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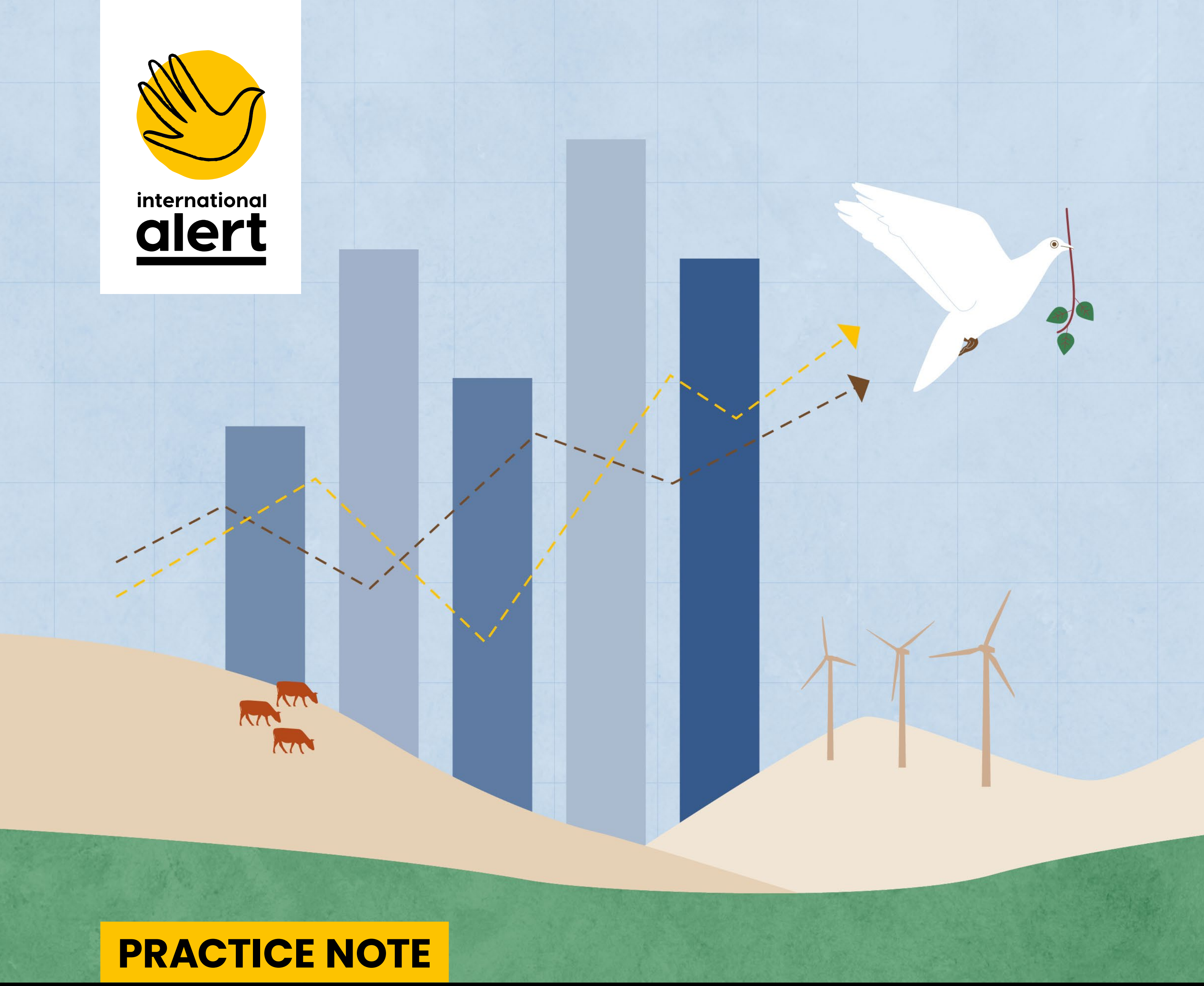

PRACTICE NOTE

Building bridges

Sustainable development finance institution investment for fragile contexts

Contents

Glossary

Blended finance	When public money or official development assistance (from governments, development banks, or aid organisations) are used to encourage private investors to put their resources into projects that support developing countries. The public money acts as a safety net and reduces risk for private investors, increasing the incentives for them to invest. The goal is to get more investment overall.
Conflict sensitivity	An approach that considers local conflict contexts and dynamics to help anticipate risks and ensure interventions and efforts avoid unintended harm and maximise positive impacts.
Do no harm	A fundamental, ethical principle that underpins humanitarian and development interventions to ensure efforts do not inadvertently worsen existing conflicts or cause other negative impacts for communities.
Gender sensitivity	Incorporating an awareness of context-specific issues affecting or engaging men, women, and sexual and gender minorities into humanitarian, development and peacebuilding programme plans. This approach seeks to minimise exclusion and promote gender equality.
Peacebuilding	Supporting people in or at risk of conflict to prevent or end direct violence and creating the conditions for sustainable peaceful coexistence and peaceful social change by addressing structural violence.
Peace-positive investment	Investment made by either a development finance institute or private investor that explicitly aims for, and delivers, both financial and sustainable peace gains.
Positive-peace outcomes	Measures intentionally embedded within humanitarian, development and peacebuilding interventions that contribute to long-term peace and stability. In practice, this might look like a food distribution programme that is intentionally designed to ensure fair access for all groups, reducing disputes and building trust within communities.
Structural violence	Harmful political, institutional, social and economic structures that prevent people from meeting their basic needs and reaching their full potential, while causing suffering. These structures include discriminatory laws, exclusion of certain groups in decision-making or adequate service provision or hindering access to resources for development. This form of violence differs from direct physical violence.

Introduction

In the shifting global landscape, investing in fragile places has become a strategic imperative for development finance institutions (DFIs).[1] With their development mandate, higher-risk appetite and national government support, DFIs play a crucial role in signalling to private investors that business is possible in fragile places.[2]

The scale of need in fragile and conflict-affected settings (FCAS) is vast.[3] More than 80% of FCAS are not on track to meet the sustainable development goals (SDGs)[4] and FCAS rank the lowest for SDG progress, according to the United Nations (UN).[5] The World Bank has reported that, in developing economies in general, the extreme-poverty rate has been reduced to single digits – just 6% – but is nearly 40% in economies facing conflict or instability, whose GDP-per-capita levels have barely changed since 2010.[6] With the SDG investment gap in developing countries now standing at US$4 trillion, development finance is an urgent global priority.[7] FCAS are home to roughly 80% of the world's population without access to electricity.[8] This represents a staggering 600 million people and creates an important opportunity for DFI renewable energy investment. There is significant potential for growth and entrepreneurial talent in FCAS. DFIs have an opportunity to nurture emerging entrepreneurs, support innovative business models, and help build resilient local economies. Furthermore, returns can be higher than in mature markets over the long term.[9]

This paper is aimed at DFIs, their investees, government policy-makers, and peacebuilders. Based on the experience and learning of International Alert and our partners, it aims to generate grounded insights on how conflict sensitivity and peace-positive approaches can support more tailored and sustainable DFI investments in FCAS. The paper first presents the status quo for DFIs in FCAS. It then sets out lessons from Alert's practical experience achieving positive-peace outcomes working directly with DFIs and businesses and through economic development projects. Finally, it provides reflections to support DFIs to better embrace the needs and realities in FCAS, while building the appropriate models, capacities and partnership.

Why does investing in FCAS matter now?

DFI finance can be an effective complement to humanitarian aid and development assistance in fragile places. It can help build communities' trust in their governments, promote growth and strengthen markets. With the right approach, it can also support peace, for example through inclusive benefits and access to livelihoods and energy.

Despite being home to 25% of the world's population, FCAS only receive about 6% of the global share of foreign direct investment.[10] Much of this is concentrated in extractive industries, which can increase conflict risk if not rooted in transparency, inclusion and benefit sharing.[11] Productive sectors such as agriculture or renewable energy can lend themselves better to peace by widening the sharing of benefits, diversifying markets, and fostering social and economic cohesion, but DFIs are yet to invest in these sectors at scale in FCAS.[12]

Between 2010 and 2024, DFIs allocated nearly US$72 billion to Africa, yet little of this materialised in fragile areas and riskier markets.[13] Instead investments largely favoured countries with a higher gross domestic product, and therefore those that are already further developed.[14] When DFI investment did reach fragile settings, it was usually dependent on an absence of internal conflict and the presence of human rights protections, economic opportunities or reform-focused policies.[15]

The opportunity cost of not scaling appropriate investments in FCAS is great. The International Monetary Fund (IMF) reported that every US$1 invested in addressing fragility and preventing conflict – including conflict-sensitive DFI investment in human capital, inclusive growth and job creation – can save US$26-103 in losses such as infrastructure damage or lost economic output.[16] Conflict and fragility also have global consequences for investment in other markets and assets.[17] For instance, the Ukraine war severely affected global grain exports, the Tigray war in Ethiopia disrupted global supply chains of coffee and garments, and conflicts in Yemen and Sudan disrupted critical oil and gas shipping routes, contributing to energy price volatility globally.

In a world where global conflict, fragility and fragmentation are rising, the need for investment in fragile places is great, but DFIs face real and perceived challenges working in FCAS. In International Alert's experience, DFIs contend with constraints such as weak investee capacity and limited data to understand shifting risks and dynamics, which raises the perceived cost and risk of doing business. Currency volatility, lack of investment-ready opportunities, and government or company capacity are other common challenges. At their core, these issues reflect a broader structural dilemma: traditional investment models are designed for predictability, scale and linear results. These are conditions that FCAS rarely offer. DFIs need a toolkit that is fit for purpose.

Why does peace matter for DFI investment in fragile places?

To engage successfully in FCAS, DFIs need to support economies that intentionally drive inclusion, shared prosperity, interdependence and social cohesion. Job creation alone can sometimes deepen exclusion or tension, while investment in peace provides jobs and services that strengthen trust and people's stake in society. This shifts incentives away from violence towards cooperation.[18] Peace is crucial for resilience and exactly what DFIs need to fulfil their dual mandate of development impact and financial sustainability.

Examples of investments that can deliver both financial and peace returns include the following:

1. **Electricity infrastructure** in neglected regions, reinforced through community-led mechanisms for land security, local employment and benefits: this helps transform regional economies, expand access to energy, and connect divided or under-served areas, while also reducing local grievances.

2. **Microfinance and conflict sensitivity training** for agricultural cooperatives that are inclusive of divided ethnic groups: these initiatives help to improve livelihoods, fostering social cohesion through shared economic interests and contributing to food security and resilience.

3. **Digital marketplaces** that enable small and medium-sized enterprises (SMEs) – especially those led by women, youth or marginalised groups – to access wider markets: this helps to address structural economic exclusion, improving livelihoods and reducing inequality and tensions.

The opportunities are significant, but investment in FCAS requires DFIs to work in new and adaptive ways. In recent years, some DFIs have developed their policies in this area, citing approaches such as conflict sensitivity, peace-positive investment and resilience building. These approaches are still relatively new to the DFI toolbox and their implementation remains mostly ad hoc and inadequate given the scale of need. This paper aims to help DFIs strengthen this toolbox.

Conflict sensitivity and peace-positive investment

Conflict sensitivity has been a cornerstone of international development for almost 20 years, as set out in the Organisation for Economic Cooperation and Development – Development Assistance Committee's (OECD-DAC) principles for good international engagement in fragile states.[19]

Conflict sensitivity should be applied to any investment in FCAS, in any sector, to manage risks and impacts, even where peacebuilding is not a priority. Peace-positive investment goes further towards peace outcomes by targeting sectors, regions or groups with interventions that shift incentives away from violence towards cooperation. For peace-positive investment, this positive impact is not an add-on but an explicit project goal, aiming to transform the conditions that drive people to violence. Such investment acts as a durable de-risking strategy by transforming, not just reducing, risks and building different groups' stake in peace.

Conflict-sensitive and peace-positive investment involves, at a minimum, the following elements:

- employing peace and conflict analysis to understand the context – both visible and underlying conflict and fragility dynamics, and opportunities for peace and resilience;
- using this contextual understanding to identify the risks in both directions, those posed by the context to the DFI and investment, and the risks posed by the DFI and investment to the context;
- drawing on the same analysis to identify opportunities for an investment to positively impact peace and resilience;
- applying design strategies or peacebuilding tools to manage the identified risks and impacts (e.g. distribution of benefits, dialogue, collaboration platforms, problem-solving mechanisms); and
- monitoring the context and project impacts during implementation (e.g. to whom benefits are distributed), and deploying investments flexibly and adaptively.

Conflict-sensitive investment helps DFIs manage risks in a way that existing international standards do not. For example, investments in FCAS are often required to adhere to International Finance Corporation (IFC)[20] or Environmental, Social and Governance (ESG) standards.[21] A conflict-sensitive investment approach goes further, taking into account the complex social fabric and political economy of fragility and conflict, such as how powerful groups can dominate resources, alongside dynamics around power, trust, historical group-level grievances and exclusion both at the local level and more broadly.[22] Conflict sensitivity adds an important level of contextual understanding by asking who benefits from an investment, who is excluded, and how this interacts with historical grievances, social hierarchies or political divisions. By paying attention to these issues, DFIs can avoid blind spots and finance projects that fit more sustainably into the context in question.

For example, without conflict sensitivity, a green energy project could meet IFC and ESG standards, but exclude one ethnic, political or social group from the project's benefits. This could lead to a rise in tensions or unrest, particularly where the excluded groups are already marginalised.[23] An example of this is the Lake Turkana Wind Power Project in Kenya, which excluded marginalised and indigenous communities from project benefits, leading to legal challenges and unrest, despite the project reportedly adhering to IFC standards.[24] By contrast, a conflict-sensitive or peace-positive green energy project could use project platforms to foster inter-group dialogue and trust-building activities, and link project benefits to the root causes of conflict, such as land rights or youth unemployment. Conflict sensitivity and peace positivity also help to expose the factors that divide and connect people, so projects can avoid reinforcing divisions and instead build bridges.

Two other voluntary international standards guide investment and business in FCAS: the UN Guiding Principles on Business and Human Rights,[25] which help protect people's rights and surface risks early in project preparation, and the Voluntary Principles on Security and Human Rights, which help manage risks where security forces may violate human rights.[26] Conflict-sensitive and peace-positive approaches complement these and strengthen a DFI's capacity to work in FCAS, alongside other de-risking approaches such as financial instruments (debt, equity, guarantees), technical assistance, and partnerships with other DFIs (e.g. through the Africa Resilience Accelerator Initiative between British International Investment (BII), Dutch Development Bank FMO and French Development Bank Proparco).[27]

In practice, however, DFI models are primarily designed for more stable economies. This means that conflict sensitivity and peace-positive investment are not being applied systematically or at scale by any DFI. Some DFIs draw on 'do no harm' and conflict sensitivity for their institutional policies, including the European Investment Bank (EIB), African Development Bank (AfDB), IFC and FMO.[28] DFIs are also starting to introduce dedicated pilot initiatives for peace. For example, the AfDB has been working with Finance for Peace, including undertaking joint research on peace-positive investment opportunities in Mozambique.[29]

Overall, such initiatives remain ad hoc and the resources are modest compared with investments in less fragile places and commitments to do more. For example, the IFC has committed to investing 40% of annual commitments in International Development Association (IDA)-eligible FCAS but has not signalled plans to ensure this investment is conflict-sensitive. Furthermore, DFIs do not share information about their impact on peace or resilience, making it impossible to know the result of their efforts and where improvements could be made.

While some DFIs have laid important groundwork, now is the time to rethink critical blind spots in the approach to investment in FCAS, to institutionalise conflict sensitivity, and to scale efforts for greater peace and resilience.

Lessons in conflict sensitivity for sustainable investment in FCAS

International Alert has supported DFIs to improve their approach in FCAS, tailored around the needs and objectives for each institution, including regulatory, policy and shareholder requirements. In practice, this has involved:

- reviewing policies and ways of working in relation to FCAS;
- delivering conflict, resilience and gender analysis;
- advising on conflict-sensitive project design;
- monitoring and evaluation; and
- facilitating staff capacity development.

Analysis

For investment in FCAS to work sustainably, it is imperative to understand the local fragility and conflict context. By employing a thorough peace and conflict analysis, DFIs can ensure they are better informed about the local context. We have worked with DFIs, such as EIB and the German Development Bank, KFW, to deliver analysis and support analytical frameworks. This approach helps DFIs manage risks in both directions, those posed by the context to the DFI and investment, and the risks posed by the DFI and investment to the context, while increasing ESG performance. It can also be a critical tool for identifying which sector, region or group to target for peace impact.[30] Crucial requirements for this analysis are the following:

- **Agree what type of analysis is needed** to understand the local fragility and conflict context, in consultation with peacebuilding experts and depending on needs. Analysis can be framed around conflict, fragility, peace, resilience and/or the political economy.[31]
- **Agree an appropriate sectoral or geographic scope** for the analysis. In International Alert's experience, this analysis is most useful for DFI investments in FCAS when it provides highly contextualised, project-level insights that are framed within the wider national or regional picture.
- **Use analytical frameworks that incorporate a broader set of questions** than political risk, social or environmental assessments. For example, peace and conflict analysis would be needed to uncover whether land use for infrastructure is contested, which could trigger unrest, or whether local perceptions of exclusion could turn people against a project. These issues can be downplayed or unseen by the national governments with whom DFIs most often work, so a locally-rooted analysis is crucial.
- **Analytical frameworks should go beyond visible violence** (such as armed conflict) to uncover the less visible ways in which fragility or violence may simmer beneath the surface. This includes examining how power, trust, exclusion and identity shape relationships between groups and institutions.
- **Map the roles and relationships of different actors** involved in both conflict and peace, helping DFIs better engage different stakeholders, while giving special consideration to gender dynamics.
- **Identify stakeholders** to involve as partners, including communities, civil society, and sometimes local authorities. This puts the knowledge and experience of people directly

affected by conflict at the centre of the process. In practice, this can involve community dialogues and focus groups or joint analysis workshops. This participatory approach to analysis must be undertaken ethically and with respect for communities.

- **Identify existing sources of resilience** and pathways to peace that projects can engage with, such as local dispute resolution mechanisms, governance structures or supply chains.
- **Be gender sensitive.** Gender sensitivity is not just about women; in FCAS young men may be excluded by older men from decision-making, discriminated against by police, or targeted by armed groups. Women may not be able to report grievances without retaliation, may suffer inferior land rights, or may be victims of sexual and gender-based violence.
- **Use the analysis, and the relationships developed through the analytical process, to guide project design** and implementation decisions. This includes designing mechanisms for benefit sharing and grievance handling that are locally trusted and led. It also includes decisions such as how to share information with diverse stakeholders (including partnerships with civil society) and how best to manage partnerships on the ground.
- **Use analysis to support a continuously updated understanding of the context** during project implementation. It is more common during pre-feasibility studies or project screening, but should be updated across the project cycle.

Case study: Supporting EIB to assess impact on fragility and resilience

As part of its work on the EIB Conflict Sensitivity Helpdesk, International Alert has supported EIB investment projects in FCAS to better fit the context, while meeting EIB's policy requirements under the Strategic Approach to Fragility and Conflict.[32] For example, Alert developed an assessment framework for EIB to understand how its projects interact with fragility and resilience, including ways to minimise fragility and enhance resilience. The methodology analyses the multi-dimensional ways in which fragility and resilience appear in a context and identifies implications for EIB projects, including in relation to cross-cutting issues like gender.[33] This reflects growing recognition globally of the multi-dimensional nature of fragility, which affects all contexts in some way.[34] Alert conducted several assessments for EIB using this methodology, including political economy analysis for economic sectors that were influenced by powerful groups. Alert supported EIB to incorporate the assessment findings into its project design to reduce risks and increase the positive impact of projects on resilience. This was complemented by training delivered for EIB project staff on project design in FCAS.

Technical assistance to investees in FCAS

There are a range of practical measures DFIs can use to ensure their investments succeed in FCAS, including targeted support to government and private-sector investees to resolve capacity deficits. Some DFIs such as EIB and IFC have technical assistance facilities that finance capacity-building to investees. DFIs draw specialist expertise from both in-house staff and partnerships with experts.

Despite its importance for successful projects in FCAS, technical assistance to support investees with conflict and gender sensitivity is rare. Incorporating conflict and gender sensitivity is critical for ensuring investments are responsive to local dynamics; for example, research shows that women's participation boosts productivity, adoption of innovations and resilience. This approach can involve reviewing policies and delivery training on peace and conflict tools like:

- dialogue and community partnerships;
- community benefit sharing;
- conflict analysis;
- conflict- and gender-sensitive due diligence;
- conflict- and gender-sensitive grievance mechanisms; and
- inclusive stakeholder engagement.

Peacebuilders are well placed to provide DFIs with this expertise through partnerships. In International Alert's experience, conflict sensitivity technical assistance is most effective when it is sustained, framed by clear objectives and closely aligned to the incentives and interests of the government or private-sector investees.

In International Alert's experience, one pertinent area that often warrants technical assistance is conflict-sensitive grievance mechanisms. In FCAS, grievance mechanisms can make things worse if they are poorly attuned to the fragility and conflict dynamics. For example, a grievance mechanism could reinforce the exclusion of marginalised groups if the office is located in an area where the dominant ethnic group resides, staff are from the dominant ethnic group, forms are only available in the official language, or if anonymised complaints are not allowed. There are cases where civil society organisations have set up parallel grievance mechanisms because the project's grievance process is not trusted.[35]

By contrast, conflict-sensitive grievance mechanisms fit with local realities. In FCAS, traditional dispute resolution mechanisms (often involving chiefs or religious leaders) may be trusted more than formal grievance mechanisms, especially if people perceive the government to be corrupt or illegitimate. Conflict analysis can inform the design of a context-appropriate and conflict-sensitive grievance mechanism, which accounts for the local gender, ethnicity, language, religious, class and power dynamics. This includes how to collaborate with local leaders, civil society and traditional authorities, ensure the grievance handling is culturally appropriate, and monitor risks of rising community tensions.

Case study: Conflict-sensitive due diligence and grievance mechanisms

In Kenya, Uganda and Ethiopia, International Alert enhanced company policies and capacities to reduce fragility and conflict risks in the operating environment through conflict-sensitive due diligence and grievance mechanisms. For DFIs, peacebuilding and conflict-sensitivity technical assistance to investees can be a pillar of DFIs' wider de-risking strategy, strengthening investees' management of contextual risk factors and building local support. For example, Alert used our conflict-sensitive, heightened, human rights-based due diligence guidance toolkit[36] to enhance company uptake of best practice, and upskilled staff on peacebuilding approaches, which help build trust with and between communities through project operations. This was part of the International Alert-led project, Enabling the Business and Human Rights Agenda in the Horn of Africa, funded by the Finnish Ministry of Foreign Affairs. Trust-building activities can reduce risks in places with historic social tensions by enhancing social cohesion, and build project credibility, trust and responsiveness among key community leaders and groups. Alert also delivered impact assessments and research, which improved a company's grievance handling so that it was more conflict sensitive and responsive to complex community dynamics, boosting their social licence and smoothing operations.

Dialogue platforms

DFIs can work with peacebuilding partners to integrate dialogue and coordination platforms into the design of investments. This helps manage project risks and achieve positive-peace outcomes such as social cohesion. A study showed that these types of peacebuilding mechanisms can also reduce investment risk premiums and improve the net present value,[37] making them not only commercially viable but also profitable. There are some cases where DFIs have already incorporated dialogue platforms into their investments. For example, FMO's SIPEF investment in eastern DRC included funding for a community liaison function and regular tripartite dialogue between the company, communities and civil society organisations.[38] Similarly, in renewable energy projects in West Africa, Proparco has encouraged investees to join local economic development committees that bring together municipal leaders, civil society groups and small business associations.

Fundamentally, dialogue platforms enhance the relationship and trust between stakeholders (including across conflict divides). In contexts with weak governance, they can also help civil society or business networks to coordinate and influence local governance and service delivery, supporting both peace outcomes like state legitimacy and the success of investment projects. In International Alert's experience, dialogue works best when it is inclusive and participatory, bringing in perspectives fairly across divided groups, and allowing for community agency in decision-making. This often depends on capacity-building for community or business networks, which helps them engage in dialogue and influence outcomes effectively. As a result, DFIs have a responsibility to fund capacity development for civil society and business networks to engage in platforms, not just the platforms themselves.

Case study 1: The Marsabit Renewable Energy Reference Group

In Kenya, International Alert supported the formation of a civil society platform, the Marsabit Renewable Energy Reference Group. This work was part of the Alert-led project, Enabling the Business and Human Rights Agenda in the Horn of Africa, which took place in a context where different pastoralist groups are navigating historic land tensions and inter-ethnic conflicts. The reference group filled a gap where there was no existing civil society network. It provides a structured space for civil society dialogue, coordination and collective action on renewable energy projects. This enabled the group to amplify community voices, monitor corporate conduct, and engage more effectively with both government and private-sector stakeholders. For example, the group successfully advocated to the government for community electricity access around a wind power project. It also served as a platform for historically divided community groups to come together. International Alert provided ongoing support to the reference group through capacity-building sessions and quarterly meetings for joint planning and problem solving. Furthermore, Alert used roundtable meetings with country governments to raise issues. For DFIs, civil society platforms can improve stakeholder engagement and social licence around investment projects, while improving social cohesion.

Case study 2: Caucasus Business and Development Network

Business networks can play an important role in de-risking investments and fostering economic cooperation across divides. For example, between 2005 and 2014, International Alert helped establish the Caucasus Business and Development Network (CBDN), a platform for dialogue and economic cooperation across the South Caucasus. The network involved participants from Armenia, Azerbaijan, Georgia and Turkey, as well as Abkhazia, Nagorny Karabakh and South Ossetia. Through CBDN, sectoral experts from all sides of the longstanding conflicts came together to identify commercial opportunities, build trust and jointly develop four regional brands. This became a tangible model for cross-border cooperation with economic and peace impact. For DFIs, this translates into lower risk in the operating environment by:

- expanding value chains in complex markets;
- building lasting and locally-led partnerships that can safeguard investments; and
- strengthening governance structures that support long-term project viability.

Supporting micro, small and medium enterprises (MSMEs)

Given MSMEs' critical role in job creation and inclusive economic growth, supporting MSMEs is a key focus for several DFIs, especially FMO, IFC, BII and the AfDB.[39] International Alert's experience shows that MSME support in FCAS can integrate peacebuilding to ensure inclusive economic benefits and improve cooperation across value chains. This helps DFIs improve stability and predictability within the operating environment. By contrast, MSME initiatives that overlook conflict sensitivity or peace-positive requirements risk inadvertently worsening fragility and conflict. For example, without careful design and monitoring, MSME support may disproportionately benefit businesses connected to dominant political or ethnic groups, reinforcing or fuelling local grievances.[40]

Case study: Conflict-sensitive entrepreneurship

When developing investments that benefit MSMEs in FCAS, a critical question is who participates and benefits. DFIs can reduce the risk of one group feeling that another is unfairly benefitting by designing for inclusion and trust-building. For example, in Ukraine, International Alert's work on gender-sensitive recovery and women's empowerment (2024-2025) has been generating lessons on how entrepreneurship can help women to rebuild their lives, while contributing to the long-term social cohesion and economic recovery of their communities. Funded by UN Women, this project is supporting entrepreneurship among women from host and internally displaced communities in Dnipro, Kherson and Zakarpattia. Social cohesion, inclusion and trust-building are critical in these areas, where communities have had different experiences of the conflict and the war brought new challenges for social cohesion. International Alert and our partners provide capacity development on entrepreneurship and business skills, conflict sensitivity, small grants, and networking opportunities, allowing project participants to develop lasting connections and networks resulting in some instances in joint ventures and fostering economic independence. This is reinforced through mental health and psychosocial support for women at the individual level or in group art therapies.

Key reflections for DFIs

FCAS represent frontier environments for DFIs, offering untapped potential, entrepreneurial talent, and opportunities for long-term, meaningful growth. They risk being left behind, however, until DFI models, tools and capacities can adapt to the realities of these complex places. This requires a new approach that goes beyond 'business as usual'. By better embedding conflict sensitivity and peace-positive investment, alongside other models and tools, International Alert believes that DFIs can play a catalytic role in supporting stable, resilient economies, while still achieving their commercial objectives. Below are several reflections for DFIs to consider.

1. **Lead by example and prioritise conflict-sensitive and peace-positive investment in FCAS.** Such places will be left behind unless a higher proportion of DFI finance reaches them and helps deliver peace and resilience. DFIs need to explicitly prioritise FCAS in their strategies and to ensure they have the leadership to invest well. This includes:

    - allocating sufficient budget for peace and conflict technical advice and analysis;
    - putting in place conflict and fragility analysis frameworks;
    - reviewing operating models so that DFI investment committees and boards accept smaller, riskier and slower deals in FCAS, and recognise peace and resilience impact as a measure of success; and
    - increasing ambition for the proportion of projects that intentionally have a positive impact on peace, not just those that minimise harm.

    Given that predictability and stability are good for business, peace is not just the right thing for communities, but the commercially smart outcome.

2. **Measure and capture peace and resilience impacts in FCAS.** To better assess investment impact and maximise returns in FCAS, there is a need to include indicators on peace and resilience, which are currently missing. Relevant indicators for success in FCAS could include social cohesion, trust-building, resilience to violence, or inclusion across ethnic, religious or political lines.

3. **Strengthen the use of peace and conflict analysis for investment identification, design and implementation in any FCAS.** Dedicate resources to undertaking analysis of the local peace and conflict context that incorporates local insights to guide where, how and with whom to invest. Depending on each DFI's focus, analysis can also be framed around fragility and resilience. Working with peacebuilders on this goes some way to overcoming the structural challenge that DFIs usually lack a local presence outside capital cities in the countries where investments are being made.

4. **Expand the use of peacebuilding approaches in project design in FCAS, such as inclusive and participatory dialogue platforms.** This can involve mechanisms for benefit sharing and grievance handling that enable the inclusive participation of different groups, and give communities voice and agency over decisions that affect them. Inclusive community-led development initiatives can also help DFIs and investees enhance their ESG and corporate social responsibility performance.

5. **Expand conflict-sensitive and peace-positive technical assistance for projects and investees in FCAS.** Projects in FCAS should embed technical assistance on conflict and peace issues such as dialogue, conflict analysis, gender sensitivity, conflict-sensitive due diligence, grievance mechanisms and community benefits. Given that companies and governments in FCAS often have limited capacity to meet DFI requirements, conflict-sensitive and peace-positive capacity development could also support potential projects to be ready for investment.

6. **Build DFI staff capacity for projects in FCAS.** While some DFIs have been developing their frameworks for conflict sensitivity, there is no evidence that DFIs are creating the necessary institutional incentives for staff to build their skills meaningfully in this area. There is a risk that DFIs develop peace-positive approaches, but lack the staff capacity for effective implementation. Capacity development for staff working on projects in FCAS can address this, alongside institutional incentives that reward staff with expertise on conflict-sensitivity and peace-positive approaches.

7. **Deepen collaboration with peacebuilding partners as advisors to support DFIs with conflict-sensitive and peace-positive approaches.** DFIs can partner with peacebuilders to deliver on all of these actions. Peacebuilders and DFIs are increasingly working together – for example, with DFIs contracting peacebuilding partnerships to review their policies, develop their capacity and frameworks, and support peace and conflict analysis. These partnerships remain relatively small scale and timebound, however, and DFIs are yet to systematise conflict sensitivity or peace-positive approaches into FCAS investments. Better institutionalisation of peacebuilder and DFI partnerships will build mutual understanding, share experience and knowledge, and help DFIs ask and answer the right questions to achieve their mandate in FCAS.

Investing in FCAS must become a priority for DFIs. By aligning investments with peace and using conflict-sensitive approaches, DFIs can unlock growth opportunities and contribute to the stability that favours investment returns over the longer term. Several DFIs have already taken steps to apply conflict-sensitive and peace-positive approaches to their investments in FCAS, including innovating and implementing pilot models. Maturing and expanding these, while addressing structural challenges such as DFI approaches to risk and return, will enable DFIs to deliver sustainable solutions within complex realities.

Learn more about our approach to peace integration: **https://bit.ly/peace-integration**

Endnotes

1 This paper takes a broad definition of 'development finance institution' to include international financial institutions (World Bank and International Monetary Fund), multilateral development banks (African Development Bank, European Investment Bank, Islamic Development Bank) and bilateral development finance institutions (British International Investment, KfW, FMO, Proparco).
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