

FONAG: Quito's water fund

A municipal commitment to protect the watersheds

Description of Initiative.

Quito and its neighboring towns and villages, among Ecuador's most populated regions, receive their water supply from the high plateaus of the Andean mountain range. The Nature Conservancy (TNC), Fundación Antisana, an Ecuadorian non-governmental organization (NGO), the Government of Ecuador, the municipality of Quito, and the Quito water company (EMAAPQ), with support from the United States Agency for International Development (USAID), worked together to create a water consumption fee to fund conservation projects and improve management of the watersheds located in the reserves. Fees go into a trust fund managed by an experienced asset management company to ensure financial stability, and generate revenues from interest on investments.

The Water Conservation Fund (Fondo para la Conservación del Agua – FONAG) began operation in 2000 with the seed capital of \$20,000 from EMAAPQ and \$1,000 from TNC. The contract established the commitment on the part of EMAAPQ to provide 1% of drinking water sales on a monthly basis. A year later, the municipal electrical utility determined to provide an annual fee of \$45,000. Two years later (2003), a private beer company (Cervecería Andina) was invited to participate in the Fund and they committed to provide an annual payment of \$6,000.

Mainstreaming / Sustainability.

Funds are managed by a private financial institution that was selected through a public bidding process. ENLACE FONDOS is the current financial manager and they oversee the management of the resources and make sure that all the members are up to date in their payments. An internal regulation regarding investments has been established. The Technical Secretariat reviews the reports and data provided by ENLACE and presents recommendations to the Board.

As of the 31st of December of 2003, the fund had a capital close to one million five hundred thousand dollars. The fund currently works only with interests to finance watershed projects. For 2004, the FONAG estimates mobilizing \$585,000 dollars in watershed protection projects. Of this total, \$215,000 comes directly from FONAG and the remaining \$370,000 will be leveraged from other organizations.

Replicating the Initiative.

The Fund's project planning has been a gradual learning process. A basic principle in all funding decisions is that the process be competitive. The first project was funded in 2002 and the Call for Proposals protocol was designed. A strategic planning exercise, promoted by TNC, identified key priority areas and five action watersheds. For each watershed, different approaches are being taken in order to see what is most effective.

The San Pedro y Pita watersheds are critical watersheds for all the members so there are water quality and quantity problems. The Board decided to develop a call for proposals for an environmental restoration project. The study identified and estimated the costs for 11 key projects and a Memorandum of Understanding between the three municipalities involved in the area has been signed to co-finance these activities. In order to improve the water quality information, a doctoral thesis is being supported with other municipal organizations.

For the Antisana, Oyacachi and Papallacta watersheds, three watersheds that overlap with protected areas and from where Quito's drinking water comes from, project identification has been a joint effort between the water company (EMAAPQ) and TNC. Projects are underway improving sheep and cattle production practices to reduce negative impacts on land cover and water quality. Eco-tourism is being planned with

the local stakeholders to compensate for the costs incurred by the landowners. A credit line to strengthen sustainable agricultural activities is also being implemented.

A technical committee has been created with representation from all 4 members of the board (donors) to define the Fund's project funding policies and procedures, based on the experience of the last three years.

The Fund is developing as the flow of resources gradually increases. The Technical Secretariat began as a half-time position, and it is now a full-time position and it is being strengthened to have a stronger fundraising capacity. A 5 year planning horizon is being used to discuss among the FONAG members project objectives and thus insure the way resources need to be raised and channeled.

On the Web:

<http://www.usaid.gov/ec/environment.htm#watershed>