Global High-Level Panel
on Water and Peace

Think-Tank Roundtable
Report

February 2017

Financial Incentives for Water Cooperation

This document is a summary paper for the Global High-Level Panel for Water and Peace. It is not intended for wider circulation.

This summary report has been prepared by the Geneva Water Hub as an input paper for the Global High-Level Panel on Water and Peace.

The report provides a summary of a senior experts' think tank roundtable co-convened by the Geneva Water Hub, on 28 February 2017 in Geneva. Global High-Level Panel on Water and Peace. Thanks to all the participants, panelists and to Adelphi for the editing of this report. The analysis and recommendations in this note represent only the opinion of the participants.

The Geneva Water Hub is developing a hydropolitics agenda to better address water-related conflicts and promote water as an instrument for peace (www.genevawaterhub.org) with support of the Swiss Agency for Development and Cooperation (SDC) and the University of Geneva.

The World Meteorological Organization is a specialized agency of the United Nations with 191 Member States and Territories (https://public.wmo.int/en). It is the UN system's authoritative voice on the state and behaviour of the Earth's atmosphere, its interaction with the land and oceans, the weather and climate it produces and the resulting distribution of water resources.

For more information, please reach out to the Geneva Water Hub – Global High-Level Panel on Water and Peace Secretariat at contact@genevawaterhub.org.

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1. Introduction

The Secretariat of the Global High-Level Panel on Water and Peace [1], the Geneva Water Hub, organized a two-day think-tank workshop on "*Hydro-Diplomacy and Financial Incentives for Water, Peace and Security*" to discuss possible approaches for fostering water cooperation for broader peace-building and develop recommendations of action for the Panel. The workshop was held in the context of the collaboration between the Panel on Water and Peace and the UN-World Bank High-Level Panel on Water.

Water is increasingly recognized as an essential tool for the maintenance of peace and security at international and local levels[2]. However, while current approaches to transboundary water cooperation have been beneficial and continue to be necessary, realizing this potential will require new models of hydro-diplomacy, coupled with economic and financial incentives. These models should seek to move beyond joint management into a broader, more comprehensive drive for peace-building and conflict-prevention. They should deal with intersectorality as water-related conflicts are mainly and increasingly due to competing sectoral interests and tensions between sustainable development objectives. The workshop addressed the question of how such water cooperation could be strengthened by dedicated institutional and financial mechanisms, and how diplomatic efforts and financial incentives could be linked more effectively.

The first think tank roundtable on February 27, 2017 addressed the subject of "New Models for Hydro-diplomacy", building on the proposals considered during the third meeting of the Global High-Level Panel on Water and Peace in December 2016 in Costa Rica. Based on a discussion of the paper "New Models for Hydro-diplomacy – Beyond shared Management" participants discussed the idea of establishing, in connection with *Regional Multilateral Water Centers*[3], a *Global Observatory for Water and Peace* as a global knowledge management and coordinating mechanism to provide guidance on and models of best practice to governments in using water for peace processes. The discussions and results of this part of the workshop were summarized in a previous report.

The second think tank roundtable on February 28, 2017 dealt with "*Financing Incentives for Water Cooperation*" and discussed current and potential financial mechanisms for facilitating water cooperation. The workshop addressed the links between water, diplomacy and financing, notably in terms of the blockages that one poses on the feasibility of the other, and explore further how to move forward from these constraints and develop opportunities across the finance, insurance and impact investment levels. Financial incentives were explored both in terms of their setting (transboundary, cross-sector or post-conflict situations) and in terms of their timing on the project/program cycle: at "upstream" early concept stage, at development stage and to sustain longer term water cooperation through innovative mechanisms such as result-based financing. The discussions and results of this second think tank roundtable are summarized in this report.

2. Financial Incentives for Water Cooperation: Challenges and Opportunities

The first session of the day focused on the challenges of funding transboundary water projects and discussed potential mechanisms for incentivizing cooperation. The first presentation introduced the Retooling Operations with Transboundary Impact (ROTI) study which identifies tools that promote riparian country coordination aimed at mitigating transboundary harm and leveraging benefits of investments in transboundary basins. The risks of transboundary tensions are high in a number of basins (also compare UNEP 2016); and there are comparatively few countries that engage in transboundary water projects.

The study aims to identify tools that can be used to generate mutual benefits and mitigate transboundary harm. There are two key sets of tools that can be employed: The first set of tools can be employed by the cooperating parties directly, e.g. data sharing or joint investments. For instance, in the case of the Columbia River Treaty between the US

[1] The Global High-Level Panel on Water and Peace is a collective initiative of a group of countries committed to global water issues which was launched in November 2015 in Geneva. The Panel is in the process of developing a set of proposals aimed at strengthening the global architecture to prevent and resolve water-related conflicts, and to facilitate the use of water as an important factor of building peace. www.genevawaterhub.org/projects/global-high-level-panel-water-peace-secretariat

[2] "Water" in the context of this report is understood in its broader scope, comprising the resource itself as well as other connected environmental resources like fish or forests.

[3] Their objectives being to enable, through a resilient, practical and transferable peace-building mechanism, the core parties to a conflict to harness the potential of water for peace-building through the various stages of a peace process.

and Canada, the latter stores and regulates upstream flows for downstream flood control and hydropower generation. The benefits of hydropower are calculated based on the Assured Operating Plan and shared between the two countries. The second set of tools can be provided by third parties (such as the WB or other development partners) in support of riparian parties, for example by offering convening power, technical assistance or guarantees.

It is generally more difficult to identify tools and mechanisms for effectively managing risks of harm and ensuring compliance. In such a case, a client might request the involvement of a third party to realize greater benefits or to avoid/mitigate projected harm. There are four broad categories of such involvement:

1. Facilitation (e.g., a convening role to get parties to the table);
2. Technical assistance (e.g. provisions for financing equipment, ensuring impartiality of monitoring systems);
3. Financial instruments (providing credits, loans, grants, and/or guarantees to realize a joint project); and
4. Legal engagement (e.g. legal covenants prescribing operations, neutral role in dispute resolution).

Where credits or loan mechanisms are involved, these tools presume the willingness of riparian countries to borrow money to realize a joint transboundary water project. Therefore, countries need to see that the benefits that can be derived from cooperation outweigh its costs. This cost versus benefits valuation usually takes into account a broad set of issues, not only water. And from a countries' perspectives, benefits often do not outweigh the costs or perceived risks of cooperation and therefore only a limited number of projects along internationally shared rivers and lakes have been realized so far.

The second presentation on financial incentives for water cooperation emphasized that key to attracting investors is having a good project. It emphasized several challenges regarding the set-up of transboundary water projects, including the mismatch of differing legal frameworks, differences in financial capacities, varying technical standards, differing interests among the actors and stakeholders and the question of trust.

In upstream-downstream settings, projects are often realized in one country only. In such a case a River Basin Organization (RBO) can be involved. Depending on its mandate and legal status, an RBO can take different roles in project development and implementation, including coordination, communication, planning, data collection and management and even supervision of implementation.

The subsequent discussion revolved largely around the question of private sector involvement. In the case of the Lesotho Highlands Water Project (LHWP) between South Africa and Lesotho, for example, some private co-financing was involved. The same is true for many large hydropower projects. However, attracting private funding is particularly difficult in cases with lots of practical operational challenges and projects with high political risks (such as where large infrastructures are involved). Guarantees provided by development banks and well-functioning basin institutions can reduce such (perceived) risks (although the private sector generally deals in promises rather than guarantees). Participants also stressed that some residual risks remain and that the private sector has little appetite for residual political risks – these will often ultimately have to be borne by the taxpayer. However, since the history of finance is one of innovation, this can change – though not all financial innovation has turned out beneficial.

Participants also stressed the difference between financing transboundary water projects and financing transboundary water projects for peace. Considering that the benefits of projects with a peace component go beyond private economic goods to include diffuse and non-excludable political goods, funding for these kinds of projects (or project components) will usually have to come from public sources. Neither venture capital specialized in water projects nor multilateral funding is looking for water for peace projects, but for return on investments.

A third presentation looked at the funding challenges from the perspective of an RBO (namely the Organisation Pour la Mise en Valeur du Fleuve Gambie (OMVG)). As an RBO that focuses on the joint exploitation of the river resources, OMVG provides several advantages: there is high political will among riparians to cooperate, a strong legal and institutional framework as well as support and commitment by developing partners. The presenter emphasized that to ensure long-term cooperation between the member states they need to perceive the benefits of cooperation, realized through joint projects.

OMVG currently focuses on realizing benefits of joint cooperation through extending the regional electricity transmission network among member states and connecting new power stations (such as the Sambangalou hydropower project in Senegal/Guinea). The project is financed through loans from a range of multilateral and development banks[4].

The presentation highlighted several challenges regarding funding of such activities. These include a generally high dependence on external funding, the lack of internal financing mechanisms, limited management capacities, high funding volumes of projects (an average of 200 billion CFA Franc per project), lack of internal legal provisions reassuring donors on OMVG's negotiation power, high requirements and conditionalities from donors as well as different levels of development within riparian countries.

The presentation highlighted several aspects that could help improve the funding situation for RBOs and OMVG in particular. On the part of the RBO and its member states, more efforts should be undertaken to mobilize funding resources within the region and improve governance structures. Another suggestion was for OMVG to attain legal personality that would enable the RBO to access and mobilize funding more directly (instead of via its member countries or via international organizations). On the part of development partners, the presentation suggested stronger (financial) incentives for joint regional projects and more flexible funds that allow for more cooperation with the private sector.

During the subsequent debate participants discussed the issue of creating mutual benefits to incentivise cooperation. For both parties benefits of cooperation need to outweigh its costs (or risks). In the case of the Kunar river basin, shared by Afghanistan and Pakistan[5], the development of a coordinated hydropower cascade will likely benefit both countries. Given the security situation in the investment area and the existence of alternative hydropower development and electricity generation opportunities, in particular in Pakistan, the perceived risks of the project seem to outweigh is benefits for it to become a priority.

3. Connecting the Dots: The Safe-Space – Catalyst Facility

This section focused on overcoming inefficiencies in the preparation of intersectoral or transboundary water cooperation projects due notably to insufficient or ineffective stakeholder consultation and participation. To this end, the presentation suggested the establishment of an informal and neutral platform (a "Safe Space / Catalyst Facility") to support the development of bankable projects (see proposal in Annex 2).

The presentation outlined that, compared to other sectors, there is a lack of well-prepared water projects that are "bankable" or "fit to finance" (see HLP on Financing Infrastructure for a Water-Secure World 2015, WB Global Water Practice for HLP on water, 2016) and even much less so in the case of transformative, water cooperation projects in intersectoral, post-conflict and/or transboundary contexts. . The shortage of "bankable" projects is reflected in the decreasing number of approvals of new transboundary or intersectoral water cooperation projects, and the slow disbursement of funds earmarked for existing projects. This is particularly worrying because the number of transboundary and inter-sectoral disagreements and disputes is increasing at the same time.

The presentation proposed the establishment of an independent "Safe Space / Catalyst Facility" to strengthen the global architecture, realize joint benefits from intersectoral or transboundary water cooperation, and prevent water-related conflicts. This facility would offer an informal space for cross-sector and/or cross-border negotiation and bring all relevant stakeholders, including those from the funding side, together at an early stage of project development. It would be conceived as a catalyst for political and physical investments in water cooperation, preparing the ground for future water investments for the purpose of fostering peace and security.

The presenter summarized the benefits that could be derived from such a facility. As such, the Safe Space / Catalyst Facility (see details in Annex) could:

- Provide an informal, neutral platform to complement other formal cooperation mechanisms to promote water diplomacy;
- Foster interactions in a think tank mode between parties that would otherwise have challenges to meet in an open and formal context (e.g. bringing together sector experts, diplomats and potential financiers);

[4] Financing organizations include the World Bank/International Development Agency (IDA), French Development Agency (AFD), the African Development Bank (AfDB), the Islamic Development Bank (ISDB), the West African Development Bank (WADB), the European Investment Bank (EIB), the Kuwait Fund (KF), and the German Kreditanstalt für Wiederaufbau (KfW).
[5] The Kunar River is a sub-basin of the Kabul-Indus River Basin.

- Offer a platform to share (sensitive) data/information and ideas to develop joint concepts and projects;
- Facilitate the creation of political will to pre-negotiate principle agreements and, where possible, identify and prepare joint projects;
- Help prepare and develop "bankable" projects by including potential investors and financiers at an early stage within project development.

The presentation suggested that the Catalyst Facility could possibly be linked to the proposed Global Observatory, which could help to establish such a facility upon request by interested parties. Setting up this facility would require some funding which, it was suggested, could be provided by some of the HLPWP's co-convening countries to support its activities.

The following discussion centered on the questions of whether the proposed Safe Space/Catalyst Facility could be feasible for cross-sector, informal pre-negotiations between government and non-government actors, which challenges needed to be dealt with and how it could be institutionalized.

Participants argued that the mechanism could be valuable for the development of transboundary water projects, particularly with regard to avoiding certain implementation problems. In addition, they welcomed the possibility for such a mechanism to support the development of different assessments and scenarios reflecting the costs and benefits of cross-sectoral/transboundary cooperation (including the potential costs of non-cooperation).

While signaling interest in the idea, participants stressed that the mechanism would require more detailed analysis and reflection on a number of issues: Which actor would be perceived as sufficiently impartial to be in a position to organize such a facilitation function; at what stage at the planning process would such a function be established, and who would initiate it; why have similar previous attempts failed and what could be learned from these examples (such as the World Commission on Dams)?

One of the main challenges, it was argued, would be to provide incentives for early-stage engagement of all relevant actors. The issues discussed in the first part of the roundtable (see separate summary report) as well as the idea of the Blue Fund (see next section) provide some ideas on incentivizing cooperation.

The timing of the involvement of the Catalyst Facility was furthermore raised as a crucial issue. There seemed to be agreement that the function should be available through the whole life span of a project.

Considering the facility's focus on inter-sectoral as well as transboundary issues of cooperation, participants raised the question whether the facility could benefit from closer cooperation with nexus initiatives like Nexus-Dialogue program of the the German Gesesllschaft für Internationale Zusammenarbeit (GIZ), which highlights the interdependencies between water, energy and food security and aims to promote more integrated governance approaches.

There seemed to be agreement that the proposed Safe Space/Catalyst Facility would need time to be built up and be available as a 'permanent opportunity' for a considerable time and should possibly start out with a more limited mandate, e.g. to facilitate inter-sectoral engagement.

4. Incentivizing Financing for Development

The first presentation of this session introduced the idea of a Blue Fund which would cover the interest rates of joint transboundary infrastructure projects to provide an additional incentive for cooperation. The idea of the Blue Fund is outlined in more detail in the attached input report (see Annex I). This document was shared with all participants prior to the roundtable event.

The presentation started out by emphasizing existing gaps in the international funding architecture. Multiple donor funds are available for activities in transboundary contexts that cover institution building exercises, confidence building measures or small demonstration projects from bilateral and global donor agencies. Additionally, there is some private sector philanthropic funding available for conservation, education and other grass-root activities. Sovereign wealth funds furthermore provide financing for large infrastructure projects at the national level.

However, the presentation suggested there is a lack of funding for large-scale transboundary infrastructure projects that are realized jointly by two or more riparians. Countries which lack the financial means to ensure funding of such projects often have difficulties in acquiring such funding from external actors (private investors, development banks etc.). Those who have the financial means often realize such projects unilaterally, without fully considering social and environmental impacts of these projects on other riparians.

The presentation therefore argued that there was a need to create additional incentives for financing collaborative transboundary water projects. This idea could be realized through the establishment of a "Blue Fund". This Blue Fund would cover a combination of costs, including interest rate subsidies, insurance and feasibility costs of a joint transboundary project for large-scale projects (capital costs of 100 Mio. USD and above) that have attained funding support from a multilateral development bank.

Funding for the proposed Blue Fund could come from a variety of actors, including international donors, emerging economies or international development banks.

The second presentation emphasized that funding is central for the realization of projects but that funding is usually the last stage in project planning. The presenter then raised the question whether there really was a lack of funding or a lack of good projects. Siding with the latter, this presentation argued that the available (donor) funding should be invested in the front end of project development, rather than broader project subsidies. Resources were needed to develop, not subsidize good projects (which would also find financial backing) and should therefore be invested in activities such as dialogue or capacity building. The role of the discussed Safe Space could be to facilitate this – in particular to sort out interests and move away from negotiating national positions.

The presenter also stressed the need to quantify the potential benefits of different cooperative activities in the area of transboundary water cooperation to increase incentives for joint action. Recent activities by UNECE to list and provide a guideline on how to quantify such benefits move towards the right direction and should be supported[6].

The presentation moreover stressed the need to better differentiate between the various possible objectives for increasing incentives for transboundary water projects, whether they served the purpose of reducing risks (e.g., of political disputes and conflicts), promoting sustainable water management or of realizing a peace dividend. Depending on the specific purpose, efforts for increased incentives would likely differ.

Considering the important role of water in climate change (with some 80% of climate impacts transmitted through water), there should be additional focus on facilitating the accessibility of available climate funding, such as the Green Climate Fund (GCF), for transboundary water projects. The mitigation component of the GCF in particular (which 50% of its funding should be channelled into) provides funding opportunities for transboundary water projects.

Whereas climate change actors have been rather successful in raising the issue of climate change to the highest political agendas, water actors have been less effective in doing so. There is therefore a need to raise the profile of water in the political agenda to the same level as climate change.

A major part of the discussion revolved around the feasibility of a new fund. Participants stressed that the establishment of new funds always faced many challenges. This included the question of whether existing resources should be redirected or new funding was needed. Participants also emphasized that there were good reasons for why existing funds were limited (for example because they usually comprise public tax money) and that this needed to be better reflected in the proposal.

Moreover, participants argued that experience had shown that the establishment of a fund usually takes several years. The life-span of the HLPWP as well as other panels (like the HLP on Water) is much shorter. The idea of creating a new fund would, therefore, have to be handed over to another body. In response, however, participants also noted that the HLPWP role was to make suggestions to actors in the global water community as to what could be done to increase water cooperation, not to implement any recommendations.

Other participants underlined that interest rates of infrastructure projects were probably not the most effective lever for incentivising cooperation in the transboundary context. Instead, such incentives should address the intensive preparatory work that such projects require – which arguably was the project stage when most difficulties arose.

Generally, there seemed to be agreement that the idea of the Blue Fund required further discussion on who would initiate, capitalize and operate such a fund and under which conditionalities funding would be provided for – all of which would be challenging questions. Despite these challenges, participants noted that there could be ways to forward the idea in some step-by-step modus. To get the idea off the ground, a program could be established within

[6] UNECE (2015) recently published a policy guideline which lists different benefits of transboundary water cooperation and provides information on how to carry out a benefit assessment exercise.

the WB Water Trust Fund, drawing on existing funding. This could be realized in a much shorter time-frame and would then allow to further discussion on the existing open questions[7].

In the discussion, participants moreover stressed that the idea of increasing efforts to quantify benefits of transboundary water cooperation/projects was a very promising approach that should be pursued further. However, it was stressed that quantification can be very difficult and that several types of benefits remain difficult if not impossible to quantify. Furthermore, the timing of benefits (who gets what and when) would need to be considered.

Finally, participants noted that drawing attention to the links between public funding for water issues and the issue of global migration – which currently features high on the political agenda in many countries – could potentially strengthen political interest in water issues.

5. Ensuring Long-term Sustainable Financing

The last session of the roundtable event aimed at identifying ideas for recommendations by the HLP on how to ensure the long-term viability of attempts to foster water cooperation.

The first presentation looked at the challenges of private sector involvement from the perspective of hydropower investments in national projects along internationally shared river basins. Approaching the issue from a law perspective, the presenter observed some contradictions between the two main bodies of law that apply to such projects – namely International Water Law (IWL) and International Investment Law (IIL). Whereas IIL constitutes a very well developed body of law in terms of global norms as well as bilateral investment treaties, IWL is much less developed. For example, the more than 3000 bilateral investment treaties set out very specific standards as to how investments have to be treated, including e.g. expropriation regulations.

Looking at dispute-resolution cases, there is a tendency towards supporting the investors' rights. That is particularly challenging in the water sector: whereas investors are generally interested in as little risk, and as stable policies and regulations as possible, water managers are generally interested in as much flexibility and room for adaptive management as possible. Water governance actors should hence be aware about the difficulties that more private actor involvement could entail.

The subsequent presentation moved to the example of the Mekong basin, which is currently seeing a lot of investments in hydropower development, and looked at the current situation in Laos in more detail. There are currently 13 running hydropower operations in the basin, and more than 100 new projects are in the pipeline, mainly for energy export. Nearly all of them are funded and run by different private actors in so-called built-operate-transfer (BOT)-schemes. For most of these projects, the concession agreements have already been signed.

The presentation outlined that the Lao government has failed to include important provisions in these agreements that would allow the government to estimate the impacts of or coordinate the various projects. For example, the agreements do not include provisions for data sharing with government offices (e.g. on water flow, sediments, fish migration etc.). Furthermore, there are also no mechanisms included in the agreement that point to coordinated management of the cascade of hydropower schemes.

The presentation concluded by arguing that although private actors and investments are crucial for funding and operating water infrastructures, we should be cautious as to the possible implications of such involvement. There is hence a need to increase the dialogue with actors that are experienced in dealing with private investors (such as investment experts or lawyers).

This raised the question why there was no interest and no attempt from the investors' side to coordinate each other's activities. For example, would not a downstream investor seek guarantees on upstream developments? Should investors not be very interested in reducing risks, considering the large investments?

The reply revealed that there is a significant a lack of legal capacity and a lack of (coordination of) responsibilities on the part of the Lao government. Most agreements were signed by the Ministry of Energy, which does not have any detailed insights into water-related data (held by the water ministry). From the perspective of the developers, risks

[7] The WB Water Trust Fund, however, has no specific transboundary component. The use of the GEF which has a dedicated International Waters focal area with a long experience of supporting transboundary water projects could be an alternative.

may seem limited once an agreement with the government has been signed as these agreements guarantee them specific water rights (plus, the dam's developers may not be the operators).

The last presentation of the day introduced the Humanitarian Impact Bond, which the International Committee of the Red Cross (ICRC) is currently developing, with a US$ 20 million test ongoing. The mechanism of the bond involves three parties: the social investors (private sector), the ICRC, and outcome funders (typically charity foundations and government institutions). The ICRC proposes a project that has easily quantifiable outcomes, a time-scale for completion is set (for example, 3 or 5 years), and the parties agree on what a realistic outcome is for that time.

At the end of the time period, the funder pays for the results achieved. If the ICRC does not reach its goal, the funder ends up paying a smaller amount than needed to realize all the outcomes of the project, leading to a loss for the investors. If by contrast the ICRC exceeds its target, then the funder is liable to pay for more than the planned outcomes, and the difference is earned by the social investor, constituting the potential premium.

The presentation outlined some of the lessons learnt by ICRC from the experience in setting-up the Humanitarian Impact Bonds. With this model, the ICRC can receive the entire budget for the project upfront instead of relying on annual donations, thus making planning easier and implementation more efficient. The model will however also require new forms of more accurate measuring and monitoring, which can be challenging tasks in the humanitarian operating environments. Moreover, whereas the ICRC initially thought that this would be a great way of transferring risks to the private sector (and harnessing its risk assessment capacities), it almost seems as the instrument is 'too new'. Finally, humanitarian and investor interests may sometimes diverge, e.g. in circumstances where goals other than those targeted should suddenly need to receive priority, or unintended outcomes call for strategy revision. Should such cases occur, it is important to ensure that operational control rests with humanitarian actors and the humanitarian interest prevails.

In the following discussion, participants remarked that a key issue for such instruments' success was its tradability (and hence liquidity). Whether a bond is tradable or not would affect the type of investors and amount of capital that can be attracted. Participants also discussed the need to consider the impact of such a mechanism on the image of an organization such as the ICRC. A focus on the best possible return on investment could be interpreted as making money on the back of the most vulnerable people – even if the money made was a function of increased performance, the intended outcome of the instrument's introduction.

The last presentation shared some experiences and insights from commercial finance. The global market for residual risk comprises some 68 trillion dollars. With a market share of less than 2 percent, water and sanitation play a very minor role.

What is unique and attractive about water investments is the absence of substitution risks (as they exist for example for energy investments such as power plants). However, due to the capital intensity and huge sunk costs in the water sector, there is a high asymmetry risk. As a consequence, even just a few failed projects could sink the major global players in the sector. With the combined market capitalization of the three biggest players roughly equaling that of Tesla, they simply cannot take on more than a very small share of the risks. Moreover, return on investment in the water sector is not very high by comparison.

The subsequent discussion turned on the issue of investment arbitration. A look at the decisions of arbitration tribunals on disputes between public and private actors was argued to reveal that the relation between governments and private investors was often very close and that investors were very dependent on actions and decisions by the state. To increase the attractiveness of investments in the water sector, participants argued that there was a need to depoliticize such disputes.

Moreover, given the limited role that the private finance has played in building developed countries' water sectors, some participants expressed doubts that we could expect private finance to play a greater role in developing countries. This begged the question of the sources of funding that could be tapped – a question to which no clear-cut answer emerged.

Overall, participants agreed that public funding would remain the most important source for investments in the water sector. Participants underlined that large peace-focused water projects – such as e.g. the Red-Sea-Dead-Sea project – would not go through market structures. Putting numbers on the peace dividend of such projects is virtually impossible. Often, these projects do not follow an economic but a purely political rationale. However, determining whether there is a real peace dividend to a project (or not) – confirmed by an independent actor – is nonetheless an important question for public investors (governments, donors etc.) – as are efforts on how the effectiveness and efficiency of such political projects could be optimized.

Finally, participants mentioned that to date – despite the many calls to increase public and private investment in the water sector to reach the SDGs – there was surprisingly little scientific activity addressing the question of how to possibly achieve this increase in funding. They therefore suggested for the panel to recommend increased research activity in this area to increase scientific evidence on the subject, possibly nudging research funding (such as e.g. the EU's Horizon 2020 programme) from technical towards financing issues.

6. Summary and recommendations

The following list summarizes the key issues and recommendations discussed at the second day of the roundtable on the topic of "Financing Incentives for Water Cooperation" to be considered by the High-Level Panel for Water and Peace.

Main recommendations:

1. The international community should **create, in a sustained and significant way, financial and other incentives** to promote trans-boundary and intersectoral water cooperation.

2. **The financial architecture should be strengthened through an incentive mechanism** that promotes water for security and peace initiatives and water cooperation projects by:
   a) **Leveraging and increasing access to conventional financing sources** that exist to promote such projects, including GEF International Waters, IDA regional credits
   b) **Encouraging the development of innovative financial instruments** at global and regional level for water cooperation, including preferential and concessional finance (such as the proposed Blue Fund), results-based financing, guarantees and bonds to increase private sector financing
   c) **Addressing the lack of bankable projects at intersectoral and/or transboundary levels** by providing a neutral, independent «safe space». The "catalyst facility" would offer a "pre-negotiation" space at an early project development stage or to address major implementation issues, to help generate innovative ideas and develop confidence between stakeholders from all sectors of the economy. The facility could be hosted by an existing water cooperation organization or by the proposed Global Observatory for Water and Peace to foster interactions between water, finance and diplomacy.

Additional recommendations and summary:

1. There are **multiple challenges for transboundary water cooperation that need to be considered** when trying to find ways to overcome financing obstacles. They include, amongst others, proper legal frameworks, appropriate financial capacities, and technical standards, but also processes for managing interests, trust, and political risks.

2. Global legal frameworks are insufficient for overcoming these challenges and need to be complemented by **more specific legal frameworks**. The case of the OMVS showed how such a framework can reduce some of the existing risks and pave the way for finding solutions.

3. Promoting water and the **use of water for peace requires a particular focus on the public side of funding** (as opposed to funding from private actors). Although private funding could be helpful, water is essentially a public good that requires public investments – and the same is true for peace.

4. The preparation of good and "bankable" projects requires a **full assessment of context factors, including economic, social, environmental, and other factors** – not only in terms of an expert assessment, but also in terms of ensuring agreement by all the parties involved.

5. The proposition of the "**Safe Space – Catalyst Facility**" requires more discussion and reflection on potential actors that could facilitate such a mechanism, beyond the proposed International Observatory for Water and Peace. Key challenges include the facility's ability to involve all the necessary actors at the right moment.

6. The proposed idea of the **Blue Fund** would require further development, with several participants expressing doubts whether this mechanism could incentivize transboundary water cooperation and whether its establishment was feasible in the short to medium term. Instead, participants proposed **a more gradual approach, starting with more intensive use of existing financing options**. Several participants emphasized that the financing bottle neck related to the availability (i.e. identification & development) of good projects rather than the availability of funding, and that early stage project development of bankable projects should hence form the primary focus.

7. There is a need to better **differentiate between projects that provide peace dividends and those trying to prevent conflicts** as this provides different incentives for public and/or private investments.

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8. Participants

N°	Name	Organisation
1	Francesca Bernardini	UNECE, Secretariat of the Convention on the Protection and Use of Transboundary Watercourses and International Lakes
2	Sabine Blumstein	Adelphi, Berlin
3	Laurence Boisson de Chazournes	Global High-Level Panel on Water and Peace / University of Geneva
4	Christophe Bösch	Geneva Water Hub
5	Christian Bréthaut	Geneva Water Hub / University of Geneva
6	Mathieu Cantegreil	International Committee of the Red Cross (ICRC), External Resources Division
7	Ciarán Ó Cuinn	Global High-Level Panel on Water and Peace / Middle East Desalination Research Center
8	Jean-François Donzier	International Network of River Basin Organisations
9	Pascual Fernández	Global High-Level Panel on Water and Peace / Colegio de Economistas de Madrid
10	Isabelle Fauconnier	International Union for Conservation of Nature (IUCN), Global Water Programme
11	Ilmas Futehally	Strategic Foresight Group, Mumbai
12	Eileen Hofstetter	Swiss Agency of Development and Cooperation (SDC)
13	Noura Kayal	Swiss Agency of Development and Cooperation (SDC)
14	Csaba Kőrösi	UN-World Bank High-Level Panel on Water / Office of the President of the Republic of Hungary
15	Christina Leb	World Bank, Water Global Practice
16	Peep Mardiste	UNECE, Secretariat of the Convention on the Protection and Use of Transboundary Watercourses and International Lakes
17	Owen McIntyre	University College Cork, Faculty of Law
18	Jelena Milenkovic	Geneva Water Hub
19	Alex Mung	World Economic Forum

20	François Münger	Geneva Water Hub
21	Ababacar Ndao	Gambia River Basin Organisation/Senegal River Basin Organisation
22	Federico Properzi	UN-Water
23	Philippe Rohner	Pictet Asset Management, Thematic Equities
24	Komlan Sangbana	Geneva Water Hub / University of Geneva
25	Susanne Schmeier	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Transboundary Management
26	Kerry Schneider	Stockholm International Water Institute (SIWI), Shared Waters Partnership
27	Zaki Shubber	UNESCO-IHE Institute for Water Education in Delft, The Netherlands.
28	Mara Tignino	Geneva Water Hub / University of Geneva
29	Sarah Tifenauer	United Nations Economic Commission for Europe
30	Danilo Türk	Chair of the Global High-Level Panel on Water and Peace, former President of Slovenia
31	Alvaro Umaña Quesada	Co-chair of the Global High-Level Panel on Water and Peace, former Minister of Energy and Environment, Costa Rica
32	Sundeep Waslekar	Strategic Foresight Group, Mumbai

Annex 1: Financial Incentives for Water Cooperation[8]

We believe that riparian countries sharing water resources should cooperate in practical ways including institutionalising basin management, capacity building of national personnel to participate in regional efforts, joint or coordinated investments in water related infrastructure, among other ways.

There are 286 shared fresh water resources, mostly rivers and a few lakes, though some of the earlier statistics indicate this figure to be 276 or 263. Of them, only 84 shared basins are known to have river basin organisations and of them only a few are effective and comprehensive. Of the developing countries that participate in river basin organisation in their respective regions, very few promote joint projects of significant size in hydro-electricity, irrigation, navigation, eco-tourism among other spheres.

We believe that it is necessary to provide incentives to promote practical cooperation in shared basins in different forms. An important form of incentives can be preferential and concessional finance for collaborative water projects. It can induce parties to prefer collaborative approaches to nationalistic ones whenever and wherever possible. It can also generate financial benefits. Collaborative projects mitigate the risk of protests by one of the countries due to wider ownership, reduce the overrun of costs, and thereby increase returns on investments. This can create a virtuous cycle.

We believe that imaginative financial instruments are needed to promote cooperation in shared basins in a significant way. Some such instruments do exist but there is a clear need to build on their experience to increase scale and coverage. We believe that it is necessary to undertake efforts at regional and global levels to develop, introduce and use preferential and concessional financial instruments for trans-boundary water cooperation with an objective to spread institutionalised cooperation as far and wide as possible.

Imaginative financing can help achieve Sustainable Development Goal (SDG) 6.5.2 aimed at promoting trans-boundary cooperation in all shared river basins of the world by 2030. It can also be helpful in achieving SDG 6.5.1 aimed at promoting integrated water resource management.

While developing new instruments, it is necessary to learn from the experience of the existing financial instruments in related spheres.

Experience of Climate Funds

In the last few years, several climate and environment funds have been launched at the global level. A brief synopsis of the most important funds is presented below.

1. **Green Climate Fund (GCF)**

[8] This discussion paper was prepared by the Strategic Foresight Group (January 2017)

The Green Climate Fund aims at long term climate finance under the auspices of UNFCCC to help developing countries adopt practices that will mitigate and counter climate change. It set itself a goal of raising USD 100 billion per year by 2020. In comparison the actual fund disbursed by GCF purse were only USD 1 billion in 2016. The broad criteria for project selection have been laid down by the Fund. It is still in the process of setting specific criteria. It seems to be making decisions on a case to case basis. The kind of projects that the GCF is funding currently could be broadly put in the category of capacity building and institutional development, although it has the scope for funding infrastructure as well.

2. **Climate Investment Fund (CIF)**

Since 2008, the CIF has been leading efforts to empower changes in sectors such as energy, climate resilience, transport and forestry. It has invested about USD 8 billion, though it claims to have leveraged additional USD 55 billion from other sources. CIF has a 'sunset clause', which essentially means that it is "to conclude its operations once a new financial architecture is effective." The New Financial Mechanism is the Green Climate Fund. However, CIF funds have until date not ceased functioning.

3. **Global Environment Facility (GEF)**

The Global Environment Facility Trust Fund supports the implementation of multilateral environmental agreements, and serves as a financial mechanism of the UN Framework Convention on Climate Change. Since its inception (1994), GEF has allocated USD 11.5 billion—supplemented by additional USD 57 billion in co-financing—for more than 3,200 projects in over 165 countries. GEF has allocated USD 1.1 billion in grants, with USD 4.7 billion in co-financing for 183 projects in its International Waters focal area. On an average it allocates about USD 50 million per year for trans-boundary water programmes. The GEF mostly funds institutional building, and not creation of water assets and infrastructure.

4. **EU Africa Infrastructure Trust Fund (EU-AITF)**

The EU-AITF's came into existence in 2007 with an objective to promote investment in infrastructure in Sub-Saharan Africa through various forms of grants which are blended with long-term investments by selected development finance institutions. In this way, the EU-AITF helps to mobilise additional finance for projects, thereby increasing access to energy, transport, water and communications services. The fund supports interest rate, technical assistance, insurance premium, and also small amount of direct grants. It is thus a "catalyst" fund to mobilise mainstream funding for infrastructure.

5. **Water Financing Partnership Facility (WFPF)**

The ADB also has a Water Financing Partnership Facility (WFPF) that was established in November 2006, with initial contributions at 100 million USD. The partnership offers technical assistance and loans in three key areas: rural water, urban water, and basin water. The funding for water management projects promotes IWRM and healthy rivers. The funding may include investments in the infrastructure and management of multifunctional water regulation and hydropower facilities developed in a basin context, flood management, and the conservation and improvement of watersheds, wetlands, and ecosystems. It's a small fund with disbursement of USD 100 million in the first ten years.

6. **Cooperation in International Waters in Africa (CIWA)**

The Cooperation in International Waters in Africa (CIWA) was established in 2011 as a multi-donor trust fund by World Bank in partnership with partnership the governments of Denmark, Norway, Sweden, the Netherlands, and the United Kingdom. Its role is to support riparian governments in Sub-Saharan Africa. It is a small fund with a target of mobilising USD 200 million over ten years. CIWA is seen to be mostly engaged in fostering data and information collection and promoting the adoption of trans-boundary agreements, investment plans, and operational agreements as well as the establishment of relevant basin institutions.

7. **International Development Association (IDA) Regional Funds**

The International Development Association (IDA) offers concessional loans and grants to the poorest developing countries in the world. It has a window for Regional Funds, to promote regional or trans-boundary cooperation. The window provides matching grants. It can provide a certain percentage of capital cost of a collaborative project, thus in effect subsidising interest or similar expenditure.

Lessons learned from the analysis of existing funds/initiative/organizations:

- There is no 'global fund' for primarily financing trans-boundary water infrastructure, but it is possible to use GCF, GIC, GEF and other funds for water cooperation.
- The flow of funds from the funding organization/body/initiative to the government is most often riddled with red tape and could come with strings attached. For example, GCF through the process of accreditation is giving its money mainly through international organizations, such as multilateral or private banks rather than directly to institutions in developing countries where the projects are taking place. This manner of acquiring funding proves to be time a consuming process for developing countries.
- Most funds support processes such as institutional strengthening and capacity building to promote cooperation or to build an environment for cooperation. There are only negligible funding mechanisms that specifically aim at joint infrastructure for trans-boundary water cooperation. Therefore, often, these funds fail to make a real, perceptible impact at the ground level.
- Funds pledged are almost never fully realised; funds raised are not always effectively allocated and subsequently disbursed. Therefore, while a fund may claim to have a target of USD 20 billion or USD 100 billion, the actual realisation and disbursement proves to be a small fraction of the goal.

We notice that the existing climate funds have provision for international water cooperation but most of these funds have a tiny fraction of amount actually realised and disbursed as compared to their declared goals and therefore almost all funds tend to get used for 'soft' activities like institution building and capacity building. They do not invest in collaborative infrastructure projects of significant size. It is therefore necessary to develop new instruments primarily focussed on water cooperation, while riparian countries should also take full advantage of the existing funds.

It is possible to identify where existing funds can be used and where new financial mechanisms may be required. Where confidence building and capacity building activities have to be supported some of the existing instruments can be useful, not only including global climate funds but also bilateral development cooperation programmes. Where large infrastructure projects are to be undertaken on a collaborative basis, capital costs can be raised from multilateral organisations but new instruments might be required for subsiding capital costs.

Using Conventional Finance

Many sources typically concentrate on institutional and capacity building such as the following:

1. *Development and implementation of a legal framework:* Trans-boundary water cooperation requires a robust legal instrument signed by riparian countries. Several international bodies that focus on trans-boundary water cooperation provide funding for establishing legal instruments.
2. *Establishment and tailoring of institutional arrangements:* When nations wish to solidify their commitment towards trans-boundary water cooperation, they establish institutions such as a River Basin Organizations/Commissions (RBO/RBC) based on their specific needs or interests. Institutions are extremely important for sustained cooperation. Donor financing is available at the initial stages of the RBO establishment and development.
3. *Management costs of institutional arrangements:* Management costs are traditionally borne by the riparian countries through budgetary contributions. Some RBOs have mixed funding wherein the programme activities of the RBO are often funded by donors and core activities receive funding from the member states.
4. *Cost of basin management:* Apart from the core costs related to the management of institutions, there are other costs that are incurred for the management of the basin- for example, equipment and personnel for data collection, research and monitoring. This is another area that attracts donor funding.
5. *Capacity Building:* Capacity building at all levels for actors involved in trans-boundary water cooperation is required. Most donors focus on capacity building processes at several levels including individual, institutional and policies through seminars, workshops, and educational activities.

Funding for such activities is already available for water cooperation from three types of donor agencies

- Bilateral donor agencies of the governments of the United States, UK, Germany, France, the Netherlands, Switzerland, Japan, among others
- Regional institutions such as the Organisation of American States, European Union, Islamic Development Bank, Asian Development Bank, African Development Bank, among others.
- Global funds such as the Green Climate Fund, Global Environment Facility, IDA Regional Funds, which have been mentioned earlier.

Conventional funding is also available for infrastructure projects of small and medium scale mostly created for demonstration purpose. These could include a boat, a monitoring station, or a micro size desalination plant. Financing for this kind of small scale infrastructure could be an easier option than looking at complex large scale infrastructure projects. Nations that are not cooperating at all may be willing to cooperate at least on small scale projects. These projects are less complex and can be more environment friendly. These are also the kind of projects that may attract investments from both public and private sector as it involves lesser risk and time.

Some private sector corporations support water related projects but they are invariably in the water conservation and water education sphere. The private sector is not known to have invested in water cooperation or trans-boundary water relations.

There is also the proliferation of sovereign wealth funds floated by some countries in East Asia, Gulf states, and some European countries. These funds are effectively state owned. They finance major infrastructure work in different parts of the developing world. However, the finances from the sovereign wealth funds are available to riparian countries without any consideration for other riparian countries. This could potentially raise the possibility of conflict between countries.

Blue Fund

We have indicated earlier that conventional donor funds are available for institution building exercises, confidence building measures and small demonstration projects from bilateral and global donor agencies. Private sector philanthropic funding is available for conservation, education and other grass-root activities. Sovereign wealth funds provide financing for large infrastructure projects at the national level without any regard for implications for trans-boundary relations. Finance form multilateral development banks is available for large infrastructure projects at the national level without any particular incentive for collaboration or consideration of impact for other riparian countries.

We believe that it is necessary to create financial incentives for collaborative large infrastructure projects so that the risk of conflict can be mitigated.

Such incentives can be created in the form of preferential and concessional finance for trans-boundary collaborative projects in water resources and infrastructure of significant size. These may include hydro-electricity, irrigation, navigation, eco-tourism, among other. Incentives can be provided in terms of interest subsidy, preparatory costs, insurance costs, matching grants. The objective must be to create preferential support for the countries that want to work with one another in a collaborative mould instead of a competitive nationalistic mould.

Many different kinds of new instruments can be created or some of the current mechanisms can be reshaped. We provide one possible model of Blue Fund which can meet the objective of incentive financing for using water for peace.

1. Objective**:** Blue Fund is envisaged as a fund that can be replenished on an annual basis for concessional and preferential funding of trans-boundary water cooperation on fresh water resources i.e. rivers and lakes. The Blue Fund is not meant for the seas and oceans. Broadly, the Blue Fund may subsidise combination of interest, insurance and feasibility cost of a joint project promoting trans-boundary water cooperation between riparian countries which has received a promise for investments from (Multilateral Development Banks) MDBs and which involves capital costs of $100 million and above.

2. Criteria**:** The Blue Fund may provide finance only if the following conditions are met-

a. *Developing countries*: The Fund may be available only for countries which are in most need for assistance.
b. *Trans-boundary fresh water resources*: The Fund will only be available for infrastructure related to shared fresh watercourses between nations such as lakes and rivers.
c. *Substantial Infrastructure projects:* The Fund is for water infrastructure projects that are worth USD 100 million and above and not for capacity building or institutional strengthening which is the priority of a plethora of conventional funds.

d. *Enabling finance*: The Blue Fund is not envisaged to finance infrastructure projects. It will only ensure that interest rates and other related costs of such projects are covered. The interest rates accrue when countries borrow from MDBs or bilateral donors a substantial sum of money due to which they are often discouraged from taking the loans. The Blue Fund will help them in this regard thereby granting them access to larger funds.
e. *Formal third party approval:* Any project that requires the support of the Blue Fund must have been approved by Multilateral Development Banks or another donor agency which is willing to support the capital costs, which implies that the feasibility study and environmental impact assessment is carried out.

3. Modalities**:** The Blue Fund is envisaged to cover interests and other ancillary costs of infrastructure projects following the example of the EU Africa infrastructure Trust Fund (EU-AITF):

- Interest rate subsidies (IRS)
- Technical assistance (TA)
- Insurance Premium (IP).

4. Distinct characteristics

- While most funds aim at institutional enhancement and capacity building, the Blue Fund will provide ancillary costs to help countries procure capital finance for substantial infrastructure projects that are trans-boundary in nature.
- The Blue Fund is expected to have a massive multiplier impact. For instance, if the Blue Fund has annual replenishment of a USD 1 billion fund, and if it covers a 3-3.5% subsidy which includes interest + insurance + technical assistance, it would result in mobilising investments of approximately USD 30 billion for capital costs. The subsidy rate is calculated on the basis of the following: (LIBOR 1.2%) + (Interest 1.0%) + (fees 0.5%) + (Insurance 0.3-0.8%).
- It is meant for long term investments of 25 years or more, like the IDA of World Bank which funds projects for 30-40 years.
- Blue Fund is being suggested at a time when the High Level Panel on SDGs is aiming is to increase water finance to meet the SDGs. What the Blue Fund will be doing is to encourage the international community to set aside a part of that fund for transboundary water cooperation. This is the right time for such a fund.

5. Source of funding**:** The Blue Fund may be predominantly financed by governments. In addition, it can also receive funding from large private foundations. But there is scope for private sector finance as well. Infrastructure projects could be development related such as irrigation, rural development or it could be purely commercial in nature such as for energy, navigation and tourism. There is a scope for private investment when such projects of commercial nature are involved.

The Blue Fund can be attractive to donors because it can foster regional peace and stability. Previously, funding of infrastructure projects is done for the purpose of development mostly for individual nations. However, the Blue Fund can also bring about regional stability through cooperation.

While Blue Fund could be also carved out of the established Global Climate Fund (GCF) through a special purpose vehicle dedicated to the objective of promoting trans-boundary fresh water cooperation.

6. Default, currency fluctuation and other risks
Multilateral Development Banks and other lending institutions have strict policies in place to deal with defaulters. Due diligence is done including looking at the credit rating of a country before any form of loan is sanctioned. Mechanisms like credit swaps and World Bank's Partial Risk Guarantees which operates on the principle of indemnity are but a few examples that are in place that will ensure either there is no default or a way out, in the event that there is. All MDBs have complex mechanisms in place which help to deal with cases where the countries are unable to pay the sum that is due. However, there are instances of wilful default perhaps even for political reasons. In this case it would be safe to say that the MDBs also have substantial support of the international community that will ensure compliance by borrowing nations. Most MDBs also have mechanisms in place to ensure that their investment is not defaulted wilfully or otherwise. The Blue Fund will constantly follow up with the MDB or other such entity to monitor the timely payment by nations.

There are risks related to foreign exchange fluctuations which the Blue Fund will not cover. However, costs incurred due to project delays can be discussed. But the Blue Fund will only pay for a specified number of years. The time period component has been mentioned below.

7. Fund outreach and procurement process
In order for the Blue Fund to be a success, two aspects must be addressed: a) Making countries understand the benefits of Blue Fund and the benefits that the countries will receive when they use the Blue Fund. There must be a sufficient educational or outreach component of the Fund that will help popularise the idea of acquiring investments for water infrastructure through the Fund. b) The projects must be worth the investment. Herein it is important to note that there must be process to ensure that countries should have access support facility that will help them to identify, encourage and design actual projects. In this case the Global Infrastructure Facility of the World Bank which was launched in 2014 must be mentioned. It is a **"**is a global open platform that facilitates the preparation and structuring of complex infrastructure public-private partnerships (PPPs) to enable mobilization of private sector and institutional investor capital." "The GIF supports governments in bringing well-structured and bankable infrastructure projects to market. GIF's project support can cover the spectrum of design, preparation, structuring and transaction implementation activities, drawing on the combined expertise of the GIF's Technical and Advisory Partners and focusing on structures that are able to attract a wide range of private investors." The GIF could also serve as that support facility for riparian nations. The GIF could have a dedicated water component that can help countries design projects which are ecological sensitive and technological sound but has a trans-boundary water component in it.

Blue Fund Regional Test Case

In order for the international community to support a new form of funding mechanism, a pilot project has been proposed in the form of Congo Basin Blue Fund. It was proposed to help the riparian nations of Congo Basin to jointly work towards economic development by shifting focus from deforestation to benefits derived from the sustainable use of Congo River and its tributaries. The proposal gained support from the riparian countries because they decided to act in a collaborative initiative to ensure sustainable development leading to regional peace and stability. The proposal was formally launched at the Africa Action Summit, a component of COP22 in Marrakesh in November 2016.

Private Sector and Blue Bonds

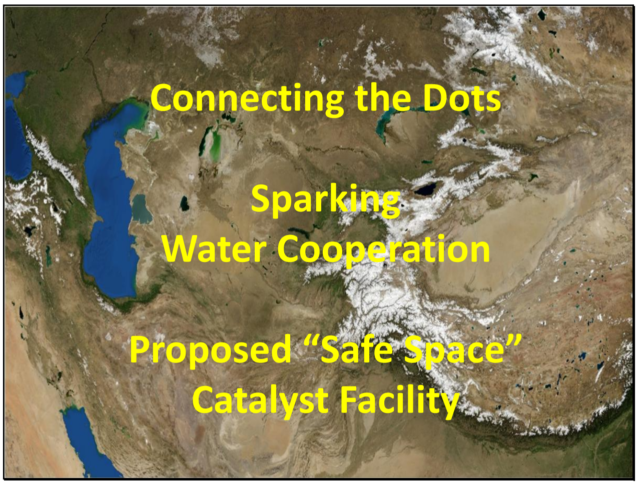
In addition to mechanisms supported by governments and inter-governmental agencies, we believe that it is necessary to examine the possibility of engaging the private sector, both commercial entities as well as philanthropic and corporate social responsibility vehicles. It may be necessary to construct instruments which particularly attract the private sector.

The example of Green Bonds is relevant. The World Bank has introduced the concept of Green Bonds under its ‘Strategic Framework for Development and Climate Change’ which it launched in 2008. The Framework aims to increase ‘public and private sector activity to combat climate change’. Through Green Bonds, the World Bank seeks to raise funds through private individuals and entities, which have a fixed income, to support lending for eligible mitigation and adaption projects. Since 2008, the World Bank has issued around USD 8.5 billion equivalent in Green Bonds. Investors see advantages in buying Green Bonds as it has Triple-A credit quality which is the same as any other bonds of the World Bank. Investors also see returns in the form of environmental changes that can be brought about through the mitigation and adaptation projects that the Green Bonds will be funding. A similar concept can be used to create Blue Bonds for cooperation in the water sector providing a stronger incentive for water cooperation.

THE PANEL RECOMMENDS

- The international community should create financial and other incentives to promote trans-boundary water cooperation in a sustained and significant way.
- The riparian countries in trans-boundary rivers and lakes should use conventional sources of finance for institution building, capacity building and demonstration projects.
- The multilateral development organisations should consider collaborative projects on a preferential basis and spread awareness of facilities such as the IDA Regional Funds which exist to promote regional cooperation projects.
- New instruments such as the Blue Fund should be created to provide preferential and concessional finance to subsidise interest, insurance and related ancillary costs of large infrastructure projects for the countries that are willing to work together in a collaborative way rather than in a competitive way.
- Private sector should be encouraged to develop innovative bonds to finance trans-boundary water cooperation.

Annex 2: Presentation on Safe Space / Catalyst Facility



WATER: FIT TO FINANCE?
Report of the High Level Panel on Financing Infrastructure for a Water-Secure World (Apr. 2015)

- Water security is an essential requisite for national economic growth
- Increasing importance of multi-purpose water infrastructure
- Getting the enabling environment right
- Make the best use of competition and innovation
- Overcoming inefficiency in operations, design and strategic planning: pre-project preparation to forge credible financing packages
- Balancing financial risk and reward
- Accessing new and old finance: better project identification/prep, leverage co-financing, blending facilities

Aid Flows to the Water Sector:
Main Challenges and Recommendations
WB global water practice for High-Level Panel on Water, Nov. 2016

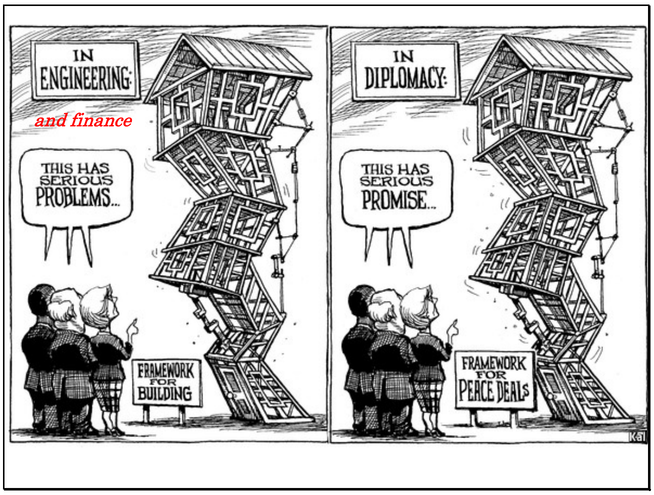
- Increase Volumes of Aid to the Water Sector
- Better Align Aid Financing Strategies with Water SDG
- Mobilize Additional Climate Finance (only 5% for water in 2015)
- Address Fragmentation of Aid Flows to Water
- Lack of Bankable Projects: Support Upstream Reforms and Better Project Preparation
- Use Development Finance More Effectively to Catalyze Private Finance: in 2015 water only captured 4% of total private sector commitments, as opposed to transport (63%) and energy (34%).
- Limited Success With Conditionalities: Increase Focus on Results
- Improve the Tracking of Aid for Water and Exchange Information

Recommendations to Improve Water Sector Efficiency and Financing :
Main Challenges and Recommendations
WB global water practice for High-Level Panel on Water, Nov. 2016

- Increase mobilization of funding sources: user charges and tariffs; domestic taxes; concessional finance; climate finance funds
- Improve Performance and Governance for creditworthiness
- Facilitate mobilization of domestic finance
- Maximize Asset Value: Improve project preparation; Improve asset management
- Improve Government Policies and Incentives: create incentives, undertake strategic financial planning, maximize public investment benefits
- Advance Research: enhance analytical work

Increasing (or restoring) bankability?

- Water project bankability has many dimensions: creditworthiness and efficiency of service providers, ability to leverage and blend private capital, capital efficiency….
- High Level Panel on Water and Finance (2015) recommends increasing the flow of "bankable" water projects through **pre-project support**:
  - The shortage of "bankable" water projects is a near universal complaint of banks, IFIs, institutional investors and other potential water financing institutions.
  - On a positive note, institutions that have the means to provide pre-project support can develop project pipelines for themselves and their partners, thus leveraging their initial outlays.
- However, these are formal mechanisms and informality is sometimes essential to "build bridges" at a very early conceptual stage, or when conflicts arise during implementation or operation, to increase (or restore) bankability



WATER COOPERATION: FIT TO FINANCE?

- Not enough water projects are "bankable" or "fit to finance";
- And even much less in the case of transformative, water cooperation projects in intersectoral, post-conflict and/or transboundary contexts;
- A critical issue in view of SDG6, the immense investment needs, and the short 15-20 year «window of opportunity»
- Typically, the main constraint is not the financing, but getting agreements between stakeholders and the political will to take action:
  - Countless such water cooperation projects have been dropped, are frozen, or are being implemented very slowly, even though financing is available
  - Not enough (financial) incentives for undertaking such projects (incl. for staff!)
- Very few (if any) opportunities to bring together ALL stakeholders, at early conceptual stage, or during implementation when major correction course is needed (eg. treaty, contract renegotiation, political changes…)
  - Silo problem, parallel project preparation paths that do not intersect, culture issues, stakeholders do not meet or at a late (too late!) stage
  - Legal, procedural issues (eg. Interactions between financiers, private sector and NGOs; consultations between countries before formal agreements…)
- Need for an informal «safe space» to spark and catalyse cooperation, to build bridges, develop confidence between actors at an early stage,

- Proposed major dam in Asia in a transboundary context;
- But intersectoral issues dominate: conflict potential around water-energy-food, both seasonal and spatial
- 2007: a MDB engages “unilaterally” with upstream riparian country, by committing to provide a credit to fund a feasibility study -- potentially leading to major funding depending on its outcome
- Downstream countries oppose the project; a series of consultations with 6 riparian countries are organized before and during the study but they do not change their mind;
- After some ups and downs, the feasibility study is completed in 2014; it shows the project is technically feasible though with a number of caveats (notably finance, institutional and capacity issues)
- The downstream country renews its strong opposition. A mediation is not feasible. **The project is not bankable and the MDB eventually drops it,** following an engagement of almost 10 years
- Could a “safe space” have helped initially (before 2007) by bringing key stakeholders around a basin development plan, before the MDB made any “unilateral” commitment?
- Could a “safe space” have helped to explore new options with all riparians countries post feasibility study?

Other cases

Other cases…

- Latin America: Water public-private partnerships, some considered global best practices, collapsed as a result of government-business-NGOs conflicts
- South Asia: Reform of a water utilities in major cities highly politicized, business-government-NGO tensions over water use and tariffs
- Indus Treaty: unforeseen issue of late 2016 – search for alternatives (WB urging India and Pakistan to agree to mediation in order to settle on a mechanism for how the Indus Waters Treaty should be used)
- Inga 3 Dam on Congo River (2016): disputes with government and investors on implementation, leading to WB suspension then withdrawal from the project;
- Nile Basin (2015): hydromet project accepted by all countries but blocked due to disagreement on implementation modalities;
- Conflicts between mining and water for food and people – dealing with power assymetry, implementation of codes of conduct

- **In these cases, would have it helped to «step back» in neutral, informal space to explore solutions to the (legal, financial, political…) problem?**

Cross-Sector Water Cooperation: Moving Higher on the Agenda

- Growing business-government-NGO tensions over water abstraction, water pollution or water allocation rights or even more localised water resource allocation tensions between farmers and food or energy companies. In our global, interconnected world they have the potential to quickly flare up, and spread regionally or even globally (D. Waughray, WEF, 2016).
- While the risk of actual wars between countries over water resources will probably remain at a relatively low level, owing to dialogue and cross-border cooperation, <u>competition for scarce water will become a more common source of instability and conflict within countries and between sectors</u>, especially as climate change increases the severity and frequency of extreme weather events (WB, 2016).
  - A decline in precipitation has been found to act as a "push factor" inducing much of the migration to cities (eg. Syria)
  - Increases in water variability and expanding water deficits have the potential to increase the propensity for conflict.

Cross-Sector Water Cooperation

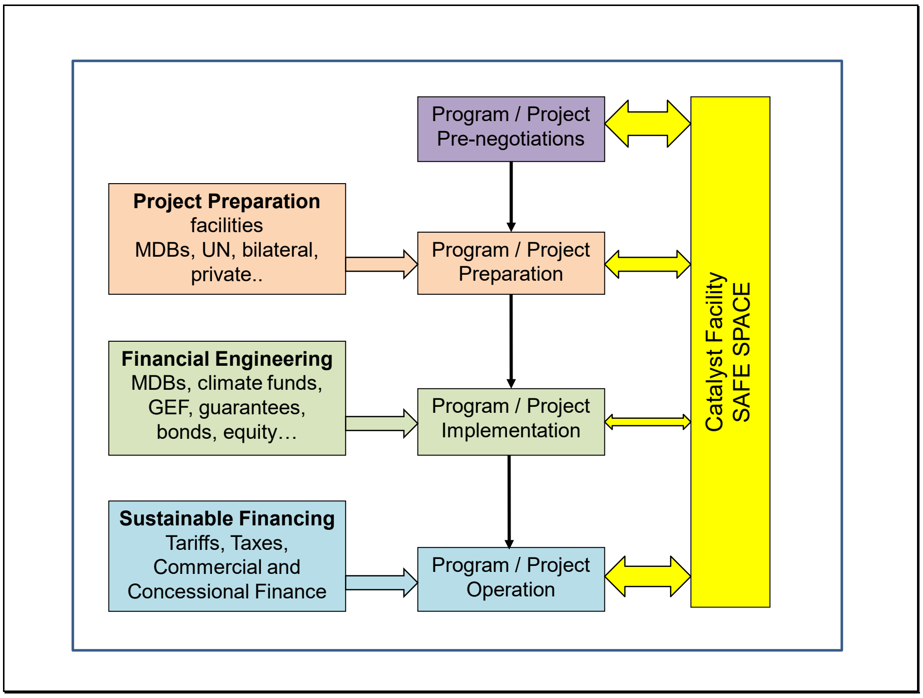
Do we have the right tools and financial incentives?

- The High Level Panel on Water and Peace may discuss the relevance of establishing an independent, neutral platform at global level that could help improving water security not only as a risk reducer but more importantly as an "opportunity amplifier"
  - *A way of bring different stakeholders together to help resolve pressing common problems in ways they have not done before.*
- The Panel should also offer the informal space for that cross-sector negotiation.
  - *Get a breakthrough on water, and who knows what over peace and diplomacy dividends can be catalyzed between parties.*
- Such a platform should strongly consider containing dimensions from all sectors of the economy, including business, leading academics and civil society, as well as from sectors outside of the water agenda alone, such as energy, food and international relations.

(quoted from D. Waughray, WEF, 2016)

Water Cooperation Catalyst/Safe Space

- **SAFE SPACE** an informal, neutral platform to complement, not substitute formal mechanisms, to promote citizen's and business diplomacy
- To foster **interactions in think tank mode** between parties that would otherwise have challenges to meet in an open, formal context (eg. bringing together sector experts, diplomats and potential financiers; bringing together civil society and private sector);
- To more **freely share information** and ideas to generate strategic concepts;
- To help **develop political will** for pre-negotiating in principle agreements, and moving to the next step of project identification and preparation;
- To help **develop bankability** by bringing together at an early stage project proponents, investors/financiers, beneficiaries and affected people;
- Safe space available at further "downstream" stages in case of conflict during implementation/operation, to find solutions and mutual agreements.
- Available at global level (through Global Observatory?) and regionally (through regional centers?)
- Small fund (to be provided by some of the Panel's co-convening countries?) to support upstream activities, (mainly meetings, think tank moments) which can be led by existing agencies/partners, according to parties' wish.



Questions

- How feasible is the idea of a “safe space” for cross-sector, informal, “pre-negotiations” between government, civil society, finance and private actors?
- Who should be involved and how could such a facility be organized?
- How can we ensure neutrality, independence, ethics and avoid conflicts of interest?
- How could it connect with other existing and potential water platforms (Global Observatory for Water and Peace).
- Should an “ombudsman” function be housed in the safe space?

Agenda

Monday, 27 February 2017 at the Kruzel Hall (2nd floor)

09:00 – 09:30 Welcome coffee

09:30 – 10:30 **SESSION 1: INTRODUCTION**

Welcome (F. Münger, 10 min) **and introduction of participants** (10 min)
Context and objective of these think tank roundtables

Setting the global frame and expectations

The Global High Level Panel on Water and Peace: (Danilo Türk, Chair HLPWP, 10 min)

Brief update on the Panel and expectations from the think-tank roundtable -- contribution of hydro-diplomacy and incentive finance to a global architecture for water, security and peace

The High-Level Panel on Water: (Csaba Kőrösi, Sherpa HLPW, 10 min)

Brief update, SDG and water, security and peace. Links between both Panels, and links between mainstream and incentive financing.

Brief Q&A (15 min)

Defining water cooperation and hydro-diplomacy

What is hydro-diplomacy and how does it differ from broader water cooperation[9]? (Benjamin Pohl, adelphi/GWH, 10 min)

10:30 – 12:30 **SESSION 2: TOWARDS NEW MODELS FOR HYDRO-DIPLOMACY – BEYOND SHARED WATER MANAGEMENT: PROPOSED INTERNATIONAL OBSERVATORY FOR WATER AND PEACE**

Moderated by adelphi/GWH

This session is based on the input paper "New Models for Hydro-Diplomacy" which will be sent to participants a week in advance.

Aim: Discuss and potentially amend the ideas on mandate/structure of the International Observatory for Water & Peace developed in the input paper for this session.

Presentation:

- Presentation of the input paper by Ciarán Ó Cuinn (Panelist, HLPWP)

Questions: Is there a need for an International Observatory for Water & Peace? What functions should it potentially fulfil, in terms of global institutional and financial needs? And which of these

[9] In line with the mandate of the Panel on Water and Peace, these roundtables on hydrodiplomacy and finance consider water cooperation within a broader, more comprehensive drive for peace and security, which includes but is not limited to transboundary water cooperation (e.g., intersectoral conflicts, water in or post armed conflicts...)

may constitute a good starting point in terms of feasibility and political demand from donors and basin countries? What coordination role could/should it take on?

Views / responses from key stakeholders

Aim: Collect & discuss perceptions of key stakeholders as to the shortfalls and gaps in the global architecture for water, security and peace as well as potential remedies, especially an International Observatory for Water & Peace as outlined in the input paper.

Discussants:

- UNECE Water Convention: Francesca Bernardini (UNECE)
- Multilateral Development Banks: Christina Leb (World Bank)
- Private sector: Laurent Mouvet (Hydro Operation International)
- Academia: Owen McIntyre (Cork University), Mara Tignino (UNIGE)
- River Basin Organizations: Ababacar Ndao (Senegal/Gambia RBOs), J.-F. Donzier (INBO)
- NGO/agencies: Kerry Schneider (SIWI), Isabelle Fauconnier (IUCN)
- Financial sector: Philippe Rohner (Pictet Asset Management/Water Fund)

Questions: Based on the input paper and presentation, each discussant is asked to address the following questions in a brief (5min) statement:

1. What are the main (diplomatic/financing/other) constraints faced by your organization in initiating and supporting water-related projects in (potentially) conflictive settings, and in fostering water cooperation for broader peace-building at all levels?
2. To what extent could the proposed new International Observatory be helpful in addressing these constraints, and/or the constraints faced by the water community more broadly?
3. From your perspective, what functions (if any) should a putative International Observatory take on (ideally and realistically)? How can it help develop synergies and federate the already existing initiatives? Would you amend the suggested mandate and/or structure and, if so, how?

Discussion (30 min)

Brief summary of session

12:30 – 14:00 Lunch

14:00 – 15:30 SESSION 3: NEW MODELS FOR HYDRO-DIPLOMACY – THE ROLE OF REGIONAL WATER CENTERS

Moderated by Owen McIntyre (Cork University)

This session is based on the input paper “New Models for Hydro-Diplomacy” which will be sent to participants a week in advance.

Aim: What recommendations should the HLP make with respect to the proposed Regional Multilateral Water Centers?

Questions: How do existing regional water organizations engage in hydro-diplomacy? What are the opportunities and risks in engaging in hydro-diplomacy? What is the scope for multilateral regional water centers as outlined in the background paper? Where could this idea develop traction? What are preconditions for their setup? How could the international community support this? Can donor coordination help bring them about? Are there alternative setups that could / should be promoted?

Presentations:

- Ciarán Ó Cuinn (Panelist, HLPWP) on the idea of "Regional Multilateral Water Centers" and example of the MEDRC
- Susanne Schmeier on the role of RBOs in hydro-diplomacy
- Ababacar Ndao (Senegal, Gambia River Basin Organizations) on the role the OMVS has played to prevent or mitigate conflicts in the Senegal River Basin

Discussion (30 min)

Brief summary of session

15:30 – 16:45 SESSION 4: CONNECTING HYDRO-DIPLOMACY AND FINANCE – SETTING THE FRAME

Moderated by Owen McIntyre (Cork University)

Aim: Provide some initial food for thought on how to link ideas developed during the day with those for the second day. Reflection on the challenges and opportunities in bringing a financing framework to an existing hydro-diplomacy mechanism (the example of the UNECE Convention implementation committee), or vice-versa (the example of the World Bank Group).

Questions: How can we better connect the water, diplomacy and financing "practices", notably in terms of the blockages that one poses on the feasibility of the other, and explore further how to move forward from these constraints and develop opportunities across the finance, insurance and impact investment levels.

Brief inputs/reflections:

- Francesca Bernardini (UNECE) on the potential role of the UNECE Implementation Committee
- Christina Leb (World Bank) on the potential role of the World Bank
- Laurent Mouvet (Hydro Operation International) on the role and interests of the private sector

Discussion (30 min)

Brief summary of session

16:45 – 17:00 Wrap-up and conclusions by Danilo Türk

Summary of discussion results regarding the institutional structure/mandate that the HLP should recommend, as well as other potential recommendations.

17:00 Closing of First Day

19:00 Group Dinner: Trilby Restaurant**,** Hôtel N'vY, Rue Richemont 18 (2 min by foot from the Jade Hotel)

Tuesday, 28 February at the Press Conference Room (Ground Floor)

09:00 – 09:30 Welcome coffee

Welcome Back and Introduction to the Second Day (GWH)

Fostering water cooperation for broader peace-building: do we have the needed financial mechanisms and incentives[10]?

09:45 - 11:30 SESSION 5: FINANCIAL INCENTIVES FOR WATER COOPERATION: CHALLENGES AND OPPORTUNITIES

Moderated by Alvaro Umaña Quesada, Co-chair HLPWP

Aim*:* Identify the main challenges and opportunities for financing transboundary water projects from different perspectives.

Questions: What are the main challenges for funding transboundary water projects (for IFIs and from the perspective of regional organizations such as RBOs)[11]? How can financing institutions incentivize benefit-sharing in international basins? Should IFIs provide additional incentives for transboundary projects to counteract bias for national projects/longer timeframe necessary in transboundary contexts? What are the obstacles for RBOs in accessing international funding? How can accessibility be improved? What are the potentials for climate funding mechanisms (e.g. GCF) to finance transboundary water projects? How do investors and insurers handle political risks in transboundary basins, and could political risk insurance play a role in lowering political risks for transboundary investments?

Presentations:

- Christina Leb (World Bank) on transboundary projects from an IFIs perspective – drawing on early findings from the ongoing study on *Retooling Operations with Transboundary Impact (ROTI)*
- Ababacar Ndao (Senegal, Gambia River Basin Organizations) from an RBO perspective
- Laurent Mouvet (Hydro-Operations) and Philippe Rohner (Pictet Water Fund) on managing investor risks

Discussion (30 min)

11:30 – 16:30 SESSION 6: FINANCIAL INSTRUMENTS TO SPARK, DEVELOP, AND SUSTAIN WATER COOPERATION

Moderated by adelphi

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[10] Financial incentives will explored along two dimensions: (i) setting – what are the challenges and opportunities for financing water cooperation in transboundary, cross-sector or post-conflict situations; (ii) timing on project/program cycle: sparking (at "upstream" early concept stage), developing and sustaining water cooperation: do we have the needed mechanisms, can we better leverage existing ones, is there space for some innovative tools.

[11] IFIs have typically a range of mechanisms at their disposal to support transboundary waters cooperation, for example (i) project design to incorporate transboundary monitoring and dispute resolution mechanisms, (ii) financing agreements that formalize negotiated transboundary waters flows or relevant infrastructure operations, or (iii) financial guarantees to ensure compliance with riparian agreements. Are these tools adequate to promote cooperation among riparian stakeholders? Do we need to refine these tools, are new instruments needed -- especially in the perspective of broader peace-building with water as an instrument of peace?

11:30 – 12:00 Session 6A: Connecting the dots and sparking/catalysing water cooperation – Safe Space – Catalyst Facility

While transboundary water cooperation has strengthened thanks to several existing platforms, the majority of water-related conflicts and water cooperation opportunities are cross-sectoral (transboundary disputes are typically underpinned by sectoral tensions particularly around the nexus). This calls for new mechanisms of cross-sectoral cooperation to bring together at an early stage[12] stakeholders that would not necessarily meet in a formal context, for instance finance and private investors who are typically involved at a late stage and can only complain about the lack of bankable projects. Communication needs to take place at the earliest stage between investors, financiers, "hydro-diplomats", civil society and other stakeholders.

Aim: The session will explore ideas on a small Catalyst Facility for Water Cooperation offering an informal, safe space for cross-sector pre-negotiation, containing dimensions from all sectors of the economy, including business, leading academics and civil society, as well as from sectors outside of the water agenda alone, such as energy, food and international relations.

Questions: How feasible is the idea of a "safe space" for cross-sector (informal), "pre-negotiations" between government, civil society, finance and private actors? Who should be involved and how could such a facility be organized? How can we ensure neutrality, independence, ethics and avoid conflicts of interest? How could it connect with other existing and potential water platforms (Global Compact, Global Observatory for Water and Peace). Should an "ombudsman" function be housed in the safe space?

Presentation: Christophe Bösch (Geneva Water Hub) with inputs from Dominic Waughray (World Economic Forum)

Discussion (20 min)

12:00 – 13:30 Lunch

13:30 – 14:45 Session 6B: Incentivising financing for development

Aim: Identify (innovative) financing mechanisms that could provide incentives for water cooperation.

Questions: Do we need new financing mechanisms and, if so, for which aspect of water cooperation in particular (transboundary, intersectoral, post-conflict)? Or are there perhaps existing but as yet insufficiently harnessed global financing mechanisms that could be tapped (GEF, climate funds etc.)? How can financing instruments incentivize benefit-sharing in international basins? What innovative financing tools could be used (Blue Fund subsidizing interest, "blue bonds", pension, sovereign wealth funds etc.)? Could political insurance play a role to lower political risks for transboundary investments?

Presentations:

- Alvaro Umaña Quesada and Pascual Fernandez, HLPWP Panelists, on financing transboundary water resources cooperation (incl. accessing climate finance)

[12] That is, before a project or program is conceived and before formal project preparation activities. Or conversely, during project/program implementation, when a (potential) dispute or conflict is identified and actions are needed to avert escalation.

- Sundeep Waslekar (Strategic Foresight Group) on the Blue Fund proposal

Discussion (30 min)

14:45-16:00 Session 6C: Ensuring long-term sustainability of financing

Aim: Identify ideas for recommendations by the HLP on how to ensure the long-term viability of attempts to foster cooperation.

Questions: How can longer-term financing of cooperation be ensured / incentivized? Who can provide long-term funding? Potential of new instruments such as Results-Based Financing to sustain water cooperation (P4R World Bank, development impact finance and “bonds”). What structures can help to break patterns of duplicative and insufficiently long-term projects in difficult basins (e.g., Central Asia)? How can financing instruments help manage basin politics, ensuring long-term continuity while retaining political leverage (incentives / disincentives) over basin countries?

Presentations/Discussants:

- Christina Leb, World Bank on long-term perspective and results-based financing *(presentation will be made during the morning session)*
- Philippe Rohner, Pictet Water Fund, on commercial finance
- Mathieu Cantegreil, ICRC on impact finance and Humanitarian Impact Bonds
- Susanne Schmeier on challenges with private sector involvement

Discussion (30 min)

Brief summary of session

16:00 - 16:15 Wrap-up and conclusions by Danilo Türk

Summary of discussion results regarding the connection of hydro-diplomacy and finance that the HLP should recommend, as well as other potential recommendations on financial mechanisms to incentivize water cooperation.

16:30 Closing of Workshop