Report No. PID9121

Project Name	Mexico-Indigenous and Community (@)... Biodiversity Conservation Project
Region	Latin America and Caribbean Region
Sector	Natural Resources Management
Project ID	MXPE66674
Borrower(s)	NACIONAL FINANCIERA, S.N.C.
Implementing Agency	Address SEMARNAP AND NACIONAL FIANCIERA, S.N.C. Contact Person: Salvador Anta, Delegate of Oaxaca, SEMARNAP Tel: 529-515-0019
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1. Country and Sector Background

In Mexico, deforestation and land degradation due to population growth, past agricultural policies, expansion of the agricultural frontier, over-exploitation, poorly regulated tourism, accelerated economic development, and arbitrary settlement policies are having a serious impact on terrestrial biodiversity. Up until 1986, the incentives for sustainable forest and natural resource conservation were perverse. Commercial wood extraction relied upon a system of industrial concessions or inefficient parastatals that had no incentives for long-term sustainability or diversification and that were not responsive to the needs or interests of indigenous communities or ejidos, despite their legal ownership of much of the country's forest lands as a result of land reform. Past agricultural policies fostered clearing of forests for subsistence and commercial agriculture or cattle-rearing, and private land tenure was linked to forest clearing. Large-scale cultivation of illegal drugs began to proliferate in remote forested areas in the 1960s as a response to acute poverty, and continues to create social conflict and local violence in some areas. In the early 1990's a series of policy reforms in the agricultural sector eliminated the past distortions in prices, livestock and input subsidies, and trade policies, and reformed the land administration system to strengthen land markets, while preserving ejido and indigenous community tenure. As part of this sectoral reform, a new Forestry Law was passed in 1986 and revised in 1992, providing the legal framework for indigenous community and ejido management of forests in their boundaries, based on a Forest Management Plan requiring government approval. Although this provided a positive framework for community forestry management, little additional support was provided by government in the form of TA, links to stable markets, or other positive incentives to facilitate change in this direction, apart from a few soft loans for industrialization of the forest communities and ejidos. In addition, small-scale NGO-supported initiatives in promising

regions were carried out, particularly in Oaxaca. During the current six-year administrative term in Mexico, the Ministry of Environment, Natural Resources and Fisheries (SEMARNAP), working with the National Commission for Biodiversity (CONABIO), has worked with civil society to develop a comprehensive approach to sustainable natural resource use and conservation of Mexico's unique biodiversity. Under the guidance of the Convention on Biological Diversity, Mexico (the Mexican government, academia, private sector and relevant stakeholders) has developed a Country Strategy based on a participatory process over a six month period. The National Biodiversity Strategy identifies four priority areas for action: (i) protection of biodiversity rich ecosystems; (ii) sustainable use of Mexico's biolo-gical resources; (iii) expansion of the country's knowledge base related to its biodiversity; and (iv) promotion of green market/valuation of biological resources. Rainforest, dryforest and marine and coastal ecosystems are among the particular ecosystems identified as priori-ties for federal protection status and for a major mainstreaming of biodiversity considerations in economic and public investment programs. The National Strategy also recognizes the importance of indigenous and community conservation practices that have long prevailed, especially in rural/mountainous regions in South-Central Mexico, and supports development of innovative programs to strengthen such approaches to natural resource management. In keeping with these recommendations, SEMARNAP's own programs have been reoriented to be consistent with this framework, and SEMARNAP is working with other federal and state entities to mainstream this approach in related sectoral programs. GOM and CONABIO are now developing a more detailed Action Plan for the Conservation, Use and Equitable Distribution of Benefits from Biodiversity. The first five/ten year strategy is expected to be completed by early 2001.In parallel with the efforts to develop an effective strategy for conservation and sustainable use of biodiversity, SEMARNAP has also initiated a range of programs for biodiversity conservation and sustainable natural resource management with the aim of balancing environmental values with societal interests and needs. In particular, SEMARNAP has promoted a set of programs to foster sustainable land use, as a complement to the strategy to develop a national system of protected areas (SINAP). In keeping with the country's strategic shift towards increased decentralization of environmental management to states and municipalities and the objective of increased public participation, SEMARNAP's programs emphasize local responsibility and participation. The key sustainable forestry programs currently underway include: (i) an integrated model of sustainable development with a regional focus (PRODERs); (ii) a sustainable forestry management sinking trust fund for private producers, ejidos and indigenous communities (PRODEFOR) in those states willing to provide counterpart financing; (iii) a pilot forestry management project to test community forestry mechanisms (PROCYMAF); (iv) a restructured reforestation program (PRONARE); and (v) on-going policy work on international environmental issues and the global commons, including environmentally friendly markets. At present, there are no government-supported programs for community-based conservation areas and sustainable use of biodiversity.The Bank-assisted Community Forestry Project (PROCYMAF), initiated in 1998, is piloting a positive model for channeling technical assistance to interested communities in Oaxaca to defray the cost of forest management plans and complementary studies while improving the quality of private technical services available to the 248 forest communities and ejidos in the state of Oaxaca. Based on a widely

disseminated typology of industrial specialization and internal organization, PROCYMAF targets technical assistance subsidies to Oaxaca communities and ejidos on a demand-driven basis. Horizontal information exchanges and regional organizational capacity are promoted through six regional, monthly fora. Private service providers are required to take a core course in integrated forest management and are encouraged to participate in continuing education courses on cutting edge forestry and natural resource management issues.Despite its newness, PROCYMAF is already demonstrating positive outcomes. It has built upon NGO community resource management initiatives, including a decade of WWF-Oaxaca efforts to foster community conservation initiatives based on better knowledge of biodiversity values. With less than US$2 million in project expenditures at Oaxaca state level, by the end of 1999 55,000 new hectares of forest had come under sustainable forestry management plans, generating 1,300 permanent jobs, at least eighty million pesos in earnings to the communities, and one million pesos in fiscal revenue; in addition, the program resulted in the establishment of 12,000 hectares of new conservation areas. Participatory planning is now incorporating less organized communities into the project.Building on this positive experience in Oaxaca, the GOM has restructured the on-going project to take advantage of budget savings and expand to states where the national forestry management program (PRODEFOR) has been operating without the advantage of capacity-building and training activities (Michoacan and Guerrero). Assuming success with this three-state program experience, the plan is to expand the program to the remaining three forest-rich pine-oak states (Chihuahua, Durango, and Jalisco) and possibly linking to additional states where PRODEFOR is active.In addition, the GoM has recognized the importance of expanding forestry development support to include assistance to communities for conservation efforts. Under this new expanded forestry strategy, the GoM wishes to develop and implement a program to conserve biodiverse community and ejido lands, while supporting financially sound complementary activities of sustainable use. This model would provide a more decentralized, grass-roots led conservation program, responding to unmet needs at the community level. The GoM proposes to test this new program in the states of Oaxaca, Michoacan and Guerrero; if successful, it would be expanded to other forest-rich states.

2. Objectives

The objective of the project is to conserve areas of high biodiversity by strengthening and promoting community conservation initiatives on communally owned lands in areas of high biodiversity in a priority set of ecological zones in the states of Oaxaca, Michoacan and Guerrero, building on the positive cultural values and traditional management practices that these communities have developed over a long period in relationship to the resources in these ecological zones. The project would build upon the WWF-Oaxaca pilot program for community conservation initiatives and the technical assistance offered in the on-going Community Forestry Project (Ln. 4137-ME; PROCYMAF) in the states of Oaxaca, Michoacan and Guerrero by initiating a parallel, demand-driven program for financing the creation of community biodiversity conservation areas and complementary biodiversity-friendly sustainable land use activities. Project objectives would be achieved by: (a) supporting the on-going efforts of indigenous communities and ejidos to establish permanent conservation areas, and establishing cooperative networks linking communities with significant conservation areas within a larger region of

high biodiversity; (b) building capacity for community conservation and sustainable natural resource management among communities in areas of high biodiversity but with weak organizations and a poor economic base; and (c) supporting the creation of state and regional institutions that can promote and help finance community conservation initiatives over the medium to long-term with strong ownership by the communities themselves.The project was originally planned to have two distinct phases of implementation: an initial pilot phase in Oaxaca, with an expansion into the remaining two states, once the institutional mechanisms and community demand had been tested. At appraisal, it was decided to have a more fluid implementation process--initiating activities in Oaxaca, incorporating Michoacan during the same year, and incorporating Guerrero six months after that, adding a larger number of eligible communities as capacity and interest developed. To reflect on-going learning, two evaluation events have been included: an initial evaluation within the first two years to review implementation mechanisms and adjust the criteria and procedures in the operational manual, and a second mid-term evaluation in the fourth year which allows adjustments in targets and distribution of subgrant activities among the different types of participating communities and ejidos. In the first two years activities will focus on the needs of individual communities, while expanding to multi-community capacity-building and networking in later years, and consolidating a legal framework for community conservation. Project Global Objectives: (see Annex 1)The global objective of the project is to conserve some of the most unique and biologically diverse areas of Mexico, along with testing a model that may be applicable to indigenous reserves and other communally-owned land in other parts of Latin America.

3. Rationale for Bank's Involvement

The Bank has been involved for the past six years in community forestry and protected areas/biodiversity conservation in Mexico. PROCYMAF is the outcome of a long policy dialogue with the Government, beginning with an analysis of the difficulties encountered in ejido forestry in Chihuahua and Durango (under the earlier Mexico Forestry Project which concluded in 1993) and culminating in the discussion of the 1995 Resource Conservation and Forest Sector Review (Gray Cover Report No. 13114-ME). This proposed new project has drawn upon experiences gained in Mexico and elsewhere in the LAC Region and in other Bank-financed projects for community resource management and joint partnerships between government and local level institutions. For example, the Bank's Indigenous Peoples Initiative in LAC is building parallel experiences in Peru and Bolivia on community biodiversity conservation, which will generate valuable lessons in the future. The GEF supports the conservation of globally significant ecosystems and local participation in the economic benefits from biodiversity conservation programs. GEF involvement in this project will enable the participating communities and states to draw upon GEF world-wide experience in complementary protection and sustainable use activities in biosphere reserve management, and in recently approved projects which support indigenous peoples' involvement in biodiversity conservation. GEF involvement has catalyzed federal support for locally-based conservation initiatives, which otherwise might not have received adequate operational and financial support. The proposed project is expected to provide models that can be disseminated and adapted for use elsewhere in Mexico and in other countries.

4. Description

The project would be implemented in highly biodiverse priority areas of Oaxaca, Michoacán and Guerrero. The priority areas have been identified based on project preparation (Block B) supported analyses and consultations as well as CONABIO national priority setting and WWF-Mexico studies. The priority areas delimited in the biological assessment include 1,300 communities within the priority biological zones of the three states, all with relatively equivalent biodiversity values. Participating communities have been identified through a participatory social assessment process using criteria for measuring interest and capacity for conservation (see Annex 11) and over the life of the project approximately 300 communities and ejidos are expected to come forward to participate in project activities, either capacity-building or investment. Within the 1,300 community universe, social assessments have categorized a subset of communities by their level of absorptive capacity and organizational commitment to conservation. A typology of four categories, ranging from the least organized for conservation (Category 1) to the most organized (Category 4) has been developed and activities tailored to these different levels of organization (see Annex 12). Any community within the 1,300 is eligible to present proposals to the project, although communities not included in the social assessment wishing to present proposals must first be categorized by their level of absorptive capacity using this typology. Communities evaluated through the social assessment, along with their location, are presented in Annex 11. Initially, it is expected that about 150 communities would be eligible for financing -- about 100 for land use planning and capacity-building activities and about 50 for conservation and sustainable use investments related to community conservation areas. As local capacity increases, an additional 150 communities are expected to request land use planning and training support, and conservation investments would be financed in another 70 communities and ejidos, with about twenty of these demonstrating the capacity and interest to manage their own conservation-related ventures over the longer-term. Transparent criteria for selecting proposals have been developed in the state-level social and environmental assessments and would provide a basis for decision-making by state-level committees to select proposals for financing. The project strategy would be to channel project proposals appropriate for financing by PROCYMAF or PRODEFOR to those projects while targeting GEF funding to areas not receiving financing from other sources. The eligible set of activities has been analyzed in detail by type of activity and type of financier and is presented in Annex 12.Communities will hire their own PSPs or NGOs for land use planning and other studies, and technical assistance related to investment proposals, but should ensure that these are entered in the project registry of eligible providers which would build on the existing PROCYMAF and PRODEFOR registers developed earlier.The project would be implemented over a period of seven years, to allow adequate time for capacity-building in the incipient communities and for phased learning in the more advanced communities. Component 1. Local Capacity BuildingThis component would finance the costs of the three state committees and the coordinating units, which would be the decision-making and oversight bodies for activities at state level. Activities to be financed would include coordinating unit consultant fees, funds for technical assistance to communities and ejidos, training of the coordinating unit in financial and technical monitoring, operational expenses, and costs of consultation and regional meetings. During the first few years, these coordinating units

would be legally constituted and, over time, procurement responsibilities transferred completely to them during the course of project implementation. Over the long term, these committees might evolve as independent entities, serving the needs of those communities that are not sufficiently advanced to cover their own conservation investment needs or directly seek resources from external sources. The coordination units would transfer knowledge and experience during project implementation both to participating communities and to state committees on fundraising, investment practices and grant management. Component 2: Community Conservation and Sustainable Use Sub-projectsThe project would channel grant resources to communities to finance a progressive series of community conservation and sustainable use subprojects tailored to the level of organization and willingness of participating communities to undertake long-term conservation (see Annex 12). Incipient communities with interest in conservation activities but limited organizational skills and insufficient experience with conservation investment (Category 1) would be eligible for grants to help finance land use planning, community conservation action plans, diagnostic studies and inventories, and training events that build their capacity for conservation. The more advanced and experienced communities (Categories 2-4) would be eligible for grants to help finance activities that assist them to actively manage and protect areas designated for conservation, including fire control, demarcation, delimitation, or restoration, and activities that promote sustainable use in adjacent resource areas which generates income while reducing pressure on conservation areas. As a member of the state committees and in its role as enforcer of the 1992 Forest Law, SEMARNAP would ensure that environmental standards are applied to proposals under review. Grants would be given directly to communities. In some cases, communities would provide their own labor and technical assistance; in others, the community would contract private service providers or purchase small goods and services. There are four types of activities (Types A-D) which would be eligible for grant allocation, each with a different community counterpart requirement, and each with progressively larger grant sizes: Type A: Land Use Planning for the Establishment of Biodiversity Conservation Areas (Total: $4.8 million; GEF: $1.7 million)Type A activities include workshops, participatory rural appraisals, land use planning, mapping, inventories of existing biodiversity resources, and delimitation of conservation areas, including preparation of by-laws or communal statutes (where appropriate) for the creation of permanent conservation areas. Grant amounts for these activities would range in size from $5,000 to $15,000, and counterpart contribution would be at least 10% of total costs, presented as in kind contributions of local labor, travel, participation in workshops and evaluations, and community meetings. For pine-oak forest areas, PROCYMAF would be the lead financier, while GEF funds would be targeted to all other forest types. While all communities (Categories 1-4) would be eligible for Type A grants, Category 3 and 4 communities would not require Type A assistance before proceeding to Type C and D activities.Type B: Training and Capacity-Building, including Horizontal Exchanges (Total: $1.7 million; GEF: 0.6 million)This component would finance two types of activities necessary for communities to develop the information base and institutional framework to establish conservation areas. Type B activities include capacity-building for conservation activities, including training for communities provided by third parties and by more advanced communities to less advanced ones, strengthening of community

networks, and carrying out feasibility studies as under Type C activities. Proposals can be made by individual communities or networks of communities, with grants in the order of $2,000 to $8,000 per community with a matching contribution of at least 20%. For pine-oak forest areas, PROCYMAF would be the lead financier, while GEF funds would be targeted to all other forest types. While all communities (Categories 1-4) would be eligible for Type B grants, Category 3 and 4 communities would not require Type B assistance before proceeding to Type C and D activities.Type C: Community Investments for Conservation Areas and Sustainable Use (Total: $4.6 million; GEF: $1.65 million)This component would finance investment in conservation areas or in complementary sustainable uses of biodiversity, including investments to protect or improve the administration of conservation areas, as well as investments (and feasibility studies) for productive activities that generate sustainable alternatives for communities. The potential scope of activities could include forest certification studies, market studies, seed capital for eco-tourism projects, water bottling plants, nature paths, guide training, mushroom cultivation, resin collection, carbon sequestration and other non-timber forest product enterprises. Investments for protection could include guard towers, identification markers, fencing, fire control mechanisms and rehabilitation of forest fringes. All Type C proposals would be based on a matching formula to apply the incremental cost principle, with a community counterpart of at least 25% for sustainable use projects and at least 20% for conservation activities, and would range in size from $15,000 to $20,000. PROCYMAF would be the lead financier for pilot scale non-timber forest product based investments and both PROCYMAF and PRODEFOR for technical assistance/study components of these investments in eligible forest types. Only Category 3 and 4 communities are eligible to participate in Type C activities.Type D: Community Green Venture Funds (Total: $1.8 million; GEF: $0.63 million)Category 4 communities that have developed the capacity to invest in more substantial projects of sustainable use and which have a longer-term commitment to conservation of their permanent areas would become eligible for a fourth type of grant investment, which would be a payment into a revolving fund established at the community level as a separate conservation account (see Annex 15). Under this latter modality, communities that are ready to create a permanent fund for continued financing of sustainable use activities and conservation areas would be eligible for a larger size grant and would agree to reimburse both the amount of the grant and their own matching investment into a community account specifically established for conservation investments. This financing modality would be accessed on a voluntary, self-selecting basis, and would be targeted to the more advanced communities (Category 4) which have reached a point of recognizing the value of long-term conservation initiatives and are willing and able to dedicate resources to this purpose. The scheme would provide a learning experience to the community which should make them eligible for future support from other local and international conservation donors or from green venture capital sources. The size of this grant is expected to be between $20,000 and $50,000, with at least an equivalent amount of community counterpart. Specific technical assistance would also be provided to those communities that agree to establish permanent revolving funds for conservation-related investments to help them establish the rules of such funds and transfer best practices on accounting and management practices.Component 3. Biological Monitoring and EvaluationProject implementation monitoring would be carried out

throughout the project implementation period to follow both physical execution as well as biodiversity changes over time. An important aspect of this component would be generating the needed information to assess the viability of the biodiversity conservation areas being established. Participatory evaluation studies would be designed and carried out to document social organizational processes and issues. An important part of the M&E system would be the Integrated Information System (SII), an interactive and dynamic geo-referenced data base. Evaluation activities would include an initial review at the end of the second year and a midterm review at the end of the fourth year, which would be carried out to assess project experience and make adjustments as needed in project design. All biodiversity monitoring data generated through this project will be forwarded into the Clearing House Mechanism (CHM) that the GOM is developing to provide decentralized access to biodiversity conservation information.Component 4: National Coordination This component would finance the costs of the national coordination unit, the national oversight committee, the supervision and monitoring activities, establishment of the legal and conceptual framework for community conservation as a valid protected areas model, and reporting to the Government and the Bank. Evaluation and dissemination activities would include documenting project lessons and sharing these findings with other community and indigenous groups in Mexico and the Latin American region, to facilitate cross-fertilization of experiences with innovative programs across states and elsewhere in Latin America (e.g., Argentina, Peru, Bolivia, Brazil, Colombia, Central America, etc.).

5. Financing

	Total (US$m)
GOVERNMENT	3.9
IBRD	2.6
IDA	
GLOBAL ENVIRONMENT FACILITY	7.5
LOCAL GOVTS. (PROV., DISTRICT, CITY) OF BORROWING COUNTRY	3
OTHER SOURCES (UNIDENTIFIED)	1.7
Total Project Cost	18.7

6. Implementation

Institutional Arrangements:As a result of a participatory process of project design involving community, NGO, academic and government stakeholders, it was decided that the project should have (i) a high level of community decision-making and a flexible role in modifying the criteria for project operation; and (ii) a minimum technical and strategic oversight by government to ensure institutionalization of the community conservation model.Project Coordination and Management. The project will be implemented (under the general direction of SEMARNAP) by state committees and coordinators which represent the participating communities and ejidos (see Annex 14). Each state committee would establish small state coordination units with a coordinator responsible for carrying out the project. Implementation is therefore decentralized to the three states. The state committees will have six members; three representing the communities, one representing the SEMARNAP delegation in the state, one representing the state government, and one representing the NGO/academic environment sector. Each representative will be selected by its sector with a term in office to be agreed by the committee. Each sector will be

responsible for deciding the selection rules for their representative(s). In Oaxaca, the communities and ejidos have tentatively decided that one representative will be selected by the communities from each of three regions included in the project area. In Michoacan, there is likely to be a similar regionalization of the representatives from ejidos and communities. There will be no prior decision on the chair of the committee. These internal rules of order will be determined by the committees. Each state coordinator will have responsibility for procurement and expenditures related to consultants, promotion and packaging of the community subproject proposals to be submitted to the committees for review. The state coordinator will also be accountable for supervision and monitoring of the subprojects that have been approved and that are under implementation, as well as reporting requirements for M&E, evaluation, and financial reporting. The coordination units at state level will liaise closely with the PROCYMAF coordination units and promotional staff to ensure consistency in technical information and to avoid duplication of resources for activities that PROCYMAF or PRODEFOR can finance under the loan and government resources. Overall implementation programming and progress will be assigned to a national oversight committee, supported by a national coordinator. The national coordinator will assist in establishing the three state committees and in identifying the coordinators who will support the state committees. The national coordinator will have resources assigned for monitoring and evaluation, financial reporting, and special studies, as well as operational expenses for travel in the three states. The national committee will include community representatives of the three state-level committees, PROCYMAF (SEMARNAP), the National Council for Natural Protected Areas (CONANP), the National Biodiversity Institute (CONABIO), the National Forestry Advisory Group (CONAF), with additional observers including NAFIN, the academic sector and other personnel from SEMARNAP. Civil society representatives will be selected by their sector, and will have a rotational appointment as agreed by the committee. The four coordinators will be recruited by the financial administrator in consultation with SEMARNAP and state-level stakeholders. Terms of reference for these and the administrator positions will be included in the operational manual. In addition, the financial administrator will recruit full or part-time financial accountants at the national and state level to generate financial and progress reports and records and prepare project financial management reports (PMRs). The financial administrator would recruit and hire the coordination staff on the basis of job profiles developed in the operational manual and in consultation with SEMARNAP and state stakeholders. A government resolution at federal level will be needed to establish the national and state level committees and mandate their authority over their respective coordinators. In the event of disagreements, the national coordinator will resolve disputes at state level. SEMARNAP will have representation on the four committees, which will be the PROCYMAF project coordinator or their equivalent at both national and state levels. SEMARNAP will also be responsible for ensuring that proposed subprojects are in compliance with the Bank's environmental assessment requirements. Where activities are similar to those in PROCYMAF, standard TORs with environmental criteria will be provided to the beneficiaries and the committee. Where extraction of products is contemplated, SEMARNAP has responsibility by law to ensure that communities are managing the resource according to an agreed action plan. The underlying rationale of the project is that communities will have the incentive to undertake conservation initiatives in the hope of an

international certification, which automatically implies that the World Bank's EA requirements would be met, should this rationale be correct. Financial Administrator. NAFIN will be the recipient of the grant resources for administrative purposes, and provide oversight as well as technical assistance on financial management to the four coordination units (three state and one national). The financial administrator will house the national coordination unit and disburse resources from a special account to be set up for administration of the grant money. The financial administrator will be in charge of procurement and payments related to the coordination staff at both levels (coordinators and administrators). Based on an annual operation plan (POA), coordinators at the different levels will procure goods and services under agreed procedures and arrangements, but NAFIN will process payments and transfers (including resources for the necessary operational expenses and hiring of consultants and technical assistance).In order to be in full compliance with Bank requirements per OP/BP 10.02, a certified specialist carried out a financial management assessment of NAFIN-executing agency. The conclusion of this review is that NAFIN, the financial administrator of the funds, would be certified as 4-b in the case of this project, since the financial management system of NAFIN is compliant with the Bank's requirements, but the specific system that will be established under the project at national and state levels has not yet been put in place, nor the staff (administrators) hired. The administrators would, however, follow modified NAFIN standards. NAFIN has considerable experience with execution of this type of project; it is currently implementing two Bank projects (an IDF grant and a GEF project) and is the financial agency for 14 existing WB-financed projects. The project implementing unit in NAFIN (NAFIN-executing agency) will be satisfactorily integrated into the Bank regarding staffing as well as MIS, internal controls, procedures and financial management, as was done for the above mentioned Bank projects. NAFIN standards are adequate at this stage for Board presentation.NAFIN-executing agency is taking actions to have an MIS which will produce quarterly PMRs and eventually allow for PMRs-based disbursements. Traditional disbursement methods (SOEs, special commitments and direct payments) will be used until NAFIN is ready to adopt the Financial Management Initiative (FMI) to disburse based on PMRs.Disbursement and Flow of Funds. A Special Account in US dollars with an initial deposit of US$0.4 million would be established in NAFIN. This special account will be replenished and will be used for all transactions with a value of less than 20% of the amount advanced to the Special Account. Traditional documentation requirements apply for direct payments, special commitments and statements of expenditures (SOEs). If project is converted to PMR-based disbursement methodology, disbursement procedures should be in line with the Financial Management Initiative (FMI). NAFIN-executing agency, in coordination with NAFIN-financial agency, would prepare the necessary documentation for prompt disbursements.The financial administrator will establish, as above mentioned, a Special Account created for the purpose of the community conservation initiative. State-level operating accounts would be established in local currency (MXN - Mexican pesos) for channeling GEF resources to the state level units. Four accounts would therefore be established: (i) the first account would cover coordinating and management costs at the regional and state level, including direct expenditures incurred by the coordination units, such as consultant fees, travel and subsistence of staff and consultants, M&E studies, and training and capacity-building activities contracted for more

than one state; (ii) the three other accounts would be established at the state level to cover the costs in the annual operating plan for community subprojects, including studies and investments in conservation areas, sustainable use activities, consultant technical assistance, and training and capacity-building, as authorized by the state committees. The financial administrator would release funds upon authorization of the respective committee, on the signature of the coordinator, who would have legal authority derived from the financial administrator's legal authority.The above-mentioned operating accounts will be used for project transactions, and will be replenished on a monthly basis. The amount to be transferred from the Special Account to these accounts must be only the estimated amount necessary to cover one month of eligible expenditures. It is important to indicate that NAFIN will be in charge of all payments regarding project operations.Auditing. NAFIN-executing agency will maintain records, accounts, files and project documentation, and will produce standard financial statements (including those for the Special Account) according to International Accounting Standards. As required by the Bank, project operations will be audited annually in accordance with generally accepted auditing standards and procedures consistently applied, by an independent and qualified auditor (based on Bank guidelines and TOR for auditing). The audit report (including financial statements, auditor's opinions, and information on internal controls and compliance with laws, regulations and agreements) will be sent to the Bank within six months after each audited fiscal year.Initial and Midterm Review. As will be specified in the Operational Manual for the project, an initial review would be carried out toward the end of the second year to evaluate needed adjustments in the project implementation arrangements and design including: (a) project scope; (b) selection criteria for communities, particularly to ensure that communities most in need of resources are selected if there is excess demand for project funds; (c) responsibilities of the state and regional committees and role of communities in project decision-making; and (d) viability of clusters of conservation areas and alliances across communities. Government staff of the associated PROCYMAF and PRODEFOR projects along with state protected areas and conservation agency authorities would participate. There would be a participatory evaluation mechanism for consultation with communities at the local level and to design the evaluation framework. Indicators would be revised at this time as well, if needed. A midterm review would be carried out at the end of the fourth year for a full assessment of the model and any adjustments needed in project design.

7. Sustainability

The project is based upon community-driven approaches to biodiversity conservation that would be sustainable over time because it implements demand-driven activities and participating communities are self-selecting. The project also is based on experience that training and capacity building has more long-term impacts when the communities themselves are the catalysts to transfer knowledge and skills. Leader communities will play a training role which can be sustained after project completion.The project will test a number of institutional mechanisms for ensuring sustainability of the conservation areas and clusters of contiguous areas, and also mechanisms to generate funds for conservation activities through the sustainable use of biodiversity. The communal statutes are legal documents when recorded in the National Property Registry (RAN) in accordance with Agrarian Law and the current National Constitution. State

law in Oaxaca also endorses the customary uses and practices of communities as embodied in the communal statutes. The sustainable use component will implement subprojects that can be certified for green marketing purposes, thereby increasing the economic return and market scope of these activities for communities. The diversification of sustainable use activities and strengthening of management planning should provide access of communities to donor and foundation resources for conservation, as well as provide long-term economic incentives to communities to preserve their resource and biodiversity values, thereby promoting their continued investment in this conservation. Financial sustainability of community conservation should be reasonable, since much of the investment required is in the form of community labor, not cash, and this is input is consistent with long-standing, traditional indigenous systems of labor exchange for community maintenance.The project includes two mechanisms to guarantee the institutional and financial sustainability of the community conservation initiatives. First it is expected that the state level committees and their coordinating units will develop the capacity to be converted to civil associations or non-governmental organizations by the end of the project. Technical assistance has been built in to the terms of reference of the financial agent so that coordination units can develop this capacity. Second, the grant reimbursement modality included in the community investments component enables communities to endow permanent conservation funds. The Oaxaca fund has been created and similar funds are expected to be established in Michoacan and Guerrero during the life of the project, which would channel state and federal funds to conservation activities as well as build the financial credibility of communities for relations with national and international donors involved in green funds and conservation issues both within and outside of Mexico, thereby promoting long-term sustainability. Ongoing financing is not expected to be a difficulty as long as communities have the capacity to present viable proposals.

8. Lessons learned from past operations in the country/sector
The recent lessons from the 1999 GEF portfolio review coincide well with the lessons learned in Mexico related to community-based conservation: The first lesson is the need for full community involvement is all stages of project design, implementation and monitoring and evaluation. The Community Forestry Project, PROCYMAF, is in its third year of implementation and is proving that full community involvement is an effective strategy for improving natural resource manage-ment and conservation by communities and ejidos. The proposed COINBIO project is continuing this approach in both the preparation and implementation phases. The second lesson is that conservation efforts need to be combined with activities aimed at meeting socio-economic needs. This is fully consistent with the project design approach of providing incentives for community-based conservation by complementing protection with sustainable use in adjacent landscapes. The third lesson (from the GEF PIR FY99 report) is that effective biodiversity conservation requires flexible, long-term approaches that build in adaptive management based on feedback from experience. The project design reflects this lesson in two ways: (a) first, by targeting project activities to the organizational capacity of the communities concerned and selecting communities for conservation actions on the basis of their level of capacity and interest; and (b) second, by including progressive grant financing tailored to the long-term commitment and capacity of the communities and providing experience that

enables more advanced communities and the state committees to capture matching resources from local and international conservation donors and from venture capital sources after the project ends.The last lesson is the need to give attention to the broader political and socio-economic environment within which activities take place. This is consistent with PROCYMAF experience as to: (a) the value of choosing communities where incentives for natural resource management are embodied in cultural and social authority structures; and (b) the importance of tailoring the program to the individual state level, with strong ownership and implementation by the state authorities, rather than designing a federal program using a more generic approach. The proposed COINBIO project purposely builds on the traditional authority structures and estatutos comunales at the local level, and supports the reform framework established for the forestry and conservation sectors at the federal levels.

9. Program of Targeted Intervention (PTI) N

10. Environment Aspects (including any public consultation)

Issues : In preparing the EA (Annex 13), information, maps and data available from previous assessments conducted for the PROCYMAF project were analyzed. TORs were prepared for the consultant responsible for developing the set of criteria to be used for identifying project sites in the three states. Secondary statistical and biological information was collected from CONABIO to complement data collected in the site identification study. This information was analyzed in conjunction with data generated through the social assessment for this project in order to produce a set of socio-economic information about potential project sites that overlapped with biological data developed during the environmental assessment. This data was used to identify priority sites for project implementation. Standard TORs from PROCYMAF that can be used when appropriate, already include environmental assessment criteria for most types of activities, and there is a procedure that was followed with pilot non-timber forest product projects for environmental assessment and monitoring. The project structure would follow established SEMARNAP (PROFEPA-environmental controller) and PROCYMAF procedures in that regard.

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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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