

Project Name Mexico-Consolidation of the Protected... @
Areas System Project (GEF)

Region Latin America and Caribbean Region

Sector Natural Resources Management

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1. Country and Sector Background

The high biodiversity of Mexico is constantly been threatened by deforestation, over-exploitation, uncontrolled tourism, accelerated economic development and arbitrary settlement policies. In response to threats to biodiversity, the Government of Mexico (GOM) developed a strategy for protecting critical habitats in the late 1980s. The main policy goals included: (a) integration of protection and sustainable development of natural resources with social, economic, and modernization processes needed for development; (b) making ecosystems conservation compatible with the need for rational natural resources use to support sustained community development; and (c) ensuring the recovery, protection and conservation of natural resources and the equilibrium of ecosystems. As one instrument to meet these objectives, the GOM created the National System of Protected Natural Areas (SINAP) (1986) comprising parks,

reserves, and monuments. SINAP was designed to (a) preserve natural settings; (b) safeguard genetic diversity; (c) ensure rational utilization of ecosystems, (d) provide areas conducive to scientific research; (e) promote rational and sustained resource utilization and preservation; (f) establish forest zones to protect human activities in mountainous flood zone regions; and (g) protect cultural heritage. SINAP is a key element of Mexico's strategy for conservation of biological diversity. There are currently 127 PAs, totaling 17,056,606 hectares (12,949,170 ha terrestrial, 4,107,435 ha marine). In the early 1990s, GOM and the World Bank began to explore ways in which Bank financing support could assist GOM in achieving its environmental objectives. In 1992, GEF granted US\$ 25 million to GOM to ensure the conservation of ten priority protected areas (PAs) in Mexico. Project implementation did not start until 1994. Further delays were caused by institutional rearrangements, since the institution responsible for the project, the Ministry for Urban Development and Ecology (SEDUE) was modified into the Ministry for Social Development (SEDESOL). This again was restructured giving rise to the Ministry for the Environment, Natural Resources and Fisheries (SEMARNAP), which assumed the project implementation. From 1994 to 1996 the project funds flowed with difficulty and delay to the PAs due to complicated disbursement arrangements. Both the World Bank and SEMARNAP decided in 1996 to restructure the project to address the problems encountered. In 1996 SEMARNAP invited the civil society to participate in the restructuring process of the GEF PA project. Two NGOs (Pronatura and The Nature Conservancy) conducted a thorough analysis of the project. This analysis was further complemented with an extensive consultation process that included approximately 80 people and organizations with experience in PA management. The result from this process indicated the need to transfer the remaining funds to a private organization to ensure efficiency in the disbursement and continuity through different public Administrations. Further, the consulted groups agreed that an endowment fund should be established with the remnant of the funds (US\$ 16.48 million). An endowment would ensure long-term support to the ten priority PAs, as well as slowly build the planning and spending capacity of the personnel at the PAs. One key group that participated in the restructuring process of the GEF project was the National Council for Natural Protected Areas (CNANP). The CNANP was created in 1996 as part of the efforts by SEMARNAP to include the different sectors of society in the management of the environment. CNANP is an advisory body composed of members of all sectors of society (social, private, academic, NGOs) with proven experience in PA management. It is independent from SEMARNAT (SEMARNAP changed to SEMARNAT under the current Administration), and has become the highest advising authority in PAs. After reviewing the results from the analysis and consultation on the GEF project, CNANP decided not to create a new organization to receive the remnant of the funds. Instead, CNANP considered the already existing organizations that could house a PAs endowment and selected the Mexican Nature Conservation Fund (FMCN). FMCN was established in 1994 as the first environmental fund in Mexico. In 1996 it managed US\$ 20 million from USAID and US\$ 10 million from the GOM as an endowment. The interest of these contributions is yearly channeled to projects selected after a call for proposals. Today FMCN supports 380 conservation projects all over the country. The restructuring of the first GEF project in PA in Mexico (termed SINAP 1 for being the first GEF project to support the National System of PAs) resulted in the creation of the Fund for Protected Areas (FANP) within FMCN. CNANP, SEMARNAP and FMCN

worked in the institutional arrangements and project cycle, which are described in detail in an Operational Manual that rules the everyday SINAP 1 project operation. The yearly interest is channeled to the PAs via NGOs that are in charge of accounting and hiring personnel according to Annual Operating Plans designed by the reserve personnel. The latter consult the local Advisory Committees (CAs) of the PAs while drafting the Plans. These CA include local representatives from all stakeholders in a given PA. FANP personnel oversee the administration and application of the funds. A central coordination (CC) unit within SEMARNAT serves as a link between the GOM and FMCN, providing oversight of the technical implementation with the support of GOM personnel. FANP personnel report to the Technical Committee for the Fund for Protected Areas (CTFANP), which is composed of seven members named by CNANP, which represent the different sectors from society. CTFANP obtains the support from another committee within FMCN, the Administration and Finances Committee (CAF) for management decisions on the endowment. SINAP 1 project began its operation in 1998. Shortly after the start of operations, GEF conducted a study on environmental funds in the world. FMCN was one of the institutions included in the analysis. The results indicated that FMCN and its newly created FANP were models to follow. Endowments, in the case of PAs, address the immediate need to provide basic support for the operation of a PA. They work in synergy with traditional funds provided by GOM and other donors, and they attract additional funds. Continuity in time allows PA personnel to plan and develop systematic management schemes for conservation. An independent evaluation of SINAP 1 project in 2000 revealed also that it was a model to follow. Both studies identified the mixed public-partnership nature of the project as a key component of its success. For a full description of the lessons learned from this first project refer to Section D.3. Along SINAP 1 project, positive developments have taken place in the GOM and the conservation community. The public funds channeled to the federal PA System increased 15-fold from 1994 to 2000. Today, 56 PA have dedicated staff paid by the GOM out of a total of 127 PA, and 27 PA have a published Management Program. Ten years ago, no PA had permanent official staff. Under SEMARNAP, the administration of PAs was under the Coordinating Unit for PAs (UCANP) within the National Institute of Ecology. In June 2000, the National Commission for Natural Protected Areas (CONANP) replaced UCANP, acquiring independence from the National Institute of Ecology and increasing its status. National Regulations for PAs have been published and CONANP is now working on turning these regulations into law. Within the conservation community, FMCN has increased its endowment from US\$ 30 million when it was chosen by CONANP to house FANP, to US\$ 57 million. Aside from the initiatives in PAs that are explained in Annex 14, FMCN has recently created the Mexican Conservation Learning Network, which will provide technical assistance to develop capacities in the conservation community. FMCN leads today the Network on Environmental Funds of Latin America and the Caribbean. NGOs in conservation in Mexico have succeeded in the recognition of the establishment of private natural lands, in the development of local fundraising mechanisms, in the design of regional approaches to conservation and in the innovation of new conservation schemes with community groups. Continuity in time has been tested for SINAP 1 project and corresponding support for PAs during the recent change of public Administration. The new officials in charge have embraced the protection of the National System of Protected Areas (SINAP) as a national priority. The extraordinary increase in CONANP's budget granted in 2000 (US\$ 9 million) was integrated into CONANP's regular budget for 2001.

Additionally, the Regional Sustainable Development Program (PRODERS) within SEMARNAP was transferred to CONANP under the new Administration. This initiative will ensure added support to sustainable practices within and around PAs. CONANP has added a new director-level unit to develop a monitoring system for the PA system. This unit is also working on the development of performance indicators and evaluation methods for PA personnel. Mechanisms to increase local funds in PAs are being tested, working in synergy with FANP. Entrance fees in one marine PA are being charged as a pilot project. If this mechanism to capture local funds succeeds, it will be expanded to additional PAs in the near future. CNANP has continued meeting regularly, and its membership has been enriched to ensure adequate representation of all sectors of society. CNANP has provided continued oversight on the development of SINAP 1 project. (see Section D.4 for additional information on the new Administration commitment to the project)The new Administration recognizes that the work in the last decade has succeeded in the establishment of a System of Protected Areas in the country. The challenge it identifies for the present and future is the consolidation of this system. This consolidation requires the full coverage of PAs with competent personnel and minimal infrastructure, the development of fundraising mechanisms, the implementation of innovative conservation mechanisms (purchase of land, co-management schemes with NGOs and academia, institutional synergy with programs from other public sectors), a communication strategy to the different sectors in society, adaptive management ensured through regular evaluation of performance and impact in the field, and the development of local capacity and co-responsibility in communities and state governments to join in the conservation of PAs. The GEF contribution to these efforts through the SINAP 2 project is essential. The expansion of FANP endowment included in SINAP 2 will aid in increasing the number of PAs that have a minimum coverage for conservation, while the support to mainstreaming conservation will aid CONANP in its efforts leading to institutional synergy with programs from ministries other than SEMARNAT, improve CONANP's communication to strengthen its constituency, evaluate its impact in the field, while strengthening social participation leading to local co-responsibility in PAs.

2. Objectives

The project's global objective is to promote the conservation and sustainable use of biodiversity in Mexico through the consolidation of the National System of Protected Areas (SINAP). Project development objectives are to:Conserve globally important biodiversity in selected areas of SINAP;Promote the economic, social and environmental sustainability of productive activities in selected protected areas;Promote social co-responsibility for conservation; andPromote the inclusion of biodiversity conservation and sustainable use criteria in development projects and other practices affecting selected PAsThe project will institutionalize significant advances made over the past five years in the policy framework, institutional arrangements, and sustainable flows of financial resources directed toward the conservation of Protected Areas (PAs) in Mexico, and increase the number of PAs, as well as the representativeness of ecosystems, coming under improved management. The project will extend the PAs program initiated with GEF funding in 1992 and restructured in 1997 (project SINAP1), by adding 4 new PAs to the program, with 8 more areas to be incrementally included to the current project (see Annex 14 for details). It will support new activities of social

participation and biodiversity mainstreaming for sustainable use, addressing not only the immediate causes of biodiversity loss, but also some of the root causes.

3. Rationale for Bank's Involvement

The following are some of the key aspects of the World Bank's value added: The Bank contributed significantly to the restructuring of the project to its current form/set-up and provided close, extensive supervision in the initial years of implementation to ensure a successful turn around. In so doing, the Bank drew on extensive institutional, financial and technical expertise related to designing, launching, and managing trust funds with similar objectives around the world. This expertise remains largely intact, albeit dispersed throughout Bank Operations units (rather than centralized in a specialized unit), and can be drawn upon as needed. The Bank is in a position to use its influence in other sectors (social development, agriculture, etc.) to support the "biodiversity mainstreaming" component by assuring that projects and agencies receiving funding in those sectors include biodiversity conservation criteria and actions. The Bank is well positioned to catalyze additional support over the long term given its role in aid to Mexico, and to convince donors to support trust funds; The Bank has several years of experience in supervising similar projects in many other Latin American countries with similar ecological and political realities; The value added to the GEF relates to: (i) Its ability to commit permanent endowment fund resources; (ii) Its ability to act as catalyst for the mobilization of additional resources and to disseminate lessons learned. Without GEF involvement, it would not be possible to consolidate the SINAP system within the proposed time frame.

4. Description

Component 1: Expansion of the Fund for Natural Protected Areas (Total \$21.20m, GEF \$10.6m) This component will support the capitalization of the endowment fund (FANP/Fund for Protected Areas). GEF funds deposited in the endowment fund will be matched on 1:1 basis. For the first phase \$9.4 m will be deposited in the endowment fund. The rules to deposit the GEF contribution in the Endowment Fund are spelled out in Annex 14. The investment income of the endowment fund will support basic conservation operating costs of 4 new priority protected areas not covered in the GEF I, as well as incremental FANP administrative expenses. Through additional GEF support in future phases, the FANP endowment fund is expected to be further expanded, so as to generate investment income for 8 additional new protected areas (see Annex 14 for detailed description). The process of selection of the 4 initial reserves as well as the 8 subsequent ones is presented in Component 2. Detailed procedures to manage the endowment fund are spelled out in the Operational Manual (condition of effectiveness) and in Annex 5 and 14. To cover the first year of operation in each of the 12 reserves, while endowment funds accrue interests, a reserve of \$1.9m has been set aside for the start up costs of the reserves. The rules are spelled out in the Operational Manual. This component will also support the optimal operation of the endowment fund and will include a fundraising program. The fund-raising plan will involve the GOM, the FMCN, and alliances with other national and international NGOs. The fundraising program will be executed jointly by FMCN and by CONANP. GEF will contribute \$1.2m and FMCN and CONANP will contribute \$1.2m. The targeted groups of the fundraising activities will

include major government/ private firms as well as foundations. Component 2: Protected Area Conservation Programs (Total \$13.87m; income from GEF) This component will finance the implementation of management at the PA level. Eligible basic conservation activities in the four PAs included in the project will be supported through a mix of FANP-generated income, fiscal funds and other sources of financing. Annex 13 contains further information on these areas, as well as on the entire group of 12 areas that are expected to receive funding from additional GEF support. At the reserve level, activities to be covered by the income derived from the endowment will include: basic operation costs, equipment, conservation activities, community activities, and capacity-building activities. The GOM has committed to maintain the basic staff and recurrent costs for all 12 areas throughout the project's life and beyond, and to begin to extend basic funding to the next tier of priority areas as well. In terms of expenditure categories, this component will finance equipment, materials, supplies, consultants, training, salaries and operating costs. Component 3: System-wide Institutional Strengthening. (Total \$4.10m ; GEF \$0.2m). This component will include three sub-components: 1) Central coordination sub-component will support activities involving the endowment-supported PAs as a group, including capacity building and technical assistance to the PAs; monitoring and evaluation systems and; social participation in the protected areas program: 2) Government Institutional Strengthening sub-component will support CONANP's transition to an effective conservation agency, and the related adoption and execution of strategies for performance, strategic planning, environmental information, marketing, interaction with donor and NGO sectors, information technology and systems, human resources, physical resources, communications, and adaptive management; and 3) NGOs and CSOs Strengthening sub-component will help establish and consolidate a Mexican Conservation Learning Network (MCLN) for the sharing and adoption of knowledge on protected areas management, benefitting non-governmental organizations (NGOs) and civil society organizations (CSOs). All NGOs involved in management activities of the GEF-supported PAs will be eligible to participate. They will receive direct assistance from program staff, scholarships for courses and workshops, access to information and databases, and regular assistance with assessment of organizational development in competencies such as planning, management, leadership, administration, monitoring and evaluation, and finance. Activities to be financed under this component include: staff, consultancies, workshops, training, and publications. Component 4: Mainstreaming Conservation and Sustainable Use Policies. (Total \$20.95m; GEF \$5.30m) This component would promote the inclusion of criteria of biodiversity conservation and sustainable use in the development programs and initiatives affecting the selected PAs. Details on the activities and budget for this component are presented in Annex 2. More specifically, it will: 1) Establish and strengthen legal, normative and operational tools to mainstream biodiversity conservation criteria in sectoral policies and programs (e.g., inter-institutional agreements, technical manuals for civil servants); 2) Establish and promote planning tools and mechanisms to promote sustainable development in PAs (e.g. communication and education campaigns, community-level sustainable development plans and micro-regional councils; capacity building for sustainable development initiatives); and 3) Mobilize funding from sources other than CONANP for investments in the conservation and sustainable use of biodiversity in PAs (through for example fiscal incentives, establishment of a group of "business leaders for conservation). This

component will finance activities aimed at producing results at two levels: a) at the central level; b) at the PAs level. Activities eligible under this component include studies and consultancies, workshops and capacity building courses; publications, audio-visuals, television/radio broadcasts and other communication material; and incremental operating expenses.

5. Financing

Total	(US\$m)
BORROWER	26.92
GLOBAL ENVIRONMENT FACILITY	16.1
BORROWING COUNTRY'S FIN. INTERMEDIARY/IES	0.87
NON-GOVERNMENT ORGANIZATION (NGO) OF BORROWING COUNTRY	1
FOREIGN PRIVATE COMMERCIAL SOURCES (UNIDENTIFIED)	15.23
Total Project Cost	60.12

6. Implementation

The restructured project (SINAP 1) has resulted in a public-private arrangement, which has become an internationally recognized best practice and an example to follow at international levels. The GEF assessment on environmental funds published in its "Lessons Notes No. 7" (1999) some of the elements from the current project, which have led to its success. In 2000, an independent evaluation of the project concluded that it sets an example to follow in both administrative and technical areas. Furthermore, recent achievements in funds raised (US\$ 10.3 million in non-endowment funds, US\$ 5 million in endowment funds as match to the current project, US\$ 7.5 million as match to SINAP 2 project) indicate high expansion capacity. Specifically, this expansion is resulting in interesting new developments in protected areas (PAs), such as innovative compensation mechanisms and the creation of local funds with direct stakeholder participation. The next step in the consolidation of the National Protected Areas System (SINAP) is to expand the endowment to cover additional high priority areas, strengthen capacities at the newly created CONANP and explore new avenues for inter-institutional synergies with other public sectors. SINAP 2 project will address these three objectives using the present institutional arrangements with some additions.

Institutional Arrangements
The project will be executed by two agencies, the National Commission for Protected Areas (CONANP) and Fondo Mexicano para la Conservación de la Naturaleza (FMCN). The legal agreement will spell out detailed obligations and responsibilities of each of the two agencies for the administration of GEF funds. The table below summarizes the distribution of execution and administration responsibilities among the different institutions for each component and sub-component of the project. Two operational manuals will be guiding project implementation and administration. One to execute CONANP portion of the project and one for the FMCN (this latest Manual will be an up-dated copy of the current SINAP I manual). Outlines of the draft Operational Manual for CONANP and a list of revised items for the FANP Manual will be agreed during negotiations. The table below summarizes the distribution of execution and administration responsibilities among the different institutions.

CONANP
FIN
FMCN
FANP

1. Expansion of the Fund for Protected Areas
1.1 Endowment Capital
Execution and Administration
1.2 Fundraising
Execution (30% of the funds)
Administration (30% of the funds)
Execution and administration (70% of the funds)
2. Protected Areas Conservation Program
2.1 Implementation of Mgmt.

Programs Execution Administration (POA financing through FANP income):
contracting to be procured to NGOs or UNDP3. System-wide Institutional
Strengthening3.1 Central Coordination Execution Administration of M&E
funds Administration up to 9% FANP income3.2 CONANP Strengthening Execution
and Administration3.3 CSO and NGOs strengthening Execution and
Administration4. Mainstreaming Conservation and Sustainable Use
Policies. Execution Administration1. Mainstreaming (GEF \$5.3m), fundraising
(GEF \$0.4m) and M&E components (GEF \$0.2m): In order to execute the
components and sub-components administered by NAFIN for CONANP, a small
Project Coordinating Unit (PCU) will be fully integrated within CONANP.
The Unit will be headed by a coordinator at the assistant director level,
who will be reporting to the Regional Sustainable Development Program
(PRODERS), General Director of Conservation for Development. The PCU
coordinator will have one staff member devoted to mainstreaming and
another one to the implementation of the social participation strategy in
the project. Additionally, to allow for better integration with the new
CONANP organizational arrangements, the PCU coordinator will have three
staff members located within the Administrative, Strategic Communication,
and Monitoring and Evaluation areas of CONANP (see CONANP's organizational
chart, below). The PCU will be technically responsible for the design,
execution and monitoring of activities to be executed by the Commission
and administered by NAFIN. They include the mainstreaming component, one
third of the fundraising GEF funds (US\$400,000 to raise US\$3m) and
US\$200,000 for monitoring and evaluation. Implementation at the protected
area level is the responsibility of the Protected Area Director, in
collaboration with local stakeholders through bilateral agreements, ACs
and other mechanisms. The PA Director reports to the President of CONANP,
to whom s/he is responsible for plans and objectives. Each Director is
assisted by a core group of permanent staff responsible for coordination,
operations, project supervision, and administration. Typically, the core
team is complemented by project managers and seasonal labor hired on a
contractual basis. Each year, the Director prepares annual operating plans
(POAs) based on the Management Programs that provide the framework for the
conservation program, including, where applicable, implementation of an
Indigenous Peoples Development Plan. 2. Endowment Fund: FMCN will
manage SINAP 2 endowment fund and will oversee the administration and
application of its investment income based on SINAP 1 arrangements. The
administrative cost for FMCN's role (FANP costs) will amount to 12% from
the investment income. This percentage will allow FANP to gradually become
independent from the present financial support it receives from other
programs within FMCN, as well as maintain FANP costs at 12% in SINAP 1.
FANP will strengthen the present team (one additional staff member for
every four PAs added) to adequately address the additional work load. FANP
will continue reporting to the Technical Committee for the Fund for
Protected Areas (CTFANP), which will in turn report to FMCN's board.
Members of CTFANP will continue to be named by the National Council on
Protected Areas (CNANP), which serves as an independent advisory organism
to CONANP. The costs assigned to the central coordination in SINAP 2
(which amount to 9% from the investment incomes in SINAP 2) will be
channeled exclusively to studies, workshops or consultancies that pertain
to more than one PA and aid in the strengthening process of CONANP. Such
activities will be defined by CONANP, included in the central coordination
POA and subject to approval by CTFANP. The technical oversight of the
income derived from the endowment in both SINAP 1 and 2 (supervision of
technical reports, field visits and activities required to verify the

correct application of the funds) will be covered with the percentage assigned to the central coordination in SINAP 1 (9 to 12% of the investment income of SINAP 1 endowment according to the Operational Manual). The costs and activities will be included in the central coordination POA and subject to CTFANP approval. The exact annual percentage will be determined by CTFANP and will depend on the level of technical support required in a given year and the demands from the donor (both GEF and World Bank in this case).3. Other non-endowment activities: FANP will manage non-endowment activities as well. These include fundraising activities for up to USD\$ 0.8 mi. These funds will be channeled to FMCN through a special account. FMCN will be responsible for raising USD\$ 6 mi as a match to the endowment. The fundraising activities by CONANP and FMCN are described in annex 14. Project cycle management (for the operation of Endowment Interest): SINAP 2 will build on the project cycle developed for SINAP 1, which is the result of four years of experience and has incorporated feedback from all its actors. This cycle starts each June, when the Committee on Administration and Finances at FMCN informs the Technical Committee for the Fund for Protected Areas (CTFANP) on the availability of funds to cover the project for the following year. CTFANP then applies a methodology that considers variables such as size, population, performance and number of communities to assign the budget for each protected area (PA) included in the project. In early July CTFANP informs CONANP via the central coordination (CC) on the funds available for each PA included in the project. The CC, in turn, notifies the director of each PA, so that s/he prepares the corresponding Annual Operating Plan (POA) with the participation of the PA Advisory Committee (CA). The PAs send the first drafts of POAs by August 15 to the CC. After a quick review, CC sends copies of these first drafts to other departments within CONANP, to CTFANP and to the World Bank (WB). CC and FANP also send their respective POAs to WB. CONANP, CTFANP and WB review the drafts and send their comments to CC. The CC, in consultation with CONANP, reviews the comments and sends them to the PAs when considered necessary for POA approval. The PA directors incorporate the comments into a final version submitted to CC by September 15. POA approval, under SINAP 1, depends on three conditions: a) evidence that CAs participated in POA formulation; b) incorporation of IPDPs into the POA of those PA with indigenous peoples; c) a letter from CONANP stating that counterpart funds for core personnel and basic operation will be available for the PAs included in the project for the following year. With the expansion of the project under SINAP 2, three requirements will be added: a) a description of activities within the POA that support the social participation strategy of the PA; b) the identification of activities within the POA that require a sustainable development action plan (SDAP) to mitigate possible social impacts due to restrictions or changes in the use of natural resources; c) the inclusion of activities within the POA that address the communication strategy of the PA. Draft POAs for the year 2002 (both from the 10 PAs included in SINAP 1 and the four PAs included in the first tranche of SINAP 2) already address these new requirements. According to the project cycle followed in SINAP 1, the final version of POAs is reviewed by CC and CONANP from September 15 to September 25. The CC integrates the PAs POAs and its own into a Consolidated Budget. It then submits the POAs from the PAs and its own, as well as the Consolidated Budget to FANP. FANP adds its own POA to produce an Annual Spending Plan and Consolidated Budget (PAGyPC), which is reviewed by CTFANP by the end of each October. CTFANP makes sure that the PAGyPC complies with the

guidelines contained in the Operational Manual approved by the WB. It then submits the PAGyPC for WB approval. Once the non-objection from the WB has been obtained (by November 12), the PAGyPC is submitted to FMCN's board for approval in mid-December. Once this authorization is granted, both CONANP and WB are informed. The funds necessary to cover the PAGyPC for the following year are transferred from the endowment account to a local account. The funds necessary to operate the activities planned for the first four months in the PAs are transferred to the PAs in the first days of January. The PAs and the CC send monthly expense reports (via NGOs or PNUD) to FANP, which reviews them and makes corresponding observations. The first four-monthly report from each PA is submitted in early May. The technical section is sent to CC, while the administrative report is sent to FANP. The technical report describes the advances made with respect to the goals and indicators included in each POA. Once the technical report is approved by the CC, and FANP considers that all administrative observations have been addressed, FANP releases the disbursement for the next four months. This process is repeated in September. In the following January, the PAs send their annual reports to CC and FANP. Once CC and FANP approve these reports, the first four-four monthly disbursement of that new year is authorized. Under SINAP 2, the disbursement and reporting procedures will be every six months to coincide with GOM reporting frequency. Every six months, FANP will send the reports from the PAs, CC and FANP to the WB. These will be reviewed by CTFANP. FANP administrative personnel will conduct on-site "audits" of PA accounts every six months. CONANP staff, CC and FANP visit an average of two PAs per year to observe project implementation (most visits are part of WB missions). An additional PA will be visited per year under SINAP 2. As in SINAP 1, independent auditors acceptable to the WB will review every year the management and use of project funds by FMCN. Flow of funds: Fund will flow to the project through the following disbursement mechanisms. a) Special Account: Regular disbursement with CONANP (Total US\$ 5.9 million): The Funds to be executed by CONANP will be administered by NAFINSA, the chosen Government's financial agent, through a Special Account established by Nafinsa. The GEF funds assigned to CONANP include the following funds: \$ 0.4 million for fund-raising corresponding to CONANP (component 1.2); \$0.2 million for monitoring and evaluation under component 3; \$5.3 million for component 4 (mainstreaming). CONANP will be responsible for the contracting process, from contract preparation and to payment instructions for payments. CONANP through the financial agent, will receive funds from the special account to finance its own eligible expenditures, including consultants and incremental operating costs.b) Special Account: Regular disbursement with FMCN (Total US\$ 0.8 million): FMCN will establish a special account in a commercial Bank satisfactory to the World Bank. The reasons this Special Account is separate from a) is because CONANP special account will be opened within NAFINSA, which is a government agency, while FMCN is a private organization. Also, the funds from the Special Account with FMCN will be used to raise USD\$ 6 mi funds for the endowment from private donors. The fundraising activities by FMCN are described in Annex 14. c) Asset Manager's account. Endowment fund: (Total US\$9.4m): FANP was legally established within FMCN in 1997 and has not changed since then. At that time, the Bank had assessed the legal structure of FANP and, finding it satisfactory, deposited US\$ 16.5 million dollar in an asset manager's account whose investment income has been used to support the Parks of the first SINAP I project. For this new GEF project, US\$ 9.4 mi will be deposited to the FANP endowment that will be administered by

FMCN on the basis of investment guidelines satisfactory to the Bank and a renewed asset manager's contract (for details, see section E and Annex 14). US\$ 9.4 mi (portion of GEF grant assigned to FMCN) will be deposited in the Asset Manager's account as the matching requirements of 1 to 1 for the endowment have been fulfilled. Minimum amounts for deposit will be US\$150.000. FANP investment income will be channeled to the PAs for financing POAs eligible activities. The administration of the related contracts and purchases will be handled in one of the following ways. Via competitive bidding for the administration services required by qualified NGOs that can service a given PA. This is the system used by the existing project and features an average administrative cost of 8.5%. During SINAP II, a sourcing via the UNDP Mexico offices will be explored to allow a lower administrative fee of 3.5%. Withdrawal out the capital will only be allowed to finance POA eligible activities in the first year of project implementation (for the PAs added to the project). The reason for this is that not enough revenue would have been generated to pay for the first year activities. The rules for this one-time capital invasion will be described in the Operational Manual.

Accounting, financial reporting, and auditing arrangements:

- a) FMCN/FANP will transmit to the Bank progress reports on financial management/accounting for the endowment component during project implementation and outcomes every six months, using the already agreed format. Audits will be provided on an annual basis.
- b) CONANP: The internal audit of the Commission is currently carried out by an external auditing firm, while the internal review of the unit is carried out by National Ecology Institute internal controlling unit. Project audits would follow the agreement between SECODAM and World Bank. Audit reports would be prepared based on the standard TOR utilized by Bank Projects. CONANP will prepare reports required by the project administration as well as other agencies (i.e. SECODAM, SHCP, etc.). In addition, CONANP will prepare project management reports in Bank standard form (PMRs), such reports will not be used for disbursements. CONANP and FMCN/FANP will submit to the Bank bi-annual progress reports tracking physical and financial performance targets by February 15 and August 15 of each year. Once or twice a year after receipt of the progress reports, the Bank, assisted by independent consultants, would conduct a mission to jointly review progress made against objectives and monitoring targets.

Monitoring and evaluation arrangements: The monitoring and evaluation (M&E) system for this project will be an updating and extension of M&E framework adopted under the existing protected areas project. Based on the ZOPP methodology, the current M&E protocol uses four general impact indicators, as well as specific indicators for each of the 10 protected area in the project. The baseline was established in 1999. In extending this protocol to the project proposed here, care is being taken to integrate within the CONANP monitoring requirements of the GEF project, as SINAP implements a system-wide M&E program. This with the purpose to avoid creating two "tiers" of information management for PA level staff. Data collected for monitoring of supported areas will be consistent and compatible with information management systems being developed in CONANP and CONABIO, and will be shared with the Clearinghouse Mechanism. Both for monitoring and financial reporting, the Project Management Information System already designed for the on-going project will be expanded to operate in CONANP, while continuing to operate the financial management/accounting for the endowment component in FMCN/FANP. The Monitoring and Evaluation indicators for the project will be part of the implementation letter that will be an integral part of the negotiations

minutes. The indicators at the protected area level are included in the logical frameworks prepared for the 4 PAs included in the first phase of SINAP2. Implementation Period The grant is expected to be implemented over an eight year period, with the possibility to extent it further for the endowment fund component. Additional phases would have their own duration to be negotiated in due course. The US\$ 16.1 million project will be disbursed in three manners. One is through the regular disbursement to NAFIN to be supervised by the Government for the mainstreaming component over a period of 5 years. The total amount for this part of the project is US\$5.9 million The second modality is the disbursement to FMCN for the Protected Areas Endowment Fund component. The amount of this part of the project is US\$ 9.4 million to support 4 protected areas. During submission of the Project Brief to GEF, the US\$16.1 million for the project were approved, but it was also agreed that additional funds from GEF (up to US\$ 15 million additional) would be made available in the Protected Areas Endowment Fund in tranches over an 8 years period to support 8 additional Protected Areas. The third modality is a regular disbursement of non-endowment funds to FMCN to support fundraising activities. The amount of this part of the project is US\$ 0.8 million.

7. Sustainability

Sustainability will be achieved through: (i) The independent and accountable private trust fund (FANP, within the institutional context of FMCN) will manage capital funds in such a way as to provide assured, long-term flows of resources to the PAs, in accordance with Bank-approved investment guidelines; (ii) At the protected area level, identification of cost recovery and financing mechanisms which will be used to augment FANP support and government budgetary allocations; creation of local endowment funds will be explored; (iv) The adoption of participatory planning mechanisms and strategic partnerships with stakeholders, as well as social assessments and monitoring of conditions affecting social sustainability; (v) Building a strong management capacity in the CONANP; (vi) Specific project components addressing biodiversity mainstreaming, building partnerships with other public programs and civil society, together with other national and international institutions, to assure a more comprehensive approach to the root causes of biodiversity loss.

8. Lessons learned from past operations in the country/sector

The main lessons learned that have shaped the design of this project come from (a) the Independent Evaluation of the current FANP project (February 2000) and subsequent mid-term review (November 2000), (b) the Implementation Completion Report of the Mexico Environmental Project, dated February 8, 1999; and (c) the GEF Secretariat's Evaluation Report No. 1-99, Experience with Conservation Trust Funds. Findings and Lessons from the Independent Evaluation (2000) The evaluation team found that the restructuring of the Project in 1997 resulted in a highly effective design, and that the three participating institutions are implementing the Project in an efficient manner, with an expectation that the objectives will be achieved and, in some cases, even surpassed. The evaluation concluded that the Project achievements are a remarkable success, not only at the national level, but at the international level as well. Key strengths contributing to the success of the Project include: A creative design that includes core personnel in every natural protected area paid by the GOM; a seed capital administered by the FMCN, which generates income to cover basic costs of operation for the long-term management of

the areas; Vision, quality, dedication, creativity and technical capacity (know-how) of the staff involved in the project, both the central level, and the natural PAs level, especially their Directors; Diverse and creative processes of local interaction that have improved of social participation and promoted interinstitutional cooperation; An attitude of solidarity of the PAs personnel towards the communities within and around the reserves to search together for long-term solutions to their basic needs that have to yet be satisfied; and Excellent systems to use and control the budget of the Project. The evaluation also identified aspects that can be improved, and that could be transformed into best practice with additional attention. They are: Norms, criteria and national standards could be increased to define with greater precision the good management of a protected area, and to identify indicators that can be verified for these norms; Procedures in financial management could achieve greater stability in the long term with a more realistic planning of costs, investment diversification, and better local mechanisms to raise and administer funds; The labor situation of the personnel in the PAs, which is hired under different schemes (GOM, NGOs, donors, etc) could improve through a process of homogenization and definition of career paths; Incipient common learning processes on management of PAs could be strengthened and improved; The perception of the public visit as a threat could be transformed to be seen as an opportunity; A segmented vision of the natural and human systems of the natural PAs, as well as sporadic use of the ecosystem focus and social analysis applied to management, could be changed; Rudimentary infrastructure that does not provide sufficient support to field work should be improved; Diversified mechanisms to certify compliance with World Bank social safeguard requirements in terms of social participation and indigenous peoples should be explored; and, Economic and fiscal alternatives for the owners of the land (ejidos, community and private owners) should be developed to serve as an incentive to conserve natural ecosystems, especially the core areas of the natural PAs. All of these aspects have been taken into consideration in the design of the present project and are being incorporated in the current project. Findings and lessons from the Mid-term Review (November 2000) Key aspects that can be improved in the design of the existing project: Consolidation and improvement of the project's social strategy through alliances with vulnerable population in protected areas in order to build a social consensus towards conservation and sustainable use of natural resources. This process should include seeking financing sources. Improvement of Advisory Councils (TACs) in protected areas to promote dialogue and stakeholders' participation in priority definition, and in protected areas management. IPDPs should be integrated within the PA's overall strategy to ensure consistency in programming and budgeting as well as in institutional responsibilities. To incorporate social strategy performance and outcomes in the project's monitoring and evaluation system. Lessons identified in the ICR and Evaluation of Trust Funds Supervision and monitoring. Very clear, tangible and quantifiable development objectives and indicators are needed to avoid dispersing the project into activities with little overall impact on the status of the environment. FANP and CONANP have applied this lesson in the current proposal and have made significant advances in identifying planned impacts and monitoring according to consistent program-wide indicators. Staffing and training at the CONANP central level and PA levels will take into account the need for increased attention to management practices and outcomes in overall supervision. Finances and Fund-Raising. One lesson

that emerged from the GEF trust fund evaluation as a challenge was the possibility that government funding of conservation would actually decrease (by substituting trust fund financing). SINAP 1 program was cited as a premier example of a government/fund partnership that has actually leveraged increased government funding to PAs. The GEF evaluation concluded that endowment funds are an appropriate response to conservation threats and needs that require sustained, relatively low level inputs. Where the problem is immediate and the need for resources to address it in the short term is large, other mechanisms, such as a traditional project approach, are often preferable. The Mexican experience has confirmed the need to combine both traditional project and endowment funds. While endowment funds are essential to provide the basis for permanent management in the areas, funding mechanisms (including sinking funds) are also important to address specific short and medium term needs. The GEF trust fund evaluation recommended that GEF support should be structured to provide incentives to encourage raising additional capital and developing innovative capitalization approaches. "Ultimately, a trust fund's best fund-raising tool is a record of success with its initial project cycles" (GEF 1999). These lessons have been taken into account by a structured approach to endowment building as described in Annex 14.

9. Program of Targeted Intervention (PTI) N

10. Environment Aspects (including any public consultation)

Issues : The project is not expected to have any significant negative impacts on the environment. However, there may be low level impacts related to productive activities and rural development in the buffer zones, in-park infrastructure, and sustainable development initiatives promoted through the mainstreaming component. To ensure that the impacts of these activities are fully mitigated, protected area personnel will be responsible for implementation of the Management Program of the specific protected area and the application of the protected areas law and its zoning rules. Appropriate impact assessments will be prepared and reviewed in accordance with LGEEPA and the Protected Areas by-laws supervised by SEMARNAT. Other legislation of importance include: The protection of threatened flora and fauna (NOM-059-ECOL-1994) and Forestry legislation on use of land (NOM-062-ECOL-1994). Project activities that may have some significant environmental impacts are alternative livelihoods initiatives that reserve directors may include in their annual operating plans (POAs) under components 2 or 4. These activities would typically be geared towards promoting community and indigenous development. In terms of their nature, they are of three main types: a) maintenance of ecosystem quality, b) restoration and c) sustainable use of biodiversity. Different procedures for screening and assessing the impacts of sub-projects are established in the operational manual and are described in Annex 15, Environmental Analysis. Projects promoting maintenance and/or restoration of ecosystem quality (Types a and b) are expected to have very low environmental impacts. They would be screened and assessed against a checklist which contains a set of criteria to be used for identifying possible negative impacts and their mitigation measures where possible. This Checklist is being finalized by expert staff from Environmental Impact Assessment, the Wildlife section of INE, and from the headquarters of CONANP. Workshops will be held with Directors and staff of the PAs of the project to improve their capacity to evaluate environmental impacts, implement the legislation and design mitigation measures. The will also be

given an opportunity to improve on the check list of activities that will require environmental assessments and activities that should not be permitted and the methods for implementing the checklists to ensure that the rules reflect the practical need in the field. Environmental impacts of projects of sustainable use (Type c) will be subject to more in-depth scrutiny. They will receive a preliminary screening by CONANP to verify eligibility and a first environmental assessment, that will be prepared as a brief summary on environmental impacts, and mitigation measures for technical review. In addition, CONANP will review all the safeguard policies to see if any of them are triggered by the project. If that is the case, full documentation covering all pertinent aspects will need to be presented to the responsible agencies (INE or SEMARNAT). A condition for project financing will be the written approval from: CONANP, INE or SEMARNAT.

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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.

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