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A group of children are looking out from a window in a mud-brick building. The children are of various ages, including a baby being held. The building has a rustic, textured appearance with reddish-brown walls. The scene is brightly lit, suggesting daylight.

# The case for Humanitarian and Resilience Investing

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# Introduction

In this paper, we argue that there is a critical role investors can play in alleviating human suffering, improving the resilience of communities worldwide and by doing so help in achieving the Sustainable Development Goals (SDGs). The need to do so has become more pressing, including because of the complex challenges resulting from climate change and the COVID-19 pandemic, both of which are having wide-ranging impacts across the world.

## Humanitarian issues

1.8 billion<sup>i</sup> people live in countries affected by fragility, conflict and violence (FCV). The vast majority of these are estimated to be living in extreme poverty. It is thought that, by 2030, two thirds of the world's extreme poor could live in FCV settings<sup>ii</sup>.

Conflicts account for 80% of humanitarian needs, and are estimated to contribute to a reduction of gross domestic product (GDP) of around 2% on average every year. Unfortunately, violent conflict has increased dramatically since 2010, and the fragility landscape is becoming more complex. The International Rescue Committee published a list of the top ten countries suffering from humanitarian crisis due to conflict, 60% of which are in Africa. Despite the fact that these ten countries represent less than 6% of the world's population, they host more than 50% of all people who are identified as needy worldwide<sup>iii</sup>.

There are a multitude of humanitarian issues that people living in protracted and fragile places suffer from: health, food security and nutrition, and water sanitation and hygiene to name but a few<sup>iv</sup>.

### Humanitarian issue 1: health (SDG 3)

Health and investing in the resilience of health systems has been a hot topic over the past few months, given the COVID-19 pandemic. It is no surprise that the delivery of health services in FCVs is a challenge. This challenge is exacerbated by supply disruptions and surges in trauma and injury<sup>v</sup>. This has been clearly illustrated in countries like Syria and Yemen, where outbreaks of polio and cholera respectively were witnessed. Unfortunately, global understanding of how to strengthen health care systems and health service delivery in FCV settings is poor.

The United Nations and the International Committee of the Red Cross are concerned about the inevitable spread of COVID-19 in FCVs, as outbreaks there will have dire consequences.

### Humanitarian issue 2: food security and nutrition (SDG 2)

Food insecurity and nutrition is another issue facing FCVs including through physical food production disruptions, plundering of crops and livestock, interruptions of the supply of food transportation lines, poor state governance and lack of laws that restrict irresponsible disposals, falls in household income and through landmines on agricultural land<sup>vi</sup>.

Food security is a humanitarian issue not just in FCVs, but in other countries as well. According to the Food and Agriculture Organisation (FAO) one in nine people worldwide suffer from hunger, with Africa being most alarming. To make matters worse, the COVID-19 pandemic is expected to result in the doubling of people at the brink of starvation by the end of 2020<sup>vii</sup>.

Further, beyond hunger, the FAO maintains that 1.3 billion people worldwide suffer from moderate food insecurity; that is, they lack regular access to nutritious and sufficient food<sup>viii</sup>. Food insecurity can cause malnutrition, anaemia and other diseases. Undernutrition is linked to 45% of the deaths of children under the age of five.

### Humanitarian issue 3: water sanitation and good hygiene (SDG 6)

Water sanitation and good hygiene play a role in protecting people's lives and health and are instrumental in containing the spread of infectious diseases. Today, this is more important than ever, as the world is battling to contain the spread of COVID-19.

Three billion people<sup>x</sup> around the world do not have access to proper sanitation and 663 million people lack access to enhanced water resources with 43% of healthcare facilities globally lacking hand hygiene at point of care. In addition to helping spread the novel coronavirus, lack of water sanitation and good hygiene is attributed to the death of more than 800 children a day from diseases such as diarrhoea and malnutrition. These deaths are preventable<sup>x</sup>.

In FCVs, lack of water sanitation and good hygiene can be more pronounced. In Yemen, it is linked to cholera and acute watery diarrhoea, where more than 1.3 million were infected in 2017<sup>xi</sup>.

### Climate effects exacerbate and create fragility

Natural disasters linked to climate change have increased. Over the past thirty years, extreme weather events associated with climate change such as storms, floods and droughts have increased dramatically. In 2019 alone, extreme weather events around the world caused more than USD 100 billion worth of damage<sup>xii</sup>.

The impact of climate change disasters extends beyond the environment. Climate change also has humanitarian and social consequences with thirteen out of the 20 countries worldwide that are considered most vulnerable to climate change witnessing an inter-agency humanitarian appeal in 2019<sup>xiii</sup>. Such consequences are often overlooked.

While climate change may not be the only driver behind the emergence and worsening of these humanitarian and social issues, its effect is significant and will increase over time.



### Humanitarian issue 1: health (SDG 3)

Climate change causes direct health impacts. Worsening heat stress as a result of increasing temperatures is expected to worsen malnutrition especially among children. Rising temperatures are also expected to expand the amount of vector and water-borne diseases as conditions favour mosquitos, flies and aquatic pathogens.

Such health threats are expected to be more pronounced in areas where population density is high, is vulnerable and least equipped to adapt. People living in FCVs are at particular risk. According to the World Bank Group, 86% of FCV countries are among the most at risk when it comes to negative health outcomes due to climate change<sup>xiv</sup>.

### Humanitarian issue 2: food security and nutrition (SDG 2)

It is expected that climate change would affect food availability and food accessibility<sup>xv</sup>. In terms of availability, environmental degradation caused by climate change is a source of food insecurity. Increasing global temperatures have been found to increase pressure on fertile soil and thereby affecting yields in crops. Livestock production systems are also impacted by climate change. Changes in temperature affect water availability, animal production and reproduction, and animal health<sup>xvi</sup>.

Food accessibility is also affected by climate change. The decrease in agricultural productivity associated with climate change reduces agricultural products supplies, thereby increasing prices. Agricultural goods price increases would disproportionately affect those who are already vulnerable<sup>xvii</sup>.

Compromised food availability and accessibility can further exacerbate the instability and violent conflict in the already vulnerable FCVs.

### Humanitarian issue 3: water sanitation and good hygiene (SDG 6)

According to the United Nations, water is arguably the primary medium in which the effects of climate change would be felt. Climate change is reducing the predictability of water availability in many places around the world. Further, the increase in frequency in weather events such as floods act as a threat to destroy sanitation facilities and water points and contaminate water sources. Low income communities that already vulnerable to water supply threats are expected to be worst affected<sup>xviii</sup>.



# The need for private financing

## The gap in humanitarian aid

Humanitarian crises are complex, protracted, rising and are difficult to manage. This has rendered humanitarian aid and development assistance alone insufficient<sup>xxix</sup>. For example, the funding gap for humanitarian needs has increased approximately 3.5 fold between 2009 and 2019, to reach a gap of approximately USD 14 billion. This equates to 46% of all funding needs uncovered<sup>xx</sup>. The current COVID-19 pandemic is expected to further worsen the situation by adding 20% to the world's humanitarian bill<sup>xxi</sup>. For instance, the World Bank Group have launched emergency support and are expecting to deploy up to USD 160 billion over the coming 15 months to support countries, including to protect the poor and vulnerable<sup>xxii</sup>.

Rightly, the acute and complex nature of humanitarian crises has resulted in the majority of funding being directed towards responding to immediate life-saving requirements. Thus, insufficient resources are being directed to prevention, resilience and recovery that could provide long term support for communities in need, strengthen local markets and build self-reliance. This is despite the fact that investing in prevention and resilience building can be more cost effective, in the long run<sup>xxiii</sup>.

The gap in humanitarian aid calls for alternative sources of capital, specifically in moving from funding to financing, and hence involvement from investors. Investor involvement in financing areas affected by fragility and crises is important in achieving the SDGs.

## Impact of unlocking humanitarian and impact investment

Investor demand for purpose-led investments has increased over the past ten years, and we have seen investment being successfully funnelled towards sustainable and impact-driven investment opportunities. For instance, demand for sustainable investment opportunities that consider environmental, social, and governance (ESG) risks within their investment decisions has increased by around 34% between 2016 and 2018 to reach a global assets under management of USD 30.7 trillion<sup>xxiv</sup>.

Investing in sustainable investment opportunities was driven by a number of factors, including the increased desire among investors to seek investment options that are more purpose-led while still receiving a good risk-adjusted return. Within sustainable investing, impact investing focuses on the environmental and social impacts of a particular investment. Sometimes, investors are willing to accept below-market returns for investments that demonstrate high impact.

While the market for impact investing is smaller than that of sustainable investing, it is by no means small. By the end of 2018, the impact investment market was estimated to be worth USD 502 billion worldwide, with around 1,340 organisations actively investing in this space<sup>xxv</sup>.

## Impact investment criticism

Despite the fact that demand for impact investment opportunities has been increasing, these have not gone without criticism. One criticism is that it is unethical to make money out of human suffering, which is particularly pertinent in the case of humanitarian-focused investments. In the past, this argument has made the funnelling of capital towards tackling and preventing humanitarian crises the realm of donors alone.

Critics maintain that humanitarian activity is solely the remit of the public and charitable sector. These critics further believe that private sector and investors' involvement would reduce the quality and efficiency of the services being offered, as the main driver behind such investment is to generate profit.

As a result, humanitarian and resilience-focused impact investment remain at a nascent stage. However, with the rise and growing success of impact investing, evidence is building that it is possible to achieve both a financial return and positive impact.

The humanitarian and development sectors are recognising the importance of partnering with companies and investors to find long-term solutions to tackling fragility. With crises reaching high levels, the benefits of such investments, were that possible in the humanitarian space, would be sizable and help fill a critical gap.

To attract investment into the humanitarian space, investors need to be convinced that there are opportunities to achieve returns, that their investment will have a net positive impact and that they can partner with others to share the risk. To do this, certain barriers need to be overcome.

## **Potential barriers to humanitarian investment**

There are a number of potential barriers and problems that face humanitarian and resilience investment.

### **Need for partnerships**

Despite the fact that demand for impact investment is growing, there is a mismatch between investor demand and the availability of investable opportunities.

The difficulty in expanding investment opportunities especially in FCV settings is that these often have the least attractive investment environments, are highest in risk and have high transaction costs. Further, humanitarian development organisations located in such countries have little understanding of what investors' requirements are.

Such constraints have exacerbated the low prospects that FCVs have in having inclusive growth. This calls for better levels of partnerships between investors, humanitarian and development organisations and other relevant stakeholders.

One possible form of partnership revolves around job and services creation to help increase income levels and enable people living in FCV settings to be able to meet their needs. Such partnerships would also contribute to creating trust and stability by building better functioning markets and trading relationships that are sustainable, inclusive and operate with integrity .

Another form of partnership revolves around the activation of stakeholders such as donors, development financial institutions and humanitarian organisations to act as a catalyst to develop an investible opportunities pipeline to enable the de-risking of capital.

### **Lack of information on projects and investment opportunities in fragile settings**

Even where there are opportunities and projects, there is typically little information on them. Little is available publicly, and such projects also often lack internal measurement.

Lack of information makes it difficult to identify companies that are already involved in supporting FCV communities. It is also harder to benchmark investments against others. Some efforts have been made to make data available. But collecting information has – quite rightly – been a low priority for actors that are focused on immediate crises. Nevertheless, more work needs to be done in order to lay the foundation for increased financing.

### **Lack of available data to assess, compare and analyse investment opportunities**

ESG data availability is cited as a top barrier for investors in integrating ESG factors. Within these, investors believe that social factors (which would include those linked to humanitarian topics) are the most difficult to analyse and integrate . The lack of such data makes it difficult for investors to assess, compare and analyse investment opportunities. Further, the lack of data renders it difficult for investors to measure the impact of their investments, and hence gauge success.

However, data providers and platforms are making good steps forward in collecting, standardising and promulgating socially-focused data, and there is interest in expanding this further. Indeed, in a recent investor survey, 88% of ESG specialists reported that they expected social factors to gain most relevance/influence post-COVID-19 out of E, S and G<sup>xxviii</sup>.

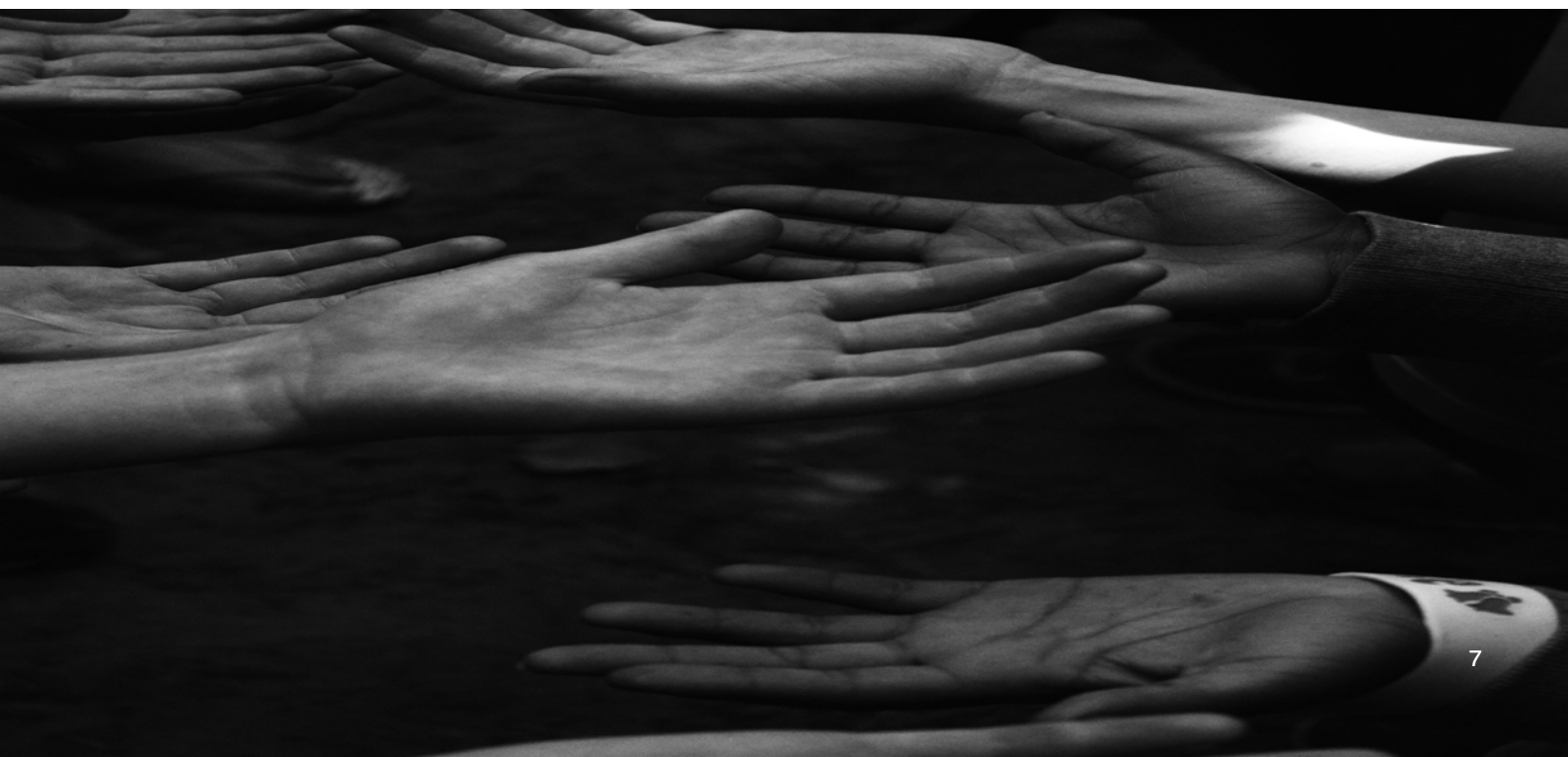
## Need for more clarity and advancement in the field

### Next steps

The lack of information on humanitarian investment opportunities and the lack of company data on social impactful factors make it difficult for investors to identify investment opportunities, benchmark them against each other and measure the potential impact such investment may have.

To tackle this issue, we believe that there is a need for increased disclosure of social data related to humanitarian issues. GIB AM has been working to solve this challenge with a Humanitarian and Resilience Investing Group ([link](#)), which draws together stakeholders from the humanitarian sector, government, charitable bodies and other private sector entities.

We would be delighted to discuss this work with any who are interested in helping to create solutions.



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