



# Intermediated capital, direct consequences: Rethinking investments in Financial Intermediaries in Fragile and Conflict-affected Situations

## Introduction

Global conflict, instability, and violence are escalating at an unquestionably alarming and unprecedented pace. The International Committee of the Red Cross (ICRC) indicates that there are over 130 active armed conflicts in 2026, more than double the number just 15 years ago.<sup>1</sup> Since 2021, conflict-related fatalities - including those of civilians - have surged to their highest levels in three decades.<sup>2</sup> Moreover, the latest UN Global Trends report indicates that more than 120 million people have been forcibly displaced due to war, violence, and persecution, marking the largest humanitarian crisis since the end of World War II.<sup>3</sup>

Fragility and conflict have profound implications for Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs). The World Bank estimates that by 2030, 80 percent of the world's poor will be living in fragile and conflict-affected situations (FCAS). This implies that the poverty-alleviating mandates of DFIs will only be realised if they deliberately seek to invest more (and more responsibly) in FCAS. At a minimum, DFIs must understand how to operate in these contexts without exacerbating conflict and violence. Increasingly, however, it is in DFIs interests to explore whether, when, and how their investments can also positively influence social cohesion, peace, and stability at the local level. Doing so is essential if DFIs are to demonstrate the distinctive role they can play - one that private investors cannot reasonably assume. Although the international community has long asserted that "there can be no peace without development, and no development without peace," the specific role that DFIs play in this equation is only now beginning to receive sustained attention.

Investing in FCAS, however, presents very particular risks for DFIs. These risks have traditionally been managed, in part, by focusing investments on financial intermediaries, which, in turn, invest in or have client relationships with Micro, Small and Medium Enterprises (M/SMEs). The focus on financial intermediaries

*The 'Responsible & Effective Investing in Fragile & Conflict-Affected Settings' (FCAS) Publication Series - led by TrustWorks - provides timely insights in response to questions raised by our investor clients and partners, including development finance institutions, private/institutional and impact investors.*

*This publication series is designed to support representatives of financial institutions to navigate the 'responsible investing in conflict' agenda with a view to both minimising negative impacts on conflict, and maximising positive impacts on lives and livelihoods and, where possible, on peace and stability. This is the second publication in this series and has been co-written with our strategic partner, **Shuraako Capital**.*

*TrustWorks has a publication/brief series for each of the three pillars of our work with: multinational corporations; investors, and, governments/international organisations. These can be found on the 'insights' section of our website:*

**[www.trustworksglobal.com](http://www.trustworksglobal.com)**

<sup>1</sup> Humanitarian Outlook 2026: A world succumbing to war, article December 2025, [URL](#).

<sup>2</sup> Rustad, Siri Aas. "Conflict Trends: A Global Overview, 1946-2023," PRIO Paper. Oslo: PRIO, 2024.

<sup>3</sup> United Nations, Global trends: Forced displacement in 2023 (2024), page 2.

has tended to follow a three-pronged rationale: i) overcome the 'transaction cost challenge' i.e. the transaction costs associated with investing directly in hundreds or thousands of small businesses in a given context; ii) enable DFIs to reach small businesses and entrepreneurs which are prevalent in FCAS; and, iii) financial intermediaries tend to be perceived as lower risk investments for DFIs in FCAS relative to other sectors, as they are often highly regulated.

In recent years, however, there has been growing recognition that investing in FIs in FCAS is not without risk. In such contexts, there is a heightened risk that investments in financial intermediaries may inadvertently cause, exacerbate or sustain violent conflict – creating significant legal, reputational and financial risks for DFIs while undermining the positive developments impacts underpinning the rationale for such investments in the first place. This Brief forms part of TrustWorks 'Responsible and Effective Investing in FCAS' publication series and is co-authored with our strategic partner, Shuraako Capital.

The Brief is organised in four parts:

- Part one explores the role of DFIs, financial intermediaries and private companies in FCAS respectively;
- Part two explores the laws, regulations, norms and standards associated with responsible business in FCAS, their applicability to DFIs and the challenges that DFIs tend to face in meeting these standards.
- Part three details a case study on Shuraako Capital's own orientation towards a more conflict-sensitive approach to investing by means of illustrative example of the 'how'.
- Part four then summarises our key insights on what it means to invest responsibly in FCAS and how DFIs might explore scaling up their responsible investments in financial intermediaries.

**Figure 1:** Defining financial intermediaries

The term "Financial Intermediaries" encompass a broad range of institutions and terms including but not limited to: regulated banks; non-bank financial institutions (NBFIs), for- and non-profit investment fund managers (venture capital, private equity and private credit); and microfinance institutions.



## Part I: Development Finance Institutions and Financial Intermediaries in FCAS

### DFI approaches to Financial Intermediaries

DFIs provide significant financial and technical support to SMEs around the world. In 2021, for example, European DFIs had a €48 billion total portfolio, with 23 percent (€11 billion) of exposure to SMEs worldwide and around 7 percent (€3.4 billion) invested in FCAS.<sup>4</sup> The majority of this support comes via financial intermediaries, varying both in the types of institutions they engage and the types forms of support that they provide.

Most of this support is channelled through local banks and non-bank lenders, with a comparatively smaller share routed via investment funds. In 2024, for example, at least 40 percent of IFC's long-term commitments was allocated to banks, microfinance institutions, and other non-bank financial intermediaries, while only 9 percent flowed through funds.<sup>5</sup> The remaining investments were allocated to direct investments, including in infrastructure and project finance. Similar patterns of financing allocation are evident across other DFIs and MDBs.

Fund structures are used selectively in a variety of ways: to provide equity and quasi-equity at scale; cultivate local general partner (GP) capacity; crowd in institutional investors; and, to be able to reach smaller firms indirectly. According to the African Private Equity and Venture Capital Association, final closes in 2024 across the African continent totalled \$4.0 billion, with 30 per cent in private equity, 30 percent in infrastructure, 17 percent in private credit, 17 percent in venture capital, and 3 percent in real estate. DFIs and MDBs accounted for roughly 42 percent of total fundraising. Generalist funds attracted no capital in 2024, highlighting a demonstrable shift toward sector- or asset class-specific vehicles.<sup>6</sup>

On the banking side, credit lines and on-lending remain the most common tools, with DFIs providing wholesale liquidity to financial intermediaries that then extend loans to local firms, predominantly SMEs. These loans are overwhelmingly short-term (defined as 0.5-3 years), supporting working capital and trade financing needs. IFC's Global Trade Finance Program alone has supported more than 188,000 firms over the past two decades, with over half of funds going to International Development Association (IDA) countries or FCAS.<sup>7</sup> Risk-sharing facilities and guarantees are also widely used to unlock credit for underserved borrowers and industries, complemented by technical assistance to help intermediaries expand into new segments, such as renewable energy, productive sectors, and women-owned SMEs.

While specific, comparative figures are difficult to find, there are several major differences between how DFIs work with FIs in FCAS and how they work with FIs in more developed markets:

- First, in FCAS, DFIs tend to focus more **on guarantees, first-loss tranches, and blended finance** than they do in other markets. For example, the share of IDA countries - which has significant overlap with FCAS - in the World Bank's Multilateral Investment Guarantee Agency (MIGA) portfolio rose from 24 percent in 2019 to 65 percent in 2022.<sup>8</sup>
- Second, financing is on average **shorter-term**, with 70 per cent of IFC short-term trade finance commitments went to IDA and FCAS countries, against only 11 percent of total portfolio exposure.<sup>9</sup>
- Finally, in FCAS an even **higher proportion of investments come via financial intermediaries** than in non-FCAS markets, since deal sizes are smaller, local relationships more important, and reliable data on potential investee companies tends to be scarcer.

Local firms in emerging markets in general and in FCAS in particular depend primarily on credit to sustain their

<sup>4</sup> The Role of European Development Finance Institutions, written evidence submitted to the Parliament of the United Kingdom, (February 3, 2023), [URL](#).

<sup>5</sup> IFC Annual Report 2024, Accelerating Impact: Mobilizing Private Investment at Scale, [URL](#), page 18.

<sup>6</sup> African Venture Capital Association, African Private Capital Report, April 2025, [URL](#), pages 6-7.

<sup>7</sup> IFC, Global Trade Finance Program, [URL](#).

<sup>8</sup> Results and Performance of the World Bank Group 2023, Chapter 4 | Multilateral Investment Guarantee Agency Results and Performance, [URL](#).

<sup>9</sup> Results and Performance of the World Bank Group 2024, Chapter 3 | International Finance Corporation, [URL](#).

operations, and DFIs view the existing branch networks of local banks as the most efficient channel to deliver it. The focus on short-term working capital and trade financing reflects both lower risk and higher profitability compared to long-term lending. This approach has proven critical for the financial sustainability of DFI investments, even if it has weaker impacts on the real economies of FCAS in terms of job creation and financial flows that remain circulating within FCAS markets.

#### The role of FIs in FCAS

When DFIs choose to enter FCAS it is not evident – from research conducted by TrustWorks<sup>10</sup> – that conflict is necessarily a factor that is taken into consideration. If armed conflict were a factor, and given the generally higher associated security, legal, operational and financial risks that it presents, we would expect to see fewer investments in contexts that are both fragile and conflict-affected contexts than those that are only fragile. Our findings indicate, however, that 56 percent of the identified actors<sup>11</sup> investing in SMEs occur in countries affected by conflict, compared to 44 percent in those deemed to be affected by fragility. Countries classified as “conflict-affected” – as determined by the application of IHL - with the highest concentration of FIs include Kenya, Nigeria, Burkina Faso, Mali, Cameroon, the Democratic Republic of Congo, Egypt, and Lebanon.

This point is further supported by the fact that - of the 54 Financial Intermediaries operating in FCAS identified in the research by TrustWorks - most rely on traditional tools and frameworks to manage investment-related risks. These include standard ‘Know Your Customer’ (KYC) due diligence processes, supplemented by technical assistance, consultancies, and advisory services, primarily focused on financial and operational aspects of their businesses. When it comes to maximizing impact, the majority of the financial intermediaries identified express social aspirations, but their efforts tend to concentrate narrowly on job creation, assuming that positive outcomes stem mainly from generating employment opportunities. Only a small number of financial intermediaries in FCAS explicitly reference

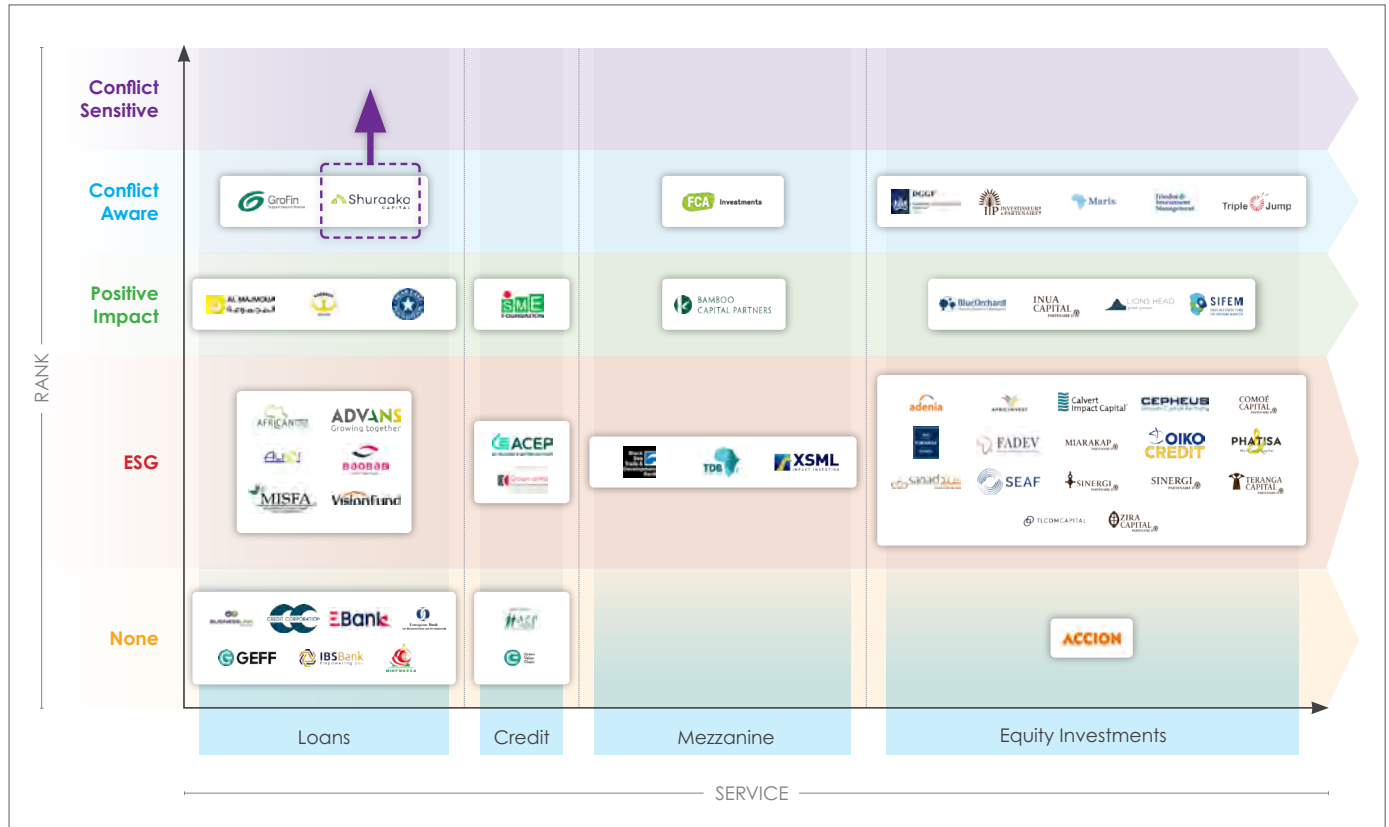
Environmental, Social, and Governance (ESG) criteria and/or the Sustainable Development Goals (SDGs), and even fewer provide evidence demonstrating such impacts. None of the financial intermediaries analysed as part of this assessment outline measurement systems to assess impacts beyond job creation in their public-facing materials.

The most concerning insight of the TrustWorks study, however, is that none of the 54 financial intermediaries with presence in FCAS have any risk management and/or impact maximisation measures in place to manage the risks and opportunities associated with investments in FCAS. This is despite the fact that their investments may cause, contribute to and/or exacerbate human rights violations and violent, armed conflict. Indeed, none of the financial intermediaries mention the laws, regulations, norms and standards associated with responsible business in FCAS and only a minority (8 out of 54) indicated some degree of awareness of the fact that FCAS carry human rights and/or conflict-specific risks that investors should be aware of. Based on public-facing materials, Shuraako Capital is leading the way on this agenda. (see figure 2 and Part 3 for more information). To our knowledge 1-2 other impact investors are also embarking on the same journey, but they are yet to share information about it publicly.

<sup>10</sup> See TrustWorks study on *SME Facilities in Fragile and Conflict-affected Settings: Contributing to peace?* June 2023. [URL](#).

<sup>11</sup> In the study this included: banks; financial facilities; financial institutions; investment funds; impact fund managers; impact investors; investment holding companies; microfinance institutions; not for profit Non-Governmental Organisations (NGOs) or foundations; private equity investors; and, venture capital funds.

**Figure 2: Mapping of Financial Intermediaries present in FCAS against risk management and impact maximisation approaches (June 2023)<sup>12</sup>**



**The role of companies in FCAS**

The above findings are concerning given the roles that we know companies play in FCAS. While the risks and impacts may be both more material and more salient for larger companies and/or companies in higher “footprint” industries (e.g. any industry with a connection to land and natural resources, for example), the risks stem less from the size or sector of the company than from the context in which the business activities take place, and the ways in which the activities of companies interact with the relevant actors and factors in that context. Since many of the basic elements that support responsible business activities – particularly but not limited to effective governance, law and order, state monopoly on the use of force – are weak or absent in FCAS, companies face a heightened risk of having severe adverse impacts, on both human rights and on the contextual dynamics driving fragility, violence and conflict.

There are many ways in which business activities in FCAS can cause, contribute, or be linked to fragility, violence and conflict, for example:

- Association with actors involved in the conflict dynamics, whether non-state armed groups, criminal elements, or corrupt government officials.
- The establishment of operations or supply chains in territories - or the use of transport routes that cross territories - contested by parties to the conflict.
- “Land grabbing” through the expansion of operations or supply chains in land previously occupied by local populations that have been displaced due to violent conflict and insecurity.

<sup>12</sup> From TrustWorks study on SME Facilities in Fragile and Conflict-affected Settings: Contributing to peace? June 2023, [URL](#).

- Human resources or supply chain practices that exacerbate ethnic or religious cleavages.
- Payment of taxes, duties or bribes that fuel or finance conflict.
- Social investments that empower certain groups over others or create tensions between them.
- The contracting of security providers that perform poorly and/or are associated with parties to the conflict.

In FCAS, these routine business activities can generate a wide range of legal, operational, reputational, and security risks for both companies and investors. These risks can translate into serious adverse consequences, including security incidents affecting staff, assets, and operations; destruction of physical assets; disruptions across value chains; challenges in recruiting and retaining staff; and, in some cases, the interruption or cessation of operations altogether.

What is distinctive about SMEs operating in FCAS is that, beyond the wide range of adverse impacts they may have on the surrounding context (examples of which are listed above), SMEs themselves are highly exposed and vulnerable to conflict dynamics. As locally embedded firms, SMEs are sometimes more directly affected by these dynamics than larger companies; indeed, while multinational corporations

are certainly not immune, some risks are particularly acute for SMEs. This heightened vulnerability typically manifests through three highly interconnected avenues:

- First, SMEs are exposed to significant **economic risks**. Operating often on the frontline of conflict dynamics, SMEs are highly vulnerable to the dynamics of extortion and bribery; failure to comply with the demands of either armed groups or local officials can pose significant threats to both lives and livelihoods.
- Second, SMEs are highly vulnerable to the dynamics of **predation, kidnapping and other forms of violence**. As known members of the community, representatives of SMEs may expose themselves to significant security risks for exposing political views and/or for refusing to comply with economic demands, for example.
- Third, SMEs are exposed to significant business risks. SMEs in FCAS may have expansive supply and value chains that necessarily cross areas controlled by different warring factions exposing them to the risks of supply/value-chain disruption, which may be particularly challenging for small companies to withstand. Moreover, as a result of the additional attention that business growth may attract in FCAS, evidence suggest that many SMEs pursue **“anti-growth” strategies to manage economic and security-related risks** – preferring, for example, to open a new business rather than grow the “successful” one.



## Part 2: Norms and standards in principle and in practice

### Norms and standards in FCAS

Over the past five to ten years, there has been growing recognition that there can be “no more business as usual” in FCAS. Given the heightened risk of doing harm in these contexts, a growing body of laws, regulations, norms, and standards has emerged to mitigate and manage conflict risks associated with business activities - across operations, supply chains, and value chains – in FCAS. “Conflict risks” are defined here as the risk that business activities may cause or contribute to: violations of International Humanitarian Law (IHL); abuses of human rights; and, violent conflict.

For DFIs and their investee companies, the most relevant laws and standards to prevent and manage conflict risks include, therefore: IHL, heightened human rights due diligence (hHRDD), and conflict sensitivity. Adherence to these laws and standards should be accompanied by compliance with domestic and international sanctions regimes, as well as any other relevant laws in the jurisdiction concerned. In FCAS, these laws and standards are designed to complement and enhance - with an explicit contextual/conflict lens - the E&S due diligence requirements embedded in the IFC Performance Standards (PS), which DFIs routinely apply as part of investment appraisal, risk assessment, and ongoing portfolio monitoring. This is vital because a meaningful contextual/conflict lens is currently missing from the IFC PS, resulting in significant salient and material risks and impacts that are either insufficiently address or entirely overlooked.

IHL is the specialised body of law applicable in situations of armed conflict and military occupation. It is designed to limit the effects of armed conflict by protecting those not taking part in hostilities, including civilians, the wounded, and prisoners of war; it is also designed to restrict the means and methods of warfare. For DFIs and their clients, including financial intermediaries, IHL provides an enforceable legal framework for regulating conduct in conflict contexts, including protections for certain categories of people and

property, and is directly relevant to companies and their personnel. Indeed, while States and non-state armed groups bear primary responsibility for respecting and ensuring respect for IHL, private business actors may also be subject to specific obligations where a sufficient nexus exists between business activities and an armed conflict. Furthermore, principle 12 of the UN Guiding Principles on Business and Human Rights (UNGPs) underscores that companies are expected to respect IHL in such contexts. For DFIs, understanding the application of IHL is critical for assessing legal and reputational risks in FCAS investments and for designing appropriate monitoring and mitigation measures.

Heightened HRDD is also part rooted in the UNGPs, which emphasise the concept of proportionality i.e. due diligence processes should be proportional to the risks that companies cause, contribute, or are directly linked to; in FCAS, where risks are higher, mitigation measures are expected to be correspondingly more robust and adapted to be able to identify and address the broad range of conflict risks present. The concept – which also has roots in the long-standing practice of conflict-sensitivity - has been further elaborated upon in recent years:

- In 2020, the **United Nations Working Group on Business and Human Rights** clarified the implications of this principle for companies operating in FCAS, highlighting responsibilities to address both human rights and conflict-related impacts.<sup>13</sup>
- This guidance was further elaborated in the 2022 **United Nations Development Programme (UNDP)-UN Working Group** Guide on ‘heightened human rights due diligence for business in conflict-affected contexts’<sup>14</sup>, which has since been transformed into a training module for companies<sup>15</sup>;
- The concept and practice of hHRDD was then reflected in the updated 2023 **OECD Guidelines for Multinational Enterprises on Responsible Business Conduct** with a reference to “enhanced due diligence”; and,

<sup>13</sup> See report from the UN Working Group on Business and Human Rights: A/75/212: Report on business, human right and conflict-affected regions: towards heightened action, July 2020, [URL](#).

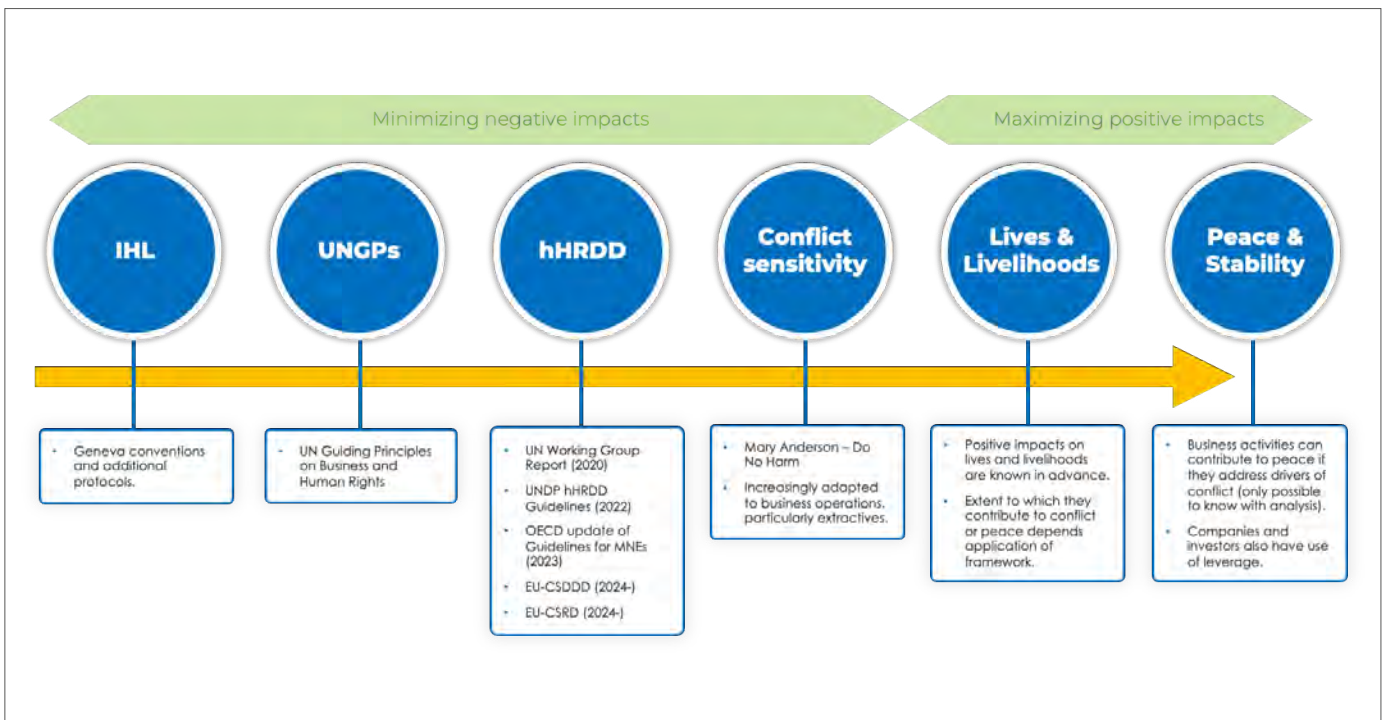
<sup>14</sup> See UNDP guide on Heightened Human Rights Due Diligence for Business in Conflict-Affected Contexts, 2022, [URL](#).

<sup>15</sup> See UNDP training facilitation guide on heightened human rights due diligence, 2025, [URL](#).

- The concept and practice of hHRDD was then reinforced by the **2024 EU Corporate Sustainability Due Diligence Directive (EU-CSDDD)**.
- While hHRDD is not mentioned explicitly **EU Corporate Sustainability Reporting Directive (CSRD)** the CSRD does encourage companies to focus on their most severe risks, and on geographical risks; the combination of severity and geography in most cases also "points to" FCAS.

This evolving body of law, regulation and guidance is further complemented by the extensive body of practice on conflict sensitivity, which has been applied to the private sector for several decades – particular companies in the extractives sector – and which is increasingly seen as relevant to any companies with significant operations in FCAS, irrespective of the sector.

**Figure 3: The key elements of the TrustWorks' approach to conflict-specific due diligence**



### The specific responsibility of DFIs

As expectations for companies operating in FCAS have risen, it is reasonable to expect DFIs - given their use of public funds and development mandates - to uphold equal or higher standards of responsible investing. For DFIs, these laws, standards and frameworks form an essential complement to the IFC PS; they assist DFIs in the identification and management of risks which have the potential to undermine development gains, exacerbate drivers of fragility and conflict and which simultaneously present significant legal, reputational and fiscal risks for DFIs. It is both ethical and

effective for DFIs to leverage these frameworks to inform investment decisions and ongoing portfolio oversight with a view to ensuring investment processes at a minimum mitigate harm and where possible maximise positive impacts both on lives and livelihoods, and on peace and stability at the local level.

As alluded to above and as outlined in the TrustWorks Brief entitled, 'What is peace finance, anyway', in this regards DFIs therefore have five key entry-points at their disposal for managing their risks and impacts in FCAS:

- First, DFIs must adhere to the **IFC PS**; evidently negative E&S impacts in FCAS have a higher chance of triggering conflict. It should be noted, however, that the IFC PS fail to fully capture all conflict-related impacts, and as such an E&S-based approach is necessary but insufficient in FCAS.
- Second, investments must be grounded in internationally recognised normative and regulatory standards for business, as outlined above, including **IHL, hHRDD and conflict-sensitivity** and this is the principal means through which DFIs can effectively manage their (positive and negative) impacts in FCAS.
- Third, DFIs have **leverage**. DFIs can use their leverage either prior to or during an investment to advocate for operational changes – including the effective implementation of recommendations/action plans that emerge from conflict-specific due diligence assessments that may be undertaken. For DFIs, using leverage involves a range of strategies, including encouraging investees to adopt best practices, making financing conditional on the progressive implementation of conflict-sensitive policies, providing technical assistance, and setting clear targets and benchmarks. International standards prioritize ongoing engagement aimed at gradual improvement, with disengagement reserved only for cases of demonstrated bad faith or severe, irremediable harm.
- Fourth, DFIs can be more strategic in the manner in which they deploy **Technical Assistance (TA)** to enable companies and FIs to better understand, confront and/or become resilient in the face of conflict-related risks.
- Fifth, DFIs can work more in concert with **peacebuilding actors** – in addition to rather than in lieu of the above – with a view to seeking collaborative and coordinated efforts to maximise positive impacts on peace.

#### DFI challenges and limitations in FCAS

DFIs face significant barriers when investing through financial intermediaries in FCAS, although a number of promising initiatives are beginning to address many of these constraints. There are several **intrinsic barriers** that largely reflect many of the core characteristics of FCAS themselves. These markets tend to be characterised by severe institutional weaknesses in both public and private sectors, combined with elevated risks ranging from physical insecurity to difficult-to-predict, high-impact political shocks. These contexts are also marred by conflict economies, and it can be challenging for companies to engage without inadvertently (in many cases) fuelling conflict and violence. This creates reputational and compliance risks for DFIs, since many of the largest and most sophisticated firms in these environments - ordinarily prime candidates for investment - are likely to be directly or indirectly intertwined with conflict dynamics. Thus, in some sense, there is no surprise that investment in FCAS has remained so limited for so long.

There are also **structural barriers** within DFIs. Most rely on global capital markets for the bulk of their funding, which imposes risk and return expectations that are difficult to reconcile with the realities of FCAS. In 2024, for example, the International Bank for Reconstruction and Development issued \$52.4 billion in medium- and long-term debt,<sup>16</sup> while IFC's outstanding borrowings stood at \$55.8 billion.<sup>17</sup> Even concessional windows are beginning to turn to markets: the African Development Fund (ADF) plans to raise \$5 billion from capital markets every three years,<sup>18</sup> and IDA recently issued a \$4 billion five-year bond priced at 4.375 percent per annum.<sup>19</sup> These funding models reinforce the imperative for scale, predictability, and financial prudence - qualities that FCAS investments rarely offer. Even in cases where capital is readily available from Foreign Ministries, investments in FCAS can negatively impact the AA or AAA credit ratings held by the vast majority of DFIs and MDBs, jeopardizing their ability to access cheap capital in the future and undermining their core business model.

<sup>16</sup> International Bank for Reconstruction and Development, *Management's Discussion & Analysis and Financial Statements June 30, 2024*, page 14. [URL](#).

<sup>17</sup> IFC, *Annual Information Statement, October 3, 2024*, Page 2. [URL](#).

<sup>18</sup> Miriri, Duncan, *AfDB's African Development Fund hopes to start tapping capital markets in 2027 (July 29, 2025)*, Reuters. [URL](#).

<sup>19</sup> World Bank Group, *Press Release (June 4, 2024)*, *IDA Prices USD 4 Billion 5-Year Sustainable Development Bond Benchmark*. [URL](#).



DFIs are also not always **staffed or incentivized** for the relationship-driven nature of FCAS markets.<sup>20</sup> In contexts where judicial systems are unreliable, enforcement mechanisms weak, and information scarce, social networks play an outsized role in supporting the vetting of investees, creating informal repayment incentives, and triangulating facts across competing narratives. Yet DFI operating models tend to emphasize standardized due diligence, financial engineering, and transaction sizes well beyond the absorptive capacity of most FCAS firms.

This makes local financial institutions an essential part of the ecosystem, but investing in them poses its own hurdles. Many lack institutional capacity, operate in weakly regulated environments, face unreliable judicial systems, and enjoy high margins on customer deposits with much lower risk and cost of capital than DFI loans, leaving little incentive to seek external investment.

Some of the key questions that remain in our minds as they pertain to the responsible investing in FCAS agenda, therefore, are as follows:

- To what extent are these practices implemented meaningfully and consistently in FCAS?
- To what extent do the above strategies and approaches include a consideration of core issues related to IHL and hHRDD?
- How is greater attention to context and conflict being integrated with more traditional approaches to due diligence to ensure a comprehensive picture?
- To what extent do the above strategies and approaches consistently explore ways to both minimise negative impacts on human rights and conflict, and maximise positive impacts on lives and livelihoods, as well as peace and stability?
- How, if at all, are they being applied to financial intermediaries in particular?

#### Evolving practice on the part of DFIs

Despite these challenges, DFIs are increasingly grappling – in a meaningful manner – with what it means to do business in FCAS and there are many promising initiatives that indicate an uptick in the recognition and application of international standards and best practice on ‘responsible investing in FCAS’. By means of (selected) example:

<sup>20</sup> For a fuller description of the internal barriers to DFI investments in FCAS, see *Investing for Peace Feasibility Study*, Pages 28-31. [URL](#).

### Evolving DFI approaches to investing in FCAS



### Part 3: How can FIs in FCAS address conflict risks? A case study of Shuraako Capital

#### About Shuraako Capital

Shuraako Capital is a non-profit fund manager that provides sharia-compliant growth capital and technical assistance to SMEs in the Somali Region. The initiative began in 2013 as a program of the U.S.-based One Earth Future (OEF) Foundation, originally designed to address the root causes of maritime piracy. Through an initial \$2 million lending project, Shuraako developed a highly localized diligence and collections model, while building deep trust and relationships within the market.

Building on this foundation, Shuraako Capital was approached by Norfund and the Investment Fund for Developing Countries (formerly IFU) to launch and manage the Nordic Horn of Africa Opportunities Fund (NHAOF), a permanent capital vehicle established in 2018. NHAOF began with \$8 million in commitments from Norfund, IFU, and the Arsenault Family Foundation, and has since grown to \$24 million and includes Swedfund as an additional limited partner (LP). To date, the fund has invested over \$30 million across more than 100 SMEs, creating an estimated 8,400 jobs. Though sector-agnostic, NHAOF has concentrated its investments in manufacturing and light industry, agribusiness, fisheries, water and sanitation, services, and renewable energy.

Shuraako Capital currently offers a single product: a five-year, fully collateralized Murabaha, a sharia-compliant financing instrument that functions on a cost-plus basis. Shuraako Capital provides preferential mark-up rates for women-owned businesses and repeat clients with strong repayment track records. This is different from the short-term working capital, trade finance, and real estate lending that dominate local bank portfolios, giving Somali SMEs access to growth capital that would otherwise be unavailable. Shuraako's financing has supported equipment modernization, fleet expansion, and the transition from diesel to solar power, investments that build long-term resilience and competitiveness.

#### Why the conflict sensitive approach?

Shuraako Capital is uniquely positioned to adopt a conflict sensitive approach. As part of the OEF Foundation, its work was already grounded in a conflict-prevention mandate and a theory of change that linked private sector growth not only to job creation but also to improved governance and broader peace dividends.

Operating in the Somali Region for more than a decade revealed two realities that made adopting a conflict sensitive approach essential. First, conflict risks are both pervasive and unpredictable, and directly affect investees, Shuraako itself, and the Fund's investors. Second, these risks are highly contextual and often opaque to outside stakeholders. Communicating them effectively to investors - most of whom are unfamiliar with local dynamics - proved challenging. A conflict-sensitive framework provided a practical pathway for Shuraako to present conflict considerations primarily as a form of risk management and impact maximisation, while creating a structured platform for candid dialogue about risks, opportunities, and trade-offs.

At a strategic level, Shuraako Capital also recognized an opportunity. With poverty and fragility increasingly overlapping, and DFIs and MDBs sharpening their mandates in relation to FCAS, adopting conflict sensitive approaches offered a first-mover advantage. By working with TrustWorks to integrate these practices into its investment model, Shuraako aimed to reduce the reputational, operational, and compliance risks that often deter investors from FCAS, helping to lower barriers to entry and catalyze more capital into FCAS markets.

#### The Partnership Between Shuraako Capital and TrustWorks

For the past two years, Shuraako Capital and TrustWorks have worked together to identify meaningful ways to support the fund in addressing the risks associated with investing in the Somali context. The collaboration began with a desk-based, data analysis mapping – with the support of Tunis-based MajestEYE – to understand how contextual risks, sector and company specific risks, and financial data could be combined to inform investor-decisions.

The goal was to identify where additional due diligence was required and how to make more tailored use of technical assistance, leveraging in particular TrustWorks Peace Finance framework.<sup>21</sup>

Over time, this support has evolved into a more strategic collaboration between TrustWorks and Shuraako Capital at the fund level. TrustWorks' methodology is based on an understanding that investing in FCAS demands a distinct approach, one grounded in local relationships, adapted to complex environments, and attuned to the unique risks

and dynamics of conflict. TrustWorks has therefore provided extensive support to enable Shuraako to better understand how conflict affects its portfolio - and how its investments, in turn, can influence peace and stability.

TrustWorks support has improved Shuraako Capital's ability to anticipate and manage the social risks and impacts of its operations. As a result, Shuraako Capital is therefore positioned to become the first private impact investor aligned with international standards on responsible investing in FCAS, setting a precedent we hope many others will follow.



21 See TrustWorks' interactive model on peace finance, [URL](#).

## Part 4: How to invest responsibly and effectively in FCAS? Our top ten insights

### 1 Overall, DFIs make good strategic use of financial intermediaries in the markets where they are present.

DFIs use financial intermediaries to efficiently reach many SMEs, build capacity in the local financial sector, and break individual investments into ticket sizes that SMEs can absorb. These are valid and strategic reasons to work with financial intermediaries across developing markets. The focus on guarantee instruments is also warranted, as perceived credit risk and collateral availability are major barriers to SME access to finance across developing markets.

### 2 Financial intermediaries are a crucial part of directing capital to FCAS.

Investing well in FCAS requires local relationships, a significant local presence, and relatively small ticket sizes. These limiting factors make financial intermediaries essential partners for DFIs, which are not structured to make and monitor many small investments in FCAS markets.

### 3 There is an opportunity to make longer-tenured loans.

The bulk of DFI support to financial intermediaries drives shorter-term lending of 6 months to 2 years. These products are excellent for working capital, trade financing, and other similar needs. They are less well-suited for financing capital expenditures and capturing long-term growth opportunities, which is where the greatest potential for sustainable job creation and broad-based economic growth lies. Where possible, DFIs should look for opportunities to work with local financial intermediaries that provide loans of 5+ years.

### 4 Commercial and developmental incentives should be harmonized.

Providing growth capital to SMEs via financial intermediaries in FCAS markets in 2026 is not a commercially optimal investment strategy, given the potential alternative uses of capital. Doing more of it will require DFIs to partner with development institutions and philanthropic capital providers on blended finance initiatives, increasing their footprints in

and around FCAS markets, or potentially even revisiting their stated targets around profitability. Likely a combination of the above will be required in order to place more capital with SMEs in FCAS.

### 5 Tackling poverty requires working in FCAS.

Given increasing levels of conflict and fragility, DFIs development mandates will require them to become more adept at working in and on the drivers of fragility. This will require a greater more consistent and meaningful application of the internationally-recognised standards on responsible investing if they are – at a minimum – to avoid doing harm, and where possible, able to maximise positive impacts on social cohesion, peace and stability at the local level.

### 6 Investing in financial intermediaries is not “less risky” from an ESG, human rights or conflict perspective.

While investments in financial intermediaries are less risky from a credit standpoint, it is important to recognise that risks emanate both from the financial intermediary and the companies they invest in, which will vary across sectors, industries, company sizes and geographical scope. While in a given context DFIs may avoid investments in mining, for example, a given financial intermediary may be investing in extensive activities along the value chain related to mining. It is imperative to approach FCAS investments in financial intermediaries as high-risk endeavours, where it is necessary to do due diligence on the FI and to ensure they have in place the right processes for doing conflict-specific due diligence on their clients/investees.

### 7 Working with financial intermediaries requires an understanding of patterns of impact.

Doing conflict-specific due diligence on financial intermediaries does not require an assessment of every single company in the portfolio; what matters when it comes to financial intermediaries are “patterns” of impact, which can be assessed through a two-prong approach: i) understanding the processes the financial intermediary has in place to manage human rights and conflict risks/impacts; ii) taking a sampling approach to understand the risks and impacts at the portfolio level.

**8 The risks of investing in financial intermediaries in FCAS can be effectively managed.**

The risks associated with investing in financial intermediaries in FCAS should not be used as an “excuse” to avoid doing so. Financial intermediaries are a critical element in the pathway out of violence and fragility. But these risks will only be managed effectively through good corporate governance, effective localisation and application of the internationally recognised standards for managing conflict risks: IHL, hHRDD and conflict-sensitivity alongside and as a complement to the IFC PS. Investing in financial intermediaries and downplaying or ignoring entirely these risks is undermining development gains.

**9 More strategic use of technical assistance will help manage conflict risks and impacts.**

There are more than enough resources to manage the risks associated with investing in conflict-affected areas. Technical assistance funds can be used more strategically in FCAS by extending the list of current usages to include ensuring projects are undertaken in a conflict-sensitive manner on the one hand, and supporting both financial intermediaries and their portfolio SMEs to deal with the conflict-related risks they face on the other.

**10 ‘The principle of “do no harm” is unattainable without deliberately applying conflict-sensitive investment practices.**

Given the critical role that both multinational and SMEs play in FCAS, adherence to internationally recognized standards for responsible investment is not optional – it is imperative. For DFIs, “do no harm” must represent the absolute minimum standard - a mandatory baseline - not an aspirational ceiling. Any investment strategy that falls short of this standard risks exacerbating the very fragilities DFIs are mandated to address.



## About TrustWorks

TrustWorks Global (TrustWorks) is a Geneva-based social enterprise specialised in responsible business and investments in conflict-affected and high-risk areas (CAHRAs). With over twelve years of experience working with companies, investors and government TrustWorks focuses on international humanitarian law, heightened human rights due diligence and conflict-sensitive investments and business activities in some of the world's most challenging contexts.

TrustWorks supports companies, development financial institutions (DFIs) and impact investors to put in place tailored conflict-specific policies, processes and practices at corporate/HQ levels. We deploy to CAHRAs to conduct conflict-specific due diligence of operations, supply and value chains for companies, and of sector, industries and/or investees for DFIs and government counterparts. We enable operationalisation and implementation conflict-sensitive practices through tailored training, facilitation, mediation, mentoring and accompaniment processes, and other on-the-ground services as and where needed.

TrustWorks also participates in investor-led engagement meetings with companies to present the results of our proprietary benchmarking methodology assessment, with a view to enabling portfolio companies' readiness to operate responsibly in CAHRAs.

As a boutique consulting company, TrustWorks operates in a nimble, discrete and constructive manner, and the TrustWorks team has experience working in over 70 CAHRAs.

## About Shuraako

Shuraako Capital is a non-profit fund manager providing sharia-compliant growth capital and technical assistance to small and medium-sized enterprises (SMEs) across the Somali region. Operating in the Somali market since 2013, Shuraako has supported nearly 250 businesses, contributing to the creation of more than 10,000 jobs. The firm currently manages the \$34 million Nordic Horn of Africa Opportunities Fund, a perpetual capital vehicle backed by Impact Fund Denmark, Norfund, the Arsenault Family Foundation, and Swedfund.

Shuraako provides five-year murabaha financing that enables entrepreneurs to acquire productive assets that would otherwise be out of reach. Clients typically use this financing for equipment modernization, fleet expansion, and transitions from diesel to solar power. In partnership with development institutions, Shuraako also delivers grant-funded technical assistance to strengthen application readiness, improve ESG performance, and provide sector-specific operational support. Shuraako Capital's core thesis is that, with appropriate capital and technical support, Somali SMEs can serve as engines of economic resilience, peace, and long-term prosperity in fragile and conflict-affected settings across the Horn of Africa.