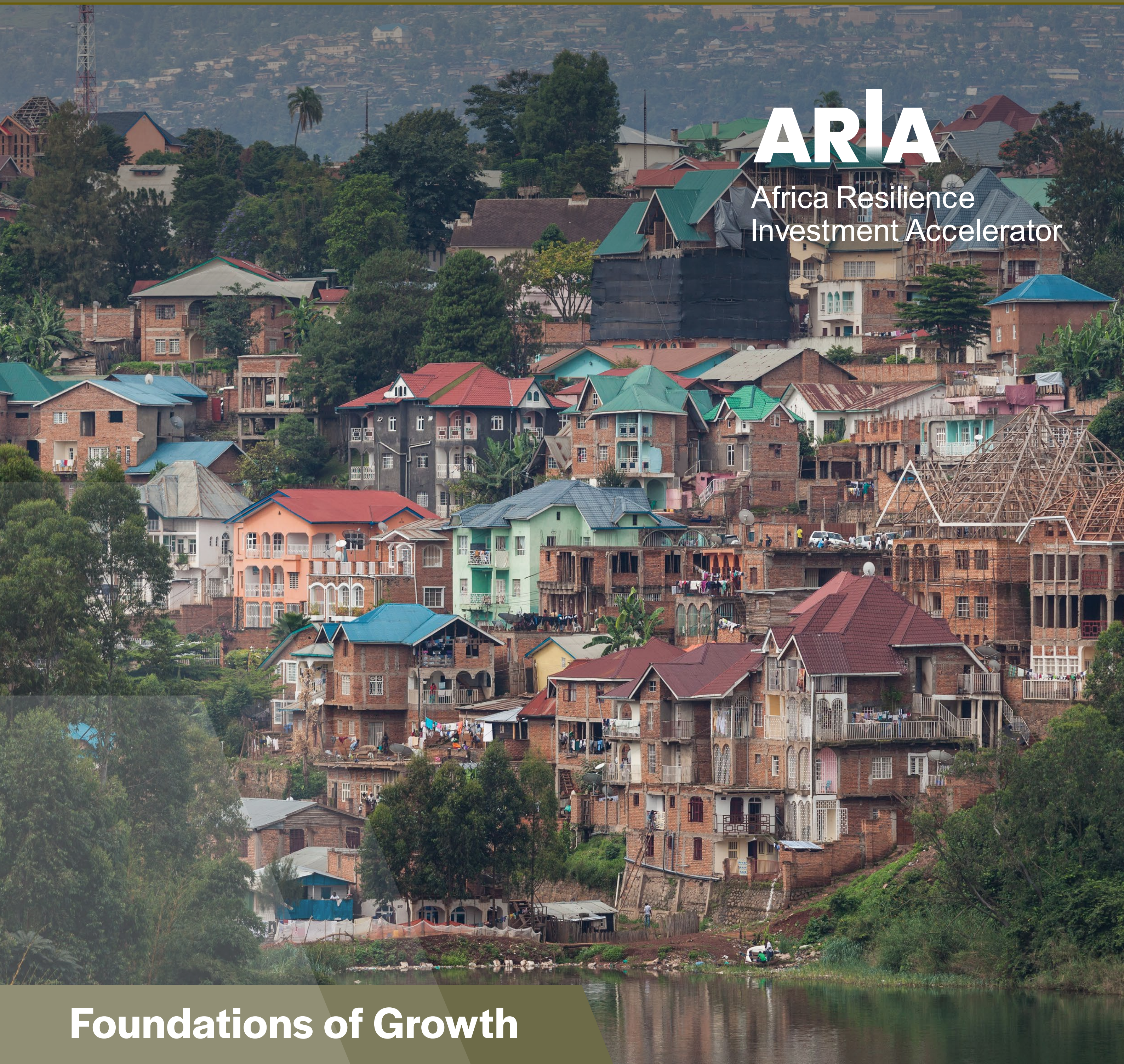

ARIA

Africa Resilience Investment Accelerator

Foundations of Growth

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Applying conflict sensitivity and building resilience through **private sector investment**

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Foundations of Growth is a series of publications that shares the trends, lessons, challenges, and opportunities of investing in frontier markets across Africa. The series is aimed at helping development finance institutions, impact investors and donors develop their strategies and capabilities for operating in these markets.

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Executive summary

The private sector is an essential part of building resilience in Fragile and Conflict-Affected Situations (FCAS). Development Finance Institutions (DFIs) need to harness that private sector role, unlock barriers, and build capacity to enable sustainable and inclusive growth for populations. This means targeting sectors that maximise development impact and job creation potential, with reach to populations that need it most, while still balancing commercial viability. It also requires institutional capabilities to invest with a clear understanding of context and risk to apply conflict sensitivity and avoid harm.

1. How can we strengthen FCAS investments through conflict sensitivity?

- **Ensure risk analysis accounts for context, as investments are not neutral in FCAS.** Private sector investment is central to long-term growth and stability in FCAS. At the same time, investment decisions are not neutral. They redistribute economic opportunity, influence access to resources, and shape perceptions of inclusion and exclusion. Understanding these interactions is essential to managing risk and delivering sustainable outcomes in FCAS.
- **Leverage Environmental, Social and Governance (ESG) to embed conflict sensitivity in projects, but this is broader than compliance.** While conflict sensitivity can and should be integrated into existing ESG systems and due diligence processes, it also requires a broader lens that looks beyond the project boundary to understand how investments interact with wider conflict drivers and social dynamics, and to identify practical responses.
- **Move beyond just "do no harm", to support more deliberate choices about how investments can contribute to inclusion, resilience and stability.** In practice, this requires more intentional investment choices. Sector selection, geographic focus and business models shape who benefits from investment and how. Prioritising sectors with strong potential for job creation and service delivery, such as agribusiness, energy, infrastructure and financial services can support both commercial viability and development impact.

2. How can we apply conflict sensitivity across the investment lifecycle?

- **Strategy and capital allocation.** Align country strategies, sector prioritisation and pipeline development with context-specific risks and opportunities. This means establishing a grounded understanding of the drivers of fragility, conflict and resilience factors within the country to inform business development strategy and investment decision-making.
- **Project design and implementation.** Strengthen due diligence, structuring and stakeholder engagement with the flexibility to adapt to changing FCAS circumstances. Decisions on project location, phasing, ownership structures and value chains can shape inclusion and influence local perceptions.
- **Investment life cycle from planning to monitoring and adaptation.** Enable consistent decision-making through governance, risk appetite and coordination. This can be aided by questions such as:
  - Are we investing in the right places, sectors and partnerships given the context?
  - Have we adequately assessed how this investment may interact with conflict dynamics and stakeholder relationships?
  - Are we equipping clients to manage conflict-related risks effectively over time?
  - Are we tracking changes in context and adapting our approach accordingly?
  - Are we set up internally to apply conflict sensitivity consistently and at scale?

3. How can we embed conflict sensitivity at the project level?

- **Starting early.** Integrating conflict sensitivity into due diligence, either as part of ESG or standalone in high-risk environments, looking at actor mapping, local conflict dynamics and perceptions of project benefits.
- **Structuring investments and engaging stakeholders.** Designing transparent and inclusive benefit sharing, sequencing project activities to reduce tensions during sensitive phases, and enhancing stakeholder engagement, grievance mechanisms and security management that are sensitive to local power dynamics.
- **Technical assistance as a core delivery mechanism.** Many clients face capacity gaps in areas such as stakeholder engagement, communication, risk management and crisis response. Without targeted support, even well-designed projects may struggle to manage evolving risks effectively in FCAS.
- **Adaptive management and supervision.** Project conditions can change rapidly in FCAS, requiring ongoing monitoring of contextual dynamics during project supervision. Adaptive management requires clarity on how and when to respond, identifying potential trigger events, escalation pathways and flexibility to adjust project design and engagement.

4. How can we enhance institutional capability for FCAS investment decision-making?

- **Risk appetite and proportionality in FCAS.** Not all projects or contexts require the same level of analysis, mitigation or supervision. Higher-risk environments may justify more intensive engagement and support, while lower-risk contexts may allow for more streamlined approaches. Decisions to withdraw or reduce exposure can have consequences as significant as continued engagement, reinforcing the need for deliberate judgement.
- **Coordination across functions.** Conflict sensitivity cuts across multiple functions within DFIs, including investment teams, ESG specialists, legal, risk, fragility and technical assistance providers. Effective application depends on how well these functions work together through information sharing and coordination, aligning on risk and mitigation, project priorities and constraints.
- **Systems, tools and incentives that support consistent practice.** Beyond individual expertise, developing guidance, building tools and templates, investing in staff capacity, ensuring that internal processes support adaptive approaches, and aligning incentives with long-term investment performance and resilience help reinforce the importance of conflict-sensitive approaches.
- **Learning and adaptation.** Capture lessons from project experience to identify what worked, what did not, and how approaches can be refined in future investments. These should be practical and focused on improving decision-making, and informing country strategies, sector approaches and investment processes.

Technical assistance lessons learned:

Proactive engagement: initiating support during due diligence and continuing through implementation, rather than relying on reactive interventions once issues emerge;

Multidisciplinary design: combining expertise across social, security and operational domains to reflect the complexity of risks;

Embedded support: working alongside client teams to build systems and capabilities, rather than conducting one-off assessments;

Sustainability: focusing on approaches that clients can maintain beyond the duration of the TA.

Introduction

Fragile and conflict-affected settings (FCAS) offer some of the greatest opportunities for impact and market creation, when Development Finance Institutions (DFIs) invest with a clear understanding of context and risk.

FCAS are increasingly central to development finance. They are where extreme poverty, demographic pressure, climate vulnerability and displacement converge, and where the need for investment is greatest. For DFIs, engagement is not optional. The challenge is how to invest in ways that are commercially viable and supportive of stability in environments shaped by volatility, contested authority and social tensions.

In these contexts, investment decisions carry wider consequences. Choices about sectors, geographies and partners shape economic opportunity, influence power dynamics and affect perceptions of inclusion and exclusion. These dynamics directly affect both development outcomes and investment performance. Poorly informed investments can exacerbate tensions, disrupt operations and undermine impact. Well-structured investments, by contrast, can strengthen markets, support resilience and contribute to stability.

Traditional risk management and Environmental, Social and Governance (ESG) frameworks provide an essential foundation, but they are not sufficient to navigate the dynamic and context-specific risks that define FCAS. Conflict sensitivity builds on these approaches by incorporating analysis of conflict dynamics, political economy and stakeholder perceptions. It enables a more complete understanding of how investments interact with their operating environment, and how that environment shapes project performance.

Applied systematically, conflict sensitivity strengthens investment decision-making across the lifecycle. It improves choices at the strategy level, enhances risk identification and structuring at the project level, and supports adaptive management as conditions evolve. It also informs decisions about when to engage, adjust or exit.

Beyond risk mitigation, conflict sensitivity enables more deliberate investment strategies that maximise positive impact. In FCAS, private sector investment can sustain livelihoods, expand access to services and create jobs – particularly where state capacity is limited. Realising this potential requires intentional choices about where and how to invest, including prioritising high-impact sectors, strengthening local value chains and designing inclusive business models that reach underserved populations.

Delivering this consistently requires institutional capability. Governance, risk appetite, internal coordination and access to technical assistance shape how effectively DFIs operate in FCAS at scale. Embedding conflict sensitivity within core processes enables DFIs to move from ad hoc responses to more consistent investment selection.

This report sets out how DFIs can apply conflict sensitivity across three interconnected dimensions: strategy and capital allocation, project design and implementation, and institutional capability, and provides a practical framework for stronger investment decisions and more resilient outcomes in FCAS.

1. Strengthening FCAS investment decisions through conflict sensitivity

FCAS are no longer peripheral to development finance portfolios. For DFIs, the challenge is how to invest in ways that are both commercially viable and supportive of stability in environments where volatility, contested authority and social tensions are structural features of the operating landscape.

These dynamics, in turn, have direct implications for both development outcomes and investment performance. Understanding how capital interacts with local contexts is therefore central to sound decision-making in FCAS.

This reality is particularly pronounced in Africa (see Box 1), where a large share of global FCAS are concentrated and where population growth, urbanisation and climate exposure are reshaping economic and social dynamics. In many of these markets, shocks – whether political, security-related or climate-driven – are not exceptional events but recurring features of the operating environment. Climate change acts as a threat multiplier, exacerbating resource competition, displacement and social tensions.

For investors, this requires moving beyond treating fragility as episodic risk and recognising it as a defining condition that shapes how markets function and how investments perform over time. Traditional risk and ESG approaches provide an essential foundation, but they are not sufficient on their own to capture the dynamic, relational and context-specific risks that characterise FCAS.

Conflict sensitivity provides a way of addressing this gap. It improves how DFIs identify opportunities, assess risks and manage investments over time. It supports more resilient projects, strengthens client capacity and enables adaptation as conditions evolve. It also informs decisions about when to engage, adjust or exit in environments where both action and inaction carry consequences.

This report sets out how conflict sensitivity can be applied across the investment lifecycle, focusing on three interconnected dimensions:

- **Strategy and capital allocation:** aligning country strategies, sector prioritisation and pipeline development with context-specific risks and opportunities;
- **Project design and implementation:** strengthening due diligence, structuring, stakeholder engagement and technical assistance;
- **Institutional capability:** enabling consistent decision-making through governance, risk appetite and coordination.

These dimensions provide a practical framework for integrating conflict sensitivity into investment decision-making in FCAS.

1.1. Investment is not neutral

Private sector investment is central to long-term growth and stability in FCAS. At the same time, investment decisions redistribute economic opportunity, influence access to resources, and shape perceptions of inclusion and exclusion.

Choices around sector focus, geographic location, ownership structures and value chains can reinforce or mitigate existing tensions. In environments where grievances are easily mobilised, these effects carry political and social implications, whether intended or not. Investment can strengthen local economies and support stability, but it can also exacerbate inequalities, deepen perceptions of bias, or become entangled in contested power structures.

For DFIs and investors, this reinforces that understanding context is not an add-on to investment decision-making, but a core part of it. The quality of decision-making in FCAS depends on how well institutions anticipate how capital will interact with local dynamics, and how those dynamics may, in turn, affect project performance.

The operating environment in FCAS is shaped by a set of interrelated contextual factors that influence both risk exposure and development impact. These include political fragility, conflict dynamics, climate pressures, social tensions and economic volatility, among others (see Table 1).

These dynamics are not static risks but evolving conditions. They shape how markets function, how stakeholders respond to investment, and how projects perform over time. Understanding these interactions is therefore essential to managing risk and delivering sustainable outcomes in FCAS.

Box 1: FCAS and Africa: Where development need and investment risk converge

FCAS, particularly in Africa, are increasingly central to global development and investment agendas. Trends in poverty, conflict, displacement and climate vulnerability are converging in ways that heighten both the risk and the consequences of investment decisions.

- Conflict and fragility have tripled since 2000, with around 70% of affected populations now in Africa (World Bank, 2025; ACLED, 2024).
- As youth demographic pressures rise, more than 620 million people are expected to enter Africa's labour force by 2050. However, most new workers continue to enter low-productivity informal jobs, while wage employment remains limited (World Bank, 2026).
- Around 40% of the world's extreme poor live in FCAS today, projected to rise to around 70% by 2030, with Sub-Saharan Africa accounting for the majority (World Bank, 2025).
- More than 80% of forcibly displaced people originate from FCAS, with displacement nearly doubling since 2015 and many of the largest crises concentrated in Africa (UNHCR, 2024).
- Africa is among the world's most climate-vulnerable regions: 21 of 39 FCAS are in Africa, over 70% of people affected by conflict and instability live on the continent, and climate shocks are intensifying existing fragility (World Bank, 2025; OECD, 2025).
- Climate risks are accelerating: up to 921 million people in Africa may face severe water stress by 2050, while climate-related hazards already displace around 20 million people annually (World Bank, 2025; UNHCR, 2024).
- At the same time, FCAS, particularly in Africa, continue to receive a disproportionately low share of private investment, reflecting both perceived and real risks (IFC, 2019; OECD, 2025).

These trends reinforce that FCAS, and Africa in particular, are not peripheral to development finance. They are where poverty, climate vulnerability and instability intersect, which makes the quality of investment decisions in these contexts increasingly consequential.

Table 1: Examples of contextual issues heightened in FCAS

Contextual factor	How it manifests in FCAS	Why it matters for investment decisions
Political and institutional fragility	Weak or contested authority, uneven enforcement of regulations, shifting policy environments	Affects regulatory predictability, contract enforcement and counterpart reliability; requires careful structuring, stakeholder mapping and contingency planning
Conflict dynamics and insecurity	Presence of violent events, armed actors, or localised tensions; fluctuating security conditions	Can disrupt operations, supply chains and workforce access; requires dynamic risk assessment and adaptive supervision
Climate change and environmental stress	Increased frequency of droughts, floods and extreme weather events; resource scarcity (e.g. water, land); climate-induced displacement	Acts as a threat multiplier, intensifying competition over resources and exacerbating grievances; affects asset viability, supply chains and long-term sustainability of investments
Social tensions and exclusion	Perceived or actual inequalities across ethnic, regional or socio-economic groups; marginalisation of certain communities	Shapes social licence to operate; poorly managed benefits or engagement can trigger disputes, delays or reputational risks
Economic volatility	Inflation, currency instability, commodity shocks, limited market depth	Affects cost structures, affordability and demand; requires flexible financing structures and stress-tested business models
Displacement and demographic pressure	Large numbers of internally displaced persons or refugees; rapid urbanisation and youth population growth	Creates both labour market pressures and opportunities; requires inclusive business models and sensitivity to host–community relations
Market informality and capacity constraints	Limited institutional capacity, skills gaps, informal business practices	Increases execution risk and need for hands-on support; often requires technical assistance alongside investment
Stakeholder complexity and trust deficits	Multiple actors with competing interests; variable and often low trust in institutions and external investors	Requires sustained engagement, transparent communication and grievance mechanisms to maintain stability and avoid escalation
Infrastructure and service gaps	Limited access to power, transport, finance and basic services	Creates high-impact investment opportunities but increases operational complexity and reliance on ecosystem development

1.2. Beyond ESG: what conflict sensitivity adds

ESG standards provide the foundation for responsible investment. They establish essential safeguards related to environmental impact, labour conditions, community engagement, security management and governance. In FCAS, however, risk is often more dynamic and relational than these frameworks are designed to capture.

Conflict sensitivity builds on ESG by incorporating conflict analysis, political economy analysis and an understanding of stakeholder perceptions. It focuses on how authority functions, how benefits and risks are distributed, and how these dynamics may evolve over time, enabling a more complete assessment of the context in which investments operate. This means moving from a project-level compliance lens to consider how conflict dynamics intersect with operations.

Projects are not isolated from their surroundings. Tensions can manifest through communities and workers, in land use and ownership, in security arrangements, in grievance processes, and in the treatment of vulnerable groups, including risks of sexual harassment and gender-based violence.

While conflict sensitivity can often be integrated into existing ESG systems, it requires a broader lens – one that looks beyond the project boundary to understand how investments interact with wider conflict drivers and social dynamics, and to identify practical responses. Conflict sensitivity improves risk identification at origination, supports more informed structuring, and enhances supervision as conditions evolve.

In practice, this translates into:

- More robust due diligence that captures contextual and political economy risks;
- Stronger stakeholder engagement and grievance management systems that support social licence to operate;
- Improved resilience of firms and value chains to shocks and disruptions.

Conflict sensitivity is more than a safeguard. It is a core component of sound investment decision-making in environments where volatility is expected, and unmanaged risks can quickly translate into operational, financial or reputational costs.

1.3. Maximising impact in FCAS beyond “do no harm”

Conflict sensitivity is often associated with a “do no harm” approach. This remains essential. Avoiding unintended negative impacts, whether through land processes, security arrangements or stakeholder engagement, is a baseline requirement in FCAS. However, it is not enough on its own. Conflict sensitivity also supports more deliberate choices about how investments can contribute to inclusion, resilience and stability.

The private sector plays a central role in this. In many FCAS, particularly where state capacity is limited, private firms provide essential services, sustain livelihoods and maintain economic activity. For DFIs, this creates both a responsibility and an opportunity: to support investments that not only manage risk, but also expand access to jobs, services and markets in ways that strengthen resilience over time.

This requires more intentional investment choices. Sector selection, geographic focus and business models shape who benefits from investment and how. Prioritising sectors with strong potential for job creation and service delivery, such as agribusiness, energy, infrastructure and financial services (see Box 3), can support both commercial viability and development impact. Decisions about where investments are located, including in underserved or conflict-affected regions, influence whether benefits reach populations most affected by fragility.

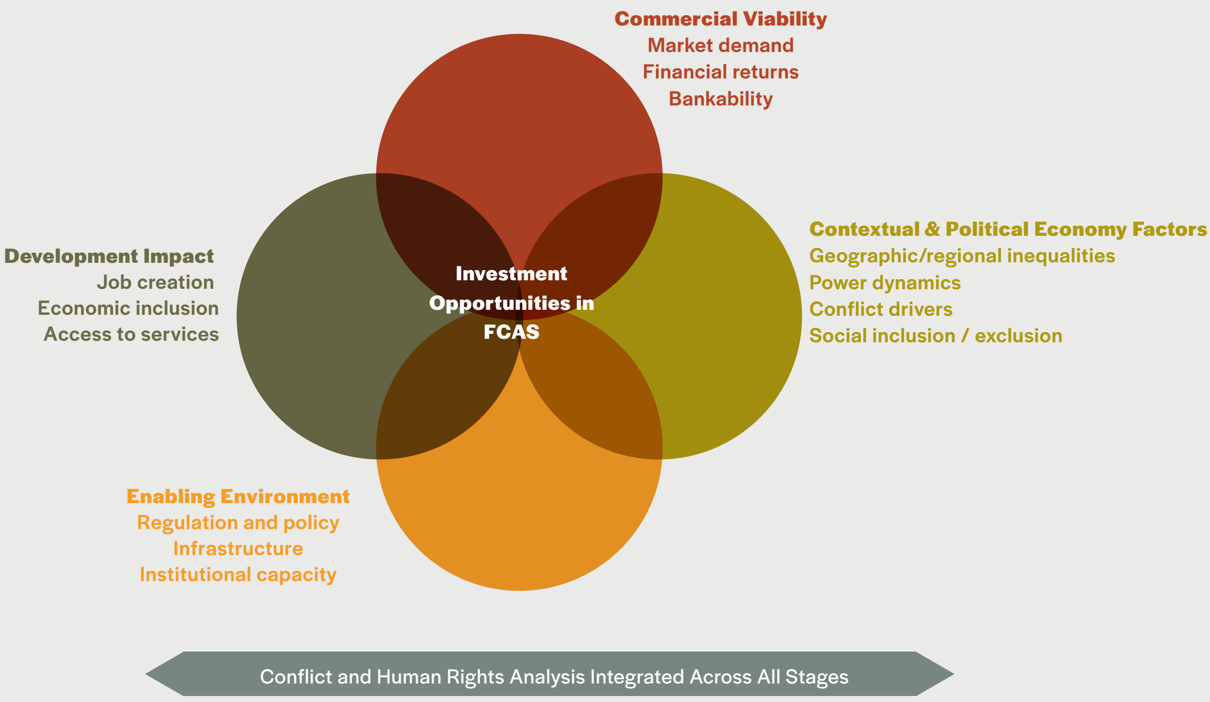
This also extends to how investments are structured. Approaches that strengthen local value chains, expand access to finance for Micro, Small and Medium Enterprises (MSMEs), and promote inclusive employment can contribute to both economic opportunity and social cohesion. While the relationship between job creation and stability is complex, initiatives such as the Virunga Alliance in eastern Democratic Republic of Congo illustrate how targeted private sector investment can support livelihoods and reduce incentives for conflict by expanding economic opportunities for youth.

In displacement contexts, similar considerations apply. Designing investments that benefit both displaced and host communities can reduce tensions while unlocking new market opportunities (see Box 4).

These opportunities must be balanced against real and often significant risks. Political instability, insecurity, regulatory unpredictability and social tensions can all affect investment performance. The challenge for DFIs is how to engage with sufficient discipline to manage these risks while identifying commercially viable opportunities that support resilience.

Conflict sensitivity supports this by strengthening how these trade-offs are assessed and managed. It enables DFIs to move beyond a narrow focus on risk mitigation towards more deliberate investment strategies that align financial performance with development impact in FCAS. As illustrated in Figure 1, this requires integrating conflict-sensitive considerations across strategy, project design and institutional capability.

Figure 1: Integrating conflict sensitivity into investment strategy in FCAS



2. Applying conflict sensitivity across the investment lifecycle

Conflict sensitivity is most effective when integrated across the investment lifecycle. In FCAS, risks do not sit within individual transactions alone, but emerge from how investments interact with local dynamics and evolving structural pressures.

2.1. Strategy and capital allocation

Conflict sensitivity begins before individual investments are identified. Decisions about where to invest, in which sectors, and with which partners shape how capital interacts with local dynamics and influence both risk exposure and development impact.

Effective engagement in FCAS requires a grounded understanding of the drivers of fragility, conflict and resilience within a given context. This includes:

- Identifying sources of tension, including inequalities, resource competition and governance constraints;
- Understanding how these dynamics vary across regions and population groups;
- Assessing how external factors, including climate pressures and displacement, may influence future trajectories.

This analysis should inform country strategies and sector prioritisation, ensuring that investment pipelines are aligned with both development needs and contextual realities. This may lead to prioritising different geographies or sectors, delaying investments until conditions stabilise, or adapting approaches to better align with local dynamics.

Case Study 1: Strengthening context-informed investment decisions in Ethiopia

Operating in frontier markets, ARIA places conflict sensitivity at the core of its mandate. Recognising that many target countries face ongoing fragility or instability, ARIA has prioritised investment in robust, context-specific conflict analysis to inform programming, pipeline development, and investment decisions. While a programme-wide framework is still under development, our work in Ethiopia provides a clear example of how this approach is being implemented and its implications for current and potential investments.

To deepen understanding of Ethiopia's evolving landscape, ARIA commissioned TrustWorks to carry out a countrywide conflict sensitivity assessment. The study mapped past, ongoing, and potential conflict trends, identified the key actors, and analysed the political, social, and economic dynamics at play. This provided ARIA and its stakeholders with a sharper, more nuanced view of the conflict dynamics across the country.

The assessment examined conflict dynamics along two dimensions, region and sector. Regionally, it detailed local conflict drivers, priority stakeholders, and stability status, highlighting sensitivities that could fuel conflict and what the most likely conflict trend scenario would be based on past and current events. At the sector level, the analysis focused on ARIA's and DFI partners' key priority areas, including agriculture, manufacturing, energy, infrastructure, and financial services. This sector-level insight helped clarify how different industries are exposed to high, medium, or low levels of conflict-related risk and has strengthened ARIA's ability to evaluate investment opportunities and support partners in assessing and mitigating conflict risks within investees' value chains, while acknowledging that conflict risks are activity and area-specific and require additional due diligence in certain cases.

Importantly, this assessment was not intended to be a passive knowledge product. Rather, its purpose was to embed conflict sensitivity across the investment lifecycle and influence programming decisions. To this end, findings were shared with ARIA's programme team and with relevant deal, ESG, and impact teams across funding DFIs. Ultimately, the aim was not to deter investment by highlighting risks, but to empower investment teams to approach opportunities in countries like Ethiopia with greater contextual knowledge and risk mitigation in mind. The idea is that factual, current context-specific information helps avoid both overestimating risk, which leads to missed opportunities, as well as underestimating risks, potentially resulting in irresponsible investment decisions. This approach exemplifies ARIA's commitment to context-driven, conflict-sensitive investing that balances opportunity and risk, ultimately paving the way for more responsible, sustainable investment in Ethiopia and other FCAS.

The assessment added value to ARIA and its partners by:

- **Informing investment strategy:** Identifying sectors and geographies with relatively lower conflict exposure, highlighting high-potential areas, and flagging higher-risk opportunities requiring additional due diligence or technical assistance.
- **Identifying conflict-sensitive investments:** Mapping conflict-prone areas, key actors, and sectors through which investment activities might unintentionally exacerbate tensions and the mitigation actions that would be required to manage them.
- **De-risking transactions:** Identifying region and sector-specific risks affecting investees and their value chains, enabling the design of tailored mitigation strategies and targeted technical assistance throughout the investment process.

2.2. Project design and implementation

At the project level, conflict sensitivity shapes how investments are structured, implemented and managed over time. While detailed application is discussed in Section 3, at a strategic level the key consideration is how project design choices influence both risk exposure and development outcomes in FCAS.

Investment decisions in these contexts are not confined to technical or financial considerations. Choices around structuring, stakeholder engagement and implementation approaches affect how projects interact with local dynamics and are perceived by different groups. These effects, in turn, influence project performance, including the likelihood of disruption, delay or reputational risk.

From a strategic perspective, three considerations are particularly important:

- **Investment structuring** plays a central role in determining how benefits and risks are distributed. Decisions on project location, phasing, ownership structures and value chains can shape inclusion and influence local perceptions. Structuring approaches that take these dynamics into account are more likely to support stability and reduce the risk of unintended consequences.
- **Stakeholder engagement** is critical to maintaining a project's social licence to operate. In FCAS, stakeholder environments are often complex, with multiple actors and competing interests. Effective engagement requires sustained attention to how different groups are affected by, and perceive, project activities. This includes ensuring that communication is clear and consistent and that concerns can be raised and addressed in a credible manner.
- **Implementation approaches need to be adaptive.** Conditions in FCAS can change rapidly due to political, social or environmental developments. Projects, therefore, need to be designed with sufficient flexibility to respond to changing circumstances, supported by clear escalation and decision-making processes.

Technical assistance is often a key enabler of these approaches, particularly where client capacity constraints are significant. Its role is discussed in more detail in Section 3.

These elements highlight that project design and implementation in FCAS are not only operational matters. They are central to how DFIs manage risk and support resilient investment outcomes over time.

Box 3: Investment in FCAS: Sectors with high potential for jobs and resilience

While FCAS are often associated with elevated risks, they also present significant opportunities for investment that supports job creation, service delivery and economic resilience. Sector selection plays a critical role in shaping both development outcomes and risk exposure.

Sectors with strong potential include:

- **Agribusiness and food systems:** central to livelihoods in many FCAS, with strong potential for job creation, value chain development and improved food security. Inclusive approaches can reduce pressure on land and resources.
- **Infrastructure and energy:** investments in power, transport and digital infrastructure can unlock private sector activity, reduce regional disparities and improve access to essential services.
- **Financial services:** expanding access to finance for SMEs and households supports entrepreneurship, income generation and resilience to shocks, particularly in underserved markets.
- **Labour-intensive manufacturing and services:** sectors such as light manufacturing, construction and services can absorb growing labour forces, particularly among youth in urban areas.
- **Climate adaptation and water management:** investments in water, irrigation and climate-resilient systems can reduce vulnerability to shocks and mitigate key drivers of fragility.

The impact of these investments depends not only on sector choice, but on how projects are designed and implemented. Considerations such as where investments are located, who benefits, and how risks are managed are critical to ensuring that investments contribute to stability rather than exacerbating existing tensions.

2.3. Investment process

Applying conflict sensitivity consistently requires institutional systems that support informed and timely decision-making. Without this, approaches risk remaining ad hoc or dependent on individual teams, limiting their effectiveness across portfolios.

Table 2 summarises how conflict sensitivity can be applied across the investment lifecycle, linking strategic, project-level and institutional considerations.

Table 2: Applying conflict sensitivity across the investment lifecycle

Stage of investment lifecycle	ARIA phase	Key question for investment decision-making	Good practice approaches
Strategy and capital allocation	Phase	Are we investing in the right places, sectors and partnerships given the context?	▪ Integrate conflict and fragility analysis into country strategies and sector prioritisation ▪ Identify how climate, displacement and political economy dynamics shape investment risks and opportunities ▪ Prioritise sectors with potential for inclusive growth and resilience ▪ Develop pipelines through partnerships with DFIs, local actors and upstream programmes
Project design and due diligence	Planning ➝ Implementation	Have we adequately assessed how this investment may interact with conflict dynamics and stakeholder relationships?	▪ Incorporate conflict sensitivity into ESDD (or undertake targeted analysis in higher-risk contexts) ▪ Map stakeholders and identify groups that may be disproportionately affected ▪ Assess how project benefits and risks are distributed and perceived ▪ Identify required mitigation measures and capacity gaps early

Stage of investment lifecycle	ARIA phase	Key question for investment decision-making	Good practice approaches
Investment structuring and client engagement	Implementation	Are we structuring and implementing the investment in a way that reduces risk and strengthens resilience?	▪ Design inclusive and transparent benefit-sharing mechanisms ▪ Sequence activities to reduce tensions during sensitive phases ▪ Support clients on stakeholder engagement, communication and grievance management ▪ Align financing, governance and contractual arrangements with contextual risks
Technical assistance (TA)	Implementation ➛ Monitoring	Are we equipping clients to manage conflict-related risks effectively over time?	▪ Provide early, proactive and embedded TA support ▪ Use multidisciplinary approaches (social, security, operational) ▪ Focus on building sustainable internal systems (not one-off assessments) ▪ Strengthen client capacity on risk management, communication and adaptive decision-making
Supervision and adaptive management	Monitoring	Are we tracking changes in context and adapting our approach accordingly?	▪ Monitor political, social and climate-related developments ▪ Identify trigger events and establish escalation protocols ▪ Maintain flexibility to adjust project design and implementation ▪ Ensure continuous engagement with stakeholders to manage emerging risks
Institutional knowledge and capacity	Planning ➛ Implementation ➛ Monitoring	Are we set up internally to apply conflict sensitivity consistently and at scale?	▪ Establish clear governance, roles and decision-making authority ▪ Define and apply risk appetite with proportionality ▪ Ensure coordination across investment, E&S, Risks, legal and TA teams ▪ Build institutional learning, tools and staff capacity over time

3. Embedding conflict sensitivity at the project level

Conflict sensitivity at the project level is where strategic intent is translated into operational practice. While Section 2 outlined how DFIs can integrate conflict sensitivity across the investment lifecycle, this section focuses on how these principles are applied within individual transactions – from due diligence through to implementation and supervision. ARIA's conflict sensitivity tipsheet provides practical guidance structured around planning, implementation and monitoring. Here, that approach is developed by examining how conflict sensitivity shapes investment decisions, client engagement and risk management.

3.1. Starting early: Integrating conflict sensitivity into due diligence

Conflict sensitivity is most effective when introduced as early as possible in the origination and investment process. Due diligence provides the primary entry point for understanding how a proposed investment may interact with local dynamics and for identifying potential risks and opportunities.

As outlined in Section 1.2, conflict sensitivity can often be integrated into existing environmental and social due diligence processes. This includes incorporating analysis of local conflict drivers, stakeholder relationships and potential distributional impacts into standard assessments. In higher-risk contexts, or where projects are likely to interact directly with sensitive issues such as land, natural resources or security actors, more targeted or standalone analysis may be required.

At the project level, conflict-sensitive due diligence typically involves:

- Mapping actors, including groups that may benefit from or be adversely affected by the investment;
- Analysing local conflict dynamics and how they vary across locations and population groups;
- Assessing how project benefits, risks and engagement approaches are likely to be perceived.

This analysis informs not only risk identification but also investment decisions. It may influence whether to proceed with an investment, how it is structured, and what conditions are attached to approval. For example, it may lead to adjustments in project design, enhanced mitigation measures, or a decision to delay or not proceed where risks cannot be managed effectively. This reflects ARIA's emphasis on integrating conflict sensitivity across planning, implementation and monitoring stages.

Box 4: Investing in displacement contexts: Risks, opportunities and practical considerations

Forced displacement is increasingly concentrated in FCAS, with many of the largest refugee and internally displaced populations located in fragile contexts, particularly in Africa. For DFIs, displacement settings can involve distinct risks and opportunities shaped by the local political, economic, and social environment. Rigorous conflict analysis in such contexts does more than mitigate risk: it can reveal underserved markets, latent demand, and investment niches that are often overlooked.

From an investment perspective, displacement can:

- **Influence demand for services and infrastructure,** potentially increasing needs for housing, energy, water, health care and financial services, particularly in host communities and urban areas. However, the extent and nature of this demand depend on population scale, duration of displacement, and host country policies.

- **Reshape labour markets** by adding new skills, networks and entrepreneurial activity, while also creating competition for jobs and pressure on wages. The net effect varies with the absorptive capacity of the local economy and the inclusiveness of labour market strategies.

- **Affect social cohesion** by strengthening it where projects benefit both displaced and host populations, but risk tensions if perceived inequalities emerge in access to jobs, services, or investment benefits.

Conflict-sensitive investment in displacement settings, therefore, requires:

- Designing projects that generate benefits for both displaced and host communities, which helps to mitigate risks of perceived or actual exclusion, while recognising that priorities and needs differ across locations and groups;

- Building a clear understanding of local market dynamics, including how displacement influences demand, labour supply, pricing and competition, and noting that these effects can evolve over time and vary by sector;

- Using conflict analysis to inform investment planning, both to anticipate and mitigate risks, and to uncover market opportunities;

- Supporting clients to manage stakeholder engagement and communication in socially and politically sensitive environments, with approaches tailored to local governance structures, cultural norms and conflict drivers;

- Providing technical assistance and advisory support to strengthen inclusion and demonstrate the business case for investments benefiting both displaced and host communities, while also building client capacity for effective service delivery and sound risk management.

When thoughtfully designed and implemented, investments in displacement contexts can foster job creation, expand access to services, and strengthen local economic resilience. If not attuned to local dynamics and stakeholder needs, however, they may unintentionally heighten tensions or compromise long-term viability. Conflict-sensitive approaches, combined with strong market analysis, can help DFIs navigate complex environments and discover opportunities that might otherwise be obscured by prevailing perceptions of risk.

3.2. Structuring investments and engaging stakeholders

Once an investment progresses, conflict sensitivity shapes how projects are designed and implemented, particularly through structuring choices and stakeholder engagement.

Conflict-sensitive investment structuring: Investment structuring plays a critical role in shaping how benefits and risks are distributed. In FCAS, relatively small design choices can have significant implications for how projects are perceived and how they interact with local dynamics.

Conflict-sensitive structuring may involve:

- Designing benefit-sharing approaches that are transparent and perceived as fair across different groups;
- Sequencing project activities to reduce tensions during sensitive phases, such as land acquisition or workforce mobilisation;
- Incorporating flexibility into financing and implementation arrangements to allow for adaptation as conditions change.

These considerations can influence financing terms, governance arrangements and contractual provisions, and help to reduce exposure to disruption and strengthen long-term viability. They are choices that can materially affect project performance, influencing costs, timelines and the likelihood of disruption.

Stakeholder engagement and communication: Effective stakeholder engagement is central to managing both risk and perception in FCAS. This approach builds on compliance-based consultation processes and requires sustained, context-aware engagement throughout the project lifecycle. Key elements include:

- Identifying and engaging a broad range of stakeholders, including those who may be less visible or harder to reach;
- Ensuring that engagement processes are inclusive and sensitive to local power dynamics;
- Establishing accessible and credible grievance mechanisms.

Clear and consistent communication is critical in FCAS, where misunderstandings or perceived bias can quickly escalate into disputes. DFIs and their clients therefore need to support communication approaches that are transparent, consistent and avoid reinforcing existing tensions. While clients are primarily responsible for day-to-day engagement, DFIs can play an important role in setting expectations, providing guidance and supporting capacity where needed.

Conflict sensitivity and security management: Security measures focus on protecting people and assets. Conflict sensitivity focuses on how project activities interact with local dynamics and how risks of exacerbation can be avoided. In practice, the two need to be aligned. Conflict-sensitive analysis can help ensure that security approaches remain appropriate to the context and do not inadvertently increase tensions, aligning with ESG requirements on security impacts on project communities.

3.3. Technical assistance as a core delivery mechanism

Technical assistance is one of the most effective levers for applying conflict sensitivity, particularly in FCAS where client capacity constraints are often significant.

Many clients face challenges in areas such as stakeholder engagement, communication, risk management and crisis response. Without targeted support, even well-designed projects may struggle to manage evolving risks effectively. In some cases, the availability of technical assistance may determine whether an investment can proceed or scale safely in higher-risk environments.

Effective technical assistance approaches are characterised by:

- **Early engagement:** initiating support during due diligence and continuing through implementation, rather than relying on reactive interventions once issues emerge;
- **Multidisciplinary design:** combining expertise across social, security and operational domains to reflect the complexity of risks;
- **Embedded support:** working alongside client teams to build systems and capabilities, rather than conducting one-off assessments;
- **Sustainability:** focusing on approaches that clients can maintain beyond the duration of the technical assistance.

Technical assistance can support clients to:

- Establish stakeholder engagement and communication systems;
- Develop grievance mechanisms and resolve disputes;
- Strengthen internal risk management and decision-making structures;
- Prepare for and respond to crises or changes in operating conditions.

This may also involve working with specialised partners to provide technical expertise where internal capacity is limited. When effectively designed, technical assistance not only reduces the likelihood of disruption but also strengthens the resilience and long-term performance of investments.

Table 3: Technical assistance (TA) options for DFIs to support clients in fragile contexts

TA type	When it is used	What it supports
Upfront risk and context analysis	Early-stage screening and due diligence, particularly in higher-risk or unfamiliar contexts	Identifying conflict drivers, stakeholder dynamics and potential risks; informing go/no-go decisions and structuring
Stakeholder engagement and communication support	During project design and early implementation, especially where stakeholder relations are complex or contested	Building inclusive engagement processes, strengthening communication, and reducing risks of misunderstanding, grievance or escalation
Grievance and conflict resolution mechanisms	During implementation and operation, particularly where projects affect multiple communities or sensitive issues (e.g. land, livelihoods)	Establishing trusted channels for addressing concerns, preventing disputes from escalating, resolving disputes, and maintaining social licence to operate
Security and risk management alignment	In projects involving security risks or operating in volatile environments	Ensuring security approaches are proportionate, context-appropriate and aligned with broader conflict-sensitive practices; establishing effective security governance and interfaces with public security providers
Operational and governance strengthening	Where client systems are weak or underdeveloped, often throughout the project lifecycle	Building internal processes for risk management, decision-making and oversight, enabling more consistent and effective responses to evolving risks
Crisis preparedness and response	In contexts with high volatility or exposure to shocks (e.g. political instability, climate events)	Preparing for trigger events, defining response protocols, and enabling timely, coordinated action to maintain operations
Adaptive management and monitoring systems	During supervision and later stages of implementation	Tracking changes in context, integrating feedback, and adjusting project approaches in response to emerging risks and opportunities
Capacity building and training	Throughout the project lifecycle, particularly where long-term capability gaps exist	Strengthening staff skills and institutional capacity to manage conflict-related risks independently over time

3.4. Adaptive management and supervision

In FCAS, project conditions can change rapidly due to political developments, social tensions or external shocks such as climate events. Conflict sensitivity, therefore, requires an approach to supervision that is both continuous and adaptive. This involves moving beyond a focus on static project indicators to include ongoing monitoring of contextual dynamics. This may include:

- Tracking changes in political, social and security conditions in areas where projects operate;
- Monitoring shifts in stakeholder perceptions or emerging grievances;
- Considering how external factors, including climate-related events, may affect project performance.

Effective adaptive management also requires clarity on how and when to respond. It includes:

- Identifying potential trigger events that may require changes in approach;
- Establishing escalation pathways and decision-making processes;
- Ensuring that both DFIs and clients have the flexibility to adjust project design, timelines or engagement strategies as needed.

These responses can directly affect project outcomes, including timelines, costs and operational continuity. The effectiveness of this approach depends on close coordination between project teams and the broader institutional systems that support decision-making, including governance and risk management frameworks.

Case Study 2: Renewable energy provider in Central Africa: Conflict-engaged stabilisation under territorial shift

A client focused on delivering renewable energy solutions in a part of the country affected by decades of conflict and armed group activity, faced escalating risks as armed actors seized the area where they were operating. Despite the fighting, they remained a key power source for local populations and businesses. The client faced significant business continuity risks as a result of the prolonged armed group occupation, as well as personal safety risks for their staff and families.

Three DFI co-investors worked together with the client to develop a technical assistance programme that embedded a security expert paired with a locally based civil society organisation to support upskilling policies, procedures and capacity to respond to the emerging conflict risks. This included a conflict-sensitive focus on ESG aspects such as a community grievance mechanism, security risk assessment and management planning, security forces engagement, emergency management, prevention of sexual exploitation and abuse and sexual harassment, and integrity risk management.

Critical to this was the on-the-ground support to the client for a longer period. This equipped the client with the capacity to anticipate the future risk landscape, changes in the conflict dynamics relative to their operations, and continue to expand their development responsibly.

For the DFIs, this example reinforced several lessons. In situations with severe deterioration in operating conditions, embedded and multidisciplinary support is often more effective than remote advisory. Essential service providers create complex mandate dilemmas that require structured impact assessment rather than binary “stay or exit” decisions. Coordination among co-lenders reduces fragmentation and reputational exposure. Above all, flexible and rapidly deployable technical assistance funding is central, not peripheral, to responsible engagement in FCAS portfolios.

4. Enhancing institutional capability for FCAS investment decision-making

Applying conflict sensitivity effectively requires more than tools or project-level interventions. As Sections 2 and 3 have shown, it shapes decisions at multiple stages of the investment lifecycle: from strategy and origination through to structuring, implementation and supervision. For this to happen consistently, DFIs need institutional systems that support informed, timely and coordinated decision-making.

This complements the practical guidance that platforms, such as ARIA, can provide at the project level by focusing on the institutional systems required to apply it consistently. Without these systems, conflict sensitivity risks remaining ad hoc, dependent on individual teams or applied unevenly across portfolios. Institutional capability is therefore what enables DFIs to move from isolated good practice to a consistent approach to investing in FCAS.

Institutional capability is what connects strategy, project-level practice and outcomes. It enables DFIs to:

- Integrate conflict sensitivity into early-stage decisions on where and how to invest;
- Structure and manage projects in ways that reduce risk and strengthen resilience;
- Respond to changing conditions in a timely and proportionate manner.

Without these capabilities, conflict sensitivity risks being applied inconsistently or too late in the investment process. With them, it becomes part of how DFIs make decisions in complex environments.

As FCAS become increasingly central to development finance portfolios, conflict sensitivity matters less as a specialist function and more as an institutional capability, which shapes how capital is deployed where development need is greatest.

4.1. Risk appetite and proportionality in FCAS

DFIs operating in FCAS face a fundamental tension between pursuing development impact and managing financial and operational risks. Addressing this requires clarity on risk appetite and how it is applied in practice. Conflict sensitivity supports more nuanced risk assessment by distinguishing between:

- Risks that can be mitigated through design, engagement or technical assistance;
- Risks that may need to be accepted in pursuit of development objectives;
- Risks that are not manageable and require avoidance or disengagement.

Applying this distinction requires a proportional approach. Not all projects or contexts require the same level of analysis, mitigation or supervision. Higher-risk environments may justify more intensive engagement and support, while lower-risk contexts may allow for more streamlined approaches.

This also has implications for investment decisions over time. In some cases, conflict-sensitive approaches enable DFIs to continue engagement in challenging contexts where risks are understood and managed. In others, they may support decisions to delay, restructure or exit where conditions deteriorate. In FCAS, decisions to withdraw or reduce exposure can have consequences as significant as continued engagement, reinforcing the need for deliberate judgement.

These judgements directly shape portfolio composition, exposure to FCAS and the ability to sustain operations in volatile environments.

4.2. Coordination across functions

Conflict sensitivity cuts across multiple functions within DFIs, including investment teams, ESG specialists, legal, risk, fragility and technical assistance providers, among others. Effective application, therefore, depends on how well these functions work together. This requires:

- Sharing analysis and information across teams, including insights on context, stakeholders and emerging risks;
- Aligning perspectives on risk and mitigation, particularly where trade-offs are required;
- Ensuring that different functions contribute to a common understanding of project priorities and constraints.

Without effective coordination, decisions can become fragmented, with different teams addressing risks in isolation. Where coordination is weak, critical risks may be overlooked or addressed inconsistently, increasing the likelihood of disruption. Strong coordination supports more coherent decision-making, ensuring that conflict-sensitive considerations are reflected consistently across due diligence, structuring and supervision.

4.3. Systems, tools and incentives

Sustained application of conflict sensitivity requires more than individual expertise. It depends on systems, tools and incentives that support consistent practice across portfolios and pipelines. This includes:

- Developing guidance, tools and templates that help teams integrate conflict sensitivity into their work;
- Investing in staff capacity through training and exposure to FCAS contexts;
- Ensuring that internal processes support, rather than constrain, adaptive approaches.

Incentives are a critical driver of behaviour. If performance metrics prioritise transaction speed or short-term outcomes without recognising the complexities of FCAS, teams may be disincentivised from engaging deeply with contextual risks. Aligning incentives with long-term investment performance and resilience helps reinforce the importance of conflict-sensitive approaches. These elements reduce reliance on individual champions and support a more systematic approach to managing risk and opportunity in FCAS.

4.4. Learning and adaptation

FCAS are dynamic environments where risks, opportunities and operating conditions evolve over time. Institutional capability depends on the ability to learn and adapt. This involves:

- Capturing lessons from project experience, including both successes and challenges;
- Feeding these lessons back into country strategies, sector approaches and investment processes;
- Updating tools, guidance and practices in response to emerging evidence.

Learning processes should be practical and focused on improving decision-making. This means identifying what worked, what did not, and how approaches can be refined in future investments. Learning supports more informed decision-making in future investments, particularly in similar contexts or sectors.

Box 5: What institutional capability looks like in practice

DFIs that apply conflict sensitivity consistently in FCAS typically embed it within core investment processes rather than treating it as a standalone function. This is reflected in:

- **Investment committee integration:** conflict-sensitive considerations are explicitly assessed at key decision points, including how contextual risks affect structuring, timing and conditions for approval
- **Clear escalation pathways:** predefined triggers (e.g. security deterioration, stakeholder disputes, political developments) linked to decision-making at investment committees or risk committees
- **Risk committee alignment:** conflict-related risks are assessed alongside financial and operational risks, enabling more balanced decisions on mitigation, acceptance or restructuring
- **Technical assistance facilities:** dedicated resources that can be deployed early and flexibly to support clients on stakeholder engagement, communication, governance and crisis response
- **Cross-functional deal teams:** structured collaboration between investment, ESG, legal and technical assistance teams throughout the deal lifecycle, supported by shared analysis and joint decision-making
- **Adaptive supervision processes:** supervision frameworks that incorporate contextual monitoring and allow adjustments to project design, timelines or engagement strategies as conditions evolve
- **Feedback loops into strategy:** lessons from project experience systematically inform country strategies, sector priorities and future pipeline development

These elements enable DFIs to respond more consistently and proportionately to risk, strengthening both investment performance and resilience in FCAS.

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To learn more about ARIA and to explore partnership opportunities, please visit our website at **www.ariainvests.org.**

You can contact the ARIA team at **info@ariainvests.org.**

About ARIA

ARIA exists to unlock investment in frontier markets in Africa. It was launched in 2021 at the G7 summit. It is sponsored by the UK's DFI, British International Investment, and the Netherlands' DFI, FMO (the Dutch entrepreneurial development bank) and Proparco , the private sector financing arm of the Agence française de développement Group (AFD Group).