IKEA Foundation

WORLD ECONOMIC FORUM

Cultivating Investment Opportunities in Fragile Contexts:

Catalysing Market-Driven Solutions to Strengthen Community and Economy Resilience

DISCUSSION PAPER

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Foreword

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In September 2019, the World Economic Forum, together with the International Committee of the Red Cross (ICRC) and the World Bank, published *Humanitarian Investing – Mobilizing Capital to Overcome Fragility* to broaden thinking about investment opportunities in support of vulnerable people and communities at the humanitarian-development nexus – from those living in disaster-prone areas or fragile environments to those who have been forcibly displaced or who are integrating into new communities after resettlement. The aim was to encourage humanitarian and development communities, investors and businesses to rethink their roles in driving humanitarian impact and financial return to strengthen fragile economies and increase self-reliance and resilience for communities that are at heightened risk of or have experienced forced displacement, fragility, conflict, violence or natural disasters.

This paper is an evolution of the work initiated in 2019. It offers a practical, financially sustainable approach to humanitarian and development organizations, businesses, investors and entrepreneurs working to help people and communities in fragile contexts. It shows how organizations can build the capacity, strategic thinking and organizational know-how needed to develop a sustainable business case for solutions that have the potential to make a difference to the lives of the nearly 1 billion people living in fragile and conflict-affected contexts worldwide and unlock new sources of finance to reach impact at scale. It also highlights the need for the global community to rethink the role of the private sector in humanitarian contexts beyond traditional philanthropy and charity. It is a call to action for a new form of collaboration that leverages the unique roles of each stakeholder and funding source in the humanitarian context in forging sustainable pathways and scalable impact. This discussion paper sets the stage for continued learning and dialogue among stakeholders across the HRI ecosystem and the next three-year phase of the World Economic Forum's Humanitarian and Resilience Investing (HRI) Initiative.

Executive summary

To reach impact at scale in fragile markets, all stakeholders should view each humanitarian and resilience investing opportunity as part of a wider system, meaning multiple forces must align and work together to unleash transformational change.

The Humanitarian and Resilience Investing (HRI) Initiative was launched in 2019 to catalyse flows of private capital into financially sustainable opportunities that benefit communities in humanitarian and fragile contexts. HRI is defined as capital invested in ways that measurably benefit communities and strengthen economies in humanitarian and fragile contexts while creating a financial return. An HRI opportunity is a private or public driven effort that benefits the recovery and resilience of local communities that are at heightened risk or have suffered from conflict, natural disasters and forced displacement and are, or have the ambition to become, commercially viable.

In exploring effective approaches to building resilience in situations of fragility and conflict, actors from different sectors must contribute a range of capital flows, skills, networks and knowledge to HRI opportunities. There are five development stages HRI opportunities go through on their pathway to scale and unlock new sources of finance.

Idea stage
Opportunity owners research and identify an idea that can solve a humanitarian need and has a sufficiently large target market to enable impact at scale. Opportunity owners consider how to create value beyond societal impact, determining whether the investment opportunity can reach financial sustainability down the line.

Concept stage
Opportunity owners define their mission and vision and develop an initial strategy, key milestones and the business case for financial sustainability. As the business plan takes shape, the team seeks funders to finance prototype testing and validation.

Pilot stage
Given that this is a proof-of-concept phase, strategic philanthropy – in the form of grants or funding similar to traditional humanitarian grant financing – is essential.

Growth stage
If an HRI opportunity has reached this stage, it means the business has iterated its concept to meet market demand and impact and is ready to increase its operations. Catalytic and de-risking capital remains essential to unlocking new funding sources, with a growing focus on financial return, such as venture capital, corporate venture capital and private equity.

Scale stage
Ventures that are ready to scale can demonstrate solutions and proven, commercially viable, financially sustainable business models that can reach greater impact exponentially. These ventures are prepared to expand and consider more ambitious goals, such as expansion globally or in terms of their product or service lines.

Numerous funds, accelerators, start-ups, skills-building projects and financing and business models target or operate in fragile contexts. Stakeholders, including donors, development finance institutions (DFIs), humanitarian and development organizations, and governments, drive these initiatives and each plays a vital role in the HRI ecosystem. The challenge is the fragmentation between them. As a result, HRI opportunities with the potential for commercial viability struggle to move along the development stages to a point where they can attract commercial investment significant enough to move the needle on challenging social, environmental and resilience problems.

Rethinking the global response to crises and fragility by establishing and scaling new types of partnerships is a complex task that calls for a change in mindset and behaviour, among both people and organizations, that embraces the involvement of new players and internal buy-in for each organization's changing mandate.

This is a recognition of the need for the ecosystem to be better connected and aligned, which requires a rethinking of the definition, measurement and distribution of value, bolder incentives for organizational intrapreneurs and a view of initiatives as part of a wider system rather than as isolated investment opportunities.

To address these challenges, the World Economic Forum's HRI Initiative will focus on cultivating scalable HRI opportunities, supporting key stakeholders across the HRI ecosystem to address organizational barriers preventing them from engaging in HRI and facilitating opportunities for engagement and collaboration across the HRI ecosystem to catalyse investment opportunities through increased collaboration and alignment between key stakeholders. It will continue to facilitate the development of new tools, research and resources, including standards, common terminology, and analytic frameworks that allow for systems-level impact measurement.

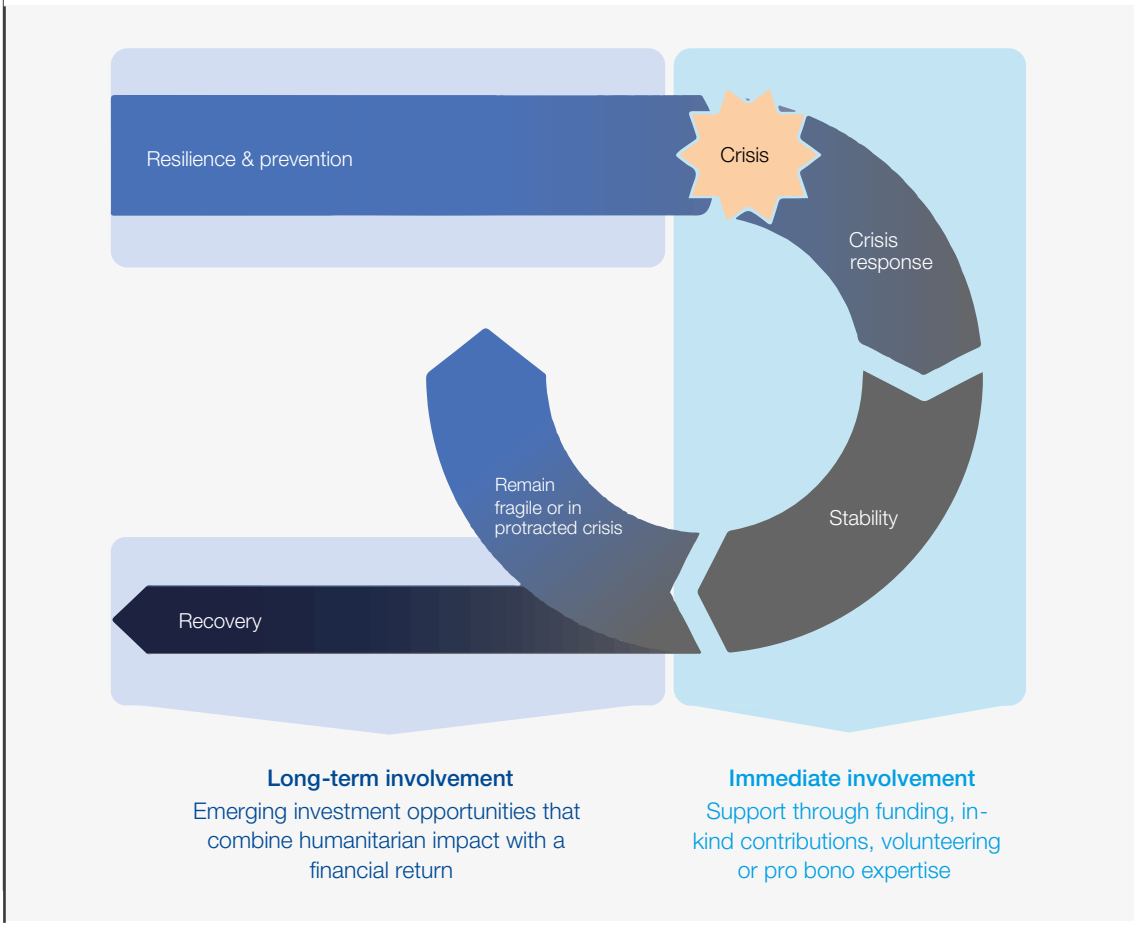
Introduction

New opportunities are emerging to unlock financially sustainable business models that strengthen local economies and increase the self-reliance and resilience of communities in humanitarian and fragile contexts.

The need to find new ways to help those affected by fragility, conflict, violence, extreme hunger and natural disasters has never been as urgent as it is today. Nearly 1 billion people live in fragile and conflict-affected contexts, which continue to experience long-term and protracted wars, climate change and growing inequality, all of which the COVID-19 pandemic and the war in Ukraine have exacerbated.[1] Refugee and internally displaced populations are now growing at unprecedented rates. As humanitarian relief systems are stretched beyond capacity, the humanitarian ecosystem is intensifying its efforts to tap into new financing models, collaborate throughout humanitarian-development efforts and explore new types of partnerships with businesses.[2]

Simultaneously, businesses and investors see an opportunity to expand involvement in humanitarian contexts beyond philanthropy and charity. These organizations bring a wealth of experience, innovative solutions and capacity to serve humanitarian needs. In particular, opportunities are emerging for the private sector to invest and play an active role in long-term interventions, notably those helping build resilience in vulnerable communities before a crisis and those rebuilding the local economy during the recovery period (see Figure 1).

FIGURE 1 **The private sector in humanitarian contexts**



Private sector interest in creating new mechanisms that support the United Nations Sustainable Development Goals (SDGs) and deploying capital for positive social and environmental impacts is the highest it has ever been. In addition, more and more development finance institutions (DFIs) are supporting smaller, riskier investment opportunities and deploying new mechanisms to de-risk and catalyse private investment.

Humanitarian and resilience investing (HRI) is defined as capital invested in ways that measurably benefit communities and strengthen economies in humanitarian and fragile contexts while creating a financial return.

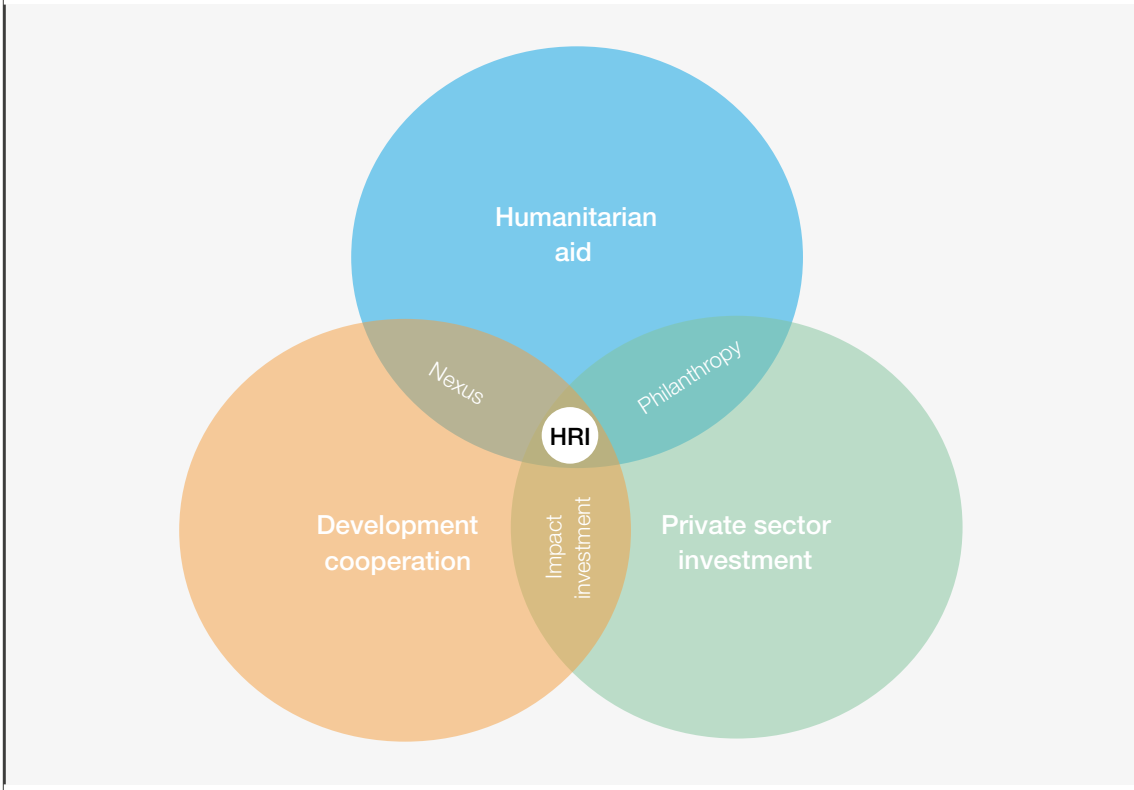
The increased involvement of businesses and investors in humanitarian contexts could help close the humanitarian financing gap by complementing development actor efforts with new solutions designed to prevent crises and rebuild crisis-hit communities and economies. This provides a new source of capital, and allows for the redeployment of development and donor money currently being used for crisis prevention and rebuilding into acute relief and stabilization. Finally, if deployed properly, it could reduce the overall need for humanitarian financing by increasing the resilience and self-reliance of vulnerable people and communities.

Meanwhile, a vast nascent market exists for innovative solutions addressing humanitarian needs and innovative business models are emerging that can unlock these opportunities. In addition to providing services or products to communities in fragile settings, the communities themselves can be a part of the solution, helping drive local economic growth through entrepreneurship, user-driven innovation and the provision of goods and services.

While humanitarian and development relief will remain essential to addressing acute crises, market-driven solutions can complement established approaches, providing new, financially sustainable models to prevent and respond to crises. However, stronger and more coordinated cooperation is needed between the humanitarian ecosystem, the development community, donors, DFIs, businesses and investors in fragile contexts to unlock this potential.

Humanitarian and resilience investing (HRI) is defined as capital invested in ways that measurably benefit communities and strengthen economies in humanitarian and fragile contexts while creating a financial return. It sits at the intersection of development capital, private sector capital and humanitarian capital (see Figure 2).

FIGURE 2 **Positioning of humanitarian and resilience investing among capital sources**



HRI opportunities are privately or publicly driven projects and businesses that benefit the recovery and resilience of local communities experiencing or at risk of experiencing conflict, natural disasters and forced displacement and that aim to become commercially viable. They can, for example, be humanitarian projects or philanthropic branches of a business with the potential and ambition to scale

sustainably by building a business case. They can be impact-driven enterprises that provide goods or services to target groups, that are founded or led by members of the target community, or that source inputs or human capital from target groups, creating employment opportunities.

HRI opportunities are privately or publicly driven efforts that benefit the recovery and resilience of local communities that are at heightened risk or have suffered from conflict, natural disasters and forced displacement and are, or have the ambition to become, commercially viable.

While investor appetite for these kinds of investment opportunities is growing, few investment opportunities are ready to scale within the HRI context – meaning with proven, commercially viable solutions and business cases and the ability to grow incrementally through private capital. This is because they currently do not meet the criteria necessary for investors to commit funding and, for many investors, their risk-return profile remains unattractive.

In what follows, the development stages an HRI opportunity undergoes in its pathway to scale will be explored, including the different stakeholders and interventions – at investment opportunity and system levels – that have an essential enabling function for that investment opportunity to grow along these stages and reach the scale needed to attract private investment. By identifying missing linkages between these enabling functions, the HRI Initiative can determine a way forward in which key players in the HRI ecosystem are connected and enabling functions come together in the right combination, at the right time.

1 The development stages of HRI opportunities

Enabling interventions from key stakeholders help HRI opportunities grow from one development stage to the next.

HRI opportunities follow several development stages as they grow from an idea to a scalable investment opportunity (Figure 3). A different combination of enabling interventions and financial sources is needed at each stage, in line with the different growth trajectories of HRI opportunities.

Interventions can occur at the investment opportunity level (directly engaging) and at the systems level (shaping the environment in which an investment opportunity operates), provided by a mixture of stakeholders.

FIGURE 3 **Development stages of HRI opportunities**

Note: All amounts are indicative.

Idea stage

During the first stage, opportunity owners identify an idea that can solve a humanitarian need and has a sufficiently large target market to enable impact at scale. HRI opportunities can benefit vulnerable communities in different ways, most notably through the provision of a product or service, or by sourcing a product or service from these communities, generating employment, self-reliance and local economic activity. HRI opportunities can also benefit vulnerable communities simply by being initiated or led by members of these communities or through a combination of these.

Stakeholders that can initiate an HRI opportunity include non-governmental organizations (NGOs), social enterprises, businesses, international or development organizations, and members of vulnerable communities. The drivers for action also vary, whether it is a business strengthening the "S" in its environmental, social and governance (ESG) performance, a humanitarian organization tapping into new sources of funding, or a social entrepreneur building a purpose-driven business. The type of stakeholder initiating the opportunity and their motivation may influence the extent to which a clear business model and potential for financial return inform the design of the HRI opportunity.

At this stage, opportunity owners consider how to create value beyond societal impact, determining whether the investment opportunity can reach commercial sustainability down the line. This

includes thorough research and assessing known and potential risks and, based on this, identifying ideal partners and appropriate types of capital.

For example, in the development of public-private partnership infrastructure projects, government, development and humanitarian organizations are critical stakeholders in a high-risk investment with a model based on subsidies and incentives. Indeed, in the delivery of a water infrastructure project in the Democratic Republic of the Congo (DRC), the ICRC has played a pivotal role in preparing the groundwork for a private operator to deliver safe, sufficient and sustainable water to the people of Goma West, with feasibility and design studies funded through grants and the design-build-operate project funded through parallel investments – a blend of concessional finance and performance-based incentives to encourage an efficient private operator. The $40 million Goma West Resilient Water Supply Project is made possible by partners, including funding from the Swiss Agency for Development and Cooperation (SDC) and the Swedish International Development Cooperation Agency (Sida). The ICRC is coordinating with the World Bank to finance the contract in parallel with the private sector.

By contrast, in developing new products – low-to-moderate-risk investments based on manufacturing and distribution models – humanitarian organizations, businesses and private investors would be the key stakeholders.

Hurdles and ways to overcome them

Hurdle: Internal pushback and organizational hurdles
How to overcome it: Co-creation of HRI opportunities, secure leadership and organizational buy-in

Hurdle: Market entry challenges
How to overcome it: Inform and align with development partners that support local skills development and policy dialogue or engage in other interventions to increase the business enabling environment

How an HRI opportunity seeks to achieve impact can determine the nature of the hurdles faced, initially and later on, and the types of enabling interventions needed to avert or overcome these hurdles.

For example, an opportunity looking to encourage entrepreneurship by providing financial services to vulnerable communities might be hampered by the regulatory environment or a lack of financial, digital literacy and other skills. The type of stakeholder and reason for initiating an HRI opportunity may also indicate some of the hurdles the team could face down the road. For example, humanitarian organizations tend not to design projects that are "investable" and so may not consider how to create monetizable value from the outset but rather may – when the project is seeking to grow through financial sustainability – retrofit a business model that was not designed initially with for-profit objectives.

The initiator of a HRI opportunity may also experience hurdles within its own organization, in particular when this pushes the boundary of the organization's traditional mandate. A humanitarian organization or NGO, for example, might experience internal pushback when adopting a commercially sustainable model to tap into new financing, as this might not be the organization's traditional way of working.

Co-creation between humanitarian and private sector partners can help address this challenge as well as misconceptions on how to collaborate in such environments. Engaging with businesses that are already operating in the region can help humanitarian partners better understand local business dynamics, mitigate potential risks and disruptions, and source innovations from the private sector to help address humanitarian needs more effectively. It can also help private sector organizations maximize their social impact by identifying and mitigating any potential unintended harm and align with ongoing development interventions on the ground. This new type of partnership requires both parties to adapt but, at a minimum, early collaboration is essential in aligning on critical goals and having a clear understanding of the motivations driving each party.

For humanitarian and development organizations that have the ambition to push their traditional mandate through HRI, securing leadership and organizational buy-in should be a priority. When leadership understands the value of this innovative approach, it is easier to gain the support of different departments within the organization. Incorporating HRI opportunities into an organization's strategy will reinforce this, giving developers and investors a mandate to devote time and resources to HRI. It is essential to secure this buy-in as early as possible, as this facilitates the creation of ideas and provides support for the next stages in the development process.

There are also significant market entry challenges related to the nature of fragile contexts. In addressing potential market hurdles, for example,

the International Finance Corporation (IFC) identified policy, legal and regulatory hurdles, misconceptions, difficult business conditions and knowledge gaps as the most significant barriers to private sector engagement in the context of forcibly displaced people.[3] The project initiator could consider aligning with other stakeholders in the HRI ecosystem that engage in skills development, policy-related interventions or other solutions to overcome some of these challenges and increase the business enabling environment.

For example, the United Nations Capital Development Fund (UNCDF) works to address skills and policy-related challenges for refugees to provide the basic mobile and financial services needed to realize their economic potential. In Uganda, for example, UNCDF supported the successful advocacy efforts of the United Nations High Commissioner for Refugees (UNHCR), World Food Programme (WFP) and Global System for Mobile Communications Association (GSMA) to have the Uganda Communications Commission accept the attestation letter that UNHCR grants refugees as a valid form of identification for SIM-card registration.

Programmes using a combination of frontier technologies and business innovations also have the potential to help overcome these constraints. For example, Building Blocks is a blockchain network enabling multiple humanitarian organizations to better coordinate cash-based transfers, with the prime objective of improving the lives of the people these organizations serve in constrained environments. Operational since 2017, Building Blocks is the world's largest humanitarian implementation of blockchain technology, currently assisting 1 million Syrian and Rohingya refugees in Jordan and Bangladesh, respectively. Building Blocks has processed $350 million in cash-based transfers through 15 million transactions.

Concept stage

This is the stage where owners of HRI opportunities define their mission and vision and develop an initial strategy, key milestones and the business case for financial sustainability. Ideally, data, including market size, market growth potential and critical impact metrics, inform strategic decisions. Good governance should be introduced early in the process to ensure good decision-making, data, control and assurance processes.

As the business plan takes shape, the opportunity owners will seek funders to finance prototype testing and validation of the proposed solution to humanitarian needs. This means creating a clearly defined problem statement and a solution with tangible benefits, setting out the commitment needed from critical stakeholders and suggesting a potential business model. The team should also capture as much data as possible since commercial investors who want to be assured of the investment opportunity's success and viability will request it at later stages.

Hurdles and ways to overcome them

Hurdle: Early funding access
How to overcome it: Seek appropriated sources of seed capital (such as accelerators that provide guidance and networks in addition to funds)

Hurdle: Limited experience in designing a business model that meets investment criteria
How to overcome it: Seek mentorship and expert guidance (for example, investor guidance, advisory services, research resources)

Hurdle: Limited availability of (market) data and recognized metrics to measure social impact
How to overcome it: Integrate data collection in the pilot's design, gather data on humanitarian contexts from local partners where possible

Different types of seed capital can be considered when an HRI opportunity is getting off the ground. These range from funding for prototype testing and validation to performance-based grants distributed in tranches. Other forms of funding include loans, equity-free funding and equity investments. The opportunity owners need to make informed decisions about which form of financing is most appropriate.

Given the higher-risk profile and potential for impact of HRI opportunities, donors provide important

sources of seed finance. This type of financing can include traditional grants provided by donors, philanthropic organizations and, if relevant, corporate foundations that might seek later-stage capital from the associated corporation in the future. Social entrepreneurs that are financially driven from the offset and can communicate their business case to investors may follow a more traditional start-up route and source funding from incubators, venture capital companies or angel investors.

Accelerators are vital sources of early-stage capital for an HRI opportunity. Corporate and philanthropic foundations, dedicated funds backed by governments and foundations, and international agencies usually make these funds available, combined with other forms of support.

Each accelerator operates with a unique mandate regarding geography, sector and support offering. As well as offering financing (grants and investments), accelerators also help organizations advance HRI opportunities from concept to pilot by providing practical support such as access to office space, research resources, capacity development and training, innovation boot camps, mentorship from industry experts, outreach to potential partners, advisory services such as support for business model development and product development, networking opportunities and introductions to investors.

For example, WFP's Innovation Accelerator sources, supports and scales innovations, having assisted projects in 67 countries. This accelerator started with a focus on ending hunger and now supports different impact-driven entities across sustainable development innovation work (for example, the Bill and Melinda Gates Foundation and Humanitarian Grand Challenge – HGC). By contrast, the Kakuma Kalobeyei Challenge Fund is more localized, providing technical assistance and business development support to small and medium-sized enterprises (SMEs) and refugee-owned social enterprises in Kenya's Turkana County. Some accelerators, like the HGC and Hilton Foundation, show geographical and sector breadth, with HGC prioritizing WASH (water, sanitation and hygiene), energy and health services in developing countries and the Hilton Foundation providing grants and partnership opportunities to initiatives in WASH, refugee livelihoods, and early childhood development.

Early-stage accelerator support is often critical to refining, testing and implementing HRI opportunities. While most funding support at this stage is seed capital for immediate use, a few accelerators provide support beyond the seed funding stage. Notably, HGC provides both seed and scaling support funding, IKEA Foundation distributes multi-year grants targeting climate action, renewable energy, agriculture, refugee livelihoods and employment, and Innovation Norway provides milestone-based funding with 30% of the grant earmarked for needs-assessment and 70% for development and piloting. This type of support helps combat the funding lag that often occurs between the piloting phase and progressing towards scale.

HRI opportunities progressing through accelerators often graduate with seed capital, a minimum viable product and a network to tap into to facilitate future growth. The commitment of an advisory board and invested stakeholders is critical to progress through the pilot, growth and eventual scale stage of an HRI opportunity.

Whether through an accelerator or another structure, mentorship is critical at this stage, particularly regarding investor guidance. Increased investor guidance and communication at this early stage ensure the opportunity can meet the necessary criteria. When scalability is considered from the outset, success is more likely.

To make relevant projections informing an investment opportunity's profile, risk, potential impact and business case, decisions should be informed by market information. However, as highlighted by the World Economic Forum's 2021 white paper on unlocking humanitarian investments,[4] business-level data in humanitarian contexts is lacking.

Moreover, metrics and data on social impact are among the most difficult and expensive to collect and analyse. Even when available, this type of data is often questioned for its comprehensiveness, timeliness, relevance and accuracy, and long-term or systems-level impact is often missing.

Private investors who are not focused on humanitarian and resilience-setting often have a limited understanding of what it takes to invest in these settings, including the risks they pose and their payoffs. Additional data on investments and their potential to achieve social impact will improve awareness of HRI in liquid markets, lower the risk, and funnel additional capital to where it is needed. Investors are seeking disclosure in four key humanitarian and resilience areas. First, they need information about the type of social and environmental impact an organization will have in these settings (not necessarily using an existing impact framework, given the many different impacts one can have in these settings). They also want to understand the potential financial scale of impact (such as local economic development or impact on household income levels) and the potential financial return generated. Some investors also want data on governance and operations, which can demonstrate how an organization incorporates humanitarian impact across all stages of its operations and limit reputational risk.

Although some progress has been made in recent years, such as by the World Bank Group and UNHCR through the creation of the Joint Data Center on Forced Displacement, more work is needed to capture market data in humanitarian contexts and develop internationally recognized metrics, value models and analytic frameworks that allow the impact of HRI opportunities to be measured at a systems level.

Dalberg Advisors, International Rescue Committee and CrossBoundary, supported by USAID and guided by the World Economic Forum and GIB Asset Management, have recognized this need and are working to create a Humanitarian and Resilience Disclosures prototype. The initiative aims to provide investors with the data they need, helping increase private investments in humanitarian and resilience settings. Not all information will be mandatory, avoiding disadvantaging organizations that may not have access to certain data sets.

Pilot stage

At this stage, the opportunity owner will need to start thinking how a successful pilot can unlock financing that is structured to diminish the percentage of grant capital used as seed funding and take on first-loss risk to make way for private sector capital in the form of larger-scale catalytic and venture capital. Financing structures should be selected according to the nature of the HRI opportunity, stakeholders involved, the results of the pilot and whether it was successful and replicable, or whether it was successful but needs tweaking.

BOX 1

H2Grow

H2Grow is a WFP hydroponics initiative bringing locally adaptable and affordable hydroponic solutions to vulnerable communities facing the challenges of dry terrain and climate change worldwide. By developing low-tech systems from local materials and growing fresh vegetables or animal feed in deserts, refugee camps or informal urban settlements, H2Grow supports food-insecure families to increase their access to fresh food and raise their income. H2Grow is a high-impact innovation supported through the WFP Innovation Accelerator's Scale-Up Enablement Programme. In 2021 WFP deployed 763 new hydroponics units impacting 45,880 people and working in 21 countries.

H2Grow is currently piloting an asset-based loan model in Kenya with the ambition to link different country operations to enable market entry based on access to finance, directly impacting over 215,000 people over the next five years.

Source: World Food Programme

To attract capital to set up operations after a successful pilot, organizations need to put in place a viable revenue model with the projection of an attractive risk-return profile. They also need to make projections on the timing of cash flows and that the initiative will be replicable in multiple contexts. Building credibility and giving confidence that proof of concept has been achieved requires robust tracking of pilot data. Additionally, a roadmap is needed to set out the use of future funds, identify guarantees and develop risk mitigation mechanisms. This is when early-stage work pays off and, rather than having to approach an unfamiliar market of financiers, organizations can approach investors with whom they have developed relationships.

Based on positive indications of the pilot, there is potential for HRI opportunities initiated by humanitarian or development organizations to find an appropriate long-term private operator while continuing to provide support in the form of capacity building or convening power. This often makes the investment opportunity more attractive for commercial investment during the later stages of its development.

The hurdle and ways to overcome it

Hurdle: Finding a suitable financing model and partners

How to overcome it: Seek strategic philanthropy and catalytic funding from partners that can bridge the gap between donor and private funding, have the potential to provide funding continuity, and open doors to new market opportunities

The main hurdle in the pilot phase is to find a suitable financing model and partners. Given that this is a "proof-of-concept" phase in the HRI development stages, strategic philanthropy – in the form of grants or funding similar to traditional humanitarian grant financing – is essential. However, rather than providing support in perpetuity, humanitarian and development organizations can act as catalysts in the HRI ecosystem by finding the right financing partners for HRI opportunities and then taking on an advisory role. For example, grants at this stage can be sourced from strategic philanthropy with corporate foundations able to invest in higher-risk opportunities to test relationship building with new partner organizations. This "pre-tranche" risk-tolerant capital provides continuity of funding rather than one-off investments and an opportunity for the associated business to invest at a later growth stage.

DFIs play an essential role at this stage as they bridge the gap between donor and private funding. One of the critical roles of DFIs is to provide finance to the private sector under concessional terms, increasing the potential of the private sector to contribute to sustainable development by catalysing private investments into riskier markets. DFIs can play an essential role in strengthening the underlying conditions for private sector involvement in fragile settings.

As they push for greater efficiency and development impact, DFIs are increasingly looking for investment opportunities in fragile countries, including through closer collaboration with new partners, such as the launch of the Africa Resilience Investment Accelerator (ARIA). To identify these opportunities, DFIs are entering new partnerships that allow them to be creative, generate deals, and develop new ways of tackling challenging development problems.

BOX 2

The West Irbid Wastewater Project

The West Irbid Wastewater Project in Jordan, with the support of the Ministry of Water and Irrigation and the Water Authority of Jordan (WAJ), aims to provide sewage infrastructure to over 120,000 people. This will address the urgent socio-economic needs of the local population and the refugee community in the project area. The €53 million investment is financed through a European Bank for Reconstruction and Development (EBRD) loan co-financed by investment grants from the European Union's Regional Trust Fund in Response to the Syrian crisis (Madad Fund), the Global Concessional Finance Facility and the EBRD Shareholders Special Fund.
This investment supports EBRD's broader engagement with the WAJ to develop and implement a comprehensive wastewater investment programme to introduce the private sector to water and wastewater infrastructure in the North of Jordan to ensure the sustainability of the services. To deliver the project on the ground, the EBRD entered into a partnership with the International Rescue Committee (IRC) to deliver enhanced technical assistance for the EBRD-financed West Irbid Wastewater Network. As a well-established humanitarian organization, IRC has extensive on-the-ground experience and local knowledge. It also contributes its expertise in measuring humanitarian outputs and outcomes to support the project's social impact measurement for the community.

Through this collaboration, EBRD and IRC are piloting an innovative finance advisory model, a framework to enable concrete collaboration at the humanitarian-development-peace nexus. This model seeks to prove that if development banks and humanitarian agencies can develop strong partnerships leveraging their respective specialized capabilities in financial transactions, then both the financial and humanitarian impacts of investments in fragile or conflict-affected settings will be enhanced, the financial risk to investors will be reduced and the amount of investment capital deployed in pursuit of humanitarian objectives will increase.

Source: International Rescue Committee

Innovative finance can play an essential role at this stage due to its potential to unlock different sources of more sustainable or re-risking capital. Innovative finance refers to financial instruments and approaches that are combined in a new way to help mobilize additional funds from existing and new sources (public and private) and to use funds more effectively and efficiently in new sectors, geographies or for new purposes to contribute to sustainable development.[5] Approaches can have an innovative design for new financial products or an innovative application of existing models. As such, innovative finance can take many forms. Common examples include social impact incentives, performance-based grants, microinsurance, climate or catastrophe risk insurance, public-private partnerships, sustainability and thematic bonds, structured funds, guarantees, interest-free loans, and debt swaps or debt relief.

BOX 3

UNHCR Refugee Environmental Protection Fund

UNHCR is launching the Refugee Environmental Protection (REP) Fund to invest in impactful reforestation and clean cooking programmes in climate-vulnerable refugee situations worldwide. These programmes are badly needed since refugee-hosting areas overlap with some of the most climate-vulnerable regions of the world, with deforestation causing a range of acute issues, including local environmental threats, risks to safe living conditions and risks to women and girls who are exposed to sexual and gender-based violence as firewood collection become more difficult. In addition to investing in the reforestation and clean cooking programmes themselves, the REP Fund will be replenished through an innovative financing model as it will also invest in registering these programmes as verified carbon credits, the selling of which will allow it to become more financially and operationally sustainable over time.

The REP Fund will generate the first-ever large-scale refugee-generated carbon credits and, in this way, recognize the contributions of refugees and host communities to the global climate solution. The REP Fund's environmental programmes will also generate green jobs for refugees and host communities.

Source: United Nations High Commissioner for Refugees

In addition, DFIs are increasingly focused on creating conditions that lead to investments in these new markets by bringing together various players committed to market development and setting the groundwork for future investment in that context. As a result, approaches have become less transactional and more transformational.

BOX 4 | **Nepal Invest**

To accelerate Nepal's economic recovery from the COVID-19 pandemic, in 2020, the Dutch Entrepreneurial Development Bank (FMO) started exploring ways to attract more investments into the country that support the development of the country's private sector and innovation. However, by establishing a local presence and undertaking a market assessment, the bank soon realized more work was needed to prepare the market for increased investment from DFIs, frontier players and intermediate vehicles.

By conducting this upstream work, FMO joined with British International Investment (BII) and SDC to identify local partners and generate opportunity leads, building capacity in the country. Following the initial evaluation phase, FMO, BII and SDC launched an innovative collaboration between DFIs and development partners in the country: Invest for Impact Nepal, a platform driving to unlock the possibilities of investing patient and flexible capital to support private sector growth and innovation. In particular, the platform will support the country's economic development by establishing partnerships to address business environment challenges and ESG risks, explore innovative ways to finance SMEs and increase the skills and capacity of local investment professionals. The platform showcases the potential that can be achieved when stakeholders align on shared objectives while leveraging each partner's strengths and mandate.

Source: FMO

Nevertheless, significant challenges to ensuring alignment between development finance and private sector development continue to exist. In particular, BII and Gatsby Africa highlight misalignment in strategies, conflicting timelines, a lack of incentives for alignment on both sides, a lack of "crossover" knowledge, limited awareness of the additionality of other stakeholder groups, a lack of a dedicated coordination function, resource-related barriers to engagement with cross-sectoral initiatives, limiting investor fund structures and a limited toolbox for collaboration.[6]

Growth stage

If an HRI opportunity reaches this stage, it means the business has iterated its concept such that it meets market demand, has proven impact and is ready to increase its operations based on the success achieved at the pilot stage. In order to capitalize on its growth potential, the product or service may have to go through more iterations to meet the demands of a new sector of its target audience, be responsive to market trends or emerging opportunities, or establish procedures that allow for the standardization of operations.

While the number of customers served and revenues generated will increase, at this stage, revenue and growth will only increase to the extent that the business can increase capacity and resources, whether capital, people or technology.

This is when the team starts to grow and new types of capital can be explored.

Funding at this stage allows the venture to grow and to make the necessary changes to continue to the next stage. Although commercial opportunities exist at this stage, a range of risks and uncertainties for commercial entities and investors remain due to the context in which the investments take place, for example with regard to the affordability of potential solutions. At this stage, therefore, catalytic and de-risking capital remain essential to unlocking new funding sources, with a growing focus on financial return, such as venture capital, corporate venture capital and private equity.

Hurdles and ways to overcome them

Hurdle: Risk profile of the HRI opportunity

How to overcome it: Seek de-risking capital willing to mitigate risk for private investors

Hurdle: Size of opportunity or financing needed

How to overcome it: Work with partners to help DFIs to move further upstream to allow growth and encourage private sector interest

The ability to reduce grant money confirms that the venture is generating returns, is financially self-sufficient and can deliver impact to society and the broader economy. This is thus a critical achievement at the growth stage.

One factor hampering the ability of HRI opportunities to move from the growth stage to achieve impact at scale is their higher risk level compared to those in alternative investment portfolios. Market challenges are often similar to those in other emerging markets, such as weak infrastructure and institutional capacity, public and quasi-public goods, legal barriers and high market-entry costs. However, an additional layer of risk exists for HRI as they target markets that face the risk of natural disasters, instability and conflict. In addition, investors face reputational risks in unknown markets that might lack accountability structures – and commercial investors may be deterred if the projected returns do not reflect this heightened risk level.

Reducing the risk level of an investment opportunity can be achieved through de-risking approaches. Blended finance is one example of an innovative financing model specifically designed to address the elevated risk levels found in many private sector opportunities in fragile contexts by offering below-market terms for finance and risk-mitigation products. It combines commercial finance with humanitarian or development finance. Blended finance structures include direct funding for the removal of commercial barriers, technical assistance, risk transfer mechanisms and market incentives.[7]

Another example is cash-based interventions (CBIs), which can play a catalytic role in unlocking investment and enabling new market opportunities in fragile contexts. CBIs, which provide beneficiaries with cash rather than goods, are not only cost-effective; they increase the community's purchasing power and lead to higher demand for goods and services in local markets.[8]

BOX 5 | **African Clean Energy**

African Clean Energy (ACE) is a social enterprise and Europe's highest-scoring B Corp. It focuses on enabling decentralized access to clean energy for rural households. Its system provides biomass energy for clean cooking and a solar electrical component that can be used for phone charging and lighting. Focusing on markets in sub-Saharan Africa and South-East Asia, in 2021, ACE expanded its operations to serve refugee communities.

Although its hybrid, multifunctional solutions are designed to be affordable for bottom-of-the-pyramid markets, refugees could not afford its products upfront. To overcome this hurdle, ACE piloted its solution in the Ugandan refugee settlement of Kyangwali, which was benefitting from cash-based transfers. It offered its energy solutions through asset-based lending and introduced a new model that included "smart" capabilities, allowing customers to access the service through a pay-as-you-go model. And to mobilize philanthropic capital to expand its ability to subsidize its products, ACE COO set up the SDG ACE Foundation and introduced a user referral bonus (users can refer up to nine new customers in exchange for a monetary incentive), offsetting customer acquisition costs that can be redirected to increase affordability.

While working to improve the affordability of its products, ACE also empowers people in its target markets to generate an income from their operations. For example, it partners with local biomass briquette makers and employs refugees as sales agents.

ACE has provided 700 households in the Kyangwali Refugee Settlement (of which 70% are refugees) with clean and safe energy solutions. Over 500 of those households acquired these solutions through the referral model. ACE is currently scaling up the team and the project.

Source: African Clean Energy

De-risking capital has many interconnected benefits. For example, one recurring challenge to businesses serving vulnerable communities is delivering affordability for the target market. Donor money may also kill the market for private sector solutions if, for example, substantial disaster assistance makes it unattractive to off-take premiums for risk insurance. Redirecting donor funds to enable HRI-driven solutions to achieve affordability for target communities could therefore be transformational for the growth and investment potential of these opportunities. Other approaches to de-risk investments in fragile settings could include partnerships with reputable organizations or a risk-adjusted investment structure such as result-based financing.

BOX 6 | **Fin'ELLE**

Founded in 2007, Fin'ELLE, La Finance pour ELLE is a microfinance institution dedicated to the empowerment of women entrepreneurs in Côte d'Ivoire. With a range of savings products and credit and capacity building programmes, Fin'ELLE is committed to promoting a pan-African model of inclusive financing for women across the country. When Fin'ELLE approached FMO for investment, the institution was still at an early stage of development and had not yet reached breakeven. Even though the concept and target group supported by Fin'ELLE met the bank's priority areas, the institution's risk profile was relatively high.

Confidence was provided by COFINA, an African leader in meso finance (financial needs of small and medium-sized enterprises in developing countries) and an established partner of FMO, being a majority shareholder in Fin'ELLE. Furthermore, Fin'ELLE was able to demonstrate data highlighting strong indicators of growth. Through MASSIF, FMO approved a €5 million investment in 2021 to Fin'ELLE that was structured such that the first part of the financing was accessible immediately and additional capital could be unlocked after reaching certain milestones. Through the investment, Fin'ELLE aims to strengthen its position in meso finance and thus continue to facilitate access to credit for women entrepreneurs and SMEs active in agricultural value chains, with a strong social and environmental impact. Additionally, FMO's Capacity Development programme supports Fin'ELLE in creating an ecosystem for women's entrepreneurship in agricultural value chains and is the financial institution of reference for women entrepreneurs in Côte d'Ivoire. This project will deliver sustainable alternatives for inclusive finance and gender-smart solutions for women entrepreneurs.

Fin'ELLE now serves more than 10,000 clients and ranks 9th among microfinance institutions in Côte d'Ivoire. The project is expected to contribute to identifying good practices in the sector that could be shared with the rest of the COFINA Group and FMO clients with similar ambitions.

Source: FMO

Even when HRI opportunities have achieved sustained growth and are ready to attract more commercial sources of capital, their investment size is often considered too small to absorb the larger ticket sizes that commercial investors offer.

Pressure on investment officers to deploy funds and an incentive structure that is inappropriate for smaller investments often drive large ticket sizes.

BOX 7

Vision fund

DFIs and private investors seek opportunities for scaled investment and commercially viable returns – even when evaluating impact opportunities. In the pipeline of impact opportunities, very few have sufficient scale to attract this type of capital. Microfinance pools more significant amounts of capital to invest in smaller investment opportunities. However, to remain commercially viable, microfinance institutions focus on low operating cost environments and are therefore not lending to the most fragile.

By contrast, Vision Fund International (VFI) is a unique impact-first microfinance network focusing on the most fragile regions and most vulnerable people, with a rural footprint (64%), a focus on women (69%) and a portfolio mix of very small loans (75%). It serves the most vulnerable in the world's most fragile regions – places where traditional microfinance does not operate – by operating and managing a network of 28 microfinance institutions and partnering with World Vision International and other development/relief organizations to provide affordable credit to clients.

It aims to take advantage of impact track records, operational discipline, accountable management practices, data and reporting standards, and experienced local resources to create large and measurable impacts on fragile populations, while de-risking investments through a $240 million HRI Fund. This fund will serve an additional 1.6 million clients in highly fragile contexts in Africa (including at least 70% women borrowers). It will scale current lending initiatives in key product areas, build partnerships to develop new product areas, expand geographically in Africa, lower the existing cost of debt and scale affordable lending to highly vulnerable populations in the world's most fragile regions. VFI is ideally placed to identify, partner with and support high-potential HRI opportunities and build an expanded pipeline of future investment.

Source: Vision Fund

More work is also needed on the investor side. This could include working with the financial professions to incentivize their investment officers to deploy capital into smaller and riskier ventures as well as helping investors consider new and innovative business models that are purpose-driven. This would require new value and return paradigms that allow for the monetization of public goods or social and environmental impact in developing or fragile contexts.

BOX 8

Blendhub

Blendhub is a platform operating a global network of multi-localized food-as-a-service hubs, with the aim of making healthy and affordable food and nutrition universally available. By localizing food production, Blendhub focuses on creating sustainable and transparent supply chains that ensure shared value creation by connecting local farmers to entrepreneurs and food brands across global supply chains. In a decentralized "winner shares it all" approach to doing business, it dedicates a certain amount of capacity at each hub to social collaboration and sustainable food design for underserved communities.

While operating on the same network of hubs, the company tailors its business models to the realities of each target market by adapting to optimized local value creation. However, even though the company has demonstrated its ability to generate financial returns, its innovative, locally adapted business models did not seem to match impact investors' comfort levels and it failed to attract commercial funding from private investors.

The company has seven hubs worldwide that are self-funded by re-investing returns. To expand its global presence and operations, including in fragile contexts, it continues to seek private investors and local partnerships that align with its specific value propositions.

Source: Blendhub

Scale stage

HRI opportunities that are ready to scale can demonstrate solutions and proven, commercially viable business models that can reach scale and greater impact exponentially. These ventures are prepared to expand and consider more ambitious goals, such as expansion globally or in terms of their product or service lines.

At this point, these opportunities are ready to take on commercial capital at larger ticket sizes. Their investability (being attractive or profitable to invest in) depends on their track record, financials, risk level and ability to articulate these to potential investors.

Investment opportunities that are attractive to an investor showcase a good track record to highlight the strength and experience of the management team, to connect potential investors with a network of current investors that are excited about the impact and returns to date and to quantify the stability of the end customer through data (such as loan loss rate). Another success factor is the management team's openness to engaging with investors to generate collective value.

To ensure investor interest, ventures should be able to identify a significant overall market size and opportunity and show high-growth potential by communicating the percentage of the market the venture expects to capture. Financials are also critical for the investor, as it is easier to invest in ventures that are close to breakeven, have paid down debts on time and have existing assets and funders able to guarantee the investment. These levers are critically important, especially in larger ticket sizes as investors want to make stable investments.

Investability also depends on a venture's risks and its ability to communicate the anticipated steps to mitigate them. The risk level is determined by the status of existing public-private relationships and the overall business environment in target markets, the construction, maintenance and skills training required, environmental and social standards, anti-money laundering checks and the geography in which the venture operates.

2

Building a pipeline of scalable investment opportunities

The HRI ecosystem is populated with numerous initiatives that enable HRI opportunities to advance along the development cycle. However, they remain fragmented.

While a pipeline of investable, scalable HRI opportunities is lacking, supporting organizations, promising pilots, enabling interventions or de-risking initiatives exist that directly or indirectly enable investment opportunities to advance along their development stages. In fact, there are numerous examples of funds, accelerators, start-ups, skills-building projects and (innovative) financing and business models that target or operate in fragile contexts. Various stakeholders, including donors, DFIs, humanitarian and development organizations, governments and governing bodies drive these initiatives.

The challenge goes beyond the availability of supporting functions and initiatives to the fragmentation between them. As a result, HRI opportunities with the potential for commercial viability struggle to move along the development stages to a point where they can attract commercial investment large enough to move the needle on challenging social, environmental and resilience problems.

Several reasons exist for the fragmentation of the HRI ecosystem. For starters, there is often a misunderstanding of private sector motives and potential areas of involvement in humanitarian and fragile contexts. While private capital could help close the humanitarian finance gap, the potential for private sector involvement in this sector reaches well beyond financing to a wealth of innovative solutions, experiences and capacity to enable investment opportunities to succeed. In addition, numerous purpose-driven businesses and entrepreneurs are proving that commercially viable business models and sustainable impact can coexist.

Yet, many social enterprises and players in the humanitarian sector remain unaware of the opportunities or lack the capacity to engage potential partners across sectors. At the same time, a significant gap exists between smaller investment opportunities or enterprises in need of funding and the DFIs that can act as a bridge to securing private capital and reaching scale. Even when HRI stakeholders would like to move beyond traditional paths of collaboration to build and execute successful HRI opportunities, entry points for increased collaboration and (pre)alignment of support functions remain unclear.

In addition, awareness of financing instruments and approaches is limited among HRI's main stakeholders, both those who could create or execute investable opportunities and those who could finance them. Greater opportunities now exist for increased awareness, including publications highlighting deal trends and typical blended finance structures, such as Convergence's annual report, *The State of Blended Finance*.[9]

Finally, new types of collaboration between stakeholders might challenge the established individual mandates of each stakeholder and, although the intent for innovative partnerships could be there, these new types of involvement may not align with existing organizational policies or procedures, or capacity and incentive structures. A first step to addressing these hurdles is ensuring the right buy-in within each organization.

Rethinking the global response to crises by establishing and scaling new types of partnerships is a complex task. The humanitarian sector has

evolved from deeply rooted notions of the role and function of various stakeholder groups, driven by humanitarian principles. Changing the established characteristics of this system calls for a change in mindset and behaviour, among both people and organizations, that embraces the involvement of new players and internal buy-in for each organization's changing mandate.

Connecting and aligning an ecosystem in which each stakeholder is used to working in silos requires a rethinking of the definition, measurement and distribution of value, bolder incentives for organizational intrapreneurs and a view of initiatives as part of a wider system rather than as isolated actions. It also calls for strengthening the connective tissue of the HRI ecosystem in which a broad range of actors leverages different but complementary roles.

3 Where do we go from here?

The Humanitarian and Resilience Investment Initiative will focus on facilitating opportunities for engagement and collaboration across the HRI ecosystem.

It takes more than a single intervention to unleash transformational dynamics in complex interconnected systems. Instead, fundamental change results from multiple forces acting together in the right way.

The HRI Initiative will curate an enabling ecosystem for HRI opportunities to reach scale by fostering an ecosystem of stakeholders whose members are committed to working together to leverage each other's mandate, expertise, experience and capacity by facilitating alignment and collaboration. It will further facilitate the development of new tools, research and resources, including the standards, common terminology, and analytic frameworks that allow for systems-level impact measurement.

The HRI Initiative will focus on convening and building the capacity of HRI stakeholders at two strategic points of imbalance that present opportunities to concentrate resources to achieve exponential impact.

The first focus will be on increasing the organizational readiness of relevant stakeholder groups to engage in new partnership models, financing models and business models. Securing leadership buy-in and internal support, updating systems and procedures and increasing staff capacity are critical components of organizational readiness. The initiative is bringing together a community of intrapreneurs from key stakeholder groups to increase their collective organizational readiness in line with the need to collaborate with potential partners across sectors. In doing so, the initiative will identify organizational barriers to HRI opportunities and provide the support groups, structure, tools and continuity to address them.

The second focus will be on missing links between an HRI opportunity's growth and scale stages and key hurdles that prevent opportunities with established proof-of-concept and viable business models from meeting investor criteria and attracting the commercial capital needed to reach scale. Within this last-mile cultivation work, opportunities exist to use financial and non-financial levers to align efforts to unlock and de-risk HRI opportunities.

The potential for a collective push to achieve the ecosystem-wide transformation needed to catalyse impact at scale exits but the transformation requires a collective effort. Thus, the HRI Initiative will work with intrapreneurs, entrepreneurs, investors and other key stakeholders to inform the design of the different support functions needed and how these should be structured.

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