



DATA BRIEF | MARCH 2025

Blended Finance in Fragile and Conflict-Affected Situations

HIGHLIGHTS

- Blended finance in fragile and conflict-affected situations (FCS) remains limited. Convergence's Historical Deals Database (HDD) recorded only 54 blended finance deals targeting countries on the World Bank's Fragile and Conflict-Affected Situations List for five consecutive years (2019–2023), with a total value of \$4.5 billion.
- The energy sector leads blended finance activity in FCS (31% of FCS transactions vs. 28% in the overall market from 2019-2023), while blended investments in agriculture make up a smaller proportion (9% vs. 27%).
- Vehicles used in blended finance transactions in FCS are largely comparable with those in the overall blended finance market, with companies being the primary vehicle type (37% of FCS transactions vs. 37% in the overall market), however the blended bond market in FCS is slightly less developed (4% vs. 10%).
- Aligned with the overall blended finance market, concessional debt/equity is the dominant blending instrument (67% of FCS transactions vs. 75% in the overall market).
- Transactions in FCS have a median size of \$35 million, tending to be slightly smaller compared to transactions in the overall market.
- Key investors in FCS-targeted blended finance deals include the International Finance Corporation (IFC, 28 commitments), the Netherlands Development Finance Company (FMO, 13), and the United States International Development Finance Corporation (DFC, 9).
- Challenges in expanding blended finance in FCS include how to effectively address the magnified risks, the need to conduct thorough conflict sensitivity analyses to identify constructive investment opportunities, and ad hoc approaches to blended finance in these contexts to date.
- Growth opportunities for blended finance in FCS include leveraging humanitarian finance to boost the pool of catalytic capital, using technical assistance (TA) to improve the conflict sensitivity of investments, and harnessing collaboration to reach scale.

Introduction

Global political stability has [faced](#) significant setbacks in recent years. Conflict and violence [are](#) on the rise, with armed confrontations affecting millions in Ukraine, Gaza, the Democratic Republic of the Congo (DRC), and beyond. At the same time, many nations continue to grapple with the economic and societal fallout of the COVID-19 pandemic, which [led](#) to sharp contractions in gross domestic product (GDP), soaring debt, and rising poverty and inequality. Climate-induced disasters are further [threatening](#) stability, as extreme weather events such as floods, droughts, and hurricanes disrupt livelihoods, intensify displacement, and worsen resource scarcity.

These circumstances underscore the necessity of scaling up support to FCS. The World Bank [defines](#) FCS as two related but distinct concepts. Fragility refers to a condition where a region has extremely low institutional and governance capacity, impeding its ability to function, maintain peace, and promote economic and social development. Meanwhile, conflict represents a condition where acute insecurity arises from the use of deadly force by organized groups—whether state forces, non-state actors, or irregular entities—with a political agenda.

The World Bank has [identified](#) support for FCS as critical to eliminating poverty, as it estimates that nearly 60% of those living in extreme poverty will reside in countries impacted by fragility, conflict, and violence by 2030. Although heterogeneous, these settings tend to [have](#) lower economic growth rates and weaker human development indicators compared to other low-income countries. These circumstances especially have [worsened](#) due to the pandemic and subsequent shocks, including the spillover effects of Russia's invasion of Ukraine, global inflation, tighter monetary policies, trade disruptions, and rising conflicts worldwide. The International Monetary Fund (IMF) [reports](#) that the median per capita GDP in FCS is not expected to recover to pre-pandemic levels until 2026. Additionally, inflation in these countries remains the [highest globally](#), with its effects expected to persist in the coming years. These trends pose a serious risk to FCS, with many falling further behind in meeting the United Nations' Sustainable Development Goals (SDGs). FCS are among the most "Severely Off Track" (SOTC) in meeting the SDGs, with 24 of the 31 SOTC countries appearing on either the World Bank's [Fragile States List](#) or the Fund for Peace's [Fragile States Index](#), according to TrustWorks Global.

Although broad action is crucial to addressing these circumstances, private sector development is an important piece of the puzzle. The private sector [creates](#) jobs, fosters economic growth, and produces tax revenues that help governments provide essential services to their citizens. Further, the United States Agency for International Development (USAID) [notes](#) that the livelihood improvements that come from economic growth and job creation from the private sector can help reduce or remove incentives for further conflict and instability, creating positive spillover for peace and stability. Similarly, the World Bank [asserts](#) that private sector development can mitigate the economic effects of fragility, conflict, and violence and act as a restorative force by creating jobs and rebuilding public trust and social cohesion.

Nevertheless, various barriers hinder private sector development in FCS. The socio-economic, political, and institutional challenges [associated](#) with FCS heighten the risks, costs, and complexities of doing business in these contexts. As a result, FCS [attract](#) significantly less private investment compared to other developing countries, preventing them from building robust domestic private sectors. Private investment can also [introduce](#) risks to the local context. Without adequate conflict sensitivity assessments, investments in FCS may unintentionally [fuel](#) instability, exacerbate existing inequalities, and marginalize vulnerable populations.

Blended finance is gaining recognition as a method to support responsible private sector development in FCS, complementing reforms to [improve](#) the business environment. The value of blended finance is its ability to unlock private investment in new markets or sectors that are perceived as too risky by private investors. It achieves this by leveraging financial instruments—such as subordinated debt, first-loss equity, concessional guarantees, political risk insurance, etc.—to mitigate the risks impeding private sector participation in a transaction or by protecting risk-adjusted returns. The growing use of blended finance in FCS is primarily driven by two factors: the widening financing gap in these contexts and the limitations of traditional aid models.

First, the scale of financing shortfalls in FCS continues to grow. The Organisation for Economic Co-operation and Development (OECD) [emphasizes](#) that although donors have provided record levels of Official Development Assistance (ODA) to FCS, its share of total ODA has declined compared to prior

years. Additionally, in many FCS, a growing share of aid is being channeled toward humanitarian efforts rather than long-term development or peacebuilding initiatives. Rising humanitarian appeals are [placing](#) enormous pressure on humanitarian budgets and system capacity. This [underscores](#) the need to maximize the efficiency and effectiveness of funds flowing into FCS. Blended finance is proposed as a solution because it leverages private sector participation to expand the impact of available funding. The private sector [represents](#) a substantial yet underutilized capital pool and is a critical source of funding for delivering essential services to underserved populations. By mobilizing private investment, blended finance has the potential to enhance the efficiency of capital deployment in fragile contexts, ensuring that each donor dollar is used more effectively and achieves greater reach.

Second, traditional humanitarian aid approaches are often seen as inadequate for addressing situations of protracted fragility. The increasing reliance on humanitarian assistance in FCS [diverts](#) resources from long-term peace and development efforts, reinforcing short-term crisis response over sustainable solutions. A recent ODI policy brief [highlights](#) that grant-based

humanitarian funding lacks the capacity to build resilience or reduce dependency in these contexts. To address this gap, there is growing [interest](#) in using investment-driven strategies in less acute contexts of fragility where stability permits crisis preparedness and development planning. Blended finance is emerging as a key driver in this approach to attract private investment in fragile settings. Humanitarian organizations are [adapting](#) by exploring financial instruments beyond grants, such as concessional debt and equity, to participate in blended finance initiatives. By engaging with private and development actors, they aim to deliver solutions that extend beyond immediate relief, strengthening long-term stability and economic resilience.

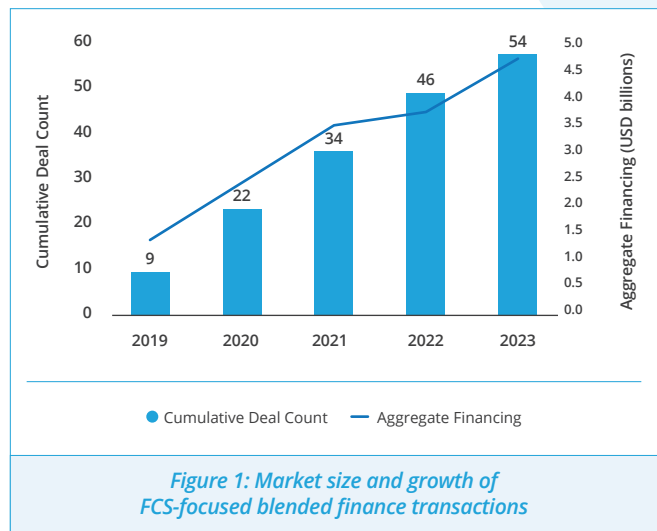
Against this backdrop, this data brief examines the key challenges and opportunities associated with the use of blended finance in FCS, drawing on trends from Convergence's HDD and incorporating insights from interviews with industry stakeholders. Although blended finance transactions in FCS have been limited, they provide essential lessons on capital mobilization within these complex environments and lay valuable groundwork for further discussion.

Transaction Analysis

Blended finance activity in FCS countries to date has been limited. Over the past five years, 24 jurisdictions have consistently appeared on the World Bank's [annual FCS list](#). According to Convergence's HDD, there have been 54 blended finance transactions across 19 of these jurisdictions, totaling approximately \$4.5 billion in aggregate financing from 2019 to 2023.

Rabih Yazbeck, Senior Vice President of Programs and Impact at Near East Foundation, stresses the importance of blended finance in these regions, stating that:

"Given increased and unique political, economic, and operational risks that often deter investors in these environments, blended finance's ability to tailor investment structures to mitigate these challenges is invaluable in attracting capital to these regions."



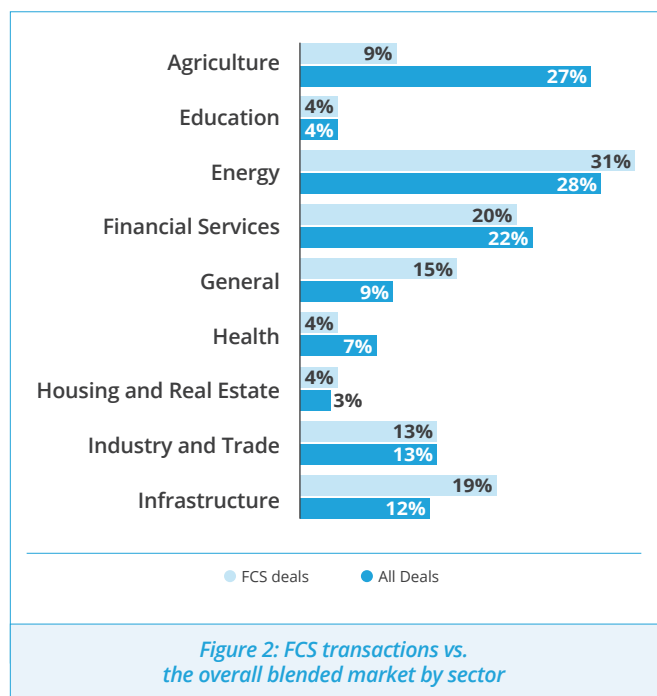
ENERGY AND FINANCIAL SERVICES SECTORS RECEIVE THE MOST BLENDED FINANCE ACTIVITY IN FCS, WHILE AGRICULTURE RECEIVES A LOWER PROPORTION

Most blended finance transactions in FCS target the energy sector (31%), followed by financial services (20%), and infrastructure (19%). These trends mostly mirror those in the broader blended finance market, as these sectors tend to be the most commercially viable.

Energy sector blended transactions in FCS have primarily taken place within the renewable energy sub-sector. A recent example is a transaction with [Nuru](#), a company dedicated to enhancing connectivity in the DRC. In 2023, Nuru secured \$50 million to [provide](#) up to 15 MW of generation capacity across three cities through solar hybrid mini-grid projects.

Nuru was structured using various concessional instruments to improve commercial viability. For instance, the IFC [invested](#) \$5 million in concessional equity through the Finland-IFC Blended Finance for Climate Program, along with \$5 million from its own account. Additional concessional financing was [provided](#) by the Global Energy Alliance for People and Planet (GEAPP) and the Renewable Energy Performance Platform (REPP). These below-market-rate investments enhanced Nuru's bankability and improved the financial viability of downstream projects.

To further mitigate risks associated with expropriation, transfer restrictions, and war or civil disturbance, the Multilateral Investment Guarantee Agency (MIGA) [issued](#) a full guarantee. Lastly, Stichting Clean Energy and Energy Inclusion for Africa (CEI Africa) [provided](#) a \$3.1 million



results-based grant to support the project in Goma. The combination of risk-tolerant debt and equity, the MIGA guarantee, and the grant in Goma [mobilized](#) enough commercial financing for the project to successfully launch.

Meanwhile, financial services blended transactions have mainly centered on enhancing access to finance for micro, small, and medium-sized enterprises (MSMEs) in FCS.

British International Investment (BII) [suggests](#) that investing in intermediary institutions, such as commercial banks, is one of the most effective and scalable methods to crowd capital into difficult environments like FCS. Compared to other sectors, financial institutions provide investors with greater stability due to more regulation and established track records.

An example of a recent financial services deal is one led by the [Palestinian Company for Credit and Development](#) (FATEN), a microfinance institution in the West Bank and Gaza. The institution received a \$13.5 million blended finance package to expand its loan portfolio aimed at women, youth, and refugees in the area. The deal involved the FMO, via its MASSIF Fund for financial inclusion, [extending](#) a \$4.5 million unfunded risk-sharing facility, combined with \$5.5 million in concessional debt to mobilize new lending from FATEN. An additional credit facility was [secured](#) from Proparco.

Notably, the use of blended finance in the agriculture sector is significantly lower in FCS (9%) compared to the overall blended finance market (27%). This disparity may be [due](#) to the uncertainty surrounding land rights in FCS, which complicates engagement for international public and philanthropic actors looking to engage in the sector. In particular,

challenges such as the lack of formal land registrations, land grabbing, and misallocations pose considerable risks for investors.

The [ability](#) of blended finance to broaden investments in sectors that would not otherwise attract funding is crucial for FCS, where economies often depend heavily on extractive industries and agriculture. While extractive industries generate government revenue, overreliance on them can [lead](#) to challenges such as Dutch disease¹ and limited job creation. This is particularly concerning in FCS, where, as the IFC [notes](#), high unemployment, failing infrastructure, and economic uncertainty frequently drive displacement and create overlapping, risks.

Blended finance can help tackle these challenges by directing private capital specifically into sectors that promote economic diversification, resilience, and stability. However, its deployment must be strategic rather than indiscriminate. As Dr. Josie Lianna Kaye, Chief Executive Officer of TrustWorks Global, states:

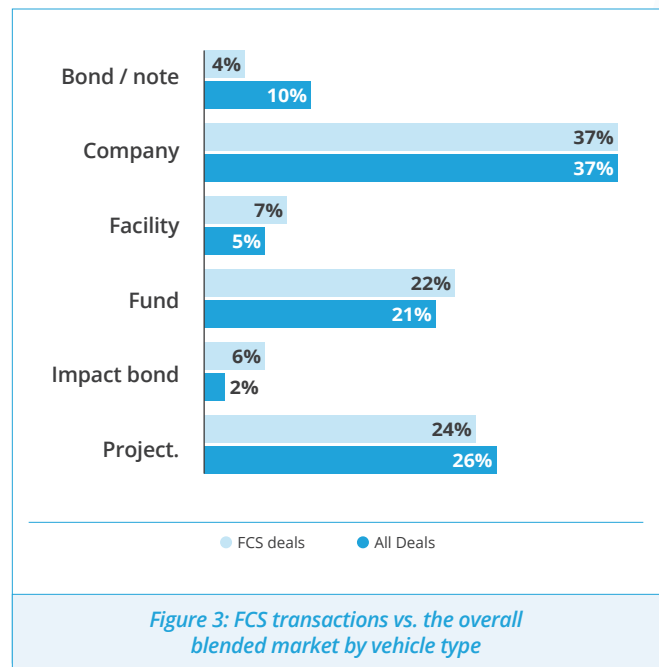
“There are no universal formulas for which sectors contribute to peace. What works in one context may not in another. A sector’s potential to promote peace depends on a thorough, context-specific analysis.”

COMPANIES AND PROJECTS ARE THE PREDOMINATE VEHICLES IN FCS TRANSACTIONS

Companies are the most common vehicle used in FCS transactions (37%), followed by projects (24%), which aligns with overall market trends.

An example of a company that benefited from blended finance is [HSA Foods](#), an agri-business operating in Yemen. In 2021, HSA Foods [received](#) a financing package designed to boost working capital and strengthen supply chains for essential raw materials. The package [included](#) a partial first-loss guarantee from [IDA IFC MIGA PSW](#), which mitigated country-level risks related to Yemen’s civil war and the COVID-19 pandemic. This support helped to mobilize a \$75 million commercial loan from IFC and attracted an additional \$20 million in senior debt from FMO, as well as sponsor equity.

Project transactions have been prevalent in FCS due to the high volume of transactions in the energy and infrastructure sectors. These sectors frequently use structured project vehicles, such as [special purpose vehicles](#) (SPVs).



¹ Dutch disease occurs when a sudden influx of foreign currency—often from natural resource discoveries—causes a country’s exchange rate to appreciate. This makes exports from other tradable sectors less competitive, ultimately weakening those industries and reducing economic diversity.

A considerable share (22%) of blended vehicles within FCS consists of funds. Numerous funds have been established in recent years to address specific issues in FCS, such as the [Peace Venture Fund](#), a joint initiative between the Peace Dividend Initiative and Symbiotics. The fund promotes private sector investments in peacebuilding efforts. Another initiative currently being [designed](#) by KOIS and Finance for Peace is the Refugee Humanitarian Development and Peace Outcomes Fund, which seeks to bridge the gaps between humanitarian aid, development, and peacebuilding through strategic investments.

Bonds are typically underrepresented in FCS (4%) compared to the overall market (10%). This is likely due to the [capital markets](#) in FCS being underdeveloped. Impact bonds, however, are overrepresented in FCS (6%)

CONCESSIONAL DEBT/EQUITY IS THE MOST COMMON ARCHETYPE, FOLLOWED BY TA AND GUARANTEE/RISK INSURANCE

The blending archetypes deployed in FCS transactions follow trends similar to those for the overall market. Concessional debt/equity is used in most (67%) FCS transactions, followed by TA (22%) and guarantee/risk insurance (22%).

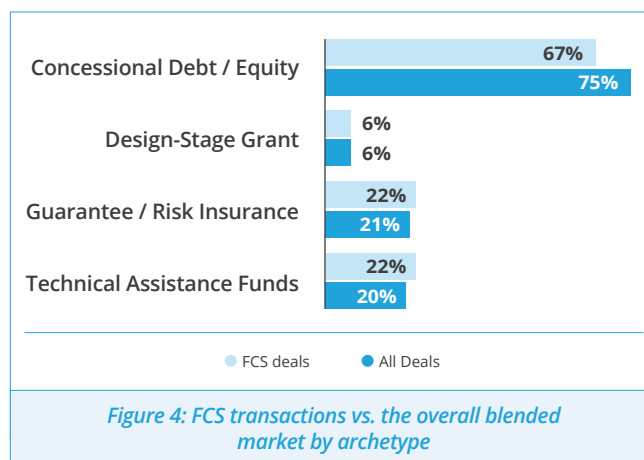
The main purpose of TA is to enhance the operational capacity of investees and stakeholders throughout the value chain, lower high transaction costs, and foster a more supportive environment for investors, as [highlighted](#) in a report by Convergence. In the specific context of FCS, a report by TrustWorks Global further refines TA's role, [noting](#) that it can be used in three key ways: i) supporting investee compliance with investment requirements, ii) creating sector fundamentals and capabilities, and iii) assisting government programs. There is also an emerging focus on using TA not only to improve investor confidence in FCS but also to enhance the conflict sensitivity of investments.

Dr. Kaye explains that there are two additional ways in which TA should be employed in FCS. First, TA can help companies create unique strategies for the specific conflict-affected context in which they are operating. Second, it can support conflict sensitivity analyses to help investors understand and navigate local complexities and ensure investments do not exacerbate existing conflict.

The main provider of guarantees and risk insurance in FCS is the World Bank Group's [MIGA](#), which provides political risk insurance and credit enhancement to promote foreign direct investment in FCS. Its products help mitigate risks such as expropriation, currency inconvertibility, and breaches of contract, which helps attract private sector investments into ventures in these challenging contexts.

compared to the overall market (2%). An example of an impact bond used in an FCS is KOIS' [Impact Bond](#), which was established to deliver vocational, entrepreneurship, and employment training to refugees of the Syrian civil war and their host communities in Jordan. KOIS was [awarded](#) grants from Convergence and the IKEA Foundation to design, structure, and fundraise for the bond.

The development impact bond reached its first financial close in October 2021, raising \$7.8 million from DFC and Ferd Norway to finance the upfront costs of the program. These investors will be reimbursed and earn a return based on the achievement of agreed development outcomes by the IKEA Foundation and Novo Nordisk Foundation.



An expert in political risk guarantees noted:

“Guarantees can enable investments that wouldn’t occur otherwise due to the high risks in FCS. Even when these investments are commercially appealing, political risk concerns often stand in the way of approval.”

The [Mazar Power Plant](#), a greenfield natural gas power plant project launched in 2019 in northwestern Afghanistan, illustrates how guarantees can be used in FCS transactions. The project [received](#) a partial concessional guarantee of \$49.5 million from MIGA to protect capital providers against previously identified risks. The project also received a senior loan backed by IDA IFC-MIGA PSW Risk Mitigation Facility Political Risk Insurance, offering political risk insurance for coverage against breach of contract. The guarantee and risk facility combination provided the necessary risk mitigation to encourage investor participation in the project and make the transaction viable.

Although design-stage grants are a less commonly used instrument (6%) in FCS, some stakeholders highlighted their usefulness in executing blended finance transactions in these challenging contexts. Allison Archambault, President of EarthSpark International, emphasized how these grants were essential to securing capital for their microgrid initiatives in Haiti. [EarthSpark](#), a nonprofit focused on providing renewable energy solutions, has been active in Haiti since 2009, starting with small-scale solar lanterns and eventually advancing to large-scale microgrids that power rural towns.

Archambault explains that design-stage grants were crucial for moving beyond theoretical concepts and transforming their plans into tangible, on-the-ground realities through pilot studies. She states:

“The first microgrid wasn’t just about bringing electricity to one community—it was about proving that the model worked. The data we collected showed that microgrids could function reliably in a rural, off-grid setting. That proof helped de-risk the concept for investors and policymakers, making it possible to scale.”

The success of EarthSpark’s pilot microgrid had a notable impact on policy too. According to Archambault, the data from these pilot studies helped encourage the Haitian government to develop a rural electrification strategy centered on microgrids. It also informed the World Bank’s energy programs, reinforcing the case for mini-grids as a key development solution.

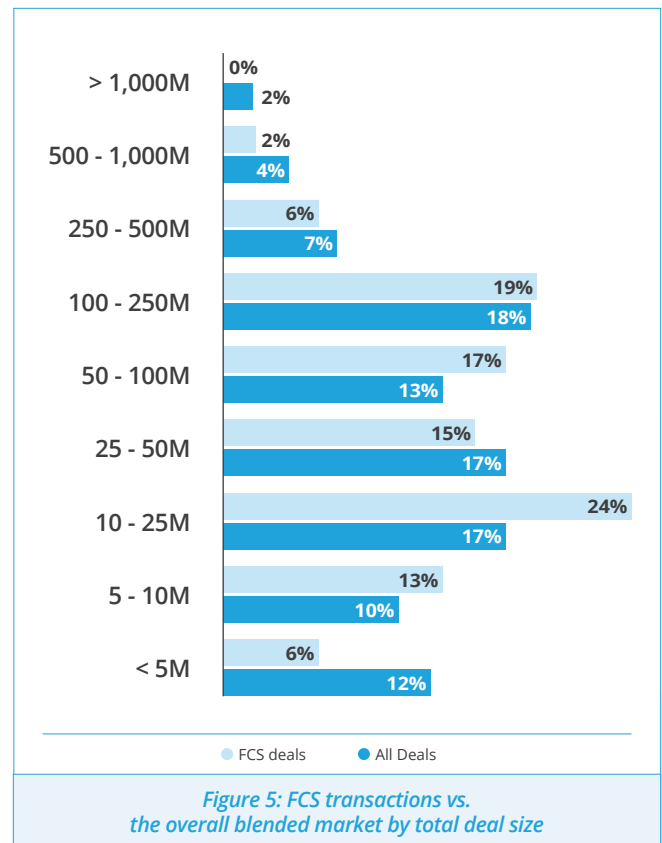
NEARLY A QUARTER OF ALL FCS TRANSACTIONS ARE \$10-\$25 MILLION IN DEAL SIZE

Transactions in FCS are predominantly mid-sized, with over half (56%) ranging in deal size from \$10 million to \$100 million. A quarter of the transactions fall between \$10 million and \$25 million. FCS transactions have a median deal size of \$35 million from 2019-2023, making them slightly smaller than the overall market, which has a median size of \$41 million. The smaller deal sizes primarily reflect the fact that most FCS [have](#) small economies and cannot absorb significant amounts of capital.

Nonetheless, there have been a few larger deals, primarily in the infrastructure sector. One of the largest FCS transactions recorded in Convergence’s HDD is the \$296 million infrastructure project at the [Beitbridge Border Post](#), which connects Zimbabwe and South Africa. The deal aims to enhance vehicle flow and reduce delays at the border. The Emerging Africa & Asia Infrastructure Fund (EAAIF) and African Export-Import Bank were the [lead](#) development investors, with EAAIF contributing \$44 million in concessional debt, which was crucial for the project to reach financial close.

Senior debt financing was [provided](#) by a consortium of South African banks, while equity financing for the balance of construction funding came from Andalusia’s ownership group. South Africa’s Export Credit Insurance Corporation extended both political and commercial risk insurance to commercial bank lenders.

There is an impetus to continue scaling and replicating successful blended finance models in FCS. While smaller transactions can serve as valuable demonstration effects for subsequent transactions, scaling these investments is considered important to maximize development impacts. Senior Advisor at the Humanitarian Innovative Finance Hub and the International Committee of the Red Cross (ICRC),



Juan Luis Coderque Galligo, remarked on this need to scale and replicate transactions, stating that:

“Executing a single innovative project is valuable, but the real question is: Can it be replicated? Can it be scaled? I distinguish between these two concepts—replication means applying the same model in different locations, while scaling refers to increasing the size and impact of the project itself.”

He further highlights the success of the ICRC [Goma West Water Project](#) in the Democratic Republic of the Congo. The \$41 million initiative was launched in 2019 and to date the project has secured commitments from a range of development and philanthropic partners. Phase 1 of the project has [attracted](#) grant and credit financing of \$15 million through the World Bank, along with additional capital and TA from the Swedish International Development Cooperation Agency, the Swiss Agency for Development and Cooperation, USAID, and Fondation Lombard Odier.

In the second phase of the project, the ICRC is actively securing financing through parallel investments by development partners and private actors. The project aims to address critical water access challenges in the western

part of Goma, which experiences restricted access to clean water, far distances to fetch water, and high costs for vulnerable households. In regards to scaling, Galligo states that:

“In Goma, the ICRC started with a target of half a million people and a \$40 million water infrastructure project in Goma West. By the end of 2024, over \$80 million in investments in water in three different areas of Goma have been secured, mostly but not only from the World Bank, targeting over a million beneficiaries, illustrating our collective ability to scale the project. And yes, we are actively replicating this model in other locations in DRC and in other countries, expanding the impact of the model even further.”

Investor Analysis

COMMERCIAL INVESTORS ARE THE MOST ACTIVE DEAL SPONSORS IN FCS, BUT ARE UNDERREPRESENTED COMPARED TO THE OVERALL MARKET

Commercial investors are the most active deal sponsors in FCS (43% of deal sponsors), though their share is lower than the overall market (55%). This gap likely reflects the increased risks and uncertainties in FCS, leading commercial investors to be more cautious.

In contrast, impact investors occupy a larger role as deal sponsors in FCS, representing 24% compared to their 15% share in the overall market. Their greater presence is likely linked to the strong impact potential of investments in these fragile environments. As a result, impact investors may be more willing to [accept](#) lower or negative returns in FCS, balancing these losses with higher returns from other investments.

The importance of impact investors in FCS is exemplified by the [Vital Impact Relief Facility](#), established in partnership with the Kenya Investment Mechanism. The \$10 million debt facility, sponsored by impact investor Vital Capital, launched in 2020 and aims to support African businesses in navigating the economic impacts of the COVID-19 pandemic. The facility received grant funding from USAID and commercial commitments from various institutional investors.

The facility [aligns](#) with Vital Capital's broader mandate to improve quality of life in Sub-Saharan Africa by investing in high-growth sectors across the region, with a focus on urban communities, agriculture, energy, water, healthcare, and education, while simultaneously driving market rate, risk-adjusted returns to its investors.

Domestic and regional investors account for a notable portion of deals in FCS, with approximately 22% of sponsors based in

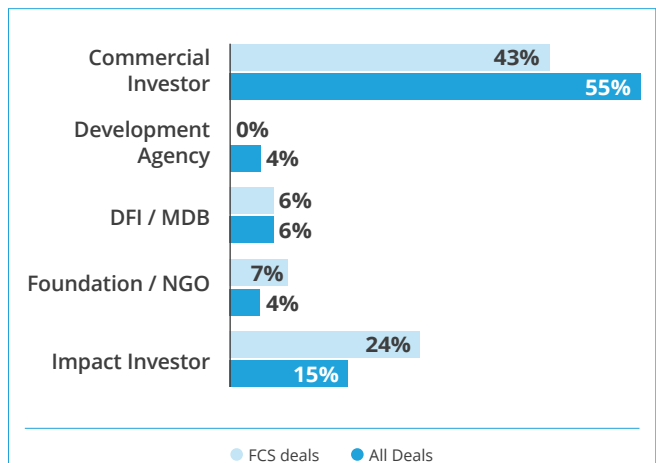


Figure 6: FCS transaction vs. the overall blended market by type of deal sponsor

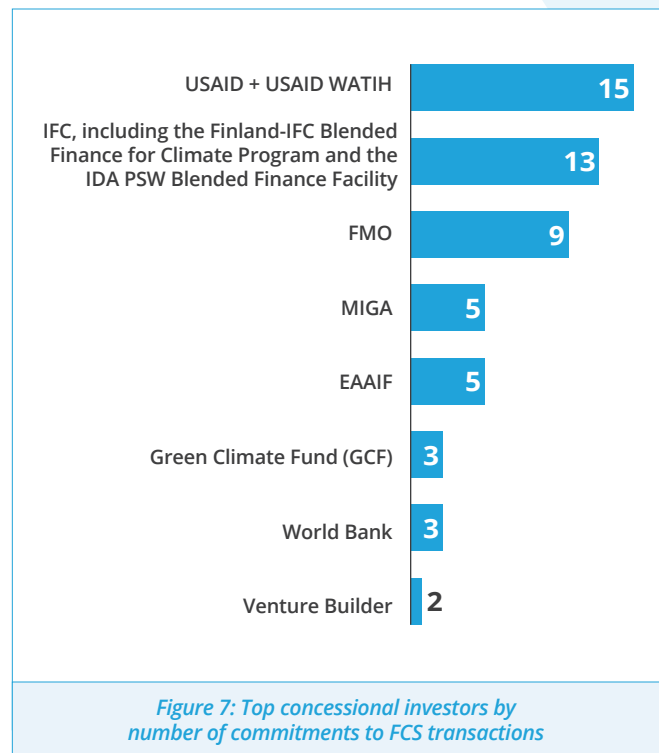
the country the transaction targets and nearly 30% situated in neighbouring or broader regional countries. This trend highlights the vital role of local and regional investors, whose extensive local knowledge and networks are often essential for driving blended finance in these challenging markets. As Lisa Satolli, Project Lead for Humanitarian and Resilience Investing at the World Economic Forum, explains:

“It’s the people on the ground that can help ensure investments and business models take into consideration relevant context-specific dimensions. When working with local players, they’ll tell you exactly what is needed, what works, and what doesn’t.”

USAID AND USAID WEST AFRICA TRADE AND INVESTMENT HUB PROGRAM ARE TOP CONCESSIONAL INVESTORS BY NUMBER OF COMMITMENTS IN FCS

In FCS transactions, 47% of concessional commitments come from development agencies, followed by development finance institutions (DFIs)/multilateral development banks (MDBs) at 34% and foundations and non-governmental organizations (NGOs) at 11%. The majority of concessional investments captured under the DFI/MDB share have been through the IDA PSW. The explicit purpose of this window is to [drive](#) private sector investment in IDA countries, with an emphasis on FCS.

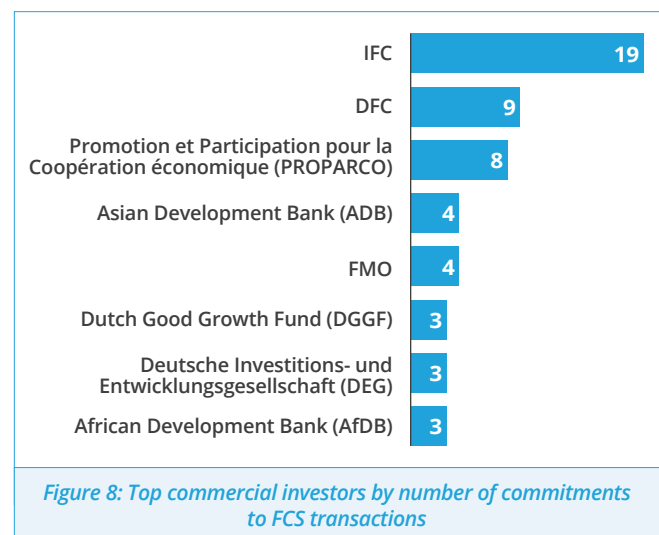
USAID and USAID's West Africa Trade and Investment Hub (WATIH) program is the dominant concessional investor (15 commitments), followed closely by IFC (13) and FMO (9). A recent concessional investment from USAID in an FCS transaction was a TA grant for the [Caisse Regionale de Refinancement Hypothecaire \(CRRH\) Bond III](#) in West Africa. The \$217 million, 17-year Eurobond supports affordable housing across West Africa, including FCS countries Guinea-Bissau and Mali, by providing local bank members access to long-term liquidity for refinancing mortgage loans at lower interest rates and extended tenors. USAID's TA grant supported the structuring, design, and launch of the bond and helped attract significant private investment from American and African institutional investors.



IFC IS THE LEADING COMMERCIAL INVESTOR IN FCS TRANSACTIONS BY NUMBER OF COMMITMENTS

Commercial investors represent 42% of total commercial commitments in FCS blended transactions, while DFIs/MDBs account for 36%, and impact investors account for 15%. IFC leads in commercial commitments to blended finance in FCS transactions (19 commitments), followed by DFC (9) and Proparco (8). IFC's strong commercial participation in FCS transactions is driven by its approach of leveraging concessional funding, such as IDA PSW, to mobilize its own commercial capital. Notably, all 12 FCS deals that benefited from concessional financing from IFC also received direct co-financing from the institution.

A recent example is a deal with [Airtel Africa](#), a leading mobile network operator in sub-Saharan Africa, in 2023. IFC led the financing arrangement, providing \$150 million in loans from its account, with \$52 million supported by the IDA PSW Local Currency Facility through concessional currency swaps. These currency swaps will be applied to investments in Airtel Zambia to lower capital costs. IFC also mobilized \$44 million in institutional investor capital



through the Managed Co-lending Portfolio Program. This transaction was intended to unlock additional investment from Airtel into its network systems.

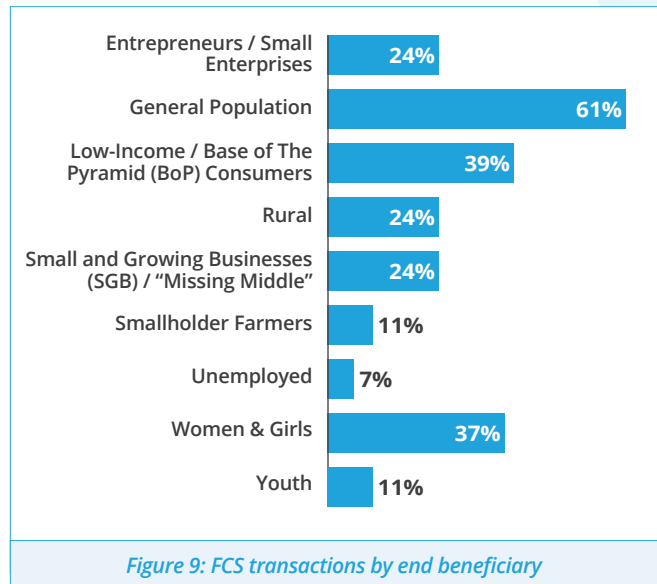
Impact Analysis

THE GENERAL POPULATION AND LOW-INCOME CONSUMERS ARE THE PREDOMINANT END BENEFICIARIES OF FCS TRANSACTIONS

The general population represents the largest group of end beneficiaries of blended transactions in FCS (61%), followed by low-income consumers (39%), and women and girls (37%). The frequent occurrence of deals aimed at the general population is associated with the types of projects implemented in FCS where interventions usually seek to tackle systemic challenges, such as energy demands, infrastructure deficits, and telecommunication access, with benefits for entire communities rather than just specific groups. Low-income consumers are also likely prevalent end beneficiaries because these regions often [have](#) a higher concentration of low-income individuals.

Before engaging in a blended finance transaction in FCS, it is crucial to identify both the direct and end beneficiaries. As Dr. Kaye emphasizes, investments in these contexts can potentially exacerbate existing tensions or lead to human rights violations. A conflict assessment, whether through enhanced human rights due diligence or conflict-sensitivity analysis, [is](#) essential to ensure that supporting a specific sector, industry, or business does not cause harm. She notes:

“Conflict is very context-specific, so you can only know if your investment is going to cause, contribute to or be linked to conflict if you have done a conflict assessment of that particular area where the investment is going to take place and understood fully the potential interaction effects.”

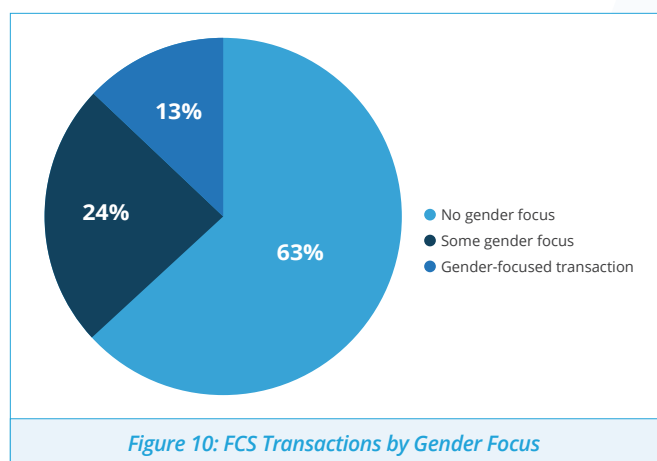


As previously discussed, Dr. Kaye suggests that TA can be leveraged to conduct these conflict-sensitivity analyses, helping investors understand the unique socio-economic and investment landscape and design transactions to reduce the potential for conflict escalation.

THE MAJORITY OF FCS TRANSACTIONS HAVE NO GENDER FOCUS

Over half (63%) of blended FCS transactions have no gender focus, with 24% having some gender lens, and only 13% being gender focused. Yet, women are disproportionately impacted by conflict and fragility. The Independent Evaluation Group (IEG) [found](#) that existing poor legal and social status for women in many fragile countries worsens their vulnerabilities. Among a multitude of challenges in FCS, women face numerous gender-based barriers, including limited access to banking and financial services and the inability to secure jobs or register businesses. Despite these barriers, women's economic participation is essential for [rebuilding](#) fragile states, as it improves autonomy and household well-being and contributes to broader social stability and growth.

One transaction demonstrating how blended finance can support women's economic participation in FCS is the TEB Sh.A [Risk Sharing Facility](#). Despite small-and medium-sized enterprises (SMEs) dominating Kosovo's economy,



only 5.3% are majority-owned by women, with difficulty accessing formal financing [cited](#) as a major barrier for many women-led SMEs. TEB Sh.A. is the only bank in Kosovo

offering tailored financing for women-led SMEs to improve lending practices, demonstrate the commercial viability of these firms, and foster greater employment opportunities for women across the country. TEB Sh.A received an investment-stage grant from the Women Entrepreneurs

Finance Initiative, along with €10 million in 2020 from IFC's Small Loan Guarantee Program on concessional terms to establish a risk-sharing facility aimed at supporting women-owned SMEs and agribusinesses.

SDGS 8 AND 9 ARE HIGHLY TARGETED, WHILE SDG 16 IS LESS OF A FOCUS AREA THAN MAY BE EXPECTED

SDG 8 (Decent Work & Economic Growth) is the most targeted goal for FCS transactions, representing 83% of all FCS deals captured in the HDD. This is due to the high number of transactions supporting local initiatives in sectors with strong job-generating potential, such as SME financing. However, merely aiming to generate jobs in FCS is insufficient. It is imperative to create quality, inclusive employment opportunities that actively promote social cohesion and contribute to long-term stability.

SDG 9 (Industry, Innovation & Infrastructure) is another commonly targeted goal (37% of FCS transactions). These transactions have been primarily concentrated on infrastructure investments that improve access to essential services such as water, energy, and transportation. The success of these investments similarly hinges on conflict

sensitivity. In particular, UK Aid [notes](#) that addressing governance and security challenges is vital to ensure sustainability, avoid exacerbating inequalities, and mitigate potential conflict.

SDG 16 (Peace, Justice and Strong Institutions) receives noticeably minimal focus in blended transactions in FCS, accounting for just 2% of transactions. The limited focus on SDG 16 is likely due to blended finance transactions prioritizing sectors with proven commercial viability, such as infrastructure, energy, and financial services. In contrast, sectors that directly contribute to peacebuilding often attract less capital, as bankability is not as clear or the priority. That said, typical blended finance transactions in FCS have positive spillover for SDG 16, [given](#) the link between private sector development and peace and stability.

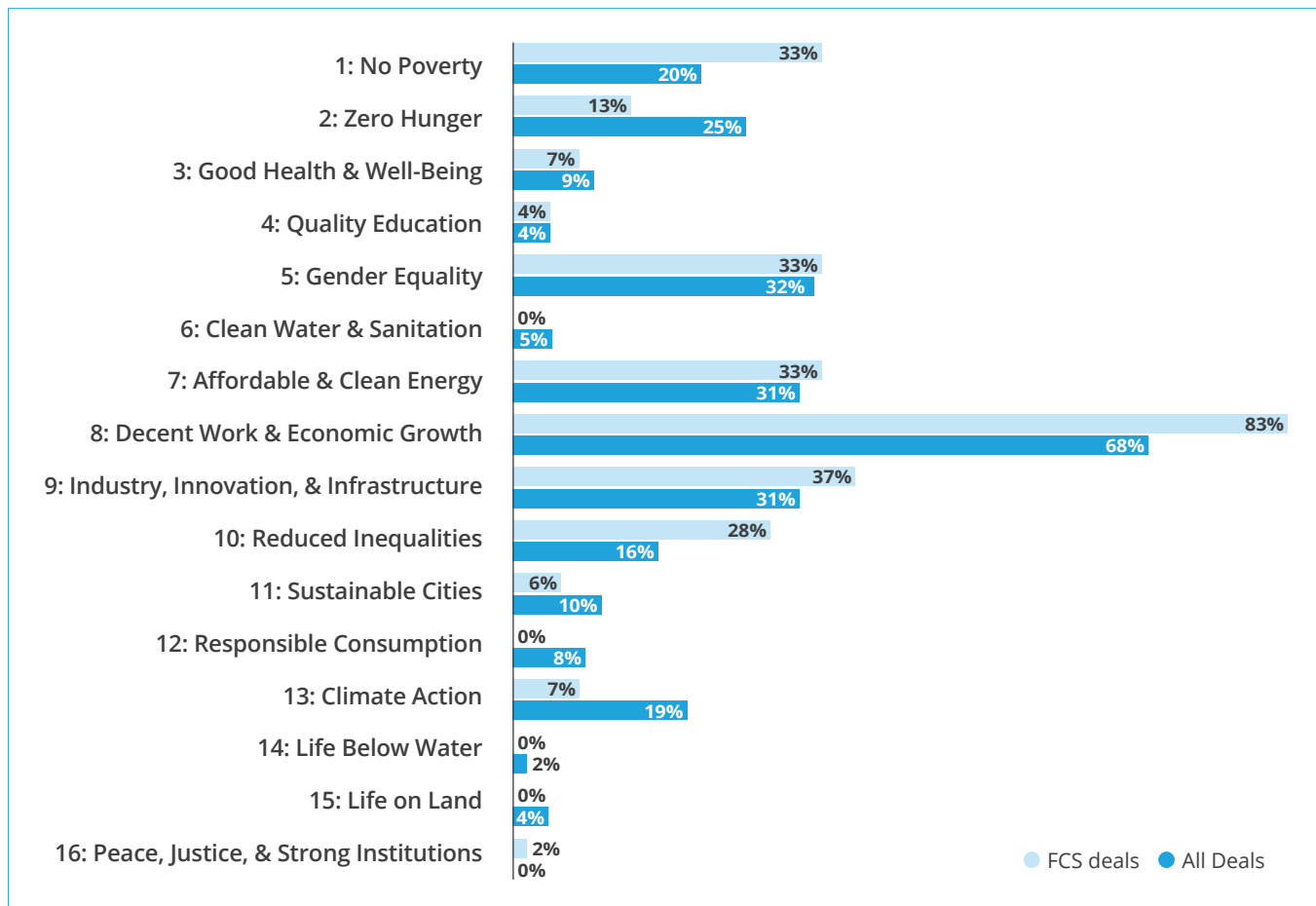


Figure 11: FCS transactions vs. the overall blended market by SDG focus

Reflections

In our conversations with practitioners, several themes became apparent regarding the challenges and opportunities for promoting blended finance in FCS.

CHALLENGE

Attracting private investment in FCS is constrained by structural, financial, and security challenges

Private sector growth is crucial for FCS to overcome fragility, yet substantial barriers impede private investment. In terms of country characteristics and constraints, many FCS countries [are](#) small to medium-sized economies, often landlocked or island nations, with limited local markets. This [impedes](#) the scale of potential investments, as larger economies can draw more foreign capital and accommodate larger projects.

Additionally, there is often limited availability of bankable projects that [meet](#) investor requirements. This is in part due to nonfinancial risks, including those [arising](#) from weak governance, uncertainty, underdeveloped regulatory regimes, poorly functioning institutions, and market characteristics of most FCS countries. Archambault of EarthSpark highlighted these challenges while discussing the operational difficulties of launching EarthSpark's microgrid business in Haiti. She explains:

"When we started, there was no clear regulatory framework for microgrids in Haiti. We had to navigate a lot of ambiguity, working with local officials and international stakeholders to find a path forward. There was no precedent for what we were trying to do."

She continues:

"You have to be prepared for a much longer deal timeline than in developed markets. You might spend years structuring a transaction, securing buy-in from stakeholders, and getting regulatory approvals, only to have to renegotiate terms due to shifting political or economic circumstances."

Furthermore, there is also a shortage of what public and private investors [deem](#) strong, creditworthy clients in FCS. As a result, investment opportunities are typically confined to smaller local businesses that are [embedded](#) in complex formal and informal institutional arrangements. For instance, Yazbeck points out that it is common for businesses to lack comprehensive records, stating that:

"Without formal legal structures or documented ownership of assets, it's almost impossible for investors to value businesses or their assets using common approaches—

necessitating a rethink of how investments and businesses are assessed and valued in those settings."

As a result, the cost of doing business in FCS is considerably higher than in non-FCS markets. This [includes](#) increased expenses for project assessment and oversight, longer timelines for advisory services, and a greater need for capacity building and on-the-ground staff.

Additionally, financial risks in FCS [add](#) indirect costs to doing business. These risks encompass events such as defaults or the failure to meet contractual obligations, which can directly affect credit ratings and investment risks. A 2016 IFC review of project returns for fiscal years 2011 to 2015 [found](#) that loans in low-income IDA and FCS countries had much lower risk-adjusted returns compared to IFC's overall portfolio. In other words, these loans were riskier and generated less return for the level of risk taken. Heightened security risks and macroeconomic instability in FCS contribute to these financial risks.

These economies commonly [experience](#) risks related to ethnic and extremist violence, poor governance, corruption, a patronage-driven political system, weak capacity within the public sector, dependence on extractive industries or a single export commodity, as well as demographic pressures and youth unemployment. Yazbeck emphasized the Near East Foundation's experiences in Syria, highlighting how sanctions imposed due to geopolitical tensions dissuaded investors. He notes:

"Even with mechanisms like Office of Foreign Assets Control licenses from the Government of the United States in place to provide legal protection, many investors are still reluctant to engage because navigating sanctions is seen as too costly and complex."

OPPORTUNITY

Focus on awareness, pipeline development, and de-risking strategies

Despite the substantial risks associated with investing in FCS, there are measures that can be taken both within and outside the realm of blended finance to address these challenges. Providing upstream support to overcome policy and regulatory constraints that impede private

investment is essential. According to the World Bank, this requires [creating](#) a business environment that fosters good governance, predictable and transparent regulations, accountability, inclusivity, and low levels of corruption. Furthermore, blended finance can aid in addressing some of the challenges related to weak investment pipelines and help facilitate access to much-needed capital. Satolli suggests that there are four ways the different components of the ecosystem could collaborate to de-risk investments and enhance capital flows in FCS:

i Align investment decisions with local needs.

To maximize impact and reduce investment risk, capital deployment must be guided by a deep understanding of local realities. Satolli emphasizes:

“Before investments even begin, it’s crucial to bring together development actors, local NGOs, and civil society organizations (CSOs) to identify the real risks and understand the needs on the ground. This requires sensitivity analyses, feasibility studies, and a broader alignment of priorities. The better informed the players, the less risky, and more impactful and targeted their investments will be.”

ii Enhance collaboration among capital providers.

High transaction costs, weak financial and operational records, and limited project preparation capacity create barriers to investment in FCS. Overcoming these inefficiencies requires strategic partnerships between capital providers. Collaboration can help reduce cost structures, lower management fees, facilitate risk-sharing, and improve overall profitability. Satolli explains:

“Pipeline building often involves two complementary mechanisms. On the one hand, there are origination facilities that match specific investment criteria and produce a set of opportunities for capital providers to fund. On the other hand, there’s the entire financing continuum—from pre-seed to Series B—that supports businesses at different stages, combining capital with capacity-building efforts to help them progress and scale.”

By fostering a continuum of financing, investors can bridge funding gaps and create a more seamless transition from early-stage capital to scale-up financing. Satolli further highlights the role of co-investments in enhancing market confidence:

“Vetted portfolio investments—businesses backed by investors at earlier financing stages—and de-risked opportunities from pipeline building initiatives can

be passed to the next stage of investors bridging information gaps and enhancing investor confidence. Additionally, co-investments can reduce transaction costs and distribute risk.”

Blended finance approaches can support these initial steps. In particular, design-stage grants can help enhance the viability of solutions by funding feasibility studies and proof-of-concept work, enabling due diligence, market assessment, and refined investment propositions. Meanwhile, TA can [support](#) advisory services, incubation, operational assistance, and training to improve the business viability of investee projects, ultimately enhancing performance.

iii Structure capital to de-risk investments. Blended finance can mitigate both the actual and perceived risks of a deal, making investments in FCS more attractive to a broader range of investors. This is achieved through strategic capital layering that aligns incentives and enhances risk-adjusted returns. Satolli states:

“Blended capital has a role in addressing some of the structural risks and lowering perceived risk, so that investors who would otherwise not go there feel a little bit more confidence to come in.”

iv Engage local communities and development actors post-investment. Sustained engagement with local stakeholders is crucial for the success of long-term investments. Strong partnerships with community actors ensure alignment with local development efforts and enhance project sustainability. As Satolli elaborates:

“To further de-risk investments and maximize impact humanitarian partners, development partners, NGOs, and CSOs work with local communities to adapt projects to their needs, align with ongoing development efforts, and engage governments through existing policy channels. This ensures effective outcomes and local ownership.”

CHALLENGE

Ensuring investments do not exacerbate fragility

Designing conflict-sensitive investments in FCS is complex but essential. Without careful planning investments risk unintentionally reinforcing existing grievances, favouring certain groups, or disrupting local systems, which can exacerbate conflict. Conflict sensitivity analysis is a critical tool for addressing these challenges. It provides

a structured approach to understanding local dynamics, identifying potential risks, and designing interventions that avoid harm while contributing to development and stability. However, Dr. Kaye explains that investors tend to overlook this risk when it comes to investing in FCS, stating that:

“Investors tend to focus on how risky the context is to them, but there’s a need to shift this perspective and consider the risks they pose to the context itself.”

Although agreements and strategies often stress the need for conflict-sensitive approaches in development and humanitarian efforts their implementation frequently falls short. A recent report from TrustWorks Global [found](#) that only three DFIs explicitly integrate conflict sensitivity into their operations. Moreover, these institutions only [apply](#) conflict-sensitive approaches after investment decisions have been finalized, rather than incorporating them as a criterion during the investment selection process.

OPPORTUNITY

Using TA to enhance conflict sensitivity and select investment opportunities

Blended finance presents a significant opportunity to address the challenge of designing conflict-sensitive investments in FCS, particularly through a more strategic application of TA. While TA is commonly used in blended finance structures, it is typically focused on improving financial and operational performance, for example helping companies scale or strengthening financial management systems. This conventional approach, while important, may need to be expanded to address the unique challenges posed by conflict-affected environments. Dr. Kaye highlights this limitation, stating:

“The biggest role of blended finance should be to use TA in an entirely different way than it is currently being used. We think it is really underutilized; TA tends to be used to help with CFO-type roles and to help companies be able to grow. TA is not being used to help companies deal with the risks and challenges associated with the conflict-affected context in which they’re operating.”

These types of analyses are essential for ensuring that investments in FCS prioritize conflict sensitivity and avoid unintentional harm, while also creating a more stable investment environment that can mobilize higher levels of private capital.

For proactive investors aiming to achieve positive social outcomes, these analyses also serve as a roadmap for identifying and designing interventions that actively foster

peace, stability, and development. A clearer understanding of conflict dynamics can help investors to determine where their support can create meaningful change, whether that be through targeting specific sectors, addressing the needs of underserved or marginalized populations, or strengthening local systems that enhance social cohesion. This approach ensures investments not only “do no harm” but also unlock their potential to advance peace and stability in complex environments.

CHALLENGE

Needs in FCS outstrip current resources and existing responses are not necessarily well-suited

FCS face significant funding challenges as rising demands far exceed available resources. As previously discussed, although ODA to FCS has increased, its share of total ODA is [declining](#), with more aid going toward humanitarian efforts rather than long-term development or peacebuilding. Humanitarian funding gaps [remain](#) significant, putting pressure on resources and system capacity. Furthermore, humanitarian aid often [focuses](#) on short-term crisis response through grant funding rather than long-term solutions. These short-term responses are often critical and necessary, providing life-saving, timely interventions. They can also assist with building near-term stability that provides a crucial runway for private investors to enter the market. A continuous focus on the short-term, however, without consideration for longer-term strategies, can reduce the resources available for sustainable development and peacebuilding efforts that focus on increasing resiliency and reducing dependency in fragile contexts. Satolli echoes this sentiment, pointing out:

“If humanitarian assistance is being provided but the situation remains unchanged a decade later and the approach remains the same, it signals a fundamental issue that needs to be addressed.”

OPPORTUNITY

Leveraging increased interest from humanitarian organizations to boost the pool of catalytic capital

Blended finance is a potential strategy for addressing the funding gap in FCS by mobilizing private sector resources to scale market-driven solutions addressing humanitarian needs alongside traditional humanitarian aid and other flows. This approach not only brings much-needed additional funding but also [introduces](#) innovative and financially sustainable solutions that may be better suited

to FCS and help increase the resilience and self-reliance of affected communities, particularly in relatively stable contexts of protracted conflict. Satolli views this focus as crucial in addressing the mounting pressures caused by escalating climate shocks, geopolitical tensions, and pandemics all compounded by declining ODA flows. She states:

"[Blended finance] is not only a necessary adaptation, but also a positive and strategic move toward more resilient long-term solutions in the face of increasing global challenges."

There is a unique opportunity to harness growing interest from humanitarian organizations to expand the pool of catalytic capital. Emergency responders in FCS, such as the ICRC, have adopted blended finance through a specialized method known as humanitarian finance to address emerging challenges. Galligo describes humanitarian finance as follows:

"It's about the strategic use of humanitarian resources, supported by grants, to catalyze concessional finance and greater private sector participation with the aim of delivering positive impact for populations affected by fragility, conflict, and climate change."

Humanitarian finance involves humanitarian organizations [expanding](#) into private-sector initiatives and shifting from short-term grant-based funding to long-term financing solutions utilizing instruments such as debt, equity, and insurance. Galligo highlights the unique value that humanitarian actors contribute to this space, noting:

"Humanitarian actors have, in addition to boots on the ground, access, understanding of the context, and technical expertise around specific issues."

This blend of localized knowledge, operational presence, and technical expertise positions humanitarian organizations as essential partners in developing effective blended finance strategies. Their involvement enables investors to navigate high-risk complex environments with greater confidence and impact.

CHALLENGE

Enhancing scalability and replicability

While blended finance transactions need to consider localized contexts in FCS and incorporate conflict sensitivity strategies specific to the region, there are unrealized opportunities to create blended structures that can be scaled and replicated. These structures should have baseline elements that can be adapted based on the unique needs of the local community.

This, however, remains a formidable challenge due to the volatility, political instability, and weak institutional environments characteristic of these regions. Currently, blended finance applications in FCS have been largely fragmented and ad hoc, limiting their ability to generate widespread impact and scale.

Another significant hurdle is risk perception, both real and perceived. FCS can be high-risk investment markets due to uncertain regulatory environments, limited financial infrastructure, and security concerns. This results in a reluctance to commit capital at scale, leading to small, isolated investments rather than broader, systemic solutions. Moreover, the extended timelines required for projects in FCS to reach maturity add to the challenge, as investors must be willing to accept longer payback periods and potential cost overruns.

OPPORTUNITY

Strengthening coordination and building market confidence

Despite these challenges, several developments provide hope for scaling and replicating blended finance solutions in FCS, along with actionable steps to accelerate progress. A promising sign is the growing engagement of humanitarian actors in financing solutions, signaling a shift toward leveraging new sources of catalytic capital in these environments. To harness this interest and translate it into scalable impact, capacity-building among stakeholders will be essential. As Satolli emphasizes, effective scaling requires structured guidance for investors and implementers:

"To scale a successful model, it's crucial to help people understand it, make them want to engage, and guide them through the process step by step, particularly when this requires the collaboration of multiple organizations across sectors."

By increasing capacity around investment processes, risk mitigation mechanisms, and the roles of key stakeholders, blended finance initiatives can gain broader acceptance and attract additional investor groups. Another crucial element in scaling blended finance in FCS is the development of pilot projects to demonstrate proof-of-concept and build market confidence. As Archambault highlights:

"There's lots of value in building a little pocket of actual real-world experience. To earn that track record and to have ironed out the first glitches so that everyone can then transparently understand what the costs are, what the risks are, and what the opportunities are."

Beyond awareness-building, DFIs and MDBs, as the critical providers of capital in these contexts, have a critical role to play in ensuring their strategies are conducive to scaling and replicating solutions. A report by the Independent Evaluation Group at the World Bank [underscores](#) the importance of IFC and MIGA adjusting risk assessments and pricing models and potentially accepting higher risks and costs to better meet the complex realities and demands within FCS.

To enhance scalability and replicability, the report also [recommends](#) that these institutions implement targeted strategies to strengthen the capacity of local businesses. This can be achieved through TA, financial literacy programs, and ongoing support to help enterprises scale operations, access additional financing, and contribute to economic stability. Transforming one-time beneficiaries into long-term partners fosters a self-sustaining cycle of investment and growth, enhancing both the scalability and replicability of blended finance in FCS.

Conclusions

Blended finance in FCS faces significant challenges, including structural and macroeconomic barriers and the critical need for conflict-sensitive investments. However, these complexities also present opportunities to innovate and adapt solutions tailored to the unique needs of FCS. Addressing investment barriers through upstream support, pipeline development, and de-risking strategies could be key to unlocking capital in these high-risk environments. Furthermore, integrating TA for conflict sensitivity and adopting flexible context-specific approaches may

help ensure investments contribute to stability without exacerbating tensions. While blended finance is not a panacea, it offers a promising avenue for driving impact if focused on solutions that align with the specific realities of each FCS. The growing engagement of the humanitarian sector in this space could provide the necessary expertise and networks to drive appropriate solutions and expand the pool of catalytic capital available. In this way, blended finance may have the potential to offer long-term sustainable solutions that support resilience and stability in FCS.

Methodology & Notes

1. **Convergence's database:** Convergence maintains the largest and most detailed database of blended finance transactions that have reached financial close. Given the current state of information sharing, it is not possible for this database to be fully comprehensive. We have made efforts to capture all relevant blended finance transactions; however, there are likely more transactions that have not been captured.
2. **Scope of available data:** This brief analyzes 54 blended finance transactions focused on countries that have consistently been classified as fragile and conflict-affected, as defined by the World Bank's annual list of Fragile and Conflict-affected Situations. Specifically, the sample includes countries and states that have appeared on the World Bank's annual list for five consecutive years, from 2019 to 2023. When referring to comparisons to

the overall market, this report uses all transactions within the HDD from the same time period. These countries are Afghanistan, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of Congo, Eritrea, Guinea-Bissau, Haiti, Iraq, Kosovo, Lebanon, Libya, Mali, Myanmar, Papua New Guinea, Somalia, South Sudan, Sudan, Syria, West Bank and Gaza (territory), Republic of Yemen, and Zimbabwe. The report is enhanced by desk research and interviews with key stakeholders and investors involved in transactions in this area, along with insights and trends from Convergence's annual State of Blended Finance report.

3. **Definition of Fragile and Conflict-affected Situations:** Convergence uses the [definition and classification](#) of fragility and conflict provided by the World Bank.

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BLENDING FINANCE uses catalytic capital from public or philanthropic sources to scale up private sector investment in emerging markets to realize the SDGs.



Our **GLOBAL MEMBERSHIP** includes public, private, and philanthropic investors as well as sponsors of transactions and funds. We offer this community a curated, online platform to connect with each other on blended finance transactions in progress, as well as exclusive access to original market intelligence and knowledge products such as case studies, reports, trainings, and webinars. To accelerate advances in the field, Convergence also provides grants for the design of vehicles that could attract private capital to global development at scale.