



# Impact with blue SDGs: Funding the gap

Water is fundamental to life, economic development, and environmental sustainability. However, it remains an underappreciated and underfunded theme within the Sustainable Development Goals (SDGs). “Emerging markets, in particular, desperately need private sector investments in the pursuit of clean water and healthy oceans. Blue bonds offer investors an efficient and tailor-made investment vehicle to help close the funding gap”, states Matt Lawton, portfolio manager of a global impact credit strategy at T. Rowe Price.

The seventeen Sustainable Development Goals (SDGs) offer a comprehensive blueprint for securing a prosperous and sustainable future for all. They aim to eradicate poverty and hunger, enhance health and education, promote equality, and

stimulate economic growth, all while addressing climate change and safeguarding our oceans and forests. Unfortunately, the world is not on track in delivering solutions, warns the UN in a recent report<sup>1</sup>. With six years to go to the target date of 2030, progress falls far short of what is required to meet the goals and their sub-targets, warns the UN in The Sustainable Development Goals Report 2024<sup>1</sup>.

The report states that only 17 percent of the SDG sub-targets are currently on track, with nearly half showing minimal or moderate progress, and over one-third stalled or regressing. Some concrete figures; an additional 23 million people were pushed into extreme poverty and over 100 million more were suffering from hunger in 2022 compared to 2019.



Source: United Nations

<sup>1</sup> <https://unstats.un.org/sdgs/report/2024/> | With less than one fifth of targets on track, world is failing to deliver on promise of the Sustainable Development Goals, warns new UN report - United Nations Sustainable Development

## World SDG Dashboard 2024



■ Major challenges  
 ■ Significant challenges  
 ■ Challenges remain  
 ■ SDG achieved  
 ● Data not available  
↘ Decreasing  
 → Stagnating  
 ↗ Moderately improving  
 ↗ On track or maintaining SDG achievement

Source: 'The Sustainable Development Goals Report 2024, page 17'

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The underfunding of SDGs is part of the problem and a significant challenge we face. The United Nations estimates the annual investment gap for SDGs to be a staggering \$4 trillion in developing countries alone!

– Matt Lawton  
 – **Portfolio** manager of the  
 Global Impact Credit Strategy

### Investors can trigger transformative change

We believe the bond market has not only a responsibility to help in closing the funding gap, but the underfunding also offers attractive investment opportunities. By adhering to environmental, social, and governance (ESG) principles and fulfilling climate commitments, the sector offers investors a return seeking investment opportunity.”

Transformative change is possible. The UN report mentions bright spots also, like the remarkable recent strides in deploying renewable energy and the growing number of people connected to the internet. “The increasing internet access by about 70 percent in just eight years illustrates how rapid transformative change is possible.”

Lawton: “At T. Rowe Price we believe investors can play a significant role in achieving progress on the SDGs, by financing companies and projects with huge potential impact, for people and the planet.”

### Blue SDGs are amongst the most underfunded

Lawton points out that some SDGs are more underfunded than others. Clean water and healthy oceans are significant blind spots. Water-related themes are covered by SDG 6 (clean water and sanitation) and SDG 14 (life below water). According to the SDG Investment Trends Monitor by UNCTAD, clean water and sanitation lack USD 0.5 trillion per year, while biodiversity, strongly related to SDG 14 requires an additional USD 0.3 trillion per year<sup>2</sup>.

2 <https://unctad.org/publication/sdg-investment-trends-monitor-issue-4>

This underfunding starkly contrasts with the importance of clean water and vibrant oceans. “People, agriculture, and industries heavily depend on the availability of freshwater and healthy rivers and oceans,” says Lawton. Oceans are also a vital source of protein for 3 billion people. Additionally, the ‘blue economy’ includes various economic sectors offering diverse and growing investment opportunities, spanning industries like tourism, waste management, sustainable fisheries, and marine transport. According to the United Nations Environment Programme Finance Initiative, oceans contribute USD 2.5 trillion to the global economy annually.

## The blue economy offers potential impact and return

One reason for the differences in SDG funding is that some goals are more investable than others, simply because there are more companies or projects aiming for a specific SDG available. Additionally, some investors might consider certain SDGs more important, because these are more closely connected to their values. It is quite common for institutional investors to focus on a few SDGs. Climate (SDG 13) is one of the most popular.

However, Lawton believes that water-related sectors – the blue economy – offer ample attractive investment possibilities. Water is increasingly recognized as a leading theme in environmental, social, and governance (ESG) criteria, representing a significant investment opportunity for both corporations and investors. The fact that SDG6 and SDG 14 are underfunded, means that there is a lot of potential for significant impact, argues Lawton. “Investors can act as first movers in an essential part of this large-scale worldwide program of the United Nations. Investors can help finance solutions for water issues that profoundly impact people’s lives while also addressing other SDGs. The availability of clean water and healthy oceans also positively impacts poverty (SDG 1), hunger (SDG 2), health (SDG 3), economic growth (SDG 8), and climate (SDG 13), among others.”

The blue economy offers an array of investment opportunities, including utility companies, waste management, smart irrigation, infrastructure projects, sanitation, sustainable fisheries, renewable energy (offshore), shipping, harbors, and pollution clean-up. Many government programs in emerging markets focus on advancing these and other sectors of the blue economy.

## Catalyzing investment in water-related SDGs

Lawton believes the finance industry plays a key role in catalyzing investment to support water-related SDGs. The stakes are high. Water is crucial to human life and business. Governments, especially in emerging markets, are increasingly recognizing this fact.

In Chile, water has become a national security issue. In 2022, the government announced a plan to ration water for the capital, Santiago, for the first time in history. Another example is Mexico, where protests erupted a few years ago over the federal government’s decision to relocate water flows to meet international water transfer obligations. These protests blocked roads for more than a month, causing significant losses for companies in the area. Investments in water infrastructure are urgently needed.

Brazil faces significant water and sanitation challenges. Approximately 30 million people lack access to reliable drinking water, and 109 million are without safe sanitation<sup>3</sup>. This highlights an urgent need for infrastructure development. Local water company Aegea recently issued a blue bond to address a water distribution loss rate of more than 45% to raise capital for investments in the water infrastructure.

More developed markets are also taking action. Singapore has implemented a comprehensive water management strategy, including rainwater harvesting, desalination, and wastewater recycling<sup>4</sup>. These investments have made Singapore water-resilient, ensuring a reliable water supply for its growing population and industries.

Israel has become a global leader in water management through investments in desalination, wastewater treatment, and water recycling technologies<sup>5</sup>. These investments have ensured a stable water supply despite the country’s arid climate, supporting agricultural productivity and economic growth.

In response to severe droughts, California has invested heavily in water conservation and efficiency programs<sup>6</sup>. These investments have helped reduce water consumption, support sustainable agriculture, and protect the state’s natural ecosystems.

3 TRP podcast Water Stress—The Hidden Risk in Latin America

4 <https://www.mckinsey.com/capabilities/operations/our-insights/from-resource-to-asset-building-a-water-resilient-singapore>

5 <https://oecd-environment-focus.blog/2023/05/31/a-global-pioneer-addressing-water-scarcity-how-can-israel-face-other-pressing-environmental-challenges/>

6 <https://www.gov.ca.gov/2023/06/08/california-announces-288-million-for-drought-and-flood-projects/#:~:text=Governor%20of%20California-,California%20Announces%20%24288%20Million%20for%20Drought%20and%20Flood%20Projects,respond%20to%20local%20drought%20impacts>

## The crucial importance of our world's oceans

Healthy oceans are not only a cradle of biodiversity, but they are also strongly connected to the climate, states Lawton. "Oceans play a central role in regulating the climate. The ocean is the largest carbon sink and absorbs about 90% of the warming generated from climate change. We cannot achieve the one-and-a-half degrees target of the Paris Agreement without protecting marine life."

For investors, there are many ocean innovation strategies to consider. These include startups developing smart anti-pollution or anti-plastic technologies, and strategies that limit the negative impact of global shipping through cleaner engines and smarter shipping logistics<sup>7</sup>, which help avoid long traffic jams at harbors.

As more investors and financial institutions recognize the critical role oceans play in the global ecology and economy, blue bonds are increasingly viewed as a vital tool for financing the sustainable management of marine resources.

## Blue bonds: a dedicated funding instrument

Investors can invest in water-related themes through several channels in debt and equity markets. Lawton believes that blue bonds—a relatively new but growing market—offer investors a particularly efficient instrument to fund solutions to water crises. He believes that blue bonds offer investors the same effectiveness as green bonds since their structures are similar. The issuer promises investors a specified interest payment and a commitment to use the proceeds to finance a sustainable project.

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Blue bonds can help close that funding gap by providing investors with a clear instrument, creating momentum to address the pressing water crises of this world.

– Matt Lawton

Lawton says, "Many investors use green bonds in their SDG investment framework to tackle climate issues, and indeed these bonds have proven their value in funding renewable energy and low-carbon projects. While one can use a green bond for a water project, the fact is that until now, green bonds have overlooked the specific needs of marine environments and water scarcity. Approximately 98 percent of green bonds are related to climate, leaving water-related SDGs still underfunded."

As with a green bond, the issuer of a blue bond commits to a specific sustainable project and, in many cases, must report on the progress with specific KPIs. This means investors can track and measure the impact, an important factor under current regulatory frameworks.

## Blue bonds: meaningful and measurable impact

Investments typically carry non-financial key performance indicators (KPIs), such as greenhouse gas emissions avoided from renewable energy generation, the number of jobs created through microfinance lending, or the cubic meters of water saved in a particular production process or agricultural region.

Lawton states, "Before investing, it's important to evaluate whether the project is credible and aims to achieve additionality; efforts that generate a positive impact or outcome that wouldn't occur without extra resources or capital investment. It's also critical to monitor and measure the impact throughout the lifecycle of a bond transaction to ensure the issuer or company is delivering on its intended objectives."

Core impact indicators specific to projects are crucial, according to Lawton. He highlights ICMA's harmonized framework for impact reporting as a valuable tool for measurement. For instance, a project aimed at sustainable water and wastewater management might use cubic meters of water saved as a core indicator. For projects focused on healthy oceans, an increased percentage of certified sustainable fisheries could serve as a key metric. In biodiversity projects, square kilometers of safeguarded coastline might be the most relevant indicator. These precise metrics enable investors to track progress and measure the real impact of their investments.

Lawton concludes: "In short, the blue economy represents a dynamic and growing segment of the global economy, offering impact investors a unique opportunity to make a significant difference. Blue bonds are poised to become an essential investment vehicle in driving this positive change."

<sup>7</sup> <https://www.bbc.com/future/article/20240702-climate-change-how-slowng-down-shipping-could-save-emissions>

**Risks:** Blue bonds carry investment risks, which include credit risk and interest rate risk. There is no assurance that a favorable outcome will be achieved.

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