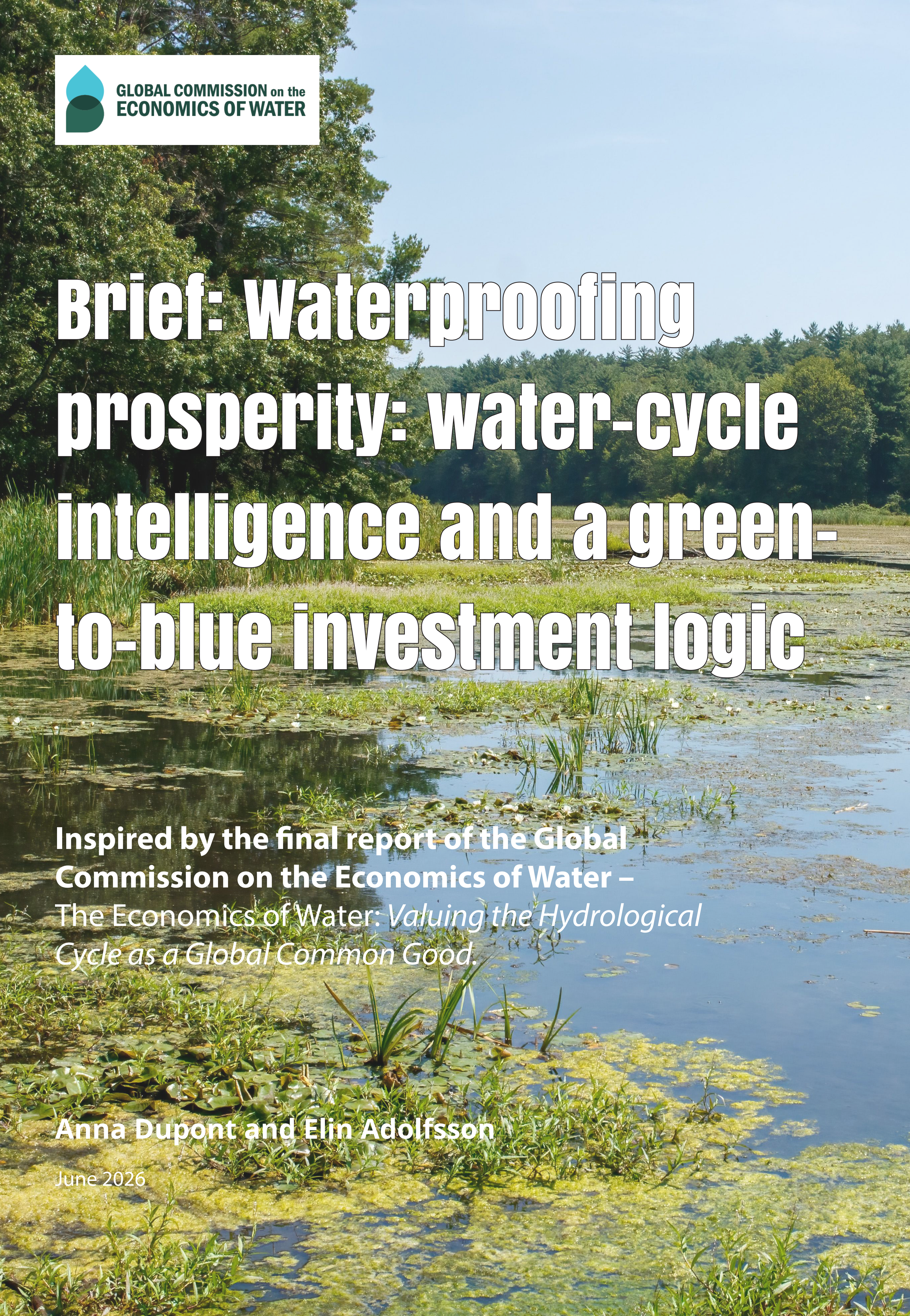

GLOBAL COMMISSION on the ECONOMICS OF WATER

Brief: Waterproofing prosperity: water-cycle intelligence and a green-to-blue investment logic

Inspired by the final report of the Global Commission on the Economics of Water –
The Economics of Water: *Valuing the Hydrological Cycle as a Global Common Good.*

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June 2026

The Global Commission's report sets out the shifts required to drive radical change in how water is valued, managed, and used.

Human activity is destabilizing the water cycle, turning hydrological disruption into a growing headwind on economic resilience, prosperity, and macro-financial stability. Yet, current investment portfolios systematically undervalue the functioning, geographical extent, and economic contribution of the ecohydrological systems that regenerate water flows, rainfall, and storage across landscapes and economies. The result is a widening gap between what finance is designed to do and what hydrological stability actually requires.

This brief argues that closing this gap requires a new investment logic that treats eco-hydrological systems as core economic infrastructure and integrates hydrological risk into capital allocation decisions. Governments, public and development banks, companies, and multilateral environmental institutions must increasingly direct capital toward the ecosystems, landscapes, and communities that reduce systemic water-related risks, sustaining both green and blue water systems across scales.

This brief should be read alongside "Macro-financial stability in a changing water system: evolving policy and mandates," which addresses mandates and prudential architecture and provides an upgraded playbook placing water-cycle stability at the core of macro-financial governance, while this brief presents partnership-based, whole-of-water-cycle frameworks as mechanisms that can translate hydrological integrity into risk-informed, long-term, and place-based investment pathways.

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Key messages

- **Investment portfolios undervalue the biophysical functioning, spatial extent, and economic contribution of eco-hydrological systems as core infrastructure, systematic mispricing of hydrological risks,** and misallocation of capital.
- **A few development banks reference ecosystem-based hydrology,** but these hydrological services are not consistently valued as core infrastructure in financing standards.
- **There are currently no formal avenues for financiers to explicitly support stewardship of green-water systems** across scales or to address system-level risks in a coordinated way.
- **The coupling of green and blue water systems expands the spatial and temporal scales of responsibility of water security.**
- **A spatially explicit investment logic is required** to correct spatial mispricing of risk, targeting ecohydrological nodes, corridors, and source regions and using natural and built solutions.
- **Water cycle co-stewardship should be structured through partnerships** that channel capital to critical nodes at scale, reflecting how water risks propagate within economic and financial systems.
- **Just Water Partnerships are governance-backed, whole-of-water-cycle arrangements** that can help define hydrological and equity outcomes as shared reference points for how risks are anticipated, how the stability of the water cycle is stewarded, and how responsibilities and benefits are distributed.
- An upgraded investment logic is needed for evolving roles and remits across actors:
    - **National governments:** Make hydrological integrity a core economic goal and use planning, regulation, and budgets to restore ecosystems and landscapes that secure water cycling and enhance equity.
    - **Indigenous and local communities:** Act as co-stewards of the eco-hydrological infrastructure that recycles and stores water we all depend on.
    - **Multilateral and Public Development Banks (MDBs and PDBs):** Evolve operational remit, risk tools, and co-financing to support eco-hydrological infrastructure and support communities, scaling water-cycle smart investments.
    - **Companies:** Bring supply-chain intelligence, procurement practices, and co-investment in priority sourcing and production landscapes, backing nature-based solutions that recycle and store water across time and space, reducing supply-chain risk and long-term input volatility, while improving water access.
    - **Multilateral Environmental Agreements:** Align goals and funding so water-climate-nature efforts become coherent, equity-enhancing rather than fragmented.

(*photo:* Nabin Baral/IWMI)

Context: Revealing the economic fault lines of a destabilised water cycle

Water moves through landscapes and atmosphere via natural polycentric storage systems (aquifers, wetlands, floodplains, glaciers, forests, and soil moisture) that buffer extremes and sustain precipitation downwind, forming core natural capital for system-level resilience.

Emerging evidence on green water[1] shows that land-use choices, deforestation, wetland drainage, and soil degradation reduce local water availability. They also erode land-water-atmosphere interactions at regional and planetary scales, weakening the nature-based eco-hydrological infrastructure that has underpinned development throughout the Holocene.

Within this framing, eco-hydrological infrastructure is distributed but connected: water source regions are areas that generate and regulate water flows, including rainfall through evapotranspiration (e.g. forests, wetlands, soils); corridors are the pathways through which water, moisture and related ecological processes move across scales (e.g. basins, atmospheric moisture flows and ecological connectivity routes); and nodes are critical points where water is stored, transformed or heavily used, and where risks and impacts tend to concentrate (e.g. cities, reservoirs, agricultural hubs).

Today, climate change and land-use choices significantly modify water stores and flows. As green-water systems degrade, the economic value of rainfall and soil moisture (and economic losses when it fails) is becoming increasingly salient, revealing systematic under-pricing of natural capital and misspecification of risk assessments.

The consequences become visible only once critical thresholds are crossed: when exported green-water scarcity, disrupted precipitation patterns, and structural water deficits become evident. This degradation cascades into the economic system by forcing coping strategies that further erode the water cycle.

The effects propagate into economic performance: agricultural yields become more volatile, energy output falters, urban water costs rise, and public health systems absorb growing burdens. As these pressures accumulate, they appear in slower Gross Domestic Product (GDP) growth and narrower fiscal space (see GCEW Brief "Macro-financial stability in a changing water system").

These processes expose a structural mismatch between hydrological system dynamics and short-term financial valuation frameworks. What was once a silent subsidy thereby became a headwind on prosperity [1]. Recent work on a 'water debt' indicator shows that in many key agricultural regions, the water used for annual crop production would take multiple years for the hydrological cycle to replenish, effectively shifting the costs of today's production onto future generations (see Figure 1).

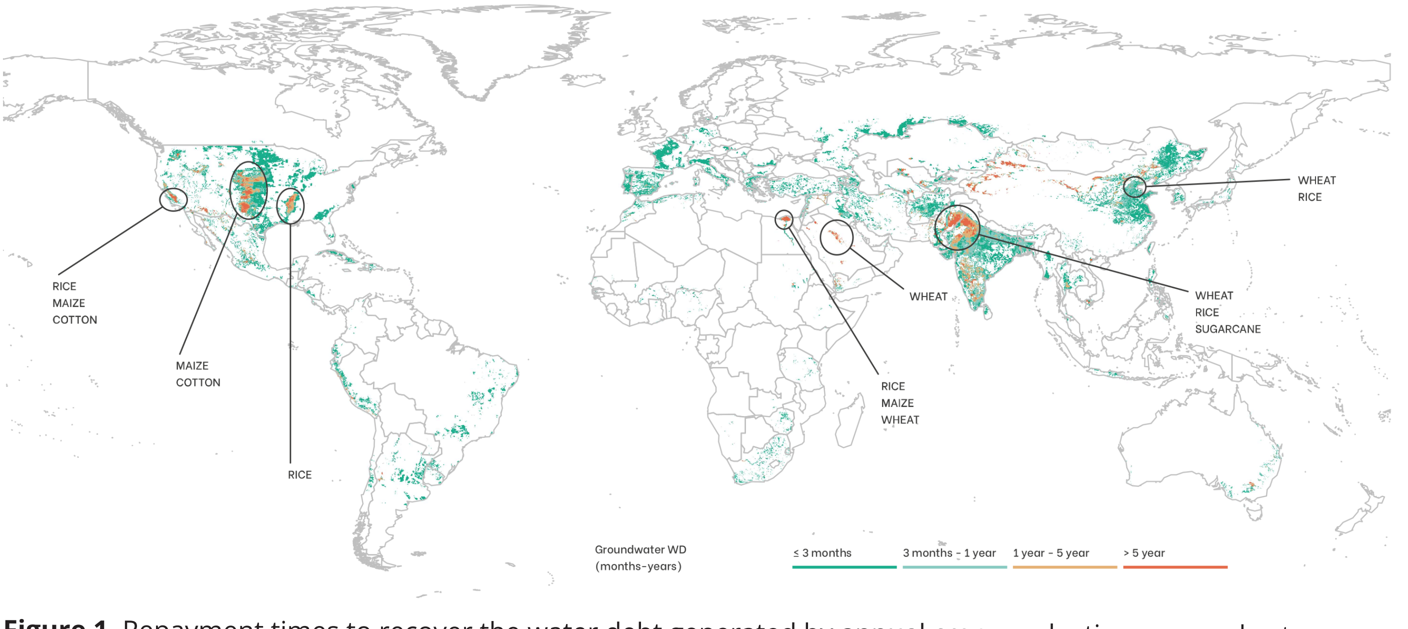

Figure 1. Repayment times to recover the water debt generated by annual crop production - groundwater use over annual groundwater recharge. Source: De Petrillo, E., Falsetti, B., Sciarra, C., & Tuninetti, M. ISBN 979-12-200-9636-2 (2021).

Note: WD values at the grid level are defined as the ratio of the source-specific water footprint to the source-specific water availability in the cell, in the present case: groundwater uses over annual groundwater recharge.

[1] "Blue water" refers to surface water and groundwater in rivers, lakes, and aquifers. "Green water" is water stored as soil moisture and in vegetation, returned to the atmosphere through evaporation and transpiration, generating around half of all rainfall over land.

The result is a widening gap between what finance is designed to do and what hydrological stability actually requires to sustain growth and avoid mounting economic losses. Closing this gap demands a renewed investment logic to spatially translate local hydrology, water storage trends, and dependencies into risk assessment, capital allocation decisions, and policy conditionalities, targeting segments of the water cycle where social and economic activities are destabilizing ecosystems and concentrating inequity-driven pressures.

Water-cycle co-stewardship: Extended partnerships for investments

Understanding water as a dynamic system of interdependent flows linking land, atmosphere, and (green and blue) water that underpin equity and economic efficiency, extends the frame of responsibility and reveals a broader community of co-guardians that either erode or reinforce hydrological integrity (see Figure 2).

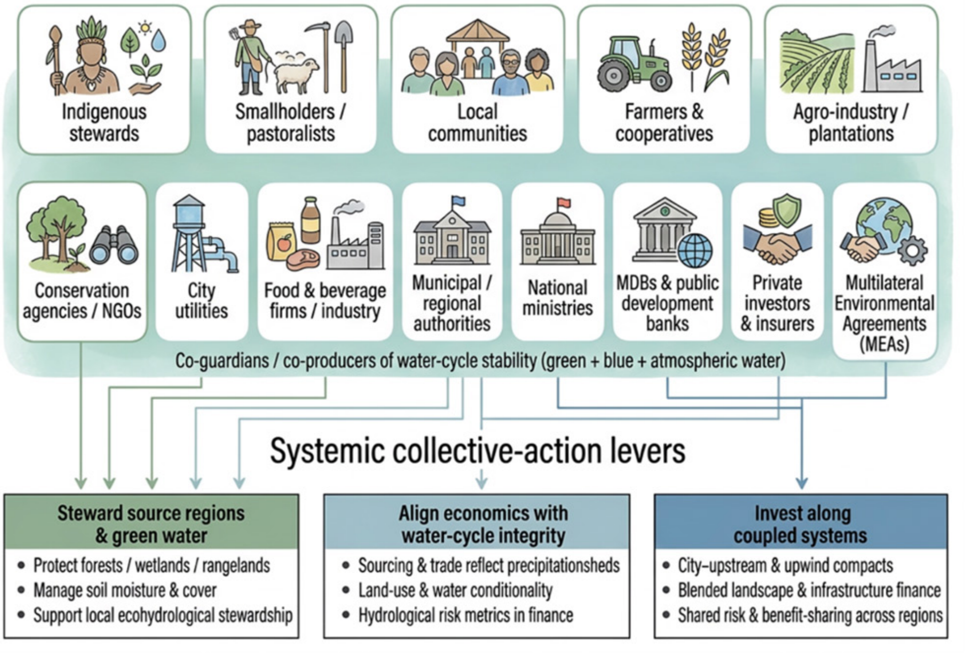

Figure 2. The expanded partner base for water cycle stewardship.

Note: Frontline stewards maintain ecological function; landscape managers shape land-use outcomes; companies and utilities create demand and co-financing signals; governments align mandates and targets; and MDBs, investors and insurers aggregate capital around shared water-cycle integrity.

When actors converge around shared hydrological and equity outcomes, they represent a powerful and stabilizing force. Whole-of-water-cycle partnership frameworks are among the mechanisms to translate hydrological integrity into long-term, place-based investment priorities aimed at recoupling the water cycle with growth. Initiatives such as Fair Water Footprints and the FAIRR investor network provide practical pathways.

Since each lever operates at a specific yet interconnected scale, farms and communities, cities, green and blue watersheds, and trade networks, alliance-building platforms become essential to organize directional action. This draws a renewed investment map with concrete spatial and sectoral priorities for capital allocation, laying the foundations for systemic, programmatic, catalytic finance. By plugging into existing tools that trace damage back to its causes and responsible actors, Just Water Partnerships (JWPs) can target water-related overshoot and vulnerability and prioritize investments that most stabilize the water cycles.

JWPs are best understood as governance-backed country- and water-and-landscape arrangements that bring together actors who shape how water circulates. In practice, they trace context specific chains of impacts stemming from hydrological disruption and then provide outcome oriented chains of implementation and directionality to anticipate, manage, and reduce those risks. Anchored in principles of equity, transparency, and accountability, these partnerships help define hydrological and equity outcomes as a shared reference point for risk and reward sharing [2]. They can help organize an investment logic that tracks cascading hydrological risks and allocates responsibilities and capital along that chain.[2]

[2] By highlighting how hydrological risks and costs cascade, JWP could also reveal the long-term health burdens of degraded water cycles on future generations, putting intergenerational health at the heart of investment and stewardship choices.

Rain, risk, and returns: Investing in eco-hydrological nodes

Recognizing the wider set of co-stewards brings into view investment arenas that have long sat outside traditional water portfolios. Previously overlooked hydrological nodes and ecological functions become critical entry points for building systemic resilience (see Figure 3).

Rainfed production zones that underpin most staple food supply and rural employment will move to the front of the queue for programmatic capital [3]. Since under-investing in these areas amplifies default risk, supply-chain volatility, and social instability [4], they are core arenas for real-economy assets. Furthermore, the returns and resilience of built infrastructure are increasingly understood as contingent on the health of the green and blue systems that feed them. Treating soil moisture and landscape rehydration as financed infrastructure is therefore the logical next step, allowing for a synergistic pillar in the global water and food-system agendas, and turning them into explicit cost curves, investment cases, and financing architectures.[3]

Communities that were previously treated as "beneficiaries" become co-guardians of the portfolio. Indigenous peoples, smallholders, and local custodians are the frontline stewards of these regions. Their territories hold disproportionate stocks of moisture and carbon that help stabilize regional hydrology and production conditions and generate a significant share of land-sourced rainfall [6], [7].

Urban water investments are increasingly structured around coupled grey, green, and blue infrastructure. City utilities, investors, and insurers must account for the fact that many major cities depend on moisture being generated in distant source regions [8], making the health of those "off-balance-sheet" landscapes a material factor for credit risk and systemic resilience.

Viable social businesses that deliver safe drinking water and sanitation are structural levers that can complement larger-scale efforts to bring water cycles back toward a safe operating space. By improving access and reducing diffuse pollution and unregulated abstraction in highly vulnerable contexts, they act directly on the pressures that push local water systems towards unsafe conditions and help dampen the cascading impacts of water insecurity on ecosystems and economies across geographies and generations (see GCEW Brief "Intergenerational intersections").

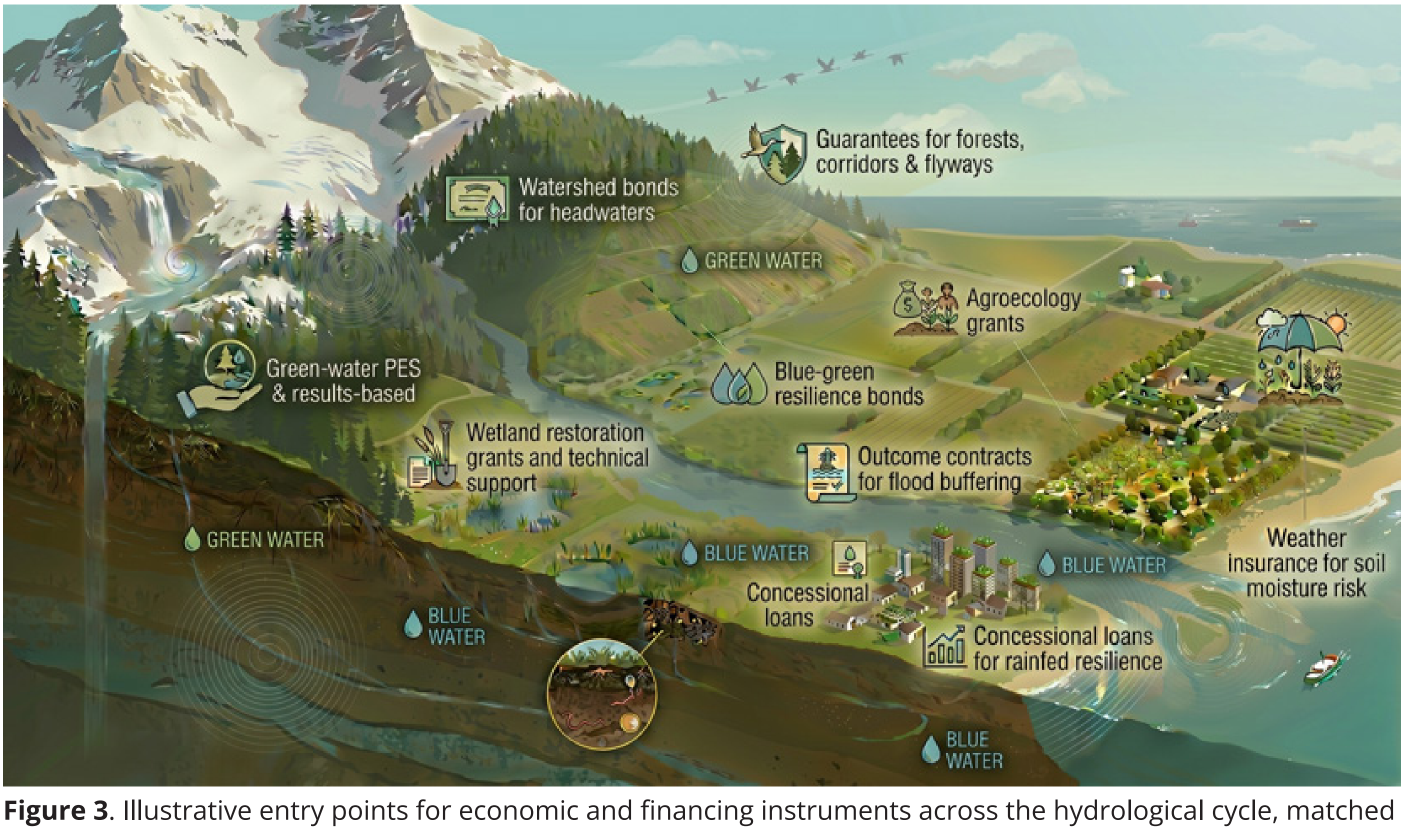

Figure 3. Illustrative entry points for economic and financing instruments across the hydrological cycle, matched to key hydrological nodes and landscape segments.

Note: Forests, wetlands, rangelands, and highland catchments are reclassified as distributed hydrological and social infrastructure assets whose protection and restoration reduce volatility, safeguard physical assets, and generate new revenue streams (water security, carbon sequestration, biodiversity, and insurance value).

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[3] This requires portfolio design to account for the time-dependent, nonlinear hydrological effects of ecohydrological restoration: in early stages of succession, higher transpiration and lower streamflow can make investments appear to reduce water availability, even though, as ecosystems mature, the relationship can reverse and generate simultaneous gains in rainfall, streamflow and broader hydrological resilience. [5]

A new compass for economies: Eco-hydrological system health

Considering healthy ecohydrological infrastructure as part of a nation's core capital base redefines how value is understood, how risk is priced, how economic priorities are set, and how responsibilities are distributed. This shift implies a "green-to-blue" investment logic: investing first in land-based, green-water functions that secure rainfall and recharge, so that blue-water infrastructure and assets remain viable and less exposed to risk.

Transitioning away from costly regimes that degrade water systems, toward resilient growth trajectories compatible with hydrological limits, demands that economic activity evolve in step with changing hydrology, shifting capital toward measures that stabilize green-water systems and thereby safeguard blue water availability. Water-intensive sectors, including agriculture, industry, and energy, require instruments that reduce water withdrawals, deforestation, land degradation, and pollution; reshape demand; support supply-chain transformation; and enable targeted transition reforms and social protection. Industrial and agricultural strategies are instrumental in this regard.

Country platforms for water enable national governments to retain authority over water policy while aligning mandates and institutions, orienting partners across connected landscapes, and providing tools that prioritize investments reflecting a green-to-blue investment logic. A shift in objectives marks a quiet yet decisive revolution, driven by anticipatory, multi-scale transitions aligning economic efficiency with environmental sustainability and equity [9].

When a country restructures its debt, it can use the freed fiscal space to reinvest in protecting rivers, soils, and forests. El Salvador implemented a debt-for-water swap that embeds water objectives into sovereign financing and redirects fiscal space toward hydrological resilience, reducing long-term fiscal exposure to water-related shocks [10].

To recouple economies and hydrology, governments can pursue four key steps that translate a green-to-blue investment logic into risk-informed capital allocation and policy practice: (1) map sectors and regions most exposed to hydrological stress, including through trade dependencies, using indicators and tools such as water debt repayment time and green and blue water accounting frameworks; (2) set context-specific trajectories and hydrological limits for withdrawals and soil-moisture retention capacity using Nationally Determined Contributions (NDCs); (3) require major value-chain actors to align business strategies with changing rainfall and recharge dynamics; and (4) use National Biodiversity Strategies and Action Plans (NBSAPs) to map critical eco-hydrological infrastructure as core natural capital.[4]

These steps are especially critical for low-income countries: as water systems (including eco-hydrological infrastructure) degrade and rainfall becomes less reliable, pressures manifest as rising irrigation demand that disrupted cycles may no longer meet, compounding both production losses and social inequities.

Water-cycle smart investment: The institutional pivot

The new investment logic implies increasing the share of financing directed toward interventions that enhance integrated water storage, soil moisture, baseflow stability, and flood and drought resilience across rainfall source regions, recharge zones, forests and wetlands, and degraded agricultural landscapes.

While institutions such as the Asian Infrastructure Investment Bank [11] have begun to recognize that water flows constitute a core infrastructure issue, this insight is not yet reflected in most portfolios. This gap is particularly consequential in rainfed agricultural systems, which underpin a large share of global staple production and climate vulnerability. While crop performance depends heavily on soil moisture and green water, investment strategies mostly prioritize blue-water infrastructure and irrigation-led pathways. This leaves the green water held in soil root zones effectively unmanaged, invisible in policy, and significantly undercosted and underfunded. Operationalizing this shift requires institutional mechanisms that organize co-stewardship across the water cycle.

With their convening power and standard-setting roles, PDBs and MDBs are well placed to:

- Embed water-cycle risk into core portfolio standards and climate strategies,
- Advance JWPs and programmatic approaches, such as country platforms, that align local to national actors, policy priorities, and finance,
- Help correct longstanding biases by embedding green-water considerations into investment strategies,

[4] Hence, identifying the green-water functions whose protection and restoration are prerequisites for sustainable blue-water use.

- Re-tool existing instruments, including Water funds and climate facilities, so they explicitly value the economic and hydroclimatic contribution of soil moisture, rainfall generating landscapes, and distributed ecohydrological infrastructure.
- Support the definition of soil and landscape rehydration targets within multi-sectoral territorial plans, enabling coordinated action across scales [12], with governments and local custodians, and link disbursements and refinancing terms to progress on those targets.

MDBs' responsibility to build integrated portfolios, where upstream and upwind restoration is hard wired into downstream and downwind asset performance, hinges on scientific and analytical advancements (e.g., soil moisture economics) and better data, including a shift in ecological flow assessment from static allocation "matching" approaches to a dynamic understanding of hydrology-ecology interactions along catchments and seasons. A sharper behavioral-science lens is also needed to identify how technologies and subsidies can backfire when incentives and norms are misaligned, and to design policies around how people actually make water-relevant choices. Together, this shifts investment from short-term blue-water access and allocation toward safeguarding the green-water processes that underpin long-term water security.

Companies hold key levers for landscape-scale water resilience

Rising water-related risks increasingly threaten supply chains, asset values, and financial performance, and compel companies to (re)assess water requirements across sites and commodities. Corporate risk exposure is already measurable, sharpening the business case for companies and investors to turn landscape-level hydrological resilience into a collective strategic asset for business continuity.

In line with the wider shift from allocating blue water to configuring landscape water cycling, companies can:

- Adopt an explicit and structured role as long-term co-guardians of water-cycle integrity, treating both green and blue water as strategic inputs, and extending watershed level stewardship approaches across sourcing and operating landscapes.
- Quantify their exposure and assess dependencies (including dependence on moisture recycling of upwind forests [see Figure 4] and wetlands).
- Signal priority landscapes, corridors, and nodes as anchor points for mobilizing funds around shared hydrological priorities, neutralizing ex-ante production and sourcing risks, by disclosing risks and dependencies.
- Use their supply-chain reach (with suppliers), demand signals, long-term offtake commitments, and purchase agreements to adjust practices and create predictable revenue streams for projects that restore and stabilize local water cycles in their sourcing landscapes[5] and improve community water security [13].
- Build action plans and JWPs around this diagnosis by establishing hydrological baselines, co-developing indicators, and exploring future shared scenarios that show how local water-cycle changes cascade along supply chains, translating this into portfolio-wide co-investment plans [14].

Over time, this enables public and private balance sheets to align around outcome-oriented co-financing of context-based mitigation and adaptation measures that reinforce hydrological and atmospheric connectivity and strengthen the structural match between local to regional water-cycling capacity and the long-term resilience of production and operations (see GCEW Brief "Integrating green water risks in agricultural commodities supply chains"). Replicated across platforms, coalition-based programs (e.g., the High Ambition Coalition for Nature and People Initiative) and JWPs, the urgently needed scale-up co-financing can emerge.

As advances in green-water observation reveal trends in storage, buffers, and moisture connectivity, companies can align their balance sheets with these dynamics, shifting from narrow withdrawal metrics to green- and blue-water trajectories as the core measures of exposure and impact.

[5] Regenerative agriculture and hydrology (including soil moisture), cropping choices and on-farm practices.

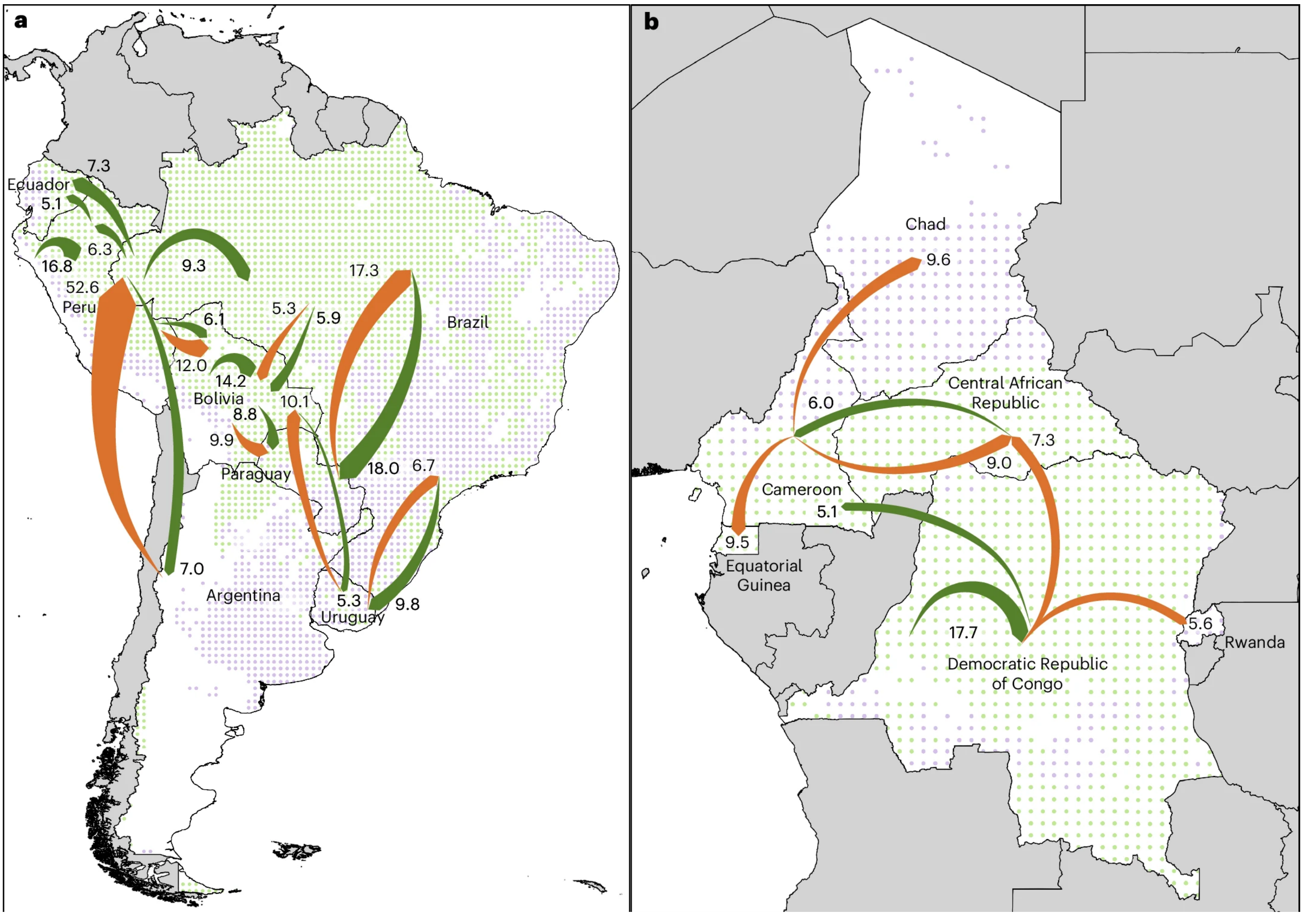

Figure 4. Illustration of the regional moisture and crop connectivity.
Source: Pranindita, A., Teuling, A.J., Fetzer, I. et al. Forests support global crop supply through atmospheric moisture transport. Nat Water 3, 1243–1255 (2025).

Note: Regional forest and agriculture connectivity in South America (a) and sub-Saharan Africa (b). Green lines represent the moisture flows in % of annual precipitation. Orange lines represent the crop flows in % of annual imports. Green dots show forests. Purple dots show agricultural areas.

Power at a convergence point: Environmental agreements can help raise volume in finance for water

Overcoming the global water-climate-nature fragmentation is imperative to unlock finance at scale [15]. When efforts remain siloed, both funding and outcomes stay partial.

Multilateral Environmental Agreements (MEAs) are pivotal platforms for treating land, water, climate, the biosphere, and cryosphere as one integrated system, but legacy mandates fragment them into separate tracks. The United Nations Convention to Combat Desertification's Land Degradation Neutrality (LDN) targets, for example, have yet to fully reflect atmospheric moisture fluxes and vegetation's role as rainfall regulating infrastructure, even though new evidence shows these dynamics directly determine where and when rain falls. LDN could be re-tooled as a landscape-level framework that explicitly integrates land-water-atmosphere interactions.

Making these synergies intentional must become a disciplined core practice, starting with shared spatial reference points (corridors, nodes, and critical source areas) that connect equity outcomes to hydrological integrity. When public, private, and community actors are invited to align around such shared but differentiated targets, finance can be mobilized at volumes no single institution could assemble alone. Joint mapping of functions and assets, onto which each MEA projects its own risk-opportunity lens, makes visible where collaboration can simultaneously strengthen green- and blue-water security, biodiversity, and climate resilience (see Box 1).

Box 1. Leveraging synergies: where flyways meet water flows

The Ramsar Convention on Wetlands, through its joint work plans with the Convention on Biological Diversity (CBD), is uniquely placed to reframe wetlands as core infrastructure for climate mitigation, biodiversity conservation, and water security [16]. A renewed work plan should focus on allowing Contracting Parties to anchor wetland protection and restoration in their updated NBSAPs and NDCs.

By using the Global Partnership on Ecological Connectivity's spatial information to pinpoint corridors and nodes where ecological connectivity, moisture recycling, and hydrological regulation intersect, countries can prioritize sites that simultaneously safeguard species and critical habitats, water-regulating ecosystems, and key precipitation sheds. This can provide a common spatial and political reference for regional, landscape, and country-level programs and investments, while also revealing new opportunities for JWPs.

Other Effective Area-Based Conservation Measures (OECMs), as defined under the CBD, now recognized conservation assets, focus on biodiversity but can deliver important co-benefits for water and charter another scalable avenue for nature-based finance. If countries clearly flag OECMs for their water role, it gives them a ready-made list of priority sites for biodiversity and climate funding.

This way, such synergistic work can support CBD Target 3 on well-connected conserved areas and Target 19 on aligning financial flows.

The renewed green-to-blue water investment logic, which treats eco-hydrological integrity as core infrastructure, should be organized as co-stewardship through whole-of-water-cycle partnerships and be backed by a (global) financial architecture that rewards hydrological integrity (see GCEW Brief "Macro-financial stability in a changing water system"). This is how we can finally diagnose and close the gap between what finance does and what hydrological (and financial) stability requires. In doing so, it turns systemic complexity from a barrier into a source of leverage in a new hydrological era.

(*photo*: Quang Nguyen Vinh/Pexels)

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Front cover photograph: Wetland in Northampton, United States (Tim Dusenberry/Pexels)

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