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REGIONAL

RESILIENT WATERSHEDS: MULTI-STAKEHOLDER FUNDS FOR SAFE WATER AND CONSERVATION

(RG-T4887)

DONORS MEMORANDUM

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PROJECT SUMMARY

REGIONAL
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Latin America and the Caribbean (LAC) is facing a structural water security crisis characterized by persistent gaps in the fulfillment of the human right to access to drinking water and sanitation, along with the progressive contamination of strategic watersheds and the overexploitation of aquifers. In Mexico, these gaps are particularly marked in territories with high pressure on natural resources. The Lerma-Santiago basin is considered a strategic and priority water region for Mexico. The basin connects the Lerma River and the Santiago River, crossing several states and being vital for agriculture, industry and water supply, but it is currently identified as a deficit basin due to overexploitation and is highly polluted. The Chapala-Jocotepec sub-basin in this area is an emblematic case due to the concurrence of reduction in the availability and quality of water and the loss of ecosystem services, combined with fragmented governance and insufficient infrastructure.

To address those problems, the project, to be executed by Pronatura Mexico AC, will implement a comprehensive and replicable model of investment and water governance, which strengthens water security and the resilience of the basins to risks due to hydrometeorological phenomena. To this end, the project proposes a comprehensive approach that combines (i) the design and implementation of a Water Investment and Governance Fund, with a robust legal and financial architecture; (ii) the implementation of Nature-based Solutions (NBS) in the pilot basin that harness the power of nature to address water availability and climate change, integrated with community co-design processes and environmental leadership; and (iii) the regional transfer of the model, including support to structure proposals that mobilize financing and facilitate its adoption in other basins of Latin America.

The innovation of the project lies in the integration of: (i) mixed and multi-stakeholder financing; (ii) proposal of cost-effective hybrid green-gray solutions to reduce runoff, increase recharge and mitigate flood risks; (iii) participatory governance with local co-responsibility; and (iv) management based on real-time data, through a digital dashboard. The proposal aligns with the IDB Group's priorities by promoting innovation applied to public water management, access to essential services, and high-impact replicable models for the region.

IDB Lab will contribute US$689,739 from a Project Specific Grant (PSG) to the regional project, while the Executing Agency will contribute US$580,597 in counterpart. The expected results are (i) installed capacity to capture 1.23 hm^3 of water per year in the aquifers; (ii) 1,539 hectares under sustainable management; and (iii) 40 direct jobs generated.

ACRONYMS AND ABBREVIATIONS

LAC	Latin America and the Caribbean
ARA	Reciprocal Water Agreements, for its acronym in Spanish
IDB	Inter-American Development Bank
CO_2	Carbon Dioxide
CONAFOR	National Forestry Commission, for its acronym in Spanish
CONAGUA	National Water Commission, for its acronym in Spanish
NRTC	Non-reimbursable Technical Cooperation
DICI	Diagnosis of Institutional Integrity and Capacity
Hm^3	Cubic hectometer
MRV	Monitoring, Reporting, and Verification
MXN	Mexican Pesos
SDGs	Sustainable Development Goals
EA	Executing Agency
PSA	Payment for Environmental Services
PSC	Project Specific Contribution Account
PSG	Project Specific Grant
PSR	Project Status Report
RRAS	Summary of the Environmental and Social Review
SEMARNAT	Ministry of Environment and Natural Resources, for its acronym in Spanish
NbS	Nature-based Solutions
IUCN	International Union for Conservation of Nature
US$	US Dollar
VCI	Venture Capital and Investment

EXECUTIVE SUMMARY

REGIONAL
RESILIENT WATERSHEDS: MULTI-STAKEHOLDER FUNDS FOR SAFE WATER AND CONSERVATION
(RG-T4887)

Country and geographical location:	Jocotepec, Mexico; and Bogotá River Basin, Colombia.		
Executing Agency:	Pronatura México AC (hereinafter "Pronatura" or "Executing Agency")		
IDB Lab Cross-cutting areas / Impact Challenges:	IC4 Improve access to quality water, sanitation and energy services. Essential Infrastructure Services (Water); Natural Capital; Climate Change; Environmental Sustainability.		
Coordination with other donors/Bank operations:	The project has synergies with "Toroto: NBS for a regenerative future with inclusion of rural communities in Mexico" (LAB/VCI loan operations ME-L1347 and ME-L1348), and with WSA operations ME-T1574 and RG-T4706, which will be promoting NBS in Mexico.		
Project Beneficiaries:	The main expected outcome of the project is the restoration and sustainable management of the Chapala-Jocotepec basin. The project is expected to benefit 500 water intake users in the basin, representing approximately 2,010 inhabitants, in particular, vulnerable households and small-scale subsistence agricultural producers. As a result of the intervention, it is expected to leave an installed capacity to capture 1.23 hm^3 of water per year and conserve 1,539 hectares of priority micro-watershed. Indirectly, the Fund expects to benefit 47,105 people in Jocotepec, as well as companies and local governments that depend on these basins for their supply. In Colombia, the direct beneficiary will be Agua Somos, which will receive technical assistance and knowledge transfer to strengthen its capacity to design and implement water governance and investment models. Indirect beneficiaries may include rural and peri-urban communities in the Bogotá River basin, who could benefit from improved water management interventions if the model is adopted and implemented locally.		
Financing:	Non- Reimbursable Technical Cooperation (NRTC) PSC:[1]	US$689,739	54%
	Total IDB Lab financing[2]:	**US$689,739**	**54%**
	Counterpart:	US$580,597	46%
	Total project budget:	**US$1,270,336**	**100%**
Special conditions for the first disbursement	The Executing Agency must demonstrate: (i) the signing of formal collaboration and co-financing agreements with at least two private companies that will contribute resources to the Water Investment and Governance Fund; (ii) the signing of formal agreements with the beneficiary communities that will participate as co-investors through economic and/or in-kind contributions; and (iii) conducting a		

[1] Non-Reimbursable Technical Cooperation (NTC) from a Project Specific Contribution Account (PSC), funded by PepsiCo Inc and the PepsiCo Foundation.

[2] Section IV of this document details the sources of funding.

	comprehensive assessment of the risks associated with its operation in relation to links with foreign terrorist organizations.
Execution and Disbursement Period:	30 months of execution and 36 months of disbursement.
Environmental and social impact review:	On January 22, 2026, this operation was analyzed and classified according to the IDB's Environmental and Social Policy Framework (document GN296521). Since the impacts and risks are limited, it is proposed to classify the project in category C.
Unit responsible for disbursements:	Mexico

I. PROBLEM

A. Problem Description

1.1 The lack of safe access to water and sanitation is a structural challenge in Latin America and the Caribbean. More than 335 million people in the region lack safe access to sanitation services and around 132 million do not have access to safely managed drinking water[3]. The degradation of watersheds, the overexploitation of aquifers and the loss of forest cover have reduced the capacity of ecosystems to regulate the hydrological cycle and provide environmental services, generating greater droughts, floods and pollution[4]. This scenario is aggravated by the effects of climate change, which in the region translates into greater variability in rainfall, increased temperature, extreme weather events and socioeconomic vulnerability.

1.2 **Mexico has one of the most significant gaps**: out of 35.2 million households, 8.1 million (≈23%) do not have piped water inside their home, in rural locations this proportion is even higher, with only 43% having water installations[5]. In this context, the Lake Chapala-Jocotepec basin (State of Jalisco) is an emblematic and strategic case, since it is located in the Hydrological-Administrative Region VIII Lerma-Santiago-Pacific, recognized as a priority by the Government of Mexico within the National Environmental Restoration Program 2025-2030.[6,7]

1.3 According to the 2020 Population and Housing Census of the INEGI, in 2020 Jocotepec had 47,105 inhabitants, of which 38.3% lived in moderate poverty and 6% in extreme poverty; in 2023, 500 homes were registered without access to piped water or basic sanitation. Population growth and urban expansion on the shores of Lake Chapala has polluted surface and groundwater bodies, saturated existing water and sanitation infrastructure, and generated additional costs for families and operators as they rely on pipes for supply[8]. The **main problems that put at risk the**

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3 WHO/UNICEF Joint Monitoring Programme (JMP), 2024. Household data [Interactive panel]. Retrieved October 5, 2025, from https://washdata.org/data/household#!/dashboard/new

4 Food and Agriculture Organization of the United Nations (FAO). (2005). Soil moisture optimization for plant production. The meaning of soil porosity. Chapter 3. Retrieved October 5, 2025, from https://www.fao.org/4/y4690s/y4690s07.htm

5 National Institute of Statistics and Geography (INEGI). (2020). Presentation of results. Population and Housing Census, 2020: United Mexican States. Retrieved from https://www.inegi.org.mx/contenidos/programas/ccpv/2020/doc/Censo2020_Principales_resultados_EUM.pdf

6 Ministry of the Interior, Mexico. (n.d.). Agreement by which the hydrological basins and aquifers that correspond to the administrative units of the national and regional hydrological-administrative level of the National Water Commission are disclosed. Retrieved from https://sidof.segob.gob.mx/notas/docFuente/5725877

7 Government of Mexico, 2025. National Plan for Reforestation and Environmental Restoration 2025. Retrieved from https://www.gob.mx/cms/uploads/attachment/file/998319/PNRA-2025.pdf

8 INEGI, 2020. Population and Housing Census 2020. National Institute of Statistics and Geography. Mexico. https://www.inegi.org.mx/programas/ccpv/2020/
CONEVAL, 2020. Poverty measurement. Poverty at the municipal level 2010-2020. National Council for the Evaluation of Social Policy. Mexico. https://www.coneval.org.mx/Medicion/Paginas/Pobreza-municipio-2010-2020.aspx
Conagua, 2024. Update of the average annual availability of water in the Chapala aquifer (1428), state of Jalisco. Technical General Sub-Directorate. Mexico. https://sigagis.conagua.gob.mx/gas1/Edos_Acuiferos_18/jalisco/DR_1428.pdf
Conagua, 2024. Update of the average annual availability of water in the Huejotitlán aquifer (1451), state of Jalisco. Technical General Sub-Directorate. Mexico
https://sigagis.conagua.gob.mx/gas1/Edos_Acuiferos_18/jalisco/DR_1451.pdf

supply of water for environmental use[9], the maintenance of ecological flow for the functioning of ecosystems or the growing needs of human consumption and the agricultural sector, can be divided into the following categories[10]:

1. **Scarcity and limitations for water supply:** the infrastructure of water collection, wells and networks is at the limit; "there are a dozen deep boreholes" (including the Magisterial well) without maintenance and leaks of more than 60% in the municipal hydraulic networks.
2. **Water quality problems:** The *El Molino* Dam has high levels of contamination by fecal coliforms above the permitted standards[11]; domestic discharges reach Lake Chapala without treatment.
3. **Environmental degradation and loss of ecosystem services:** the lake is at 35% of its capacity; there is debris filling, invasion of coastal areas, obstruction of channels and erosion in the upper parts of the basin.
4. **Deficient infrastructure and sanitation:** about 50% of the treatment plants are not working; in delegations such as Potrerillos, San Pedro Tesistán and Los Trojes the plants are inoperative[12].
5. **Agricultural expansion and urban pressure:** growth of subdivision in underground recharge zones (aquifers); added to this is the expansion of the agricultural frontier through unsustainable practices that generate deforestation, reduce infiltration capacity and increase erosion.
6. **Governance, institutionality, and financing:** irregularity in the occupation of the territory and in the use of land, obsolete environmental permits, works without a clear license, vandalized infrastructures, insufficient financial resources, and lack of a comprehensive strategy in the basin that coordinates municipalities, state and federal organizations, and communities.
7. **Risks to public health:** contamination of bodies of water with fecal matter and coliforms generates gastrointestinal diseases and other health problems.

Pronatura Mexico-Driscoll's**,** 2023. Strategic Plan for Integrated Water Management in Jocotepec, Jalisco. Mexico.

[9] It refers to the volume and quality of water necessary to maintain the ecological functioning of the associated aquatic and terrestrial ecosystems, guaranteeing their ecosystem services and the natural balance of the water system.

[10] Pronatura Mexico-Driscoll's**,** 2023. Strategic Plan for Integrated Water Management in Jocotepec, Jalisco. Mexico.
SEMADET, 2011. Local Ecological Planning Program of the Municipality of Jocotepec, Jalisco. Ministry of Environment and Territorial Development. Jalisco, Mexico. Retrieved October 5, 2025, https://semadet.jalisco.gob.mx/sites/semadet.jalisco.gob.mx/files/4_agenda_ambiental.pdf
https://semadet.jalisco.gob.mx/sites/semadet.jalisco.gob.mx/files/4_agenda_ambiental.pdf https://dsiappsdev.semarnat.gob.mx/datos/portal/poet/2020/decreto_jocotepec_150914.pdf
IIEG, 2024. Jocotepec, Diagnosis of the municipality, August 2024. Institute of Statistical and Geographic Information of Jalisco. Government of the State of Jalisco. Mexico. Municipal Information – IIEG

[11] The NOM-127-SSA1-1994 standard establishes that in human use and consumption the permissible limit is 2 NMP/100 ml, and in this dam the counts were up to 17 NMP.

[12] The local administration recognizes that there is a lack of trained personnel, equipment maintenance, flow meters, and that the hydraulic infrastructure is aging or does not have the capacity to respond to population growth.

1.4 In addition, **gaps** in access, management, and costs associated with water **affect women** and men differently, particularly in rural and peri-urban contexts. In Mexico, women, including adults, young people, and girls, face higher levels of vulnerability to the impacts of climatic events and, in particular, to water scarcity. In households where water needs to be carried and stored, women perform the activity in **64% of cases**, almost twice as many as men (36%), resulting in a disproportionate burden of unpaid work[13]. This responsibility entails significant physical effort (long journeys and transport of approximately 20 litres of water per trip) and increased exposure to risks of harassment and violence during journeys. Likewise, it is estimated that currently 15% of basic education schools in the country do not have access to water and only 62% of educational establishments have water on a regular basis throughout the week, which has critical implications for the hygiene and menstrual health of girls.[14]

1.5 In terms of decision-making, significant gaps persist in women's participation both in the governmental sphere and in community environmental and water management structures. The Gender and Environment Network has shown a limited inclusion of women in these spaces, a situation that is aggravated by the male predominance in the so-called "technical knowledge". This gap responds, among other factors, to the low participation of women in academic training linked to technical sectors and to biases in access to job opportunities in these areas. Likewise, inequalities in land tenure reinforce this exclusion: according to the National Agrarian Registry, until three years ago, less than 3 out of 10 people with rights to common lands were women (approximately 26%), which translates into a representation of only 18.4% in decision-making spaces on community lands. These structural constraints restrict women's ability to influence the management of natural resources and the definition of priorities at the local level.

1.6 In the face of these challenges, the Chapala-Jocotepec sub-basin not only faces challenges but also has unique conditions to drive structural change. **The combination of a strategic ecosystem, the presence of anchor companies committed to sustainability, and the existence of political and community leadership offer an invaluable window of opportunity** to design and implement an innovative multi-stakeholder governance and financing model that sets a regional precedent.

1.7 Mexico also has the federal Payment for Environmental Services (PSA, for its acronym in Spanish) program operated by the National Forestry Commission (CONAFOR, for its acronym in Spanish), which since 2003 has promoted economic incentives for the active conservation of forests, forest areas and watersheds, with schemes aimed at communities, ejidos and small landowners. However, many communities face barriers to accessing these mechanisms, such as a lack of technical, monitoring, project formulation, and financial sustainability capacities to maintain long-term commitments[15].

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[13] INEGI, 2014. National Survey on Time Use (ENUT) 2014. Retrieved from https://www.inegi.org.mx/programas/enut/2014/

[14] UNICEF, 2022. Water, hygiene and sanitation. Retrieved from https://www.unicef.org/mexico/agua-higiene-y-saneamiento

[15] CONAFOR, 2022. Payment for environmental services: economic incentives for ecosystem conservation. National Forestry Commission, Government of Mexico, Mexico.

1.8 The Jocotepec basin in Mexico is selected as the initial territory because of its high environmental and social urgency (due to water and sanitation deficits and environmental degradation) and because it has enabling conditions that make it an ideal environment to pilot the model (existence of legal frameworks for PSA, committed community and private actors, incipient conservation experiences).

1.9 **Colombia shares similar challenges**. Despite progress, about 29% of the population (≈13.8 million people) do not have access to drinking water[16] and the gaps are more serious in dispersed rural areas, where drinking water coverage is 57% compared to 98% in urban areas[17]. Although the country has a robust legal framework for conservation incentives[18], in practice, many communities also face obstacles in accessing these benefits: (i) technical limitations in designing and monitoring projects; (ii) lack of legal certainty about land tenure; and (iii) insufficient resources for monitoring and sustainability. Initiatives such as "Agua Somos" of Natural Heritage are already demonstrating that it is possible to articulate public, private and community actors for the conservation of watersheds in cities such as Bogotá and Cundinamarca, but they need to be scaled up and consolidated with innovative financial models and with more local capacities[19].

1.10 In conclusion, **the problem** addressed by this project is **located at the intersection of three critical gaps in the region: (i) unequal and deficient** access to drinking water and sanitation, especially in rural areas**; (ii) degradation and vulnerability of strategic watersheds**, with loss of ecosystem services and impacts of climate change; and **(iii) weak articulation of financing instruments and multi-stakeholder governance** to sustain interventions.

II. THE INNOVATION PROPOSAL

A. Project Description

2.1 The objective of the project is to implement a comprehensive and replicable model of investment and water governance**,** based on multi-stakeholder articulation and

https://www.gob.mx/conafor/articulos/pago-por-servicios-ambientales-incentivos-economicos-para-la-conservacion-de-los-ecosistemas

Perevochtchikova, M. and A. Ochoa (2012). ADVANCES AND LIMITATIONS OF THE PAYMENT PROGRAM FOR HYDROLOGICAL ENVIRONMENTAL SERVICES IN MEXICO, 2003 - 2009 Revista Mexicana de Ciencias Forestales, vol. 3, no. 10, March-April 2012, pp. 89-112 National Institute of Forestry, Agricultural and Livestock Research Federal District, Mexico. https://www.redalyc.org/pdf/634/63438967008.pdf

DOF, 2020. National Forestry Program 2020-2024. Official Gazette of the Federation, December 31, 2020. Government of Mexico. Mexico. https://www.dof.gob.mx/nota_detalle_popup.php?codigo=5609275

[16] Water Regulatory Commission (CRA) (2024). Retrieved from https://canal1.com.co/noticias/empresas/un-tercio-de-la-poblacion-colombiana-no-tiene-acceso-a-agua-potable-revela-informe/

[17] OLAS, 2022. Access to water sources for human consumption. Retrieved from https://www.olasdata.org/visualizations/detail-visualization/4

[18] Decree-Law 870 of 2017 and Regulatory Decree 1007 of 2018 establish Payment for Environmental Services (PES) mechanisms and criteria to focus strategic ecosystems and promote community participation.

[19] The area of influence of this mechanism is 24 municipalities, four environmental authorities and two departments, as well as national protected areas (Chingaza NNP, Sumapaz NNP, Páramo Grande RFPN, Río Blanco and Río Negro RFPN, Cerros Orientales de Bogotá RFP), regional (declared by the Regional Autonomous Corporations -CAR's-) and local (set of districts protected areas).

the validation of Nature-based Solutions (NBS).[20] The purpose is to strengthen water security and the resilience of the basins to risks disaster due to hydrometeorological phenomena. The model will result in a Water Investment and Governance Fund, an innovative instrument that integrates public, private and community resources to finance hybrid (green and grey) water security and conservation solutions. The first application will be developed in Mexico, but the objective is to build a replicable regional model that can be scaled to Colombia and adapted in other priority basins in Latin America.

2.2 It is expected to improve the livelihoods of vulnerable populations, through interventions that improve the availability of the resource, environmental quality and local management capacity, as well as improve hydrological regulation and generate a replicable operating model that allows these improvements to be increased and sustained over time.

2.3 **Intervention model.** The project is based on a **basin approach** and the articulation among public operators, private companies, communities, and local organizations to create a Water Investment and Governance Fund (the Fund), which will finance sustainable solutions and the implementation of NBS, contributing to the area's water security. These actions are aimed at: (i) conserve forest areas and strengthen key ecological processes; (ii) increase aquifer recharge and regulate runoff; (iii) reduce risks of flooding and the effects of climate change; (iv) improve access to drinking water and sanitation in vulnerable populations.

2.4 The Fund will receive resources from private companies interested in ensuring water availability for their value chains, state and local governments, and producers and communities that will also participate as co-investors through economic and/or in-kind contributions.[21] This will strengthen both financial sustainability and co-responsibility in the management of water resources.

2.5 Pronatura will assume the role of ecosystem orchestrator: a technically neutral actor with the institutional legitimacy, fiduciary capacity, and territorial network needed to align incentives across public, private, and community stakeholders, reduce information asymmetries, and lower the transaction costs that have historically prevented convergence of investment in watershed governance.

2.6 The legal figure to be considered for the Fund is a trust[22]. However, during the analysis, other figures that could be better suited to the area (e.g., patrimonial fund, revolving fund, impact fund, donation, mandate) will be evaluated. According to the General Law of Securities and Credit Operations, the fund can last up to 50 years;

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[20] Nature-based solutions It refers to the restoration, protection or strategic management of ecosystems in order to achieve development outcomes that address societal challenges by strengthening the services provided by nature. Retrieved from https://publications.iadb.org/en/nature-based-solutions-latin-america-and-caribbean-support-inter-american-development-bank

[21] The Fund's design contemplates a multiplier effect of at least 3:1 of private contributions, where initial catalytic capital reduces risks and mobilizes additional investment. This is expected to reach flows of close to US$1 million per year, leveraged by recurring contributions from actors with a direct economic interest in water security.
There is also an agreement with local communities to provide contributions of an estimated 20,000 MXN per hectare per agricultural producer (mainly berry farmers).

[22] A Trust in Mexico is a legal and financial instrument by which a person or entity (settlor) transfers resources to a trust institution, usually a bank, to manage them for a specific purpose for the benefit of third parties (trustees).

however, it is expected to operate for approximately 20 years as agreed by the actors involved. Currently, there is a strategic program for integrated water management from a governance perspective designed specifically for the area, whose priority implementation requires an investment of approximately US$15 million. As part of the project, scenarios will be modeled to determine the size of the required fund (approx. US$30 million) depending on the financial vehicle and the initial capital available.

2.7 The implementation of NBS in the project consists of restoring and strengthening the ecosystem processes of the basin to improve water security and resilience to hydrometeorological risks. It includes the construction of green infrastructure such as gabion and geocostal filtering dams[23], along with the conservation of recharge areas and vegetation cover.

2.8 The first territorial application of the model will be carried out at **Site 8 "Chapala–Jocotepec" (Mexico),** with a design conceived to progressively scale to other points of the basin. The process will include co-design with communities and capacity building in environmental leadership, infrastructure operation and maintenance.

2.9 **Innovation.** The core innovation of this project is institutional and financial. The project moves from a fragmented scheme of isolated, discretionary interventions to a **shared governance and investment operating system** with clear rules of investment, co-responsibility mechanisms, and real-time evidence; that enables multi-stakeholder coordination at watershed scale. This system is built around three interlocking innovations: a new governance infrastructure, a replicable de-risking mechanism, and an integrated monitoring architecture.

2.10 The project will strengthen and complement the governance mechanisms promoted by the CONAGUA, as the competent authority in the matter. CONAGUA operates with public resources, however, is not designed to receive private contributions with a specific territorial destination for direct reinvestment, which creates a coordination problem and limits the mobilization of financing: public, private, and community actors share an interest in water security but lack the institutional vehicle to translate that common interest into aligned, sustained investment. The Fund arises precisely to close this gap, not as a parallel structure to public governance, but as a complementary platform that strengthens and extends CONAGUA's mandate by channeling private and community capital toward impact-verified interventions, under technical and fiduciary standards that the public sector alone cannot enforce.

2.11 The Fund's most important innovation is that it **functions as shared governance infrastructure**, not merely a financing vehicle. By establishing unified investment criteria, fiduciary standards, and co-responsibility rules that apply equally to public agencies, private companies, and communities, the Fund eliminates the transaction costs and information asymmetries that have historically prevented convergence of investment in watershed management. In practice, the Fund will enable decisions that do not occur today or are made on a discretionary basis, for example: (i) prioritizing and financing an integrated portfolio of interventions (green-gray infrastructure and operational improvements of services) with ex ante technical and

[23] The **Gabion Filter Dams** They are structures made of wire mesh filled with stone that allow the controlled passage of water while retaining sediment and solid materials. The **Geocoasts** They are coastal or fluvial protection elements that combine geotextiles and granular materials to stabilize the ground and complement the filtration function of dams.

social criteria; (ii) ensuring financial sustainability by combining public, private and community contributions under shared operation and maintenance commitments as a condition of financing; and (iii) reducing execution times by standardizing fiduciary procedures, safeguards and investment guidelines, avoiding case-by-case negotiation and the dispersion of resources. This governance architecture will be a public good: its rules, tools, and operational standards will be openly documented, transferable, and designed to outlast the project and benefit other basins.

2.12 Another innovation is **investment de-risking as a replicable mechanism.** A central and underrecognized barrier to water security investment in the region is not the absence of interested actors, but the absence of a credible first-loss position that absorbs the early-stage costs (governance design, legal structuring, hydrological studies, and monitoring systems). IDB Lab's non-reimbursable resources and the Fund's catalytic capital bear the demonstration and transaction costs that unlock convergence of investment at a 3:1 or greater multiplier. In doing so, the project generates proof-of-concept for NBS investment in watersheds, demonstrating technical viability, financial traceability, and institutional replicability, and produces evidence and operational standards that materially reduces perceived risk for future investors across the region.

2.13 The model also innovates in **execution and monitoring**. The model moves beyond reactive, output-based infrastructure toward cost-effective performance-based solutions (runoff capture and regulation of, infiltration and erosion control) selected through technical studies and with an adaptive approach to hydrometeorological risks. The implementation of a digital monitoring dashboard turns monitoring into a management tool. It integrates physical, financial and social indicators (e.g., infiltrated water, state of work, hectares conserved, mobilized contributions and community participation), allowing early warnings, full traceability of results and verifiable evidence for the Fund's Technical Committee. This evidence base support operational adjustments, informs investment prioritization, and provides the structured documentation needed to replicate the model in other basins with significantly lower transaction costs.

2.14 **Beneficiaries.** From a development point of view, the main expected outcome of the project is the restoration and sustainable management of the Chapala-Jocotepec basin. The project expects to benefit 500 users of water intakes in Jocotepec, representing 2,010 inhabitants[24]. These are particularly people from vulnerable households and small subsistence agricultural producers who previously planted corn, beans and squash, and are currently engaged in cash crops such as tomatoes, peanuts and berries located in the priority micro-basin of Chapala-Jocotepec, who directly face the combined effects of limited water availability. soil degradation, aquifer pollution and increasing hydrometeorological variability.

2.15 The situation of poverty in Jocotepec is significantly more serious than the state average:

[24] It is estimated that there is one intake per family unit, in Mexico, the average number of members per household is 3.4 people according to data from the ENIGH 2024 of the INEGI. In rural areas the average is slightly higher (4.02) than in urban areas (3.67).

Table 1: Poverty and vulnerability

Indicator	Jocotepec	Jalisco
Moderate poverty	38,3%	29,1%
Extreme poverty	5,73%	3,48%
Total in poverty	44,0%	32,6%
Vulnerable due to social deprivation	38,4%	31,2%
Vulnerable by income	4,89%	9,29%

Source: CONEVAL, Multidimensional Poverty Measurement, 2020 / Data Mexico (SE-MIT). Own elaboration.

2.16 These data indicate that almost half of the population of the municipality (44%) lives in poverty, and that, if people in conditions of social vulnerability are added, **more than 82% of the inhabitants face some type of deprivation or risk**. Jocotepec exceeds the total poverty level of the state of Jalisco by more than 11%.

2.17 INEGI defines two income thresholds to classify poverty[25]:

- Welfare Line: approximately $3,495 MXN/person/month in rural areas (2026). People below this threshold are in moderate poverty.
- Minimum welfare line: approximately $1,863 MXN/person/month in rural areas (2026). People below this threshold are in extreme poverty.

2.18 Applying these thresholds to the Jocotepec data, 44% of the population lives on an income of less than $3,495 MXN per month per capita (US$197), and 5.73% subsists on less than $1,863 MXN per month per capita (US$105).

2.19 In the municipality there is no reliable registry of water intakes or users, since there are no systematic records of supply by network; however, 25 sources of supply (mainly wells) are identified that serve a population of close to 51,000 inhabitants according to the performance report of the Superior Audit in Jocotepec. In terms of quality, although 76% of the sources receive chlorination, only 9.52% fully comply with the parameters, which shows failures in disinfection. In this context, the estimation of 500 water intakes is carried out through an operational approach: a subset of users linked to the intervened sources is defined, considering the typical supply capacity per well and prioritizing areas with greater health risk. Improved chlorination simultaneously impacts all users connected to those sources, enabling increased quality compliance and reduced risk at the network scale. These groups have been identified as priorities because they face access deficits and depend on the groundwater of the basin for domestic consumption and agricultural production, and currently assume high costs associated with irregular supply, flooding and the loss of ecosystem services. It is expected that, with the Fund operative, in the medium term, 47,105 inhabitants (50.7% women) of Jocotepec will be benefited by the Fund activities, of which 20,286 will be direct beneficiaries who live in the municipal capital. Indirectly, companies and local governments that depend on these basins for their supply will benefit, by improving water security, reducing flood risks

[25] INEGI, 2026. Poverty Lines (LP).

and stabilizing ecosystem services. In the medium and long term, participating companies will also benefit from securing water resources for their value chains and meeting environmental and social goals.

2.20 In Colombia, the direct beneficiary will be Agua Somos, which will receive technical assistance and knowledge transfer to strengthen its capacity to design and implement water governance and investment models. Indirect beneficiaries may include rural and peri-urban communities in the Bogotá River basin, who could benefit from improved water management interventions if the model is adopted and implemented locally.

2.21 **Gender approach.** The project recognizes the gaps in access, management and costs explained at the problem and establishes as a cross-cutting objective to contribute to its reduction. To this end, the proposed interventions incorporate a gender approach that prioritizes women's participation in decision-making, community water management, and access to incentives from the Fund. First, the improvement of infrastructure and NBS will contribute to reducing the time and effort dedicated by women to carrying and managing water, improving their access to the resource and freeing up time for productive and educational activities. Second, the participation of women in co-design processes and water governance committees will be promoted, strengthening their capacity to influence the management of the resource. Third, technical training, environmental leadership and water management programs will be developed for women, aimed at improving their capacities, generating income opportunities and increasing their representation in community and institutional spaces. In addition, the project will incorporate community awareness actions on gender equality and co-responsibility in water management, in order to transform social norms that limit women's participation. Detailed sociodemographic information, and in particular gender gaps and the status of women in water management, will be obtained and analyzed at the diagnostic stage. In this way, the project promotes the effective participation of women, not only as beneficiaries, but as key actors in the planning, execution and sustainability of water security actions.

2.22 Overall, the project will consolidate a collaborative, replicable and scalable water management model that articulates public, private and community actors, generating evidence to strengthen public policies, payment instruments for environmental services and new investments in sustainable infrastructure at the local and national levels.

Component I: Design and implementation of the Water Investment and Governance Fund (IDB Lab US$244,047; counterpart US$47,099).

2.23 This component will establish a Water Investment and Governance Fund as a financial and operational mechanism to articulate public, private and community contributions, under a co-investment scheme aimed at financing water security interventions, including sustainable water infrastructure and NBS. The Fund will integrate contributions from private companies with a direct interest in the availability of the resource, contributions from local producers and public resources.

2.24 The design of the Fund will define its legal, financial and operational structure, considering the possibility of constituting it as a trust or other equivalent figure, so that it allows the resources to be managed as a separate patrimony, guaranteeing

transparency, traceability and efficient use of the funds. The governance of the Fund will oversee a Multi-Stakeholder Technical Committee, responsible for governance, establishing investment criteria, prioritizing interventions and supervising the allocation of resources under technical, environmental and social guidelines defined ex ante, avoiding ad hoc decisions and reducing transaction costs. Likewise, the gender approach will be integrated in a cross-cutting manner in the design and operation of the governance and financing model, establishing explicit criteria to promote the participation of women in decision-making spaces. The fund will channel contributions towards green and gray infrastructure projects, ensuring technical, environmental and social criteria, and will promote the active participation of the different actors.

2.25 The main activities of this component include: (i) mapping good practices and lessons learned in water funds and trusts, identifying international fiduciary and safeguards standards; (ii) design the legal, financial and operational architecture of the Fund, which incorporates a resource mobilization strategy to achieve a financial multiplier of at least 3:1; (iii) to form a Multi-Stakeholder Technical Committee with mechanisms for informed participation; (iv) define investment guidelines that prioritize comprehensive water security and climate resilience, including modernization of the operating agency, sanitation and protection of recharge areas; (v) strengthen local institutional capacities; and (vi) establish a monitoring, reporting and verification (MRV) system, with performance and impact indicators.

2.26 This component will deliver two main outputs: (i) the established and operational Miexed Water Investment and Governance Fund; and (ii) a guide for strengthening local actors in watershed management.

Component II: Implementation of NBS in "Chapala–Jocotepec" pilot basins (Mexico) (IDB Lab US$215,996; counterpart US$523,162).

2.27 This component seeks to implement and validate in the pilot basin the first NBS interventions, accompanied by community co-investment processes and a monitoring system, which allow improving infiltration, water quality and runoff regulation, as well as generating evidence for their scaling and integration into public policies.

2.28 Technical studies will be carried out to identify the optimal infiltration zones and evaluate the quality of the water destined for the recharge of the aquifer, as well as the design of NBS, including accommodated stone dams, geocostals, gabions and an infiltration sump. In addition, another intervention will potentially be the installation of doser pumps that regulate chlorination continuously in the wells, with periodic quality analyses. This ensures proper disinfection, regulatory compliance and reduction of sanitary risks in the distributed water.

2.29 The implementation will be done together with the communities, who will act as co-investors and participate in co-design processes, workshops and an environmental leadership program, in order to ensure sustainability and local ownership.

2.30 In addition, the model incorporates an explicit focus on influencing public policies. Through a technical-processual monitoring and pilot evaluation system. The system will include information derived from the collection of technical, environmental and socioeconomic evidence, analysis and visualization through dashboards and real-time graphs on the results and impacts of the actions. This information will be used

to detect critical situations, assess the progress of the project, and will generate replicable recommendations and guidelines, which can be adopted by local, state and national authorities, consolidating evidence-based water governance practices and promoting the integration of nature-based solutions in watershed planning and management at the regional level.

2.31 The activities are structured in: (i) carrying out advanced technical and climatic studies; (ii) execute green infrastructure works; (iii) implement co-design processes and an environmental leadership program; and (iv) establish a monitoring system for the works carried out with public dissemination, an interactive online monitoring portal and a systematization of the experience to promote institutional learning and regional replicability.

2.32 The main outputs of the component include: (i) the comprehensive technical characterization of the pilot basin; (ii) the implementation of 49 conservation works[26]; (iii) an environmental leadership program developed with a gender approach; (iv) 50% participation of women in the water committees formed; (v) 90 people trained in good practices of water resources management[27]; (vi) a dashboard developed for project monitoring; and (vii) 500 improved water intakes in areas of relative poverty incidence.

Component III: Regional transfer in Latin American basins (IDB Lab US$113,568).

2.33 This component will allow the expansion of the model at the regional level, developing a replicable methodology based on the pilot experience. A transfer plan will be implemented that includes technical, institutional and financial aspects and a scalability package will be prepared that includes guidelines, tools and lessons learned from the Mexican pilot, facilitating the adoption of the model by new actors and guaranteeing its sustainability and effectiveness on a regional scale.

2.34 This component will facilitate the scalability of the Fund model in Latin America, through three strategic actions: (i) systematize the methodologies, financial instruments and technical criteria developed in the pilot basin, generating an operational package that can be replicated for new basins; (ii) strengthen knowledge transfer with Agua Somos (Colombia) through technical assistance, exchanges and accompaniment in community governance and co-investment models; and (iii) provide specialized support to local actors to formulate and structure financing proposals that value the ecosystem benefits of water security, including biodiversity, hydrological regulation and resilience to meteorological risks, with the aim of mobilizing resources from existing climate and environmental funds (such as biodiversity funds, PSA mechanisms and blended finance).

2.35 The outputs of this component include: (i) six knowledge transfer events aimed at public, community, academic, and private actors from other basins or countries; (ii) a validated operational package that documents the model and allows its application in other basins.

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[26] It includes approximately 17 accommodated stone dams, 21 geocostal dams, 11 gabion dams, and an infiltration reservoir.

[27] The beneficiaries of this activity will be ejido communities in the surrounding areas of the basin targeted by the project.

B. Project results, Measurement, Monitoring and Evaluation

2.36 The Executing Agency (EA) will be responsible for collecting the data and reporting on the results and achievements according to the project results matrix. The EA will develop a monitoring plan at the start of the project to ensure that the indicators are tracked and measured. In addition, the EA will report to the Bank annually through a Project Supervision Report (PSR). It will also present a Final PSR on the results of the project after its completion.

2.37 As a result of the project, specific benefits are expected to be achieved in terms of sustainable land management, climate resilience and green infrastructure development: (i) the installed capacity to capture 1.23 hm^3 annual water infiltrated in the aquifers; (ii) the conservation of 1,539 hectares of the micro-basin through the restoration of priority areas, the implementation of practices that favor water regulation and the conservation of key ecosystems, and (iii) 40 direct jobs generated. The project contemplates the implementation of green infrastructure based on NBS designed to capture, retain and regulate runoff, reduce erosion and promote water recharge. These actions will contribute to the recovery of the hydrological balance of the basin and will generate enabling conditions to improve sustainable access to water, especially for vulnerable populations.

2.38 **Measurement, monitoring and evaluation**. IDB Lab will periodically monitor the execution of the project and will supervise it according to the execution deadline and the established objectives. Regular follow-up meetings will also be held with the EA. In addition and following the management approach based on risks and results, IDB Lab will verify compliance with the milestones (fundamental activities of the project) agreed with the EA that condition disbursements to a certain date of the operational plan. The EA will carry out several evaluation activities such as continuous visits to the areas of intervention of the project, on-site evaluation of the degree of progress of the activities and goals through interviews with the direct actors of the project, water and sanitation operating companies, universities, entrepreneurs, among others. Likewise, a study is planned on the hydrological, environmental and social baseline of the area to evaluate the socioeconomic impacts of the project.

III. Alignment with IDB Group, Scalability, and Risks

A. Alignment with IDB Group

3.1 The project aligns with the three **priority objectives** of the **IDB Group's Institutional Strategy 2030: Transformation for Greater Scale and Impact (AB-3421):** (i) to reduce poverty and inequality, by improving access to water services for vulnerable communities in degraded watersheds, strengthening their well-being and local capacities; (ii) addressing climate change, through the conservation of strategic watersheds and the implementation of hybrid solutions (green-gray) that increase resilience to droughts, floods, and climate variability; (iii) strengthen sustainable regional growth, by mobilizing public, private, and community financing for integrated water management and natural capital conservation. Likewise, the project responds to several **areas of operational focus** of the strategy: (i) biodiversity, natural capital and climate action, by conserving critical ecosystem services and generating environmental co-benefits; (ii) gender equality, through the active integration of women in water governance processes; (iii) institutional

capacity, strengthening ejidos, communities and local governments to manage resources and conservation agreements; (iv) sustainable, resilient and inclusive infrastructure, by combining green and grey infrastructure that improves water security; (v) productive development and innovation, through the design of a flexible, technological and scalable fund, which promotes innovative financial models; (vi) regional integration, by building a replicable model that can be adapted to other priority basins in Latin America.

3.2 The project is also consistent with the **Water and Sanitation Sector Framework (GN-2781-8),** specifically with the dimensions of success and lines of action related to universal access to water services, the design of programs that strengthen water security and the improvement of management by encouraging the participation of the private sector. It is also consistent with the **Climate Change Sector Framework (GN-2835-10)** on the issue of sustainability. It is also consistent with the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (GN-2710-5), by promoting associative production models to improve infrastructure to increase efficiency in the provision of services.

3.3 The proposal is aligned with the impact challenge of **IDB Lab's Business Plan 2025-2027:** "Improving access to quality water and sanitation services and clean energy" (IC4) and with the cross-cutting themes of climate change and gender by focusing on the conservation and restoration of watersheds, the strengthening of green infrastructure, and the implementation of hybrid solutions that increase resilience in the face of droughts, floods and greater water variability. In addition, the project incorporates a gender approach by recognizing the central role of women in water management at the community level and in the sustainability of interventions.

3.4 The project is complemented by IDB Lab's Watershared Accelerator (BO-G1010, BO-T1449) operation executed by Fundación Natura Bolivia, which is currently implementing a scheme of public and private funds combined with gray and green infrastructure and community participation under Reciprocal Water Agreements (ARA), taking advantage of the Popular Law in Bolivia, which grants an annual budget to communities. This case shows that legal and community mechanisms can be activated locally to achieve tangible impact on watershed conservation and access to water. Additionally, the project is complemented by WSA operations such as ME-T1574, which seeks to develop a strategic plan of nature-based solutions combined with gray infrastructure in the priority basins identified in the National Water Plan. Finally, it is also complemented by operation RG-T4790, which includes Mexico as a beneficiary country and aims to support a transition of the water and sanitation sector that is climate-resilient and low-carbon.

3.5 The project contributes to the following IRF indicators: (i) sustainably managed area; (ii) direct jobs created; and (iii) number of beneficiaries who are women.

3.6 The project is aligned with the **IDB's Country Strategies** with the countries in which the project will be implemented. In **Mexico** (GN-3317), the project is directly aligned with Pillar 2: Provision of social services, specifically, by strengthening the efficiency and sustainability of water services to ensure equitable access and environmental resilience with the use of innovative approaches adapted to the local context, and promoting strategic territorial planning and the design of public works with climate risk criteria. Also with Pillar 3: Resilience, by incorporating an ecosystem approach in the provision of infrastructure to protect natural capital and promoting solutions

that contribute to the preservation of natural resources and the strengthening of territorial resilience. As well as with the cross-cutting axes III.43, which seeks to promote equal opportunities for women through cross-cutting support in gender, diversity and inclusion, and III.44, which promotes the integration of sustainability and risk management in all the pillars of the Strategy to strengthen territorial resilience. In **Colombia** (GN-3238), the project is directly aligned with the strategic area that seeks to increase social and territorial inclusion by increasing access to services with new interventions focused on water and sanitation, and with the cross-cutting areas of climate action and natural capital.

3.7 According to the multilateral development banks' joint approach to monitoring climate finance, 100% of the IDB's total resources for this project are translated into climate change adaptation activities, contributing to the IDB Group's goal of 30% of combined approvals for climate-related financing by the end of 2020. Lake Chapala is the largest natural water reservoir in Mexico. According to scientific evidence, extreme weather events have begun to have implications for the environmental services offered by the lake, which are crucial for the population of the area. For example, due to its surface nature, evapotranspiration in the lake is very sensitive to temperature variations. In addition, changes in precipitation levels and increased pollution threaten the availability of freshwater for production and consumption. In particular, the project will support the building of adaptive capacities by improving water management, water availability and access to populations. In addition, it contributes to sustainable land management, which allows monitoring of avoided GHG emissions. It contemplates the ex-post monitoring of the conditions of vulnerability.

3.8 **Sustainable Development Goals (SDGs).** The project is aligned with SDGs 1 – End poverty in all its forms worldwide (indicator 1.4.1 – Proportion of population living in households with access to basic services); 6 – Ensure availability and sustainable management of water and sanitation for all (indicators 6.1.1 Proportion of population using safely managed drinking water supply services, 6.4.1 Change in the efficient use of water resources over time, 6.4.2 Level of water stress: withdrawal of freshwater as a proportion of available freshwater resources, 6.6.1 Change in the extent of water-related ecosystems over time); and 11 Make cities and human settlements inclusive, safe, resilient and sustainable (indicator 11.1.1 Proportion of urban population living in slums, informal settlements or housing).

B. Additionality and Scalability

3.9 The scaling of the project is based on the **validation of an operational model of investment and water governance**, and not only on the replication of physical interventions in new basins. The project presents a set of enabling conditions that allow its progressive adoption in other territories, including: (i) the existence of a minimum regulatory and programmatic framework that recognizes integrated watershed management and financing mechanisms for conservation and water security; (ii) the presence of public, private, and community actors with aligned incentives to improve water availability and reduce operational risks; (iii) minimum technical capacities at the local level to implement and maintain NBS and hybrid infrastructure; and (iv) a demonstrable demand for cost-effective solutions to water stress and hydrometeorological risks.

3.10 The financial scaling is activated through the Water Investment and Governance Fund, designed as a catalytic mechanism that allows IDB Lab's non-reimbursable technical cooperation resources to be transformed into larger-scale sustainable investments. In practice, the financial multiplier of at least 3:1 will be achieved by: (i) the use of technical cooperation resources to cover initial costs of design, legal structuring, technical studies, and monitoring systems; (ii) the reduction of the perceived risk for public and private investors by establishing clear governance rules, ex ante technical criteria and operation and maintenance commitments; and (iii) the mobilization of contributions from anchor companies, subnational governments and communities as co-investors, once the technical effectiveness and traceability of the results of the model has been demonstrated. This approach allows the Fund to progressively evolve from a pilot instrument to a recurring financing platform for water security and conservation at the subnational and regional levels. Critically, the Fund is not designed to maximize returns to any single actor. Its governance architecture is structured to ensure that the knowledge, criteria, and operational standards it generates become part of the regional commons, accessible to other basins, governments, and funders seeking to replicate this model.

3.11 IDB Lab plays a key role in scaling the model, whose additionality goes beyond financial contribution. The project addresses a problem of structural coordination that characterizes water management in multiple territories in the region, even when the relevant actors (public, private and community) share the interest in improving water security, the absence of articulating mechanisms prevents translating this common interest into sustainable investments and collective action. The resources allocated to the project do not have the function of replacing public or private investment, but rather to create the conditions of governance and trust that make their convergence possible. In this sense, the project is conceived as a complementary instrument to the action of the State, which reinforces and enhances existing institutional capacities, and which operates in close coordination with national and subnational governments as guarantors of water policy and holders of territorial planning processes.

3.12 On this basis, IDB Lab provides non-reimbursable financing, specialized technical assistance, and support in institutional innovation and data-driven management. The comprehensive operating package that is replicated and expanded includes: (i) the legal, financial and fiduciary architecture of the Fund; (ii) the technical, environmental and social criteria for prioritizing investments in green-gray infrastructure and water services; (iii) the multi-stakeholder governance and financial co-responsibility model; (iv) monitoring, reporting, and verification instruments; and (v) a knowledge transfer strategy based on operational guides, case studies, technical exchanges and knowledge products. This package allows the model to be adapted to different basins in Latin America and the Caribbean, maintaining standards of quality, transparency and sustainability and facilitating a gradual and evidence-based expansion of the project's impact.

C. Project and Institutional Risks

3.13 The project risk level in achieving results is moderate, since an innovative model of water governance and mixed financing is introduced in a context of multiple actors, which implies social and institutional uncertainties. However, this risk is mitigated with Pronatura and its strategic allies' experience in the implementation area, based

on previous works. Also, as the location of the project is one of the prioritized areas by the federal government and CONAGUA, it offers another element of mitigation to this risk. The potential risks identified are detailed below (see Annex VII):

3.14 **Risk of limited community appropriation**. The possible resistance or low participation of communities and small producers in the co-design, co-investment and maintenance of the interventions could lead to partial implementation of the model and a lower sustainability of the solutions, significantly affecting the results of the project. As a mitigation measure, the project will build on the previous public consultation experience conducted in 2025, in which local producers expressed their interest and support for the project. Early participation processes, clear community agreements, an environmental leadership program, economic incentives, a gender approach, and a continuous communication strategy will be implemented.

3.15 **Risk of institutional fragility and changes in the political-regulatory environment.** Changes in governance, the regulatory framework or public policy priorities, as well as the non-binding nature of the model's institutional arrangements, could significantly reduce the commitment of public entities to the initiative. This could weaken the governance of the Fund, affect the continuity of public sector participation in co-financing and limit the adoption of the model in new territories, given the highly dependent nature of the local institutional context. To mitigate this, the project will prioritize the formalization of inter-institutional agreements with legal and technical anchorage, the participation of multiple actors, the alignment of the model with current public policy instruments (basin plans, water and climate strategies), and the strengthening of institutional capacities throughout the project. In addition, the Fund's model will be designed with a governance framework that allows its operational continuity in the face of political changes, and the documentation and standardization of the operational package will be promoted to facilitate its adaptation to different institutional frameworks in scaling processes.

3.16 **Risk of extreme hydrometeorological events.** The occurrence of prolonged droughts or intense rainfall could reduce the effectiveness of the solutions implemented, affecting runoff capture, infiltration, and expected environmental outcomes. As a mitigation measure, advanced technical and climatic studies will be carried out, an adaptive design of the NBS and light gray infrastructure will be applied, and a continuous monitoring and preventive maintenance system will be implemented.

3.17 **Security risk in the territory.** The presence of criminal activities could limit fieldwork, delay the execution of activities and affect interaction with local communities, with a high potential impact. To mitigate this, safety protocols will be established, work will be done with local teams, coordination will be made with institutional and community actors, and interventions that do not unnecessarily expose project staff will be prioritized.

3.18 **Risk of insufficient mobilization of counterparts.** Delays or reductions in public, private or community contributions could limit the Board's ability to fully operate and reduce the scope of planned interventions. As mitigation measures, co-financing agreements will be established from the initial phase, the diversification of sources of financing will be promoted.

3.19 **Summary of the Environmental and Social Review.** As of January 21, 2026, the project was reviewed and classified under category C, in accordance with the IDB's Environmental and Social Policy Framework (GN-2965-3) as it is expected to have low risks. It will be guaranteed that the Executing Agency carries out its work in accordance with the IDB's Environmental and Social Policy Framework.

D. Integrity Review.

3.20 The Project Team, with the assistance of OII, conducted integrity due diligence (DDI) on the Project and identified integrity risk and reputational impact indicators that merit disclosure, but are within IDB Lab's tolerance for such risks, as described below. These risk indicators were identified through a Know Your Customer (KYC) assessment

3.21 The KYC assessment of the project identified relevant risks associated with the project's geographic location in the Chapala-Jocotopec region, state of Jalisco, considered a direct area of influence of the Jalisco New Generation Cartel (CJNG), an organization designated as a foreign terrorist organization (FTO) by the U.S. Department of State, and the lack of definition of the operating model and due diligence mechanisms applicable to beneficiaries, contractors and members of governance bodies, the absence of which could generate conflicts of interest and risks of linking with organizations designated as FTOs. The project team and OII consider that the risk is adequately mitigated because the agreement between IDB Lab and Pronatura will incorporate, as a precondition to the first disbursement, the obligation for Pronatura to carry out a comprehensive assessment of the risks associated with its operation in relation to links with foreign terrorist organizations (FTOs). Such assessment shall take into account, at a minimum, the critical aspects mentioned in the integrity annex.

3.22 Based on these considerations, the Project Team believes that the related integrity and reputational risks presented by this Project deserve to be disclosed but are within IDB Lab's tolerance for such risks. OII agrees with this assessment

3.23 The risk matrix of the Institutional Capacity Diagnosis (DICI), which is found in Annex VI, has been applied. The risk rating in terms of fiduciary management capacity is low.

IV. INSTRUMENT AND BUDGET PROPOSAL

4.1 The project has a total cost of US$1,270,337, of which US$689,739 (54%) will be contributed by the PSC Fund and US$580,597 (46%) by the counterpart. The Project Specific Grant (PSG) financing for this operation totals US$689,739, consisting of US$228,989 from The PepsiCo Foundation, Inc., originating from previously executed resources under the SPOON program, and US$460,750 from Beverage Foods & Services Industries, Inc. (a subsidiary of PepsiCo Inc.), originating from a previously executed contribution under the General Donor Account countribution letter . The amounts reflected herein correspond exclusively to the resources transferred to and administered by IDB Lab for the execution of this project.

4.2 With respect to the contribution from The PepsiCo Foundation, Inc., the applicable non-refundable five percent (5%) administrative fee was charged under the original SPOON administrative agreement, and therefore no additional administrative fee applies to the amount transferred to this operation. With respect to the contribution from Beverage Foods & Services Industries, Inc., the Bank applies a five percent (5%) cost-sharing fee in accordance with the applicable Letter of Contribution and Framework Arrangement. This fee, in the amount of US$28,000, representing five percent (5%) of the original US$560,000 contribution, is charged separately and is not included in the project budget. In addition, US$20,000 from the same contribution was allocated directly to IDB Invest, and US$51,250 was previously allocated to another operation. Accordingly, the financing amounts reflected in this document correspond solely to the net resources administered by IDB Lab for the execution of this project.

4.3 The instrument that will be used is NRTC, since the project has a de-risking function by building and activating a multi-stakeholder ecosystem of water security, through the design and piloting of an innovative financing and governance model. The NRTC allows financing enabling activities such as the design of the fund, articulation of public, private and community actors, capacity building and evidence generation, which do not entail immediate financial returns, but are essential to reduce risks, consolidate the ecosystem and create the conditions for its subsequent scaling.

Summary budget (US$)

Project Components	IDB Lab NRTC (PSC)	Counterpart		Total
		In cash	In Kind	
Component 1: Design and implementation of the Water Investment and Governance Joint Fund	244,047	43,756	3,343	291,146
Component 2: Implementation of NBS in "Chapala-Jocotepec" pilot basins	215,996	523,162	-	739,158
Component 3: Regional Transfer in Latin American Basins	113,568	-	-	113,568
Administration	116,128	10,336	-	126,464
Total	689,739	577,254	3,343	1,270,336
% of financing	54%	45%	1%	100%

V. Executing Agency and Implementation Structure

A. Executing Agency Description

5.1 Pronatura México, AC, will be the Executing Agency for this project and will sign the agreement with the Bank. Pronatura is a Mexican civil society organization, dedicated to the conservation of nature, biodiversity and environmental services. Since its creation in 1981, it has focused on promoting behavioral changes in society to achieve better models of use and management of natural resources. Pronatura works in alliances with the private sector, international cooperation, civil society, communities, and local and federal authorities with the aim of unifying efforts and achieving greater impact in actions that allow human progress, the construction of resilience, and the transition to environmental sustainability.

5.2 The Executing Agency has executed more than 50 projects aligned with its corporate purpose. In the Water pillar, it has implemented projects related to access to water and sanitation in urban, peri-urban and rural communities; strengthening water governance, restoration of rivers, lakes and mangroves; aquifer recharge and watershed conservation; as well as capacity building and resilience of communities in the face of extreme hydrometeorological events such as droughts and floods. Pronatura Mexico is located in Mexico City, Mexico, and has 36 employees as part of the staff. To optimize the field operation, it has six chapters deployed throughout the country. Additionally, it has various alliances and collaborations with international networks such as the International Union for Conservation of Nature (IUCN), universities, foundations, and international experts, among others.

5.3 Relevant projects executed by the Executing Agency include: (i) Sierra de Guadalupe Resiliente: water, nature and community (2024) with the aim of contributing to water security, protecting priority ecosystems and improving people's quality of life with an investment of US$6.7 million; (ii) Integrated watershed and aquifer management through the implementation of nature-based solutions in Cuyoaco, Puebla (2023) with an investment of US$1.3 million; (iii) Replenish Toluca Strategy for Water Security (2022) with an investment of US$1 million. Every year Pronatura publishes its Annual Report as a mechanism for accountability and dissemination of the main achievements achieved.

5.4 Since 2021, Pronatura has been the implementing partner of environmental projects in Mexico for the stewardship of the company Driscoll's, a leading American family business in fresh strawberries, blueberries, raspberries and blackberries, with more than 100 years of agricultural heritage. It develops and markets exclusive high-quality berry varieties through a global network of independent growers, with a presence in dozens of countries. Driscoll's started more than 20 years ago in Jocotepec, Jalisco, collaborating with small local producers to grow berries. Through training, innovation and decent employment, it has promoted agricultural development and a sustained improvement in the quality of life of the community. BerryMex is a Mexican agricultural company founded in 1991 in Jocotepec, Jalisco, dedicated to the cultivation and export of high-quality strawberries, raspberries, blueberries and blackberries. It operates in several regions of Mexico, including Baja California, Jalisco, Michoacán, and Puebla, and is partnered with Reiter Affiliated Companies, a major global producer of berries. Together, Driscoll's and Berrymex have teamed up to financially support the project and exert their influence to facilitate the cooperation of small producers in the territory. On the other hand, the project also has the consent and support of the Municipal Government of Jocotepec and the State Water Commission of the state of Jalisco. Driscoll's and BerryMex act as anchor companies, providing financing, territorial influence and articulation with producers to ensure water sustainability. The Municipal Government of Jocotepec facilitates permits, local coordination and alignment with local public policies. The Jalisco State Water Commission leads the government's technical articulation and the state scaling of the model.

B. Structure and implementation mechanism

5.5 Pronatura will establish an execution unit and the necessary structure to execute the project activities and manage the project resources effectively and efficiently. The

Executing Agency will also be responsible for submitting progress reports on the implementation of the project.

5.6 The project will be implemented under a multi-stakeholder governance mechanism led by Pronatura as Executing Agency, responsible for the overall coordination, technical execution, fiduciary management of resources, and compliance with IDB environmental and social safeguards according to the applicable category. Pronatura will act as a technical expert and neutral articulator between public, private and community actors, ensuring technical coherence, transparency and results-orientation.

5.7 Pronatura will establish specific collaboration agreements with the project partners to execute the activities according to their role and capabilities. These agreements will define technical, financial and operational contributions with Driscoll's and BerryMex; institutional coordination and permits with the Municipal Government of Jocotepec and the State Water Commission of Jalisco; and knowledge transfer and scaling with Agua Somos and other foundations, ensuring a coordinated, efficient and replicable implementation.

5.8 IDB Lab will provide key technical and financial collaboration for the design, validation and implementation of the innovative model of the Water Investment and Governance Fund. Its support includes grant funding, specialized technical assistance, strengthening the MRV system, and facilitating regional scalability, consistent with its mandate to catalyze high-impact, replicable solutions to improve people's quality of life.

VI. Compliance with Milestones and Special Fiduciary Arrangements

6.1 **Disbursements by Results, Fiduciary Arrangements**. The Executing Agency commits to IDB Lab's standard results-based disbursement arrangements, procurement and financial management policies applicable to the private sector, consistent with the Financial Management Guide for IDB Financed Projects (OP-273-12) version of June 17, 2019[28] and as specified in the "Guide for Milestones-Based Management and Financial Supervision for IDB Lab and Social Entrepreneurship Program Technical Cooperations Projects".[29]

6.2 **Results-based disbursements.** The Country Office of Brasilia, Brazil will monitor the Project in accordance with the performance and risk management policies (fulfilment of milestones) established by the IDB Lab in April 2008.

VII. Information Disclosure and Intellectual Property

7.1 The Project will be carried out using the *know-how* and methodologies previously developed by the Executing Agency, which will remain under its ownership.

7.2 The intellectual property of all the works and the results obtained under the Project correspond to the Executing Agency. The Executing Agency shall grant the Bank an irrevocable, worldwide, perpetual, free of charge and non-exclusive license to use, copy, distribute, reproduce, publicly exhibit and perform any product owned by the

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[28] Financial Management Guide for IDB-Financed Projects (OP-273-12)

[29] Link to the Milestone Management and Financial Supervision Guide for CT IDB LAB 2020.

Executing Agency arising from the execution of the Project, as well as to develop derivative works. The Bank may grant sublicenses in favor of third parties without requiring new authorizations or licenses from the Executing Agency.

7.3 The Executing Agency shall guarantee to the Bank that the execution of the Project does not and will not infringe the rights of third parties and undertakes to carry out all activities that may be necessary for the Bank to exercise the rights provided for without limitations. The Executing Agency shall release and/or indemnify the Bank, its staff, sublicensees and/or consultants for any action that may be initiated against them, for the exercise of the rights licensed to the Bank.

7.4 The Bank may disclose, reproduce and publish any information related to the Project and include in such information the name and logo of the Executing Agency.