

Blue Peace

Invest In Peace Through Water



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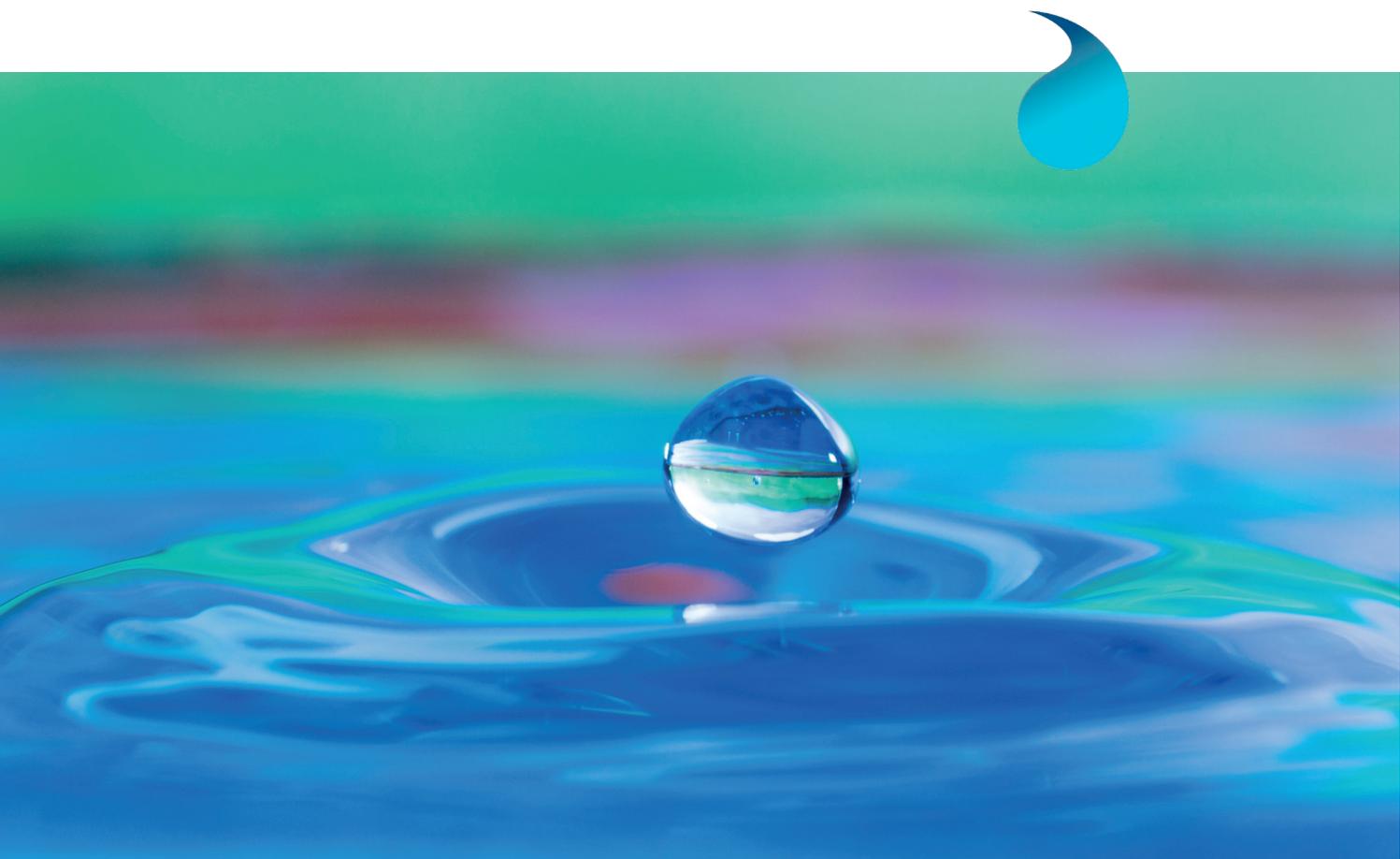
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Disclaimer

The views expressed by the authors in this paper do not necessarily represent those of their institutions.

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List of Abbreviations

GHPWP	Global High-Level Panel on Water and Peace
GWH	Geneva Water Hub
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goal
UNCDF	United Nations Capital Development Fund

Abstract

Water has an inestimable value and therefore should not be traded as a commodity as such. What should be traded are the public goods and livelihood assets derived from water to ensure that while everybody has equitable access to these, water will be available in the same quality and quantity both at the entry and exit points of their production cycle. For this we use the term 'circular economy'. The aim of this paper is to introduce a new way of financing transboundary and multisectoral water cooperation by creating new ways to access financial capital through a Blue Peace approach, which will lead to circular economies and stable societies.

Blue Peace is about transforming water from a potential source of crisis into a potential instrument of cooperation and peace through concrete actions, using water as an entry point for transboundary cooperation. For any sector, industry, household or municipality, long-term access to water in the quantity and quality needed is vital. Thus, water is the perfect entry point for anyone willing to reach the goal of assuring a decent life for all in stable and peaceful societies through increasingly sustainable economies, including in ecological terms.

Blue Peace in essence means reaching the above-mentioned goal through the political will to agree on multisectoral and transboundary investments and uses (including preservation) of water through an active negotiation by all interested parties based on the reality of water availability. The negotiating process leads automatically to more effective and financially efficient investment programmes, with reduced tensions or risks of activating conflicts driven by diverging interests, while strengthening accountability lines. Currently, this potential is not understood and therefore not valued by financial investors.

The aim of this paper is to show that a new generation of financial instruments supporting multisectoral and transboundary investment plans can profit from a Blue Peace approach in terms of reduced risks for financial investors and therefore facilitate easier access to finance for transboundary water organizations and municipalities in both developed and developing countries. This in turn will activate a much needed knowledge exchange among transboundary partners as well as with external supporters, triggering a process geared towards better social inclusion, cooperation enhancement leading to peaceful societies and the establishment of sustainable and circular economies.



1 The Challenge

Achieving the ambitious goals set by the 2030 Agenda and the Paris Agreement will require new forms of partnerships and increased investments. Growing population, fast urbanization and the rapid increase of consumption by a growing middle class imply a systematic reorganization of the production and access to livelihood assets and public goods, such as food, energy, drinking water and natural capital. In general, what we are currently witnessing is a shift in the production, delivery and acquisition of public goods or livelihood assets from the public to the private (or quasi-private) sector and citizens, whereas we do not observe the same shift in the financing of these towards the formal financial sector. The result is that in regions where access to public finance, concessional loans and capital markets is limited because of an insufficiently robust economy, fiscal flow and financial rating, the investment gap cannot be absorbed, and therefore sustainable growth and social inclusion are impeded. Often, the effort to access grants and concessional loans hits a wall in terms of fragmented conditionalities and cumbersome procedures that are similar at both the demand side (governments) and at the supply side (development institutions). As part of the difficulty in handling the procedural complexity, the result is a huge delay in implementing needed investments. In recent times, faster and easier access to capital from new investors has been associated to trade-offs, often leading to a loss of sovereign access to the very same livelihood assets in which a region or a country has been investing in.

Why is all this happening? The answer lies partially in the way public investment plans are defined and in how the responses of the financial institutions are organized. Both are geared to respond to sectoral and administrative approaches, therefore missing the necessary common strategic orientation and the systemic reality of an evolving society. And the response of the financial system focuses on a single project in terms of financial sustainability based on risk assumptions and analysis that are not in line with the reality. The other part of the answer has to deal with accountability. A sectoral approach implies that there is no need to enter into a negotiation around conflicting interests among sectors. This may lead to defining projects that are oversized and that will face opposition from other sectors when implemented. The same can be said when talking about a national plan that does not consider the reality imposed by neighbouring countries. Moreover, the same goes when we consider financial institutions. Each one is organized in a silo

based on sectoral expertise and defines the rules for accessing funds accordingly.

*From the perspective of human beings,
water is everything*

The challenge is to overcome what must be considered as an administrative failure. This implies that there is a clear need to develop new ways of financing and managing assets so that they are financially, economically, ecologically and socially sustainable as well as impact-oriented, thanks to re-invigorated accountability lines. There is, therefore, a need for a change helping to move from sectoral and national to systemic and transboundary thinking, opening the way for a political determination to incentivize transboundary cooperation and multisectoral investments and leading to better access to capital markets. A clear case in this sense can be made when we consider water and its uses. From an administrative perspective, water is often considered as a sector. From the perspective of human beings, water is everything. From a financial sector perspective, water is a huge headache.

2 Water as Entry Point

Surely everybody has seen a picture of a boat stranded in the middle of a desert. Many would think that once there must have been a lake or a sea, but probably very few would ask themselves why it disappeared. And even fewer people would wonder about the quality of the sand forming the desert. Yet, the reason for such an incredible loss is quite simple: the inflow did not match the outflow of water over time. And to discover whether this is a man-made or a natural disaster, it would be sufficient to analyse a sample of the sand. If it is highly polluted, one can discard the latter. Although such a dramatic scenario might be quite rare, every society with a growing population dynamic has been or will be confronted with the issue of water scarcity and/or water pollution as a major threat to the health of its population, livelihood assets and economy. If the same water sources must be shared among different groups, municipalities or countries, the increase in tensions among diverging interests for the use of water might even lead to open conflicts. It is therefore not surprising that in 2019, as in previous years, water-related crises have been identified among the top long-term threats to our planet.¹

¹ World Economic Forum (2019), Global Risks Report 2019, 14th Edition: http://www3.weforum.org/docs/WEF_Global_Risks_Report_2019.pdf

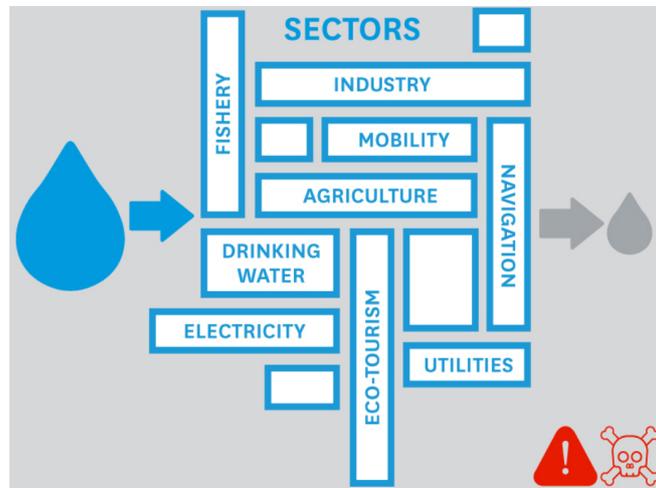


Figure 1: Water Management in Silos. © Stéphane Kluser (Komplo)

Empirical evidence shows that an administrative approach considering water as an infinite item with no economic value leads to a tendency to manage access to water uses from a sector-to-sector perspective without any consideration of long-term water availability both in terms of quantity and in quality, opening de facto the way towards the above-mentioned scenarios – for the simple reason that this approach denies any hydrographic reality (see Figure 1). For instance, in the case of a transboundary river basin, colliding sovereign national interests of upstream and downstream countries applied to sectoral investments without negotiated agreements among all riparian countries will likely lead to a disaster. In social behavioural terms, it is like forgetting that one's freedom ends where the other one's starts. Moreover, the mentioned sectoral approach leads almost inevitably to oversized infrastructures because investment plans are not analysed and negotiated from different perspectives and interests² and reviewed accordingly. But this is crucial in order to reach a compromise that includes state-of-the-art knowledge in how to best invest for a sustainable use of water. That said, since 2015 there has been growing recognition at the highest political levels that a systemic approach to financing with water as an entry point can be part of the solution, with de-risking effects in relation to tensions and possible conflicts. Water is therefore the perfect entry point to focus on the nexus between sustainable development and peaceful societies.

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.

3 The Blue Peace Movement

Blue Peace is a call to invest in our future through what makes life so unpredictable and precious: water

Blue Peace is a growing global movement aiming at developing a culture of peace and fostering the preservation of the precious resources of fresh water while achieving the equitable and sustainable use of water across boundaries, sectors and generations. The Blue Peace Movement is about the creation of a new development and political space for ‘progressives’ who believe in an open and mobile society. Its vision is to move towards a sustainable, integrated, cross-sectoral and transboundary management of water for people and planet, leading to prosperity and peace.³ It does so by using water as an entry point for transboundary and cross-sectoral cooperation as well as impact investing. The Blue Peace Movement brings a cooperative approach, which is more relevant than ever at a time when population growth, rapid urbanization and industrial expansion are putting increasingly more pressure on water supplies. This pressure is growing even faster since only less than 2% of waste water in the world is recycled, while ecosystems are being disrupted by the impact of climate change.

With its report ‘A Matter of Survival’, the Global High-Level Panel on Water and Peace (GHLPWP)⁴ has been a key cornerstone of the Blue Peace Movement in promoting water as an instrument for peace. The report includes a key recommendation on financial innovation for water cooperation, which requires the development of new sustainable financing mechanisms specifically aimed at promoting water as an instrument for peace.⁵ Think tanks such as the Geneva Water Hub, the Strategic Foresight Group and the Earth Security Partnerships along with a new generation of experts that are part of the World Youth Parliament for Water are instrumental in shaping further the Blue Peace Movement. In addition, a Blue Peace Index by The Economist is upcoming. Moreover, countries such as Senegal, Switzerland, The

Netherlands, Morocco, Costa Rica and Jordan as well as several municipalities in the world are actively shaping this new agenda.

3.1 The Blue Peace Masterplans

To overcome the challenges described above, which are the result of a sectoral and national approach to water, the Blue Peace approach is suggesting ‘masterplans’ for the management of water. A masterplan is a multisectoral and trans-

A masterplan is a multisectoral and transboundary joint investment plan.

boundary joint investment plan. It includes infrastructure investments, data, monitoring, marketing and other soft investments required for a service provision such as electricity and drinking water. A masterplan is based on a shared ownership, pre-negotiated and approved by authorities (from all concerned countries) through an iterative process between technical and political levels, thus creating an enhanced accountability between the parties involved. This enhanced accountability is of a double nature: (a) it is a vertical accountability through the development of a multisectoral investment plan, which does not treat water as a sector but rather as an entry point, to include multiple sectors in the investment plan; and (b) a horizontal accountability through the transboundary nature of the masterplan having involved more than one country or more than one municipality. Both aspects – the transboundary and the multisectoral – are crucial in the sense that they incentivize cooperation and political agreements with water as an entry point among riparian countries (transboundary) and sectors (multisectoral), leading to a reduction in the risk for social, political or economic conflicts and therefore leading to more stable and peaceful societies.

3 Blue Peace Website:

<https://blue-peace-movement.github.io/website/>

4 Report of the Global High Level Panel on Water and Peace

5 Report of the Global High Level Panel on Water and Peace (p.3)

The new financing mechanism proposed in this paper has two financing channels to be considered here as the equivalent of holdings: transboundary water organizations⁶ at the supply side for the sustainable production of livelihood assets and public goods and municipalities at the demand side, which are in charge of assuring access to assets and goods. To reach a circular economy in the management of water, we need masterplans on both sides (see Figure 2). The investments, including access to related funds, will be managed by Blue Peace holdings (see Box 1) based on a delegated authority defined and agreed by governments. This implies that the negotiation, development and implementation of the masterplans fall under the holding's responsibility, while being approved by governments. This allows the holding to manage and supervise the sectoral utilities⁷ as companies. More specifically, the two kinds of Blue Peace holdings are described hereunder:

A. Transboundary Water Organizations (Supply Side – Sustainable Production):

The transboundary nature of this kind of Blue Peace holding is given by having the riparian countries as member states of the transboundary water organization. Different livelihood assets are produced by different utilities in the member states using the river, lake or aquifer water for the sustainable production of these assets. The transboundary water organization manages the water and develops the negotiated masterplan based on the different needs and interests of the member states and their constituencies and therefore includes different utilities from each country (transboundary) and from different sectors (multisectoral). The proposed model includes cross-subsidization of the different projects according to a defined political will: the returns plus fiscal revenues and any other sources of income match the total expenditures, including financing costs. For example, typically, irrigation water for small farmers is often subsidized by the state, while the production of electricity through hydropower is expected to generate profit.

BOX 1: BLUE PEACE HOLDINGS

Blue Peace holdings can be either transboundary water organizations or twinned municipalities managing and supervising their utilities, which sustainably produce and provide livelihood assets and public goods. In some cases it might be necessary for the Blue Peace Trust to create special purpose vehicles for a transboundary water organization or twinned municipalities to enable them to act as holdings.

B. Municipalities (Demand Side – Sustainable Consumption):

The masterplan of the municipalities would be based on organizing and developing their own structures to assure sustainable and affordable access to assets and public goods by citizens and therefore would include different sectors as well (multisectoral). Also in this case it is important that the municipality can act as a holding with a certain degree of delegated authority from the central government in terms of accessing the finance needed through borrowing, grants and/or fiscal revenues. The transboundary nature of the accountability in this case would be ensured through a twinning⁸ mechanism. The twinning would help municipalities having difficulties in accessing capital markets to reach out to affordable loans thanks to a support that reduces financial risks while assuring additional political backing. Municipalities with better access to finance would support their twins in their fund raising with the help provided by a trust (as described in section 4.2). Moreover, twins would receive support in setting up their own exchanges of knowledge based on expertise aiming at managing their own water resources in an environmentally sustainable manner while at the same time improving social inclusion for their citizens.

6 Transboundary Water Organizations can be River Basin Organizations or any other Transboundary Organization between countries sharing the same river, lake or aquifer.

7 Utilities in this paper is referred to in generic terms that includes companies, associations, foundations, or any other institution with legal status allowing them to manage funds.

8 The twinning mechanism is based on the concept of Twin towns (or also called sister cities), which describes the cooperative agreements between towns, cities (and even counties) in geographically and politically distinct areas to promote cultural and commercial ties.

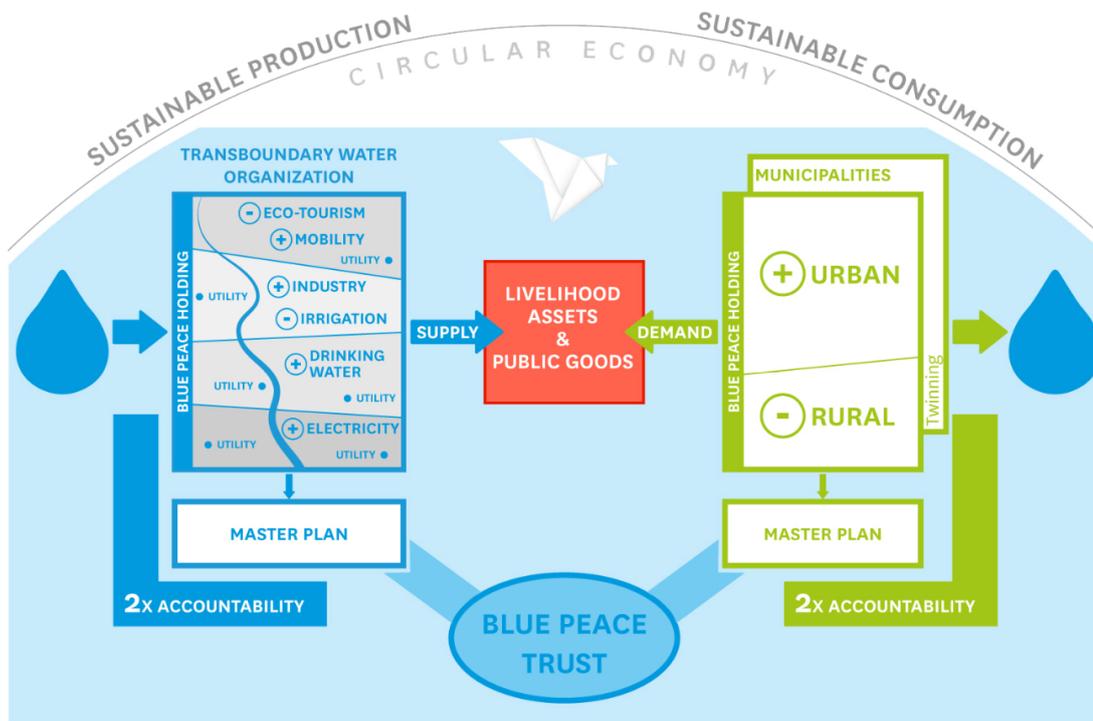


Figure 2: The Blue Peace Production Cycle. © Stéphane Kluser (Komplu)

Currently these two entities access finance through the credit of nation states, therefore competing with other social service needs for resource. When water infrastructure is financed based on the credit of the nation state instead of the strength of its cash flows, the accountability of the repayment becomes blurred. With the suggested masterplans, the Blue Peace approach is changing this by introducing multiple de-risking elements that are not taken into account by the current financial system, such as the following:

1. The masterplan is negotiated and approved at both the political and technical levels and based on political **commitment and joint agreement** among the different stakeholders (transboundary and among sectors). This is the key accountability line of the masterplan, reducing the risk for conflicting situations and having a built-in mechanism to resolve disputes. The joint commitment on the masterplan allows the Blue Peace holdings to manage water more closely aligned to the needs of the end-beneficiary, leading to more efficiency and sustainability and reducing the risk for social unrest.
2. To make the masterplan work, the Blue Peace holdings need to have **delegated authority**, which allows them to have direct access to funds and to manage them based on the needs of the different stakeholders. Thanks to this delegated authority and to the blended finance approach of the masterplan, the holdings will have more flexibility in the allocation and use of funds.
3. The transboundary aspect of the masterplan brings in a **horizontal accountability** line through the shared ownership of the livelihood assets and public goods and the common guarantee by the governments. It is therefore a de-risking factor in itself and facilitates an enabling environment for other projects to invest in the region, allowing economic growth and sustainable development.
4. The multisectoral aspect of the masterplan brings in a **vertical accountability** line by having considered the interests and needs of all sectors concerned. Multisectoral investments are inherently also less risky because of the diversified risk among the different sectors. Furthermore, where the interests of water, energy and food are balanced, it is possible to achieve higher returns on investments. The multisectoral aspect is therefore key to maximizing benefits for all stakeholders and provides an improved risk-return profile.
5. The masterplan will include a **negotiated formula** on how to use water for the different livelihood assets and public goods and how to share their costs and return on investment, including cross-subsidization where necessary. This also implies a shared ownership and common guarantees, which are important de-risking elements in themselves. By having such a negotiated formula, the masterplan avoids oversized infrastructures and is more efficient in financial and technical terms.



6. The masterplan is based on **blended finance** arrangements, where the public sector provides the risk insurance and takes over an important part of the risk mitigation to allow private investors to step in at lower risk. This improves the risk-return profile of investments, providing more security for the private investors.

7. By having masterplans at both the supply and demand sides, the Blue Peace approach leads to a **circular economy** in the management of water, mitigating the risks we face through the upcoming global water crisis. The assumption is that the masterplans are truly concerted and negotiated among different perspectives.

To make these masterplans work, we need to structure a new way of financing that blends both, public money for certain investments and for de-risking and additional private capital for development. Through this approach of blended capital we will unlock large quantities of financing, which brings about meaningful systemic change on the way transboundary ecological resources are financed and managed.

4 A New Way of Financing – The Blue Peace Approach

The way financing currently approaches water investments is through the existing sovereign-based, country-specific landscape, where central government borrowing and projects are undertaken at a sectorial level through the ministry of water, a state-owned utility company or a single municipality. Financing water infrastructure is therefore inefficient and cumbersome and in many cases results in an over-burden of debt for countries. For example, a hydroelectric dam is independently financed from the irrigation scheme or drinking water for the city, and all three are sourcing water from the same river. Furthermore, the segmentation of water investment through the national boundaries and sectorial approach limits the ecological recycling of used water, leading to the management of water as an infinite resource. This administrative way of managing and financing water infrastructure and other water-related projects creates an opaque risk-taking approach out of which investors are secured by a sovereign credit instead of the cash flows coming from the water investments. For example, the financing of projects in a river basin shared by four countries is done through four ministries of finance. Water investments require large sums of capital, and banks tend to form syndications in order to share risks. Therefore, the financing of two projects in the four-country river basin by a six-bank syndication results in forty-eight contracts to be negotiated: six banks will issue two contracts each to four countries' ministries of finance. The process of coordinating the finance becomes a complex maze of conditionalities and negotiations through a bureaucratic approach of public sector borrowing procedures. The result is that it takes years to implement projects, all while the cost of project implementation increases and environmental degradation escalates, leaving people's living standards frozen in underdevelopment.

The aim of this paper is to advocate change in the way financing is approached for water investments in transboundary and municipality settings. 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 creating new ways to access financial capital, leading to a sustainable and circular economy. The Blue Peace Financing Initiative implies that investments are done as a result of negotiated political agreements among completely diverse interests which define how to

share common water resources. The masterplans described above should be viewed by investors as part of a de-risking mechanism that is funded through public finances. The link between the supply of financial resources to water investments and political agreements depends fully on the evolution of the risk perception by investors. The Blue Peace Financing Initiative will encourage investors to understand the benefits of investing in water-related assets and goods as an asset class that cuts across multiple sectors and is anchored in a joint political agreement. This in turn can incentivize the creation of institutional mechanisms managing the integrated masterplan. Therefore, investors will be taking a financial risk that has been politically demystified, inclusively planned and efficiently implemented.

4.1 Creating a New Financing Instrument: The Blue Peace Bond

The objective of the Blue Peace Financial Initiative is to develop an innovative financial instrument that invests in water-related livelihood assets and public goods directly through Blue Peace holdings. The investment instrument will blend both public and private investments into one instrument to de-risk, and the public funds will be used to attract private funds to achieve total financing. The new financial instrument will be called a **Blue Peace bond**. Considering that the majority of bonds will be issued by

*Buying a Blue Peace bond means
investing in future peace!*

either a municipality or by a transboundary water organization acting as Blue Peace holdings, these bonds will be backed by the cash flows of the underlying projects. When a transboundary water organization issues a Blue Peace bond, it will overcome the challenge of coordinating many banks through multiple sovereign borrowing processes – thus smoothing the process of raising financing for project implementation and accelerating development on the ground. Furthermore, these bonds will be catalytic in matching the cash flows of projects to the repayment of bonds, a process that will increase accountability in water resource management.

The bonds will take different structures based on the revenue expectations of a specific masterplan and will therefore be flexible to fully match the cash flows generated by the projects. The Blue Peace Trust (see below section 4.2) will support the issuer on two fronts: credit enhancement and supporting the issuing process. Financial advisory firms will be hired to support the issuer in the structuring of the bond, pricing, issuance timing and distribution of the bond to investors. The Blue Peace bonds will have transparency built in for the life of the bond, where the issuer will have to give information to investors. The structure of the Blue Peace bonds will fuse the bond and the credit enhancement mechanism. The credit enhancement will be subsidized by public funds to increase the marketability of Blue Peace bonds to private investors and to unlock 'structured' financing to match future cash flows to be produced by the sustainable water infrastructure and projects.

Blue Peace bonds will be marketed to the local investors from where the issuer resides, for example, local pension funds, insurance companies, corporations, banks and individual savers. At the same time, the bonds will be available to the international investor community. The idea is to try as much as possible to match the financing demands of the water infrastructure and other water projects to a more impact-based financial supply, therefore opening up new markets. To create the change described above, Blue Peace is creating a trust that will manage change and support the initiatives of different Blue Peace holdings (see Figure 3).

4.2 The Blue Peace Trust

The Blue Peace Trust will work to institutionalize investing in multisectoral transboundary investment plans through two different Blue Peace holdings, which are: (1) transboundary water organizations and (2) municipalities in different countries. The Blue Peace Trust will have the following major roles:

- » Supporting the municipalities and transboundary water organizations through **funding support** of the structuring and issuance of Blue Peace bonds. At the same time providing support regarding de-risking the bonds and therefore attracting global private capital from institutional investors.
- » Providing **technical support** to the transboundary water organizations and municipalities for them to build capacity and in the future to be able to negotiate and design investment plans and also to raise financial resources at a global level on their own.

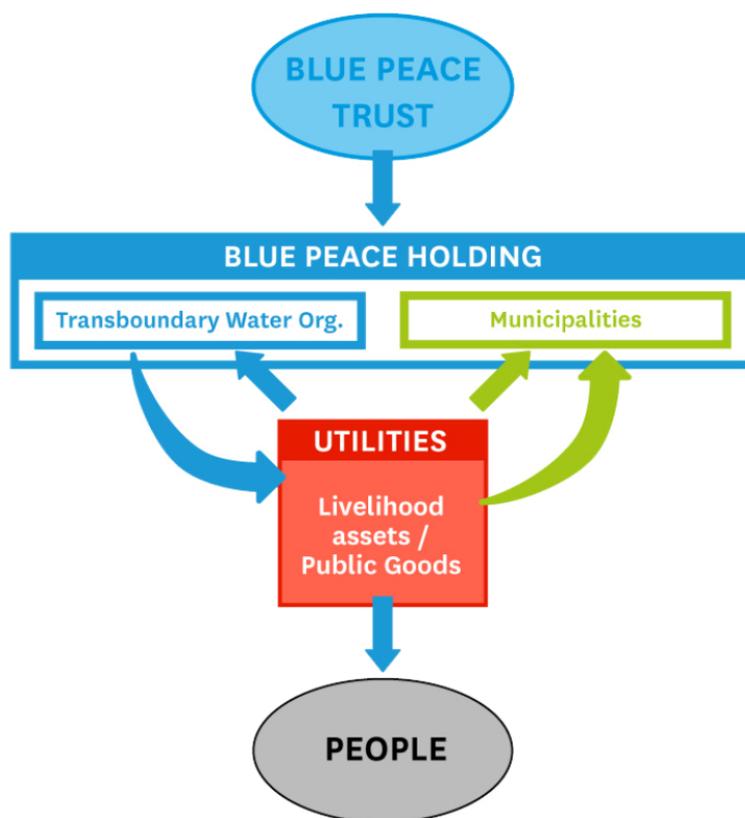


Figure 3: The Blue Peace Trust.
© Stéphane Kluser (Kompro)

- » **Supporting political mechanisms** that create and strengthen the transboundary resource management organizations.
- » **Advocating** for how to invest sustainably in global ecological resources, especially water.
- » Conducting **water diplomacy** with higher-level political support to create a new methodology that allows financial markets to investment in ecological assets.
- » Providing a **branding mechanism** through the Blue Peace Standard, communicating to investors that this is impact investing.
- » Creating a **Blue Peace Index** that acts as a public information sharing and awareness raising mechanism.

The Blue Peace Trust provides the following three main advantages compared to traditional financing:

- » **Impact:** Create a meaningful impact that adds to the Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

BOX 2: WATER AS AN ASSET CLASS

From an economic perspective, the fact that water has the essentials of a public good and that its governance in most jurisdictions is under the right of use, are the main reasons why the Blue Peace Initiative assigns value to a well-negotiated political agreement between riparian communities on a shared water resource. The philosophical question of whether or not water has an intrinsic value is beyond the aim of this paper, nor is the discussion of the pricing of water intended to reflect the tradability of water as a commodity. The aim of the Blue Peace Initiative is to support countries in financing water-related livelihood assets and public goods, both on the supply side from the water resource and on the demand side for the users of water. The incentives that Blue Peace is advocating – for financial instruments to be raised to fund water-related assets and goods – are purely in economic terms based on the value of water-related projects and assets, not on the value of water as such. Therefore, the asset class of the financial instruments that Blue Peace will support should be categorized as water-related bonds from the buy side of the financial sector.

- » **Capacity:** It will support capacity building within the transboundary water organizations and municipalities. One of the main challenges the transboundary entities and municipalities face is the fact that current investors do not provide a proper capacity-building mechanism, which would allow developing countries to become economically more independent and sustainable.
- » **Acceleration:** The Blue Peace financing mechanism will open up a convenient channel for multi-project investment programmes through the masterplans and hence accelerate the pace of development.

4.3 Development of a New Marketplace

The financing instruments that are indicated above can be used to finance both the supply side and demand side of water-related investments. Financial markets normally work well for nation states and big companies. However, outside of the developed nations, municipalities and transboundary water organizations cannot access finance for development purposes. The need for the creation of a new market and the introduction of financial instruments that allow the blending of public funds with the private sector funds to finance sustainable water-related projects will unlock access to capital for municipalities and transboundary water organizations. Access to capital that is blended between public and private funding to invest in sustainable water projects will provide new and larger forms of private-based capital to development projects in line with the SDGs. Once the financial market has started to 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 formation of this market.



5 Conclusion

Water has an inestimable value, and therefore it should not be traded as a commodity as such. What should be traded are the livelihood assets derived from water. This is to ensure that while everybody has equitable access to these, water will be available in the same quality and quantity both at the entry and exit points of the production cycle. For this we use the term 'circular economy'. The aim of this paper was to introduce a new way of financing transboundary and multisectoral water cooperation by creating new ways to access financial capital, which in turn will lead to circular economy and stable societies.

The way financing currently approaches water investments is country-based and sectoral, not taking into account a basin-wide approach and is therefore often inefficient. There is an urgent need for a systemic change to move us from sectoral and national to systemic and transboundary thinking and investing. The Blue Peace approach is suggesting that water is the perfect entry point to focus on the nexus between sustainable development and peaceful societies and to overcome the sectoral and national approach towards water while moving towards a sustainable, integrated, cross-sectoral and transboundary management of water for both people and planet – leading to prosperity and peace. This implies that investments are undertaken as a result of negotiated political agreements among completely diverse interests which define how to share common water resources.

The need for the creation of a new market and the introduction of financial instruments that allow the blending of public funds with the private sector funds to finance sustainable water projects generating multiple benefits will unlock access to additional capital for municipalities and transboundary water bodies, providing new and larger private-based capital to development projects in line with the 2030 Agenda. This new way of financing will support capacity building within transboundary water organizations and municipalities and change the 'game' in the sense that they will go to the market with their own masterplans, pre-negotiated and based on the needs of the local community (rather than on external conditionalities), and investors will compete to invest in these masterplans. Therefore, the Blue Peace financing mechanisms will have a meaningful impact that adds to the SDGs and the Paris Agreement and will create a real systemic change leading to sustainable and economic development as well as peaceful societies.



6 Annex: 8 Reasons to Invest in Peace Through Water

1. **It's about investing in sustainable impact:**

There is a growing demand for impact investing.⁹ This 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 good risk-return profile since there are a number of de-risking factors and mechanisms (see also points 2, 3, 5, 6) as well as a good return on investment that can be expected (also see points 3, 5, 7, 8).

3. **It's a long-term investment:** Long-term investments face lower volatility and are therefore less risky. Long-term investments also often provide tax advantages and have lower transactions costs.

4. **It's a multisectoral investment:** Where the interests of water, energy and food are balanced, it is possible to achieve higher returns on investments. Multisectoral 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, here-with providing 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 finance arrangements, public finance, sometimes combined with philanthropic capital, takes 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 provides more security for the private investors.

6. **It is transboundary investment:** Investing in transboundary (water) projects incentivizes transboundary cooperation and promotes peace in the region. This in turn reduces the risk again through diversification (simply through having more than one country in the project) and facilitates an enabling environment for other projects to invest in the region, allowing economic growth and sustainable development.

7. **Investing in water:** It is expected that water will in future become more valuable than oil as rising demand from people, industries and agriculture will apply pressure on the scarce water supplies worldwide.¹⁰ To assure long-term returns on investments in goods and services that are related to water, water has to be preserved in quantity and quality at both the entry and exit points of the production systems. This implies ensuring that water does not become a scarce commodity and is therefore traded accordingly.

8. **First mover advantage:** Since we are talking about a new financing mechanism in something that cannot yet be invested in – transboundary water cooperation / water and peace – there will be a first mover advantage for any investor investing at this stage of the process. Being first will allow these investors to establish strong brand recognition and customer loyalty before competitors enter the arena.

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

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

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