

BLUE PEACE FINANCING INITIATIVE:

SOLVING LOCAL WATER AND SANITATION
CHALLENGES THROUGH COOPERATION AND
SUSTAINABLE FINANCING



Unlocking Public and Private
Finance for the Poor



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC

Blue Peace



FREETOWN
CITY COUNCIL

THE CURRENT CHALLENGES

“30% of people around the world, about 2.1 billion people, lack access to safe drinking water and 60% of the world’s population, or 4.5 billion people, lack access to adequate sanitation. The global economy loses \$260 billion each year due to a lack of basic water and sanitation.

Today, over 50% of people on the planet live in an area that is water-scarce at least one month per year. Under current trends, demand for water will exceed supply by 40% in 2030. Lack of freshwater and resulting water crises are considered one of the top five long-term threats to our planet according to the World Economic Forum Global Risk Ranking.

Water-related risks are estimated to cost the global economy more than USD 500 billion per year. Increased water scarcity is predicted to lead to the forced migration of up to 700 million people from arid and semi-arid areas in the coming decades, stoking tensions between countries.”

<https://www.thebluepeace.org/about-blue-peace-water-in-crisis>

WATER CHALLENGES

- Water is one of the most important resources
- By 2050, more than 50% of the world’s population will live in water-scarce regions
- Local Governments play a key role in water governance (water service delivery to urban planning). But Local Governments ability to carry out their competencies is limited.

FUNDING CHALLENGES

- Water insecurity costs the global economy US\$ 500 billion annually (GWP)
- Currently the global capital flows to sovereign states. Regional Based Organizations & Local Governments have no direct access to the international capital markets.
- Water-related services are often not sufficiently valued, resulting in a poor record of cost recovery for water-related investments and lack of adequately valuing the benefits of cross-sectoral cooperation

CHALLENGES IN FREETOWN

- According to the Free-town WASH & Aquatic Environment Revamping Project, access to improved water supply in Sierra Leone is 58%.
- Only 11% have the water accessible on their premises. Access to basic sanitation trails water supply at 15% (34% have access from shared facilities). The water accessible to 58% is not free from contamination and not always available when needed (JMP 2017 update).



BLUE PEACE FINANCING INITIATIVE

VISION AND THEORY OF CHANGE

The vision of the Blue Peace Financing Program is about promoting access to capital for non-sovereign entities by using water as an entry point for multi-stakeholder cooperation frameworks, giving value to peaceful and sustainable agreements among stakeholders (peace dividend) and leading to more sustainable economies and peaceful societies.

VISION

Promote access to capital for local & regional non-sovereign entities.



HOW

Using water as entry point for multi-stakeholder cooperation frameworks, transforming them into investment platforms.

IMPACT

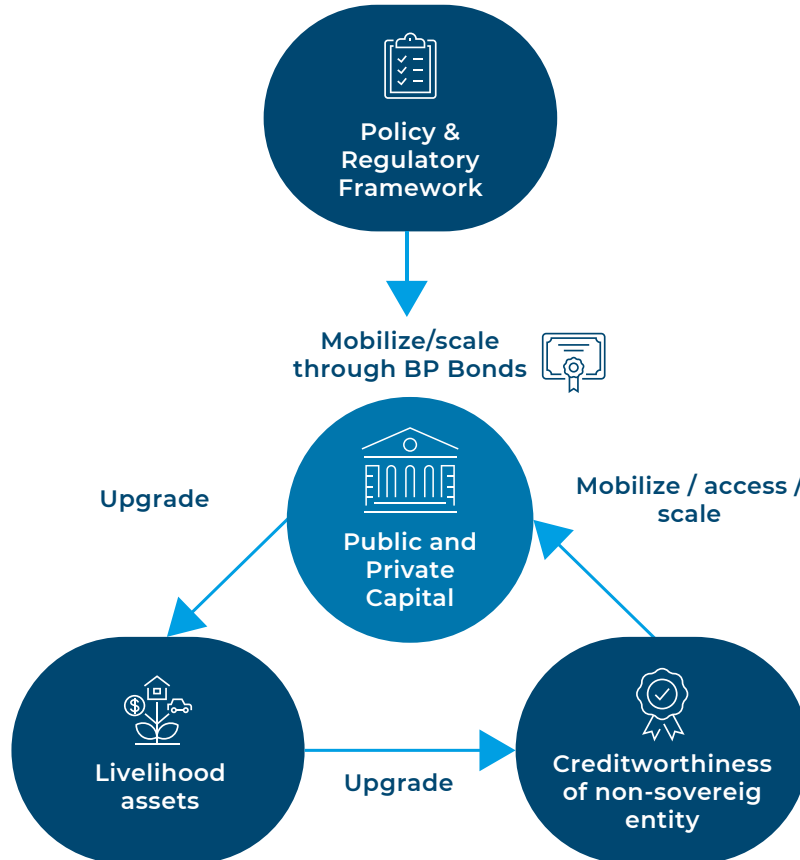
Giving value to peaceful and sustainable agreements among stakeholders (peace dividend), leading to more sustainable economies and peaceful societies.



Created by 15 co-convening countries, the Global High-Level Panel on Water and Peace launched its report - “A matter of Survival” - in 2017, presenting concrete recommendations on how to transform water into an instrument for cooperation and peace. The Blue Peace Financing Initiative is a follow-up to this panel’s recommendation on innovative financing for transboundary water cooperation.

The Blue Peace Financing Initiative begins by transforming the policy and regulatory framework of the participating non-sovereign entity (the local government) through capacity building and technical assistance (TA). The resulting deliverable is the multisectoral local investment plan; based on this, the non-sovereign entity can then issue a Blue Peace (Municipal) Bond and gain access to capital. The mobilized capital will be used for the implementation of projects under the local investment plan, including infrastructure development. This will allow the non-sovereign entity to upgrade its livelihood assets and its own creditworthiness, thus enabling it to scale up its capital mobilization activities. Hence, the Blue Peace Financing Initiative’s theory of change is transformation cycle that leads to a self-reinforcing process of mobilizing public and private capital.

CATALYTIC CAPITAL TRANSFORMS



BLUE PEACE FINANCING INITIATIVE

FINANCING MECHANISM FOR LOCAL GOVERNMENTS

The Blue Peace Financing Initiative for local governments has two main pillars:

- A) The long-term capacity building of the local government (strengthening the policy framework) which will allow it to access
- B) A new form of capital (capital mobilization):

THE BLUE PEACE FINANCING INITIATIVE:



Supports access to capital for local governments



Facilitates the development of local multisectoral investment plans that respond to the needs of the local population and are owned and managed by the local government



Takes a portfolio approach based on inclusive master and joint investment plans that allow for diversification and cross-subsidization



Assists with the creation of a portfolio through an inclusive negotiation process that involves all relevant stakeholders, including civil society and local communities



Takes a blended finance approach, where the public sector provides the risk insurance and assumes part of the risk mitigation, allowing private investors to step in at lower risk



Improves the investment's risk-return profile, making it possible to attract additional private investors



Reduces the specific government burden of each project through an underlying insurance mechanism

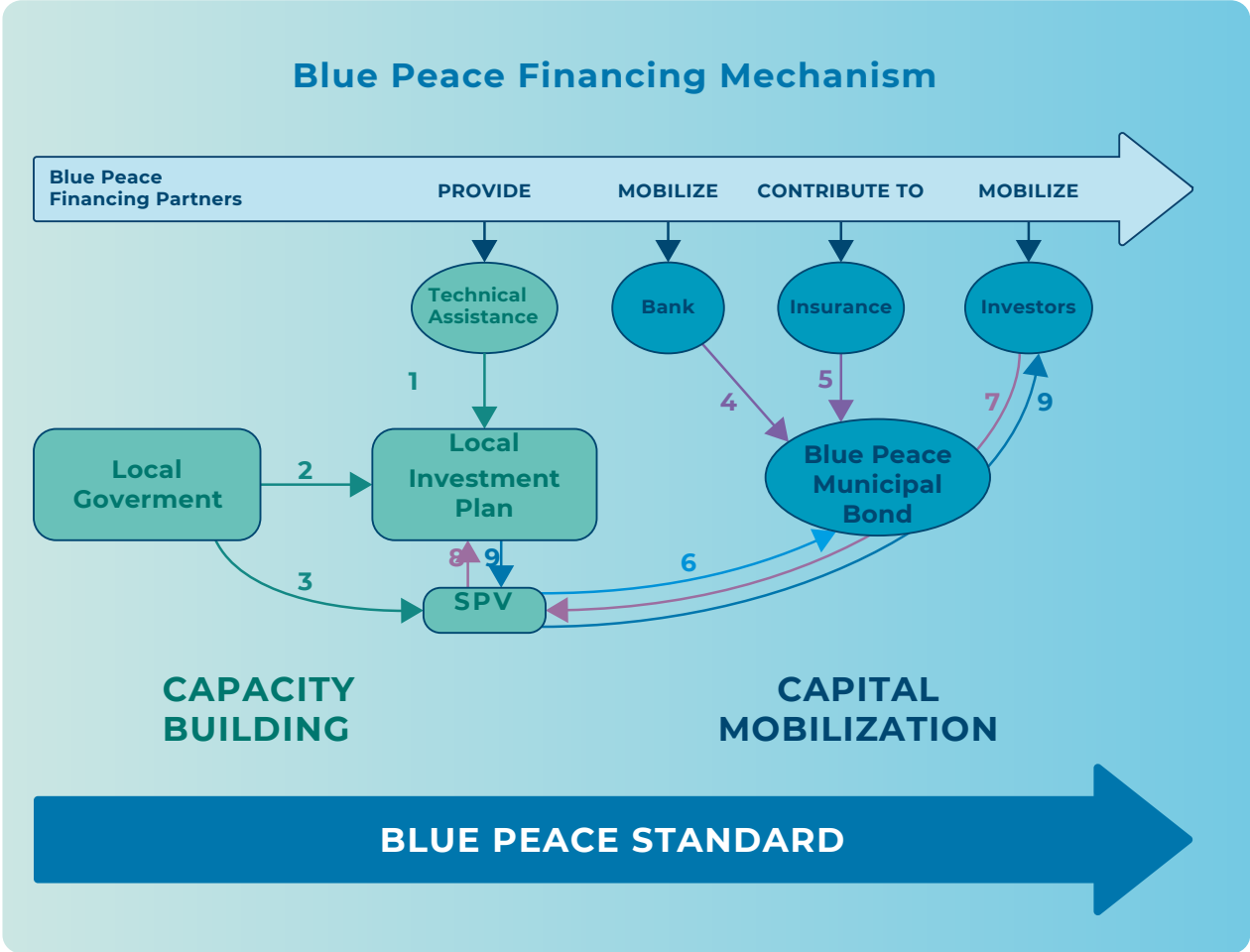


Uses a new financing structure that blends public money and private capital to invest in a new type of financial instrument: the Blue Peace Municipal Bond



THE BLUE PEACE MUNICIPAL BOND:

- Will be issued by a Special Purpose Vehicle (SPV) created and owned by the local government
- Will be issued based on the local investment plan
- Will be backed by cash flows from underlying projects: debt and interest will be paid back from the cash flow generated by underlying projects
- Has a structure that will depend on the revenue expectations of the local investment plan
- Bond issuance proceeds will be ringfenced to the local investment plan and managed by the SPV
- Is the beginning of innovative financing for the local government's future investment plans
- Is complementary to other instruments and public financial sources
- Provides a new opportunity for multisectoral impact investing



LEGEND

- 1. Blue Peace Financing Partners provide Technical Assistance to the Local Government for steps (2) and (3)
- 2. The Local Government develops a local investment plan
- 3. The Local Government creates a Special Purpose Vehicle (SPV)
- 4. Blue Peace Financing Partners mobilize the bank for the structuring of the financing instrument: the Blue Peace Municipal Bond
- 5. Blue Peace Financing Partners mobilize and contribute to the insurance for the de-risking mechanism
- 6. The SPV issues the Blue Peace Bond
- 7. Blue Peace Financing Partners mobilize the first-mover investors who buy the Blue Peace Municipal Bond
- 8. The SPV manages and implements the projects under the local investment plan with Blue Peace Bond proceeds
- 9. The SPV repays interest and principal to investors through the cashflow of the underlying projects

THE PILOT CASE WITH LOCAL GOVERNMENT

FREETOWN

Freetown is the largest city in Sierra Leone, generating 30% of the country's GDP despite housing only 15% of its population and occupying less than 0.5% of the nation's landmass. The city is bounded by mountains, forests, rivers, and the Atlantic Ocean.

In May 2018, Yvonne Aki-Sawyers was sworn in as Mayor of Freetown. In January 2019, the Freetown City Council (FCC) launched the Transform Freetown agenda, with the objective of addressing socio-economic and environmental challenges through strategic planning for resilience, human development, healthy cities, and urban mobility.

In December 2020, following a scoping phase in 2019, UNCDF, the Freetown City Council (FCC), and the Swiss Agency for Development and Cooperation (SDC) jointly launched the Freetown Blue Peace Financing Initiative to leverage innovative finance to implement sustainable water projects in Sierra Leone's capital city. The vision of the initiative is to construct reliable water, sanitation, and hygiene facilities (WASH) as an extension of delivering safe, affordable, sustainable water to the residents of Freetown. At the same time, the initiative demonstrates a successful model for financing sustainable water production and consumption in LDCs. The partnership between FCC and UNCDF was formalized with a memorandum of understanding (MoU), which was signed in June 2020.

Based on this MoU, UNCDF provides support to FCC in terms of technical and financial assistance, human and technological capacity building, as well as advice on the legal and institutional reforms necessary for FCC to access additional funding through the Blue Peace Financing Initiative.

The Freetown Blue Peace Financing Initiative is being implemented through three workstreams:

- 1) Ensure FCC's readiness to obtain Blue Peace-based investments from financial markets and to allocate financing to projects.
- 2) Structure a portfolio of Blue Peace Initiative-based projects for the FCC's local investment plan. The projects identified for this portfolio include:
 - (a) water kiosks and public toilets,
 - (b) recycling and liquid waste trucks, and
 - (c) the financial instrument (Blue Peace Municipal Bonds).
- 3) Design and implement a Blue Peace Financing mechanism that fits the financing needs of the Transform Freetown initiative.

The Freetown Blue Peace Financing Initiative will support the enhancement of the urban space, which will be integral to the way water is managed within the context of the city's food value chain, commerce, women's empowerment, and public health in general.

INTERVENTION AREAS AND ACHIEVEMENTS

In 2021, the UNCDF-FCC Freetown Blue Peace Initiative team achieved the following results:

WATER

The projects identified for financing within this sector include the construction of 40 water kiosks.

Business models have been developed for all these facilities. The goal is to administer them sustainably so that funds invested can be recovered through a scalable business model. The business models for running these facilities have been developed and validated with potential users of the facilities and potential partners as well as existing operators within the sector. The facilities will be administered together with private sector partners.

The engineering consultant has also completed the geophysical analysis and has developed the structural designs and recommendations. Local contractors will then be recruited in 2022 to complete the construction work as originally planned.

SANITATION

In the sanitation sector, concept notes have been developed for financing and 15 public toilets and liquid waste trucks.

The geophysical analysis for the construction of the 15 public toilets has been completed and a complimentary business model has been developed to sustainably manage these facilities at scale.

Development of concept notes and business models for the liquid waste trucks are in their concluding stages. Once completed, these will form part of the existing portfolio of resources that the blue peace initiative will finance.

SUSTAINABLE FINANCING

Various financing opportunities were explored in 2021.

In a detailed research paper, the team documented the legal and regulatory framework relating to public bodies accessing funding opportunities. Also, the team through various consultations with industry experts explored the possibility of generating funds through municipal bonds in the long term while building a credit history in the short term.

The team also explored grant funding opportunities and won \$1.5 million from the UN Peacebuilding Fund to support a sustainable intervention that not only addresses local water challenges, but also creates civic spaces that can be used to build peace and respect for women's rights in communities.

COMMUNITY ENGAGEMENT

In 2021, a total of 11 communities within Freetown were actively engaged. The ongoing interactions were meant to build a platform for constructive dialogue with key community stakeholders while also seeking to understand the various implementation approaches communities preferred for interventions designed to support them.

Critical findings have proved to be very helpful in designing projects and have also helped in forming strong alliances and identifying voices that could play critical roles in mobilizing support for the intervention projects.

Two studies were carried out to collect data on water challenges within communities, how residents' access and use water resources and what are the best approaches for implementing sustainable interventions that require cooperation and support from residents.

A community engagement toolkit that will be used by local stakeholders has been developed. Already 260 members of local water management committees within the Freetown City Council have been trained on how to use this document.



WHY INVEST IN BLUE PEACE?



The Investor Community & the Financial Sector

- Invest in Blue Peace as first mover
- Raise awareness within the investor community
- Encourage other investors to invest in Blue Peace
- Support the structuring of the financial mechanisms
- Support the structuring of the de-risking mechanisms
- Provide insurance for Blue Peace (Municipal) Bonds as a first mover
- Support the development of a Blue Peace Standard



The Public Sector and the International Development Community

- Invest in or support Blue Peace as a donor
- Invest in Blue Peace through its blended finance approach
- Reduce the risk for private investors
- Encourage private investors to come in (at lower risk)
- Spread the Blue Peace Financing vision
- Bring the Blue Peace Financing Initiative to high level political agendas and help strengthen visibility
- Support the expansion of the Blue Peace Financing Initiative to new regions
- Support the capacity building of non-sovereign entities who are implementing the Blue Peace Financing Initiative
- Support the development of evaluation criteria and an impact measurement framework—such as a Blue Peace Standard
- Support the transformation of policy frameworks



Central Governments

- Delegate authority to local governments and non-sovereign entities, in terms of project/masterplan development and implementation as well as mobilizing additional financial resources
- Strengthen political support towards decentralized systems through non-sovereign entities
- Support the creation of enabling frameworks
- Support the transformation of policy frameworks
- Facilitate stakeholder involvement including civil society
- Support multisectoral transboundary dialogues on water



Why Invest in Blue Peace Initiative?

1. The Freetown Blue Peace Financing Program demonstrates an approach to ensuring the sustainable production and consumption of water in the world's least developed countries.
2. By demonstrating the power of water investments as a catalyst for the sustainable production and consumption of water in all its uses, this program is looking to spur future water-related projects in Sierra Leone and throughout the LDCs.
3. Success in Freetown will lay the foundation for the Freetown City Council to work with the central government on scaling the Freetown Blue Peace Financing initiative at a national level.

“The success of the Freetown Blue Peace Initiative can help Freetown meet its potential to be one of the most beautiful, green and healthy cities in Africa.”

Mayor Aki-Sawyerr

Clean water
Waste management
Local development
Regional cooperation
All Conflict prevention
SDGs A portfolio of
Green economy water-related
Equitable water use projects
A new form of Sustainable impact investing water use
Multisectoral cooperation **Peace**
Transboundary Food A new financial cooperation security ecosystem
Intergenerational Decentralized cooperation Non- systems
sovereign entities

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