



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 (f.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:** including 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:** including establishing mechanisms for data collection and dissemination, capacity-building and human resources development (Tool B4.01).
- **Infrastructure development and operations:** such as 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:** 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) program. 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, riparians 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-IPPF). 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:** 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 had 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, riparians 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 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 riparians, especially on earlier stages of transboundary cooperation. In a long-term perspective such 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).



Thematic Tagging

Private Sector Transboundary

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