DRAFT GUIDE on

FINANCING TOOLS FOR SUSTAINABLE FUNDING AND FINANCINGOF INVESTMENTS IN TRANSBOUNDARY WATER BODIES AND ECOSYSTEMS

Focus on Latin America and the Caribbean

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Table of Contents

Glossary of key terms and abbreviations **2**

1. Introduction **5**

2. Executive summary **5**

3. Key financing instruments: definitions, purpose, and target users **7**

3.1. Grants (donor / GEF / climate funds) 7
3.2. Concessional loans / Programmatic MDB loans 8
3.3. Guarantees & De-risking instruments 9
3.4. Blended finance & catalytic concessional layers 10
3.5. Green, Sustainable, and Blue Bonds 11
3.6. Debt-for-nature / Debt-for-climate swaps 13
3.7. Payments for Ecosystem Services (PES), Environmental Service Fees 14
3.8. Results-Based Financing (RBF) / Performance-based mechanisms 15
3.9. Technical Assistance (TA) and Project Preparation Facilities (PPF) 16
3.10. Water funds 17
3.11. Public-Private Partnerships (PPP) 18

4. Summary of key financing Instruments **20**

5. References **22**

Glossary of key terms and abbreviations

AF – Adaptation Fund

Bonds – Debt instruments issued by governments, banks, or companies to borrow money from investors. The issuer repays with interest (called the *coupon*) at fixed dates until maturity. *Green bonds* finance environmental projects; *blue bonds* focus on oceans and coasts.

Blended Finance – A way of combining public money (grants, concessional loans, first-loss capital) with private investment. Public funds absorb higher risks, making it safer for private investors to join projects that deliver development or environmental benefits.

CAF – Development Bank of Latin America and the Caribbean

CDB – Caribbean Development Bank

Catalytic Finance – Funding (often grants) intended to unlock additional resources from governments, donors, or private investors, creating a multiplying effect.

Concessional Loan – A loan with softer conditions than market loans (lower interest rates, longer repayment). Often used for infrastructure or climate-resilient projects in developing countries.

Creditworthiness – The ability of a borrower (government, company, or project) to repay debt, often assessed by credit rating agencies.

Debt-for-Nature / Debt-for-Climate Swap – An agreement where part of a country's debt is forgiven or restructured in exchange for investments in environmental protection or climate action.

De-risking Instruments – Tools such as guarantees, insurance, or first-loss capital that reduce risks for investors and make projects more attractive.

Equity – Financing where an investor provides capital in exchange for ownership (shares) in a project or company. Unlike loans, equity does not require repayment, but the investor expects returns from profits.

ESG (Environmental, Social, and Governance) – Criteria used by investors to assess whether a project or company is sustainable and socially responsible.

Fiscal Space – The budgetary room a government has to spend on public priorities without creating unsustainable debt.

GEF – Global Environment Facility

GFCR – Global Fund for Coral Reefs

Grant – Non-repayable funds provided by donors or institutions. Used mainly for early studies, pilots, and activities that do not generate revenue.

Guarantee – A financial promise that a lender will be repaid even if the borrower defaults. Guarantees reduce risk for private investors.

I**CMA** – International Capital Market Association

IDB – Inter-American Development Bank

IFI – International Financing Institution

Institutional Investor – Large organizations (e.g., pension funds, insurance companies, asset managers) that invest substantial capital in bonds, shares, or projects.

Liquidity – The ease with which an asset (like a bond or share) can be quickly bought or sold in a market without affecting its price.

Maturity (of a Loan/Bond) – The date when the principal (original amount borrowed) must be repaid to investors.

MedFund – Environmental trust fund specifically dedicated to the financing of marine protected areas in the Mediterranean.

MDBs – Multilateral Development Banks

MRV – Monitoring, Reporting, and Verification

NAP – National Action Programme.

NBS – Nature-Based Solutions

NBTF – Nile Basin Trust Fund

PES – Payments for Ecosystem Services: Financial incentives rewarding individuals or communities for conserving or restoring ecosystems.

PPF – Project Preparation Facility: Funding mechanism for feasibility studies and technical work to make projects investment-ready.

PPP – Public-Private Partnership: A cooperative arrangement between public authorities and private entities to finance, build, and operate projects.

PROBLUE – A World Bank multi-donor trust fund that supports the sustainable use of marine and coastal resources.

REDD+ – *Reducing Emissions from Deforestation and Forest Degradation, plus conservation, sustainable forest management, and enhancement of forest carbon stocks.* It is a UNFCCC (United Nations Framework Convention on Climate Change) mechanism that provides results-based payments to countries for verified reductions in greenhouse gas emissions from forests.

RBF – Results-Based Financing: Financing approach where disbursements are linked to the achievement of measurable results.

RBO – River Basin Organisation

Risk Profile – The overall level of financial risk of an investment, considering political, economic, and market conditions.

SAP – Strategic Action Programme

SDG – Sustainable Development Goal.

Sovereign Bond – A bond issued by a national government to raise money from investors, typically for public spending or development.

TA – Technical Assistance: Non-financial support, including training, advisory services, or knowledge transfer, to strengthen institutions.

Umbrella / Programmatic Loan – A large financing framework covering multiple smaller projects under a shared structure.

UN – United Nations.

1. Introduction

Achieving long-term impact in transboundary waters requires going beyond catalytic GEF grants and mobilizing additional, diversified sources of finance. Projects anchored in Strategic Action Programmes (SAPs) and National Action Plans (NAPs) increasingly face the challenge of identifying and structuring viable financing pathways that ensure the sustainability and scaling of results.

This background note provides the GEF International Waters (IW) community and its partners with a clear, accessible overview of the main **funding and financing instruments available through Multilateral Development Banks (MDBs) and other International Funding Institutions (IFIs)**, with emphasis on their application in Latin America and the Caribbean. It explains what these tools are, how they are typically used, and what types of projects or investment needs they are best suited for.

By presenting examples from IDB, CAF, CDB and other financing institutions, the Note illustrates how financing instruments - ranging from concessional loans, blended finance, and guarantees, to green and blue bonds, debt-for-nature swaps, and payments for ecosystem service - can be mobilized to support water security, climate resilience, and sustainable development objectives.

The note is structured to as practical illustration of **financing tools and their use**, with concise descriptions, MDB/IFI examples, and references for further exploration. It is intended as a **practical reference tool**: a Guide for GEF IW project teams, governments, and stakeholders to better understand financing options, identify suitable instruments for their SAP or project priorities, and engage effectively with MDBs and other partners in pursuit of sustainable results beyond GEF funding.

NB: This Note is draft, and it will be extended into a Guidebook after the Regional Workshop on Sustainable Funding and Financing, 2-3 October 2025, in Lima, Peru to integrate examples also from other regions.

2. Executive summary

- GEF grants are catalytic; sustaining and scaling International Waters (IW) results requires blending grants with **concessional finance, MDB loans, guarantees, blended finance vehicles, debt-for-nature/debt-for-climate swaps, bonds (green/blue), and private-sector instruments[1].**
- IDB, CAF and CDB each deploy a mix of instruments tailored to regional needs in Latin America and the Caribbean: IDB emphasises programmatic engagement for water/security and supports green bond markets and project loans; CAF issues large sustainable and blue

[1] World Bank, *Accelerating Blue Finance: Instruments, Case Studies, and Pathways to Scale* (Washington, DC: World Bank, 2025), https://www.worldbank.org/en/topic/environment/publication/accelerating-blue-finance-instruments-case-studies-and-pathways-to-scale.

bonds to mobilise private capital in LAC; CDB focuses on climate resilience, Technical Assistance and co-financing for small island and Caribbean states[2].

- Practical selection of instruments depends on: (i) project type (infrastructure vs. governance/TA), (ii) existence of predictable cash flows or public budget anchors, (iii) institutional anchoring, and (iv) scale and risk profile. A checklist and comparison table is essential for matching instruments to IW SAP measures. (See Table 1.)

[2] Raúl Muñoz Castillo, Glen Hearns, Denea Larissa Trejo, and Luis Pabon Zamora, *Joined by Water (JbW): IDB's Transboundary Waters Program* (Washington, DC: Inter-American Development Bank, 2021), https://doi.org/10.18235/0003201; CAF (Development Bank of Latin America and the Caribbean), "CAF Issues Its First Sustainable Bond for EUR 1.5 Billion," August 27, 2025, https://www.caf.com/en/currently/news/caf-issues-its-first-sustainable-bond-for-eur-15-billion/.

3. Key financing instruments: definitions, purpose, and target users

3.1. Grants (donor / GEF / climate funds)

3.1.1. What

Grants are non-repayable funds for project preparation, capacity building, pilots, enabling activities, and some capital investments. These can come from multilateral institutions such as the World Bank, the Global Environment Facility (GEF), and the United Nations, or from bilateral agencies, such as the Agence Française de Développement (AFD), Japan International Cooperation Agency, Swiss Agency for Development and Cooperation (SDC), etc. Some multilateral climate funds operate entirely through grants, while others combine grant financing with concessional lending options[3]. Unlike loans, grants do not require repayment, making them particularly suitable for public agencies or River Basins Organisations (RBOs) that cannot take on debt, or whose member countries face fiscal constraints. Grants are especially critical in the early stages of transboundary projects, covering project identification, pre-feasibility studies, and enabling activities, when no revenue streams exist yet. They also support basin organisations, dialogue, and data exchange among riparian states, which are essential to build trust and prepare the ground for larger-scale investments[4].

They may take the form of direct project grants, institutional strengthening support, or catalytic co-financing contributions. Many are disbursed via dedicated trust funds (e.g., PROBLUE, GFCR, MedFund, Caribbean Biodiversity Fund) that blend technical assistance with limited investment windows. CAF and IDB are accredited to the Green Climate Fund (GCF), the Global Environment Facility (GEF), and the Adaptation Fund (AF), providing access to grants, concessional loans, guarantees, and equity instruments [5].

3.1.2. Purpose

Grants help to reduce upfront risk, finance feasibility studies, build institutional capacity, and catalyse co-financing. Also, provide the enabling conditions for policy reforms, safeguard systems, and pipeline development, preparing projects to qualify for concessional or market-based finance. They are critical for multi-country cooperation frameworks, where costs are collective, but benefits increase unevenly across states. Grants often complement riparian contributions and are particularly valuable for one-off or sector-specific activities. They may, however, be conditional on co-financing from member states, which helps secure ownership but can be challenging in fiscally constrained contexts[6].

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[3] World Bank, *Financing Climate Change Adaptation in Transboundary Basins: Preparing Bankable Projects* (Washington, DC: World Bank, 2019), https://openknowledge.worldbank.org/server/api/core/bitstreams/a2557d64-4c25-5087-8455-4d7ea5e11447/content.

[4] United Nations Economic Commission for Europe (UNECE), *Funding and Financing of Transboundary Water Cooperation and Basin Development* (Geneva: UNECE, 2021), https://unece.org/sites/default/files/2021-09/ECE_MP.WAT_61_Funding-Financing_Transboundary_Water_Cooperation.pdf.

[5] CAF (Development Bank of Latin America and the Caribbean), *Sustainable Finance,* February 11, 2025,https://www.caf.com/en/investors/sustainable-finance/.

[6] World Bank, *Financing Climate Change Adaptation*.

3.1.3. Applications

Grants are best used on early-stage Strategic Action Programme (SAP) measures, pilots, and activities that offer public-good benefits but have no direct revenue stream. Additionally, grants are commonly applied to fund basin organisations and shared monitoring platforms that underpin long-term investment readiness. Examples include the Niger Basin Authority, which can sign for grants but not for loans, and the Nile Basin Initiative, where a World Bank trust fund (NBTF) was established to channel donor funds, given the NBI's lack of legal entity[7].

Grants are significant in contexts with limited fiscal capacity, such as those of the Caribbean and Small Island Developing States (SIDS), to ensure equitable and inclusive access to climate and water finance[8].

3.2. Concessional loans / Programmatic MDB loans

3.2.1. What

Concessional loans from Multilateral Development Banks (MDBs) are loans offered on more favourable terms than typical market-rate loans, such as reduced interest rates or extended repayment periods. These loans aim to fund projects with development benefits that might otherwise find it difficult to secure private investment[9]. Programmatic loans are a form of concessional financing that adopts an "umbrella'' structure, supporting multiple smaller, sector-specific projects under a common framework. This approach enables more efficient, large-scale financing for sectors such as small and medium-sized enterprises (SMEs) and green initiatives[10].

Concessional loans provide favourable financial terms irrespective of performance. They are particularly effective when coordinated with transboundary Strategic Action Programmes (SAPs), ensuring that financial obligations align with regional priorities across borders. Loans often come with specific requirements that must be fulfilled to secure funding. These conditions are primarily influenced by the country's economic situation and its financial history. Moreover, projects that earn income in a currency different from the loan currency must factor in potential exchange rate risks. This consideration is significant for RBOs (River Basin Organisations) operating in developing nations, where local currencies tend to be more unstable[11].

3.2.2. Purpose

Concessional loans/programmatic loans help to finance infrastructure, municipal water services, and large-scale investments where future revenues or public budgets can support repayment.

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[7] United Nations Economic Commission for Europe (UNECE). *How to Accelerate the Funding and Financing of Transboundary Water Cooperation and Basin Development? Opportunities and Challenges.* (Geneva: UNECE, 2023), https://unece.org/sites/default/files/2023-03/ECE%20_MP.WAT_72_web_final_7.3.2023.pdf.

[8] CAF, *Sustainable Finance*.

[9] World Bank, *Financing Climate Change Adaptation*.

[10] Development Finance Institutions (DFIs), *DFI Working Group Joint Report on Blended Concessional Finance for Private Sector Projects: December 2021 Update*(Washington, DC: International Finance Corporation, 2021), https://www.ifc.org/content/dam/ifc/doc/mgrt/202112-dfi-bcf-joint-report.pdf.

[11] UNECE, *Funding and Financing of Transboundary Water Cooperation*.

Concessional finance typically comes from governments or other development partners, such as foundations, which require a lower return than the market [12]. They can help to facilitate cross-border cost sharing in multipurpose projects (e.g., hydropower, irrigation, flood management) and reduce conflict over repayments through precise benefit-sharing mechanisms. They also support policy reforms and strengthen resilience, improving water sector governance and expanding service coverage while catalysing further investment from public and private sources[13].

3.2.3. Applications

Concessional loans/ programmatic loans are used for capital-intensive SAP measures (wastewater treatment, irrigation modernisation, water supply upgrades). Particularly relevant for large basin-wide projects with precise benefit-sharing mechanisms, this approach reduces conflict over repayments[14]. Suited for sovereign borrowers needing scalable finance in line with SDG 6 (clean water and sanitation) and SDG 14 (life below water)[15]. IDB programmatic approaches, such as *Joined by Water,* aim to structure transboundary engagement. IDB has provided concessional loans to Belize to expand climate-resilient water and sanitation services. At the same time, CAF extended concessional programmatic loans in the Amazon Basin to support watershed protection and sustainable hydropower[16].

3.3. Guarantees & De-risking instruments

3.3.1. What

Credit enhancements, such as partial risk guarantees and political risk insurance, lower perceived risk for private or commercial lenders. These instruments typically guarantee repayment of debt and enhance solvency, improving bankability by mitigating the risk of nonpayment. By reducing political and commercial risks, guarantees make it easier to access capital for climate finance activities[17].

Guarantees allow financing partners to share certain risks that are difficult to manage alone. They support a range of financial instruments, including equity and various debt options. They can support financial sector projects, including capital market investments and trade financing, as well as non-financial sector activities across multiple industries[18].

Risk-mitigation instruments remain underused in transboundary settings, where political, regulatory, and currency risks are particularly high. Some de-risking tools include[19] :

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[12] World Bank, *Accelerating Blue Finance*.
[13] OECD, *Innovative Financing Mechanisms for the Water Sector* (Paris:OECD Publishing, 2010), https://www.oecd.org/content/dam/oecd/en/publications/reports/2010/03/innovative-financing-mechanisms-for-the-water-sector_g1ghc6cb/9789264083660-en.pdf.
[14] OECD, *Financing a Water-Secure Future: Full Report* (Paris: OECD Publishing, 2023), https://www.oecd.org/en/publications/financing-a-water-secure-future_a2ecb261-en/full-report.html.
[15] World Bank, *Accelerating Blue Finance*.
[16] Muñoz Castillo et al., *Joined by Water*.
[17] *World Bank Group and partners, Joint Report on Multilateral Development Banks' Climate Finance: 2020 (Washington, DC: World Bank Group, June 2021), https://thedocs.worldbank.org/en/doc/9234bfc633439d0172f6a6eb8df1b881-0020012021/original/2020-Joint-MDB-report-on-climate-finance-Report-final-web.pdf.*
[18] OECD, *Financing a Water-Secure Future*.
[19] World Bank, *Accelerating Blue Finance*.

- Parametric insurance schemes, such as the Caribbean COAST program and Mesoamerican Reef Insurance, which provide payouts based on predefined triggers, like hurricanes.
- Catastrophe bonds (cat bonds) offer automatic payouts following extreme events.
- Liability protection instruments ensure rapid disbursements and shift climate risks to capital markets.

3.3.2. Purpose

Guarantees and de-risking tools help unlock private capital by improving credit worthiness, enabling first-loss structures in blended finance. They also stabilise investor returns in highly exposed geographies, such as the Caribbean and Pacific, by transferring climate and disaster risks to global reinsurance or bond markets[20]. Additionally, these instruments assure private operators that governments will honour cross-border agreements, thereby attracting Public-Private Partnerships (PPPs)[21].

3.3.3. Applications

Guarantees and de-risking tools are especially critical for projects with potential revenue streams (tariffs, user fees) or where private partners are hesitant due to regulatory or foreign exchange risks. In shared basins, guarantees play a key role in navigation projects, cross-border hydropower and flood management schemes[22]. They play a crucial role in small islands and credit-constrained markets. They offer reliable opportunities for governments, multilateral development banks, and technical partners to design and invest in programs that support ocean sustainability objectives[23].

3.4. Blended finance & catalytic concessional layers

3.4.1. What

Blended finance uses concessional funds (grants/subordinated capital) to attract commercial finance into projects that support sustainable development in developing countries.

Blending public and private capital through tailored financial mechanisms allows commercial investors to assume risks they would normally avoid, while attracting private debt and equity that might otherwise remain unavailable. Rather than being a single instrument**,** blended finance refers to the strategic use of multiple financial tools to adjust the risk–return profile of an investment, thereby making it more appealing to commercial financiers and encouraging additional private participation. Governments or multilateral funds often take a “first loss” position to de-risk investments, making projects more bankable, including those delivering biodiversity, gender, and social co-benefits[24]. Blended finance structures typically involve a mix of instruments, such as

[20] World Bank, *Accelerating Blue Finance*.
[21] OECD, *Innovative Financing Mechanisms for the Water Sector*.
[22] Ibid.
[23] World Bank, *Accelerating Blue Finance*.
[24] OECD, *DAC Blended Finance Guidance 2025* (Paris: OECD Publishing, 2025),https://www.oecd.org/en/publications/oecd-dac-blended-finance-guidance-2025_e4a13d2c-en.html

syndicated loans, green bonds, guarantees, insurance, technical assistance, and knowledge management, and require strong regulatory and legal frameworks, which, although challenging in multi-country contexts, are feasible. By providing a catalytic layer of concessional funds, even relatively small public contributions can unlock substantially larger private investment, particularly in projects with high capital requirements such as transboundary water infrastructure PPPs[25]. Blended finance also helps manage political, regulatory, currency, and climate risks, increasing the likelihood of project success[26].

3.4.2. Purpose

Blended finance bridges the gap between development impact goals and commercial investment criteria. It is particularly suitable for multipurpose dams, regional resilience projects, and other initiatives that deliver benefits across borders. Sharing risks and costs among public and private partners enables projects to transition toward commercially viable revenue streams while supporting public-good outcomes such as ecosystem services, flood protection, and climate adaptation[27].

3.4.3. Applications

Blended finance is suitable for nature-based solutions, adaptation infrastructure, and public-private partnerships where private returns are marginal without subsidy. In transboundary water settings, it helps balance public-good benefits, such as ecosystem services and flood protection, with revenue-generating elements, like hydropower or irrigation fees[28]. It can be scaled or replicated across multiple basins and sectors to mobilise additional financing for sustainable development. CAF's blended finance operations also prioritise blue economy sectors, including coastal resilience and sustainable fisheries, aligning with their USD 1.25B commitment to marine ecosystems[29].

3.5. Green, Sustainable, and Blue Bonds

3.5.1. What

Bonds are debt instruments issued by governments, municipalities, financial institutions, and companies to raise capital for environmental or social investments. In this arrangement, the issuer - such as a country, municipality, multilateral development bank (MDB), or corporation - owes a debt to the bondholders, who may be individuals or institutional investors. The issuer is required to pay interest, known as the coupon, at fixed intervals and to repay the principal at maturity. Unlike loans, which are negotiated directly between a borrower and a single lender, bonds can

[25] David McCauley and Jessica Thompson, *IWC10 Pre-Conference Workshop: Sustaining International Waters Financing and Benefits*, PowerPoint presentation, IWC10, September 22, 2024.
[26] OECD, *DAC Blended Finance Guidance 2025*.
[27] GISD Alliance, *Blended Finance Best Practice Case Studies: Lessons Learned* (October 2024), https://gisdalliance.org/sites/default/files/2024-10/Blended_Finance_Best_Practice_Case_Studies_Lessons_Learned_0.pdf.
[28] UNECE, *How to Accelerate the Funding and Financing*.
[29] CAF (Development Bank of Latin America and the Caribbean), "CAF Allocated More Than USD 1.3 Billion Since 2022 to Preserve Latin American and Caribbean Oceans," June 3, 2025, https://www.caf.com/en/currently/news/caf-allocated-more-than-usd-13-billion-since-2022-to-preserve-latin-american-and-caribbean-oceans/.

be distributed across a broad pool of investors and, in many cases, traded publicly, providing liquidity[30].

Thematic bonds are structured under frameworks such as the International Capital Market Association (ICMA) Green Bond Principles, which ensure transparency in project selection, use of proceeds, and reporting. Thematic categories include[31]:

- **Green bonds,** which finance renewable energy, biodiversity conservation, clean transport, and other environmental projects.
- **Social bonds,** which support initiatives that improve social well-being, such as affordable housing, health care, and education.
- **Blue bonds,** a subset of thematic bonds, specifically targeting ocean and coastal sustainability, such as fisheries management, marine conservation, and the blue economy (e.g., Seychelles Blue Bond). Blue bonds can be categorised into sovereign blue bonds, development bank/financial institution bonds, and corporate blue bonds, each with different issuance structures, risk profiles, and investor bases. Distinct issuer categories in blue bonds, sovereign (e.g, Costa Rica), MDB/FI and corporate, allow for different risk-return profiles and investor bases, helping diversify participation in sustainable finance markets.

CAF, for instance, issues green, blue and social bonds for reforestation, migratory flyways, and endangered species, all aligned with ICMA standards[32].

3.5.2. Purpose

Bonds mobilise institutional and capital markets for large-scale finance. MDBs and national entities can support issuance and provide frameworks. They can channel resources directly into use-of-proceeds categories such as water security, biodiversity protection, and climate adaptation, while also contributing to local capital market development[33]. MDBs and national entities can play a catalytic role by supporting issuance, providing frameworks, and enhancing investor confidence. Sovereign green bonds are a potential channel for financing transboundary water projects, provided proceeds are transparently allocated to cross-border initiatives[34].

3.5.3. Applications

Thematic bonds are especially suited for large-scale environmental or climate-related infrastructure, including multi-country investments in basin protection, regional hydropower corridors, and flood risk management[35]. The vast majority to date has been used for renewable energy projects. In 2018, the Seychelles issued the world's first sovereign blue bond, raising USD 15 million to finance marine conservation and sustainable fisheries. Developed with technical assistance from the World Bank, the transaction combined a debt-for-nature swap with a thematic

[30] OECD, *Financing a Water-Secure Future*.
[31] World Bank*, Accelerating Blue Finance*
[32] CAF, "CAF Issues Landmark EUR 100 Million Blue Bond with UNDP as Technical Coordinator," CAF — Development Bank of Latin America and the Caribbean, June 10, 2025, https://www.caf.com/en/currently/news/caf-issues-landmark-eur-100-million-blue-bond-with-undp-as-technical-coordinator/; CAF, "CAF Issues Its First Sustainable Bond.
[33] CAF, *Sustainable Finance*
[34] UNECE, *Funding and Financing of Transboundary Water Cooperation*.
[35] OECD, *Financing a Water-Secure Future*.

blue bond, illustrating how innovative blended finance can simultaneously ease debt pressures and mobilise private investment for ocean sustainability[36].

3.6. Debt-for-nature / Debt-for-climate swaps

3.6.1. What

Debt-for-nature and debt-for-climate swaps are financial agreements where a country's existing debt is restructured or reduced in exchange for a commitment to invest in specific development goals. These swaps aim to convert debt relief into meaningful social and environmental outcomes, aligning with the country's development policies[37].

Debt-for-nature/climate swaps align financial planning with sustainability goals, enabling governments to support marine protected areas, coastal resilience, and biodiversity efforts without diverting core public resources. Bilateral swaps typically involve an official creditor, such as a government, agreeing to forgive or restructure debt in exchange for a country's commitment to conservation spending[38]. Debt-for-nature/climate swaps do not eliminate the need for grants, concessionary financing and other loans or private investment[39].

The development of debt-for-nature swaps has seen growing participation from multilateral development banks (MDBs), which have been instrumental in creating improved governance structures, securing credit guarantees, and supporting policy-driven conservation initiatives[40].

3.6.2. Purpose

Debt-for-nature and debt-for-climate swaps create fiscal space for significant conservation or climate programs without increasing net indebtedness. These swaps can decrease the country's debt while channeling funds toward sustainable development initiatives. They aim to support environmental conservation, climate mitigation and adaptation, and other high-impact development objectives, while improving debt sustainability and strengthening governance. By converting debt obligations into financing for targeted projects, these mechanisms help countries achieve long-term development and environmental goals without increasing fiscal pressure[41].

3.6.3. Applications

Countries with high debt burdens and biodiversity/climate commitments. Additionally, debt-for-nature and debt-for-climate swaps are applied across multiple contexts, including environmental conservation, climate action, social development, and debt management. They fund projects to protect forests, biodiversity, and natural habitats, support renewable energy initiatives, emissions reduction, and climate adaptation programs, and enable investments in health, education, and

[36] World Bank, *Accelerating Blue Finance*.
[37] World Bank, *Debt-for-Development Swaps and the Potential Role of the World Bank* (Washington, DC: World Bank, 2024), https://documents1.worldbank.org/curated/en/099080524122527783/pdf/BOSIB-f57baa3f-239d-4b97-9168-1e7bda53f7d5.pdf.
[38] World Bank, *Accelerating Blue Finance*.
[39] John Antonio Briceño and Jennifer Morris, "The Debt-for-Nature Lifeline," The Nature Conservancy, June 22, 2023, https://www.nature.org/en-us/what-we-do/our-insights/perspectives/debt-for-nature-lifeline/.
[40] World Bank, *Accelerating Blue Finance*.
[41] World Bank Group, *Debt-for-Development Swaps*.

nutrition for vulnerable communities. Notable examples include Belize's 2021 debt-conversion deal, which reduced the country's debt by approximately 12% of GDP and unlocked $180 million in long-term conservation funding, including protection for 30% of its maritime territory, and Ecuador's 2023 debt-for-nature swap, where $1.6 billion in sovereign bonds was exchanged for a $656 million loan, with over $300 million committed to marine conservation around the Galápagos Islands, demonstrating the potential scale and impact of such agreements[42].

The Seychelles was the first country to complete a marine-focused debt-for-nature swap (a hybrid transaction, also combining a sovereign blue bond), setting a precedent for a similar structure in future projects[43]. Recent LAC examples demonstrate scale and feasibility. A notable example is Ecuador's Amazon Biocorridor Program, which used a $460 million debt-for-nature swap to protect and manage 4.6 million hectares of Amazon rainforest and an additional 1.8 million hectares of forests and wetlands. The program reduced Ecuador's debt by $527 million and is expected to generate $23.5 million annually over 17 years for conservation activities, supported by political risk insurance and partial credit guarantees. This transaction illustrates how innovative financing mechanisms can free fiscal resources while supporting large-scale environmental protection in a transboundary ecosystem[44].

3.7. Payments for Ecosystem Services (PES), Environmental Service Fees

3.7.1. What

Payment for Ecosystem Services (PES) provides financial incentives for communities, landowners, or resource users to conserve and restore ecosystems that deliver critical benefits. These include freshwater regulation and quality, sustainable fisheries, climate resilience against floods, droughts, sea level rise, wildfires, and heat, as well as biodiversity values such as tourism, genetic resources, and intrinsic existence. Instruments range from watershed protection contracts and payments for riparian or wetland restoration to carbon and biodiversity credits and ecosystem-based adaptation approaches. PES mechanisms can also capture value directly from ecosystem services such as water quality and flood regulation through user fees or payments from beneficiaries. A typical example is when a downstream water users association allocates part of its irrigation fee revenues to compensate upstream communities for protecting forests and watersheds, ensuring cleaner water, reducing sedimentation, and strengthening resilience while also supporting local livelihoods[45].

In transboundary river basins, PES is particularly valuable, as upstream conservation actions generate benefits such as reduced sedimentation and flood risk for downstream countries[46].

3.7.2. Purpose

[42] World Bank Group, *Debt-for-Development Swaps*.
[43] World Bank, *Accelerating Blue Finance.*
[44] Valentina Furness, "Ecuador Completes $1.5 Billion Debt Swap for Amazon Conservation," Reuters, December 17, 2024, https://www.reuters.com/sustainability/sustainable-finance-reporting/ecuador-completes-15-billion-debt-swap-amazon-conservation-2024-12-17/.
[45] McCauley and Thompson, 2024., *IWC10 Pre-Conference Workshop on Sustainable Funding and Financing*.
[46] McCauley and Thompson, 2024., *IWC10 Pre-Conference Workshop on Sustainable Funding and Financing*.

The purpose of Payments for Ecosystem Services (PES) is to secure long-term funding for conservation and sustainable resource use, while addressing fundamental market failures. By compensating those who protect ecosystems or adopt sustainable practices, PES ensures that the benefits nature provides, such as clean water, carbon sequestration, disaster resilience, and biodiversity, are maintained at a lower cost than technological alternatives[47].

PES also serves as a cost-effective and catalytic mechanism to support Indigenous Peoples, local communities, and rural farmers already engaged in sustainable land management. It provides a "no regrets" approach to climate change, strengthening water security, reducing natural disaster risks, and delivering biodiversity and carbon benefits simultaneously[48].

3.7.3. Applications

PES schemes are most effective in projects with defined beneficiaries and measurable service flows, for example, watershed payments that reduce treatment costs downstream.

They are increasingly integrated into blue finance and global markets, where ecosystem services are monetised through tradable credits, such as blue carbon (mangroves and seagrasses), biodiversity, and plastic waste credits. These systems depend on robust Monitoring, Reporting, and Verification (MRV) standards to ensure credibility[49]. Carbon markets also reinforce this approach: under the regulated market defined by the Paris Agreement's Article 6, a "next generation" Clean Development Mechanism (CDM) is expected, while the voluntary carbon market, driven mainly by corporate Net Zero commitments, already channels finance into avoided emissions, emission reductions, and both natural and technological carbon removals[50].

Beyond conservation finance, PES programs demonstrate that relatively small payments, often only covering opportunity costs, can transform land-use choices and generate significant environmental gains, as seen in Costa Rica's national PES program, Ecuador's Quito Water Fund, and the Latin America Water Funds Partnership[51].

3.8. Results-Based Financing (RBF) / Performance-based mechanisms

3.8.1. What

Results-Based Financing (RBF) is a financing approach where disbursements are linked to verified delivery of outcomes/indicators (e.g., emission reductions, hectares restored, pollution load reduced). It is considered particularly suitable for transboundary cooperation, where progress indicators must be measurable and verifiable across borders. More broadly, performance-based mechanisms (PBMs) include RBF but also other arrangements where financing terms are linked to performance, such as sustainability-linked loans or bonds that adjust interest rates based on meeting ESG indicators. Both approaches shift the focus from inputs to measurable outcomes,

[47] Global Environment Facility (GEF), *Payments for Ecosystem Services*(Washington, DC: Global Environment Facility, 2023), https://www.thegef.org/sites/default/files/documents/2023-02/GEF_Payments_ecosystem_services_2023_02.pdf.
[48] GEF, *Payments for Ecosystem Services*.
[49] World Bank, *Accelerating Blue Finance*.
[50] McCauley and Thompson, 2024., *IWC10 Pre-Conference Workshop on Sustainable Funding and Financing*.
[51] GEF, *Payments for Ecosystem Services*.

linking financial rewards directly to climate and development objectives while placing responsibility on implementers for how results are achieved[52].

3.8.2. Purpose

The main aim of RBF and PBMs is to align payments with performance by ensuring financing flows are released only when agreed results are achieved and verified through robust monitoring, reporting, and verification (MRV) systems. This mechanism minimises the risk of free-riding in shared basins, as all riparian states must deliver measurable joint benefits. It also increases accountability for borrowers and gives investors Environmental, Social and Governance (ESG)-linked returns, including in areas such as gender and social resilience[53].

3.8.3. Applications

RBF is most effective for programmes with clearly defined, measurable, and verifiable outcomes. In transboundary water cooperation, it can support basin-wide goals such as joint water quality monitoring, coordinated flood control targets, and shared conservation objectives by ensuring all riparian states commit to measurable benefits. Beyond water, RBF is extensively applied in forestry and climate mitigation (e.g., Reducing emissions from deforestation and forest degradation in developing countries (REDD+) payments for verified emission reductions); in clean energy (where renewable energy providers are paid after electricity connections or emissions reductions are verified); and in social sectors, such as health (for vaccination or maternal health performance) and education (for improvements in learning outcomes, access, or gender parity)[54].

A current pilot in this area is the African Development Bank's Adaptation Benefits Mechanism (ABM)[55].

3.9. Technical Assistance (TA) and Project Preparation Facilities (PPF)

3.9.1. What

Technical Assistance (TA) refers to targeted, non-financial support provided to organisations facing development challenges. It includes knowledge transfer, advisory services, and capacity-building initiatives to strengthen institutional and technical capacities. In the water sector, TA often supports ministries, government agencies, and basin organisations to manage and develop transboundary water resources effectively[56].

Alongside financial instruments, such as loans and grants, development partners frequently provide TA as part of Official Development Assistance (ODA). These instruments are often combined, making it difficult to clearly separate financial aid from technical assistance when

[52] United Nations Economic Commission for Europe (UNECE), "Supporting Innovative High-Growth Enterprises in Eastern Europe and South Caucasus," Section 2.3, accessed September 22, 2025, https://unece.org/sites/default/files/2021-08/UNECE_Handbook%20Supporting%20IHGEs%20in%20EESC_for%20web.pdf; Climate Policy Initiative (CPI), "Measurement of City Prosperity Methodology and PBMs," accessed September 22, 2025, https://unhabitat.org/sites/default/files/2019/02/CPI-METADATA.2016.pdf.
[53] CPI, "Measurement of City Prosperity."
[54] UNECE, "Supporting Innovative High-Growth Enterprises"; CPI, "Measurement of City Prosperity".
[55] Adaptation Benefits Mechanism (ABM) - Summary," *ABM overview and pilot documentation*, accessed September 22, 2025, https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/adaptation-benefits-mechanism-abm.
[56] OECD, *Innovative Financing Mechanisms for the Water Sector*.

delivered by the same donor. Regional development banks, such as CAF, also provide TA and funding to improve infrastructure, governance, and access to essential services like healthcare, education, and food security [57].

Project Preparation Facilities (PPFs) are mechanisms that provide technical and/or financial resources, through grants, repayable grants, or equity, to support the preparation of bankable projects. Activities typically include feasibility studies, financial modelling, environmental and social assessments, operational planning, and project structuring. MDBs and climate finance institutions use PPFs to help projects reach investment readiness[58].

3.9.2. Purpose

The purpose of TA and PPFs is to close project preparation gaps so that initiatives can access financing from MDBs, private investors, or capital markets.

They enhance project quality by ensuring sound technical design, credible financial structures, and compliance with environmental and social safeguards[59]. PPFs also reduce risks for funders by supporting the costly and complex early stages of project development, thereby increasing the likelihood of financing and successful implementation[60].

3.9.3. Applications

SAP priorities transitioning into investment fiches.

TA and PPFs are applied to a broad range of preparatory activities that transform ideas into bankable projects. They fund feasibility and pre-feasibility studies, financial and economic analyses, as well as environmental and social impact assessments, including risk evaluations and stakeholder engagement processes[61]. They also support project structuring, procurement planning, and the preparation of operational frameworks to ensure that proposals meet the requirements of investors and funders[62]. At the institutional level, TA contributes to capacity development in ministries, agencies, and basin organisations, enabling them to plan better, implement, and monitor transboundary initiatives[63].

3.10. Water funds

3.10.1. What

Water Funds are innovative financial and governance mechanisms designed to channel investments from downstream water users, such as water utilities, hydropower companies, industries, and agricultural associations, into upstream conservation and restoration activities. They operate as transparent, science-based trust funds that pool public and private resources to

[57] CAF, *Sustainable Finance;* UNECE, *How to Accelerate the Funding and Financing*.
[58] Green Climate Fund, "Project Preparation Facility," last modified July 24, 2025, https://www.greenclimate.fund/projects/ppf; Cities Climate Finance Leadership Alliance, "What is a Project Preparation Facility?" last modified May 5, 2022, https://citiesclimatefinance.org/publications/what-is-a-project-preparation-facility/.
[59] Cities Climate Finance Leadership Alliance, "Project Preparation Facility."
[60] Green Climate Fund, "Project Preparation Facility."
[61] Ibid.
[62] Cities Climate Finance Leadership Alliance, "Project Preparation Facility."
[63] OECD, *Innovative Financing Mechanisms for the Water Sector* .

protect the ecosystems that regulate water supply. By linking water security to ecosystem health, Water Funds treat nature as a form of infrastructure, recognising that maintaining forests, wetlands, and other natural systems reduces water treatment costs and ensures long-term sustainability. This concept has been successfully implemented across Latin America, with more than 30 established funds protecting over seven million acres of watersheds[64].

3.10.2. Purpose

The purpose of Water Funds is to create a sustainable financial framework for conserving water sources while delivering environmental, social, and economic benefits. They seek to ensure reliable water quantity and quality by maintaining healthy watersheds and promoting ecosystem-based management. These mechanisms attract voluntary contributions from large water users who recognise the economic advantage of investing in upstream conservation instead of relying solely on expensive grey infrastructure. Revenues generated are reinvested in land conservation, reforestation, and sustainable livelihoods for upstream communities. By fostering collaboration among public, private, and civil society actors, Water Funds also promote transparency, local ownership, and policy alignment, turning water protection into a shared societal responsibility[65].

3.10.3. Applications

Water Funds have been applied successfully across Latin America, Africa, and beyond, demonstrating the effectiveness of nature-based investment models. Their actions include financing reforestation, sustainable agricultural practices, and watershed restoration, as well as supporting rural livelihoods that reduce land degradation and water pollution. They rely on scientific data and monitoring systems to guide investments toward areas where they yield the highest hydrological and ecological returns. Examples include the Quito Water Fund (FONAG) in Ecuador, which supports protected areas, park rangers, and sustainable farming, and the broader Latin American Water Funds Partnership, which leverages over USD 27 million in investments to benefit approximately 50 million people. Water Funds exemplify a model of environmental governance that integrates financial sustainability, ecosystem conservation, and social inclusion to secure water for people and nature[66].

3.11. Public-Private Partnerships (PPP)

3.11.1. What

Public–Private Partnerships (PPPs) are formal collaborations between public institutions and private entities to deliver infrastructure and services more efficiently. In the water sector, PPPs allow governments to leverage private capital, management expertise, and technology while maintaining public ownership and oversight. These arrangements distribute risks and responsibilities through legally binding contracts that define expected performance, service

[64] The Nature Conservancy, *Latin America Water Funds: Conserving Green Infrastructure* (Arlington, VA: The Nature Conservancy, 2011), https://www.nature.org/media/freshwater/latin-america-water-funds.pdf.
[65] TNC, *Latin America Water Funds*.
[66] Ibid.

standards, and duration. PPPs are flexible in design and can range from short-term management contracts to long-term concessions or build-operate-transfer models[67].

3.11.2. Purpose

The primary aim of PPPs in water management is to bridge infrastructure and service gaps, improve operational efficiency, and ensure long-term financial sustainability. They help address issues such as limited public budgets and ageing infrastructure while enhancing service delivery through private sector involvement. PPPs are also designed to deliver value for money by aligning incentives with measurable results and performance indicators. In many developing regions, these partnerships mobilise additional investment and establish frameworks that balance affordability, quality, and sustainability of water services[68].

3.11.3. Applications

PPPs are widely used across the water value chain, from urban supply systems to wastewater treatment, irrigation, and desalination plants. They are frequently employed to upgrade existing infrastructure, expand distribution networks, and incorporate innovation in operations and monitoring. Well-designed PPPs can include climate resilience and sustainability elements, ensuring that investments not only meet current demand but also adapt to environmental pressures. In cross-border or regional settings, PPPs can facilitate integrated water management by combining public, private, and multilateral funding to achieve shared resource management goals[69].

[67] *In the Public Interest. A Guide to Evaluating Public–Private Partnerships for Water Utilities* .(November 2019); *Investopedia, "Public–Private Partnerships (PPPs)," accessed October 2025, https://www.investopedia.com/terms/p/public-private-partnerships.asp*; World Bank, Scaling Up Finance for Water: A World Bank Strategic Framework and Roadmap for Action (Washington, DC: World Bank, 2023).

[68] In the Public Interest, *Evaluating PPPs.*

[69] Ibid.

4. Summary of key financing Instruments

Table 1. *Comparative summary of key financing instruments*

Comparative summary of key financing instruments			
Financial Instrument	**What it is**	**Purpose**	**Applications**
Grants	Non-repayable funds from MDBs, GEF, UN, bilateral donors, often via trust funds. Support project prep, capacity building, pilots, enabling activities.	Reduce upfront risk, finance feasibility studies, build capacity, catalyse co-financing, enable reforms.	Early-stage SAP measures, pilots, basin organisations, monitoring platforms, SIDS, fiscally constrained states.
Concessional loans / Programmatic MDB loans	Loans with favorable terms (low interest, long repayment). Programmatic = umbrella covering multiple projects.	Finance infrastructure and capital-intensive projects where repayment possible; support cost-sharing & governance.	Wastewater treatment, irrigation, large basin-wide investments, hydropower.
Guarantees & De-risking instruments	Credit enhancements (risk guarantees, political risk insurance, catastrophe bonds, parametric insurance).	Unlock private capital, improve creditworthiness, reduce regulatory/currency/political risks.	Projects with revenue streams (tariffs, PPPs), navigation, cross-border hydropower, flood management, SIDS, high-risk geographies.
Blended finance	Mix of concessional funds (grants, subordinated capital) + commercial finance. Public sector often takes first-loss.	Bridge development impact with commercial viability; share risk; unlock private finance.	PPPs, multipurpose dams, resilience projects, NBS, adaptation infrastructure, blue economy (coastal resilience, fisheries).
Green, Sustainable & Blue Bonds	Debt securities issued by states, MDBs, companies for environmental/social purposes. Categories: green, social, blue.	Mobilise institutional capital for large-scale environmental/climate finance.	Multi-country infrastructure, hydropower corridors, flood risk management, marine conservation (e.g., Seychelles Blue Bond).
Debt-for-nature / Debt-for-climate swaps	Restructure/reduce sovereign debt in exchange for conservation/climate commitments.	Create fiscal space for conservation & climate programs without raising net debt.	High-debt countries with biodiversity/climate goals (Belize, Ecuador, Seychelles). Funds MPAs, forests, climate adaptation.

Payments for Ecosystem Services (PES)	Financial incentives to landowners/communities for conserving/restoring ecosystems (e.g., watershed contracts, blue carbon credits).	Secure long-term conservation funding; address market failures; reward sustainable practices.	Watershed services, carbon/biodiversity credits, plastic credits, national PES (Costa Rica, Quito Water Fund, LAC partnerships).
Results-Based Financing (RBF) / Performance-based mechanisms	Financing linked to verified results (e.g., emission reductions, hectares restored). Includes sustainability-linked loans/bonds.	Align payments with performance; ensure accountability and joint measurable benefits.	Transboundary water quality monitoring, flood control targets, REDD+, clean energy, health & education outcomes.
Technical Assistance (TA) & Project Preparation Facilities (PPF)	Non-financial or small financial support for institutions (TA) + resources for project prep (PPFs).	Close project prep gaps; strengthen institutions; ensure bankability of projects.	Feasibility studies, financial modelling, E&S assessments, structuring SAP investments, capacity building for basin orgs.
Water funds	Collective financial mechanisms that invest contributions from water users into upstream conservation to secure long-term water supply.	Create sustainable financing for watershed protection through nature-based solutions and shared governance.	Fund reforestation, sustainable land use, and watershed restoration (e.g., Quito Water Fund, Latin American Water Funds Partnership).
Public–Private Partnerships (PPPs)	Cooperative agreements between governments and private entities to finance and operate water infrastructure and services.	Mobilize private capital and expertise to expand and improve water and sanitation systems sustainably.	Used for water supply, wastewater treatment, and irrigation projects through performance-based contracts.

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