Investor insights

Lessons from renewable energy investments in fragile and conflict-affected markets

Introduction

Investing in fragile and conflict-affected settings (FCAS) presents unique opportunities for investors to drive financial returns and social impact. Rising and unmet demand for renewable energy makes this a profitable investment prospect. In FCAS markets, renewable energy projects are desperately needed and can play a transformative role: building local skills, generating tax revenue for governments to deliver basic services, increasing land security, rebuilding energy markets, and improving energy access as an engine of inclusive socio-economic opportunities. Renewable energy projects align with the Sustainable Development Goals (SDGs), the Just and Green Transition and Environmental and Social and Governance (ESG) objectives, hitting several objectives for investors and investees.

However, these markets face significant investment barriers. One key message from investors is that investing in FCAS is often perceived as too complex and expensive, requiring innovative approaches and deep country-specific knowledge that investors cannot easily access. Some investors are exploring ways to build business in FCAS, but these efforts have largely remained ad hoc, requiring substantial effort with high transaction costs. The challenge lies in moving beyond one-off ventures toward a systemic, scalable investment approach—shifting from proof of concept to building a robust pipeline of bankable projects.

One solution is peace positive investment, which is an emerging approach to manage risks and improve returns for investors in FCAS. Meeting the goal of tripling renewable energy capacity by 2030 faces an investment gap of up to US$400 billion annually between 2024-30—at least half of which is in emerging markets[1]. Addressing this shortfall in FCAS would unlock enormous economic and social opportunities, improve peace and security and enable transformative development outcomes while attracting further investments.

This paper brings together key findings from a series of closed-door consultations with investors who are active or interested in FCAS. The research seeks to understand barriers and generate new insights on why there is limited investment in FCAS contexts, identify practical, actionable solutions and provide recommendations for investors, development finance institutions (DFIs), insurers, and project developers that design and lead investment projects.

It takes a broad definition of FCAS to incorporate a wide range of settings, from intrastate war to situations of unrest or instability. Dynamic by nature, these environments are characterised by multiple interconnected actors, drivers and motivations. In many instances, the absence of armed conflict is only the illusion of peace. Under the surface, less visible social, political and economic tensions manifest in social unrest or cycles of violence.

[1] S. Alam, V. Garg, and L. Prakash Jena, Bridging the Finance Gap to Triple Renewable Energy Capacity, 2024, https://ieefa.org/sites/default/files/202411/BN_Bridging%20the%20Financing%20Gap%20to%20Triple%20Renewable%20Energy%20Capacity_Nov24.pdf

The business case

Opportunities in renewable energy investment

Renewable energy investment in FCAS can offer compelling opportunities to generate both financial returns and measurable social impact. FCAS are home to approximately 80% of the global population lacking access to electricity—a staggering 600 million people[2]. This unmet need represents an immense market for renewable energy development. For instance, in Sub-Saharan Africa, average electrification rates remain below 50%, underscoring the scale of the challenge and opportunity[3]. In addition, energy prices in FCAS are disproportionately high compared to global standards. In some regions, electricity costs can exceed USD$1 per kilowatt-hour, as opposed to the global average of USD$0.15 per kilowatt-hour, and renewables provide a cost-effective alternative.

Energy poverty and state fragility are closely linked. Fragility hampers development, including improvements in energy access, while a lack of development creates structural conditions for the persistence of instability and conflict. This cyclical relationship emphasises the importance of investing in renewable energy as a means to promote stability and development. By integrating financial instruments with peacebuilding mechanisms, such as community engagement and benefit-sharing, projects can achieve greater stability and predictability, which helps secure and sustain financial returns.

At the same time, renewable energy investments align with national development goals and commitments, such as the Nationally Determined Contributions (NDCs) under Paris Agreement climate action plans. They also support the SDGs, especially Goal 7 (affordable and clean energy) and Goal 13 (climate action), and are closely tied to employment creation, innovation and sustainable growth. These investments also resonate with ESG-mandated and impact-motivated investors, offering opportunities to achieve tangible impact alongside returns.

Peace positive investing provides a dual advantage: reducing local risks or instability and improving financial predictability. Renewable energy projects that take into account conflict risks to the project and from the project to the conflict context (or ‘conflict sensitivity’), and integrate peacebuilding mechanisms to mitigate these risks have proven to increase returns. For example, community engagement and benefit-sharing programs have lowered discount rates on investments, in one case from 19% to 17%, improving overall project viability[4].

Renewable energy projects can drive double materiality, directly reducing risks in the context. For instance, businesses can positively influence local stability while benefiting directly from improved socio-political environments.

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[2] Council on State Fragility, Powering up energy investments in fragile states: A call to action, https://www.fragilitycouncil.org/publication/powering-energy-investments-fragile-states-call-action, accessed on 9 April 2025

[3] Basic energy access lags amid renewable energy opportunities, new report shows, International Energy Agency, https://www.iea.org/news/basic-energy-access-lags-amid-renewable-opportunities-new-report-shows, accessed on 8 April 2025 and 600 million Africans without energy are facing a crisis, Nordic Development Fund, https://www.ndf.int/newsroom/600-million-africans-without-energy-are-facing-a-crisis.html, accessed on 8 April 2025

[4] Interpeace and Skandinaviska Enskilda Banken AB, Peace Bonds Feasibility Study: Assessing the potential of a new asset class that can lower risk and enhance peace, 2022, https://investingforpeace.org/wp-content/uploads/Interpeace-Peace-Bonds-Feasibility-study.pdf

For example, commercial and industrial projects in renewable energy with predictable revenue models, such as power purchase agreements, tend to attract more investments. Additionally, decentralised energy access projects, such as solar microgrids, can support local resilience and long-term returns.

Challenges to overcome

Despite the opportunities in FCAS, current investment practices remain hindered by challenges around complexity, risk mitigation and local capacity.

Contextual complexity

One major barrier is the complexity (perceived and actual) of these markets, which demand localised insights and adaptive approaches. Investors often perceive FCAS as overly complex due to fragmented regulatory frameworks, unpredictable political climates, and rapidly changing conflict dynamics. Navigating bureaucratic hurdles, such as obtaining permits and complying with inconsistent regulations, can significantly delay project implementation. Previous investments in countries like Somalia, Chad, and the Democratic Republic of Congo have highlighted the labour intensive and high-cost nature of such efforts, further deterring scalable replication.

Heightened risks

Political and financial risks add another layer of difficulty. Political risk insurance (PRI), critical for de-risking investments, remains prohibitively expensive and inaccessible for small and mid-sized projects. Investors also face exposure to currency volatility, expropriation risks, and sudden policy changes, all of which heighten the perception of risk. Without adequate risk mitigation tools, many investors remain hesitant to engage in high-risk markets.

Local capacity

Local capacity gaps further exacerbate the problem. Many local developers lack the technical expertise and financial capacity to meet international standards, which limits the development of a pipeline of bankable projects. Weak governance structures, insufficient knowledge of international financial processes, and restricted access to affordable financing options present additional obstacles that hinder project readiness and viability. At the same time, international standards and requirements are not adapted to FCAS-specific contexts. This does not mean abandoning norms but finding practical ways to implement them effectively.

Reliable data

Another critical challenge is the lack of reliable, up to date and granular data. Existing political risk reports frequently fail to capture the nuanced realities of FCAS, leaving investors underinformed and unprepared. This data deficiency undermines business development in high-risk markets, due diligence and risk assessment efforts. Conflict analysis would capture a more complete view of the conflict and fragility context, but is not often used by investors.

Social risks in FCAS create further challenges. In FCAS, low trust and historic tensions between groups are common. Insufficient community engagement can exacerbate this, leading to resistance, land disputes or operational disruptions. Failing to address social dynamics early in the project lifecycle can result in delays, protests, or even cancellations, adding to the perceived risks of investing in these markets.

Actionable solutions

The challenges around investing in FCAS require approaches beyond business as usual. Below are several solutions that address the challenges and can help unlock success.

Enhancing risk mitigation tools

To unlock investment in FCAS, stakeholders (DFIs, governments) must prioritise enhancing risk mitigation tools. Expanding access to affordable and streamlined PRI is essential, as the World Bank's Multilateral Investment Guarantee Agency (MIGA) is already doing, particularly for small and mid-sized projects. DFIs and insurers should develop more flexible PRI options and promote blended finance models to offset risks and incentivise peace outcomes. Peace positive instruments like Peace Bonds and peace renewable energy credits, which explicitly de-risk by aligning investments with peace, should also be leveraged to de-risk investments further. These tools can provide investors with greater confidence while addressing the unique challenges of FCAS markets.

Strengthening local partnerships

Building strong local partnerships is critical for fostering sustainable investments in FCAS. DFIs and donors should invest in capacity-building initiatives to help local developers meet international standards, apply conflict analysis and peacebuilding mechanisms and de-risk projects from the outset. This can include technical assistance for project developers to undertake and use conflict analysis and enhanced due diligence, and integrate peacebuilding mechanisms into project design. Partnering with local NGOs for real-time and community engagement can also provide valuable insights and improve project outcomes. Additionally, financing pre-investment can ensure projects are designed with stability and security in mind.

Improving business environments

Governments and international stakeholders must work together to improve the business environment in FCAS. Strengthening regulatory frameworks and ensuring predictability for investors through mechanisms such as guaranteed commercial contracts and land rights can foster greater confidence. Governments from advanced economies and DFIs should collaborate with FCAS governments to create an enabling environment that attracts private investment and facilitates long-term development. One practical approach is establishing a one-stop investment facilitation shop to guide investors through company creation, licensing, and regulatory processes, making it easier and more transparent to do business.

Addressing data gaps

Investors' access to conflict analysis is limited, but pertinent—and could inform screening and monitoring of potential investments. Reliable data and analysis are essential for effective investment in FCAS. DFIs should establish dedicated funding for pre-investment conflict analysis and improve access to localised conflict risk data. Mainstream data providers should be encouraged to offer conflict or human-rights-related services, ensuring investors have the information needed to make informed decisions. By addressing these data gaps, investors can better understand the risks and opportunities in FCAS markets.

Promoting conflict sensitive diligence and ESG integration

Integrating conflict sensitivity into diligence, for example through ESG practices can drive better financial and social outcomes. Investors and developers should adopt frameworks like the Peace Finance Impact Framework[5] to incorporate conflict sensitive approaches into project design, financing, execution and operations. Inclusive and distributed hiring practices according to conflict dynamics and benefit-sharing mechanisms, such as allocating a portion of project proceeds to community funds, can foster trust and stability while supporting local development. Integrating a peace lens within a broader ESG focus could not only reduce risks but also enhance the long-term viability of investments.

Conclusion

Concrete findings from these investor convenings show that while renewable energy investments in FCAS face significant challenges, they also present transformative opportunities. Key insights highlight the critical need to address barriers such as insufficient risk mitigation tools, lack of capacity among local developers, and data deficiencies. At the same time, scalable solutions—like peace positive investing instruments and enhanced local partnerships—can unlock sustainable growth and stability in these markets.

DFIs and governments must invest in pre-investment conflict analysis and capacity building for local developers to create a robust pipeline of bankable projects. Peacebuilders are well placed to support project developers with technical advice, accompaniment and best practice. Further steps include prioritising the development of flexible risk mitigation instruments like affordable PRI and blended finance models.

By fostering collaboration among governments, DFIs, insurers, peacebuilders and local stakeholders, the groundwork can be laid for sustainable investments that drive both financial returns and long-term peace.

[5F] Finance for Peace, The Peace Finance Impact Framework, 2024, https://financeforpeace.org/the-peace-finance-impact-framework/

The way forward

The proof of concept exists—demonstrated by successful models of renewable energy investments in FCAS. The global community must take forward successful approaches to scale impact and investment. By continuing to exchange knowledge, experience and insights, investors can harness the opportunity to catalyse investments in FCAS markets while promoting sustainable peace. Together, investors, DFIs, governments and peacebuilders can transform fragile markets into hubs of renewable energy development, driving both financial returns and long-term stability.

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PeaceNexus is a Swiss private foundation that strengthens the capacities of and collaboration between organisations to increase their contributions to peace and social cohesion. Based across Switzerland, West Africa, Central Asia, Southeast Asia and the Western Balkans, our team supports a range of local and international partners to promote conflict sensitive practices. Our Business Engagement Service provides tailored advisory support to businesses and investors entering, operating in or supplying from fragile and high-risk markets, equipping them with the insights and tools needed to drive responsible, sustainable growth.

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