OUTCOME DOCUMENT

BEYOND GRANTS: UNLOCKING TRANSFORMATIVE FINANCE MODELS FOR HUMANITARIAN AND FRAGILE SETTINGS

RECOMMENDATIONS TO THE MINISTRY OF FOREIGN AFFAIRS OF DENMARK FOR ITS NEW STRATEGY FOR DEVELOPMENT COOPERATION

With the humanitarian system under growing strain, as funding falls well short of needs, a **strategic focus on fragile settings is more important than ever**. Not only for obvious humanitarian reasons but also for geopolitical considerations, including curbing regional instability and distressed migration.

As Denmark updates its development cooperation strategy, addressing global funding shortfalls will be critical. However, the **transformation needed goes beyond finances** - fragility, poverty and environmental challenges require a fundamental shift in approach. Rather than being a separate priority, **financing should be seen as a key enabler of more sustainable, predictable and localized action**. While grants remain a cornerstone, they alone cannot meet the scale of current challenges. Reforming how we address and finance these challenges is therefore essential to making humanitarian action more effective and better equipped for the future. Importantly, this means **moving beyond solely using traditional grants and towards diversified financing models that leverage market-based solutions**, International Financial Institutions (IFIs)/ Development Financial Institutions (DFIs) and the need to attract the private sector for greater impact and sustainability.

Recognising this, the **UN World Food Programme (WFP), the Danish Red Cross (DRC) and the Humanitarian Innovative Finance Hub (HIFHUB) convened a high-level dialogue in Copenhagen in February 2025, bringing together 75 experts from diverse sectors** – including policymakers, humanitarian actors, private sector leaders, academia, and civil society. The discussions centred on how market-based financing models – including blended finance, disaster risk finance (e.g. insurance), and outcomes-based finance – can be leveraged for sustainable, localised, and accountable impact while upholding core humanitarian principles and values.

WFP World Food Programme

DANISH RED CROSS

HIFHUB HUMANITARIAN INNOVATIVE FINANCE

This document identifies **five key strategic areas of change** where the **Danish government, as a convener, advocate, and catalyst, can play a crucial role in strengthening global, regional, and local leadership and action**, and addressing diverse incentive structures. Anchored in SDG 17 (Partnerships for the Goals), the **recommendations outline how Denmark can drive financing reform, foster cross-sector collaboration, and implement smart, efficient, and visionary solutions to support those living in humanitarian and fragile contexts**.

Using a whole-of-government approach, **Denmark has the opportunity to lead by example**, shaping a financing ecosystem that is fit for purpose in an era of growing needs and reduced ODA. The following recommendations offer concrete ways to achieve this:

LEADERSHIP

The dialogue demonstrated a clear consensus that **bold leadership is essential and strong governance is required**. Scaling the use and integration of market-based finance instruments in humanitarian and fragile contexts from pilot projects to widespread adoption – is not a technical fix but requires systemic change. It requires a mindset shift in terms of how we approach risk-taking and how different actors are incentivised. Government leadership is essential, as a **strong voice is required to effectively communicate and promote these finance instruments in policy and practice**. The retreat of top donors in the current aid system, coupled with the increased focus on defence budgets at the expense of ODA in major global economies, amplifies the urgency to adjust but also provides an opportunity for transformation. For those who have the ability, courage and vision to lead, **this is a unique moment to lead by example and inspire the evolution ahead**.

RECOMMENDATIONS

- The Ministry of Foreign Affairs of Denmark (MFA) stands on a strong foundation with a long and sustained track record of engagement in humanitarian and fragile contexts. It should use this position to convene like-minded actors around this new (financial) change agenda.
- In the new strategy, commit to actively working towards transforming the system, so that it incentivises innovative models of integrating traditional grant-based funding with market-based finance instruments in humanitarian and fragile contexts.
- Use key platforms such as the EU, the OECD, the UN system, the Grand Bargain, multilateral development banks (MDBs), and other development financial institutions (DFIs) to mobilise wider commitment around this agenda.
- Prioritise a number of relevant fragile contexts and/or global themes (for example, preparedness) for scaling up market-based finance in humanitarian and fragile contexts.
- Create an Advisory Board to provide strategic advice and guidance on how the MFA can most effectively lead this agenda.

NEW ECOSYSTEMS

The humanitarian ecosystem is largely siloed and remains somewhat disconnected from broader financial innovations in the development sector, limiting learning and knowledge sharing opportunities. A transformation agenda requires **reforming the humanitarian ecosystem** – including governance – **to be more inclusive, solutions-oriented and attractive to new financial partners**. It should foster a common language, enhance institutional readiness, and incentivise new financing partners to engage in humanitarian and fragile contexts.

RECOMMENDATIONS

- Convene a constructive dialogue to explore new governance and coordination framework for humanitarian and fragile contexts that encourage risk-taking and innovative cooperation, embrace flexible interpretations of mandates and regulations, and promote inclusive participation of a diverse range of stakeholders in Denmark (e.g. IFU, pension funds), at partner countries and global level, using Denmark's leverage within the UN humanitarian and development structures, as well as within EU to promote a change agenda for the international governance and coordination frameworks for humanitarian and fragile settings.
- Support the combination of financing tools in one project for a more comprehensive approach and to eliminate silos, e.g. combing the use of contingency funds and insurance for the same disasters.

RISKS, RISK ANALYSIS/CALCULATION AND DE-RISKING

A fundamental mismatch between investment opportunities in fragile contexts and traditional investment criteria limits incentives for market-based financing in the sector. **There is no consensus on measuring and pricing risk or the best way to de-risk**. Since effective risk assessment, de-risking, and risk mitigation are crucial for expanding market-based financing, **a more robust and coherent approach to risk is essential.**

RECOMMENDATIONS

- Demonstrate a clear willingness to take informed risks in humanitarian and fragile contexts and invite private investors and IFIs/DFIs to follow.
- Focus on risk sharing and play a lead role in de-risking investments.
- Proactively create risk capital pools to support pioneering financial mechanisms, particularly where the size of humanitarian projects is not commonly on par with the ticket sizes of many IFIs, DFIs, etc.
- Invest in the establishment of accurate, data-driven, context-specific, and transparent risk calculation methodologies for assessing and pricing risk to encourage investments, increase economic opportunities, and address concerns that exists among local actors about risk inflation (overpricing of risks) in fragile contexts.

- Leverage grants to make catalytic investments in innovative financial structures, such as blended finance, coupon payments for disaster risk financing mechanisms (incl. catastrophe bonds) and other relevant debt instruments such as social bonds, first loss guarantees and impact adjusted returns.
- Encourage IFU to take the lead on establishing revised risk calculation methodologies and deepen its overall engagement in humanitarian and fragile contexts by promoting a multistakeholder approach, where MFA/others could bring grants, complemented by concessional finance or guarantees from IFU, as a composite catalyst to mobilise the private sector in fragile settings, reducing the concessional component over time.
- Invest in collective data initiatives such as the Joint Data Centre on Forced Displacement (World Bank-UNHCR) to support robust risk analysis.
- Support the use of de-risking tools and assessment processes derived from insurance design to specifically address barriers faced by private investors in Low- and Middle-Income Countries (LMICs) to foster more blended finance deals.

ALLOCATION OF RESOURCES

While the traditional grant model is vital for lifesaving humanitarian assistance, it is insufficient in meeting current challenges in humanitarian and fragile contexts. Using grants to catalyse market-based financing could help overcome these limitations and increase the overall impact through multiplier effects.

For instance, prearranged finance structures (e.g. insurance) – made possible by risk modelling advancements – enable quick release of funds when disaster strikes. Currently, less than 2% of international crisis finance is prearranged*, leaving much scope for improvement.

Additionally, as seen in the development sector, grants can be used to attract multi-year investments from DFIs as well as private investors, expanding available funding for fragile contexts through a blended finance approach. By taking a specific de-risking or first-loss investment position, grants can even crowd in more risk-averse investors.

RECOMMENDATIONS

- Make catalytic investments in prearranged finance structures, such as disaster risk financing and insurance, within a response continuum and build a funding portfolio with defined targets.
- Commit a certain percentage of crisis finance to be prearranged.
- Use grants to invest in capacity, information/data, and evidence where gaps exist to guide the most appropriate and impactful use of new financing instruments.
- Promote multi-year plans that support local markets and actors through sustained investment, capacity development and market-based solutions.

*Crisis Protection Group, https://www.crisisprotectiongap.org

- Support partner countries in accessing concessional finance by providing technical assistance, enhancing the institutional capacity of partner government institutions and facilitating partnerships with Development Finance Institutions and private investors.
- Use grants to attract private investors by de-risking investments, offering guarantees and/or structuring returns and subsidise the parts of the financing that are not yet, or never will be income generating on their own.

PIPELINE/PORTFOLIO DEVELOPMENT

While pilots have been implemented, challenges remain to develop more investable programmes of sufficient size to attract large-scale investments. **Without system-wide strategies to integrate successful pilots into larger investment flows, much potential is wasted**, as one-off pilots are relatively costly while their impact is limited. Investors seek initiatives with measurable impact and a certain level of returns. This represents a fundamentally new way of working for the sector and requires a whole new set of technical skills and expertise to be integrated into the sector.

RECOMMENDATIONS

- Build on existing experience with new financing models in development and climate, particularly insights from the Investment Mobilisation Collaboration Alliance / IMCA's public-private partnership approach to create pipeline collaboration, support blended finance vehicles, and mobilise private capital.
- Support the conceptual development of investable programmes by bringing new actors together.
- Facilitate spaces for exchanges, invest in skills and partnership development, and provide or pay for technical assistance to enhance the ecosystem's capacity and expertise.
- Develop capacity of local capital markets through country-level engagement and partnerships.
- Resource key priorities in the new strategy by:
    - With OECD DAC members backing 1-2 blended finance flagship initiatives within the Danish MFA strategic priority areas, convening key actors in the process.
    - Channelling funds to global and regional initiatives that are using pooled funds within health, food security, climate and other sectors, such as the Africa Centres for Disease Control and Prevention and the African Humanitarian Agency.
    - Supporting the development and use of (humanitarian) disaster risk financing and insurance mechanisms including mobilising premiums for proven and pioneering mechanisms (e.g. catastrophe bonds).
    - Engaging in already established and new public-private initiatives such as Global Outcomes Funds and the Outcomes Accelerator to build the pipeline and ecosystem for scaling outcomes-based financing.