



Watersheds and Cities, a model for conserving strategic natural resources.

A proposal submitted by the Mexican Nature Conservation Fund to the William and Flora Hewlett Foundation.

September 12, 2001.

A) Executive summary

Rapid growth in most cities in Mexico is leading to large increases in water demand and many urban centers such as Mexico City, Monterrey, Saltillo and Oaxaca face potential or real crises in water supply. Water quality is deteriorating, service is poor and there is a chronic disconnection between natural areas and urban centers. Also, there is little awareness from the part of consumers of the environmental threats to water supplies. Few people understand the important relationship between watershed conservation and the quality and quantity of water supply.

This strategic watershed and biodiversity conservation project seeks to establish a cost-benefit relation between urban and rural communities living in watersheds that supply urban centers with a key environmental service (water). The central idea is to develop a pilot model in at least three localities where a community or groups of communities benefits from conservation efforts and watershed protection through the corresponding contribution or payment by the end users.

The basic methodology, to be fine tuned for each location, and, to be developed by the individual groups that will carry out the project, consists of the following steps:

1. Strategic watershed valuation.
2. Social assessments and land tenure analyses.
3. Identification of most important water uses and key audiences and stakeholders.
4. Development, through a participatory process of a watershed management plan and a water user involvement fee.
5. Implementation of the plan, adjusting it to the particular social, political, physical and environmental conditions of each locality.
6. Development and implementation of a communication strategy with clear goals targeting key audiences.

The anticipated outcomes are:

1. A clear valuation model for each of the regions.
2. Social and environmental assessments for each site.
3. Organized communities within each watershed committed to the management and conservation of the site in exchange of a compensation scheme provided by the different environmental service users.
4. Participatory designed management program for each region that considers their different elements and their hydrological profiles.

5. A communication plan that involves all stakeholders, especially those living in the urban centers that helps raise the awareness in terms of the economic value of the environmental service.

Proposed costs:

Costs are estimated in the amount of US\$100,000 per year for three years (total of US\$300,000). The main budget items are:

- Full time project coordinator
- Geographical Information System (GIS) and cartographic services
- Fieldwork for community involvement through the participatory design of the project
- Expert consulting services
- Communication costs
- MNCF administrative and technical supervision (overhead)
- Traveling expenses.

This project has a good fit with the Hewlett Foundation's approach to sustainable use of natural resources, raising at the same time the awareness of the different stakeholders about water as a key natural resource.

By organizing rural communities and linking them to urban end users, we will promote a replicable model applicable in other regions of Mexico and Latin America.

Aiming at the other end of society, this proposal requests seed money to launch the design of a Corporate Social Responsibility Campaign focused on environmental services (mainly water provision by watersheds) and natural capital. This preliminary design will be the basis for a full scale proposal to be prepared later on.

B) Institutional background of the proponent

The Mexican Nature Conservation Fund (MNCF) is a non-profit organization based in Mexico City whose mission is to "Conserve Mexico's extraordinary biodiversity through economic support and strategic management". The MNCF operates as a national environmental fund (NEF) and executes most of its projects through local and regional NGOs, research institutes and community groups that are immersed in Mexico's environmental and social issues.

As a tax exempt private organization, the MNCF sources its operation and projects through income generated by its endowment and earmarked sinking funds raised from national and international donors.

The FMCN scope of activities lies under the definition of a private foundation aimed towards sustainable diversity and nature conservation. The FMCN specializes in channeling resources to cover conservation needs through local partners, including non governmental organizations, research institutions and grassroots (campesino) organizations.

Through its six years of work the FMCN has directed its support towards nature conservation through three basic strategies: The protection of wildlife, the sustainable use of natural resources and the restoration of degraded ecosystems and endangered species populations. In Addition, it has facilitated the consolidation of Mexico's Natural

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Protected Area System through the administration of international and national funds for selected reserves, as well as for wildfire prevention in several areas.

The FMCN strongly contributes to capacity building and institutional strengthening. Since 1996 it has supported numerous projects, performed workshops and more recently inaugurated the Conservation Learning Network together with other conservation partners.

The FMCN occupies a unique niche in the Mexican nature conservation arena. It is the only specialized foundation in the field and is the largest National Environmental Fund in the Latin-American and Caribbean region with a 50 million dollar endowment. This privileged position has allowed the FMCN to leverage funds in several areas, promote government conservation policies for protected area management and wildlife preservation and support a wide variety of local organizations in the field. Its solid reputation as a transparent financial institution and the credibility of its Board and Committees has permitted the FMCN to channel funds from various sources including international and multilateral institutions (USAID and World Bank) as well as private foundations (The John D. And Catherine T. MacArthur Foundation, The David and Lucile Packard Foundation and The Summit Charitable Foundation to mention a few).

The FMCNs strengths are:

- Project selection and evaluation processes
- Financial support (grantmaking) to projects by NGOs, research institutions and grassroots organizations.
- Transparent management of funds and project follow-up
- Monitoring and evaluation capacity for conservation and sustainable use projects
- Solid Board of Directors and Technical Standing Committees with Mexico's most valuable experts in the financial and conservation fields
- Capable and highly professional staff
- Flexibility and creativity

So far, the FMCN, through its Conservation Program, has awarded over 320 grants, representing approximately 8.5 million dollars disbursed from 1996 to date for the conservation and sustainable use of natural resources. The main beneficiaries of these grants have been Mexican NGOs, research institutions and grassroots organizations. The main areas of support have been the protection of endangered ecosystems and species, the sustainable management of natural resources and environmental services and the restoration of degraded areas.

Since 1998, the FMCN has also collaborated with Mexican government authorities in the consolidation and best management of Mexico's Natural Protected Area System. The establishment of the Fund for Natural Protected Areas within the FMCN has permitted the efficient allocation of GEF funds to 10 priority reserves. This scheme will now be amplified by incorporating twelve more reserves to this innovative mechanism.

In order to address some of Mexico's most important threats to biodiversity, the FMCN established also a Wildfire Prevention and Restoration of Burnt Areas Program (WPRP). The WPRP is channeling since the beginning of 1999 USAID funds (5.7 million) to local NGOs for wildfire prevention in nine protected areas and two strategic regions that were strongly affected after the 1998 wildfires.

Additionally, the FMCN has recently incorporated a new area within its structure, entirely dedicated to capacity building and institutional strengthening of conservation NGOs. The FMCN has worked in this field since 1996 but now has a new approach to

the problem, and is collaborating in the Mexican Conservation Learning Network establishment with The Nature Conservancy and Private Agencies Collaborating Together.

The FMCN is now the largest National Environmental Fund (NEF) in the Latin American and Caribbean Region with a 50 million endowment. The FMCN Executive Director chairs the Latin American and Caribbean Network of Environmental Funds (REDLAC) since 1999.

The MNCF faces several challenges, identified in its revised Strategic Plan (2001-2006). Among these are to:

- a) Increase the amount of funding for conservation in Mexico through the establishment of strong collaboration schemes with national and international partners.
- b) Continue measuring its success and impacts in the fields optimizing results.
- c) Strengthen the institutional capacity of the Mexican conservation organizations and increase the participation of local communities in the sustainable management of natural resources.
- d) Perform a wide scale communications and awareness effort to increase society's participation in the conservation movement.

C) Personnel involved with this proposal:

Lorenzo Rosenzweig has fifteen years of experience in the environmental field. He has a BS degree in biochemistry and engineering from the Monterrey Technological Institute (ITESM) and an MS degree in marine biology and seafood technology from Oregon State University. As Executive Director of the FMCN, he has acquired extensive experience in fundraising and capital campaigns, and the operation and funding of biodiversity conservation, environmental research and capacity building projects. He has also contributed to the design and incorporation of learning and practice networks for the National Environmental Funds of Latin America and the Caribbean. He is a Board Member of Pronatura Noreste A.C. and an active member of several advisory councils, including the San Diego Museum of Natural History, the Terra Capital Fund, The Synergos Institute, The Mexican Leaders for the Environment Program (LEAD) and Ecoenterprises Venture Capital Fund. He is also acting Chairman of the Latin America and Caribbean Network of Environmental Funds

Jorge Rickards is a biologist from the National University of Mexico (UNAM). He has worked in conservation related issues since 1991 and acted as technical coordinator for the design and establishment of the FMCN in which he has been a board member (since 1994 to 2001). He is also founding member of the FMCN and its legal representative. as Conservation Director he oversees the grant-making program at a national level, which has awarded 340 grants since 1996. He is also responsible for the implementation of the Wildfire Prevention and Restoration Program and the NGO and campesino capacity-building program. He has launched a pilot population and environment project together with the Summit Charitable Foundation and channeled funds to priority areas within Mexico together with government agencies. He has provided technical assistance for the design of several conservation funds within Mexico such as the El Triunfo Biosphere Reserve Conservation Fund in Chiapas. He is a board member of the Pro-cuenca de Valle de Bravo Fund for watershed management and acts as the President of its Technical and Planning Committee. He is also a member of the National Committee of the North American Bird Conservation Initiative (NABCI).

Renée González obtained her BS degree in 1990, from Occidental College with a major in biology (cum laude) and full scholarship. After conducting research in Panama, Costa Rica and Venezuela, she focused on rainforest regeneration in cattle pastures in Mexico for her doctoral dissertation. She was awarded the national science foundation doctoral dissertation improvement grant and obtained her Ph.D. in 1996, from Harvard University. Since 1997, she has worked for the Mexican Nature Conservation Fund as Director of the Fund for Natural Protected Areas. This fund, within MNCF, channels the income generated by a 16.5 million dollar endowment from the global environmental facility to ten natural protected areas in Mexico. The fund for natural protected areas has obtained additional donations from The David and Lucile Packard Foundation, Ford Foundation, Summit Foundation, the Spanish Agency for International Cooperation and the European Community. A second donation from GEF is being requested to support 12 additional natural protected areas.

Francisco Padrón has ten years of experience in conservation and sustainable development, from 1991 to 1997 worked as researcher and professor in the Universidad Autónoma Metropolitana and the Universidad Iberoamericana. Since 1997 to 2001 worked for World Wildlife Fund-Mexico Program, the firsts three years as Organizational Development Program Officer and the last one as the Mexican Forests Coordinator, designing a new program. He has a M.Sc. in Rural Development focus on Organizational Development, and BA in Social Anthropology. Since July 2001, he has been the Director of the Mexican Conservation Learning Network (MCLN) or IMAC in Spanish. The mission of this network is to enhance the capacity building and institutional strengthening of conservation organizations through intra and inter-organizational learning processes. By improving their effectiveness through capacity-building exercises, the Mexican Conservation Learning Network will help target organizations achieve their conservation mission and respond to new and evolving challenges.

D) Institutional arrangements

The institutional arrangement foreseen for the execution of this proposal considers the participation of MNCF as coordinator and recipient of the funds and a group of three NGOs, one for each selected site. Under this assumption the specific number of meetings, persons trained and participants will depend on the particular formulation of each of the individual projects. The program rationale considers the involvement of stakeholders from all sectors. As an example, the Zapalinamé project includes direct participation of twelve community family heads and an indirect participation of more than 200 people. The key to the project will be the multi-stakeholder scheme with state, municipal, community leaders and general public participation.

E) Dissemination strategy

Based on specific results for each of the pilot projects, a communication campaign to disseminate results and lessons learned will be launched. This campaign will have clear measurable goals, extensive knowledge of target audiences and consists of compelling messages that connect with the stakeholders needs.

At this moment, and subject to further discussion, depending on feedback from the projects, the following audiences have been identified:

Environmental commissions of the Senate and Chamber of Deputies and State and Municipal authorities linked to water supply services in key cities like Monterrey, Mexico City, Guadalajara, Puebla, Saltillo, San Luis Potosí and Oaxaca.

F) Systemic changes that will be achieved

The most important change that will be achieved with the successful launching and implementation of the seed projects will be the recognition of the real value of water as an environmental service provided by ecosystems. Until now, watersheds have been exploited and controlled in fragmented ways because we have a fragmented view of our lives in urban centers. All of the elements of the watershed, including human activities must be viewed as part of a complex integrated system. Efforts to sustain watersheds and the environmental services they provide to urban and rural societies will require a better understanding of their dynamic nature and the need of an integrated approach that ensures long term viability. The intended projects will contribute to this integrated vision that will not only halt the degradation of watersheds but will bring economic incentives to rural communities living within them.

With respect to the design of a Corporate Social Responsibility Campaign, the systemic change we are trying to achieve will contribute to a gradual transformation of the industrial system, towards a new model based on different mind-set and values where the environment and the services provided are not a minor and unlimited factor of production, but rather an envelope containing, provisioning, and sustaining the entire economy. (Daly, 1997).

Policymakers, opinion leaders and community representatives will help shape activities and apply lessons learned in this project by participating in the early phases of the design of each of the individual projects and the implementation and follow-up activities.

G) Groups that will benefit from this project

- *Rural communities* through an income generating activities such as: Erosion control, reforestation, fire prevention, and forest management in general terms.
- *Urban stakeholders* will benefit from the reduction of threats that could reduce the water output of immediate natural areas and increase watershed vulnerability.
- *Government officials* will benefit from a more integrated view of the complex system, considering all the political, social, physical and economic elements that make it relevant to human activities.
- *Business leaders that have* an initial interest in the environment and the capacity to influence its peers throughout the region.

The implementation framework for this proposal considers a close collaboration scheme with other potential donors such as the Gonzalo Rio Arronte Foundation and implementing NGOs such as Profauna, A.C., Instituto de la Naturaleza y la Sociedad de Oaxaca, A.C: y Universidad Autónoma Metropolitana (UAM). A brief profile of each one of these institutions is provided as an attachment to this proposal.

H) Success and impact measurement

Success will be measured by the degree of appropriation of local water conservation schemes implemented in each site. This will be measured by quantitative and qualitative indicators at various levels of society and from different angles (rural, government and social levels) described in the following sections of this proposal.

Once the initial models exist and operate, we expect:

- Other areas in Mexico to adopt lessons learned and implement varied versions of the initial models.
- Measurable influence on local policies regarding water management.
- Acceptance of the models by federal authorities within the Environment Ministry of Mexico (SEMARNAT).
- Dissemination of the models at a Latin American scale through the Regional Network of Environmental Funds (RedLAC).
- A different vision and level of awareness in identified sectors of rural and urban societies as participants of the models.
- Social and environmental assessments particular for each area.
- Existence of management plans for each target site with the potential to benefit other areas.

I) Evaluation criteria

- Institutional:
 - Incorporation of a full time Program Coordinator for this project within the MNCF.
 - Implementation of supervision procedures and guidelines within the MNCF for the project.
 - Signing of specific agreements between MNCF and selected local NGOs who will carry out activities in the field.
- Process
 - Specific project design and refinement by selected local NGOs
 - Selection of local coordinators to carry on activities and participatory processes with rural communities.
 - Development of water valuation as an environmental service for each selected site.
 - Development of social and environmental assessments for each site.
 - Development and implementation of management plans.
 - Design and implementation of sustainable management practices by rural communities in natural areas.
 - Implementation of a financing mechanism for the conservation of natural areas with the participation of urban contributors and enforcement by local government authorities.
- Ultimate outcomes

Quantitative indicators:

- Number of people in urban areas paying through water fees, for the conservation of natural areas as water providers.
- Number of local organizations in cities promoting the watershed conservation scheme.
- Number of local organizations in rural areas committing to apply sustainable management practices in rural areas.

Qualitative indicators:

- Degree of acceptance of the model by local authorities at the Federal, State and Municipal levels.
- Degree of acceptance of the model by rural communities in target areas.

J) Governance of the proponent institution (MNCF)

The General Assembly is the highest authority of the organization and is composed of 32 honorary members. This entity is responsible, among various other duties, for approving the composition of the Board of Directors, the annual audited Financial Statements and adjusting the by-laws to the evolving operational needs of the institution.

The Board of Directors includes 21 representatives from various sectors of society, including business, government and civil organizations. The Board is responsible for supervising the operation of the organization, including project selection and budget allocation. The Board performs its tasks through five standing committees, which are the Finance Committee, the Evaluation Committee, the Wildfire Prevention and Restoration Committee, the Natural Protected Areas Technical Committee and the International Advisory Committee. Each one is composed of experts from across the country and is chaired by a member of the Board of Directors. Each committee provides oversight and guidance on the topics related to its area. The Finance Committee overviews the financial management of the organization's assets. The Evaluation Committee decides, among other things, on the procedures and guidelines for project selection as does the Wildfire Prevention and Restoration Committee. The Natural Protected Areas Technical Committee oversees and guides the development of the Natural Protected Area Fund within the MNCF and the International Advisory acts as a counsel for the development of the MNCF in the international arena, specifically on fundraising issues.

The Board and Standing Committees meet at least four times a year.

The MNCF's staff is headed by the Executive Director, under whose guidance and supervision operate five programs:

The Conservation Program is responsible for conservation and sustainable development project selection, support and monitoring on a nationwide scale. It works in four major areas: Strategic Conservation, Wildfire Prevention and Restoration, Population and Environment and Watershed Conservation.

The Natural Protected Areas Program manages a private/public partnership that administers and oversees the application of interest income from a GEF endowment to Natural Protected Area conservation. It works in 10 Biosphere Reserves and is presently preparing to include additional Protected Areas under this public-private conservation partnership.

The Finance and Organizational Support Area implements the financial decisions of the Executive Director and the Finance Committee. It also provides administrative and financial follow-up to the grants and disbursements of the Conservation Program and provides housekeeping services.

The Communications and Information Area communicates the MNCF's achievements, mainly through its annual report and its Web Page. It also publishes the Mexico Conservation Directory, a useful tool for communication among conservation organizations in the country. This area also oversees the purchase and maintenance of the MNCF's telecommunications and computers equipment, and provides information management.

The Conservation Learning Network is an innovative program that will strengthen the capacities of conservation organizations in Mexico. It promotes institutional strengthening and capacity building through innovative approaches such as the establishment of Communities of Learning and Practice.

The activities outlined in this proposal will be carried out mainly by Mr. Lorenzo Rosenzweig, Executive Director, Mr. Jorge Rickards, Conservation Director, Mr. Francisco Padrón and Mrs. Ximena Yañez, Finance Director.

K) Financial and budgetary profile of the proponent

Current annual operating budget is approximately \$8 000 000 dls. The institution receives income from the following sources: foundations (Packard, Summit, MacArthur, Ford) , 9% percent; federal appropriations that fund contracts and cooperative agreements, 69% percent; private-sector donations, 1%_percent; other (GEF, RedLAC), 21% percent. The Organization currently budgets its financial resources to the following general areas: salaries and honoraria, 15% percent; program expenditures, 78% percent; general and administrative costs, 5% percent; fundraising efforts, 2% percent.

L) Budget (in U.S. Dollars):

Concept	Year 1	Year 2	Year 3	Total
Project coordinator	24,000	24,000	24,000	72,000
Water valuation methodology	17,000	17,000	17,000	51,000
Social and environmental Assessments	15,000	15,000	15,000	45,000
Management plans	12,000	12,000	12,000	36,000

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CSR campaign design	16,000	6,000	4,000	26,000
Communication campaign	10,000	10,000	8,000	28,000
Overhead (12%)	12,000	12,000	12,000	36,000
Project audit	-	-	6,000	6,000
Total per year per site*	106,000	96,000	98,000	300,000

* The program will start with the Zapalinamé watershed project, we will launch the Sierra Nevada initiative the second year and close with Sierra Norte de Oaxaca the third year.