complete consistent and sustainable solutions must be met. This is a far longer creative journey, which will force innovators to confront many unique challenges. Funding and mentoring support need to be more sophisticated and patient, potentially extending through several years of work.

• Deploying the Solution

At this stage the innovation is complete and ready for use in the field. Investments support the deployment of the innovation and necessary customization to context. These investments have the benefit of tightly linking the investment of funds with increasing the potential for impact.

• Sustainable Business Model

An Aid Sector innovator will often be operating in a low resource environment where those benefiting from an innovation have little or no money to pay for its value. In the absence of commercial business models innovators need to augment their operating budgets with ongoing sources of revenue.

3 | Sustainable Business Models

The assumption that innovations will eventually generate (significant) profit underlies the financial support models for most commercial innovation. Venture Capitalists are willing to provide investments in as yet unproven startups because there is a possibility of substantial future returns. As a result, any commercial investment that fails to produce profits or market value is a failed business.

In contrast, the measure of effectiveness in an innovation in Aid is how effectively it solves a problem that matters in communities facing crisis. In the low resource environments typical of Aid responses, even a very successful innovation can be hard pressed to find a source of ongoing revenue. The potential beneficiaries of new innovations often have no way to pay for the value, even if it is genuinely desired.

In Aid and other social impact sectors, problem solving not profit is the ultimate measure of success, but this is not necessarily a view shared by investors. If their contribution is truly an 'investment', there is an expectation that the funds will eventually be repaid. If the investors have a focus on social impact, they may accept longer time frames for repayment or lower rates of return, but there is still a presumption that current investment costs will be paid over time from future profits.

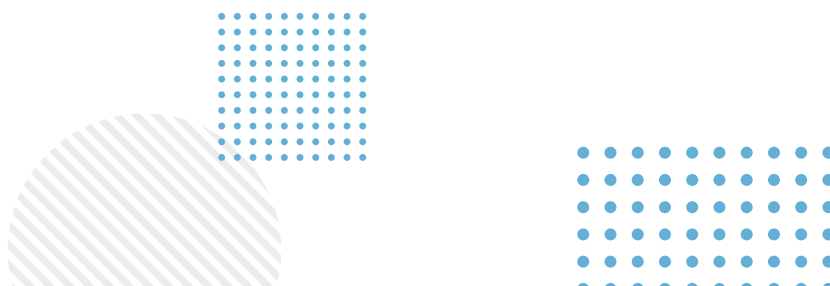
Aid Sector innovators find themselves in a much different position from their commercial counterparts. They can't simply 'test the market', but instead need to seek out innovative revenue models to provide a foundation of funding. This opens a door for financial innovation in several areas:

- **Low Resource Revenue Models** – Ways to generate ongoing operating revenue through non-market buyers (e.g. government or NGO) or other creative strategies

- **Social Enterprises** – Businesses designed to work on very low margins and leverage creative forms of value exchange.

- **Social Impact Investing** – Investment funds that recognize the need to recognize other forms of value besides just financial profit.

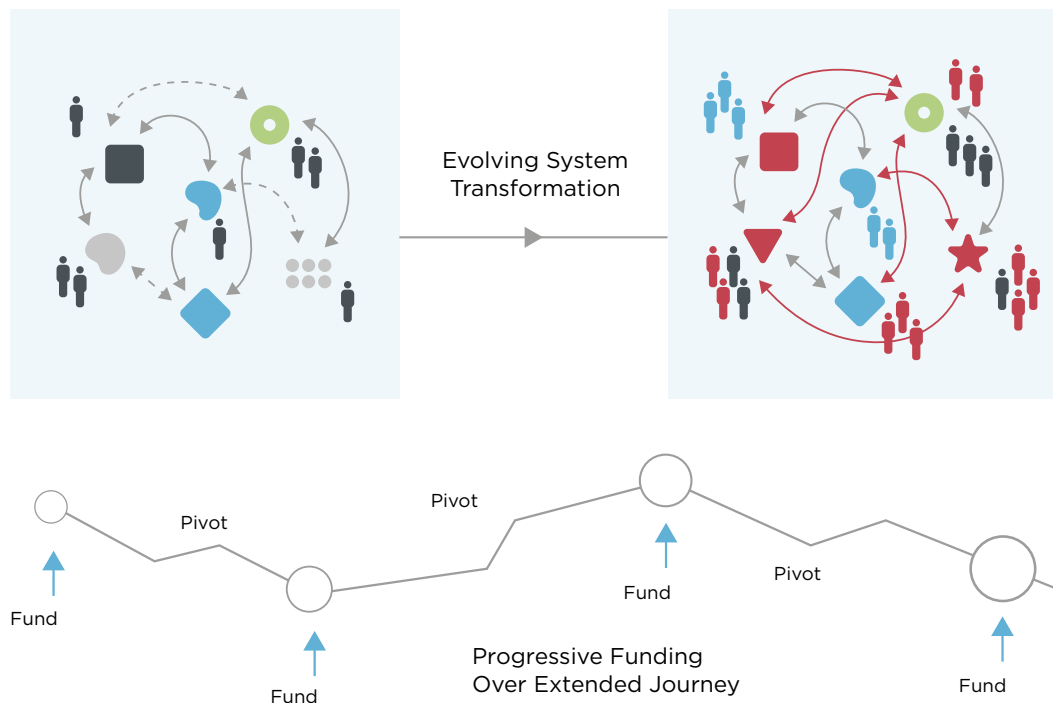
While advancing these strategies can make the traditional business revenue more accessible, much more should be done to empower innovators who need to work outside commercial markets.



4 | Patient Support Going to Scale

Many innovators, even if they have promising Pilot projects never get to the stage where they must deliver on a sustainable business model. The ability to find grant funding to test and validate neatly bounded pilot ideas is in stark contrast to the relative paucity of funding options for the journey to scale up innovations. Far too often, innovations get stuck in the long drawn out process of turning a light weight pilot into a complete solution.

The GAHI paper “The Many Paths to Scale” highlighted the large numbers of unique challenges that innovators face as they seek to build out complete sustainable solutions from a quickly developed pilot. The Aid Sector is particularly challenging for innovators at this stage of work. They face a wide range of complex challenges as they iteratively build out a complete consistent solution capable of performing in a complex aid environment.



An innovator navigating this long journey would be hard pressed to simply “fail fast” and abandon their idea at the first roadblock. Instead innovators need to be able to persist through adversity, with supportive funding options that are:

- **Bigger:** Significantly larger amounts
- **Patient:** Substantially longer time frames
- **Consistent:** Available without disrupting gaps
- **Mentored:** Funding coupled with other forms of support

While the number of programs supporting innovation scaling is growing, there is still much that can be done to develop effective funding and mentoring strategies that evolve sustainable solutions.

5 | Funding Innovation Ecosystems

The Aid Sector's ubiquitous pilot grant programs are built around "lean innovation" practices, which were taken from the commercial technology sector. The lightweight testing models are well suited for products and services with clearly defined purposes serving specific users.

Unfortunately, as described in the GAHI "Innovation 3.0" paper, most problems in the Aid Sector are more complex than this, with challenges entangled in wicked problems such as urban poverty, climate impact on communities, or education in crisis.

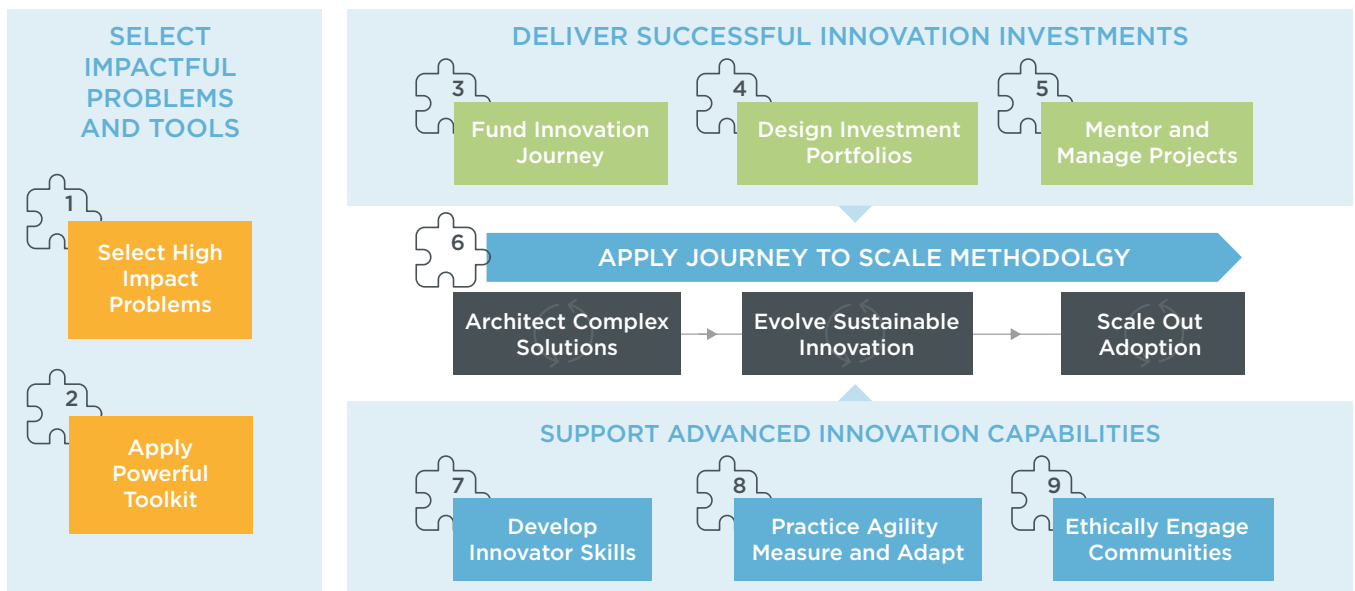
While financial sponsors of innovation could continue to focus their funding on narrowly focused tech solutions, it seems unlikely that any number of mobile apps will save the world. Unlike the tidy challenge of designing a product for a single user, these real life problems involve multiple actors with conflicting desires, complex relationships, and continually shifting contexts.

Undertaking more complex challenges requires a broad set of efforts to build out a new set of innovation capabilities based around complex system transformation. This is a different kind of investment from funding specific innovators.

These investments are targeted at building out a complete ecosystem in support of more advanced innovation practices. This includes: problem definition, portfolio management, innovator mentoring, innovation methodologies, measurement, and ethics, as well as suitable financial models. The diagram below highlights the diverse elements of this creative ecosystem.

This is not an easy sell in a sector where funding is tight and the commitment of existing participants to the status quo is high. Yet, these are highly leveraged investments. Expanding the ability of innovators to successfully pursue high impact innovations has the potential to raise the bar on a wide number innovation projects, tackling more relevant problems and delivering more ambitious solutions.

Innovation 3.0: Creative Ecosystem



This Paper

This paper was authored in May 2019 by Dan McClure as part of a GAHI initiative to highlight actionable steps that would lead to greater impact from innovation.

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