

Blue Peace Investors Brief: A New Way of Impact Investing



Blue Peace

The Challenge

The world is not on track to meet the greenhouse gas emissions' "turning point" required to avoid catastrophic impacts due to climate change. At the same time, awareness is growing that failure to reach the aspirational goal under the Paris Agreement (PA) of limiting global warming to 1.5°C increase would severely jeopardise the achievement of the United Nations' Sustainable Development Goals (SDGs), leading to increased inequalities, conflicts and humanitarian catastrophes. At the same time, growing global population, fast urbanization and a rising middle class around the world has resulted in higher levels of consumption. A level of consumption that in turn puts pressure on the industrial and social production cycles of food, energy, water, and other natural forms of capital. Managing these global challenges requires far-reaching and unprecedented changes in many aspects of our societies. However, the biggest changes are required in the way our economic systems function, currently causing high greenhouse gas emissions, and determining the supply chains, which provide the basic services and goods for the well-being of the populations.

Luckily enough, the global community has already agreed on the ultimate goal as to how to manage the above challenges. This universally agreed-upon goal is well described in the ambitious UN Agenda 2030 and in the Paris Agreement. However, the path to achieve the goal will require new forms of global partnerships and investment of resources from both private and public sectors. Investors contribute to a crucial part in supporting the transition of the world economy from the current carbon-depleting ways of production to the envisioned inclusive carbon-neutral economy. Many investors now understand, especially those who invest with a long-term vision, that investments need to generate both financial returns and positive impact, striving for inclusiveness and sustainability. The path to an inclusive and sustainable carbon-neutral economy needs the re-organization of both the production and consumption cycles of private and public goods. Investments, necessary to develop economies are a powerful tool to drive the modes of production and consumption.

The **Blue Peace initiative**, recognising this leveraging power, is advocating a new model of investment with the investor community that will allow the creation of a new market place advancing the goal of attaining a carbon-neutral economy. Specifically, Blue Peace advocates for investments to be re-directed to two areas that will have a transformative impact: at transboundary regional level, and at local municipality level. Natural capital such as atmospheric carbon or water bodies etc. are not confined to administrative borders. However, these same resources, natural capita, are usually managed within administrative systems and States, under sovereign principles. At the same time, the majority of the consumption and production cycles are done within household or industrial structures, both of which are located at the level of municipalities. In addition, current financial markets, public investment and private capital responds to sectoral and administrative approaches defined by the sovereign states and therefore are missing the necessary common strategic orientation of an evolving society. They are unable to respond to the transboundary, trans-sectoral and sub-national realities which are required to reach the SDGs. The present Blue Peace financing initiative is proposing new financing instruments to overcome this challenge.



Water as Entry Point for Impact Investing across Multiple Sectors

Water is one of the most important resources on the planet. Indispensable for life, water has no substitute. It is also one of the main inputs across many industrial processes, for households, and other sectors of the real economy. Long-term access to water is as such a necessity for human well-being and economic development. Furthermore, a recent UN-Water Analytical Brief shows how SDG 6 links across all the other 16 SDGs: *“There is a dynamic, two-way interdependence between Goal 6 targets and every other Goal. It is vital that the interlinkages are well understood and managed to achieve the social, economic and environmental dimensions of the 2030 Agenda”*¹.

In accordance with this statement, the Blue Peace approach is suggesting that water is the perfect entry point and lever to develop new opportunities for Impact Investments in multiple sectors, contributing to all SDGs and therefore to the sustainable and economic development of many sectors and countries. However, current investment plans and strategies do not take into account the intrinsic value of water in its cross-sectoral, transboundary nature. Furthermore, water resources are finite, and in many areas, water is becoming increasingly scarce, not the least due to climate change and a lack of proper sustainable management. In a market economy, the allocation of scarce natural resources (such as coal, oil, fish, crops, and timber) is typically determined by market forces. However, water resources have a number of unique characteristics for which traditional market mechanisms cannot provide efficient and equitable allocations. Therefore, water cannot and should not be traded as a simple economic commodity. What should be traded are the public goods and assets derived from water. The new understanding of a sustainable economy requires making sure that water will be available in sufficient quality and quantity both at the entry and exit point of the production cycle, leading to a circular economy. However, the way financing cur-

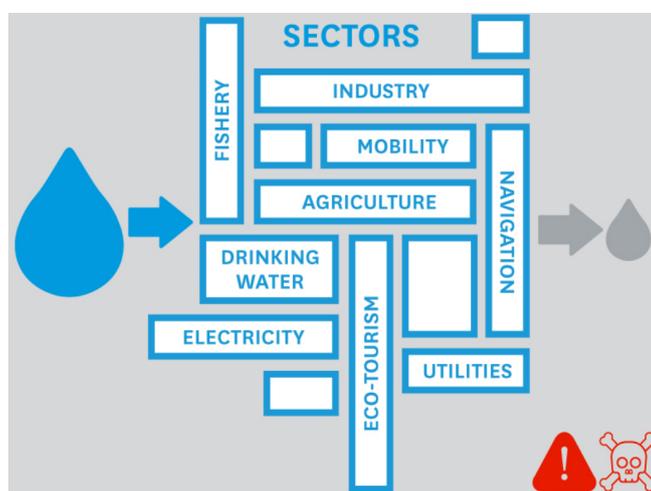


Figure 1: Water Management in Silos. © Stéphane Kluser (Komplo)

rently approaches water and related investments is overly administrative, country-based and sectoral. This approach is not taking into account a long-term availability of water both in terms of quantity and quality, and therefore is often inefficient (see Figure 1). Moreover, the standard sectoral approach leads almost inevitably to oversized and overly costly infrastructures, missing synergistic opportunities as development and investment plans are not analysed and negotiated from multi-sectorial perspectives balancing the different interests².

1 <http://www.unwater.org/publications/water-sanitation-interlinkages-across-2030-agenda-sustainable-development/>, page 6.

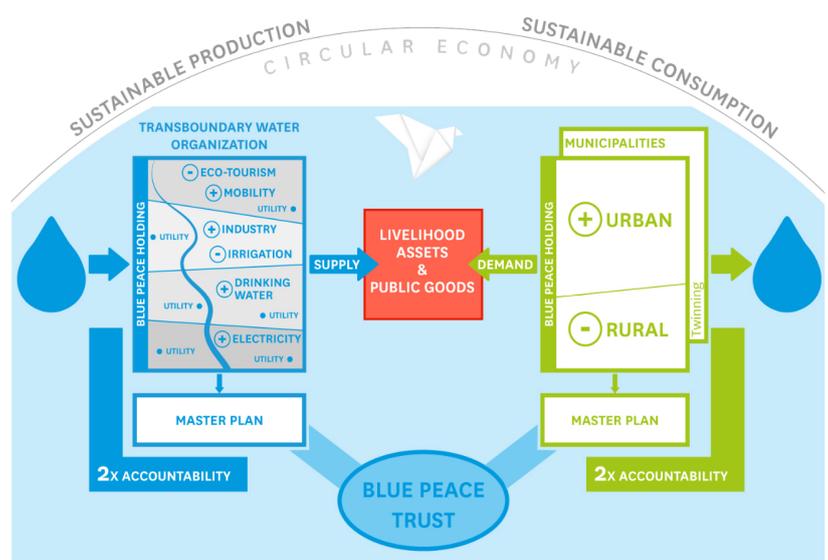
2 We refer here to the perspectives and interests of different sectors and stakeholders such as energy, agriculture, industry, households, fishery but also the private sector, governments, citizens etc.

The Blue Peace Financing Initiative

The cooperative and multisectoral approach of the Blue Peace concept is more relevant than ever at a time when population growth, rapid urbanization and industrial expansion are putting more and more pressure on water supplies. This pressure is growing even faster due to the rising impact of climate change. It is time to start investing in water in a smarter way, through a more holistic multi-sectoral and transboundary approach. The aim of the Blue Peace Financing Initiative therefore is to introduce a way of financing transboundary and multisectoral water cooperation by creating new ways to access financial capital. Financial investors can profit from such investment plans ("Blue Peace masterplans")³ which can contribute to reducing risks, therefore providing a better risk-return profile for their portfolios. Transboundary (water) organizations and municipalities in both developed and developing countries, on the other hand, can subsequently have an easier access to finance. An active negotiation by all interested parties based on the reality of water availability leads automatically to more effective and financially efficient investment programs, with reduced tensions or risks of activating conflicts driven by diverging interests. Currently, this potential is not understood and therefore not valued by financial investors.

The main goal is to have a commercial methodology that is replicable and scalable, while not replacing any kind of existing financial agreements and public resources, but rather by creating new ways to access financial capital. The Blue Peace Financing Initiative is going to provide incentives to investors to understand the benefits of investing in water-related assets and goods as an asset class that cut across multiple sectors and are anchored in a joint political agreement.

The **Blue Peace concept** builds on the postulate that instead of being a factor of risk, water can be a formidable tool for cooperation between countries and between sectors. It is becoming a growing global movement aiming at developing a culture of peace and fostering the preservation of the precious freshwater resources, while achieving equitable and sustainable use of water across boundaries, sectors and generations. It advocates for new, creative and innovative thinking over how to use and manage water resources, including new ways of impact investing. It promotes ideas and solutions from international organizations, governmental agencies, businesses and start-ups, NGOs, research institutes, think-tanks, artists, young people. .



The Blue Peace Production Cycle. © Stéphane Kluser (Komplu)

3 The multisectoral and transboundary joint investment plans will bundle together and assess different projects using water as an entry point at the basin level (e.g. projects using water for energy, household consumption, for navigation, for food and agricultural production, for tourism or ecosystem services etc.); these investment plans make it possible to achieve returns on investments. The multi-sectoral investment plans include infrastructure investments but also soft investments required for a service provision such as electricity and drinking water. It will be based on a shared ownership and benefits, pre-negotiated and approved by authorities, thus creating an enhanced accountability.

The Financial Instrument: Blue Peace Bonds

The financial instrument required for this new kind of Impact Investing will blend both public and private investments into one and shall be called **Blue Peace Bond**. The public funds will be used for risk-mitigation and to attract private funds to achieve total financing (blended finance). Investment plans bundling together projects from different sectors using water as an entry point ("Blue Peace Masterplans") will be used to raise these bonds. Since the majority of the bonds will be issued by a municipality or a Transboundary (water) Organization, these bonds will be backed by the cashflows of the underlying projects. Furthermore, they will be catalytic in matching the cashflows of projects to the repayment of bonds - a process that will increase the accountability of water resource management. The bonds can take different structures based on the revenue expectations of a specific masterplan, and therefore be flexible to fully

match the cashflows generated by the projects. The structure of the Blue Peace Bonds will include a credit risk enhancement mechanism, for example from a reputable insurance company. The credit enhancement will be subsidized by public funds to increase the marketability of the Blue Peace Bonds for private investors. The Blue Peace Bonds can be marketed to both local investors (e.g. local pension funds, insurance companies, corporates, banks, individual savers etc.) and to international investors, such as asset managers. A Trust fund will be created to manage and support the different Blue Peace Bond issuers. The Blue Peace Trust will support the issuers on two fronts: by providing capacity building and supporting the process of issuing. The trust will among others support bond issuance through political support, advocacy, impact measurement and management of the branding mechanism of Blue Peace.

Development of a New Marketplace

Financial markets normally work well for individual states and big companies. Municipalities and Transboundary (Water) Organizations have more difficulty in accessing finance for development purposes. The creation of a new market and introduction of financial instruments that allow blending of public funds with the private sector funds to finance sustainable water-related projects will unlock capital for municipalities and Transboundary (Water) Organizations. Access to such capital will provide new and larger private-based resources for development projects in line with the SDGs. Once the financial market has started to co-invest in water-related livelihood assets and public goods, investments through capital markets would open a new window on sustainable development financing. It is with this aim that the Blue Peace Finance

Initiative will support the development of a new market using water as an entry point and lever to produce livelihood assets in a sustainable manner fostering peace and economic development.

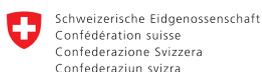
8 REASONS TO INVEST IN PEACE THROUGH WATER

- 1. It is about investing in sustainable impact:** There is a growing demand for impact investing¹. This proposed new way of financing is actually impact investing: it enables the investor to generate positive, measurable social and environmental impact alongside a financial return.
- 2. The risk return profile:** It is an investment with a stable risk-return profile, since there are a number of de-risking factors and mechanisms.
- 3. It is a long-term investment:** Long-term investments face lower volatility and therefore are less risky. Long-term investments often also provide tax advantages and have lower transactions costs.
- 4. It is a Multisectoral investment:** Where the interests of water, energy, mobility, industrial production, food and natural ecosystems are balanced, it is possible to achieve higher returns on investments. Multi-sectoral dialogue and negotiation are key to maximizing benefits for all stakeholders and actors. Since these multisectoral investments are based on pre-negotiated joint investment plans, they have considered the different needs and interests, and therefore reduce the risk of tensions between the different actors and herewith provide an improved risk-return profile. Furthermore, multisectoral investments are less risky because of the diversified risk.
- 5. It is Blended Finance:** Blended finance is about coupling public and private as well as domestic and international resources. In blended financial arrangements, public finance, sometimes combined with philanthropic capital, take over an important part of the risk mitigation to allow private investors to step in later. This strategy helps improve the risk-return profile of investments and provide more security for the private investors.
- 6. It is transboundary investment:** Investing in transboundary (water) projects incentivizes trans-boundary cooperation and promotes peace in the region. This in turn reduces the risk again through diversification (simply by having more than one country engaged in the project) and improves the enabling environment for other projects to invest in the region, allowing economic growth and sustainable development.
- 7. Investing in Water for sustainable economic development and creating shared benefits:** it is expected that water will in the future become more valuable than oil, as rising demand from people, industries and agriculture will apply increasing pressure on the already scarce water supplies worldwide². To assure long-term returns on investments in goods and services that depend on water availability, water has to be preserved in quantity and quality both at the entry and exit point of the production systems. It implies making sure that water is managed responsibly and traded accordingly.
- 8. First Mover Advantage:** Since we are talking about a new financing mechanism, there will be the first mover advantage for any investor investing at this stage of the process. Being first will allow these investors to be perceived as an innovator in financing the SDGs.

The Blue Peace Financing initiative values peaceful agreements leading to shared benefits and basin-wide sustainable economic development and peaceful societies.

¹ <https://www.motif.com/blog/millennials-increasing-demand-impact-investing>

² <https://www.thedailystar.net/news/lifestyle/perspective/water-the-new-oil-1622248>



Swiss Agency for Development
and Cooperation SDC



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