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Policy brief

Humanitarian Innovative Financing in fragile settings

Taking stock and charting the road ahead

October 2024

Key messages

- **Current humanitarian funding models are insufficient** to address the accelerating scale, complexity and protracted nature of crises.
- **Humanitarian Innovative Financing (HIF) has significant untapped potential** to enable multi-stakeholder partnerships and facilitate new resourcing for new solutions to vulnerability in fragile contexts.
- **Humanitarian Blended Finance – including Technical Advisory models – and 'green finance' – including Carbon Finance – have the greatest short-term potential additionality** in terms of impact, financing and system improvement.
- **Enabling HIF to realise its potential additionalities at scale require**s:
  - **Ensuring commitment and incentivising scale-up** by establishing institutional 'licence to operate', strengthening project pipelines and sustaining resourcing.
  - **Investing in, and applying, a stronger evidence base on what works** by continuing lesson-sharing, independently evaluating additionalities and designing learning into the innovation cycle.
  - **Forging strong, collaborative, multi-stakeholder partnerships** by facilitating mutual literacy, building a committed group of actors and identifying complementarities for co-design.
  - **Convening and collaboration to generate engagement** by building on the work of current convening fora and channelling the expertise and networks of Grand Bargain Signatories into a community of practice.

HPG
Humanitarian Policy Group

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The case for Humanitarian Innovative Financing

Increasing fragility is placing an unsustainable strain on humanitarian financing. As complex conflict and climate-related crises escalate, needs also persist in long-standing situations – including for the majority of refugees who, on average, find themselves displaced for 20 years (World Bank, 2020; African Development Bank, 2022; DG ECHO, 2024). Humanitarian aid is increasingly stretched to address long-term needs, as well as respond to immediate emergencies. In 2022, 92% of humanitarian aid was directed to countries experiencing protracted crises (Development Initiatives, 2023). This means that the funding gap is widening, with shortfalls leaving many crisis-affected people without sufficient support.

'Business as usual' reliance on public humanitarian financing alone to cover these needs is unrealistic and unsustainable. According to the Organisation for Economic Co-operation and Development (OECD),[1] public humanitarian aid in 2023 was just 11.5% of overall official development assistance (ODA), and there is growing pressure on the budgets of many OECD donors, including from in-country refugee support, which now represents over 13% of ODA. This predominantly short-term, grant-based funding is simply not designed to provide the sustainable solutions required to build resilience and break cycles of protracted need. The conclusions of the High-Level Panel on Humanitarian Financing still stand – these fragile and protracted situations require a broadened resource base (High-Level Panel on Humanitarian Financing, 2016).

Humanitarian Innovative Financing (HIF) is one important tool for bringing new resourcing for new solutions to these persistent, and growing, challenges. HIF can use grant funding to unlock larger and more sustainable sources of finance – including from development banks, the private sector and from the estimated US$1.6 trillion global impact investment market (Farber et al., 2024) – and so bring humanitarians together with private and development actors to co-design longer-term solutions. In this regard, HIF is less a means of topping up established humanitarian funding, and more an opportunity to complement this with new partnerships and financing.

HIF is defined by the Grand Bargain as 'connecting or blending humanitarian capacity and funding (grants) with [...] capacity and financing (capital) from public, development and private actors, to achieve additionality for populations or communities affected by fragility' (Grand BargainB, 2024). As such, HIF is not a fixed menu of mechanisms; it offers a spectrum of new ways to combine these different sources of financing to resource a range of instruments and actors in the service of crisis-affected people. The starting point for designing and targeting HIF is therefore the intended outcome, rather than the available instrument.

1 See OECD: https://public.flourish.studio/story/2315218/

Background and methodology

This briefing review is the first step in a proposed evidence-building programme on HIF. Its purpose is to establish the added value of HIF in fragile contexts, the models offering most potential for scale-up, and the lessons to be learned to support future scale-up. It adopts the Grand Bargain definition of HIF,[2] and the following methodology:

- Review of over 50 key literature sources on HIF models and progress, noting that these provide limited and siloed evidence on impact due to weaknesses in theories of change, assessment criteria and impact evaluation (OECD, 2012).
- Semi-structured interviews with 15 senior stakeholders, including HIF experts, Grand Bargain representatives and Signatories, development finance experts and private sector actors.
- Online workshop with a group of experts to test findings and determine recommendations.

During the review phase, a number of HIF models – ranging from impact bonds to debt swaps and insurance – were highlighted by different stakeholders as offering opportunity for scale-up. While acknowledging that a number of models offer promise in terms of facilitating solutions in fragile settings, this review used the methodology and criteria outlined to identify two models, detailed in the section titled 'Two HIF models with significant potential', that demonstrate actual or potential greatest added value. The briefing also identifies actions and investments necessary for enabling and incubating advances in HIF. These are included in the recommendations in the section titled 'Enabling HIF'.

2 Different humanitarian organisations use slightly different definitions of innovative financing, and there are also differences with some innovative financing definitions in the development finance arena.

Criteria for effectiveness

A substantial body of implemented, active or emergent HIF models exists. Considering experience to date (for more, see Airbel Impact Lab (2024); Farber et al. (2024)) and future needs, the following three criteria stand out for determining the added value potential of these models, alongside ethical considerations:

1. Additionality of impact
   a. has demonstrable impact for crisis-affected people;
   b. addresses priority needs with relevant and appropriate solutions; and
   c. reaches significant numbers of people, and is replicable or scalable.

2. Additionality of financing
   a. attracts new and sustainable ODA and non-ODA financing to fragile settings, and is investible at scale;
   b. uses grant funding to enable or leverage other additional financing; and
   c. shows cost-effectiveness.

3. Additionality of system improvement
   a. fosters partnerships for sustainable humanitarian impact;
   b. introduces greater financial predictability and sustainability; and
   c. builds local capacity and/or is financially accessible for local actors.

Looking at the evidence revealed a number of achievements against these criteria – as well as gaps in measuring them. As the operational and evaluative body of HIF work evolves and expands, there is a requirement for a much stronger comparative evidence base – through greater partnerships, projects and evaluative assessments – on these additionalities in order to build the confidence of potential investors.

Two HIF models with significant potential

Humanitarian Blended Finance

Humanitarian Blended Finance refers to a range of financing models that 'blend' humanitarian resources with financing from development banks and/or private finance.[3] It is an umbrella term used to cover different types of blending, and is therefore used to describe multiple types of innovative financing by different actors.

Some Humanitarian Blended Finance projects involve integrating a humanitarian component into a development infrastructure investment. Sometimes called the 'advisory' or 'technical assistance' approach,[4] this can involve humanitarians providing catalytic inputs in order to guide investments towards meeting humanitarian needs, alongside longer-term solutions. This can be through using humanitarian 'on the ground' technical and contextual expertise to: advise the investor where and how to direct their capital; shape the design and preparatory stages in order to unlock development investments with additional humanitarian impacts; and implement complementary projects that assure the quality and humanitarian reach of investments (DG ECHO, 2024). Technical assistance can also vouchsafe quality and mitigate risk, and so attract investment for pipelines of subsequent projects to benefit communities in fragile settings.

These models have been deployed by the International Committee of the Red Cross (ICRC) and the International Rescue Committee (IRC) on infrastructure projects in the Democratic Republic of Congo (DRC), Mozambique and Jordan, where they indicated significant scope for additionality of impact, reach and system improvement. The ICRC urban water programme in DRC reportedly mobilised US$10 million in grants, which in turn catalysed US$30 million in concessional finance from the World Bank for the DRC government to provide water for 500,000 Goma residents and a new partnership between the different constituencies involved (World Economic Forum, 2023). The IRC provided technical advisory support for a wastewater infrastructure investment being carried out by the European Bank for Reconstruction and Development and local partners, with support from blended European Union (EU) development aid. This helped ensure that the protracted needs faced by 120,000 refugees and their hosts were better integrated into the project and its impacts (Farber et al., 2024). The UN Refugee Agency (UNHCR) has collaborated with the World Bank Group on a number of innovative financing initiatives in refugee-hosting environments. This includes technical advisory support to the Global

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3 This definition of Humanitarian Blended Finance therefore includes development finance as a source of additional finance – as it is additional to humanitarian funding. For Blended Finance for development, the OECD definition is '"the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries", with 'additional finance' referring primarily to *commercial finance* which is not currently being directed towards development-related investments'.

4 Given its ability to catalyse financing, some view 'Technical Advisory' as a discrete model in itself, but it is included here as an element of Humanitarian Blended Finance.

Concessional Finance Facility (GCFF), which provides grants to countries hosting large numbers of refugees. The GCFF has provided US$953 million in grants and enabled over US$7.3 billion in loans from partner multilateral development banks (World Bank, 2024). UNHCR has also worked with the International Finance Corporation to create economic opportunities in areas with large refugee populations, leveraging the expertise of both organisations to promote market-driven opportunities.

Experience also indicates several areas for attention if the potential of this model is to be realised at scale (Airbel Impact Lab, 2024) and institutionalised. Given that these models are based on partnerships between stakeholders with different objectives, organisational cultures and operating models, there is a need for greater clarity on complementarities and roles, entailing both greater coordination at the design and implementation stages and a practical commitment to collaborative learning throughout the implementation phase. This can in part be designed into the models, but more effective partnerships also require concerted efforts to foster mutual literacy – and so broader cultural change in stakeholders' engagement is required.

'Green' and carbon finance

'Green' finance is a broad term used by some HIF stakeholders to encompass a range of Humanitarian Blended Finance models that have a specific aim of leveraging financing for sustainable, low-carbon humanitarian solutions. This can include leveraging carbon financing, which involves the creation and trading of carbon credits for the reduction, offsetting or sequestering of carbon dioxide (CO_2) emissions (Farber et al., 2024).

ICRC's Climate and Environment Transition focuses on decarbonising its operations. Initial investments in ICRC infrastructure in Nigeria, Afghanistan and South Sudan are already generating savings of around CHF 500,000 (close to US$600,000) and reducing CO_2-equivalent emissions by 1,200 tonnes annually (ICRC, 2023). UNHCR's Green Financing Facility has raised more than US$36.5 million (with a target of US$60 million) to decarbonise operations, 40% of which has been financed by private investors with UNHCR guarantees to derisk long-term renewable energy contracts in fragile settings. Both models appear to have contributed to 'greening' humanitarian operations, enabling both cost savings and reductions in greenhouse gas emissions. Although independent impact evaluations are required, additionality of impact appears evident in relation to environmental degradation and opportunities for replicability; additionality of financing appears evident in terms attracting, and leveraging, new financing; and, through new partnerships, there is some indication of additionality of system improvement.

Carbon finance can be used in humanitarian settings to fund environmentally sustainable practices that lead to food security, water, health and protection outcomes. While the evidence base to date is limited as there are few tested humanitarian carbon finance initiatives, the

scale of the carbon credit market[5] is prompting emerging models. These include the Refugee Environmental Protection (REP) Fund, developed by UNHCR together with corporate partners and donor and refugee-hosting governments. This seeks to mobilise US$30 million in grants to unlock at least US$200 million in carbon financing to support projects to increase reforestation and reduce resource-related conflict and sexual exploitation. The carbon impact of programmes would then generate verified carbon credits that can be traded to replenish the REP Fund, advancing its financial self-sufficiency.

Efforts to use innovative finance to 'green' humanitarian settings more broadly, such as through 'clean' cooking and solar energy, have yet to be realised at scale. There is strong opportunity for further development given the potential for additional financing, as well as impact in terms of greenhouse gas emission reductions, mitigation of environmental degradation (notably deforestation), and security and health benefits. These could be realised through partnerships with multilateral development finance institutions (DFIs) and private investors, which have already executed such programmes in stable settings, although the challenges faced in these environments may be exacerbated in fragile contexts. Similarly, new sources of green finance have, as yet unrealised, potential to be accessed. Green social and sustainable bond markets, which reached over US$4.4 trillion by 2023 (Climate Bond Initiative, 2024), offer a potentially substantial source of private capital for fragile settings, but the viability of this has yet to be explored.

5 Estimates suggest that the voluntary carbon market alone is set to grow to between US$10 billion and US$40 billion by 2030 (Boston Consulting Group, 2023).

Enabling HIF: a pathway for action

HIF has the potential to contribute to a step change in resourcing in fragile and protracted situations – forging partnerships across sectors for new approaches and mobilising resources beyond traditional humanitarian grants. Replicating and scaling the HIF models that have demonstrated success and potential requires strategic and collaborative action. While individual organisations and collective fora have built models and momentum, significant gaps remain in terms of political and institutional support, coordinated effort and scale. Four areas of action are required to move forward:

1. Ensuring commitment and incentivising scale-up:
   a. **Securing senior humanitarian leadership commitment:** in the form of clearly stated intentions to support HIF, backed by dedicated technical expertise and a favourable institutional culture. Establishing this 'licence to operate' is vital for scaling up HIF and engaging investors.
   b. **Strengthening the pipeline of investible projects:** more projects are needed to build on successes, replicate models and build the evidence base. This must be supported by rigorous adaptive learning to improve credibility with development and private sector partners, and outcome-oriented thinking to move from a portfolio of pilots with informal operating models to strategic approaches.
   c. **Sustaining core support:** funders must stay the course in order to generate results and leverage further funding. This could include, for example, the replication and/or scale-up of ECHO's 2022–2024 Humanitarian Blended Finance for Humanitarian Aid initiative,[6] and other donors developing or expanding their own funding for innovative finance. It could also include the agreement of indicators for donors and agencies to grow engagement and investment in HIF, with independent annual reporting against these.

2. Strengthening learning-based innovation:
   a. **Building the evidence base:** replication and scaling of successful models requires a stronger evidence base on what works. Building and sharing the emerging body of case studies and lessons should continue as a common good, advancing knowledge amongst funders and operational agencies, experts, think tanks and academia. Given the advances in HIF for the water, sanitation and hygiene (WASH) sector, a small working group on partnering and financing approaches in WASH should be established to accelerate implementation of the existing pipeline, and to draw lessons for other sectors.
   b. **Evaluating additionalities:** HIF partners must commit from the outset of projects to explicitly building iterative learning and independent evaluation into how different HIF instruments are designed, implemented and governed. This will allow independent

6 Between 2021 and 2024, this initiative supported five innovative finance projects with a total of €5.9 million.

assessments of additionality in terms of impact, financing and system improvement to be undertaken and compared – which can in turn inform learning and investment.

c. **Applying learning:** evidence must be designed into the innovation cycle and actively applied to speed up effective collaboration. Innovative finance 'labs' have been successfully applied in development and humanitarian contexts, and can play a role in mainstreaming expertise amongst operational and headquarters staff, building the project pipeline and generating credible evidence on impact for humanitarians and investors alike.

3. Strengthening collaborative multi-stakeholder partnerships:
   a. **Facilitating mutual literacy:** investing in shared understanding between diverse stakeholder groups is essential to attracting and sustaining engagement from new sources of financing – and for effective implementation. This involves disseminating a clear narrative of HIF, its added value and impact.
   b. **Building a connected cadre:** increasing long- and short-term secondments between humanitarian agencies, development banks, financial institutions and the private sector at different leadership, operational and technical levels – in order to further build mutual literacy, understanding of respective capabilities and opportunities for partnerships.
   c. **Connecting for co-creation:** partnerships between humanitarian agencies and multilateral development banks could be deepened through clear mapping of added value and respective capabilities, and how to leverage these most effectively. Partnerships between humanitarian agencies and the private sector should consider collaborations with DFIs as enablers, focused on local private sector in particular. Longer-term engagement with private investors could begin by further exploring insurance models, such as the IFRC's Disaster Response Emergency Fund and connecting with the environmental, social and governance imperatives of investment portfolios, and by inviting co-creation of solutions to clearly defined problems in fragile contexts.

4. Convening and collaboration:
   a. **Harnessing existing platforms:** different fora – including the World Economic Forum's Humanitarian and Resilience Initiative, the Red Cross Red Crescent Humanitarian Innovative Finance Hub and International Institute for Management Development (IMD)'s initiatives – have provided important collaborative spaces to advance thinking and initiatives on HIF. These should be supplemented with platforms that have sufficient political weight and clear decision-making pathways to accelerate and embed system-wide change, and foster collaboration.
   b. **Leveraging the Grand Bargain process and its Signatories:** given its large and diverse body of Signatories, and voluntary nature, the Grand Bargain is a unique platform to support progress on HIF. The establishment of a Grand Bargain HIF Community of Practice could play a role in moving forward several of the recommendations outlined here, including strengthening commitment; building and applying the evidence base; and promoting multi-stakeholder literacy, connections and co-creation between Signatories, the private sector and DFIs.

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