INNOVEST ADVISORY

# State of Field - Displacement-Inclusive Investing

Report for the Conrad N. Hilton Foundation

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# Acknowledgements

The team is grateful to the following individuals who participated in interviews or contributed with their time and insights for the completion of this report: Lev Plaves (KIVA); Aleem Remtula (Developing World Markets); Ellen Brooks Shehata (International Rescue Committee); Marta Zagaccini (Village Capital); Kate Montgomery and Lindsay Camacho (Acumen); Komal Mohindra and Yara Asad (World Bank); Paula Rossiasco, Daniel Gomez Amaya and Paula Sierra Velez (World Bank PS4R LATAM); Hayley Kornblum (IKEA Foundation); Florian Grohs (Symbiotics for the Frontier Market Credit Fund); Itamar Ahrenbeck (iGravity for the Refugee Investment Facility); Nafez Dakkak (Anara Impact Capital); Julienne Oyler (Inkomoko); Yousra Hamed (ILO Prospects Fund); Jerome Nhan, Line Pedersen and Micol Pistelli (UNHCR); Carolina Douek (Save The Children Global Ventures); Tim Docking (Refugee Investment Network); Marcel Smits (Interpeace); Charlotte Badenoch, Miriam Levitt and Enock Wangila (KOIS Invest); Bo Sim (US Department of State - Bureau of Population, Refugees and Migration (PRM); Thomas Husson (Proparco); and Radha Rajoktia (Building Markets).

# Context

Since the adoption of the New York Declaration for Refugees and Migrants and its Global Compact on Refugees (GCR) in 2016, a new refugee investment ecosystem has endeavoured to develop private-sector market-based solutions for enhancing refugee resilience and self-reliance in response to the escalating global displacement crises. This ecosystem has largely broadened its scope from a 'refugee' focus to include all communities affected by forced displacement events, including forcibly displaced persons (FDPs), the source communities suffering from contexts of disaster or conflict leading to forced displacement, and the host communities to which FDPs have fled.

These displacement-affected communities typically are situated where crises, vulnerability and fragility already exist.[1] Factors of fragility and displacement are interdependent and mutually reinforcing,[2] and the challenges rife in these contexts converge, compound and feed off each other. As a result, if no action is taken, by 2030, fragile countries will account for 80% of the world's poverty, becoming the epicentre of most of the humanitarian, health, security and environmental crises facing the world.[3]

Market-based solutions endeavouring to build the resilience and self-reliance of displacement-affected communities will necessarily converge with two key ecosystems already existing in these contexts: investments in fragile and conflict-affected states (FCAS), and humanitarian organisations responding to displacement crises. In addition, climate-focused investment ecosystems will also converge as more recognise the need for the global community to respond to the outsized impacts of the climate crisis on fragile communities and climate-induced displacement.

Within displacement-affected communities are millions living in protracted displacement, as well as millions more caught in continuous and cyclical conflict- and climate-induced movements. Accordingly, most contexts will need to transition from humanitarian aid responding to the immediate needs of FDPs to long-term sustainable solutions addressing the root causes of the cyclical and protracted displacement within the affected communities.

To effectively address the need for sustainable market-based solutions for displacement contexts, a broad consortium of private sector, donor, government and humanitarian organisations have collaborated during this early market-building stage.[4] These actors include:

- Those with legal responsibility to protect FDPs, such as the United Nations Refugee Agency (UNHCR), International Organization for Migration (IOM) and supporting UN-related organisations, and displacement-specialised international and national non-governmental organisations (NGOs);

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[1] Protracted Displacement Communities, 2023: Displacement-affected communities

[2] Proparco 2024: Acting in Fragile Contexts – Financing, Partnerships, Innovation

[3] Ibid.,

[4] Nagel, and Grace, 2023: Navigating The 'Refugee Ecosystem' In Research At Home

- Ecosystem builders such as the World Bank Private Sector for Refugees (PS4R) IFC/UNHCR Joint Initiative, Refugee Investment Network (RIN), Peace Dividend Initiative (PDI), Building Markets and research think tanks seeking to address the market system barriers to displacement inclusion;[5]
- Funders, including development financial institutions (DFIs), impact investment funds and foundations, that have been first movers to validate the business case for investing via displacement-inclusive strategies;[6] and
- Implementing partners such as financial service providers (FSPs), fund managers, NGOs, incubators and accelerators.

In addition, DFIs that have historically dedicated resources to investment strategies in FCAS with the aim of boosting economic growth in these contexts have experience highly relevant for framing displacement-inclusive investment approaches.

# Emerging Displacement -Inclusive Investment Landscape

Given the relatively recent emergence of displacement-inclusive investments, there has already been substantial progress in building the foundations and identifying private market approaches and investment strategies that support displacement-affected communities**.** To date, a few dedicated investment vehicles have served to demonstrate early models and provide foundational evidence of both the commercial and the impact case for the displacement-inclusive investment thematic.

## A. Dedicated Displacement -Inclusive Investments

***Dedicated Displacement Funds:*** **Kiva Refugee Investment Fund**

In 2018, Kiva, experiencing investee FSP demand for funding to finance underlying FDP-owned micro and small enterprises, started a dedicated refugee financing strategy via its not-for-profit Kiva.org platform. Based on this identified market opportunity from both investee FSPs and investors interested specifically in displacement-inclusive financial inclusion, Kiva's for-profit arm Kiva Capital successfully launched its US$35 million Kiva Refugee Investment Fund (KRIF I) in 2020. KRIF I has deployed a total of US$40.7 million into partner FSPs in refugee-hosting geographies.[7]

***Integrating a Displacement Lens:*** **Acumen East Africa FDP Initiative**

Acumen has raised US$1.5 million in grant funding from displacement-focused foundations and DFIs for its East Africa FDP initiative and successfully financed three investees. Leveraging the existing skills of its

[5] Building Markets, 2023: How do we create inclusive economies that work for all? Building Markets Global Strategy 2023 - 2028
[6] World Economic Forum (2019), Humanitarian Investing – Mobilizing Capital to Overcome Fragility, White Paper
[7] Kiva Capital, 2024: Kiva Refugee Investment Fund – Impact Report 2023

investment teams, its on-the-ground networks and the commitment of its displacement-focused funders, Acumen is overlaying a displacement lens on its existing resilient agriculture investment strategy. Its funding intentionally targets agribusinesses in displacement-affected regions of the Greater Horn of Africa that have made a demonstrated commitment to integrate FDPs alongside host nationals, directly within their businesses and indirectly via their value chains.

To operationalise its strategy to seek investments in displacement-affected communities, Acumen developed a Landscape Assessment Tool to assess the FDP density and other displacement characteristics of the regions where pipeline investment opportunities are located. This approach moves away from directly targeting FDPs in displacement-affected communities. Instead, the 'whole-of-society' approach creates better access to the private-sector market itself, and by extension to marginalised groups, including FDPs.

***Impact-Linked Loans to Refugee-Inclusive SMEs*: DRC RIF**

**The Danish Refugee Committee's Refugee Investment Facility (DRC RIF)** has raised US$3.7 million to invest in small and medium enterprises (SMEs) in Uganda and Jordan, with potential country expansion to Colombia and Kenya. The RIF aims to generate impact for displaced persons by increasing employability and decent and sustainable employment, delivering services or products not currently widely available in refugee hosting areas and supporting financial inclusion of refugees and host communities.[8] Leveraging the DRC's knowledge and footprint in refugee hosting areas, the RIF assists in the delivery of technical assistance (TA) and development support for SMEs, the operationalisation of the Monitoring and Learning plan and the ongoing measurement of impact of RIF investees.

The fund, managed by impact fund manager iGravity, combines grant-funded TA and business development support with favourable financing to SMEs through impact-linked loans, whereby financing terms are tied to the impact delivered measured against refugee/host community impact metrics. The RIF has also developed a suite of standard operating procedures and impact measurement tools for investments in displacement contexts.

***Other Investment Vehicles***

**The Near East Foundation (NEF)** successfully raised investor funding and outcomes funding for its Refugee Impact Bond in Jordan. NEF also has secured a commitment for concessional debt funding from a private investor to scale its donor-funded revolving credit facility Siraj Financial Services in Northern Syria, with the long-term objective of creating a sustainable financial institution (FI).

**ALIGHT's work in DRC** leverages a model of integrating private capital into the NGO's donor-funded FDP livelihoods and entrepreneurship programming to build community-owned and -operated social enterprises via the Asili initiative.

**The Kakuma-Kalobeyei Challenge Fund** (KKCF) is an International Finance Corporation (IFC)-funded localised displacement-inclusive investment facility that identifies investments to improve refugee access

[8] Refugee Investment Facility, 2023: A review and outlook based on our first year of operations – 2023 Impact Report

to finance, water and sanitation, childcare services, agriculture and clean energy. In so doing, KKCF seeks to create job and income-generating opportunities, to increase availability and affordability of products and services, and to improve outcomes of both the displaced and host communities. KKCF's long-term objective is to attract new private businesses and social enterprises to the Kakuma-Kalobeyei area, provide opportunities to scale-up the operations of private companies and social enterprises already present in the area, develop and grow refugee and host community-owned businesses, and create opportunities for women and youth.[9]

***Proposed Dedicated Displacement-Inclusive Investment Vehicles***

There are some positive signs pointing to the expansion of existing displacement-focused investment vehicles, such as the planned launch of a second investment strategy for Kiva's KRIF fund in 2026 and additional funding and planned country expansion into Kenya and Colombia for the DRC RIF. Furthermore, a number of promising new investment vehicles in the design phase or piloting phases are focused on displacement or the adjacent peace outcomes. This includes the US$5 million Building Markets Working Capital fund, the US$100 million Finance for Peace/KOIS Refugee Humanitarian Development Peace Outcomes Fund (HDP Outcomes Fund) that seeks to provide funding to scale and replicate innovative finance mechanisms, the Resilience Impact Fund for the Horn of Africa (RIFHA Fund II), and Symbiotic's Frontier Market Credit Fund

***Lack of Traction for Dedicated Displacement Strategies***

The challenges in this area are demonstrated by the Displaced Communities Fund, sponsored by emerging markets financial inclusion fund manager Developing World Markets. The Displaced Communities Fund proved unable to achieve the required capital mobilisation to close the fund. Developing World Markets believes that at the time of marketing the fund, there had not yet been a sufficient evidence base of successful deployment of equity capital into displacement-inclusive investments, even in situations of protracted displacement. In addition, 'Refugee Lens Investing (RLI)' may be a narrow and problem-focused investment lens with limited investor and investee applicability.

Some of the new investment vehicles under design or fundraising may go beyond the narrow RLI lens to take a broader systems lens approach to investment strategies. For instance, investment theses focusing on contributions to peace and stabilisation (RIFHA fund) or disaster mitigation, resilience and recovery (such as early thinking by financial inclusion-focused NGOs Vision Fund International and Opportunity International on disaster recovery-focused microfinance investment vehicles), would still have a core focus on providing financial access for displaced and host communities.

To achieve the flow of private capital required to meet the scale of the escalating displacement need, it's clear that dedicated displacement-inclusive investments alone will not be sufficient. But the

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learnings from these first movers and the foundational work undertaken are leading to emerging strategies.

Embedding a displacement lens along with targeted technical assistance can converge with investment modalities relevant to displacement-affected communities, including existing FCAS, financial inclusion, and agribusiness and energy-access SME strategies as well as emerging energy and climate strategies. In addition, there is substantial momentum in attracting private capital into new displacement-focused innovative financings in collaboration with humanitarian actors.

## B. Convergence of Displacement-Inclusive Investment with Existing Investment Strategies

Several existing investment strategies present strong potential to integrate displacement considerations with existing and emerging modalities of investments in fragile contexts. These enable displacement-focused investors to leverage experienced investment teams with sectoral and geographic expertise and access to further pools of capital to allow for scaling.

Integrating displacement as a cross-cutting lens, much like applying a gender lens, across mainstream thematic fund strategies with geographic exposure to countries experiencing high levels of displacement can accelerate capital flows into investments capable of improving displacement-inclusive outcomes at levels needed to meet the increasing displacement crises. Importantly, bringing a focus on displacement to these mainstream investment strategies with their well-developed methodologies, track records and experienced investment teams can substantially increase both displacement-inclusive pipeline opportunities and the range of parties interested in these investments.

Integrating a displacement lens into broader investment thematics benefits all parties:

- It offers fund managers access to capital from new displacement-focused sources.
- It enables displacement-focused investors to consider a range of mature sectoral strategies where investment opportunities intersect with FDPs' needs and displacement contexts, and offers the opportunity to use their investment capital to incentivise displacement inclusivity.
- It draws the requisite intentionality to displacement considerations within investment strategies that may otherwise overlook their investments' impact – positive or negative – on displacement-affected communities.

Like the IFC/UNHCR Joint Initiative's approach to increase private-sector engagement in forced displacement contexts through business facilitation, embedding a displacement lens into relevant sectoral strategies investing in displacement-affected regions offers broader displacement-inclusive investment opportunities. It can catalyse displacement considerations in sectors important to host governments and local community priorities and draw displacement-focused investment in the region.

## B.1 Sectoral Investment Strategies Aligned with Displacement Lens

Investment strategies conducive to displacement inclusivity include financial inclusion, FCAS, agriculture value chain financing, climate finance and clean energy. These represent important sectors in low-income countries where most displacement-affected communities are found, and also are the basis for job creation and livelihoods in these regions.

However, investment in these sectors and regions that have positive outcomes on decent job creation and access to finance and services does not de facto have a comparable positive outcome for displaced cohorts in these regions.[10] Often, if FDPs are not *intentionally* included in an investment strategy, then they likely will not be included.

Several investment initiatives demonstrate implementation of a displacement lens in their existing investment strategies: Kiva's KRIF I and II investing in FSPs, Acumen's East Africa FDP Initiative investing in agribusinesses, and Proparco's Facility for investing in and supporting African business plus (FISEA+) investing in FCAS.

***Financial Inclusion Investment Strategies***

Given the significant growth in integrating displacement-inclusive business models by the financial inclusion sector and the progress in establishing enabling environments to enable FSPs to serve displaced populations, fostered in large part by multilateral and INGO efforts, there is a growing investment opportunity for financial inclusion investment strategies to integrate a displacement lens.

A number of well-established financial inclusion investment strategies have successfully embedded a displacement-inclusive lens, including Kiva. The organisation's trajectory from applying a displacement lens within its Kiva.org platform to the launch of a dedicated displacement-focused fund strategy in the form of KRIF provides important evidence for this business case. Notably, through adopting a displacement-inclusive strategy, Kiva was able to unlock new investor types at the fund level and launch a new fund strategy.

Emerging thinking by microfinance heavyweights such as Vision Fund International, the commercial microfinance arm of the INGO World Vision, and Opportunity Microfinance Investments Limited, the microfinance subsidiary of the NGO Opportunity International, on the creation of displacement-focused microfinance investment vehicles is testament to the pioneering work of Kiva.

Displacement-Inclusive FSPs. There has been significant growth in the financial inclusion sector to broaden the ability and capacity of FSPs to understand, reach and serve FDP and vulnerable host community clients. This is largely thanks to using dedicated investment capital combined with market-conducive incentives, technical assistance and capacity building, often with multilateral or NGO support.

With such support, FSPs have adopted different approaches to FDP inclusion, including:

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[10] Proparco 2024: Acting in Fragile Contexts – Financing, Partnerships, Innovation

(i) embedding FDP-focused strategies into their service offering (*see* Financiera Confianza[11] program developed in cooperation with the IFC to address the needs of Venezuelan migrants and FDPs in Peru);

(ii) creating conducive contexts to serve FDPs (*see* the Ugafode[12] initiative with the Ugandan government to create a broader enabling environment for displacement-inclusive products and services by obtaining regulatory approvals that enabled refugees to access financial services at all regulated financial institutions in Uganda);

(iii) expanding their product reach to harder-to-reach contexts where displaced persons can be served (*see* Al Majmoua's offering of products that are the same for Syrian and Palestinian FDPs and the native Lebanese host community alike, with a focus on supporting social cohesion).[13]

While these displacement-inclusive business models have been developed for financial inclusion, they can also be applied to other sectors offering last-mile services in displacement contexts, including energy access (solar home systems), water and sanitation, education, healthcare and agricultural extension services.[14]

<u>Displacement-inclusive investment.</u> DFI displacement-inclusive financial inclusion investment strategies have supported the early building of displacement inclusion by FSPs in fragile contexts where displaced populations typically live, thereby catalysing investment opportunities while deepening the evidence base for FDP inclusivity by FSPs. Dutch Entrepreneurial Development Bank (FMO) has integrated a displacement lens into its FCAS investment strategy to incentivise FSPs in FCAS to lend to underserved SMEs serving displaced populations and vulnerable host communities.[15] Using this approach, FMO made a direct investment in Tamweelcom, Jordan's second-largest microfinance institution, to incentivise it to provide loans to Syrian refugees.[16]

***Agriculture Value Chains Investment Strategies***

As mentioned above, Acumen's US$1.5 million East Africa FDP Initiative has piloted integrating an FDP inclusion lens into its existing climate-smart agriculture investment strategy, with a rigorous focus on displacement-affected regions of East Africa. In this strategy, Acumen invests in scalable early-stage MSE agri-enterprises. Building on the existing skills of its investment teams, on-the-ground networks and relationships with donors and other partners, Acumen is embedding displacement considerations as a

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[11] Ibid.

[12] Ibid.

[13] Ibid.

[14] European Microfinance Platform, 2024: Advancing Financial Inclusion for Refugees & Forcibly Displaced People – Insights from the European Microfinance Award 2024

[15] FMO, 2019: FMO launches First Risk Sharing Facility for Syrian Refugees in Jordan. The NASIRA facility is a €500 million facility which provides development guarantees, while the MASSIF fund provides risk-tolerant, concessional debt.

[16] Responsible Investor, 2019: Loan guarantee program aims to help Syrian refugees' access to capital

cross-cutting issue in its existing East Africa climate-smart agriculture investment strategy to attract funding from displacement-focused investors.

Following the learnings from this pilot program, Acumen intends to integrate the displacement lens approach across its other fund strategies investing in geographies that feature displacement contexts. Its US$80 million Acumen Climate Action Pakistan (ACAP) fund invests in agribusinesses that provide access to climate adaptation solutions for vulnerable smallholder farmers.[17] Fund strategies investing in other sectors include its energy-access-focused US$250 million Hardest to Reach fund (HTR) targeting 16 Sub-Saharan African countries with low electrification rates and high poverty levels. ALIVE Ventures' funds in Latin America have invested more than US$50 million in education and pathways to quality jobs, sustainable income generation opportunities, access to critical goods and services, and solutions for climate resilience and mitigation.[18]

***FCAS Investment Strategies***

Generally speaking, an FCAS investment strategy that intentionally allocates capital in infrastructure and businesses in conflict-affected, post-conflict recovery or fragile states can support vulnerable populations. Displaced persons or those at risk of displacement benefit directly or indirectly as a result of these investments through employment, integration into economic value chains or access to products and services that enhance resilience and self-reliance.

In reality, however, much like the gender lens demonstrates, due to pervasive barriers that displaced populations often face in accessing economic opportunities and services, there is a need for more tailored, deliberate inclusion of this target cohort in an FCAS strategy.

A recent report by Proparco recognised that 'investment impact cannot be based solely on the assumption that creating decent jobs necessarily guarantees positive outcomes for peace'[19] or, indeed, for inclusion of marginalised groups, including displaced cohorts. Proparco's evaluations of its capital flows to FCAS under its 2021 FISEA+ strategy with no displacement lens found limited direct impact on displacement populations.

**DFI FCAS Investment Strategies.** Some DFIs have begun integrating an intentional displacement-inclusive lens into their FCAS investment strategies, through both their direct investments and funds investments that are risk-taking in nature, with tailored loan maturities and technical support adapted to the contexts. As these DFIs are the largest 'impact investors' in FCAS strategies, their deliberate consideration of displacement challenges provides probative models and the business case for private impact capital to follow, as well as potential co-investment or other partnering opportunities. In addition, by securing displacement-inclusivity commitments from the DFIs' FCAS investees and providing TA and capacity

[17] Green Climate Fund, 2024: Acumen Climate Action Pakistan Fund

[18] Acumen LatAm Impact Ventures, 2023: ALIVE's 2023 Impact Report

[19] Proparco 2024: Acting in Fragile Contexts – Financing, Partnerships, Innovation

building to support these commitments, these investments improve the enabling environment and offer the business models and business case to foster displacement inclusivity within the FCAS context.

In 2021 AFD Groupe/Proparco launched the €210 million-FISEA+ facility to invest in high-impact funds that provide support for SMEs and contribute to the development of a sustainable private sector in fragile countries.[20] Despite increased capital flows to FCAS under FISEA+, there was limited direct impact on displaced populations.

Responding to these findings, Proparco launched its 2023 – 2027 strategy[21] aimed at providing solutions to the economic and social vulnerabilities to which Africa's Least Developed Countries (LDCs) and FCAS are particularly exposed, focusing on investments in off-grid energy, financial inclusion and agribusiness sectors. Within this new strategy is a commitment by Proparco to overlay an FDP lens onto its investment strategy. Strategic partnerships with humanitarian actors such as the International Committee of the Red Cross (ICRC) and aligned impact investors such as the Conrad Hilton Foundation help identify curated displacement-inclusive investment opportunities.

More recently, the Africa Resilience Investment Accelerator (ARIA), developed by British International Investment (BII) and the Dutch FMO, seeks to unlock conflict-sensitive investments in six fragile countries.[22]

Leveraging the experience of these DFI investors deploying investments in FCAS situates displacement within a broader vulnerability or fragility strategy in contexts where displacement or risk of displacement exists. This could create new inroads for private-sector investors with complementary strategies to directly and indirectly contribute to solutions for displacement-affected communities.

Key to responsibly investing in fragile contexts to achieve positive outcomes such as job creation is incorporating an impact management approach that ensures no harm is done. DFIs have made substantial progress in developing tools for investing in FCAS with the dual goals of investing to achieve positive development outcomes without feeding into instability or increasing inequalities.

**Private-Sector FCAS Investment Strategies.** Examples of private-impact investment funds investing in fragile states that have or are in the process of integrating a specific displacement lens into their investment strategies include:

- One Earth Future Foundation's forthcoming US$250 million RIFHA Fund II, a private debt fund targeting SMEs that contribute to the Horn of Africa's resilience, particularly enterprises that promote food security, sustainable energy, access to water, health, education or waste management, initially in Djibouti, Northern Kenya and Somalia.
- Symbiotics Frontier Market Credit Fund targeting investments into financial institutions in fragile and at-risk countries.

[20] Proparco, 2021: Choose Africa launches the FISEA+ facility: a new EUR 210m investment capacity for African MSMEs

[21] Proparco, 2023: Proparco Strategy – 2023 - 2027 (Acting together for greater impact)

[22] ARIA, 2024: DFI investments in frontier markets – Activities, lessons learned and approaches to fostering investment

### *Clean Energy Investment Strategies*

In both protracted and emergency displacement contexts, the vast majority of displaced people lack access to clean cooking solutions and electricity to meet their needs for both their homes and their businesses as well as community features such as schools; hospitals; and water, sanitation, and hygiene (WASH) facilities.[23] Access to reliable energy reduces displaced populations' dependence on costly and carbon-intensive energy sources and provides significant economic and health benefits by decreasing indoor air pollution.

Recognising the need for innovative financing mechanisms and private-sector collaboration to finance the supply of sustainable and renewable energy in displacement contexts, the Humanitarian Energy Sector report calls for inclusion of displaced populations in existing broader energy programs.[24] Acumen's US $250 million Hardest-to-Reach Initiative responds to this need for tailored investment vehicles targeting off-grid solar companies providing last-mile energy access in fragile contexts[25] and is backed by the Green Climate Fund, USAID Power Africa, Sir Christopher Hohn, The Global Energy Alliance for People and Planet (GEAPP) and Shinhan Bank.

Social enterprises such as KIMS Solar, SolarNow, d.light, M-Kopa Solar, Renewvia Energy and Angaza are providing displacement-inclusive clean energy access by delivering sustainable, affordable and reliable energy solutions to vulnerable populations, including solar power, improved cookstoves, solar home systems and mini-grids in displacement settings.

### *Climate Finance Investment Strategies*

The emergence of climate finance, encompassing adaptation and mitigation finance, in displacement and fragile contexts has opened up new avenues to address the impacts of climate- and weather-driven natural hazards in regions home to displacement-affected communities globally, with a substantial ability to drive market-based solutions to displacement. Given the link between climate change and displacement and fragile contexts, there are opportunities to integrate a displacement lens into the substantial commitments being made to deploy climate finance to the least-developed countries facing climate risks.

### *Climate Finance in Displacement-Affected Communities*

Save the Children Global Ventures (SCGV) is developing innovative finance tools to secure climate financing to reduce carbon emissions and improve the environment while providing a source for Save the

[23] The United Nations Institute for Training and Research (UNITAR), 2022: The State of the Humanitarian Energy Sector: Challenges, Progress and Issues in 2022
[24] Ibid.,
[25] Acumen, 2024: Hardest-to-Reach Development Facility Overview

Children (StC) funding.[26] In all of its financing, resilience is cross-cutting, including climate resilience, given that the climate crisis directly affects children.

For example, in 2023, the Green Climate Fund (GCF), the Global Partnership for Education (GPE) and StC launched a US$70 million investment to build climate-resilient schools in vulnerable countries. This financing mechanism will support education systems in vulnerable countries to construct climate-resilient and green schools, integrate climate change in school curricula and provide climate early warnings to schools.[27] Similarly, SCGV has received funding to support climate change adaptation and mitigation from both the GCF and the Global Environment Facility, with two approved projects and another 12 in various stages of development.

The UNHCR is leveraging its expertise to ensure that FDPs fleeing from climate-fueled crises or living in climate hotspots are protected, have access to sustainable resources and are resilient to the impacts of climate change.[28] The UNHCR Climate Resilience Fund seeks to raise US$100 million, focusing on 22 priority countries as per the UNHCR Focus Area Strategic Plan. The Climate Resilience Fund will facilitate direct climate financing and support projects for integrating climate adaptation into humanitarian responses, promoting environmental sustainability and improving the livelihoods and living conditions of displaced individuals and communities. The aim is to reduce the vulnerability of displaced populations as well as host communities to climate risks such as floods, droughts and extreme weather events.[29]

***Climate-Smart Investments in At-Risk Communities***

Climate-smart investments are largely focused on climate adaptation. Increasing the ability of smallholder farmers to withstand shocks and climate risks such as floods, droughts or extreme heat enables them to sustain their livelihoods and participate in income-generating activities within those geographies. This includes climate-smart agricultural investments such as drought-resistant crops, efficient irrigation systems and sustainable land management practices; climate microfinance designed to help low-income populations build climate resilience by offering loans to invest in climate-smart technologies or resilient agricultural practices; and climate insurance designed to protect vulnerable populations from the financial losses associated with climate-related disasters.

In communities at risk of displacement due to climate-induced factors, these investments aim not only to build resilience to climate change but also to offer a foundation for long-term financial stability and socio-economic development. With a strong economic foundation, displacement-affected communities can thrive despite the challenges posed by climate change.

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[26] Ibid.,

[27] Green Climate Fund, 2023: The Green Climate Fund, the Global Partnership for Education and Save the Children launch the world's largest investment for green schools at COP28

[28] UNHCR, 2024: The UNHCR Climate Resilience Fund

[29] Ibid.,

Acumen East Africa's FDP Investment Initiative is an example of this model. Through intentionally targeting investees in displacement-affected regions, Acumen has integrated a displacement lens alongside its Trellis agricultural value chain strategy.

Another example is the Green Climate Fund supporting a Water-Energy-Food nexus project in Mali. The project addresses water scarcity, energy needs and food security by integrating solar-powered irrigation, energy-efficient cooking stoves and drought-resistant crops. This directly benefits displaced populations vulnerable to food insecurity and water shortages due to climate change.

The social enterprise MicroEnsure has developed insurance products tailored for low-income populations in climate-vulnerable regions. MicroEnsure often partners with microfinance institutions (MFIs) to bundle weather insurance with microloans. Displaced populations, particularly in East Africa and South Asia, use the microloans to purchase climate-resilient assets, while the insurance helps protect them against crop failure or other climate shocks.

## B.2 Investor Influence in Embedding a Displacement Lens into Aligned Investment Strategies

***Incentivising Displacement Inclusivity in Fund Strategies***

DFIs, international financial institutions (IFIs) and multilateral development banks (MDBs), and other specialist impact investors can leverage their capital commitments to FCAS-focused or relevant thematic funds to require fund managers and other specialist investment vehicles to be more intentionally displacement-inclusive. In addition, organisations such as the IKEA Foundation are considering displacement as cross-cutting in their investment strategies.

Investment conditions can include the integration of an explicit displacement-inclusive lens into investee screening and due diligence processes, quotas for the number of displacement-inclusive businesses in the portfolio, specific FDP KPIs and metrics that the manager has to report on, and displacement-inclusive targets that funds would be expected to achieve. Investors (particularly DFIs and impact-first investors such as foundations) could facilitate or encourage these obligations by providing risk-tolerant funding such as first-loss capital, leveraging risk mitigation instruments (guarantees), or offering TA grants to motivate fund managers.

Several planned funds are focused on investing in financial institutions, fintech and SMEs across the Middle East and North Africa, presenting DFIs and other impact investors with the opportunity to work with the fund managers to integrate a displacement lens into their investment strategies. These include Anara Capital and Impulse's forthcoming Yed b Ye b Fund with backing from FMO, and Middle East Investment Initiative's Sharaka Fund, which has US Development Finance Corporation (DFC) support as well as Catalyst Investment Managers, a displacement inclusive solar infrastructure fund manager backed by the IFC.

These funds target countries of the Levant sub-region that are facing very high levels of displacement (Jordan, Lebanon, Turkey, Palestine, Syria and Iraq) as well as the North Africa markets of Morocco and Tunisia which are experiencing high levels of economic migrants. The managers of these funds have confirmed willingness to apply a displacement lens to their investment strategy.

Likewise, fund managers with investment strategies focused on displacement-affected regions of Africa and relevant sector focus could be incentivised to incorporate a displacement lens. These include funds such as XSML Capital (a private equity fund operating in fragile Central African countries) and some of the FCAS-focused fund managers backed by Investisseurs et Partenaires (I&P). Roots of Impact's Impact Linked Finance Fund for Gender Inclusive Fintech and Impact Linked Finance Fund for Education (ILFF EDU) invest in companies that operate in regions hosting FDPs. While FDPs likely impacted are not explicitly a focus of these funds, the investment strategy could be further tailored to seek investments that explicitly include FDPs as customers of the fintech and ed-tech products.

This approach of incentivising fund managers to embed a displacement lens into their existing investment activities holds significant promise for scaling FDP-inclusive capital flows. However, it will likely require specific TA and management-capacity building to succeed. In addition, buy-in from the fund manager's investment team is essential to avoid the displacement lens becoming a secondary priority to other thematics. For both of these challenges, TA grant funding and other incentives from investors, such as concessional investment, can help to align solutions.

## C. Emerging Humanitarian Approaches

A fundamental shift in humanitarian funding and financing is required to overcome the loss of traditional donor grant funding in the face of escalating aid needs. Humanitarian organisations are collaborating with private-sector partners to develop financial instruments that will provide new sources of funding, with greater predictability and sustainability.

This shift accelerates the drive across the displacement investment ecosystem to leverage complementary skill sets and mutual facilitation amongst the many parties involved. Those active in seeking long-term solutions at the nexus of climate, fragility and displacement range from the humanitarian and multilateral organisations to private-sector actors including corporates, foundations and investors. Innovative, displacement-sensitive, context-specific market-based solutions are unlocking broad stakeholder buy-in and increasing the social impact of investments on crisis-affected populations.[30]

### C.1 Development of Inclusive SME Sector in Displacement Contexts

The business models of refugee businesses in refugee camps and urban concentrations of FDPs are often not commercially viable outside of the existing displacement contexts. Such SMEs tend to become

[30] Ibid.,

dependent on factors such as supply chain contracts or offtake agreements with UN agencies, INGOs and local NGOs – which unintentionally distorts the markets.

Instead, refugee-focused businesses have the potential to develop dual mandates for both displacement contexts and wider customer bases, which can enable these displacement-inclusive businesses to commercialise and scale.

Fostering the growth of displacement-inclusive SMEs, many of which will require various levels of capital to support their development, represents a potential displacement-inclusive investment pipeline. Several initiatives are supporting these FDP businesses to achieve greater commerciality and scale. These include:

(i) The IFC/UNHCR Joint Initiative aims to increase and accelerate private-sector engagement in forced displacement contexts through facilitating enabling environments and businesses in specific sectors and locations.

(ii) PS4R's work primarily focuses on operationalising FDP-inclusive frameworks that link the private sector and FDP-related businesses across six countries. This includes capacity building for MSEs and local intermediaries and value chain interventions through market linkages. PS4R piloted a market linkage intervention in Jordan focused on creating jobs for Syrian FDPs through export linkages. PS4R has since piloted context-specific, market-linkage interventions through agri-value chains in Lebanon, leveraging the benefit of accessing new markets for their produce to incentivise the private sector to integrate FDPs as primary producers at the beginning of the value chain.

(iii) Building Markets provides bespoke data, market access training, access to working capital and an online marketplace for displacement-inclusive SMEs. The goal is increasing these businesses' revenues, securing working capital for them to engage fully in market opportunities, increasing buyer confidence in these businesses and creating jobs for economically vulnerable populations.[31] In Turkey, for example, Building Markets has built a network of 3,000 Syrian-owned SMEs, provided training services to 1,100 SMEs and facilitated transactions totaling US$560,000.

(iv) The International Committee of the Red Cross (ICRC) and AFD Groupe nexus partnership has historically facilitated the adoption of several projects in water and sanitation, health, and agri-food systems.[32] As of 2024, Proparco and the ICRC are seeking to cooperate in a number of pilot operational initiatives, mainly focusing on economic and financial security and access to essential services. The first steps of the collaboration include working on access to finance for FDPs and the optimisation of cash transfer programs provided by the ICRC, the International Federation of the Red Cross and the British Red Cross, amongst others; creating exit strategies of the ICRC programs for SMEs affected by crises; and sharing experiences in WASH and energy sectors. This builds on the broader AFD Groupe engagement

[31] Building Markets, 2023: How do we create inclusive economies that work for all? Building Markets Global Strategy 2023 - 2028

[32] Proparco 2024: Acting in Fragile Contexts – Financing, Partnerships, Innovation

with ICRC to develop innovative approaches for access to water, healthcare and economic opportunities, notably in fragile contexts such as Iraq, Lebanon and Mozambique.[33]

## C.2 Development of INGO Investment Products

*Impact Linked Loan Facility: DRC RIF.*

Leveraging the DRC's unique understanding and footprint in refugee hosting areas as well as its networks amongst programming partners, the RIF supports the delivery of TA, the design and operationalisation of the Monitoring and Learning plan, and the ongoing measurement of impact of RIF investees against the Results Framework. TA and business development support for SMEs is enabled by advisory services from DRC staff and smaller TA grants (€0.1 million). An investment window (€3.7 million) offers impact-linked loans whereby financing terms are tied to the business's ability to generate impact for displaced persons, such as by increasing employability, increasing decent and sustainable employment, delivering services or products not currently widely available in refugee hosting areas, and/or supporting financial inclusion of refugees and host communities. In addition, with each SME, the initiative creates a detailed impact plan with refugee/host community impact metrics. The RIF has also developed a suite of standard operating procedures and impact measurement tools for investments in displacement contexts.

*Impact Fund: Save the Children.* Another approach for humanitarian-private sector partnering is that of StC and SCGV. StC's global delivery platform operates in over 110 countries, providing humanitarian aid to vulnerable populations, including FDPs, in fragile contexts. StC's extensive relationships with institutional and private donors and their deep local knowledge and expertise can catalyse large investment opportunities in education, health and child protection.[34] Building on the global reach and resources of StC, SCGV can both engage in successful fundraising as well as access pipeline opportunities and provide localised support for the companies in its portfolio. This has enabled SCGV to launch four impact-first investment funds since its founding in 2022, each providing patient capital to take child-focused innovation to scale.[35] These include SCGV Fund 2 (estimated US$25 million) focused on South East Asia and the Asia Pacific; SCGV Fund 3, an African-focused debt fund yet to conclude fundraising; and a 'venture philanthropy' fund, the Children's Impact Multiplier Fund.

## C.3 Development of Predictive/Anticipatory Investments

Several fund managers, such as SCGV, Acumen and Kiva, approach their investment strategies in fragile countries with the intention of addressing the root causes of fragility which frequently lead to displacement, and taking into account the long-term impacts of their investments. Climate-positive investment is a particularly effective intervention where the displacement-affected population still has livelihoods that can be preserved, or where resilience can be improved to withstand shocks when they occur.

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[33] Ibid.,

[34] Humanitarian Leadership Academy, 2024: Catalysing change – how innovative financing can fuel humanitarian progress

[35] Ibid.,

This approach is most appropriate in contexts of large outflows – particularly in contexts at risk of climate-induced displacement or otherwise where there is existing evidence of conflict and/or disaster forcing people to flee. Examples of investment types able to respond ex ante include loan products for crop diversification or investments in climate-smart agri products and solutions, as in the approach of the Acumen FDP initiative.

This potential to target populations at risk of future displacement (including climate-related displacement) and invest in 'right to stay' overlaps with the fragility lens. While this field is nascent, there are clear signs of growing investor interest, as evidenced by the success of KRIF I, UNHCR's new Climate Resilience Fund and climate insurance investment products such as the InsuResilience Solutions Fund (ISF).

This investment strategy relies on in-depth assessments of regions where 'anticipatory action' is needed, including the development or tailoring of predictive tools and the use of highly localised climate models. Much of the groundwork for such informed investment decision-making has already been laid by evidence from the humanitarian sector and academia that climate hazards associated with extreme events and variability act as direct drivers of forced displacement and as indirect drivers through deteriorating climate-sensitive livelihoods.[36] There is substantial potential in the humanitarian advisory model demonstrated by the International Rescue Committee (IRC), ICRC and StC, where the humanitarian agencies' deep expertise and body of knowledge in these at-risk environments are leveraged and integrated into the relevant private-sector investment and business strategies.

Multiple interviewees for this report also observed that the positive focus of investing in solutions such as climate adaptation to address the root causes of the displacement problem is more likely to appeal to investors than investments that try to deal with the consequences of the displacement after it has occurred. This reframing offers another way of solidifying the business case to investors.

***Humanitarian Disaster Risk Insurance***

The money raised from international donors and spent in overseas development assistance eligible countries to help prepare for, respond to and recover from crises has grown on average by 12% annually since 2017. Nonetheless, the crisis protection gap is growing in the face of increasingly frequent and severe global shocks and will grow further in future, with climate change intensifying disaster risks, particularly in climate-impacted vulnerable communities. Underinvestment results in inadequate and delayed resources to respond to crises and recover effectively, leaving disaster-affected communities dependent on slow ad hoc appeals and other reactive financial measures and vulnerable populations reliant on dwindling personal savings, remittances and informal transfers.

In the face of this disaster funding gap, the private insurance industry has collaborated with humanitarian organisations to make advances in designing crisis insurance products, along with

[36] Climate data sources include: the Intergovernmental Panel on Climate Change, UNHCR and Potsdam Institute for Climate Impact Research, World Bank Group Climate Change Knowledge portal, Notre Dame Global Adaptation Initiative (ND-GAIN) Climate Vulnerability Index and the **ICPAC IGAD Climate Prediction and Applications Centre, and Think Hazard,**

breakthroughs in technology and data analytics that enhance risk modelling and pricing accuracy. Financial mechanisms such as insurance secured before a crisis can reduce impacts and costs by automatically activating when specified triggers are met. This allows humanitarian organisations to respond more effectively and immediately when disasters strike, safeguarding lives and livelihoods and reducing response costs. By maintaining essential social services and enabling the rapid restoration of infrastructure such as roads, power grids, and water and sanitation systems, pre-arranged financing helps vulnerable communities recover more quickly and mitigates humanitarian impacts.

> Using traditional indemnity insurance as an effective financing mechanism for humanitarian crises response has been successfully piloted with the International Federation of Red Cross and Red Crescent Societies' Disaster Response Emergency Fund (IFRC-DREF), a multi-donor pooled fund managed across two key pillars, the response pillar and the anticipatory pillar.[37] By also funding anticipatory action, IFRC-DREF intends to protect livelihoods and minimise the impacts of disaster and climate shocks.[38] In 2024, the IFRC-DREF secured the first-ever payout from a commercial indemnity policy, marking a major milestone for the humanitarian sector.

Following the success of the IFRC-DREF pilot, humanitarian organisations are appealing to private-sector philanthropic and impact investment funders to fund insurance/reinsurance premiums and associated costs. These investments can unlock multiples of capital through insurance payouts for disaster response on a timely basis.

## C.4 Carbon Finance as a Potential Source of Funding for Displacement Contexts

Climate mitigation also offers inroads for investors seeking FDP inclusion in their investments. Mitigation interventions, such as carbon removal strategies (nature-based solutions like reforestation, or technical solutions like carbon capture and storage), and actions to preserve CO2 sinks intersect with displacement-affected communities. The most relevant mitigation interventions in displacement contexts are clean energy access, less carbon-intensive farming practices and the potential for FDPs to generate carbon credits.

The Refugee Environmental Protection Fund (REPF), a flagship initiative under UNHCR's Strategic Framework for Climate Action, is one example. Using innovative and sustainable financing mechanisms to invest in strengthening and scaling up reforestation and clean-cooking programs in climate-vulnerable refugee-hosting communities worldwide, the REPF recognises the dynamic linkage between refugees and host communities and carbon markets to create the first-ever refugee-generated carbon credits. The sale of these credits would help replenish the fund, allowing it to re-invest in new programs and making it more financially and operationally sustainable over time. It would also create clear pathways for carbon financing at scale, potentially catalysing investments from commercial investors within the carbon ecosystem, such as carbon credit buyers.

[37] IFRC, 2024: IFRC Disaster Response Emergency Fund
[38] Ibid.,

SCGV is developing projects that leverage high-quality carbon credits to generate co-benefits such as education, employment or health outcomes.[39]

## C.5 Private Sector -Humanitarian Collaboration

Leveraging humanitarian organisations expertise and fragile context footprint offers a pathway to significantly scale displacement-inclusive investments by enabling investors to better integrate displacement into their financing or commercial activities in affected contexts. The ICRC's Humanitarian Blended Finance model and the IRC's Advisory Model partnerships rely on INGOs' contextually relevant skill set, access and 'boots on the ground' to integrate a displacement lens into private-sector and public investments in crisis-affected contexts.[40] For investors, this makes it possible to invest in more challenging regions that would otherwise be barred due to the difficulty and risk associated.

In the Goma West Water Project, an infrastructure investment in the Democratic Republic of Congo, the ICRC worked with coalition partners, including Lombard Odier, SDC and the World Bank,[41] [42] to provide complementary activities addressing the needs of populations receiving humanitarian assistance.[43]

Similarly, in its Advisory Model, the IRC identifies public or private commercial projects taking place in regions affected by displacement and partners with the project implementers on the ground to integrate FDP perspectives and needs into project design. This might focus on jobs, the supply of products and services, or value chain interventions such as offtake agreements with potential to evolve into long-term, commercially viable business models while addressing persistent displacement-related needs over time.[44]

An example of IRC's Advisory Model is its partnership with Flat6 Labs to catalyse the startup ecosystem in Mashreq regions of Lebanon, Iraq and Jordan, including displaced communities. The project involves the launch of an innovation and entrepreneurship virtual incubation platform focused on startup ecosystem development and capacity building.[45] Flat6Labs will raise up to US$10 million of investment capital to invest in successful startups, while the IRC is collaborating on the design of client outreach, mentorship and coaching programs, as well as general program communications support.[46]

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[39] Humanitarian Leadership Academy, 2024: Catalysing change – how innovative financing can fuel humanitarian progress.

[40] Ibid.,

[41] World Economic Forum, 2022: Cultivating Investment Opportunities in Fragile Contexts Humanitarian Impact Finance: Instruments & Approaches

[42] ICRC (2022), Partnerships, financing solutions boost safe water access in DR Congo Humanitarian Impact Finance: Instruments & Approaches

[43] DG ECHO Pilot Initiative on Blended Finance for Humanitarian Aid (2024)

[44] Airbel Impact Labs, 2024: Advisory Model Partnership Playbook for Investors & Humanitarian Partners – Leveraging Partnerships for Impact

[45] Airbel Impact Lab, 2023: IRC + Flat6Labs: Catalyzing the Startup Ecosystem in the Mashreq Region

[46] Ibid.,

## D. Emerging Innovative Financings to Drive Humanitarian Outcomes

Outcomes-based funding models and blended finance models use market incentives to support investment in sectors in which much higher social impact is possible but normal market mechanisms do not exist to readily mobilise the necessary additional resources required.[47] Examples focusing on displaced populations include challenge funds such as KKCF, impact bonds such as the ICRC Humanitarian Impact Bond and the NEF's Refugee Impact Bond, and blended finance facilities such as Acumen's HRT fund.

The Impact-Linked Finance Fund for Gender Inclusive Fintech and the DRC RIF utilise impact-linked financing such as impact-linked loans (ILLs), impact-linked payments (ILPs), and social impact incentives (SIINCs) to align incentives to better serve marginalised populations, including displaced persons and women.[48]

Acumen's H2R fund utilises a highly blended concessional debt facility, which includes impact-linked finance and other instruments to incentivise SMEs to enter hardest-to-reach markets. In practice, Acumen's H2R can provide grant capital to fund market entry activities such as product development, follow on with working capital to purchase off-grid solar equipment and finally deploy impact-linked finance tied to providing access to clean energy to hardest-to-reach market segments.

To catalyse investments by funding multiple outcomes-based instruments and ensure broad stakeholder participation,[49] the Finance for Peace/KOIS Refugee HDP Outcomes fund has two proposed funding windows. The Payment by Results window comprises development and humanitarian impact bonds, and the Impact-Linked Finance window will utilise social success notes and impact-linked loans.

In 2017 the ICRC launched the first Humanitarian Impact Bond, a results-based financing to fund the building and operation of three new physical rehabilitation centres in conflict-affected parts of the Democratic Republic of Congo, Nigeria and Mali, along with piloting a range of efficiency improvement measures and a new digital centre management system.[50] Investors provided ICRC with upfront loan capital of CHF18.6 million. At its close in 2022, the centres were 9% more efficient than the baseline. Accordingly, based on these results, outcome funders (the governments of Belgium, Switzerland and Italy and la Caixa Foundation), which had committed CHF26 million as outcome funding, repaid the upfront investors in full, although without an additional financial return. [51]

Similarly, the US$14 million Refugee Impact Bond was developed by the NEF and KOIS Invest in collaboration with its key funders, the IKEA Foundation, the Novo Nordisk Foundation, the Norwegian Agency for Development Cooperation, the US International Development Finance Corporation (DFC) and

[47] IMD, 2024: Humanitarian Impact Finance: Instruments & Approaches

[48] Impact-Linked Finance Fund, 2023: Impact-Linked Fund for Gender Inclusive Fintech (ILF for GIF) – Catalyzing women's financial inclusion with Impact-Linked Finance

[49] UNHCR, 2021: Financing for Forced Displacement Situations

[50] IMD, 2024: Humanitarian Impact Finance: Instruments & Approaches

[51] UNHCR, 2021: Financing for Forced Displacement Situations

Ferd.[52] This results-based financing mechanism is designed to support refugees and host communities in Jordan and Lebanon, with a particular focus on improving livelihoods, creating job opportunities and enhancing economic self-reliance through entrepreneurship and skills development programs.[53]

# Challenges to Displacement -Inclusive Investing

Despite progress in this field, a number of structural barriers need to be addressed in order for the displacement-inclusive investment thematic to scale. These include:

## A. Constraints on Displacement -Inclusive Pipeline Opportunities

*Macro-Level Constraints of Fragile Context Investments.* Even without a displacement lens, investors such as DFIs investing in fragile contexts, the very regions where displacement-affected communities exist, have historically struggled to source investments in these markets while maintaining an acceptable level of risk in relation to financial performance.[54] The challenge of identifying investable opportunities in these contexts is exacerbated by a mismatch between the small capital needs of local SMEs relative to the minimum investment sizes these investors are able to offer, and by a significant requirement for TA for prospect SMEs and FSPs to become investment ready.[55]

Since 2009, AFD Groupe/Proparco has sought to allocate its capital in fragile countries through its FISEA strategy, yet during its first 10 years was only able to deploy 14% of its allocation.[56] Likewise, the Africa Resilience Investment Accelerator (ARIA), a DFI collective focused on increasing investments in African FCAS, identified a pipeline of 128 investment opportunities in five target countries.[57] However, many of these projects are not investment ready, and most fall below the US$5 million investment thresholds of development banks and investment funds.

*Displacement-Specific Pipeline Constraints.* Beyond macro-level constraints to investable pipelines in FCAS, local SMEs and FSPs often have limited recognition of displacement dynamics and legalities and require TAand capacity-strengthening efforts to enable them to be displacement-inclusive. While there has been some traction, particularly within the financial inclusion sector, more general acceptance of displacement-inclusive business practices by domestic private-sector actors remains low, whether due to lack of knowledge or lack of interest in serving this cohort.

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[52] Refugee Impact Bond, 2024: The Refugee Impact Bond is made possible through its partners

[53] Kois Invest, 2021: $14m Development Impact bond for refugees launches in the Middle East – Public and private institutions join forces to catalyse a paradigm shift in livelihood responses to refugee crises

[54] Ibid.,

[55] Ibid.,

[56] Proparco 2024: Acting in Fragile Contexts – Financing, Partnerships, Innovation

[57] ARIA, 2024: Foundations of Growth – Investment opportunities and needs in frontier markets across Africa: Insights from ARIA countries

This has led some market actors, such as Inkomoko, to provide financial and non-financial support directly to refugee-owned enterprises, rather than working indirectly through established market intermediaries such as FSPs, wholesalers and aggregators that may in fact be potential barriers to FDP inclusion.

Substantial progress has been made in developing the requisite TA and market facilitation mechanisms to facilitate the growth of displacement-inclusive pipelines. Notable in this regard are the efforts of PS4R and Building Markets.

*Narrowly defined displacement lens.* Another factor constraining pipeline opportunities can be donors and investors conditioning their grants or capital commitments by a narrowly proscribed displacement lens. For example, some funders in the Acumen FDP Initiative and the DRC RIF required investments to be made only in businesses that can achieve certain FDP target numbers in terms of direct or indirect job creation. This requirement leads to challenges in identifying viable pipeline opportunities. A 'whole-of-society' approach focuses displacement-inclusive investments on regions suffering high impacts of displacement, including source and host communities as well as the FDPs themselves, enabling realistic solutions that reflect the prolonged and cyclical features of displacement and its effects across these communities, as well as the opportunity for social cohesion.

## B. Lack of Capital Flowing to Displacement -Inclusive Investments

There remains a critical lack of investment across the capital spectrum flowing into displacement contexts.[58] To date, only a few dedicated displacement-inclusive investment vehicles have raised capital and successfully launched.

However, several investment funds with geographic and sectoral focus relevant to displacement-affected communities have integrated a 'displacement lens' alongside their existing investing strategy. Despite the limited size, geographic scope and duration of these early displacement-focused investment vehicles, they are significant for shedding light on what may be required to scale these strategies.

## C. Approaches to Overcome Perceived Investment Risks

Catalysing capital flows at scale into displacement-inclusive investments requires the provision of risk-tolerant capital, combined with the use of TAand other risk mitigation instruments, as well as diversified financing sources.

DFIs and other specialist impact investors leverage their ability to provide risk-tolerant funding such as first-loss capital, risk mitigation instruments (guarantees) or TA grants to motivate fund managers and businesses to be more intentionally displacement-inclusive in their investment strategies or business activities. As discussed below, there is significant agreement on the important role of TA facilities in de-risking investments in fragility and displacement contexts. Proparco notes that TA should extend beyond

[58] International Finance Corporation, 2019: Generating private investment in Fragile and Conflict-Affected Areas

the critical role of capacity building to also include the more complex due diligence and measurement requirements necessitated by these investments.

## C.1 Risk-Tolerant Capital

De-risking investments in FCAS and displacement contexts requires catalytic capital that is patient, risk-tolerant, concessionary and flexible. Foundations are particularly well-positioned to provide such capital, as they have the mandate and resources for 'responsible risk-taking', while encouraging experimentation and the development of novel approaches in complex investment contexts.[59]

For example, the IKEA Foundation Refugee Economies: 2021–2024 strategy focuses on empowering people living in vulnerable communities to improve their livelihoods, while also protecting the planet.[60] In furtherance of this strategy, the IKEA Foundation supports the Humanitarian and Resilience Investing Initiative (HRI), a World Economic Forum project seeking to develop stronger cross-sectoral cooperation. These partnerships offer the potential to unlock innovative, financially sustainable business models that strengthen local economies and increase the self-reliance and resilience of communities in frontier markets.[61]

The IKEA Foundation brings together its mandate with its ability to de-risk investments in frontier communities. Encouraging investment in commercially viable and scalable private and public-private-driven efforts benefits the recovery of local communities that are at heightened risk or have suffered from conflict, natural disasters and forced displacement.[62] FDP-inclusive investments supported by the IKEA Foundation include the NEF development impact bond, DRC RIF and Acumen FDP Investment initiative.

To date, there has been a minimal quantum of return-seeking private capital actively and intentionally investing in displacement-inclusive or FCAS investments, and most of which has at least some degree of concessionality in their approaches.[63] However, foundations with missions focused on displacement and fragility issues show growing interest in augmenting their grant-making programs with program-related investments. Along with the Hilton Foundation's current intention to expand its program-related investment strategy to include displacement-inclusive investments, the PeaceNexus Foundation has recently approved an impact investment strategy. In addition, recent changes to Dutch tax law now enable Dutch foundations to make impact investments, opening the door for the IKEA Foundation to develop and deploy an impact investment strategy aligned to its mission.

KIMS Microfinance, as the market-leading non-banking financial institution in Somalia, has been able to strategically expand its operations by leveraging risk-tolerant concessional lending. The institution has access to larger, more commercial pools of capital from IFIs and financial inclusion funds, as the concessional financing serves to 'buy down' more expensive commercial forms of capital. This financing

[59] WEF, 2023: 3 misconceptions debunked. How investing in frontier markets can improve responses to fragile contexts
[60] IKEA Foundation, 2021: Refugee Economies, 2021 – 2024 strategy
[61] WEF, 2023: 3 misconceptions debunked. How investing in frontier markets can improve responses to fragile contexts
[62] Ibid.,
[63] World Bank PS4R, 2023: Refugee Related Investments – Myth or Reality

approach is possible through concessional debt from entities such as The Whole Planet Foundation, Pharo Foundation, Silatech Foundation, and the Gargaara MSME Financing Facility. Such concessional loans have been critical for KIMS to experiment with and implement new product types, expand service offerings to previously underserved client segments (including displaced persons), and penetrate new markets. Effective management and repayment of these concessional loans have also built the creditworthiness of KIMS in the eyes of the larger commercial investors.

### C.2 The Use of Risk -Mitigation Instruments

Blended finance approaches are designed to address the issues of high risk and potential low profitability of many private-sector projects in displacement contexts and FCAS through reducing risks and/or boosting returns.[64] This is often accomplished through a mix of concessional capital from bilateral donors or foundations as well as commercial finance from DFIs and the private sector. For example, the tripartite partnership between Sida, UNHCR and Grameen Credit Agricole Foundation supports refugee-inclusive lending via FSPs in Uganda.

Another FDP-specific example is the blended instrument created for Siraj Financial Services (SFS) in Northern Syria. SFS is a social enterprise spin-off of a donor-funded Revolving Credit Facility operated by the Near East Foundation between 2021-2023. Upon the creation of SFS in early 2024, US$2 million from the Revolving Credit Facility was transferred to the equity of SFS to operate as 'first loss' capital. In this form, it serves to underwrite senior debt investors coming into the structure, facilitating the expansion of SFS' loan portfolio. SFS is also seeking an additional risk mitigation instrument in the form of a guarantee that, when combined with the first loss capital, should enable it to accelerate investor commitments to the institution and reach its target of financing 20,000 MSMEs over the next five years – of which an estimated 50% or more would have experienced some form of displacement.

However, there are potential drawbacks to the use of risk mitigation instruments in these displacement and fragile contexts, including unduly subsidising nascent markets and unnecessarily heightening perceived risks of investing in those contexts. In this light, funders such as IFC have highlighted the importance of selecting fit-for-purpose funding structures that best match their funding contexts – while ensuring the application of sound transparency, access and governance principles to maximise the potential and efficacy of both blended finance and concessionality.[65]

## D. Enabling Environments, Market Assessments, Taxonomies and Displacement Data

Key challenges in developing localised and context-specific displacement-inclusive investments include:

- The hyper-local and contextual nature of displacement. Systems and policies are differentiated in each context, alongside a confluence of other idiosyncratic challenges such as food security.

[64] IFC, 2019: Generating Private Investment in Fragile and Conflict-Affected Areas

[65] IFC, 2021: Using Blended Concessional Finance to Invest in Challenging Markets

- Lack of enabling and inclusive regulatory and policy environments that allow FDPs to work legally in their host community, register their businesses and access finance and other key services. Where an enabling environment does exist, this typically is not known or supported in the market systems in the host community.
- Lack of access to, and ease of doing business in, forced displacement contexts.[66] Often the displaced are in remote areas or the poorest parts of a country. In addition, camp settings often rely on a humanitarian economy, which deters longer-term sustainable economic development.

As in FCAS investment strategies, where ex-ante characteristics within each fragile context may vary from one sub-region or even from one community to another,[67] the strategy to meet each challenge requires a tailored approach.

To address this, TA must generally exist to build the enabling environment and market knowledge, market linkages and evidence base necessary to create the requisite foundations upon which to raise funding and make investments. Substantial progress has been made in building these foundations by market actors such PS4R, RIN, Building Markets and the PROSPECTS partnership, including work done with governments and more locally to enable and foster displacement inclusion.

New collaboration modalities built with the UN agencies enable access where appropriate to engage with displaced persons and facilitate businesses to participate in refugee-inclusive activities. Leveraging the on-the-ground work of national, multilateral and INGOs and their existing coordination platforms enhances cooperation on knowledge and evidence. For example, the MDB Coordination Platform on Economic and Forced Displacement uses data to unlock sector-specific linkages, targeted capacity building and deepening partnerships. These play a critical role in decreasing investor risk perceptions and increasing the scale of investments in a sector, unlocking the capacity of successful pilots to expand further.[68]

The World Bank's PS4R initiative addresses investment gaps or policy measures to enable FDP-inclusive businesses and investments in areas with concentrations of forcibly displaced people. At its core, PS4R helps local businesses that are run by or employ FDPs to become competitive suppliers in local and export markets, then connects them with regional and global companies that can become their customers. Their efforts span the facilitation of work permits for FDPs, entrepreneurship training and value chain interventions through collaboration with governments and civil organisations in the regions of displacement.

[66] World Bank PS4R, 2023: Refugee Related Investments – Myth or Reality

[67] TrustWorks Global and NIRAS, 2021: Conditions for successful investments in fragile and conflict-affected states. Commissioned by FMO in 2021 and led by Swiss-based TrustWorks Global (TrustWorks) in partnership with NIRAS, this study is motivated by the Dutch Ministry of Foreign Affairs' intent to increase FMO's exposure in FCAS, particularly on the part of MASSIF, the financial inclusion fund managed by FMO. It builds upon the 2017-2026 MASSIF strategy designed to contribute to more inclusive and equitable economics through a focus on 'unbanked' MSMEs in the least financially penetrated and fragile countries.

[68] Gatsby Africa, 2022: Unlocking Synergies between Private Sector Development and Development Finance

For example, through its work on regularisation processes in Colombia, PS4R has been able to drive more organic inclusion, with structural reforms allowing for specific interventions targeted at more effectively integrating these 'refugee-like' populations into the private sector. The initiative's approach includes securing the right to work, waivers for visa applications, rights to move and access to products and services for refugee-like populations, such as social protections and health care. PS4R carries out this inclusion through national systems and with the same terms and conditions that recognise the vulnerabilities of refugee-like populations, much like those of nationals.

Similarly, PROSPECTS is a global partnership between the UNHCR and the International Labour Organisation (ILO) that aims to improve the access of host communities and FDPs to education, social protection and decent work. It enhances the inclusion of FDPs through mechanisms such as the integration in national protection systems and the strengthening of enabling environments for inclusive and job-rich labour markets (formal and informal) and entrepreneurship, underpinned by decent work principles.[69] PROSPECTS contributes to these objectives through improving rights for forcibly displaced and host communities and access to basic services, national systems and socio-economic opportunities across Egypt, Ethiopia, Iraq, Jordan, Lebanon, Kenya, Sudan and Uganda.[70]

Other examples include RIN's refugee landscaping of East Africa, Colombia and Jordan and ecosystem building, particularly in 'secondary cities'. The US State Department's Bureau of Population, Refugees and Migration (PRM)'s landscaping and ecosystem building in Northern Kenya through the Shireka Plan is premised on rewarding governments that have adopted forward-looking policies on FDP inclusion.

Furthermore, there have been efforts to create investment taxonomies through which investors have a means to qualify and assess prospective investments as being displacement-inclusive. Such classifications provide the intentionality needed to drive inclusion of a marginalised group through their investments, as well as to crowd in private investments in the refugee space. These taxonomies include the RIN's Refugee Investment Lens (RLI) typology and the World Bank's Principles for refugee-related investment (the PS4R Charter of Good Practice). Both acknowledge that the 'refugee lens' should be construed to reflect a broad and evolving range of displacement-affected populations, in particular in relation to climate-induced displacement and 'pre-refugee' contexts.

Closely related to refugee-specific investment lens are efforts to develop a 'peace' investment lens, with leadership including Investing for Peace (I4P) Initiative, PeaceNexus Foundation, the Peace Venture Fund and PeaceInvest. Similarly, the Finance for Peace Initiative of Interpeace and its Peace Finance Standards seek to reshape how private and public investments support peace in fragile contexts by co-developing market frameworks, standards and partnerships that build a market for 'peace finance' – investments intentionally designed to improve peace conditions.[71]

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[69] ILO, 2022: PROSPECTS Partnership for improving prospects for forcibly displaced persons and host communities

[70] Global Compact on Refugees, 2024: Good Practices – The PROSPECTS Partnership

[71] Interpeace, 2024: Finance for Peace Initiative

## D.1 Humanitarian Sector FDP Data

To enable investors to deploy capital with a displacement lens, the characteristics of displacement must be grounded in evidence, including numbers of displaced and host populations, duration of displacement, and causes of displacement. Currently, the IOM and the UNHCR each track different displaced populations – internally displaced persons (IDPs) and refugees respectively – using separate databases. Despite close collaboration, the lack of data integration hinders a comprehensive understanding of displacement, especially when populations move across borders or shift status.[72]

The Joint Data Center on Forced Displacement, a collaboration between the World Bank and UNHCR, is working to overcome the challenges of fragmented and non-integrated data by bridging the data gaps, facilitating data harmonisation and ensuring that data sharing is done securely, efficiently and in a way that maximises impact. In addition, emerging geospatial tools offer the potential to visualise displacement trends across regions and strengthen predictive analytics for future displacement.

## E. Limited Evidence Base of the Outcomes of FDP Investments

The evidence base of the impact of displacement-inclusive investments is in the early stages. The relevant investment vehicles and funds would have deployed capital only in the past 12 to 36 months, and these investments have been in relatively small amounts and across different sectors and differentiated contexts. Early adopters of inclusive investment strategies have also been challenged by the complexities of identifying the displaced and displacement-affected communities.

Kiva, as an early adopter of displacement-inclusive investment, has some of the richest data on the impact of its investments. To date, however, most of its data has focused on quantitative, output-focused data, including number of loans provided, demographics of the borrowers, geographic disbursement, repayment rates and types of loans accessed by borrowers disaggregated by sector and lending partners. In terms of measuring borrower outcomes, Kiva has found that its investee FSPs serving displaced clients lack data that clearly establishes a link between the products and services the FSP offers and the impact they have on improving refugee livelihoods and preventing migration.[73]

Kiva has focused on deepening its ex-ante understanding of refugee needs. For example, a needs assessment was carried out in Colombia and Ecuador to build a broader understanding of the barriers that refugees face when accessing financial services, which will serve as the first step in building evidence of outcomes for refugees. Kiva's impact team also conducted an investee listening tour to better understand the experience of KRIF portfolio companies in order to learn, scale and identify opportunities for capacity building.[74]

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[72] World Bank-UNHCR Joint Data Center on Forced Displacement

[73] Kiva Refugee Investment Fund, 2024: Impact Report 2023

[74] Ibid.,

Kiva recognises the continuing need to leverage and build on the evidence base of KRIF I to bring follow-on capital that will scale types of investors, existing work with investees and their contexts, geographic expansion, capacity-building support for FSPs and evidence-building for refugee lending, including longitudinal studies that track and report post-loan borrower outcomes.[75]

There are, however, emerging examples of displacement-inclusive FSPs being more intentional about generating evidence of outcomes of their products and services on displaced clients. KIMS Microfinance in Somalia and Siraj Financial Services in Northern Siraj are displacement-inclusive FSPs, with 25% and 60% of their client base, respectively, having experienced some form of displacement. Each has carried out post-loan borrower outcome surveys with the support of Innovest Advisory. Both surveying efforts demonstrate FDP-owned MSE growth in revenue, employment and profit and increased take-home business income of the owners, leading to increased household spend on home improvements, education, healthcare, and better-quality and more nutritious food.

The NEF's Refugee Impact Bond also reported intermediate outcomes based on surveys conducted in mid 2023 by its independent evaluator, Mathematica, of a sample of grantees from the program's first cohort.[76] The surveys found that 98.5% of the grantees remained engaged in active income-generating activities, exceeding the KPI target set for the Refugee Impact Bond, and nine out of ten grantees reported that their businesses generated profits.[77]

In humanitarian-private sector partnerships, there remains a key difference between trying to achieve positive social outcomes through a grant-funded project with bespoke impact measurement and monitoring activities such as data collection and evaluation, and trying to achieve such outcomes through a private enterprise's business model that often is not designed to capture social outcomes.[78]

In the case of the DRC RIF, the RIF Results Framework has been designed with this trade-off in mind, leveraging the DRC's on-the-ground expertise to generate high-quality evidence as well as to observe longer-term social outcomes.[79] Each RIF investee is responsible for monitoring and achieving a limited set of loan-linked KPIs (typically one to three). For tracking this data, each enterprise will either use its existing impact measurement and monitoring procedures where available, or be supported to design such procedures and build capacity through TA.[80] These KPIs also serve as proxies to track the alignment of

[75] The DMW Displaced Communities Fund developed a detailed impact measurement framework with the support of Innovest Advisory. This IMF was segmented into target populations (namely, host communities, source communities and displaced populations) and was mapped against the Comprehensive Refugee Response Framework (CRRF) objectives as well as the SDGs and their sub-targets. The IMF also measured outputs and outcomes at the portfolio company and SME client level. While not applied, in practice this remains one of the most comprehensive FDP-focused investment impact measurement frameworks developed.

[76] Near East Foundation, 2023: Near East Foundation's $13.5M Development Impact Bond Exceeds Expectations

[77] Ibid.,

[78] Refugee Investment Facility, 2024: A review and outlook based on our first year of operations – 2023 Impact Report

[79] Ibid.,

[80] Ibid.,

every RIF enterprise's business model towards having benefits for refugees and vulnerable host community beneficiaries.[81]

Lastly, Acumen's FDP Initiative will be measuring the investment impact when intentionally deploying capital into fragile and displacement-affected regions by using metrics relating to the improvement of smallholder farmer livelihoods and increases in climate resilience. These metrics are recognised to reflect outcomes of investees that are operating within contexts screened for displacement factors and that have made commitments to adopting displacement-inclusive practises. In so doing, Acumen is taking care not to burden investees with hard-to-operationalise and potentially sensitive metrics, while at the same time ensuring the data is sufficiently targeted to validate the impact of the FDP initiative on displacement-affected communities.

In designing the Acumen FDP Initiative, disaggregating FDPs and host communities, and even disaggregating between FDPs themselves, presented significant challenges, given the highly complex and highly localised nature of displacement. To operationalise the targeting of displacement-affected communities, Acumen uses its Landscape Assessment Tool to assess the displacement context within which a potential investee operates. This informs its decision-making in regard to the confluence of displacement factors in the region, including the total FDP population by county or province in the targeted geographies, insights into the type of displacement (whether internal or across international borders), historical causes, and future risks due to climate or conflict. Acumen's team also works closely with each investee to deepen its understanding of the local displacement dynamic, particularly in relation to the investee's business, as well as the investee's ability and commitment to displacement inclusion.

## F. Technical Assistance Is Pivotal

TA is pivotal in displacement and fragile contexts. As UNHCR notes, market actors such as FIs and SMEs in regions of displacement are often unaware or lack the requisite knowledge to serve displaced populations. Consequently, TA helps private-sector market actors understand displacement as a market opportunity while providing practical support to build the capacity to integrate displaced persons into business models through employment, supply chains or the provision of products and services. Proparco and other interviewees for this report also suggested the need for TA to support impact due diligence and measurement in order to ensure that impact outcomes are robustly integrated into FCAS-focused investment, and by extension into displacement-inclusive investments.

For example, in KRIF I and PROSPECT, TA that unlocks the ability of FIs to tailor their products and loan processes to be inclusive of displaced persons continues to be a critical area of support. In KRIF's case, investees highlighted their need for support to tailor their products' requirements, terms and conditions to improve FDP access.[82]

RIF's TA facility provides advisory services to RIF investees on how to maximise their impact in refugee communities. Leveraging DRC's unique understanding and footprint in refugee hosting areas as well as its

[81] Ibid.,

[82] Kiva Refugee Investment Fund, 2024: Impact Report 2023

networks, the facility offers guidance in navigating regulatory environments, understanding market potential in these areas and supporting the development of refugee-sensitive products and business models.[83]

Forthcoming funds focused on displacement or related thematics likewise have a TA linked to their investment vehicle. For example, the PVF is exploring a TA facility that will include peace mediation support, investee capacity building and impact measurement.[84] Similarly, the HDP Outcomes fund will seek to strengthen local systems through a grant-funded TA facility to build service provider capacity and project pipelines while sharing best practices that inform policy and set standards. This will complement its Pay-by-Results and Impact Linked Finance windows respectively. [85]

[83] Refugee Investment Facility, 2023: A review and outlook based on our first year of operations – Impact Report

[84] Symbiotics and Peace Dividend Initiative, 2024: Product Idea – The Peace Venture Fund

[85] KOIS Invest and Interpeace, 2024: Refugee HDP Outcomes Fund – Summary