



Transboundary financing



Summary

A key challenge of transboundary cooperation is the issue of financing transboundary water activities since it is a long-term and resource-intensive process. Obtaining and ensuring the continuation of political commitment and allocation of financial resources across countries is indeed one of the hardest tasks for the actors involved in the cooperation process. This Tool demonstrates the importance of enhancing the financial resources directed to transboundary water cooperation and gives practical insight on potential ways to secure funding in that regard.

Transboundary Water Financing for What?

The costs related to transboundary water cooperation include a range of core (such as daily management, staff and communication costs) and programme costs (i.e. river basin monitoring, development of strategic plans and infrastructure projects) ([UNECE, 2021](#)). In practical terms, the costs of transboundary cooperation comprise of the following activities:

- **Institutional processes:** This includes the development and implementation of a legal framework, establishment and tailoring of institutional arrangements, management costs of transboundary institutional arrangements and organisation of meetings of the bodies. Such costs often belong to the core budget, or “a permanent or recurrent budget that is being allocated or agreed upon by its member countries to sustain basic operations of the institution” ([Henkel et al., 2014, 12](#)).
- **Data and information sharing:** This includes establishing mechanisms for data collection and dissemination, capacity-building and human resources development ([Tool B4.01](#)).
- **Infrastructure development and operations:** This includes water-related infrastructure

development and maintenance, involving long-term investment in water-related infrastructure for shared water management, flood forecasting and warning, flood risk management (GWP and GEF IW:Learn, 2020).

Many transboundary organisations however struggle in accessing funds for its development and activities. Underinvestment and unreliability of available financial resources often put transboundary cooperation at risk, impacting not only the coordinated management and sustainable development, but also leading to negative repercussions in terms of benefit sharing. Reasons may range from lack of political will among riparian countries, lack of fundraising mechanisms, difficulties in accessing financing mechanisms, perceived risks in transboundary water investments and also in complying with prerequisites, among others.

Financial and investment mechanisms are needed to strengthen and improve transboundary water cooperation and development. It is a way to ensure that the transboundary cooperation can achieve concrete impacts and improvements in terms of transboundary water management. Transboundary financing also should be designed to create an enabling environment for investments at regional, national and local scales (Tools A).

Overview of financial sources available for transboundary cooperation

Transboundary activities find their sources of income through mix of financing resources and mechanisms including (1) institutional funding (where a joint body exists), and/or (2) project funding (where basin management and development takes place on a more ad hoc basis) (GWP and GEF IW:Learn, 2020). The financial resources for transboundary cooperation can come from domestic and international sources.

- **National level funding:** Some national governments who are members of basin organisations may pay a certain amount of fee to a basin organisation. Such contributions can be based on agreements among riparian countries, and the amount can vary depending on biophysical and socio-economic conditions of different riparian countries, including territorial areas of the country in the basin, population, water flow, and the wealth of the country. On a single country level the range of financing mechanisms available for transboundary water management is wider than for multi-country investments. Within one country it includes grants, loans, utility bonds (such as bonds issued by Water Utility Corporation in Botswana) (WUC, 2008), direct private investments or public private partnerships, tariff schedules for ecosystem services, taxes or sales levies. In case of larger transboundary projects, the financing is more likely to be leveraged directly from riparian's governments, while private sector investment remains low due to additional financial risks (Joyce & Granit, 2010).
- **Transboundary partnerships and basin wide trust funds:** They are a common form of financing transboundary water management activities, where a joint authority has not been yet established, or as a supplementary source of financing administered by trusted financial institution (f.e. Development Finance Institutions (DFIs) such as ADB, AfDB, EBRD, IDB etc) (World Bank, 2019; UNECE, 2018). Some examples include the Prespa Ohrid Nature Trust Fund (PONT), Cubango-Okavango River Basin Fund (CORB), South Asia Water Initiative (SAWI) Multi-Donor Trust Fund, Trans-Caledon Tunnel Authority in South Africa (TCTA) and Nile Basin Trust Fund (NBTF which later transformed into Cooperation in International Waters in Africa (CIWA) programme. Pooling resources allows for joint development of transboundary projects, including providing advisory services to riparian states or other investors with respect to development of shared water resources. Maintaining such partnership or fund requires adopting common framework for monitoring and evaluation, as well as clear guidelines for investor's contributions.

Having these prerequisites will increase fund's viability for implementation stage and allow involved parties to attribute achieved outcomes to their contributions.

- **Joint Finance Facility:** In addition to project specific partnerships and funds, riparian communities might establish a dedicated finance facility to design, implement and maintain transboundary infrastructure projects. Several similar initiatives have been hosted by the AfDB, such as the Africa Water Facility and the Rural Water Supply and Sanitation Initiative ([RWSSI](#)) and the NEPAD Infrastructure Project Preparation Facility ([NEPAD-IFF](#)). A similar transboundary initiative, AIP Transboundary PIDA Water Investments, has been piloted within the Continental Africa Water Investment Programme (AIP) in 2021. This initiative takes place as part of the second phase of the Africa Union Development Agency's Programme for Infrastructure Development. Such facilities are created to lower potential risks, improve transboundary governance systems and ensure access to capital, such as concessional loans from multilateral development banks. Depending on river basin geography, a facility might be targeting funds raised from regions positively impacted by transboundary activities or working directly with central governments. Such institution would have a wider mandate than a mere partnership or fund, acting as executor of riparian's action plans. Some examples include Prespa Ohrid Nature Trust Fund ([PONT](#)), Trans-Caledon Tunnel Authority in South Africa ([TCTA](#)).

Funds for Transboundary Water Financing

Examples of active funds for transboundary cooperation include:

- **The Cubango-Okavango River Basin (CORB) Fund:** It is an example of financing for natural infrastructure in transboundary basin through sinking and endowment vehicles. The fund that was set up by the Permanent Okavango River Basin Water Commission ([CORB](#), OKACOM) along with several partners to address concerns regarding future basin conditions such as an increase in hydrologic variability and flow reduction, as well as changes in water quality due to increased pollution ([Henkel et al, 2014](#)). The fund, once fully capitalised will invest in natural infrastructure along the entire basin, from financing actions to protect the Angolan water towers to restoring downstream wetlands in Namibia and Botswana.
- **The Nile Basin Trust Fund (NBTF)** was created in 2001 as a partnership between ten development partners – Canada, Denmark, the European Union, France, Finland, Netherlands, Norway, Sweden, and the United Kingdom – with the World Bank as the administrator of the program (NBTF, World Bank). The NBTF inspired the creation of the broader Cooperation in International Waters in Africa ([CIWA](#)) trust fund, which supports transboundary cooperation in multiple basins across Africa ([Jagerskog et al, 2007](#)). CIWA continues the work the NBTF started: helping build a platform for cooperation in the Nile region, expanding the investment portfolio, and providing analytical and technical support to the Nile countries.
- **Indus Basin Development Fund:** Acting as neutral mediator in resolving a water and boundary dispute between India and Pakistan, the World Bank developed a new water treaty proposal for Indus river in 1954 and supported the negotiations following the initial proposal. The Treaty laid down cooperation framework, water allocation and use, as well as irrigation development. Using its experience and involvement in basin development services, the World Bank ensured that initial motivation to cooperate is sustained by operational framework. Following adoption of Indus Treaty, riparian the parties established Indus Basin Development Fund ([Indus Basin Development Fund Agreement, 1960](#)), administered by the World Bank. Given that both countries had previously received development assistance from the World Bank, its assistance was essential to establish mutual trust between estranged parties.

Strategies for Transboundary Financial Resource Mobilisation

Some of successful pathways to leverage funding include ([UNECE, 2021](#)):

- **Accessing financing through RBOs:** Playing the most crucial role for fundraising, RBOs gain financial sustainability for basin activities from regular financial contributions of member states. The RBO model impacts their capacity to leverage funding for joint investment projects (common data sharing model, mandate to develop RBMPs, expert capacity for infrastructure project development etc). Effective agreements between riparian countries and strong joint institutions are key to improve bankability of transboundary projects.
- **Partnerships with multilateral and regional development banks:** Acting as a neutral platform, regional and global financing institutions provide opportunity for trust-building among riparian communities, especially on earlier stages of transboundary cooperation. In a long-term perspective such as partnerships build capacity to access funding in transboundary context, as well as provide additional guarantees to attract private sector funding ([UNECE, 2021](#)).
- **Blended Finance Mechanisms (e.g., Blue Peace Bonds):** are instruments aimed to contribute to increasing sustainability of financial arrangements in transboundary settings. These bonds are being designed to incentivise and de-risk transboundary water cooperation and management ([Blue Peace, 2020](#)). The intent is for Blue Peace Bonds to be the financing arm of transboundary multisectoral joint investment plans. As such, they would be issued by municipalities, transboundary water organisations or other non-sovereign entities, as structures that blend public and private capital and are backed by cash flows generated from projects in the transboundary water basin ([UNECE, 2020](#)).

Climate Finance for Transboundary Initiatives

The availability of climate finance falls short of effectively supporting the climate adaptation efforts ([World Bank, 2019](#)). Each source of climate finance requires compliance with a specific set of procedures which poses additional challenges for RBOs to raise funds, potentially requiring a special team of finance experts to oversee this process. At the same time, RBOs need to establish their leading role in attracting climate finance within their basin, partially through developing transboundary adaptation plans, climate information systems, and stakeholder engagement activities. Both RBOs and regional institutions could play a strategic role in increasing the bankability of transboundary adaptation and resilience projects by reducing potential risks through securing political commitment and aligning with relevant policies ([World Bank, 2019](#)).

The UN Framework Convention on Climate Change (UNFCCC) has established a financial mechanism to provide financial resources to developing countries, under which the Global Environment Facility is the principal operating entity ([UNFCCC, 2021](#)), having a leading role for climate mitigation and adaptation finance in transboundary river basins. Other multilateral and regional development institutions, including specific global and national climate funds (such as [GCF](#), [AF](#), [IKI](#)), already have a successful history of financing climate adaptation and mitigation in water management within transboundary basins, offering funds on both non-reimbursable and loan terms ([World Bank, 2019](#)).

Among currently available mechanisms to mobilise finance for transboundary climate adaptation, blended financing combining national contributions with international development funds appears to be most fitting, considering coordination challenges and project scale ([Timmerman, 2011](#); [World Bank, 2019](#)). Below you will find an overview of globally available initiatives which provide finance for transboundary basin adaptation projects and programmes.

| Funding initiative | Financing type | Geographical coverage | Themes | Level | Recipient |
|--|--|--|--|--|--|
| <u>Least Developed Countries Fund (LDCF) managed by GEF</u> | Grants and expert technical assistance | Least developed countries | preparation of National Adaptation Programmes of Action (NAPAs) 6 focal areas, among them climate change and international waters | country | partner agencies |
| <u>Special Climate Change Fund (SCCF)</u> | Grants | All developing countries that are parties to the UNFCCC | increase climate resilience in areas such as water resources, land, agriculture, health, infrastructure development, disaster preparedness, fragile ecosystems and coastal zones | support LDCs in responding to climate change and, in particular, to prepare and implement NAPAs and NAPs | public and private entities |
| <u>Adaptation Fund (managed by GEF)</u> | Grants | Developing countries | emission reduction projects and emission trading schemes between developed and developing countries | national and regional level | dedicated and accredited national, regional or multi-lateral implementing entity |
| <u>International Climate Initiative (IKI)</u> | Grants | Developing countries, emerging economies and transition states | activities in developing countries that are determined in these countries' NDCs; supports transformative mitigation, adaptation, REDD+, and biodiversity projects | primary level of intervention is the national level, it also supports multi-country projects at the regional and global levels | broad range of participants beyond national ministries and government agencies, including international and multilateral organizations, as long as the respective project has an implementation partner in the target region |

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| <u>Partnership for Research and Innovation in the Mediterranean Area (PRIMA)</u> | Yearly calls for proposals to mobilise the Euro-Mediterranean scientific communities, stakeholders and public and private entities to identify | Algeria, Croatia, Cyprus, Egypt, France, Germany, Greece, Israel, Italy, Jordan, Lebanon, Luxembourg, Malta, Morocco, Portugal, Slovenia, Spain, Tunisia and Turkey. | research and innovation solutions for more sustainable water and food management; aims to improve water availability and sustainable agriculture production in a region heavily distressed by climate change, urbanisation and population growth. | basin level | project specific |
| <u>EU Water Initiative Plus</u> | Eastern Partnership programme, through country dialogues | Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine | convergence of national policies and strategies with the EU WFD, IWRM principles, MEAs and UNECE Water Convention | national | government |
| <u>AfDB African Water Facility</u> | Grants and expert technical assistance | African countries | supports improved development, equitable and sustainable management of water resources; three areas - Project Preparation, Water Governance and Water Knowledge | National and regional | governments, NGOs and private-public partnerships |
| <u>World Bank Cooperation in International Waters in Africa (CIWA)</u> | Investments and expert technical assistance | African countries | investments to develop water infrastructure and offers technical support and analyses to create a better understanding of transboundary water issues so that governments | basin and national | government, RBO |

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| <u>Green Climate Fund (GCF)</u> | Loans, equity, guarantees and grants | | activities related to adaptation and mitigation in the context of developing countries Nationally Determined Contributions (NDCs) | | |
| <u>Great Lakes Funder Collaboration</u> | Direct investment and grants | US, Canada | transboundary water management in Great Lakes basin | basin level | RBO |
| <u>Water Funder Initiative</u> | Advocacy to attract more funding | US, Canada | philanthropic funding to various causes whose aim is to identify and fund promising water solutions; commitment to basin level management in order to balance environmental, social and economic considerations | basin level | n/a |
| <u>NEPAD Infrastructure Project Preparation Facility Special Fund</u> | Grants and transitioning to a blend of grants and cost-recovery | African countries | prepare bankable regional infrastructure projects in energy, transport, ICT and trans-boundary water | regional and continental infrastructure projects | African Governments, Regional Economic Communities (RECs) and African infrastructure-related institutions (Power Pools, Corridor Agencies, etc) |
| <u>Programme for Infrastructure Development in Africa (PIDA)</u> | Sector studies/programme development | African countries | development of regional and continental infrastructure (Energy, Transport, Information and Communication Technologies (ICT) and Trans-boundary Water Resources) | regional and continental infrastructure projects | government |
| <u>Blue Peace Bonds</u> | Blended public and private instruments, bonds issued by TRBOs or municipalities | global | basin management and development | basin level | issued by a municipality, transboundary water organisation or another non-sovereign entity |

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| <u>Cubango-Okavango Endowment Fund</u> | Sinking fund and endowment fund , long-term financing | Angola, Botswana, Namibia | livelihood improvement and environmental conservation across the basin | basin level | Project-specific |
| <u>Congo Basin Blue Fund</u> | Blended finance fund and grants | Congo basin riparians | water-related activities (e.g. navigation, hydropower, irrigation, fisheries and tourism) that are expected to mitigate climate change in the region | basin level | Project-specific |
| <u>Development Bank of Latin America (CAF)</u> | Credit, non-refundable resources, and support in the technical and financial structuring of projects in the public and private sectors | Latin America | sustainable development; WASH | national | government |
| <u>Water and Sanitation Cooperation Fund (FCAS)</u> | National water fund, grants and loans | Latin America | Sustainable access to drinking water. Sustainable access to basic sanitation services, including the management of solid waste. Reinforcement of institutional policies and frameworks concerning water management, aimed at improving coordination and participation in the management of water. Reinforcement of the integral management of water. Establishment of sustainable systems for the provision of the public services of water and sanitation. | regional | Government (national, regional, local) and NGOs |

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| <u>AQUAFUND</u> | Multi-donor twin fund, non-reimbursable financing | Latin America; Caribbean | Access to water and sanitation in sparsely populated areas; Water security and climate change; Corporate governance of water and sanitation service providers; Urban drainage and flood control | national | government entities, water and sanitation utilities (public, private, mix or cooperatives), academic institutions, NGOs and civil society organizations, the private sector |
| <u>ADB Water Financing Partnership Facility</u> | Multi-donor trust fund: loan, grant, guarantee; project support and program quality support | ADB developing member countries | implementation of the Asian Development Bank's (ADB) water financing program; Water as a sustainable resource, Universal water and sanitation services, Productive water in agriculture and the economy, Reduced water-related risks | national | Project-specific |
| <u>AfDB NEPAD-IPPF - Infrastructure project preparation facility</u> | Multi-donor fund for grants | regional member countries of the Bank Group, regional economic communities, power pools, river basin organizations, corridor authorities and other infrastructure-related and specialized regional/continental institutions | transport, energy, ICT, and water resources management | project-specific | project |

Thematic Tagging

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