Humanitarian Impact Finance: Instruments & Approaches

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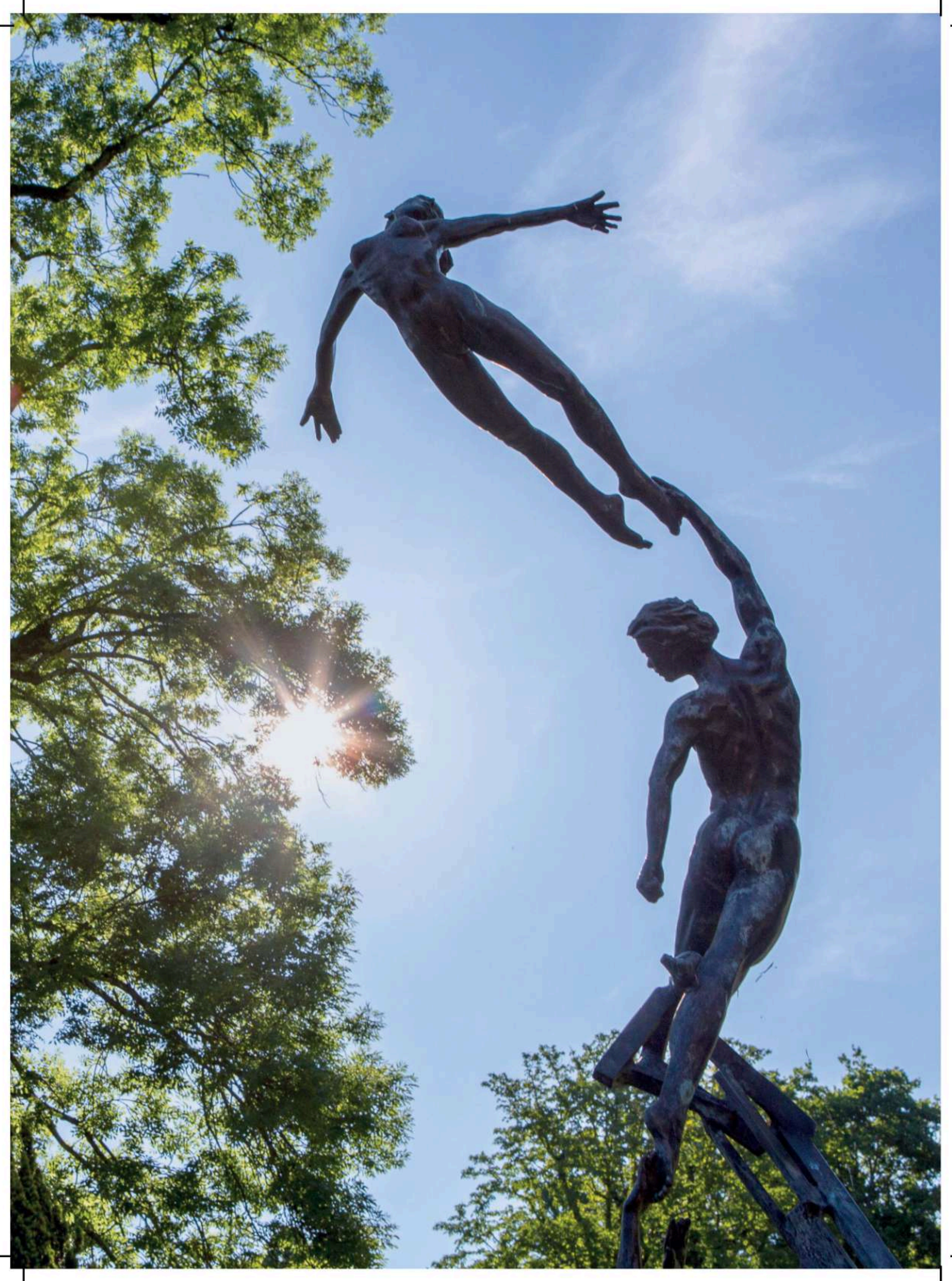

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Executive Summary

A humanitarian system under pressure

The humanitarian system and its financing are under immense pressure from ongoing crises affecting more than 339 million people in Ukraine, Gaza, Ethiopia, Syria, Yemen, South Sudan, and beyond.[1] While traditional donors – governments, foundations, and private funders – have increased grant funding to emergency responders such as the United Nations, the International Red Cross and Red Crescent Movement, and non-governmental organizations (NGOs) from $33bn to $46.9bn over the last five years, the gap between needs and funding continues to grow – in 2023, only 39.5% of requested funding needs were covered.

In response, humanitarian organizations are reviewing their operations and strategies to enhance short-term efficiency, but business as usual alone seems increasingly ill-adapted to serve today's and tomorrow's humanitarian needs.

Appetite from investors, funders, and humanitarians for new approaches

The question is, where do we go from here? New applications of innovative finance in fragile settings provide a range of new or non-traditional mechanisms that go beyond typical grantmaking to bring more sustainable, efficient, and effective resources for the benefit of vulnerable populations suffering from the after-effects of natural or man-made disasters, including refugees, forcibly displaced populations and local communities. Humanitarian impact finance (HIF) seeks to:

- **Scale up finance** beyond grant funding
- **Build longer-term, higher-quality infrastructure:** to finance better and more cost-efficient water, energy, and sanitation systems over the medium and long term
- **Unlock cost-savings and delivery optimization opportunities** in the humanitarian value chain
- **Lower costs to free up funding for populations in a state of protracted humanitarian need** such as refugees, internally displaced people (IDPs), and stateless people, and move to more efficient arrangements with the private sector to lower costs and operational burdens
- **Invest in the productive capacities of refugees, IDPs, and local communities** and channel social impact investments to spur local economic development
- **Enable new ways of working in fragile contexts** through new partnerships that enable a transition from aid dependency to sustainable investment

Mapping the humanitarian investment continuum can help to identify different sources of funding for each respective actor (who does what, at what stage, and with what investment criteria) and thereby lower the barrier for innovation and successful implementation.

[1] Relief Web, Global Humanitarian Overview (2023)

Growing the market for humanitarian investment

Humanitarian contexts pose substantial challenges to investors looking for returns (and impact) where risks are high and are often considered "uninvestible." Building a pipeline of investible projects requires field-based evidence to justify their viability and engagement in these markets. An increasing number of pilots to meet humanitarian needs across a wide range of approaches have been developed to test viability and market demand, often benefitting from catalytic foundation or government funding to reduce risks.

This report provides an overview of the mechanisms used in HIF, highlighting key lessons and making recommendations for their continued development. Key takeaways include:

- **Diverse approaches:** New financing methods require going beyond grant funding to include debt, blended finance, and new insurance models among others.
- **Private sector engagement:** Increasing the involvement of private investors and corporations in humanitarian finance
- **Capacity building:** Organizations need to build internal capacity and readiness to facilitate new investment approaches.
- **Ethical considerations:** Need to balance new financing methods with traditional humanitarian principles and avoid potential negative impacts.
- **Future outlook:** While grantmaking will remain significant, HIF could make a substantial impact in more stable, protracted crisis contexts.

The potential and limits of humanitarian investment in fragile settings

Grantmaking to traditional humanitarian actors will still receive the lion's share of funding for the foreseeable future, even as newer approaches and blended finance options increase. These new approaches are unlikely to make up a significant portion of public funding or foundation grants. However, in more stable contexts of protracted conflict, where crisis preparedness is crucial and there's potential for longer-term development solutions, investment-based approaches could make a significant impact. Facilitating private and development finance to address the long-term effects of crises and instability – rather than immediate, urgent needs – can ultimately free up scarce purely donative dollars to be channeled where they have the highest impact.

Building capacity: Driving innovative finance for impact

Alongside research, this report builds on findings from the development and execution of the IMD program, "Driving Innovative Finance for Impact" (DIFI). Contributions from partner organizations International Committee of the Red Cross (Juan Luis Coderque Galligo), Fondation Lombard Odier (Maximilian Martin), and the World Economic Forum (Andrej Kirn and Diego Hakspiel) as well as faculty, mentors, and program participants, laid the foundation for the content of this report, providing a rich repository of real-world examples, cutting edge financial approaches and insights into how organizational readiness can help HIF partnerships replicate and scale.

We thank Fondation Lombard Odier for their continued financial support to the DIFI program and thank "la Caixa" Foundation for their generous support to the second DIFI cohort. We look forward to continued collaboration in order to bring financial innovations in fragile settings to scale.

Introduction

02

In contrast to the barely growing or declining resources of governments and the limited capital pool of traditional philanthropy, the problems of poverty, underdevelopment, conflict and fragility, displaced populations, and environmental degradation continue to reach new heights. Put simply, existing aid mechanisms are insufficient to address today's problems: new pools of capital are urgently required to meet the growing need. There is also a growing realization that some of the money for humanitarian efforts needs to shift from short-term funding via grants to long-term financing through additional financial instruments like debt, equity, and insurance. The shift from funding to financing will be built on partnerships and require cross-sector collaboration.

More than ever, private and public investment can play a vital role in supporting global humanitarian work – but barriers to investment in humanitarian contexts persist. While the UN estimated that more than 339 million people needed humanitarian assistance in 2023, just 39.5% of the UN's estimated humanitarian funding needs were met in 2023, representing a shortfall of $34.3bn.[2]

With $212tn in the global capital markets, redirecting even a small portion toward HIF would help address escalating humanitarian needs. Indeed, in 2021, the Impact Investing market reached $1.164tn – more than five times that of 2021 Overseas Development Assistance (ODA), which was $205.6bn.[3,4] HIF seeks to progressively mainstream opportunities to mix public and private capital in service of market-based solutions to humanitarian crises in protracted settings.

As a result, private sector investment and development finance in humanitarian settings represent a crucial source of financing to bring much-needed basic services to these populations. It also represents a sizeable untapped investment opportunity.

And while HIF can be costly to implement, it can also deliver considerable value. HIF helps access new funds or provide liquidity and improves the implementation of aid, thereby driving greater impact. Without HIF, the only alternative would be purely donated funds, which would be at a smaller scale and disbursed without the benefit of employing market mechanisms to drive value.

HIF brings many actors together. This diversity enables actors to specialize, and for each to play to its strengths, and unlock innovations that would not be possible under the traditional grant model. Actors also have different risk appetites, whether financial or context-dependent, and HIF divides and optimizes these risks to satisfy each actor's risk, return, and impact needs.

To this end, in recent years there has been a rapid increase in the diversity of instruments and institutions being deployed to mobilize private resources for HIF. Where earlier such support was limited to government grants or charitable grants from non-profit foundations, an exciting array of new instruments and institutions has surfaced: new grant modalities, loans, loan guarantees, equity, blended finance, reward-based finance, social impact bonds, crowdfunding, secondary markets, insurance, and many more.

[2] Relief Web, Global Humanitarian Overview (2023)
[3] GIIN, Sizing the Impact Investing Market (2022)
[4] Development Initiatives, Aid in 2021: Key facts about official development assistance

Figure 1: Core elements of humanitarian impact finance

Function of innovation	Innovative ways to use finance more effectively and efficiently for humanitarian outcomes		
Nature of innovation	New purpose/markets/ sector	Better results/more impact	Reduced time & costs
Sources & providers of finance	**New actors**		
	Local vs international	Private vs public	Philanthropic vs commercial

Importantly, HIF doesn't necessarily invoke anything uniquely new or innovative with respect to the instruments employed. Rather, most approaches and examples of HIF have emerged using existing instruments. They are either combined in new ways, or other elements of innovation are introduced to raise additional public and private capital and/or to deploy capital more effectively and efficiently. For example, in recent blended finance transactions:

- Traditional grants and sovereign loans are complemented or replaced by new types of financial instruments such as subordinated debt, equity, guarantees, securitization, currency hedging, and political risk insurance; and,
- New investors such as foundations, pension funds, and private investors are mobilized.
- Development actors have played a critical role bridging investors and humanitarian organizations.

Therefore, it is beneficial to think about innovative humanitarian impact finance not simply as a limited number of clearly defined and distinguishable mechanisms, but rather as new ways to combine actors, instruments, and approaches to drive impact. At its core, HIF requires partnerships that leverage the expertise of humanitarian, development, private, and public sector actors.

This report provides an overview of the models used in humanitarian impact finance, their role in delivering sustainable solutions in the context of fragile settings, highlighting key lessons, and making recommendations for their continued development.

Figure 2: Overview of the HIF ecosystem

<table>
<tr><td rowspan="1">Additional capital sources</td><td colspan="2">Humanitarian funding providers:
e.g. Donor governments, foundations, humanitarian actors, civil society, other philanthropic funders</td><td colspan="2">Development capital providers:
e.g. Development finance institutions (DFIs), multilateral development banks (MDBs), national development agencies, local and national governments</td><td colspan="2">International and local private capital providers:
e.g. Institutional investors, corporates, family offices, banks, sovereign wealth funds, high net worth individuals</td></tr>
<tr><td rowspan="2">Innovative financing struture</td><td colspan="6">Innovative finance models</td></tr>
<tr><td colspan="3">Instruments
• Grants
• Debt
• Guarantees
• Equity
• Pay for Success
• Insurance
• Carbon finance</td><td colspan="3">Approaches
• Blended finance
  • Syndication
  • Securitization
• Advisory model
• Funds & facilities
• Debt swaps/conversion
• Hedging
• Insurance
• Outcomes-based finance
• Tech-enabled</td></tr>
<tr><td>Effective effecient capital deployment</td><td colspan="3">Indirect impact
• Mobilize additional resources for humanitarian impact
• Strengthen local markets
• Promote innovative solutions to humanitarian settings</td><td colspan="3">Direct impact
• Sustainable Development Goals
• Communities and people affected by crisis
• Climate resilience</td></tr>
</table>

Source: Adapted from KfW (2020): Innovative Development Finance Toolbox

Financial Instruments

As the needs of humanitarian funding continue to outpace supply, the sector has seen the rapid implementation of diverse, innovative tools and practices, building on innovations in development finance over the past twenty years.[5] However, while approaches have diversified, guidance on which instrument to use and when has not followed at the same pace.

Understanding when to use each instrument requires organizations to first understand the problem they are trying to solve and to consider the best-suited financing structure. As a starting point, organizations seeking funding should ask themselves if they can reasonably expect to fully repay the required funds after a few years. If the answer is "No" then an organization should consider grant or equity instruments. To decide between grants and equity, an organization can ask whether or not any money (e.g., interest or dividend payments) can be returned to the funder in each year. If the answer is "Yes," then equity finance will likely be an option, provided selling fractional ownership in the organization is possible. If an organization is unable to repay an amount of cash each year to a funder, then grants or concessional equity capital will likely be more appropriate. Returning to the first question, if an organization can fully repay the required capital in a few years then debt financing also becomes a funding option. Depending on the organization's repayment capacity, credit enhancements like a loan guarantee may be required.

Basic financial instruments include debt, equity, grants, and guarantees, all of which are familiar to and applied regularly by development finance and philanthropic funders.

Table 1: Financial instruments

Instrument	Description
Grants	A financial award with no expected repayment over a fixed period.
Debt	Money is loaned for repayment at a later date, usually with interest. • Market rate debt: Rates and terms are determined based on capital market prices and tenors, but can be subordinate to senior debt (i.e., mezzanine). • Flexible (concessional) debt: Favorable terms or rates for the borrower relative to market pricing.
Guarantees	Protection from various forms of risk intended against capital losses for investors.
Equity	Ownership in a company with value determined at the time of investment. Junior equity accepts higher risk for lower financial returns in exchange for social, environmental, and economic impact, typically in a position to take the first losses.
Outcome-based finance (also referred to as results-based finance)	A public-private partnership tool that combines performance-based contracting and private financing. The public entity contracts with a lead contractor/provider to implement an intervention that addresses a social problem with agreed-upon targeted outcomes that result in payments only if success is achieved.
Insurance	A financial instrument that relies on 'risk pooling', which allows large groups of insured entities to share the losses resulting from the occurrence of an uncommon event.
Carbon finance	A mechanism that leverages market-based approaches to reduce greenhouse gas emissions by monetizing the carbon reductions achieved by various projects. This involves the creation and trading of carbon credits, which represent a ton of CO_2 equivalent reduced, avoided, or sequestered.

[5] Martin, M. (2017), The Next Phase of Innovative Financing (ssir.org)

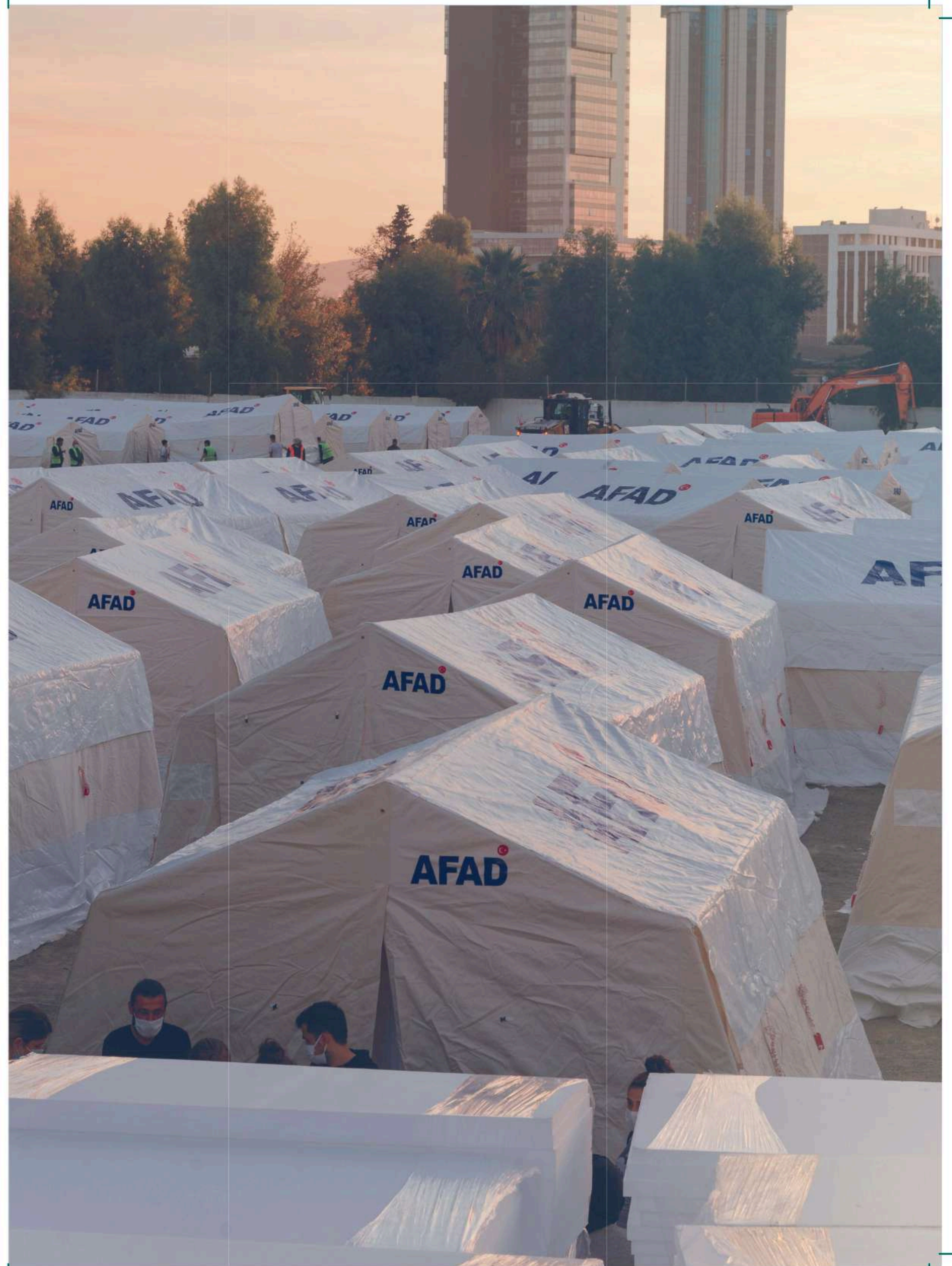
3.1. Grants

In general, grant support lacks any ex-ante expectation of recoverability. In financial terms, this implies an intentional negative 100% rate of return for donors. Grants do not have to be repaid, but they need to be raised and managed, thus imposing transaction costs on the organization. In recent years, a wide range of terminology associated with grants has emerged, including conditional grants, matching grants, in-kind grants and technical assistance, milestone-based grants, and recoverable grants. Grants in the context of HIF typically highlight a shift away from general operating support towards more tailored use cases that seek to crowd-in private capital. From the traditional non-profit sector, a first distinction can be made concerning how the proceeds of grant funding are used:

- **General operating support:** These grants can help to offset almost any operating expense for an organization. In addition, operating support grants are less restrictive than program support grants since they aren't typically tied to a particular project. As a result, general operating support grants enable organizations to maintain flexibility in their actions and decision-making.
- **Program development support:** One of the most popular types of grants is for program support. Program grants provide funding for specific projects or programs. Generally, these are restricted grants, where recipients must only use funds for the exact purpose outlined in the grant proposal. Most program grants are for nonprofits but may also be available for businesses and initiatives to start a program or fund an existing program provided their activities are considered to be in the public interest.
- **Capital funding support:** These grants are most commonly used for capital investment projects such as building construction, green infrastructure, property acquisition, or similar expansion campaigns.

Matching grants (also referred to as 'challenge grants' or 'cost matching') are another type of conditionality that is placed on recipient organizations. With this type of grant, a donor agrees to 'match' a specific dollar amount of funds, but only if the applicant raises at least that same amount. For example, a funder may agree to fund one dollar for every dollar raised by the applicant within a set timeframe.

Sometimes, organizations require resources other than monetary funding. In-kind grants provide alternative assistance in non-monetary forms, such as donations of equipment and supplies, or technical assistance (grants that fund advisory services, incubation, operational assistance, training, and other professional services to improve the business viability of investee projects).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Another twist on traditional grant support conditions is the disbursement of funds across multiple rounds. Referred to as 'milestone-based grants', these instruments require recipient organizations to achieve predefined goals or 'milestones' to receive the full grant amount. Milestone-based grants typically add value in the following contexts:

- **Project-based funding:** Humanitarian organizations often undertake projects that aim to deliver specific outcomes, like building schools, providing medical services, or implementing clean water systems. Milestone-based grants can be used to ensure these projects meet their intended objectives.
- **Accountability & transparency:** Milestone-based grants can improve accountability and transparency by linking funding to observable outcomes. This approach helps ensure that resources are used effectively and efficiently.
- **Flexible project management:** Humanitarian projects often operate in challenging environments with uncertain conditions. Milestone-based grants can offer a balance between structure and flexibility. As long as the milestones are clearly defined, they provide a roadmap for project completion while allowing for adaptations based on real-world conditions.
- **Incentivizing results:** By tying funding to specific outcomes, milestone-based grants can incentivize humanitarian organizations to achieve tangible results, such as reducing child mortality rates or providing shelter to a certain number of families.

Despite their benefits, milestone-based grants are likely to face significant challenges in many humanitarian contexts:

- **Hard-to-predict conditions:** Humanitarian work often occurs in unstable or conflict-affected regions where achieving milestones might be challenging. These conditions require flexibility in how milestones are defined and achieved.
- **Complex needs:** Humanitarian projects often address complex social needs, where success can't always be measured through simple milestones. In these cases, milestone-based grants might require additional qualitative assessments or a broader range of metrics.
- **Implementation costs:** Setting up a milestone-based grant system requires careful planning and coordination to ensure the milestones are realistic and measurable, which might add complexity to project management.

Given the diversity of grant-making approaches, they often serve a catalytic role in humanitarian impact finance to de-risk the provision of capital from development and private sector investors.

3.2. Debt

When nonprofit organizations that cannot directly access equity funding because they are not incorporated as for-profit corporations take an interest in innovative financing, their first focus is typically debt financing.[6] Since debt comes in many different forms, it is important first to understand its terminology: A loan is a transaction in which one party with cash (the lender) allows another party (the borrower) to use its cash for a while essentially "renting out" its cash. To compensate the lender for the use of its cash, the borrower pays interest. The cash being loaned is called principal. Maturity refers to the date on which the loan must be repaid, and the borrower may have to pledge collateral in the event of default on the debt.

Loans have several features that distinguish them from other types of capital:

- **Lenders expect repayment:** The borrower is required to repay a loan to the provider of capital (the lender), regardless of whether or not the project that the lender financed was successful, and whether or not the financial condition of the borrower has improved or declined over the course of the loan. This expectation of repayment is a loan's most critical defining feature.
- **Borrowers pay lenders interest and fees:** Lenders charge "rent" on the money they lend in the form of interest. Interest is typically calculated as a percentage of the principal and can vary, depending on the lender. A loan might be interest-free if the lender is willing to structure it that way, or it might be at market rate, or somewhere in between.
- **Lenders seek a "second way out":** The lender not only expects the borrower to return principal and interest, but it also may expect additional assurance that it can recoup its capital or "get out" of the loan. The borrower may be required to pledge other assets, such as real property, cash, or stocks, which will be taken by the lender in the event the borrower cannot repay the loan and defaults. Those assets, when they are pledged to back up a loan, are collateral. Collateral serves two purposes: First, it provides an incentive for a borrower to repay the loan, since the borrower risks losing its buildings or cash reserve in the event of a default. The borrower, therefore, has an incentive to take the loan more seriously than it might if the loan were not collateralized. Second, in the event the borrower cannot repay the loan, the lender can get its money back by taking possession of the collateral, selling it, and using the cash from the sale to satisfy the loan.
- **Non-payment has consequences:** In most cases, the consequences of non-payment can be severe, and borrowers should be prepared for this possibility. Non-payment results in late fees, higher interest rates, and legal actions; borrowers can lose their collateral and be forced into bankruptcy. Humanitarian organizations may have privileges that legally shelter them from bankruptcy in the event of a loan default, which would nevertheless carry a high reputational cost. Moreover, there are cases in which lenders forgo collection of a struggling loan because of the borrower's social mission, the cost to the lender of pursuing collection, or the lender's concern about potential public and media scrutiny of collection methods. However, most lenders will pursue all avenues to get repaid. When lenders do agree to forgive some of the loans, the borrower may still pay a price, as the damage to its reputation and credit history may hamper its future ability to raise funds.

Loans and credit enhancements (e.g., guarantees, see next section) to humanitarian organizations provide three types of benefits:

1. They fill financing gaps, enabling the borrowers to fulfill their social missions;
2. They help develop the humanitarian debt market for conventional lenders, making it easier for aid organizations and social-purpose companies to obtain loans in the future; and
3. They allow lenders and credit enhancement providers to recycle capital and thereby spread the benefits further.

[6] Many humanitarian organizations are restricted from taking debt obligations onto their balance sheet. However, humanitarian organizations can facilitate debt transactions when taken on by a counter-party.

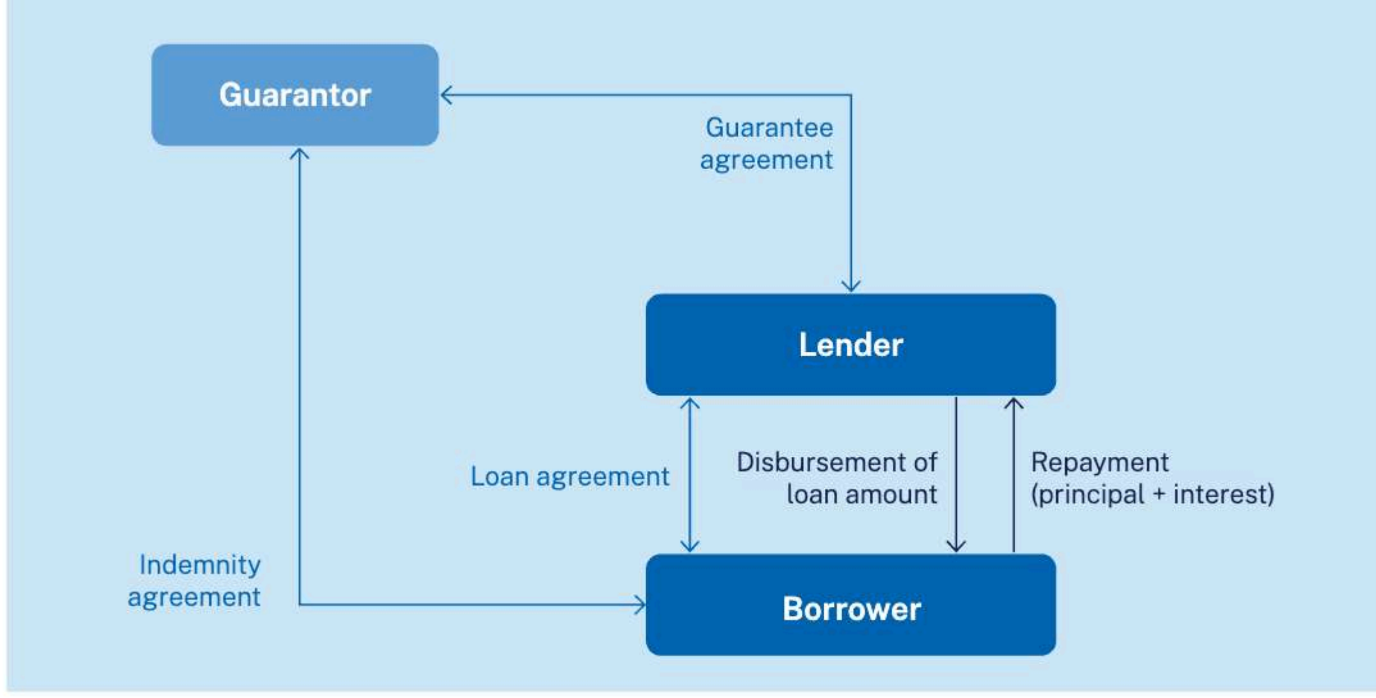
3.3. Guarantees

In the traditional market, higher-risk deals command higher interest rates, since lenders want to be paid for the risk they are taking. If a borrower can provide some form of credit enhancement, it can induce the lender to lower the interest rate or offer a longer term (repayment period) than the loan would otherwise warrant, making the loan more affordable for the borrower. Credit enhancements can take the form of cash set aside by the borrower to repay part of the loan. Alternatively, credit enhancements can be provided by third parties that will repay the loan should the primary borrower default. One of the most common types of credit enhancements is the loan guarantee.

Guarantees consist of a promise by another entity to pay the principal, interest, or both if the borrower is unable to make payments on their loan. The guarantee's provider may be required to place some funds aside, to demonstrate that it has the funds available to honor the guarantee if necessary (considered a funded guarantee). Alternatively, the guarantee provider may be able to demonstrate sufficient resources to cover the guarantee by sharing its financial statements (an unfunded guarantee). The provider of the guarantee may or may not charge the borrower a fee for the guarantee.

Guarantees can be provided by individuals (board members, for example), a parent corporation, an affiliated entity, government agencies, or foundations. In humanitarian and development finance, guarantees are typically provided by government agencies, bi-or multi-lateral banks, or development finance institutions (DFIs).

Figure 3: The basic structure of a credit guarantee



3.4. Equity

Equity is an instrument where an investor buys an ownership stake in a company and thereby secures a "share" in any dividends or capital gains that the business might generate in the future. If the company fails to attract buyers of its equity for a higher price than originally offered or is unable to generate excess profits for the payment of dividends, equity investors receive little or no profit on their investment. In the worst case, if the company declines in value or goes bankrupt, equity investors stand to lose most or all of their investment. An equity investor trades off the more certain returns that debt investors enjoy in exchange for the expectation of higher returns, either in the form of greater value appreciation (capital gains) or a share of the revenue streams of a company (dividends). In addition, private equity holders, that is, those who invest in companies whose shares are not listed on a regular stock exchange, in return for bearing the risk of illiquidity or uncertain repayment that this involves will often take seats on the board, have required consent rights over certain critical decisions of the company, and invest non-financial resources (talent recruitment, business development, strategic advice) to help the company grow and succeed.

With equity, the rate of return is based on the performance of the company. Aside from whatever dividends they might earn, equity holders typically recover their investment only when they "exit" – that is, when they sell their shares to other investors or when the assets of the firm are liquidated and proceeds distributed once the firm's other obligations, including those to debt holders, are satisfied.

Liquidity events for equity funders are unlike debt where the rate of return is defined in advance. In addition, an equity holder's claim on the assets of a company is subordinate to that of debt holders, who are paid first in the case of bankruptcy or liquidation.

Since the 1960s, venture capital and private equity have played an essential role in funding many of the advances in healthcare, operational equipment, and communications technology that are critical to the efficient provision of goods and services for humanitarian purposes. But since humanitarian organizations are typically incorporated as nonprofits and international organizations rather than corporations, the scope for a direct use of private equity instruments in stimulating innovation in the sector has been limited to date.

The rise of impact investors, funders that explicitly integrate social and environmental criteria into their investment processes, now has the potential to reshape humanitarian impact finance.

3.5. Outcomes-based finance

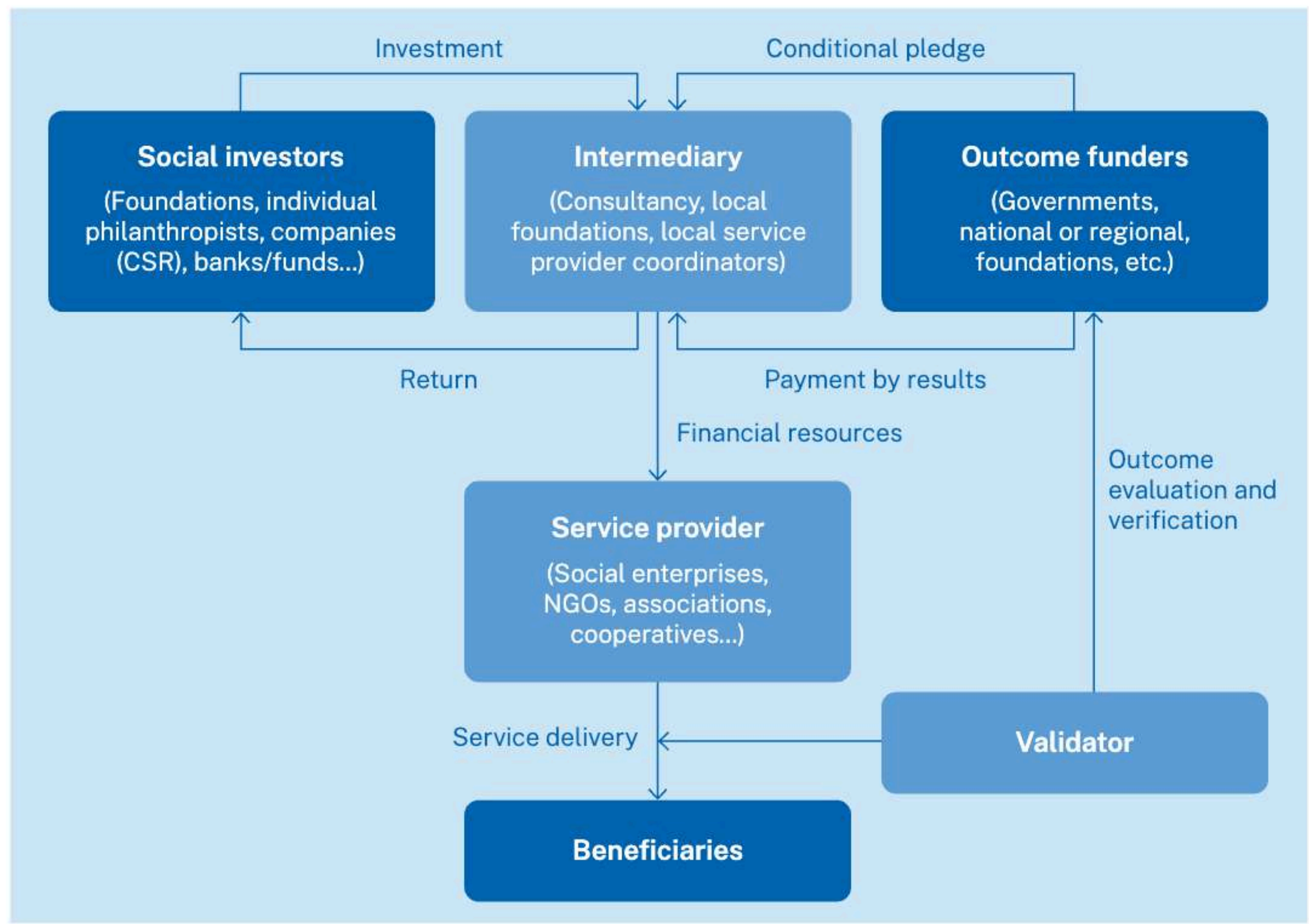
Outcomes-based finance (also referred to as pay-for-success) is a public-private partnership tool that combines performance-based contracting and private/public financing. By joining the two, governments are better able to align the procurement of, and payment for, services with the achievement of targeted social, environmental, or humanitarian outcomes.

In the first component, pay-for-performance contracting, the government contracts with a lead contractor/provider to implement an intervention that addresses a social problem with agreed-upon targeted outcomes that result in government payments only if success is achieved. In public finance, government contracts that are based upon the achievement of outcomes are not new, yet the concept is nascent in the arena of humanitarian finance.[7]

The second key component of pay-for-success contracts is that a third party funds the upfront operating capital required for the program. Tapping into private capital has three benefits: (1) it provides the necessary funds to ensure sufficient operational capital to launch and support the initiatives, (2) it transfers the risk of non-performance from service providers to investors, and (3) it creates a level of transparency that allows stakeholders to assess the impact of the program.

Should a provider achieve the agreed-upon social outcomes, the public entity pays for the project, and by extension repays the investors, the principal plus a previously agreed upon risk premium.

Figure 4: The basic structure of an outcomes-based finance scheme



[7] For additional information, refer to Oxford University's Government Outcomes Lab

3.6. Insurance

Insurance is a financial instrument that relies on risk pooling, which allows large groups of insured entities to share the losses resulting from the occurrence of an uncommon event. The insured entities, such as persons, businesses, households, communities, or even countries, are therefore protected from risk in exchange for a fee called a premium. The amount of the premium is determined by an estimation of the frequency and severity of the event occurring. For insurance to work, eight characteristics must be met:

1. A large population is exposed to the same risk to create a risk pool;
2. Policyholders must have limited control over the occurrence of the insured event;
3. The population exposed to the risk must have an insurable interest, which means that they would experience a loss if the event occurs;
4. Mechanisms must be in place to verify the occurrence of a loss and identify its cause and value;
5. Losses cannot be so catastrophic that a significant portion of the risk pool is affected at the same time;
6. There has to be a way to calculate the expected loss and chance of loss;
7. The premiums must be affordable; and
8. The insurance contracts must be enforceable.[8]

In development contexts, there is a strong focus on microinsurance: insurance products specifically designed to meet the needs of low-income individuals and communities in developing countries and crisis settings. For investors, foundations, and other humanitarian actors interested in supporting microinsurance, it is important to recognize that this is a relatively new tool.

There are several variants of insurance depending on context. Four aspects of differentiation are worth noting. The first differentiates insurance in terms of whether it is offered on a market basis, as a supplement to a government social protection system, or somewhere in between. The second is based on the nature of the contract, whether it is for individuals, families, a target segment, or meso-level coverage with an organization that then provides coverage to families/individuals. A third considers whether coverage is voluntary or mandatory. Finally, we might consider the type of risk that is being insured against, including life, health, agriculture, and disaster coverage.

3.7. Carbon finance

Carbon finance is a mechanism that leverages market-based approaches to reduce greenhouse gas emissions by monetizing the carbon reductions achieved by various projects. This involves the creation and trading of carbon credits, which represent a ton of CO_2 equivalent reduced, avoided, or sequestered. Projects can include renewable energy installations, reforestation efforts, energy efficiency upgrades, and more. These projects not only help mitigate climate change but also often generate additional benefits such as job creation, improved air quality, and enhanced biodiversity.

By putting a price on carbon, carbon finance incentivizes sustainable development and the transition to low-carbon economies. The definition of minimum criteria to ensure the quality of offsets as carbon credits is increasingly moving into view in the carbon finance industry. Next to ensuring that offsets can be expected to represent no more than their actual climate benefit, this increasingly involves scrutiny of the technologies involved and managing the risk of environmental or social harm in marginalized communities.[9]

In the humanitarian context, carbon finance can play a critical role in supporting recovery efforts in fragile and conflict-affected countries. Investments in carbon-reducing projects can provide vital resources for vulnerable communities, enhancing their resilience to climate impacts while promoting sustainable livelihoods. Projects funded through carbon finance can improve access to clean energy, foster sustainable land management practices, and support community-based initiatives that enhance food security and health outcomes.

[8] Redja, G. (1998). The Principles of Risk Management and Insurance. Boston: Pearson

[9] Haya, B. (2022). Detailed methods for assessing carbon offset quality (unfccc.int)

Humanitarian Impact Finance Approaches

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With a basic understanding of the financial instruments available, it is also important to understand the emerging approaches developed in fragile settings to unlock development and private capital that are willing to bear various levels of risk to achieve humanitarian impact. While each approach is unique, they are not mutually exclusive and therefore are often combined in various ways in practice.

4.1. Advisory model

The "Advisory Model" is an approach whereby humanitarian actors leverage their intimate knowledge and skills to advise investors in a way that enhances the social impact of a project. Investors might be multi-lateral development banks (MDBs), development finance institutions (DFIs), or private sector investors, from start-ups and venture capital to private equity. By leveraging the contextual knowledge of the humanitarian actors, investors can increase the humanitarian impact of the investment and mitigate social risks associated with the investment. In the process, project success is expected to further incentivize further investments.

"The Advisory Model seeks to prove that if investors and humanitarian agencies can develop strong partnerships leveraging their respective capabilities... then both the financial and humanitarian impacts of investments in fragile or conflict-affected settings will be enhanced, the financial risk to investors can be reduced and the amount of investment capital deployed in pursuit of humanitarian objectives will increase."[10]

The Advisory Model utilizes humanitarians as consultants and implementation partners that can drive community engagement and derisk the social impact of investments in conflict zones. The International Rescue Committee notes that these partnerships can take a wide variety of shapes and approaches – the key is that institutions across sectors try, build, and scale them. Table 2 identifies how the Advisory Model can add value for each respective actor.

Table 2: How Advisory Model partnerships add value

MDBs, DFIs	Ventures, Start-ups, PE	Governments
Bridges the gap between the intention of social impact investments and their actual implementation on the ground.	Leverages social impact and risk mitigation experience in communities affected by conflict and crisis.	Ensures more efficient, better-targeted use of grants and investment dollars, helping to ensure dollars and resources reach the communities that need them the most.
Provides a nuanced, informed view of the barriers to access and inclusion faced by the world's most vulnerable populations.	Helps to deliver goods and services financed by venture capital and private equity to vulnerable communities in a more targeted way.	Bridges the gap between humanitarian and social impact goals and requirements and investor efforts and reach.
Ensures more efficient, better-targeted use of investment dollars.	Offers necessary expertise to overcome barriers to access and inclusion in hard-to-reach communities.	Drives authentic community engagement rooted in deep experience on the ground.

Source: International Rescue Committee (2024): Advisory Model Partnership Playbook

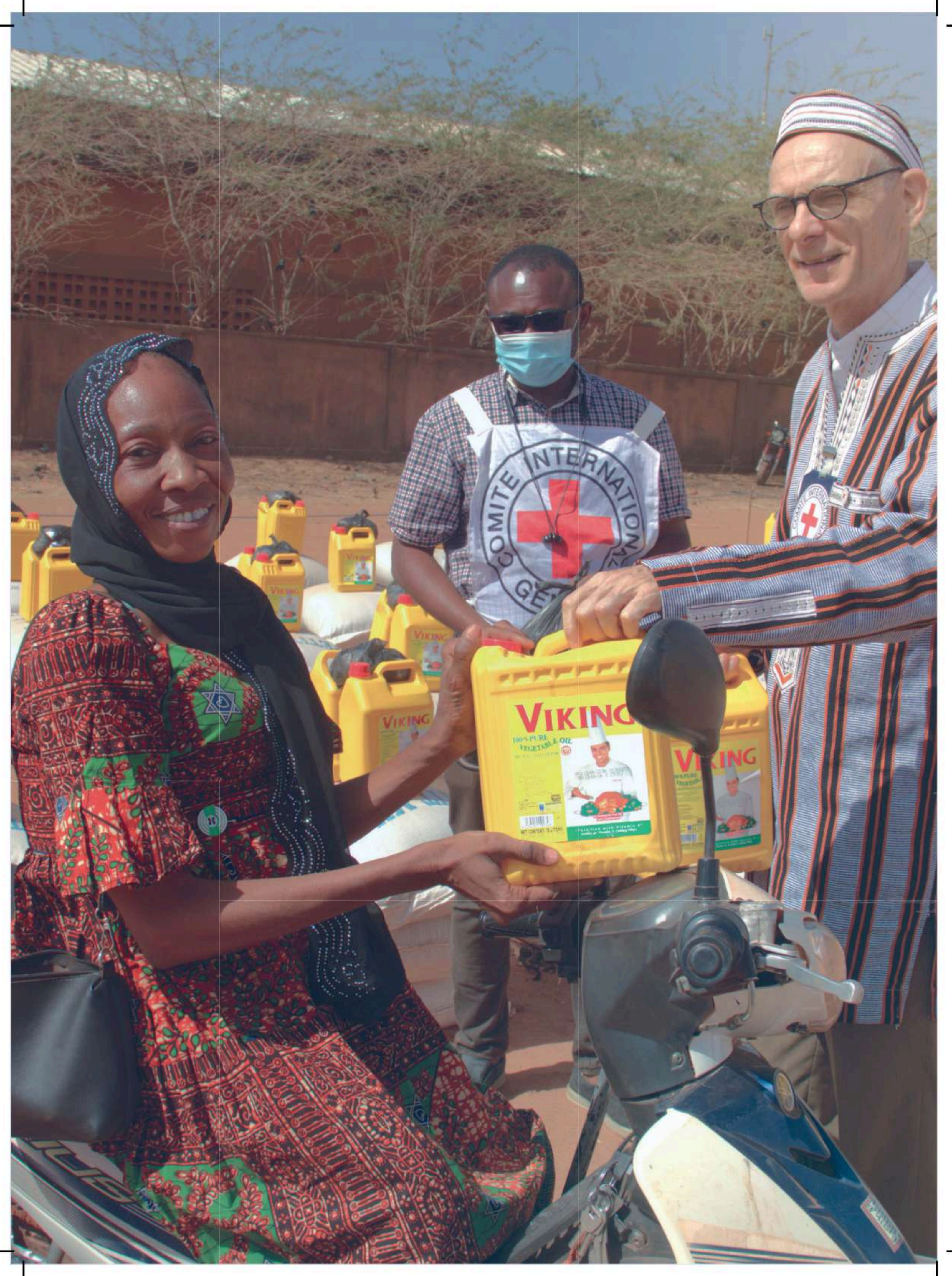
[10] World Economic Forum (2022). Cultivating Investment Opportunities in Fragile Contexts

Case: The Humanitarian Advisory & Technical Assistance Model

Partnership actors	International Rescue Committee (IRC) European Bank for Reconstruction and Development (EBRD) Global Concessional Finance Facility (GCFF) European Union (MADAD Fund) DG ECHO
Launch	2022–2024
Geography & sector	Jordan / WASH
Investment	EBRD loan of €25m Co-financed by investment grants of €20m from the EU's MADAD Fund, $2.5m from the GCFF, and €5.9m from EBRD to the Hashemite Kingdom of Jordan. Partial funding from DG ECHO Advisory Model grant of €0.7m.
Impact	120,000 people in West Irbid, Jordan to be served by wastewater infrastructure Support to more than 100 refugee entrepreneurs 70 staff and beneficiaries daily in Zataari IRC Health Clinic accessing clean drinking water
Problem	Jordanians and Syrian refugees, who account for 7% of Jordan's total population, urgently need sewage infrastructure to meet the needs of 120,000 people in the project area.
Solution	In partnership with the EBRD, the IRC has reached proof of concept in advising on a €65m wastewater infrastructure investment in West Irbid, Jordan. Financed through an EBRD loan co-financed by multiple partners and supported by the Ministry of Water and Irrigation and the Water Authority, the project addresses the economic, health, and sustainability needs of the local population and refugee community in West Irbid.

Derisking	As part of delivering the project on the ground, EBRD is partnering with IRC to deliver enhanced technical assistance, with IRC providing oversight and advice to EBRD on the project's community engagement plan led by the Jordanian Royal Scientific Society. The project demonstrates how humanitarian actors can leverage their unique, specialized knowledge on the ground and enables investors to make more inclusive and sustainable decisions around investments in fragile contexts. This work has ensured that Syrians and local Jordanians have a meaningful voice in the project. It has created a more inclusive process, enabling EBRD to achieve its social impact goals for the project.
Replication/scale-up	The EBRD-IRC partnership demonstrates the potential of the 'Advisory Model' and has supported the development of other humanitarian-investor partnerships in Jordan, which facilitate finance to businesses serving IRC beneficiaries, as well as scoping with additional country programs in Kenya, Lebanon, Iraq, Pakistan, Colombia, and Nigeria. The Irbid pilot project has helped unlock a pipeline of capital that has been identified for investment in humanitarian projects worth €300m. It demonstrates the value of blending humanitarian expertise and networks (funded by humanitarian grants) to projects that bridge the gap between the business, development, and humanitarian sectors and ensure the benefits of investment reach vulnerable communities. Trilateral partnerships from the UNHCR-World Bank-host government have mobilized billions of dollars through this approach.

Source: DG ECHO Pilot Initiative on Blended Finance for Humanitarian Aid (2024)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4.2. Blended finance

At a basic level, the innovation of blended finance comes from the deliberate use and structuring of financial instruments to catalyze public and private capital. Three pillars of blended finance (1) leverage, (2) impact, (3) returns influence why and how development, humanitarian, and philanthropic capital providers use catalytic financial instruments. Mobilizing private capital to new markets or sectors can require support, either by reducing risks or increasing returns when the risks are high. For example, providing grants to absorb transaction costs or certain risks can improve investment viability, while incorporating debt or equity into the capital structure with highly flexible or favorable terms can unlock financial returns.

Development and humanitarian actors typically apply these financial instruments in four different ways to encourage private capital flows into emerging and frontier markets.

4.2.1 Technical assistance (technical/ operational expertise)

Technical assistance (TA) is a core tool to attract public and private capital to development and humanitarian projects. It helps to overcome knowledge gaps that restrict the development of new projects. Concessional funding (e.g., grants) can be used to provide advisory services, incubation, operational assistance, training, and other professional services to improve the business viability of investee projects or enterprises and thus enhance investment performance. TA can be integrated directly within a blended finance fund or facility or operate as a separate entity.

The advantage of TA is its ability to leverage capital which can lead to several benefits, including:

- Greater project viability
- Improved performance of investee enterprises, leading to enhanced investment performance
- Enhanced local knowledge and capacity, which benefits across the full project cycle
- Ability to cover upfront costs (e.g., project preparation) that would otherwise have been covered by investors, thus increasing the return on investment

Table 3: Common uses of financial instruments for humanitarian finance

Grants	Flexible debt	Guarantees	Junior equity
Funds costs and activities that lead to investment	Favorable terms shift risk-return profile	Risk reduction tools that protect investors against capital losses or provide credit enhancement	The subordinate position absorbs the highest risk
Capital structure Grants → Debt Equity	Capital structure Debt Flexible debt Equity	Capital structure Guarantee Debt Equity	Capital structure Debt Equity Junior equity

Case: Goma West Resilient Water Project

Partnership actors	International Committee of the Red Cross (ICRC); Swiss Agency for Development and Cooperation (SDC); Swedish International Development Cooperation Agency (SIDA); Fondation Lombard Odier; Slovenia; World Bank; GIZ (via funding from USAID)
Launch	2022
Geography & sector	Democratic Republic of Congo / WASH
Investment	$15m (plus an additional $15m pending final approval) in concessional finance (grants/loans to host government) from World Bank; CHF 7-8m grants from Fondation Lombard Odier, SIDA, SDC, Slovenia; $2m (GIZ via USAID)
Impact	Access to affordable, clean water: targeting 500,000 people in Goma, Democratic Republic of Congo
Problem	Nearly half of the Goma population lacks access to affordable, clean water. This problem has been met with inadequate stop-gap solutions for decades.
Solution	Having explored innovative approaches to partnering and financing, ICRC is implementing preparatory works (supported by CHF 7-8m ($8m-$9m) in grants from Fondation Lombard Odier, SIDA, SDC, Slovenia), that enable the World Bank to provide $30m in concessional finance (grants and loans for the host government) and implement the lion's share of the project: the design and building of the water infrastructure and a financially sustainable operating model afterward, with significant private sector participation. GIZ, funded by USAID ($2m), is setting up the provincial water authority.

Derisking	The ICRC has termed the Goma approach as Humanitarian Blended Finance (HBF), which involves the strategic sequencing or blending of grants to prepare the ground for development institutions to step in with larger quantities of concessional finance, including grants, loans, and potentially guarantees, for the host government. Through a co-creation process between the ICRC, local service providers, DFIs, and traditional donors, the project is brought to the necessary level of maturity. This ensures that humanitarian grant-funded interventions embed the essential conditions for a handover to development institutions and host governments. (The ICRC can maintain advisory functions). The model facilitates private sector participation through seed funding, TA, and design-build-operate models.
Scale-up	By 2027-2030, if supported, the ICRC could enable CHF 632m of investments and access to water for more than eight million people affected by conflict in DRC and beyond, at an estimated cost to the ICRC of CHF 87-88m of additional financing over ten years, with CHF 45m already secured.
Replication	In 2019, the Swedish International Development Cooperation Agency (Sida), UNHCR, and the Grameen Crédit Agricole Foundation (GCAF) launched a four-year program to promote access to financial and non-financial services for refugees and host communities in Uganda.[11] SheCan combines investment capital from crowdfunding campaigns and impact investors with donor funds from WFP.[12] By offering capital at below-market interest rates to selected MFIs, the initiative aims to incentivize them to provide affordable financing to women smallholder farmers and micro-entrepreneurs.

Source: ICRC (2022), Partnerships, financing solutions boost safe water access in DR Congo

[11] UNHCR (2019). Sida, UNHCR and Grameen Crédit Agricole Foundation join hands to promote access to financial services for refugees and host communities in Uganda

[12] World Food Programme (2023). Changing lives through innovative finance: 7 lessons learned from WFP's SheCan Initiative | by WFP Innovation Accelerator | Medium

4.2.2 Risk underwriting

Risk underwriting instruments can either improve the credit profile of companies and projects seeking to raise more or cheaper capital or provide comfort to investors that they will be able to recover their investment or absorb smaller losses if events negatively impact their returns, effectively shifting the risk-return profile of an investment opportunity.

Two of the most common types of risk underwriting tools are insurance policies and guarantees. Insurance policies are contracts issued by a third party agreeing to make a payment in the event of a particular event happening, preserving the capital for the lender. Risks could include expropriation, war, terrorism, civil disturbance, and breach of contract, all of which may impact the value of the investment. In this way, they can reduce actual or perceived risks.

A guarantee is a commitment by one party (the guarantor) to assume the debt obligation of a borrower if the borrower defaults. For example, a guarantee can be used to ensure that if a company fails to repay the lender, a development funder will cover part of the repayment. Guarantees can help to ensure that investors receive a minimum level of returns, or can limit an investor's losses if an investment underperforms expectations. 'First-loss' guarantees are one particular guarantee instrument that states that the development funder will absorb the initial losses associated with an investment.

Other forms of risk underwriting include currency hedges and interest rate swaps which can be used to smooth out volatility and market fluctuations and protect investors against excessive volatility and losses.

Benefits of risk underwriting include:

- Making more development projects commercially viable, by shifting the risk-return ratio and reducing the cost of capital.
- Enabling development funders to support a larger number of projects than other instruments. Instruments such as guarantees and insurance policies typically require no immediate outlay of capital and only require funding when called, which will only happen in a proportion of cases.
- The ability to respond to project needs and/or investor needs, to ensure funds are channeled into the highest impact sectors.

Case: Classic Fashion & GuarantCo

Investment manager/ implementation partner	GuarantCo (PIDG)
Private finance funders	Standard Chartered Bank
Launch	2019
Investment	$42.5m development investment adapted to better meet refugee needs
Impact	The guarantee will enable Classic Fashion to employ and train around 1,000 Syrian refugees, as well as Jordanians and migrant workers living in Jordan, over the next four years.
Model	The facility will support the Classic Fashion Apparel Industry (Classic Fashion), Jordan's largest garment manufacturer, and construct and expand its manufacturing facilities. GuarantCo will also provide employment training to support youth and refugees to find employment opportunities in the garment sector. GuarantCo provided a guarantee, enabling Standard Chartered to provide a loan to the facility. GuarantCo also provided technical assistance funding through the PIDG Technical Assistance Facility to co-finance training activities for Jordanian youths and Syrian refugees, particularly women, to help increase their employment opportunities in the Jordanian garment sector. Jordan, in cooperation with partner countries, is in the process of implementing the 'Jordan Compact', a political commitment to integrate Syrian refugees into the Jordanian labor market. Classic Fashion has embraced the concept of combining its business model with the wider humanitarian agenda to employ more vulnerable populations, particularly women, to improve inclusive economic growth.[i]
Replication/Scale-up	Credit guarantee schemes are widely acknowledged to be one of the most market-friendly solutions to help overcome major barriers to credit for (infrastructure) projects and businesses in emerging markets. The guarantees essentially function (i) as credit enhancements to facilitate investments, (ii) to stimulate local capital markets development and investments by local financial institutions and international financial institutions, and (iii) to reduce project risk by eliminating foreign exchange risk. Convergence, the largest data aggregator of blended finance transactions estimates that the total deal volume of GuarantCo has surpassed 35 deals in excess of $4bn.

Source: Convergence Deals Database (2024)

4.2.3 Risk transfer (concessional debt & equity)

A first distinction can be made between equity and debt. At a high level, equity entails a higher level of risk and is essential in the initial phases of a company's development. This type of capital empowers companies to channel funds into growth initiatives without an immediate focus on generating returns or achieving profitability. Coming in at an early stage increases the return potential (both in terms of impact and financial return) for equity investors. Equity investors acquire a partial ownership stake in the company, a characteristic that restricts its applicability for any entity like a charitable foundation or government organization that is not incorporated as a for-profit entity with shareholders. It may however be possible to set up for-profit special-purpose vehicles that are suitable for equity investment.

Conversely, debt usually involves a lower level of risk and becomes essential in the later stages of a company's development once it is able to generate a cash flow that allows for debt service. This form of capital infusion allows the company to secure funds without diminishing ownership stakes. Debt investors derive greater advantages from the reduced risk associated with debt investments compared to equity, while simultaneously contributing additional capital to the private market. Generally, debt investors prioritize a lower risk profile, aiming for a more modest target return. The main benefit of using straight debt and equity is that they are established instruments easily understood by the private sector and other stakeholders.

After deciding between equity and debt, considerations arise regarding subordination and concessionality. We clarify these (non-mutually exclusive) concepts below.

- **Subordination:** taking a junior position and a lower priority when it comes to repayment.
- **Concessional:** accepting a lower return and/or longer time horizons, also referred to as patient capital.

It is worth noting that pooling grants from donors with market-rate lending capital is a longstanding practice in development finance. Traditional development finance funders and humanitarian funders may thus be active in overlapping geographies. Taking a cockpit view of who funds what can help to identify new potential partners and drive efficiency.

Case: Lives and Livelihoods Fund (LLF)

Investment manager/ implementation partner	Islamic Development Bank
Additional funders	Founding members include the Islamic Solidarity Fund for Development (contributed $100m), the Bill & Melinda Gates Foundation (up to $100m), the King Salman Humanitarian Aid and Relief Centre ($100m), the Qatar Fund for Development, the Abu Dhabi Fund for Development (each donated $50m), and the UK Foreign, Commonwealth & Development Office (FCDO) (£20m ($25.7m)).
Launch	2016
Investment	From 2016–2020, up to $2.5bn available for eligible projects in member states, of which over $1.4bn allocated. [I]
Problem	Of the more than a billion people living in absolute poverty worldwide, about 400 million live in member countries of the Islamic Development Bank. Domestic tax revenues in the least developed and lower middle-income member countries are not rising fast enough to replace dwindling official development assistance. These countries need to borrow funds for development projects, but most face huge barriers. Innovative financing is therefore vitally important.
Solution	The LLF is a pool of donor grants and Islamic Development Bank lending capital. Funds are held in a multi-donor trust fund administered by the Islamic Development Bank. Low-and lower-middle-income countries can borrow funds on concessional terms to finance agricultural, health, and infrastructure projects. By pooling grants from donors with ordinary (market-based) lending capital from the Islamic Development Bank, LLF offers low-income member countries concessional financing resources for essential development projects. Depending on the region where the projects take place, countries are eligible for a 10% or a 35% grant. [II]
Impact	Projects aim to raise living standards among the poorest citizens in member countries via the following interventions: Lessening childhood mortality and disease; lessening maternal and neo-natal deaths and stunting; boosting production of staple crops and livestock by smallholder farmers and pastoralists; providing smallholder farmers and producers with better access to markets; providing better access to water and sanitation services; providing better access to power; and providing better access to digital financial services.
Derisking	The core idea of the Lives and Livelihoods Fund is to massively scale up the concept of using grants to boost concessional lending, thus lending on terms substantially more affordable than loans at market rates to raise living standards in member states, several of which are located in fragile and conflict-affected states.

Source: Lives and Livelihoods Fund [I+II+III] 2022 2021 2024

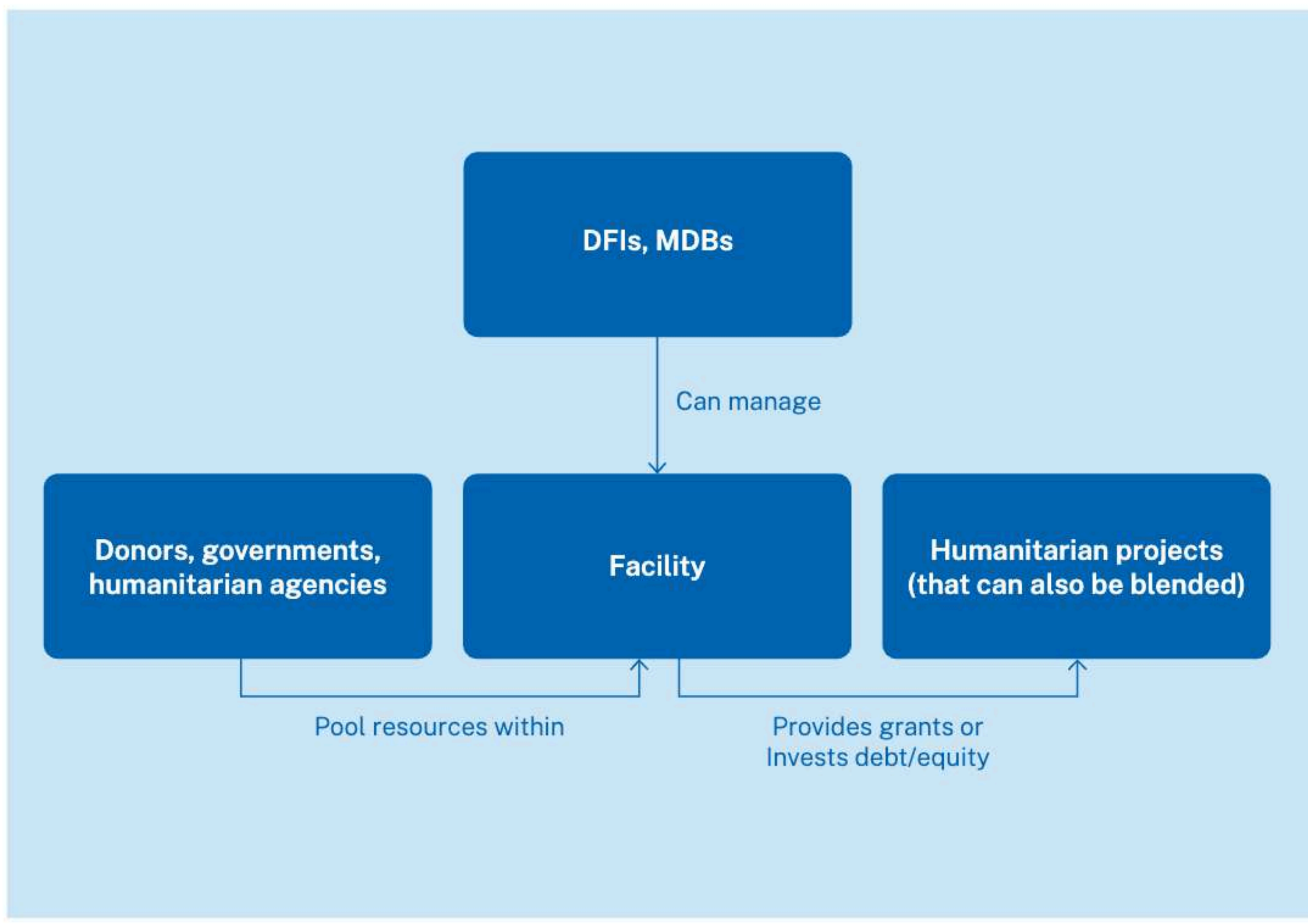
4.3. Funds & facilities

4.3.1 Facilities

A facility is an aggregated pool of grant funds from development and humanitarian donors that is allocated towards projects that align stakeholders behind a specific humanitarian or development challenge and encourage innovation and/or the mobilization of additional funding. Due to their concessional funding and mandate, facilities often target the earlier stages of project exploration and development, investment in innovation, start-ups, or small enterprises that commercial investors find unattractive or provide funding for technical assistance. Facilities allow donors to operate where their presence or activities are limited, raise the profile of under-targeted development issues, and boost alignment, coordination, and knowledge exchange between various donors.

By definition, facilities only pool grants provided by donors and other providers of development capital whereas flat and structured funds are also funded by commercial investors. Capital deployed is often in the form of grants but can also be deployed through loans, and in rare cases, equity participation.

Figure 5: The basic structure of a facility



Case: Women Entrepreneurs Finance Initiative (We-Fi)

Partnership actors	World Bank, African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Islamic Development Bank (IsDB), Inter-American Development Bank Group (IDBG), International Finance Corporation (IFC) • International finance institutions • Commercial capital • Country donors ($380m to date)
Launch	2017
Geography & sector	Global/women's empowerment & economic development
Investment	Exact figures TBD
Impact	158,000+ women-led/owned enterprises (WSMEs) reached $3.6bn to WSMEs across 80 countries and 398 Intermediary Partners
Problem	Women entrepreneurs play a critical role in economic development by creating jobs and boosting growth. However, women face numerous challenges to financing, owning, and growing a business, including access to capital and technology, lack of networks and knowledge resources, limited market linkages, challenging social and cultural norms, as well as legal, regulatory, and policy obstacles to business ownership and development.
Solution	The objective of the We-Fi is to address financial and non-financial constraints faced by women-owned/led small and medium firms in IDA and IBRD-eligible countries and territories. The We-Fi aims to achieve this by mobilizing more than $1bn in commercial and international financial institution (IFI) finance for entities that provide women entrepreneurs with access to debt, equity, venture capital, insurance products, capacity building, networks and mentors, and opportunities to link with domestic and global markets; and for governments to improve the business environment for women-owned/led small and medium firms. Projects are implemented in over 80 countries with 58% of the funds going to low-income (IDA-eligible) countries, including many facing fragile and conflict-affected situations. It has mobilized $3bn in public and private funds.

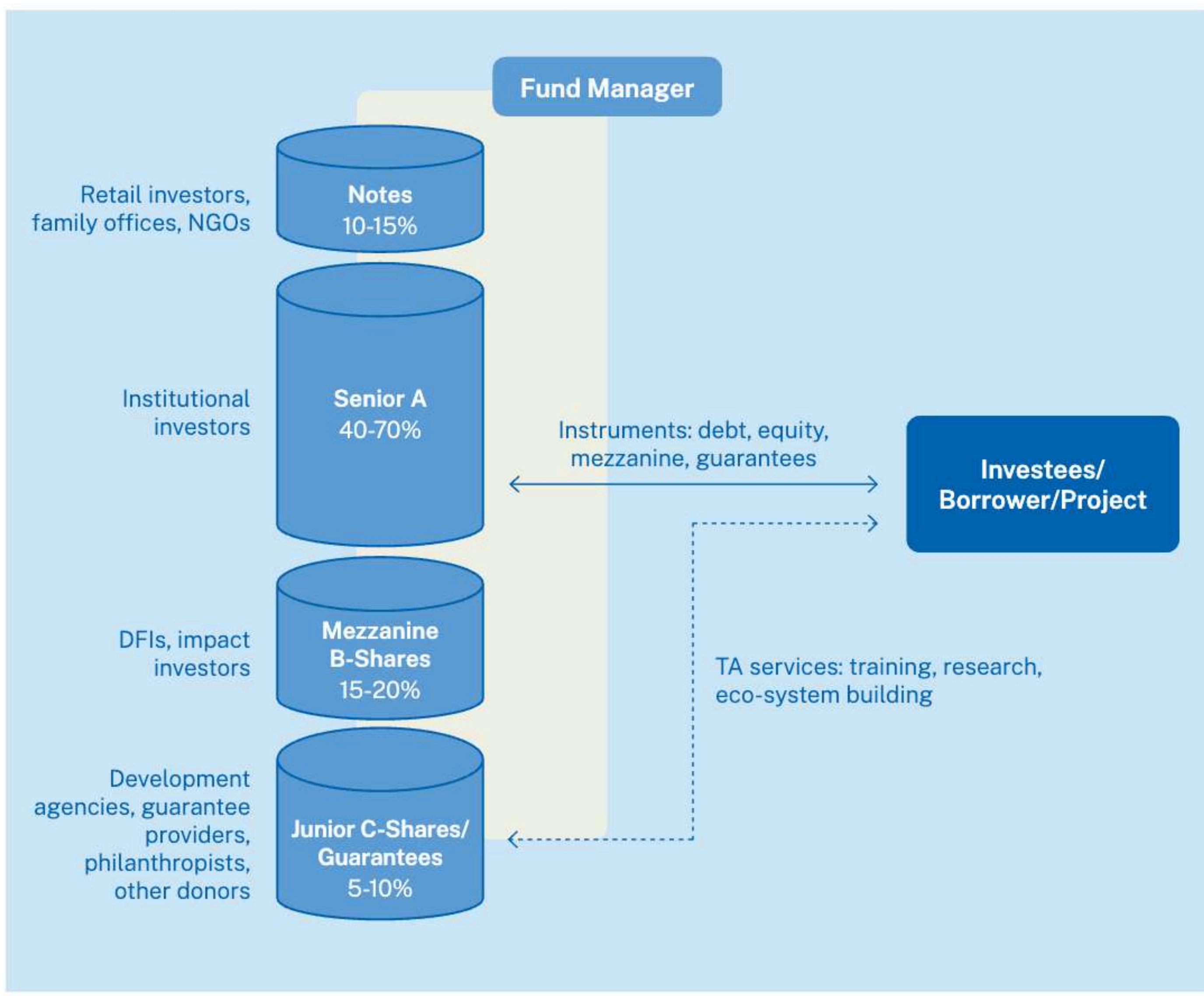
Derisking	We-Fi, founded in October 2017, harnesses the public and private sectors to open new doors for women entrepreneurs across the developing world. With funding of $354m from 14 governments, this collaborative partnership among governments, multilateral development banks, and other stakeholders has been designed to unlock financing for women-led/owned businesses in developing countries, including in the most challenging environments.
Replication/scale-up	UNHCR: Green Financing Facility: Mobilized $20m (out of a target of $60m) of additional and diversified funding, from new donors and new budget lines (development, climate) from donors. WFP Innovation BRIDGE (funding facility established with UNCDF, a new funding facility offering concessional loans and guarantees, ranging in investment size between $250,000 to $2,000,000, to innovative impact businesses that contribute to the Sustainable Development Goal 2: Zero Hunger.

Source: World Bank Group: Women Entrepreneurs Finance Initiative (We-Fi) (2024)

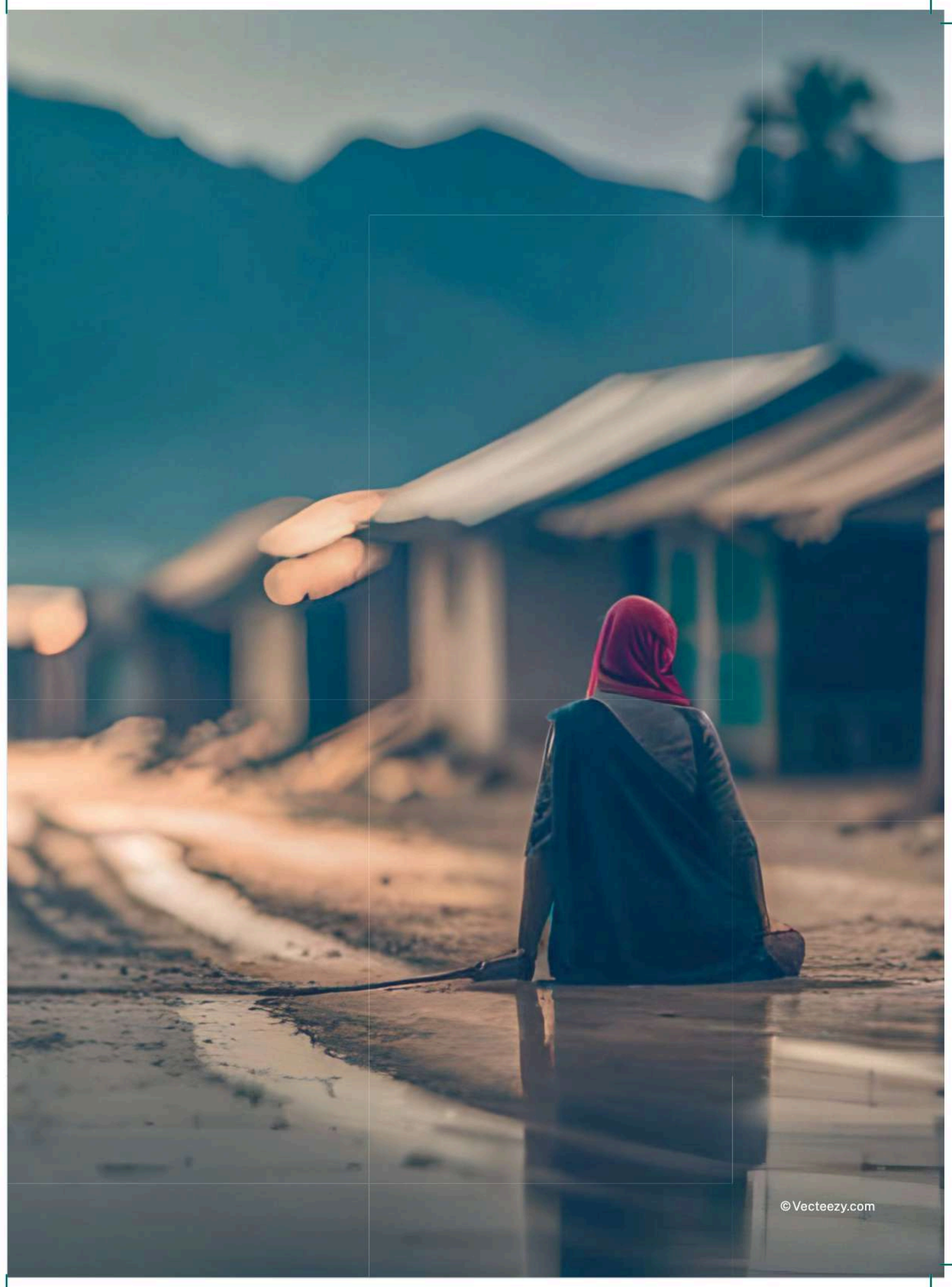
4.3.2 Structured funds

Structured funds are investment vehicles that are capitalized by multiple tiers of capital to mobilize additional (international and local) private capital providers with differentiated risk-return-impact profiles for humanitarian impact. Structured funds usually make debt or equity investments either to projects or companies aligned with pre-defined humanitarian objectives. Structured funds are often combined with a Technical Assistance (TA) facility, in essence sharing substantial overlap with the Advisory Model, where the TA is directed to support investees or projects to achieve a positive impact for end beneficiaries or strengthen the local ecosystem.

Figure 6: The basic components of a structured fund



Source: Adapted from König, A., Jackson, E. (2016): Private Capital for Sustainable Development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Refugee Investment Facility (RIF)

Partnership actors	Danish Refugee Council (DRC) iGravity
Launch	May 2022–December 2024
Geography & sector	Jordan & Uganda / SME Finance & Economic Development
Investment	The initial investment window is projected at $3.7m financed by private sector investors, with a combination of private impact investing funds and private philanthropy. DG ECHO (€0.9m to support the TA window of the fund as well as the fund management and execution)
Impact	Increase in opportunities for decent work and access to goods and services for at least 27,000 refugees
Problem	DRC's market analysis shows that refugee hosting areas face significant hurdles to attracting commercial activity and livelihood opportunities and service levels are low.
Solution	The Refugee Investment Facility (RIF) aims to address the challenges of lack of economic opportunity and limited access to services and goods that are faced by refugees, with an initial focus on Jordan and Uganda. It aims to show a model for filling the gap in financing for protracted refugee crises that affect humanitarians' ability to support economic opportunity, service, and product delivery through sustainable market channels and private sector actors. The innovative financing vehicle is the structuring of the fund itself, which combines technical assistance and business development support for SMEs, enabled by advisory services from DRC staff and smaller technical assistance grants (€0.1m), with an investment window (€3.7m) offering favorable financing through impact-linked loans and other financial instruments which are provided to the companies to grow their businesses against key impact targets. The SMEs are carefully vetted and assessed for their ability to generate humanitarian impact in four areas 1. Increase employability, 2. Increase decent and sustainable employment, 3. Deliver services or products not currently widely available to refugee hosting areas, 4. Support financial inclusion of refugees and host communities.

Derisking	The fund operates with a seed and scale financing window. In the seed window, companies can access up to $250,000 in financing, and in the scale window, they can access between $250–700,000 in debt financing. Financing terms will be structured according to the needs, impact opportunities, and maturity of each investee, with a maturity of financing of 3–5 years and clear refugee/host community impact metrics according to the four impact categories of the fund. The main instrument used is impact-linked loans, whereby financing terms are tied to the impact delivered, and a detailed impact plan (results framework) is developed with each enterprise. The RIF has also developed a suite of standard operating procedures and impact measurement tools for humanitarian-focused investments.
Replication/scale-up	RIF aims to scale to further countries (e.g., Kenya).

4.4. Debt swaps & debt conversion

Another pioneering approach employing debt instruments is illustrated by the use of debt swaps for humanitarian action. The approach was inspired by the growing success of debt-for-nature swaps in the past decade (also referred to as "blue bonds"). For example, together with The Nature Conservancy (TNC) and commercial banks, the U.S. International Development Finance Corporation (US DFC) restructured the sovereign debt of a country (e.g., Belize, Ecuador, Gabon) to both reduce the debt burden of the country – part of the savings is then committed towards environmental protection.[13]

While debt swaps are typically denominated in hard currency (e.g., USD or EUR), debt conversion issues the new debt in "soft" (i.e., local) currency.

Case: Humanitarian Debt Swap

Investment manager/ implementation partner	International Rescue Committee
Development finance funders	US International Development Finance Corporation (DFC); Country Government (TBD)
Additional investors	Commercial Investment Bank
Launch	2024 (initial phase)
Investment	€100m in social investment for humanitarian aid (projected – and subject to a future phase of the project)
Impact	Country hosting >100k displaced persons (potential beneficiary pool) to be targeted.
Model	IRC aims to bring together a Development Finance Institute (DFI), a commercial investment bank, and a country government to execute a sovereign debt restructuring – buying back existing sovereign debt at a discount to be funded by the sale of 'aid' or 'humanitarian' bonds to 'ESG' (Environment Social and Governance) investors – who seek lower financial returns but some form of social impact on their investments. With a political risk guarantee mechanism made available by the US DFC, the bonds would have a higher credit rating and lower interest rates. In exchange for restructuring the debt, the country would commit a portion of the savings towards new funding for frontline and fragile communities, such as refugee and host communities. This money would be administered by a grant-making trust fund managed by a separate board composed of civil society and government stakeholders. The use of proceeds would be proposed by IRC and negotiated and formalized in trust fund governing documents as well as the new bond issuance documents in advance of the debt-swap transaction.

Replication/Scale-up	Additional market opportunities: Debt swaps enable countries to gain access to cheaper, re-financed debt, thereby reducing their financial burden and simultaneously contributing to a fund that will deliver social impact projects. For humanitarian actors, the proceeds of the swap would capitalize a fund dedicated to humanitarian assistance in line with humanitarian principles – representing a significant new source of funding for both local and international organizations. Although the current project is only in the preparation phase, it is expected to have a fully formed project team that would be ready to deploy in 2025/6 (likely requiring further funding to support the IRC's continued advisory role to the transaction). The project could serve as a template for other countries with distressed debt. Innovative finance originated in global public health, and humanitarian funders can expect public health to continue to originate novel approaches that are worth adapting to humanitarian action. For example, Debt2Health (D2H) is an innovative financing mechanism piloted by the Global Fund that is designed to increase domestic financing in health by converting debt repayments into investments in public health.[14] Under individually negotiated debt swaps, a creditor nation foregoes repayment of a loan if the debtor nation invests all or part of the freed-up resources into a Global Fund-supported program. Aligning with its national health strategy, the debtor nation then channels the proceeds towards one of the health priorities targeted by the Global Fund (HIV, tuberculosis (TB), malaria, and resilient and sustainable systems for health (RSSH) programs). Next to their conventional contributions, donor governments can also make resources available through debt swaps, such as Germany's pledge which consisted of a €700m ($759m) core pledge and an additional €100m ($108.5m) D2H pledge. This translated into four distinct debt swaps. Since the inception of Debt2Health in 2007, the Global Fund's Debt2Health program has converted debt repayments into lifesaving investments in health. The Global Fund has a worldwide track record of 12 transactions involving three donors (Australia, Germany, and Spain) that have generated $226m in health funding for 10 debtor countries. Germany has been the leading supporter of D2H, both in piloting the concept in 2007 and in supporting the scheme as a creditor in multiple subsequent transactions. Estimates from debt swaps initiated by the World Food Programme similarly suggest that they have been able to mobilize more than $120m through debt swaps over the past decade. In its 2024-2026 management plan, WFP continues to advocate the use of debt relief measures, including by brokering debt-for-development swaps.[15]

Source: DG ECHO Pilot Initiative on Blended Finance for Humanitarian Aid (2024)
See also: Debt Conversion for Humanitarian and Climate Impact (ICRC, 2023)

[13] US DFC (2023) Empowering Galápagos marine conservation
[14] The Global Fund (2022). Debt2Health: Collaboration Through Financial Innovation
[15] WFP (2023). WFP management plan (2024–2026)

4.5. Insurance

Most funding received by the international humanitarian system is reactive; a significant portion of fundraising occurs only after a crisis has erupted and in response to a humanitarian action plan. While this approach enables donors to target specific components and tasks within the humanitarian effort, the process is frequently slow, inefficient, and subject to extensive earmarking.[16] For sudden-onset, large-scale crises like the 2015 earthquakes in Nepal or the rapid influx of Rohingya refugees to Bangladesh in 2017, humanitarian responders waited for more than two months for a donor-pledging conference.[17]

When funding is delayed, it can mean that the critical window for meeting urgent needs at the beginning of a crisis is missed. This often places the burden of immediate relief on local authorities, who might be struggling to function and typically lack the funding access of international responders. The late arrival of funds can lead to a surge of resources when the state and local communities are least capable of absorbing them. This results in a heavy reliance on international humanitarian agencies, often concentrating on tangible, short-term humanitarian projects rather than on solutions that tackle the crisis's deeper root causes.

The question is, how can humanitarian organizations mobilize funding that would enable them to become vastly more proactive in case of human-made and natural disasters in their geographies of intervention? To the extent that scenarios can be defined and modeled upfront, insurance mechanisms are well suited to responding rapidly to such foreseeable future events.

They have been used for many years for disaster risk and political risk insurance, but have not been used in higher-risk, conflict-related crises. One of the more popularized examples of insurance approaches in response to humanitarian needs is illustrated by disaster risk insurance.

Disaster risk insurance mechanisms are receiving increased attention and large-scale funding from donors and development communities. Insurance presents opportunities to improve disaster risk management, adapt to climate change, and reduce poverty by generating broader benefits and providing financial security against disasters, including geophysical and climate-related events such as droughts or floods. A common form of disaster risk insurance is parametric insurance, meaning it triggers a payout from the insurer when a disaster occurs based on agreed triggers, built on complex data-driven models. The insured party pays a fixed amount at regular intervals (a premium) for this coverage. Both the size of the payout and trigger criteria (e.g., when a tsunami hits or rainfall falls below a certain threshold) are pre-agreed. Because there is no need to provide proof, there is no time lag between the incident and the payout.

[16] HPG Commissioned Report (2019). New financing partnerships for humanitarian impact

[17] Backhurst, J. (2018). Honor the promises: one year from the Rohingya pledging conference. London: Christian Aid

Case: Caribbean Catastrophe Risk Insurance Facility

Investment manager/ implementation partner	World Bank
Development finance funders/sovereign funders	13 member governments
Additional investors	Multi-Donor Trust Fund (MDTF)
Launch	2008
Investment	$85m
Impact	The facility will enable Caribbean countries to quickly address public needs in the event of a crisis. Liquidity available via insurance payouts allows governments to start recovery efforts while maintaining essential government services in the aftermath of natural disasters. Since the inception of CCRIF in 2008, the facility has made 36 payouts to 13 member governments totaling $103m.
Model	The CCRIF provides short-term liquidity to Caribbean governments in the event of catastrophe via insurance contracts. The CCRIF is the first multi-country risk pooling mechanism. It was designed as a regional catastrophe fund for Caribbean governments to limit the financial impact of devastating hurricanes and earthquakes by quickly providing financial liquidity when a policy is triggered. The CCRIF was developed by the World Bank and was capitalized through contributions from a Multi-Donor Trust Fund (MDTF) as well as membership fees paid by participating governments.

Source: Convergence Deals Database (2024)

4.6. Outcomes-based finance (market incentives/results-based finance)

Outcomes-based finance aims to support investment in sectors in which much higher social impact is possible, but in which normal market mechanisms do not exist to readily mobilize the necessary additional resources required, or to provide stable price and demand signals to help ramp up supply in the face of latent demand. They are particularly important in segments that require innovation around economies of scale or new products and services that address development outcomes, for example by creating potential for commercial markets where they did not originally exist. They are generally structured as contracting agreements that provide a guarantee for payments against products and services based on performance or supply, or in exchange for upfront investment in new or distressed markets. Examples include a wide range of instruments, including advance market commitments, awards, prizes, challenge funds, matching funds, and social and development impact bonds, among others.

Market incentives can provide investors with visibility on pricing and revenue to create new markets. For example, by guaranteeing the pricing of products above current market prices, investors remove market uncertainty by locking in a margin. This can encourage scaling production to naturally reduce overall pricing in the future. In such instances, visibility into financial returns enables investors to quantify the risks and make informed investment decisions.

Market incentives can also be used to address capital-intensive activities where investors provide upfront funding for development interventions and donors or governments repay them with a premium based on the outcomes of the intervention to help smooth out sometimes unpredictable grant flows when there is an immediate capital need.

Benefits of market incentives include:

- Providing investors with visibility on pricing and revenue, removing market uncertainty.
- Smoothing out cash flows for development projects.
- Encouraging capital to move into sectors with high development impacts that are typically underfunded.

C.S. IBO

Case: ICRC Humanitarian Impact Bond

Actors (public/private)	• Outcome funders: The Kingdom of Belgium, The Swiss Confederation, The Republic of Italy, The United Kingdom, "la Caixa" Foundation • Service provider: International Committee of the Red Cross (ICRC) • Investors: Munich Re (via its subsidiary New Re); several sophisticated investors including Fondation Lombard Odier
Implementation	2017–2022
Regional focus	Democratic Republic of Congo, Nigeria, Mali
Sector focus	Physical Rehabilitation in Humanitarian Contexts
Deal size	Loan value: CHF 18.6m; outcome funding committed: CHF 26m
Problem	The International Committee of the Red Cross wanted to pilot a new way to finance R&D investments to bolster its operational productivity by supplementing its annual budget with private capital. It identified three longer-termed programs, that under its traditional annual budget system may be passed over, could benefit: the training of physical rehabilitation specialists and the construction of new physical rehabilitation centers, testing and developing new efficiency-improving measures, and developing a new IT tool. Simultaneously, public donors and private sector investors were interested in a transparent and outcome-based approach to their humanitarian aid efforts.
Why was private capital needed?	Private capital was a much-needed additional funding source at a time when traditional sources fell short of meeting the demand. An ancillary advantage was the introduction of an investment logic, and the ability to support longer-term projects that might otherwise receive lower priority within the ICRC's typical annual budgeting cycle.

Instrument (brief description, including key actors)	The ICRC received upfront loan capital from investors to finance three interventions: 1) building and staffing three new physical rehabilitation centers in the Democratic Republic of Congo, Nigeria, and Mali, 2) piloting and implementing a range of efficiency improvement measures and 3) developing and deploying a new digital center management system. Investor returns were contingent upon the achieved staff efficiency ratio, which measured the number of mobility devices outfitted per prosthetic and orthotic professionals employed at the centers. The outcome funders disbursed payments to investors following third-party verification of the staff efficiency ratio.
Impact	The ICRC implemented all three interventions. Despite setbacks resulting from the COVID-19 pandemic in the region and two military coups in Mali, the newly constructed centers operated with 9% greater efficiency compared to benchmark facilities. Consequently, investors received back their full initial investment. Moreover, the Humanitarian Impact Bond spurred the creation of a New Financing Models unit within the ICRC, which sought to pilot and scale additional HIF models such as humanitarian blended finance, debt conversion, and climate finance.
Key results	• 9% greater efficiency compared to benchmark facilities • Life-changing physical rehabilitation access to more than 3,000 people
Lessons learned	The Humanitarian Impact Bond was a first-of-its-kind instrument that required significant coordination and negotiation among a large number of stakeholders. It was also costly to develop, difficult to replicate, and subject to limited pools of outcome-based funding. Strong organizational support both internally and externally by trusted partners was critical to its success. Feasibility studies and careful consideration were essential in designing the impact bond as its effectiveness depended on selecting the right program for the interventions, as well as meaningful, well-defined outcome measures and benchmarks that allowed for significant improvement of outcomes and their external verification.

Source: IMD Case Study: The ICRC: The Humanitarian Impact Bond (2023)
Source: ICRC First Humanitarian Impact Bond successfully brings physical rehabilitation services to conflict-affected communities (2023)

Case: The Education Outcomes Fund & the Sierra Leone Education Innovation Challenge (SLEIC)

Regional focus	Sierra Leone
Implementation years	2022 - 2025
Sector focus	Basic education
Outcome funding committed	$18m
Problem	The education sector is facing dual crises of low learning outcomes and inefficient and inequitable funding. Learning outcomes were already low before the COVID-19 pandemic and they have further deteriorated as a result of school closures. It is estimated that seven out of ten 10-year-olds in low- and middle-income countries could now be suffering from learning poverty – meaning that they are unable to read and understand a simple story. In Sierra Leone, a study found that two out of ten pupils do not finish their primary education and are therefore less likely to have acquired the basic literacy and numeracy skills needed in their adult lives. Addressing these crises requires innovative funding mechanisms to achieve better learning outcomes for children, build strong and sustainable education systems, and close the education financing gap to accelerate progress towards SDG 4.
Approach	In 2022, in partnership with the government of Sierra Leone, the Education Outcomes Fund launched the Sierra Leone Education Innovation Challenge (SLEIC), an outcome-based program to respond to the country's learning crisis and enhance efforts to achieve national education objectives. Outcome-based funds are innovative funding mechanisms where the unique skills and resources of governments, donors, and social investors are pooled together and only paid out once pre-agreed outcomes are achieved. This ensures donors' funding is only used to pay for measurable impact, and implementing partners have greater flexibility to support schools, caregivers, and communities in enhancing children's literacy and numeracy skills.
Why was private capital needed?	Private capital is central to the outcomes-based design of SLEIC. Private sector impact investors provide the up-front working capital necessary to operate the innovative education programs. In doing so, private impact investors bear the financial risk of interventions, allow access to a wider range of implementing partners to be involved, and contribute with their expertise in adopting outcomes-focused management and organizational strategy.

Partners	With a budget of $18m (co-funded by the UK Foreign, Commonwealth & Development Office, the Government of Sierra Leone, Bank of America, the Hempel Foundation, and the Korean International Cooperation Agency) SLEIC brings together state and non-state actors to improve the learning outcomes of 134,000 children aged 6-12 attending 325 government schools spread across all districts of Sierra Leone by 2025. The programs under this fund are implemented by five partners – EducAid, National Youth Awareness Forum in collaboration with KIZAZI, Rising Academy Network, Save the Children, and Street Child. The partners are supported with upfront capital to implement the program. If the predefined outcomes are achieved, performance rewards are paid by Bridges Outcomes Partnerships and Rockdale Foundation.
Impact achieved, lessons learned, and the way forward	Results from the first year of implementation were robust, with impressive increases in girls' test scores. While SLEIC will conclude in 2025, the program has generated valuable data that will inform future education programs and policies in the country and beyond, as well as other OBF initiatives in the sector. The program also fosters systemic change by promoting a shift towards more results-driven resource allocation in implementing partners and within government and considerable effort has been made to capacitate the Sierra Leonian Ministry of Basic and Senior Secondary Education to continue commissioning outcomes through OBF after the duration of SLEIC.

Key results

55,282 students impacted	2,200 teachers trained	9,200 community stakeholders engaged
6% incrase in numeracy skills for girls	17% increase in literacy skills	74,000 children in year 2

4.7. Technology-enabled humanitarian impact

A lack of quality data is often cited as a key barrier that prevents the scaling of HIF as a mainstream investment opportunity for private sector actors.[18] Data gaps impair the identification, appraisal, and due diligence of potentially impactful and bankable HIF transactions. Technology-enabled humanitarian action is often referenced as a potential solution to overcome data issues.

In the past, investors had to manually gather most of the data they needed, a process that was time-consuming and resource-intensive. This approach posed challenges, especially considering the urgent humanitarian goals involved. However, with the rise of digitization, collecting data has become more efficient, allowing for better adherence to privacy and security standards. Another significant benefit of technology-driven methods is that they often lead to greater data availability.

No matter the approach, it is crucial to have robust data protection measures in place to safeguard individuals' privacy and maintain their trust that their personal information will not be misused or cause them harm. Current data protection laws offer a solid foundation for these measures. Those who handle sensitive data must adhere to strict codes of conduct and act as responsible stewards, complying with the relevant data protection regulations.

Case: Zipline

Implementation	2016
Regional focus	Africa
Sector focus	Logistics
Deal size	$25m
Problem	Getting critical medical supplies promptly to patients can make the difference between life and death. Zipline, a San Francisco-based start-up, developed a technology that allowed drones to fly and drop off small parcels in remote areas. In 2016, Zipline won its first customer, the Rwanda government, and needed to prove that such an on-demand instant logistic system could work reliably for delivering blood. It also wanted to expand its operations beyond Rwanda.

Why was private capital needed?	Zipline needed further funding for hiring, technology development, and expansion into additional markets.
Instrument (brief description, including key actors)	In late 2016, Zipline raised $25m in a Series B funding round.
Actors (public/private)	The lead investor for the Series B round was Visionnaire Ventures, a technology-focused San Francisco-based venture firm. Other investors included Sequoia Capital, Andreessen Horowitz, Subtraction Capital, and Yahoo founder Jerry Yang.
Impact	By the time Zipline made its next round of funding in 2018, Zipline had successfully commercialized drone logistics in Rwanda, making over 13,000 deliveries and covering more than 65% of Rwanda's blood supply outside the country's capital. It has also expanded to deliver additional medical products. The company has raised various additional rounds, with the latest a $330m Series F in May 2023. As of May 2024, Zipline operated in Rwanda, Ghana, Cote d'Ivoire, Japan, Kenya, Nigeria, the UK, and the U.S. It also has developed a precision home delivery system, Platform 2, which allows instantaneous delivery of groceries, clothes, electronics, hot foods and more. It has made over 980,000 deliveries, serves over 4,000 hospitals, led to a 67% reduction in blood wastage across Rwanda, and contributed to a 51% reduction of in-hospital maternal deaths due to postpartum hemorrhage in Rwanda.
Lessons learned	Traditional venture capital firms invest in start-ups seeking exponential returns. The impact generated is usually of secondary concern, if it is a concern at all. Impact-focused investors may view Zipline's commercial forays into food and retail delivery with more skepticism.

[18] World Economic Forum (2021). Unlocking Humanitarian and Resilience Investing through Better Data

4.8. Carbon finance

The Intergovernmental Panel on Climate Change's Special Report on the Global Warming of 1.5° C clearly outlines the impact of climate change on humanitarian contexts.[19] Sub-Saharan Africa, in particular, has been identified as a climate change hotspot. The region is expected to experience an increase in the frequency and intensity of droughts, with significant consequences on agricultural production, food security, and tensions linked to access to water. This will only further exacerbate ongoing humanitarian situations.

The environment plays a crucial role in humanitarian efforts for two key reasons. First, environmental problems frequently underpin and contribute to humanitarian crises, and climate change is rapidly aggravating the situation. Second, if these crises are not managed properly or are addressed too late, they can harm the environment and increase risk and vulnerability. As a result, preemptively addressing climate change and environmental crises such as deforestation are critical problems in refugee situations.

Case: Refugee Environmental Protection (REP) Fund

Partnership actors	UNHCR **Donors:** Innovation Norway, Government of Denmark, UNO-Flüchtlingshilfe (UNHCR's National Partner in Germany) **Corporate Partners:** DLA Piper, Oliver Wyman **Governments:** Uganda, Rwanda, Sudan, and South Sudan
Launch	2021
Geography & sector	Global
Investment	The initial capitalization target for the Refugee Environmental Protection (REP) Fund pilot project is \$30m in grants, which is expected to unlock \$200m+ in carbon financing to support REP Fund programs. To date, \$3m+ has been secured from donors.

Impact	14 pledges to date The REP aims to increase the availability of environmentally sustainable resources in displacement settings, providing more clean energy, for example, to power the water, schools, and health infrastructure used by refugees and host communities. It will support environmental restoration and resilience by building climate-resilient shelters, supporting climate-smart livelihoods, and reducing the impact of the humanitarian response on the natural environment.
Problem	UNHCR estimates that 20-25 million trees are cut down in and around refugee settlements each year. 90% of this deforestation is driven by the urgent need for cooking fuel. This results in large-scale environmental and social degradation. The resulting environmental problems include soil erosion, landslides, and desertification, which threaten safe living conditions and livelihoods for refugees. As the wood collection perimeter widens with deforestation, women and children must travel further to collect wood, putting them at increased risk of sexual-and gender-based violence. Environmental degradation also heightens the risk of conflict between refugees and hosts.
Solution	The REP Fund would help address these complex issues by creating an innovative and sustainable financing mechanism to invest in strengthening and scaling up reforestation and clean-cooking programs in climate-vulnerable refugee-hosting communities worldwide. The carbon impact of these programs would be registered and verified to generate the first-ever large-scale refugee-generated carbon credits. The sale of these credits would help replenish the REP, allowing it to re-invest in new reforestation and clean cooking programs, making the REP more financially and operationally sustainable over time. The REP's environmental programs would generate green jobs for refugees and host communities. The REP Fund would aim to plant tens of millions more trees and enable hundreds of thousands of refugees and their hosts to access clean cooking solutions over the next decade. In doing so it will link refugees and host communities to the global carbon markets, empowering them to become part of the global movement to combat climate change.
Derisking	TBD
Replication/scale-up	TBD

[19] IPCC (2023). Synthesis Report of the Sixth Assessment Report

4.9. Financial Instrument Decision Support Tool

As we've explored the various financial instruments available for humanitarian impact finance, it's clear that selecting the right tool for a specific context can be complex. To bridge the gap between instruments and practice, we've developed a simple decision tree to guide you through the selection process.

This decision tree is designed to help you match the nature of your problem or project with the most appropriate financial instrument. By answering a series of targeted questions, you can navigate through the diverse landscape of financing options we've discussed in this white paper.

Remember, this tool is not meant to provide a definitive answer, but rather to serve as a starting point for your decision-making process while allowing you to reflect and practically assess the financial instruments section. It encourages you to consider key factors such as revenue generation potential, risk profile, repayment capacity, and impact measurement -all critical elements we've highlighted throughout this report.

As you use this decision tree, keep in mind the overarching goals of humanitarian impact finance: to scale up resources, build sustainable solutions, and create lasting positive change. Let this tool empower you to take concrete steps toward implementing innovative financing strategies in your work.

1. Is the project/organization able to generate revenue?

No ⟶ **Go to 2**
Yes ⟶ **Go to 3**

2. Is there a measurable social/ environmental impact?

No ⟶ **Consider traditional grants**
Yes ⟶ **Consider:**
- **Impact bonds (if outcomes are clearly defined and measurable)**
- **Outcome-based grants**
- **Challenge funds**

3. Is the project/organization able to repay the full amount of funding?

No ⟶ **Go to 4**
Yes ⟶ **Go to 5**

4. Can the project/organization make any scheduled or flexible payments based on cash flow?

No ⟶ **Consider grants or equity-like instruments (e.g., recoverable grants)**
Yes ⟶ **Consider:**
- **Concessional loans**
- **Blended finance structures**
- **Revenue-based financing**

5. What is the risk profile of the project/organization?

High risk ⟶ **Go to 6**
Medium risk ⟶ **Go to 7**
Low risk ⟶ **Consider traditional debt instruments**

6. Is there potential for high growth/impact?

No ⟶ **Consider:**
- **Guarantees**
- **First-loss capital**
- **Blended finance structures**

Yes ⟶ **Consider:**
- **Equity investments**
- **Convertible debt**
- **Venture debt**

7. Is the project/organization established or early-stage?

Early-stage ⟶ **Consider:**
- **Convertible notes**
- **SAFE (Simple Agreement for Future Equity)**
- **Venture debt**

Established ⟶ **Consider:**
- **Mezzanine debt**
- **Subordinated debt**
- **Revenue-based financing**

8. Is there a need to transfer specific risks?

Yes ⟶ **Consider:**
- **Insurance products**
- **Weather derivatives**
- **Catastrophe bonds**

No ⟶ **Revisit previous questions based on other needs**

9. Is there a need to leverage additional private capital?

Yes ⟶ **Consider:**
- **Blended finance structures**
- **Guarantee mechanisms**
- **Structured funds**

No ⟶ **Select from previously identified instruments based on other criteria**

Feedback Loop: Reassess and Adapt

Once you've identified a potential financial instrument using this decision tree, take a moment to reassess your decision:

1. **Re-evaluate context:** Have there been any significant changes in your project's context, risk profile, or financial outlook since you began this process?

2. **Verify alignment:** Ensure that the chosen instrument aligns with your organization's strategic goals, stakeholder expectations, and local regulatory requirements.

3. **Consult with experts:** Consider seeking expert financial or legal advice to confirm the suitability of the selected instrument, especially for complex or high-stakes projects.

4. **Flexibility and adaptation:** Be prepared to adapt your choice if new information arises or if initial assumptions change. The financial landscape is dynamic, and flexibility can be a key advantage.

If any of these factors suggest that your initial choice may no longer be optimal, revisit the relevant steps in the decision tree to explore alternative instruments or strategies.

This decision tree provides a starting point for matching financial instruments to problems and project needs. However, it's important to note that the final decision should also consider factors such as local regulations, investor preferences, and specific project characteristics – as well as your organization's capacity to structure and deliver the project successfully.

Where Do We Go From Here?

05

The mid-2020s are characterized by a step change in humanitarian needs; humanitarian crises are now affecting all continents. In 1999, the ICRC identified 20 active conflicts. Today, they are active in more than 120.[20] The Global Humanitarian Overview (GHO), published by the UN Office for the Coordination of Humanitarian Affairs, and probably the single best proxy for evidence-based assessment of humanitarian needs around the world, estimates that in 2024, $46.1bn will be necessary to assist 184.1 million people in need via 36 co-ordinated response plans, covering 73 countries.[21]

Humanitarian organizations have identified funding and efficiency as the most pressing challenges ahead, but the global donor base to resource their undertakings remains narrow. A handful of governments provide more than 80% of all funding, and the funding gap is widening.

Only a few years ago, the question was whether or not new models to foster greater collaboration between development actors, private investors, and humanitarians on the ground were really needed. The debate has since evolved, recognizing that new avenues for capital investment can be instrumental in driving economic opportunities in fragile and thus risky environments has increasingly gained traction, and the previous sections of this paper sought to provide an overview of useful innovative financing instruments.

To be able to implement these efficiently and develop projects that are both bankable and have a strong humanitarian impact at scale, three dimensions require additional effort and clarification: clarifying ethical concerns, improving organizational readiness, and building capacity.

[21] ICRC (2024): August Press Release, "Geneva Conventions 75th anniversary: Foundational treaties save lives and dignity, but massive humanitarian suffering shows the world must recommit"
[22] Humanitarian Action (2024). February update

5.1. The ethical debate

5.1.1 Potential to crowd-out traditional humanitarian aid

Given the amount of humanitarian support required for existing and emerging crises, there is some concern among staff and stakeholders of humanitarian organizations that prioritizing innovative finance could potentially have an adverse impact on the allocation of funding for humanitarian aid. Although HIF typically involves bringing public and private financiers to the table who would otherwise not contribute to humanitarian aid, piloting and implementing new financial models still requires organizational attention (and money) from humanitarian actors, governments, and, other philanthropic actors.

However, although more work needs to be done in terms of data collection, traditional humanitarian donors have allocated relatively limited amounts of funding to innovative financing approaches to date. For example, the European Union's DG ECHO (an important humanitarian donor) has been an early adopter of HIF amongst traditional donors and has actively promoted several HIF approaches in recent years. Its flagship effort has been the DG ECHO Pilot Initiative on Blended Finance for Humanitarian Aid. The initiative has supported five innovative finance projects to date for a total of €5.9m over the 2021-2024 period. With a total annual humanitarian aid budget of up to €1.65b per year over the 2021-2027 period, its annual HIF investment only represents about 0.12% of its total budget. As a result, while the crowding-out potential could potentially become a threat in the future, there is little evidence today that significant amounts of core humanitarian funding has been substituted by HIF. By contrast, as illustrated through the recent ECHO Lessons Learned Report, DG ECHO's pilot projects for humanitarian aid have catalyzed more than €25m in DFI investment and €4.5 in private investment.

From the humanitarian perspective, HIF is only relevant if it brings additional impact for people, broadens the resource base in fragile settings, generates efficiencies, and provides exit strategies for humanitarian organizations and donors. **Going forward, a stronger evidence base on the leverage or catalytic effect of traditional donors' funding via HIF is a systemic necessity.**

To ensure HIF doesn't drive funding away from humanitarian aid, a balanced approach might:

- **Focus on sustainable outcomes:** HIF often emphasizes long-term sustainability and self-sufficiency. This focus could lead to initiatives that aim to reduce the need for ongoing humanitarian aid by addressing the root causes of poverty, instability, and other drivers of humanitarian crises.
- **Encourage complementary partnerships:** HIF initiatives can work in partnership with humanitarian organizations, using their expertise and experience to guide investments toward impactful outcomes that align with humanitarian goals.
- **Broaden the funding base:** HIF can attract new donors who might not typically contribute to humanitarian aid, expanding the overall pool of resources available for social good.

DG ECHO (2024). Pilot Initiative on Blended Finance for Humanitarian Aid

5.1.2 Potential for greenwashing

Another potential concern by introducing private funders and multinational corporations into the humanitarian response mix is that private actors might co-opt humanitarian crises for greenwashing purposes. On the one hand, this concern might be better explained as a "right vs. right" dilemma[23] – that is if bringing private actors brings more funding to support humanitarian aid, should we ultimately care about their underlying motivations? Nevertheless, it's important to at least consider both how private actors would potentially use humanitarian aid for greenwashing as well as the risks of greenwashing.

First, private actors may use their involvement in humanitarian aid as a marketing tool to project a socially responsible image, which could involve:

- **Exaggerated claims:** Private actors might overstate their contributions to humanitarian causes, presenting their efforts as more significant than they really are.
- **Selective disclosure:** Private actors might highlight humanitarian activities while downplaying or omitting information about their other practices that are harmful to society or the environment.
- **Brand-driven campaigns:** Humanitarian aid efforts might be designed more to promote a company's brand than to deliver meaningful support to those in need.

In turn, potential risks of greenwashing might include:

- **Erosion of trust:** If private actors are caught greenwashing, it can undermine public trust in both the company/funder and the humanitarian sector more broadly.
- **Diversion of resources:** Greenwashing campaigns might divert resources away from impactful humanitarian aid and towards marketing or PR efforts.
- **Harm to beneficiaries:** In the worst case, if humanitarian aid is driven by marketing objectives rather than genuine needs, it might fail to deliver effective or appropriate support to those in need.

To mitigate the risk of greenwashing in humanitarian impact finance, some strategies might entail:

- **Clear guidelines and due process (particularly on the part of humanitarian actors).** Here, documents like the ICRC's (2021) "Framework on engaging with the private sector to mobilize support" can serve as key references.
- **Focusing on impact:** Private actors should focus on the impact of their humanitarian aid, not just the visibility of their contributions. This involves setting measurable goals, tracking outcomes, and publicly sharing results – many of which are included in HIF approaches by design.
- **Encouraging critical scrutiny:** Stakeholders, including consumers, investors, and NGOs, should critically examine companies' humanitarian claims. Encouraging open dialogue and feedback can help identify potential greenwashing practices.
- **Transparency and accountability:** Private actors involved in humanitarian aid should be transparent about their activities, providing clear, accurate information on their contributions and impact. Third-party audits or certifications can also add credibility (although they likely also increase costs).

[23] Kidder (1996). How good people make tough choices: resolving the dilemmas of ethical living

5.1.3 Potential for profiteering from private actors

In contrast to funding short-term emergency humanitarian aid in crisis settings through traditional grants, financing long-term humanitarian aid in a development capacity typically means that investors require a return on investment (ROI). Although HIF mechanisms are often contingent upon achieving specific social or environmental outcomes, profits still accrue to private actors. As a result, understanding the potential risks and ethical implications can help actors determine which situations are best suited for HIF. Some potential risks and ethical considerations include:

- **Perverse incentives:** The profit motive could lead to a focus on projects with the highest potential for returns rather than those with the highest humanitarian needs. This could create perverse incentives that divert resources from critical aid efforts.
- **Short-term focus:** Private funders might prioritize short-term returns over long-term humanitarian impact, leading to projects that are less sustainable or comprehensive.
- **Equity and accessibility:** Profit-driven approaches could lead to unequal distribution of aid, where certain groups or regions receive more attention based on perceived profitability, rather than on need.

To balance profitability and humanitarian impact, some potential considerations involve:

- **Aligning profit with humanitarian goals:** HIF mechanisms should be designed to align the profit motive with humanitarian impact, ensuring that returns are contingent on measurable positive outcomes that benefit those in need.
- **Third-party oversight:** Independent oversight or certification can ensure that projects funded through innovative mechanisms meet humanitarian standards and avoid conflicts of interest.
- **Ethical frameworks:** Establishing ethical guidelines and frameworks can help balance the pursuit of profit with the need to meet humanitarian objectives, reducing the risk of exploiting vulnerable populations.
- **Community involvement:** Involving local communities and stakeholders in the design and implementation of projects can help ensure that they address genuine needs and are not solely driven by profit motives.

5.2. Organizational readiness

Attracting more private investment has the potential to contribute in important ways to addressing humanitarian needs, provided narratives and perceptions are addressed properly. A second necessary condition for success is organizational readiness.

Humanitarian impact finance emphasizes crowding in capital and expertise that would not typically be available. This money is additive or catalytic, provides diversification, complements ODA, and/or increases scale or liquidity. To meet humanitarian objectives, funds also need to be reliable, adequate, timely, and predictable. Finally, to ultimately achieve impact, financing should lead to improved outcomes that are enabled either by the structure of the transaction or the unique collaboration of the partners involved, who bring different areas of expertise and whose different preferences enable an efficient redistribution of risk.

Of course, organizations can leverage innovation to maximize humanitarian impact by focusing on collaboration and using both new and old instruments in different ways, for both fundraising and fund deployment. This interpretation of the role innovation plays is intentionally broad as organizations have different capabilities and appetites. However, irrespective of profile, organizations need to have the capacity and organizational readiness to effectively adopt and implement new processes, technologies, or financial models involved in HIF.

Because HIF introduces not only new financial instruments in humanitarian settings but also new partnerships and business models that will challenge mindsets and push the boundaries of what is possible within the existing rules and systems, actors may perceive substantial barriers to the implementation of new humanitarian financing approaches.

- Organizations may ask: **"Why should we change the way we do things?"** (change management/ clear action plan, training and support, alignment with organizational goals).
- Investors may ask: **"Why should I invest in your solution?"** (alignment with mission, impact metrics, ROI and other financial metrics, risk mitigation, and exit strategy).
- Beneficiaries may ask: **"Why should I use your solution?"** (impact metrics, needs and empowerment, community engagement, feedback mechanisms, self-sustainability).
- Partners may ask: **"Why should I work with you on this solution?"** (strategic fit/materiality of impacts, risk sharing and liabilities, benefits: cost sharing, savings, market access, and expansion and innovation).

To improve organizational readiness and organizational capabilities, Boston Consulting Group (BCG), ICRC, Swiss Agency for Development and Cooperation (SDC), DG ECHO and the World Economic Forum's (WEF) Humanitarian and Resilience Investing (HRI) Initiative co-created a Good Practices Playbook to help organizations assess their maturity level of readiness to engage in innovative humanitarian finance (refer to Figure 7 for all 26 dimensions across the five categories):

- **Mandate:** Articulates overarching organizational commitment that drives the focus of senior leadership and action among others throughout the organization to enable engagement in HIF.
- **Organizational support:** Leadership support and broader organizational buy-in to drive HIF engagement, including organizational culture to promote collaboration.
- **Systems and procedures:** Operational infrastructure enabling engagement in HIF.
- **Resources:** Human capital and funding to enable engagement in HIF.
- **Implementation:** Engaging in HIF directly and as an ecosystem building on the past, present, and future.

The HRI Initiative has assembled a group of 17 humanitarian organizations, donors, and DFIs to operationalize the playbook, enable cross-sector collaboration, and enhance learning on the issue of organizational readiness. To this end, interested actors can take a self-assessment of their own organizational readiness through the HRI website.[24]

Figure 7: Organizational readiness self-assessment rubric

Category	Dimensions
Mandate Four dimensions	• Commitment to make an impact in humanitarian contexts • Commitment to engage the private sector and other stakeholders • Prevention, resilience, and recovery to complement response • Learning and innovation capabilities, as well as patience
Organizational support Five dimensions	• Senior leadership support of HRI • Organizational support for HRI • Willingness to collaborate across sectors • Stakeholder relationships and understanding • Risk appetite
Systerms and procedures Nine dimensions	• Risk controls to provide protection but enable flexibility • Clear and disciplined risk assessment and funds deployment • Flexibility in contracting with counterparties • Budgeting practices • Accounting flexibility and fund processing • Sophistication of impact analysis • Impact measurement and evaluation • Data management • Technological capabilities
Resources Four dimensions	• Dedicated team for HRI • Internal expertise for HRI • Investment funds allocated to HRI • Incentive structure to encourage development of HRI capabilities
Implement Four dimensions	• Track record of investment and impact execution • Network of potential partners • Pipeline of potential deals • Share learnings with broader community

Source: BCG (2020): Organizational readiness and enabling private capital for innovative financing in humanitarian contexts –Good Practices Playbook.

[24] World Economic Forum (2024). Humanitarian and Resilience Investing

5.3. Building capacity: Driving innovative finance for impact (special brief)

The experience of a number of impactful innovative finance pilots in the humanitarian sector serves as a powerful testimony to the sector's ability to engineer novel solutions to better serve the millions of people around the world whose lives are disrupted by conflict. A more strategic approach to unlock efficiencies across the board and stimulate private investment is possible. To innovate systematically, organizations need to invest in building their capacity to do so.

In response to the challenges and opportunities stemming from the more systematic adoption of innovative finance in the humanitarian sector, together with partners, IMD has created the Driving Innovative Finance for Impact program (DIFI), the only outcome-oriented training program available for senior managers and sector specialists with global and local responsibilities. It combines liVe virtual sessions, self-paced learning, expert coaching plus face-to-face learning at the IMD campus.

This open program on impact finance and organizational readiness was launched jointly with the International Committee of the Red Cross, the Fondation Lombard Odier, and the World Economic Forum in 2022.

The program benefits from the continued financial support of Fondation Lombard Odier. The second cohort was also supported by "la Caixa" Foundation. Cross-sector collaboration in fragile settings is critical to bring innovative financial solutions to scale and hope to continue building on this successful collaboration in the upcoming DIFI cohorts.

The DIFI program develops the organizational capacity to lead innovative finance transactions in the humanitarian and development space. It enables participants to identify high-impact value opportunities for their organizations and gain all the necessary tools and skills to successfully manage and execute innovative financing transactions. The program is ideal for executives from humanitarian and other international organizations, officials from donor governments, those working in the philanthropic and development sectors, and forward-looking corporations active in frontier markets and fragile settings.

Participants enjoy cutting-edge content and learning materials together with a network of partners including ICRC, Lombard Odier, and the World Economic Forum. The program provides practical, hands-on learning with a strong focus on case studies and unique content from partners and guest speakers from the Humanitarian and Resilience Investing Initiative network.

Below, we highlight some of the innovative projects that have been developed in the program.

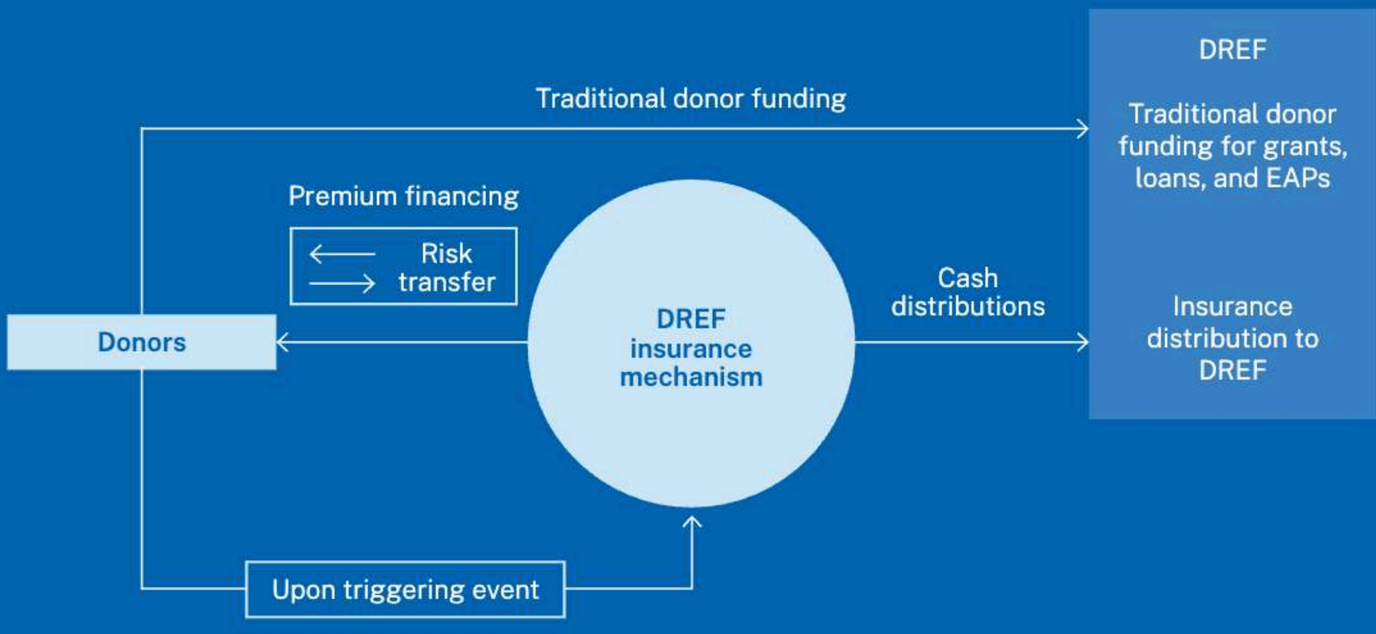
Case: Mangrove for Community Resilience

Regional focus	Asia (Philippines)
Sector focus	Environmental resilience/flood prevention
Deal size	Pre-pilot: $200k / Pilot project: $6.5m
Problem	Providing natural and economic benefits, mangrove protection can reduce flooding to more than 600,000 people annually (20% of those living below the poverty line). Furthermore, the impact of flooding on infrastructure can be reduced by mangrove protection, helping to reduce the $3.5bn in annual losses due to tropical cyclones.
Why is private capital needed?	By 2050, climate change could mean that 200 million people per year will need humanitarian aid to survive due to climate and weather-related disasters. Estimates indicate this will require financial support of at least $29bn in humanitarian aid. As a result, prevention measures taken today can lead to substantial savings in the long term.
Instrument (brief description, including key actors)	The project involves a three-stage approach: **1.** Pre-pilot (+/-six months) – $200k • Carbon project design document – $100k • Feasibility study – $50k • Contingent – $50k **2.** Phase 1 (two years) – $1.3m • Nursery – $106k • Planting – $110k • Others – $1m **3.** Phase 2 (28 years) – $5.2m • Monitoring & security – $810k • Carbon validation – $1.6m • Others – $2.8m The Mangrove Pilot Project will be able to generate a revenue of $12.5m over the next 30 years and provide investors with an ROI of 91%.
Actors (public/private)	• People in need and beneficiaries: Local communities • Implementation partners: NGOs (e.g., WWF), Philippine Red Cross, Netherlands Red Cross • Donors: Government support and philanthropic organizations • Investors: Blue Carbon credits purchase, Carbon developer, Impact investors

Case: Insurance for Disaster Response Emergency Fund (DREF)

Partnership actors	International Federation of Red Cross and Red Crescent Societies (IFRC), Aon, Centre for Disaster Protection
Geography & sector	Global / General Humanitarian Assistance
Launch year	2023
Deal size	Up to CHF 20m ($22.7m) coverage for natural hazards in ODA countries
Problem	As the frequency and intensity of disasters increase, more and more people need humanitarian assistance to cope. However, with public funding becoming increasingly scarce and unable to meet the escalating demands, we need new ways of financing the DREF. DREF, which has already served more than 200 million people has proven its effectiveness to reach those in need.
Impact	**1.** Increase DREF capacity to reach up to six million more people. **2.** DREF funding shortfall risk transferred to external providers. **3.** Reduce DREF opportunity costs of stockpiling funds for needs that may not occur
Innovation	DREF Insurance provides a contingency financing layer and ensures funds for response are available in a timely and reliable manner, even in periods of excessive or unanticipated demand.

Instrument (brief description, including key actors)



Derisking	DREF Insurance provides value to stakeholders: 1. **Affected people and communities:** Insurance improves the certainty of funding, even in times of volatility and acute needs, for effective response to humanitarian disasters thus aiming to minimize the negative impact of affected people and communities. 2. **RCRC network:** Pre-agreed financing means better support for National Societies, building better resilience and social protection. 3. **Insurance capacity providers:** Capacity providers leverage the opportunity to support new markets in the humanitarian sector, traditionally poorly serviced by the insurance sector, to close the protection gap. 4. **Donors:** Insurance transfers risk from stretched public purse (to third parties), allowing for smoother budgeting and planning; increasing the humanitarian sector's capacity, scale, and more effective responses.
Replication/Scale-up	1. **Indemnity-based insurance:** The IFRC-DREF Insurance innovative partnership is exploring future variations of the insurance product to extend coverage for non-natural hazard-related complex crises, including Anticipatory Action, Health Emergencies, and Pandemic/Epidemics. 2. **Parametric insurance (livestock insurance, Ethiopia):** The ICRC partnered with the International Livestock Research Institute (ILRI) and Oromia Insurance Company (OIC) to implement a pilot program – with ILRI responsible for technical backstopping while OIC promotes and sells the insurance product.

Case: The Tiger Bond

Regional focus	Asia (Malaysia)
Sector focus	Environmental resilience/animal conservation
Deal size	$20m
Problem	Tiger populations dropped from 40,000 (1970) to 3,200 (2010). Tiger habitats store 19 billion tons of carbon (half annual global emissions) and support 250+ threatened species. Protection of tiger habitats can limit the spillover of zoonotic diseases.
Innovation	Testing a new way to finance tiger conservation, which will permanently help not only the tigers themselves but also the people and forests where they live.
Why is private capital needed?	The value of the ecosystem services in tiger landscapes is ~$11tn/year and tiger landscapes supply resources to over 100 million people.

Instrument (brief description, including key actors):

	Role
ADB	Loan, repaid at concessional rates.
Impact investors	Returns tied to impact.
Government of Malaysia	Repays ADB loan & impact investors on a sliding scale. Higher impact = lower repayment by Gov Malaysia.
Outcome funder (donor)	Payment by results (including carbon & biodiversity credits) to cover impact investors returns.
WWF	Provides guarantee to investors to underwrite loan in case of low impact.

ADB concessional loan impact investors

Government of Malaysia

Conservation, climate, community actions

External audit of activites

Outcome funder

Guarantee

Demonstration potential	The Malaysia Tiger Impact Bond can ultimately lead to the development of STRIPES (Systemic Tigerlands Restoration & Investment for Protection & Environmental Sustainability), a new model for financing tigerlands conservation in the region. STRIPES has the potential to develop a $500m pan-Asia tiger financing initiative across 15 countries, reaching more than a billion people and 1.5m km^2 of forest protection and restoration, providing storage for more than one year of global carbon emissions.
Actors (public/private)	Asian Development Bank (ADB), Impact investors Government of Malaysia Outcome funder (donor government) World Wildlife Foundation (WWF)

Case: Sammanté: Tech-enabled vouchers solution for health coverage

Regional focus	Africa (Senegal)
Sector focus	Health insurance
Deal size	$7m across four stages
Problem	50% of the world's population still lacks access to basic health services. 100 million people are pushed into extreme poverty each year due to out-of-pocket health expenses.
Impact	Sammanté aims to untap the potential of the informal market in Senegal – 4.7 million people that could potentially represent a subscriber base of $564m per year.
Why is private capital needed?	Sammanté requires a resource mix that can enable it to scale. During this critical phase of organizational development, it may be too risky for purely private investors as it still needs to (1) define standards of evidence and create a monitoring system, (2) build a foundational client base, and (3) refine its business model.

Instrument (brief description, including key actors)

Phased funding strategy to reach scale and sustainability:

Investment stage	**Pilot**	**Seed**	**Serie A**	**Serie B/C**
	100 subscribers 2023 $150k	10,000 sub 2024 $300k	50,000 sub 2025 $1.5m	150,000 sub 2026 $5m
Investor profile	Haske ventures →	Haske Ventures → → Fintech VC Fund →		Strategic investor: Insurance Reinsurance
Blended finance	→	Donors/philanthropy → Derisking for investors Output based grants – proven access to healthcare		*Sustainability*

Case: Strengthening the Maiduguri Public Water Supply Service

Partnership actors	ICRC Borno State Ministry of Water Resources (MoWR) Seeking partners (DFIs, IFIs) for the execution of different phases of the project, including institutional reform
Launch year	2021
Geography & sector	Maiduguri (Nigeria) / WASH
Funding needs	$10m in catalytic grants; $400m in CAPEX

Impact

1.9 million people with access to safe drinking water in 2022	2.5 million people with access to safe drinking water by 2030

Problem	The population of Maiduguri, the capital of Borno State in northeastern Nigeria, suffers from a severe lack of access to clean water, exacerbated by years of underinvestment and ongoing conflict. Dependent upon unsafe water sources, waterborne diseases are a persistent threat. The fragility of Maiduguri's infrastructure and economy has hindered sustainable development efforts, rendering external humanitarian aid essential to address critical water access issues.

Solution	ICRC is building an investable project for urban water infrastructure in Maiduguri to increase productivity and gender equality, reduce conflict/ displacement, and enhance adaptation. The project (master planning already completed) includes four independent phases to stimulate the building of sustainable water infrastructure in Nigeria. The project includes the rehabilitation of Maiduguri's centralized water system, the development of such a centralized water system, the rehabilitation of decentralized water systems (Ramat and Alhamduri water works), and the development of new decentralized water systems (New Well fields). The ICRC, whose role is crucial as a convenor, seeks $10m in grant funding to unlock parallel funding of up to $400m in CAPEX. Contributions will include funding for the first phase of the project, parallel funding for authorities, co-creation of the project water board and operator, and the development of an enabling environment.
Derisking	The initiative blends humanitarian and development finance to provide a sustainable solution to the water crisis in Maiduguri, combining immediate relief efforts with long-term sustainability strategies. Direct investment in priority works enables quick wins and the immediate unlocking of impact, with ICRC management providing quality insurance for investors to ensure their contributions are effectively utilized and leading to sustainable and resilient solutions.
Scale-up	If successful, the project will provide 2.5 million people with access to safe drinking water by 2030. As such, it looks to enhance capacity building through the training of technicians and community members in maintaining and operating the water systems. The initiative seeks to develop a scalable model that can be replicated in other regions facing similar challenges.

Glossary

This glossary has been constructed based on existing publications, which are denoted below:

[1] KfW (2020): Innovative Development Finance Toolbox
[2] Patton Power, Aunnie (2021): Adventure Finance
[3] WEF (2021): Unlocking Humanitarian and Resilience Investing through Better Data
[4] Oxford Government Outcomes Lab Website (2024)
[5] SDC (2023): SDC Handbook on Private Sector Engagement
[6] Hornberger, Kusi (2023): Scaling Impact: Finance and Investment for a Better World
[7] ODI (2021): New financing partnerships for humanitarian impact

Additionality[1]: A donor intervention is defined as additional if: Interventions are necessary to make the project happen, i.e., the private investor would not have engaged without public sector involvement (this is often defined as financial or input additionality); and/or interventions increase the development impact and sustainability of a project with positive implications for growth and poverty (this is often defined as development or output additionality).

Advanced market commitments (AMCs)[1]: AMC is a commitment of development capital providers to guarantee the price/market for products once they are developed.

Angel investor[2]: Individuals or networks that invest in early-stage start-ups (typically through equity) and often provide additional support (e.g., expertise).

Asset class[2]: A group of financial instruments with similar characteristics.

Assets under management (AuM)[3]: The total market value of investments managed on behalf of an investor or investors across a specified range of asset classes and/or strategies.

Attribution[4]: The extent to which changes in the relevant outcomes can be attributed to an intervention or investment.

Blended finance[1,5]: The OECD defines blended finance as 'the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries'. The Swiss Agency for Development and Cooperation uses the following blended finance formats: venture investment (equity and debt), guarantees, structured funds, impact bonds, social impact incentives, and technical assistance to financial vehicles.

Business development services (BDS)[6]: support for the growth of micro, small, and medium-sized enterprises (MSMEs) through training, technical assistance, marketing assistance, improved production technologies, etc.

Capital structure[6]: Describes the various types of financing used for business operations. This includes external financing (debt and equity raised from investors) and internal financing (net profits in the form of retained earnings).

Capital support[6]: Funds specifically to purchase, renovate, or for construction.

Capacity building[6]: Funds that are for board and staff development, technological assistance and upgrades, and strategic planning.

Catalytic capital[6]: Investment that aims to unlock additional funding that would otherwise not occur.

Challenge funds[5]: A competitive private-sector engagement format (also known as a matching grant) in which the donor launches a call for proposals focused on a specific development challenge, and private-sector actors can submit a proposal, which includes their co-funding.

Commercial capital[6]: Capital expected to be offered and returned at or above market rates.

Concessional capital[5]: Concessional capital provides more favorable terms than standard market conditions, typically in the form of lower interest rates, extended repayment periods, or even partial repayment forgiveness.

Convertible debt[1]: A form of investment where the investor wants to reserve the right to change their loan into a shareholding, i.e., take an equity position, of an enterprise, if the business meets certain targets or shows continued promise.

Core Humanitarian Standard (CHS)[3]: The CHS on Quality and Accountability sets out nine voluntary commitments for humanitarian and development actors to measure and improve the accountability, quality, and effectiveness of the assistance they provide.

Crowdfunding (debt, equity, reward-based, donative): A fundraising method of collecting small amounts of capital from several funders, supporters, or end-users to finance a new product or business venture. In humanitarian crowdfunding, proceeds might be used for cash transfers directly to beneficiaries.

Crowding-out[5]: The displacement of private demand by public demand.

Debt financing: Money lent for repayment at a later date, usually with interest.

Debt swaps[1]: Debt swaps are financial transactions in which a portion of a developing nation's foreign debt is forgiven in exchange for investments in social or environmental conservation measures including debt-for-nature swaps or debt-for-education swaps.

Development finance institution (DFI)[1]: Specialized development banks or governmental subsidiaries that support private sector development in developing countries.

Development impact bonds (DIBs)[4]: A results-based contract where private investors provide pre-financing for social programs in developing countries and public sector agencies pay back investors their principal and a return only if the programs succeed in delivering pre-defined social outcomes.

Discount rate: In corporate finance, a discount rate is the rate of return used to discount future cash flows back to their present value.

Donor-advised fund[2]: A tax-preferred philanthropic vehicle similar to a private foundation.

ESG[5]: Environmental, social, and governance factors are typically used to evaluate the sustainability risks of companies and investment opportunities and to measure how advanced companies are with regard to addressing sustainability principles or mitigating/managing ESG risks.

Equity[5]: Shareholder equity represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off. In other words, equity investors provide companies with longer-term money, thereby becoming owners of the company. They are entitled to decision-making and profit-sharing rights (primarily through dividends).

Facilities[1]: Pooled financing models in which developmental capital providers align on a common financing or investment strategy.

Family office[2]: Private wealth management advisory firms that serve ultra-high-net-worth investors.

Financial inclusion[3]: Refers to individuals and businesses having access to useful, affordable financial products and services that meet their needs.

Financial intermediary[6]: An entity that acts as a middleman between two parties in a financial transaction.

Financial service provider (FSP)[6]: Organizations that provide banking, loans, money transfers, and other financial services.

Fintech[6]: Innovative technologies integrated into financial services that aim to improve and automate the delivery and use of financial services.

First-loss capital[1]: Funding (typically provided by public or philanthropic investors) that is concessional within the capital structure. The first loss position is an investment's or security's position that will suffer the first economic loss if the underlying assets lose value or are foreclosed upon (commonly used instruments include grants, equity, subordinated debt, or guarantees).

Forgivable loan[2]: A loan that converts to a grant and is often used to support nonprofits and social enterprises.

Fragile contexts[3]: A situation facing fragility, conflict, or violence.

Fragility, conflict, and violence (FCV)[3]: Defined by the World Bank as a critical development challenge that threatens efforts to end extreme poverty. FCV affects both low-and middle-income countries.

Funds[1]: Pooled financing models in which various capital providers with and without different risk-return-impact profiles align on a common financing or investment strategy.

General operating support: unrestricted funds that support the general operations of an organization.

Grace period: allows a borrower to delay repayment for a defined period.

Grant funding: A financial award with no expected repayment over a fixed period.

Guarantee: Protection from various forms of risk intended against capital losses for investors

Humanitarian actors[3]: Humanitarian actors are defined by the Humanitarian Coalition as a wide range of organizations, agencies, and inter-agency networks that work on enabling international humanitarian assistance to be channeled towards where it is needed.

Humanitarian and Resilience Investment (HRI)[3]: Capital invested in ways that measurably benefit people and communities in contexts of fragility, conflict, and violence, while creating a financial return.

Humanitarian funding[3]: Funds directed at meeting growing humanitarian needs and promoting humanitarian leadership and coordination mechanisms.

Humanitarian Impact Bond (HIB)[3]: An innovative funding mechanism launched by ICRC. The HIB is a private placement that secures social investment from the private sector to support the ICRC's physical rehabilitation programs.

Impact bonds (social/developmental/humanitarian)[5]: Social impact bonds (SIBs), development impact bonds (DIBs), and humanitarian impact bonds (HIBs) are new financing mechanisms designed to achieve development and social outcomes by bringing together private investors, implementers, governments and donors. (Private) investors lend capital for implementation to intermediaries and service providers. Implementers use capital to design and implement programs that achieve the desired social outcomes. Outcome funders pay back private investors' loans, with interest, if the service providers achieve pre-determined targets.

Impact investing: An investment strategy that explicitly integrates social and environmental criteria into the investment processes.

Impact measurement and management (IMM)[5]: The process of identifying the positive and negative effects of a business's activities on people and the planet, and managing these effects to meet the business and/or investors' social and environmental objectives.

Impact-linked finance[2]: Refers to linking financial rewards for market-based organizations to the achievements of positive social or environmental outcomes.

In-kind contribution[5]: In economics and finance, 'in kind' refers to goods, services, and transactions not involving money or not measured in monetary terms.

Innovative finance[7]: A range of mechanisms intended to raise more money from capital markets for development and humanitarian aid, leveraging and supplementing the grants from governments, foundations, and private donations that currently provide the bulk of resources for aid responses.

Insurance[1]: Mechanism as part of which the insurance provider promises to provide financial compensation in the instance of an event that results in a financial loss.

Internal rate of return (IRR): A metric used in financial analysis to estimate the profitability of a potential investment.

Junior (subordinated) debt/equity[5]: Junior debt is debt that has a lower priority for repayment than other debt claims in the case of default. Similarly, junior equity is equity that has a lower priority for repayment than other equity claims in the case of default.

Liquidation preference[2]: A contractual clause that sets out the order in which investors, debtholders, and creditors are paid if a company is liquidated. Investors and holders of preferred shares (stock) usually have a higher priority than holders of ordinary shares (common stock).

Market distortion[5]: An effect occurring as a result of (government) interference in a market that significantly affects prices, risk-taking, and/or asset allocation. In the PSE context, this could entail an unfair competitive advantage caused by partnering with just one private sector actor.

Market-rate return: Returns similar to other investments with a similar risk profile.

Matching grant[5]: A competitive private-sector-engagement format (also known as a challenge fund) in which the donor launches a call for proposals focused on a specific development challenge, and private-sector actors can submit a proposal that includes their co-funding.

Memorandum of understanding (MoU)[5]: An agreement between two or more parties outlined in a formal document. It is not legally binding but signals the willingness of the parties to realize joint activities and possibly move forward with a contract.

Mezzanine financing[5]: A hybrid form of debt and equity financing that gives the mezzanine owner the right to convert a loan into equity in case of default. Milestone-based financing (grants): A milestone-based grant is a type of funding where money is disbursed to a recipient based on achieving specific predefined goals or "milestones."

Official development assistance (ODA)[5]: Government aid designed to promote the economic development and welfare of developing countries. Aid may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the UN or the World Bank.

Outcomes-based contract[4]: A mechanism whereby service providers are contracted based on the achievement of outcomes. This can entail tying outcomes into the contract and/or linking payments to the achievement of outcomes.

Outcomes-based financing[2]: A financing contract where the funder only pays once the pre-agreed social and/or environmental outcomes have been achieved by the service provider (like results-based financing).

Parametric insurance[7]: An insurance scheme where a payout occurs when a pre-agreed trigger is reached, currently used for disaster response. These are made possible by complex data models and are intended to reduce the time between the event and payout.

Patient capital[7]: Investment from investors who are willing to finance enterprises without expecting a quick profit and instead wait longer before they see financial benefits from their investments, in exchange for blending social, environmental, and financial returns.

Pay-for-success (PFS)[5]: Financial instruments (such as outcome funds, impact bonds, or social impact incentives) that are results-based, i.e., payments only occur if pre-agreed social or environmental outcomes are achieved. Thus, resources are disbursed based solely on outcomes and not on the completion of certain activities.

Perverse incentives: An incentive that has an unintended and undesirable result that is contrary to the aims or objectives of a service or program.

Procurement[4]: Acquisition of goods and services from third-party suppliers under legally binding contractual terms.

Program grants: support a specific project or activity of the grantee, and are tied to specific, project-based outcomes (also referred to as project support).

Project preparation facility[6]: An entity set up to strengthen and shorten the project preparation stage, facilitating loan approval and project execution (mainly in infrastructure projects).

Project support: funds that are designated to a specific project carried out by the organization (also referred to as program support or program grants).

Protracted crisis[7]: An environment in which a significant proportion of the population is acutely vulnerable to death, disease, and disruption of livelihoods over a prolonged period. The governance of these environments is usually very weak, with the state having a limited capacity to respond to, and mitigate, threats to the population, or provide adequate levels of protection.

Public-private partnership (PPP)[5]: Partnership between an agency of the government and an organization from the private sector aimed at the delivery of goods or services to the public.

Results-based financing (RBF)[4]: In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes a commissioner (outcome payer) is willing to make for each participant, cohort, or specified improvement that verifiably achieves each outcome.

Return on investment (ROI): A means of relating profits to invested capital. In business, ROI is a measure that is used to compare the efficiency of different potential investment options.

Risk-adjusted financial return[2]: The expected return is based on an evaluation of the investment risk and upside expectations.

Risk-return profile[5]: The risk-return trade-off states that the expected return rises with an increase in risk. Typically, different expectations regarding risk and return are used to determine the risk-return profile of an investment.

Risk transfer[5]: A risk management technique used in financial investments whereby the risk is assigned to another party through a legal agreement.

Secured debt: Debt that is secured by assets or other forms of collateral.

Securitization[1]: Refers to the process of transforming a pool of illiquid assets into tradable financial instruments (securities).

Senior debt/senior equity[5]: Senior debt refers to a debt financing obligation issued to a company by a financial institution or a donor that holds legal claim to the borrower's assets above all other debt obligations. Because it is considered senior to all other claims against the borrower, in the event of bankruptcy it will be first to be repaid before any other creditors or stockholders receive repayment. Similarly, the holders of senior equity ('preferred stockholders') have repayment seniority over common stockholders. Because of its greater degree of safety, senior debt or equity will generally offer lower returns than debt or equity below it in the seniority hierarchy.

Share (A share, B share, C share)[5]: A unit of ownership interest in a company or financial asset that provides for an equal distribution of profits, if any are declared, in the form of dividends. Shares can have different types of subordination (such as A, B, C, or junior and senior shares), which assign a ranking in the priority ladder when it comes to paying out dividends but also taking losses in equity capital.

Social business[5]: A business with a for-profit business model that is set up to solve social or environmental issues and generate profits at the same time.

Social enterprise[5]: An organization that has social or environmental objectives as its primary purpose. A social enterprise may be a for-profit or non-profit entity or a hybrid form. The profits of social enterprises are usually reinvested to maximize the benefits for society.

Social Impact Bond (SIB)[6]: A results-based contract in which one or more investors provide working capital for social programs, service providers implement the program, and one or more outcome funders pay back the investors if, and only if, the programs succeed in delivering results. In a SIB, the outcome payer is typically a government from a high-income country.

Social Impact Incentive (SIINC)[2]: A funding instrument that rewards high-impact enterprises with premium payments for achieving social or environmental impact. The additional revenues enable them to improve profitability and attract investment to scale. SIINCs can effectively leverage public or philanthropic funds to catalyze private investment in underserved markets with high potential for social impact.

Start-up: A recently established company that is in the first phase of a company's life cycle.

Structured fund[5]: A financial construct in which various categories of investors, e.g., private commercial investors, DFIs, and donors with different share classes and risk-return profiles jointly invest in a financial vehicle.

Subordinated or junior debt[6]: Subordinated or junior debt is most often an unsecured loan that ranks below other, more senior loans or securities for claims on assets or earnings. In the case of borrower default, creditors who own subordinated debt will not be paid out until after senior bondholders/noteholders are paid in full.

Subsidies: Resources provided to an organization/project that help reduce the cost of production.

Support facility[5]: A private sector engagement modality in which the impact-oriented projects and activities of private sector actors are selected according to a competitive procedure and supported with technical assistance or financing. See also: challenge fund and matching grant.

Sustainable Development Goals (SDGs)[3]: A set of 17 development goals adopted by the United Nations in 2015. They provide a shared blueprint for peace and prosperity for people and the planet, between 2015 and 2030.

Technical assistance (TA)[2]: Resources that are used for skill building, capacity development, and/or consulting specific needs of a company or project.

Theory of Change[4]: It describes the causal logic of how and why an intervention will reach its intended outcomes. A theory of change is a key underpinning of any impact evaluation, given the cause-and-effect focus of the research.

UN Global Compact[3]: A voluntary initiative based on CEO commitments, that aims to implement 10 universal sustainability principles and to take steps to support the SDGs.

Contributors

Vanina Farber

elea Professor of Social Innovation; Director of IMD Center for Social Innovation; IMD Dean of Executive MBA

Vanina Farber is an award-winning economist and political scientist who specializes in social innovation and the mobilization of private capital for impact investing. Her research focuses on innovative, practical, sustainable, and inclusive market-oriented approaches that have the potential to change the world by eliminating the root causes of social ills. She is primarily engaged in social innovation, social entrepreneurship, impact investing, sustainable finance, and ESG, and applies a gender lens in all her research projects. At IMD, she leads the IMD Center for Social Innovation which is carrying out important research in this area.

Farber's work involves collaboration with a range of financial institutions and corporate clients, and in 2022 she launched IMD's Driving Innovative Finance for Impact open program in partnership with the International Committee of the Red Cross, Fondation Lombard Odier, and the World Economic Forum. She also plays an active part in the Swiss Lab for Sustainable Finance and Gender Lens Initiative for Switzerland research networks and is an advisory board member at the Impact Finance Forum and an international academic advisory board member at the Católica Porto Business School in Portugal.

Next to that, she teaches courses on impact investing in IMD's MBA and Executive MBA programs and leads the pioneering Discovery Expedition to Peru for EMBA participants, where they perform due diligence on Peruvian social enterprises for Swiss and local impact investors.

Farber was named Outstanding Case Writer in the 2022 Case Centre Awards for her study on pay-as-you-go technology company Angaza. She has also been recognized as a winner of the EFMD Case Writing Competition 2022 in two categories: African Business for Angaza, and Responsible Leadership for Nia Impact Capital. She also won the responsible leadership category in the 2019 EFMD Case Writing Competition for her case on Philip Morris International's vision of a smoke-free future.

Before joining IMD in 2018, Farber was Professor and Chair of Sustainable Entrepreneurship and Social Inclusion at Universidad del Pacífico, Peru. In January 2022 she was appointed as the fifth Dean of the IMD EMBA program.

Juan Luis Coderque Galligo

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Juan Luis Coderque Galligo has been working for the International Committee of the Red Cross (ICRC) since 1997. He has had postings in the Caucasus, Democratic Republic of the Congo, South Sudan, Côte d'Ivoire, the Gaza Strip, Lebanon, Senegal/Mali/Niger, Moscow, leading multicultural teams in conflict situations, delivering protection and assistance to people affected by armed violence, negotiating for access to victims and for respect of the rules of war.

In June 2014, he set up ICRC's Corporate Partnerships Unit at ICRC Headquarters in Geneva, with a focus on bringing the corporate sector in support of ICRC's strategic orientations. From January 2018, building on ICRC's first Humanitarian Impact Bond, Coderque Galligo led ICRC's efforts in the innovative finance space, exploring new public-private partnership and financing models for humanitarian action. He is now Senior Advisor on Innovative Finance for the ICRC and the Humanitarian Innovative Finance Hub.
Coderque Galligo holds a master's degree in European Studies with a focus on post-communist economies. He has pursued executive courses with ICRC/Ashridge, IMD, and Oxford University. He has four working languages, English, French, Russian, and Spanish.

Maximilian Martin

Global Head of Philanthropy, Lombard Odier Group; Senior Fellow, IMD Center for Social Innovation

Maximilian Martin is Lombard Odier's Global Head of Philanthropy. He led the "Program for Humanitarian Impact Investment" transaction (also known as the Humanitarian Impact Bond) on the side of the co-sponsor. He is the founder of Impact Economy and serves as a Senior Fellow at IMD's Center for Social Innovation.

Martin created the first university course on social entrepreneurship in Europe at the University of Geneva (2003) and created and led the first philanthropic services and impact investing offering for a European bank (UBS, 2004-2009). He also created the UBS Philanthropy Forum. He wrote the Primer on impact investing "Status of the Social Impact Investing Market" (2013) for the G8 policymakers' conference, which considered the potential and development options for this new branch of the financial industry for the first time.

Martin holds an MA in anthropology from Indiana University, a MPA from Harvard University, and a PhD in (economic) anthropology from the University of Hamburg. Previous employers and lecturing appointments have included McKinsey & Company, Schwab Foundation for Social Entrepreneurship, UBS, Harvard University, the University of Geneva, and the University of St. Gallen (where he lectures on social entrepreneurship and impact investing). In 2016, Springer published his book "*Building the Impact Economy: Our Future, Yea or Nay*."

Patrick Reichert

Associate Director, IMD Center for Social Innovation; elea Research Fellow and Term Research Professor

Patrick Reichert conducts research at the intersection of entrepreneurship, finance, and impact, with a particular focus on the mechanisms that investors use to invest in social organizations.

His research has been published in leading journals such as the *Journal of Business Ethics*, *Journal of Business Venturing Insights*, *Social Enterprise Journal*, and *Oxford Development Studies*, where he was awarded the 2017-2018 Sanjaya Lall Prize for the best paper published in the previous two volumes. His PhD thesis was shortlisted by the Emerald & EFMD Outstanding Doctoral Research Awards in the Finance category.

Reichert holds a PhD from Solvay Business School in Brussels, Belgium, and a BS in business administration from Boston University. Before joining IMD, Reichert worked for Simpa Networks, a social enterprise, in Bangalore, India where he helped the company raise its Series B and Series C equity rounds, first external debt financing, and several grants from development aid organizations (e.g., USAID).

Fito Espinosa (1970)

Fito Espinosa is a Peruvian artist with extensive experience. Through his paintings and drawings, he has created a magical universe that mixes his naive style with philosophical ideas, showing us the emotional and complex world of the human being.

His work has been consolidated over the years, becoming an aesthetic, plastic, and graphic reference for later generations, and a reference for creativity in the country. Evidence of his sensitivity and artistic versatility can be seen in his 13 individual painting exhibitions, retrospectives, numerous editorial publications, musical compositions, and a wide range of sculptural pieces and others.

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