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

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Innovative solutions are needed to finance the international community's responses to internal displacement, as traditional approaches have shown to be inadequate. Although internally displaced persons (IDPs) represent the vast majority of the world's forcibly displaced people, international donors focus more on those who cross borders as refugees. Moreover, the office of the United Nations High Commissioner for Refugees (UNHCR) – a central actor in IDP protection – is experiencing a particularly acute funding shortfall. These challenges indicate an urgent need to rethink how responses to internal displacement are financed.

This question is particularly important for the Humanitarian-Development-Peace (HDP) nexus, which underlines efforts of humanitarian, development and peacebuilding actors to work collaboratively towards longer-term transformative change. Central to the nexus is the notion of collective outcomes, or commonly agreed results or impacts to reduce people's needs, risks and vulnerabilities and increase their resilience, achieved through combined efforts of different types of actors working at multiple levels. This approach aims to generate meaningful impact for IDPs in protracted situations.

Financing can be used strategically as a "centre of gravity" to incentivise collaboration across the HDP nexus to achieve collective outcomes for IDPs. Current thinking on nexus financing, as well as practices in refugee assistance, climate change adaptation, disaster risk reduction and peacebuilding, among other fields, suggest key opportunities for replicating existing financing models in internal displacement contexts and for leveraging current financing mechanisms to target IDPs. The following findings in particular could usefully shape and guide the development of financing strategies to address internal displacement.

1. Financing should be multi-annual and flexible

Multi-annual financing approaches can enable humanitarian, development and peacebuilding actors to work together towards longer-term change while ensuring some funding predictability. This is important since short-term financing is often inadequate for promoting long-term resilience among IDPs and poorly suited to the long-term nature of protracted displacement. Also, flexibility through non-earmarked or "softly"-earmarked funding can ensure holistic and adaptable responses in displacement situations. The ability to draw on funds flexibly across a continuum – from the early stages of an emergency towards more durable solutions and longer-term development interventions – is crucial.

This approach has been adopted in contexts experiencing internal displacement. For example, Germany's Transitional Development Assistance instrument funds interventions on a multi-year basis to assist people in crises, disasters and conflicts, and allows for flexibility by linking humanitarian, development and peacebuilding work in a single budget line. France's Minka Peace and Resilience Fund makes multi-year commitments to address the root causes of crises and conflicts and accompany long-term, post-crisis recovery. Also, consortiums of implementing actors and donors, such as the Somalia Resilience Program, can also help to flexibly bridge funding gaps and programme interventions with a multi-annual perspective. While multi-annual, flexible financing is yet to reach the critical mass needed to drive structural change, these early experiences indicate its potential.

2. Multi-donor, pooled funds should be leveraged

Trust funds that pool contributions from multiple donors while being administered by an international organisation as a trustee can enable policy coherence among different types of actors across the HDP nexus and allow resources to de employed quickly and flexibly. While some commentators caution that combining humanitarian, development and peacebuilding budgets could result in the politicisation of emergency relief, trust funds can help to enable coordination around collective priorities, strategies and risk management, while reducing transaction costs and streamlining fiduciary and reporting requirements. They are used by the United Nations (UN) in some countries experiencing internal displacement, such as the Central African Republic and South Sudan, and could be replicated in other contexts.

The UN Peacebuilding Fund – used to respond to and prevent violent conflict – could also be used to address internal displacement. As a multi-donor trust fund, it makes large investments to catalyse additional resources and wider peacebuilding efforts, support new risk-tolerant approaches, and act in a timely manner in response to changing political contexts. It represents a promising opportunity for leveraging peacebuilding sources to address internal displacement, particularly in high-risk environments, to complement humanitarian and development interventions. However, the Fund needs to be strengthened, given international donors' main focus on humanitarian and development work.

The European Union (EU) also uses trust funds – pooling contributions from the European Commission, Member States and other donors – to address forced displacement and migration challenges in Africa, Eastern Europe and the Middle East. However, it may be politically challenging to include IDPs as a specific target group, as some analysts argue that these instruments were established to stem migration flows to the EU, rather than to reduce poverty or meet humanitarian needs. For example, in the context of the EU Trust Fund for Africa, some have noted internal political pressure for the EU to focus on containing irregular migration in countries of transit. Nevertheless, in principle, EU trust funds could be geared towards addressing development issues in countries of origin, including countries with IDPs.

3. Financing should be risk-informed

Risk-informed financing can be pivotal in addressing internal displacement in disaster and crisis situations. For instance, anticipatory financing, which involves risk-based analysis and forecasting to pre-empt crises and enabling early access to funding for humanitarian relief, offers potential; for example, it is used in the Start Network's Start Fund and its Crisis Anticipation Window. Another approach is contingency financing, which involves giving countries immediate access to liquidity after an exogenous shock, contingent upon policy commitments from the recipient government, such as the implementation of risk management; the Philippines benefited from such a scheme following Tropical Storm Sendong. These approaches could help countries manage the initial shock of forced displacement and strengthen preparedness.

Internal displacement could also be included in climate insurance mechanisms, like the African Risk Capacity Insurance Company. Insurance contracts could be structured for forced displacement shocks, defining and modelling the nature of the loss against which insurance is ascribed, including the probability of displacement. Although displacement-drivers like armed conflict, persecution and mass human rights violations may be considered "uninsurable risks", there are examples of risk-informed financing being applied in such contexts, such as the Start Network's use of primarily qualitative data complemented by quantitative trends to anticipate such displacement.

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

4. Financing sources should be diversified

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

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

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

5. Conclusions

In sum, current financing models could be replicated in innovative ways in contexts of internal displacement and existing instruments could be better leveraged to target IDPs, thereby helping to achieve collective outcomes across the HDP nexus. However, while global attention on refugee and climate issues could help to bring attention to the situation of IDPs, significant efforts are needed to galvanise the political will to achieve innovative financing approaches for internal displacement. It is hoped that this paper's recommendations can offer some guidance for the development of such approaches.