

REGIONAL Project Profile

I. BASIC DATA

Project name:	Regional Platform for Water Resource Management
Project number:	RG-G1001
Project team:	Lu Shen, Team Leader (INE/WSA), Silvia Ortiz, Alternate Team Leader (INE/WSA), Ernani Pilla (VPS/ESG), Guillermo Eschoyez (LEG/SGO), Maria Camila Padilla (VPC-PDP), Ileana Pinto (VPC/PDP) and Catalina Gallego Hernandez (INE/WSA).
Executing agency:	The Nature Conservancy
Financing plan:	Global Environment US\$5,000,000 Facility (GEF) Total: US\$5,000,000
Safeguards:	Policies triggered: Classification: C

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 Development and climate change are causing every natural ecosystem to be put under high stress, freshwater ecosystems—the diverse communities of species found in lakes, rivers, and wetlands—being the most endangered of all. Despite occupying only a tiny percentage of the planet’s surface, on a hectare-to-hectare basis, freshwater ecosystems are richer in species than the more extensive terrestrial and marine ecosystems.
- 2.2 However, these ecosystems have lost a greater proportion of their species and habitat than ecosystems on land or in the oceans due to increasing threats from dams, water abstraction, overharvesting, pollution, deforestation, and the presence of invasive species. Climate change promises to cause further challenges given anticipated changes in the seasonality and annual patterns of precipitation.
- 2.3 Historical evidence suggests that it is more cost effective to protect than to mitigate, and as a result, many cities around the world have decided to make large scale investments in ecosystem management to protect upstream water quality, rather than invest in filtration plants. Under the proposed project, Bogota will soon benefit from watershed conservation, whereby experts forecast significant savings from sedimentation removal cost, upwards to \$4.5 million per annum.
- 2.4 While the savings from watershed management may be significant, the related costs have been almost universally neglected in water pricing. Worse still, these costs have not been valued against operational costs for water treatment or investment costs for new infrastructure. The proposed project will be instrumental

- in introducing and replicating this concept. It is the hope that along with the proposed project, in addition to the noticeable shrinking clean water supply and the perceived water insecurity, businesses and water utilities would look at fresh water as they never have before – as a valuable commodity that is produced, invested in, sold and consumed.
- 2.5 In recognition of this opportunity, The Nature Conservancy (TNC) and local partners have worked for over a decade pioneering financial and institutional mechanisms that protect biodiversity while conserving water sources for human consumption. One of TNC’s most successful models has been the Quito Water Protection Fund in Ecuador. Called *Fondo del Agua* (FONAG), this public-private Water Fund was established in 2000 and now has a capitalization of more than US\$6 million that pays for watershed programs and projects around Quito’s water sources. The Water Fund was created to bring together public and private sector water users to pay for conservation efforts on a voluntary basis. Programs receiving support include adding park guards and control for protected areas, environmental education and outreach, and helping people who live in sensitive areas switch to more ecologically sound livelihoods.
- 2.6 Based on the experience with the Quito Water Fund, the TNC and the IDB are replicating and improving the model for public-private watershed conservation in parts of South America, namely in Colombia, Ecuador, and Peru, amongst others. The TNC has adapted the strategy across geographic gradients: from valleys, to mountain forests, dry forests and coastal lagoons. In addition, it is working to engage multiple types of water users from large hydropower companies to the agricultural sector, from large companies to individual farmers.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

A. Project Objectives and Activities

- 3.1 The proposed Regional Platform for Water Resource Management (RPWRM) will support the establishment of at least five WFs across Latin America and the Caribbean region that would serve as financing mechanisms for a comprehensive ecological conservation and the sustainable provision of key environmental services. The WFs would attract and consolidate financing from a variety of public and private sources including: large water users, such as water utilities, bottling companies; local taxes; individual donations and international donations. These WFs would support projects related to: (i) payment for environmental services, including watershed management and biodiversity conservation; (ii) water resource management such as sustainable land use; and (iii) conservation projects for further protection of the natural habitat where these services originate. Eligible projects for WF financing include creating and strengthening protected areas, helping neighboring landowners switch to conservation-friendly practices, and supporting other community-driven conservation initiatives. The eligibility

- criteria would be detailed in the Operations Manual, to be developed jointly by the IDB and the TNC.
- 3.2 The GEF funding will be directed towards critical WF start-up costs and largely for the establishment of the endowments. It is expected that at least five WFs will be designed and put in place under this Platform, including investments in the endowment funds of the Bogota and Lima Water Funds and co-financing in the Lima Water Fund's feasibility studies¹. It is also expected that at least three other WFs will be selected for financing under this Platform (potentially in priority areas in Mexico, Brazil, and an island state in the Caribbean to be identified).
- 3.3 While the expected output of the project is to successfully establish the WFs in the region, the range of activities that would be financed under the project can be summarized as follows:
- 3.4 Component 1: Outreach. Eligibility criteria are established to facilitate site selection, including: (i) key areas of biodiversity; (ii) populations with the most benefit from watershed conservation (e.g. more than 200,000 people); (iii) opportunities for public-private partnerships to address environmental service issues; (iv) defined property land titles; (v) compatibility with the Bank's country strategy and with the relevant national policies and strategies; (vi) existence of a TNC Country Office and (vii) level of engagement of local authorities. Once sites are selected based on the eligibility rankings, key stakeholders at the sites would then be identified and information would be disseminated through workshops.
- 3.5 Component 2: Identification. Once the outreach phase is completed, reviewed and discussed among the main stakeholders, a set of general agreements will be reached on issues such as the definition of environmental services and conservation goals, the size of the Water Fund, investment strategy, types of conservation projects, and establishment of a WF governance structure, amongst others. These agreements form the Water Fund's Memorandum of Understanding that encompasses the Trust Fund's legal documents.
- 3.6 Feasibility studies would also be conducted at this point. These studies will prioritize the projects based on (i) the level of environmental services provided; (ii) the total cost to meet the environmental services goal; and (iii) the status of land titles to ensure the legality of the compensations and the conservation agreements under the WF.
- 3.7 Component 3: Establishment. It is very important to secure the seed capital needed for the first two years of the WF. An estimated amount between US\$400,000 to US\$1,000,000 for a smaller vs. larger WF allows for two years of financial resources that are used to attract additional investors.

¹ Letters of non-objection will be sought for these two countries during the following stage of the processing of the operation, namely the Proposal for Operational Development.

- 3.8 During this time, the Water Trust Fund Agreement will be signed and clear and transparent operational procedures will be developed to select projects for funding, such as disbursement criteria, eligible project proponents, and monitoring.
- 3.9 Component 4: Capacity Building. The Platform would, strategically and on a case-by-case basis, provide capacity building for technical and human resource management.

B. Execution and complementary activities required

- 3.10 The Executing Agency (EA) for the WFP will be the TNC. The proposed project will be implemented by TNC's Latin American Regional Office. A project manager would be hired to oversee the management of the RPWRM. A institutional evaluation of the technical, financial and operational capacity of TNC will be conducted during the following phase of the preparation of the Operation, namely the Proposal for Operational Development (POD).
- 3.11 A Joint Management Committee between the TNC and the IDB will approve work plans; hold quarterly meetings to review progress and performance on each project supported under the Platform. The TNC and the IDB will coordinate with its country-based staff to ensure coherent approaches and actions. A draft Operational Manual will be completed and included as an annex of the POD.

C. Lessons learned and sector knowledge

- 3.12 The implementation of the Quito Water Fund has helped develop lessons learned which were taken into account in the design of the proposed RPWRM. These include: (i) maintenance of a long-term view of the watershed; (ii) involvement of main stakeholders and public and private sector players; (iii) transparency in implementation in order to increase level of confidence of multilaterals and international / national donors; (iv) management by an independent institution in which stakeholders feel represented; (v) emphasis on up-front investments (in terms of time and money) in the preparation phase; (vi) immediate implementation of activities to demonstrate results and bring in additional resources; (vii) development of clear conservation and environmental services goals to develop a payment for environmental services (PES) scheme based on an accountability format; (viii) establishment of a robust but simple accountability system to report progress on biological, environmental services and socioeconomic goals.

IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 This operation is not anticipated to have any negative environmental or social impacts. Rather, it is of a fundamentally benign nature and as such has been classified as a "C" according to the Safeguards Classification Toolkit. The following Policy Directives have been triggered: OP-102 and OP-703 (B.1, B.2,

B3, B.6, B.7, B.9,) and OP-765. The IDB will make available to the public the relevant project documents. Every project funded by the WFs will be subject to compliance with all IDB safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

V. OTHER ISSUES AND RISKS

- 5.1 No other issues have been identified at this time.

VI. PREPARATION STEPS AND RESOURCES

- 6.1 Annex IV provides details of the project preparation steps and the milestone dates. Expected date for the Draft Loan Proposal is August 2, 2010, and expected Board approval is September 15, 2010.

SAFEGUARD POLICY FILTER REPORT

This Report provides guidance for project teams on safeguard policy triggers and should be attached as an annex to the PP or PCD (or equivalent) together with the Safeguard Screening Form, and sent to ESR.

1. Save as a Word document. 2. Enter additional information in the spaces provided, where applicable. 3. Save new changes.

PROJECT DETAILS	IDB Sector	WATER AND SANITATION-WATER SUPPLY	
	Type of Operation	Technical Cooperation	
	Additional Operation Details		
	Investment Checklist	Infrastructure Water and Sanitation	
	Team Leader	Shen, Lu (LSHEN@iadb.org)	
	Project Title	Regional Platform for Water Resource Management	
	Project Number	RG-G1001	
	Safeguard Specialist(s)	Shen, Lu (LSHEN@iadb.org)	
	Assessment Date	2010-04-28	
	Additional Comments		
SAFEGUARD POLICY FILTER RESULTS	Type of Operation	Investment Grants	
	Safeguard Policy Items Identified (Yes)	The Bank will make available to the public the relevant Project documents.	OP-102
		The Bank will monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.	(B.07)
	Potential Safeguard Policy Items(?)	No potential issues identified	
	Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PCD (or equivalent) and Safeguard Screening Form to ESR.	
Additional Comments:			
ASSESSOR DETAILS	Name of person who completed screening:	Shen, Lu (LSHEN@iadb.org)	
	Title:		
	Date:	2010-04-28	

SAFEGUARD SCREENING FORM

This Report provides a summary of the project classification process and is consistent with Safeguard Screening Form requirements. The printed Report should be attached as an annex to the PP or PCD (or equivalent) and sent to ESR.

1. Save as a Word document. 2. Enter additional information in the spaces provided, where applicable. 3. Save new changes.

PROJECT DETAILS	IDB Sector		WATER AND SANITATION-WATER SUPPLY	
	Type of Operation		Technical Cooperation	
	Additional Operation Details			
	Country		REGIONAL	
	Project Status			
	Investment Checklist		Infrastructure Water and Sanitation	
	Team Leader		Shen, Lu (LSHEN@iadb.org)	
	Project Title		Regional Platform for Water Resource Management	
	Project Number		RG-G1001	
	Safeguard Specialist(s)		Shen, Lu (LSHEN@iadb.org)	
	Assessment Date		2010-04-28	
	Additional Comments			
PROJECT CLASSIFICATION SUMMARY	Project Category: C	Override Rating:	Override Justification:	
	Conditions/ Recommendations	Comments:		
	<ul style="list-style-type: none"> No environmental assessment studies or consultations are required for Category "C" operations. Some Category "C" operations may require specific safeguard or monitoring requirements (Policy Directive B.3).Where relevant, these operations will establish safeguard, or monitoring requirements to address environmental and other risks (social, disaster, cultural, health and safety etc.). The Project Team must send the PP or PCD (or equivalent) containing the Environmental and Social Strategy (the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3) as well as the Safeguard Policy Filter and Safeguard Screening Form Reports. 			
SUMMARY OF IMPACTS/RISKS AND POTENTIAL SOLUTIONS	Identified Impacts/Risks		Potential Solutions	
ASSESSOR DETAILS	Name of person who completed screening:	Shen, Lu (LSHEN@iadb.org)		
	Title:			
	Date:	2010-04-28		

ENVIRONMENTAL AND SOCIAL STRATEGY

I. PROJECT DESCRIPTION

- 1.1 The proposed Regional Platform for Water Resource Management (RPWRM, or Platform) will support the establishment of at least five Water Funds across Latin America and the Caribbean, whose core objectives are securing the sustainable provision of key water related environmental services and protecting the ecological foundation upon which they depend¹. These Water Funds would support projects related to: i) payment for environmental services, such as watershed protection and biodiversity conservation; ii) water resource management, such as sustainable land use and conservation projects for further protection of the natural habitat where these services originate.
- 1.2 Consistent with the purpose of the GEF Earth Fund, the objective of the Platform is to deploy public-private funding mechanisms and their related institutional structures that will subsequently be operated as sustainable long-term instruments to promote private sector participation in the conservation of freshwater ecosystems and biodiversity of global importance. The Water Funds would attract and consolidate financing from a variety of public and private sources including: large water users, such as water utilities and industry, bottling companies; local taxes; individual donations and international donations.
- 1.3 Eligible conservation projects for funding include creating and strengthening protected areas, helping private landowners switch to conservation-friendly practices, and supporting other community-driven conservation initiatives. With the Platform, it is expected that ecosystems and species of global importance will benefit from having larger and better protected territory, local communities will benefit from improved water quality and a healthy watershed, upstream farmers will benefit from improved sustainable farming practices and the economic incentives to continue to provide valuable water services, and large water uses will benefit from reduced water treatment costs, delayed infrastructure replacement investments and increased water security.
- 1.4 Specifically, the Platform funds will be directed primarily at designing, negotiating, capitalizing and implementing the new Water Funds in at least five priority watersheds. This process will include community consultations and identification of the threats to biodiversity and ecosystems, indicator development, baseline definition and monitoring of biodiversity and other global benefits derived from the proposed mechanisms, and knowledge management. The Platform will demonstrate methodologies and policy tools that could be replicated on a larger scale by other partners in other regions of the globe.

¹ [IDBDOCS-#35164465-TNC Water Funds Proposal for GEF Final \(2\) May 07](#)

II. INSTITUTIONAL AND REGULATORY CONTEXT

- 2.1 The execution of the Platform shall be carried out by The Nature Conservancy (TNC), which will be referred to as Executing Agency (EA).
- 2.2 Governance of each Water Fund will involve oversight by a Board of Governors, supported by a Technical Secretariat (operational arm of the Fund) and Technical Advisory Committee, comprised of financial and technical experts. The Board includes representatives of parties contributing to the Water Fund and other main stakeholders, based on a balance between private and public institutions to allow representation from academic institutions, local NGOs, and organized communities.
- 2.3 Each country where the Platform will invest in will have a different institutional and regulatory context and will be assessed prior to actual commitment. As a general rule, for a Water Fund to be operational, a set of strategic planning documents will be developed that contain: i) a Conservation Plan that describes where and how funds are going to be engaged in conservation activities; ii) results from hydrological models that identify priority areas for investment, including climate change modeling results to help predict effects and responses of nature and develop adaptation scenarios; and iii) Conservation Area Planning methodology for planning, implementing, and measuring Water Funds conservation success; and iv) a Stakeholder Engagement and Outreach Plan.
- 2.4 Programming will include two basic criteria to select areas in the watershed in which the Water Fund will have projects implemented: i) Environmental Provision: hydrological and environmental services result maps show which areas of the watershed will provide the highest return on investment i.e. highest environmental benefit; and ii) Biodiversity Conservation: conservation corridors and zones will be designed in order to enhance both freshwater and terrestrial biodiversity and also the provision of environmental services.

III. SOCIAL AND ENVIRONMENTAL IMPACTS, RISKS AND MANAGEMENT

- 3.1 The Platform has clear objectives with respect to environmental services provision, biodiversity conservation and stakeholder benefit sharing. As such, the Platform offers no direct or indirect negative environmental or social impacts or risks and the project team therefore recommends the Platform to be classified as a category “C” operation, consistent with the Safeguards Classification Toolkit. The following Policy Directives have been triggered: OP-102 and OP-703 (B.1, B.2, B.3, B.6, B.7, B.9.) and OP-765.
- 3.2 Similarly, because of its scope every conservation project to be funded by the Platform’s Water Funds is also expected to be of the same environmental and social category i.e. ‘C’, and be subject to compliance with all IDB safeguard requirements accordingly. The project team will work closely with the Executing Agency (TNC) and the Water Fund’s Technical Secretariat to provide guidance and tools to develop the Fund’s Environmental and Social Management System (ESMS) for project identification, screening, implementation, monitoring and evaluation, fully consistent with IDB policies and best practices for public and private operations.

- 3.3 The project team will prepare an Operations Manual that sets very clear and transparent operational procedures for the development of the ESMS for management of Water Funds, which will contain eligibility criteria and how projects will be chosen for funding in those areas and activities identified in the conservation plan.
- 3.4 The IDB will make available to the public all relevant project documents.

INDEX for completed and proposed sector work RG-G1001			
Issues	Description	Expected Dates	References & hyperlinks to technical files
Institutional analysis of the Executing Agency	Preparation/conclusion of institutional analysis: personnel, procedures other aspects of technical, financial and operational capacity of the executing agency	June 2010	
Preparation of Draft Operational Manual	Preparation of the Draft Operational Manual that will include aspects related to: program management, selection criteria, implementation plan, safeguards policies, disbursement, procurement, knowledge management system, monitoring and evaluation and financial management. It will also address obstacles to evaluate impact, non compliance and adverse self-selection.	July 2010	