

# WATER FUNDS

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## Attracting Investments to Protect Nature, People and Clean Water

A simple premise is pushing the frontier of conservation: empower people to protect their water by protecting natural lands that provide it.

Just one percent of the water on Earth is available fresh water that we can use to meet our needs – drinking, cooking, irrigating crops, manufacturing goods and much more. We all have a stake in protecting natural areas that clean it and deliver it to us via rivers and lakes. When forests, grasslands and other habitats are cleared away or degraded, our waterways lose natural filtration and regulation systems. Downstream that can mean water shortages, floods and higher costs of treating dirty water.

Protecting “green infrastructure” is a more cost-effective way to protect water than losing services that nature provides and facing the need for engineered solutions, such as more water treatment plants and dams. Additionally, healthy natural areas provide more benefits to more sectors of society, especially the rural poor who are less likely to benefit from water infrastructure than those in urban areas.

These financial considerations suggest untapped opportunities to further engage the private sector in watershed protection as well as government agencies responsible for supplying water to citizens.

### An Innovative Solution from Latin America

Throughout the northern Andes region of Latin America there is a wealth of protected areas. Ecuador, Colombia, Peru and other countries have set aside millions of hectares of land as ecological reserves and parks. However, there is very little funding to adequately secure and manage the land. Additionally, many people live in and around the parks and with few options for income in such remote areas, they have little choice but to convert habitat into small farms or rangeland for cattle to meet their livelihood needs.

The consequences for this land conversion extend beyond the region’s spectacular diversity of animals and plants. Cities like Bogota, Colombia and Quito, Ecuador rely on rivers that flow down from protected areas to supply water for citizens, manufacturing and agriculture.

Seeing this as an opportunity, Nature Conservancy staff in Latin America created an innovative solution that connects needs and resources, upstream and downstream. The premise: enable public and private stakeholders to help reduce the potential for water shortages and higher treatment costs by proactively investing in the protection of nature upstream. Then use the investments to give people living in key natural areas, often the rural poor, new sources of income that avoid damage to rivers and the lands that feed into them.

### Leveraging \$21,000 into \$8,000,000

Borrowing ideas from the world of high finance, the Conservancy and local partners have designed an endowment for conservation: a water fund. Investors voluntarily capitalize a water fund to a large sum, the capital is invested, and earnings are used to protect the watershed, creating a long term, in-country, self-sustaining funding source for conservation.

The first Nature Conservancy water fund was established in Quito, Ecuador in 2000. It was seeded with \$1,000 from The Nature Conservancy and \$20,000 from Quito’s public water authority. The fund has grown to almost \$8 million (US) and in 2008, earned interest allowed disbursements of nearly \$800,000 for conservation.



## Attracting In-Country and Regional Investments

This financial mechanism serves as a stable and accountable way for corporations, government agencies and other funders to steer the protection of natural areas that dictate the supply of clean water. A board of directors made up of representatives of investors, local communities, indigenous groups and non-profits, including The Nature Conservancy, oversees the fund and determines how to disburse earnings.

There are now seven water funds in Ecuador and Colombia, helping protect more than 1.6 million hectares of natural lands and sources of water for more than 11 million people. The current combined capital is \$10.5 million and is expected to reach \$35 million within the next decade.

Thus far half the investments have come from public water and electric utilities, half from private corporations that are heavily dependent on a regular supply of clean water. Two subsidiaries of brewer SABMiller — Bavaria and Cervecería Nacional — helped launch the Quito and Bogotá Water Funds. In the East Cauca valley of Colombia, a fund was created where the primary investor is the country's sugarcane growers association, ASOCAÑA. The growers see water funds as a way to accelerate protection of watersheds that are increasingly vulnerable due to climate change impacts.

## A Model for the World

The water fund model is proving to be both robust and flexible enough to implement in diverse geographies and political frameworks. It is an effective way to connect the private sector, government and local communities to work together to make decisions about resources upon which all depend.

Each water fund is tailored to local opportunities, needs and laws, so they vary from municipality to municipality, and continue to evolve. For example, a new Bogotá Water Fund adapted the Quito model to disburse a set portion of the capital from early stages in order to more rapidly catalyze on-the-ground action.

Water funds have also proven to be effective conduits for funding from aid agencies and foundations that does not go towards populating the fund itself. For example, funding from the United States Agency for International Development (USAID) has been fundamental to the success of water funds. USAID jumpstarted the creation of the first fund in Quito and has substantially ensured the success of both the Quito and East Cauca Valley Water Funds by providing parallel funding for conservation and monitoring activities in the watershed.

Such funding is vital for actually setting up a water fund, a labor-intensive effort that typically spans two years and involves many behind-the-scenes costs, such as scientific analyses to guide priorities, financial feasibility studies and extensive research to ensure legally-robust governance structures.

Six more water funds are currently in development in Latin America, including one in Peru. Our vision is to have 32 water funds in varying stages of growth in Colombia, Ecuador, Brazil, Peru and Mexico by 2015, an ambitious —and urgently needed — effort that has been bolstered by significant new funding from the Inter-American Development Bank (IDB) by way of the Global Environment Facility Earth-Fund.

Opportunities are also being explored to export the model beyond Latin America, in some of the nearly 30 countries on four continents where The Nature Conservancy works.

### For More Information

Contact Karin Krchnak, [kkrcnkn@tnc.org](mailto:kkrcnkn@tnc.org) Visit [nature.org](http://nature.org)



## A Holistic Approach

Water fund investments are applied through a holistic approach that aims to secure protected areas, improve management of farms and ranches, and to provide people living in key areas new sources of income that avoid damage to rivers and the lands that feed into them.

The funds hire community-based park guards to patrol and maintain the protected areas and hires local people to plant trees, restore degraded river banks, and build fences to keep cattle and crops a safe distance from streams and rivers.

To further ease land conversion pressure, the funds help local people — mainly women thus far — start new businesses of their own choosing by providing small grants and supplies, such as sewing machines to make clothing to sell or an industrial oven for making dried medicinal herbs and fruit for local markets.

The fund also provides families with supplemental food sources, such as organic vegetable gardens, and expanded capacity for the production of goods, such as building a milk bottling plant in the community to reduce shipping costs and payments for outside bottling fees.

Conservancy scientists and partners are designing rigorous outcome-based measures to ensure that these investments are achieving fund goals — healthy nature, healthy communities and healthy water.

The Nature Conservancy 

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Protegiendo la vida.